



As filed with the Securities and Exchange Commission on February 27, 2015

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 20-F**

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REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-15170

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**GlaxoSmithKline plc**  
(Exact name of Registrant as specified in its charter)

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**England**  
(Jurisdiction of incorporation or organization)

**980 Great West Road, Brentford, Middlesex TW8 9GS England**  
(Address of principal executive offices)



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**Victoria Whyte**  
**Company Secretary**  
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Name of Each Exchange On Which Registered</u>
<b>American Depositary Shares, each representing</b>	
<b>2 Ordinary Shares, Par value 25 pence</b>	<b>New York Stock Exchange</b>
<b>0.750% Notes due 2015</b>	<b>New York Stock Exchange</b>
<b>0.700% Notes due 2016</b>	<b>New York Stock Exchange</b>
<b>1.500% Notes due 2017</b>	<b>New York Stock Exchange</b>
<b>5.650% Notes due 2018</b>	<b>New York Stock Exchange</b>
<b>2.850% Notes due 2022</b>	<b>New York Stock Exchange</b>
<b>2.800% Notes due 2023</b>	<b>New York Stock Exchange</b>
<b>6.375% Notes due 2038</b>	<b>New York Stock Exchange</b>
<b>4.200% Notes due 2043</b>	<b>New York Stock Exchange</b>

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**None**  
(Title of class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**  
(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**Ordinary Shares of Par value 25 pence each**

**5,355,297,232**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.



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Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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Pursuant to Rule 12b-23(a) of the Securities Exchange Act of 1934, as amended, the information for the 2014 Form 20-F of GlaxoSmithKline plc set out below is being incorporated by reference from the “GSK Annual Report 2014” included as exhibit 15.2 to this Form 20-F dated and submitted on February 27, 2015 (the “GSK Annual Report 2014”).

All references in this Form 20-F to “GlaxoSmithKline,” the “Group,” “GSK,” “we” or “our” mean GlaxoSmithKline plc and its subsidiaries; the “company” means GlaxoSmithKline plc.

References below to major headings include all information under such major headings, including subheadings, unless such reference is a reference to a subheading, in which case such reference includes only the information contained under such subheading.

In addition to the information set out below, the information set forth under the headings “Cautionary statement” on page 1 and the inside back cover, “Directors’ Report” on page 95, “Directors’ statement of responsibilities” on pages 130 and 211, “Share buy-back programme” on page 242, “Annual General Meeting 2015” on page 245, “Financial calendar”, “Results announcements” and “Financial reports” on page 246, “Section 13(r) of the US Securities Exchange Act” on page 248, “Registrar” on page 249, “ADR Depositary”, “Glaxo Wellcome and SmithKline Beecham Corporate PEPs”, “Donating shares to Save the Children”, “Contacts”, “Share scam alert” and “Responsible Business Supplement” on page 250 and “Glossary of terms” on page 251 in each case of the GSK Annual Report 2014 is incorporated by reference.

**Notice regarding limitations on Director Liability under English Law**

Under the UK Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from certain portions of the GSK Annual Report 2014 incorporated by reference herein, namely the Directors’ Report (for which see page 95 thereof), the Strategic Report (pages 2 to 70 thereof, portions of which are incorporated by reference as described below) and the Remuneration Report (pages 96 to 128 thereof). These reports have been drawn up and presented in accordance with, and in reliance upon, English company law. Under English law, the Directors would be liable to the company, but not to any third party, if these sections of the GSK Annual Report 2014 contain errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

**Portions of the GSK Annual Report 2014 incorporated by reference herein contain references to our website. Information on our website or any other website referenced in the GSK Annual Report 2014 is not incorporated into this Form 20-F and should not be considered to be part of this Form 20-F. We have included any website as an inactive textual reference only.**

**PART I**

Item 1. **Identity of Directors, Senior Management and Advisers**

Not applicable.

Item 2. **Offer Statistics and Expected Timetable**

Not applicable.

Item 3. **Key Information**

3.A Selected financial data

The information set forth under the heading:

- “Five year record” on pages 222 to 224; and
- “Dividends” on page 244.

of the GSK Annual Report 2014 is incorporated herein by reference.

3.B Capitalization and indebtedness

Not applicable.



3.C Reasons for the offer and use of proceeds  
Not applicable.

3.D Risk factors

**Principal risk factors and uncertainties**

The principal risks discussed below are the risks and uncertainties relevant to our business, financial condition and results of operations that may affect our performance and ability to achieve our objectives. The factors below are those that we believe could cause our actual results to differ materially from expected and historical results.

We operate on a global basis in an industry that is both highly competitive and highly regulated. Our competitors may make significant product innovations and technical advances and may intensify price competition. In light of this competitive environment, continued development of commercially viable new products and the development of additional uses for existing products are critical to our ability to maintain or increase overall sales.

Developing new pharmaceutical, vaccine and consumer healthcare products is a costly, lengthy and uncertain process, however, and a product candidate may fail at any stage, including after significant Group economic and human resources have been invested. Our competitors' products or pricing strategies or any failure on our part to develop commercially successful products, or to develop additional uses for existing products, could materially and adversely affect our financial results.

We must also adapt to and comply with a broad range of laws and regulations. These requirements apply to research and development, manufacturing, testing, approval, distribution, sales and marketing of Pharmaceutical, Vaccine and Consumer Healthcare Products, and affect not only the cost of product development but also the time required to reach the market and the uncertainty of successfully doing so.

Moreover, as rules and regulations change, and governmental interpretation of those rules and regulations evolves, the nature of a particular risk may change. Changes to certain regulatory regimes may be substantial. Any change in, and any failure to comply with, applicable law and regulation could materially and adversely affect our financial results.

Similarly, our business exposes us to litigation and government investigations, including but not limited to product liability litigation, patent and antitrust litigation and sales and marketing litigation. Litigation and government investigations, including related provisions we may make for unfavourable outcomes and increases in related costs such as insurance premiums, could materially and adversely affect our financial results. More detail on the status and various uncertainties involved in the significant unresolved disputes and potential litigation is set out in Note 45, 'Legal proceedings,' on pages 206 to 210 of the GSK Annual Report 2014.

**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.**

*Risk impact*

The impact of this risk is potentially to compromise our ability to conduct robust safety signal detection and interpretation and to ensure that appropriate decisions are taken with respect to the risk/benefit profile of our products, including the completeness and accuracy of product labels and the pursuit of additional studies/analyses, as appropriate. This could lead to potential harm to patients, reputational damage, product liability claims or other litigation, governmental investigation, regulatory action such as fines, penalties or loss of product authorisation.

*Context*

Pre-clinical and clinical trials are conducted during the development of investigational Pharmaceutical, Vaccine and Consumer Healthcare Products to determine the safety and efficacy of the products for use by humans. Notwithstanding the efforts we make to determine the safety of our products through appropriate pre-clinical and clinical trials, unanticipated side effects may become evident only when products are widely introduced into the marketplace. Questions may be raised not only by our ongoing safety surveillance and post-marketing studies but also by governmental agencies and third-parties that may analyse publicly available clinical trial results.



The Group is currently a defendant in a number of product liability lawsuits, including class actions, that involve significant claims for damages related to our products. Litigation, particularly in the US, is inherently unpredictable. Class actions that seek to sweep together all persons who were prescribed our products increase the potential liability. Claims for pain and suffering and punitive damages are frequently asserted in product liability actions and, if allowed, can represent potentially open-ended exposure and thus, could materially and adversely affect the Group's financial results.

**Failure to appropriately secure and protect intellectual property rights.**

*Risk impact*

Any failure to obtain or subsequent loss of patent protection, including reducing the availability or scope of patent rights or compulsory licensing (in which a government forces a manufacturer to license its patents for specific products to a competitor), could materially and adversely affect our financial results in those markets. Absence of adequate patent or data exclusivity protection could limit the opportunity to rely on such markets for future sales growth for our products, which could also materially and adversely affect our financial results.

*Context*

As an innovative Pharmaceutical, Vaccine and Consumer Healthcare Products company, we seek to obtain appropriate intellectual property protection for our products. Our ability to obtain and enforce patents and other proprietary rights with regard to our products is critical to our business strategy and success. Pharmaceutical and Vaccine products are usually only protected from being copied by generic manufacturers during the period of exclusivity provided by an issued patent or related intellectual property rights such as Regulatory Data Protection or Orphan Drug status. Following expiration of certain intellectual property rights, a generic manufacturer may lawfully produce a generic version of the product.

We operate in markets where intellectual property laws and patent offices are still developing and where governments may be unwilling to grant or enforce intellectual property rights in a fashion similar to more developed regions such as the EU, Japan and the US. Some developing countries have limited, or threatened to limit, effective patent protection for pharmaceutical products generally, or in particular therapeutic areas, in order to facilitate early competition within their markets from generic manufacturers.

We face competition from manufacturers of proprietary and generic pharmaceutical products in all of our major markets. Introduction of generic products, particularly in the US where we have our highest turnover and margins, typically leads to a rapid and dramatic loss of sales and reduces our revenues and margins for our proprietary products. In 2014, we had nine Pharmaceutical and Vaccine products with over £500 million in annual global sales. For certain of these products, there is generic competition in the US and some markets in Europe. We may also experience an impact on sales of one of our products due to the expiry or loss of patent protection for a product marketed by a competitor in a similar product class or for treatment of a similar disease condition.

We depend on certain key products for a significant portion of our sales. One such product is our respiratory pharmaceutical product Seretide/Advair which accounts for 18% of Group sales worldwide. The timing and impact of entry in the US for a generic product containing the same combination of active substances as Seretide/Advair is uncertain. The US patent for compositions containing the combination of active substances in Seretide/Advair expired during 2010 although the US patent on a component of the Advair Diskus device continues until August 2016. Generic products containing the same combination of active substances as Seretide/Advair (in both metered dose inhalers and dry powder inhalers) have been launched by several manufacturers in a number of European markets. The timing and impact of entry in the US and major markets in Europe for a 'follow-on' product to Seretide/Advair is uncertain.

Generic drug manufacturers have also exhibited a readiness to market generic versions of many of our most important products prior to the expiration of our patents. Their efforts may involve challenges to the validity or enforceability of a patent or assertions that their generic product does not infringe our patents. As a result, we are and may continue to be involved in legal proceedings involving patent challenges, which may materially and adversely affect our financial results. Moreover, in the US, it has become increasingly common for patent infringement actions to prompt claims that anti-trust laws have been violated during the prosecution of the patent or during litigation involving the defence of that patent. Such claims by direct and indirect purchasers and other payers are typically filed as class actions. The relief sought may include treble damages and restitution claims. Similarly, anti-trust claims may be brought by



government entities or private parties following settlement of patent litigation, alleging that such settlements are anti-competitive and in violation of anti-trust laws. A successful anti-trust claim by a private party or government entity could materially and adversely affect our financial results.

The expiration dates for patents for our major products which may affect the dates on which generic versions of our products may be introduced are set out on pages "Pharmaceutical products, competition and intellectual property" on pages 229 to 231 of the GSK Annual Report 2014. Legal proceedings involving patent challenges are set out in Note 45, 'Legal proceedings,' on pages 206 to 210 of the GSK Annual Report 2014.

**Failure to comply with current Good Manufacturing Practice (cGMP) requirements in commercial manufacture, through the distribution chain, by GSK, its contractors or suppliers; or through inadequate controls and governance of quality through product development, and in supporting regulated activities.**

*Risk impact*

A failure to ensure product quality could have far reaching implications in terms of patient and consumer safety, delays in launching new products, drug shortages, product recalls, potential damage to our reputation and that of the relevant product, as well as regulatory, legal, and financial consequences, which could materially and adversely affect our reputation and financial results.

*Context*

Patients, consumers and healthcare professionals trust the quality of our products. A failure to ensure product quality is an enterprise risk which is applicable across all of our business activities. Product quality may be influenced by many factors including product and process understanding, supply chain security, consistency of manufacturing components, compliance with GMP, accuracy of labeling, reliability of the external supply chain, and the embodiment of an overarching quality culture. The internal and external environment continues to evolve as new products, new markets and new legislation are introduced, particularly around security of supply, good distribution practice and product standards. Inspectional trending from national authorities during 2014 has highlighted a focus on issues relating to data integrity, contamination and the robustness of quality investigations.

**Failure to deliver a continuous supply of compliant finished product.**

*Risk impact*

A material interruption of supply or exclusion from healthcare programmes could impact patient access to our products, expose us to litigation or regulatory action and materially and adversely affect our financial results. In particular, the incurring of fines or disgorgement as a result of noncompliance with manufacturing practice regulations could also materially and adversely affect the Group's financial results and result in reputational damage.

*Context*

Our supply chain operations are subject to review and approval by various regulatory agencies that effectively provide our licence to operate. Failure by our manufacturing and distribution facilities or by suppliers of key services and materials could lead to litigation or regulatory action such as product recalls and seizures, interruption of supply, delays in the approval of new products, and suspension of manufacturing operations pending resolution of manufacturing or logistics issues. In 2014, our Consumer Healthcare business, particularly our Smokers' Health products, alli and Bactroban, were impacted by various supply issues and our Vaccines business, particularly our hepatitis vaccines and Boostrix, were impacted by supply constraints.

Materials and services provided by third-party suppliers are necessary for the commercial production of our products, including active pharmaceutical ingredients (API), antigens, intermediates, commodities and components necessary for the manufacture and packaging of many of our Pharmaceutical, Vaccine and Consumer Healthcare Products. Some of the third-party services procured, such as services provided by contract manufacturing organizations and clinical research organisations to support development of key products, are important to ensure continuous operation of our businesses. Although we undertake business continuity planning, single sourcing of certain components, bulk API, finished products, and services creates a risk of failure of supply in the event of regulatory non-compliance or physical disruption at the manufacturing sites or logistics system.

The failure of a small number of single-source, third-party suppliers or service providers to fulfill their contractual obligations in a timely manner or as a result of regulatory non-compliance or physical disruption of logistics and manufacturing sites may result in delays or service interruptions.



**Failure to report accurate financial information and material events in compliance with accounting standards and applicable legislation.**

*Risk impact*

Non-compliance with existing or new financial reporting and disclosure requirements, or changes to the recognition of income and expenses, could expose us to litigation and regulatory action and could materially and adversely affect our financial results.

*Context*

New or revised accounting standards, rules and interpretations issued from time to time by the International Accounting Standards Board could result in changes to the recognition of income and expense that may materially and adversely affect our financial results.

The Group is also required by the laws of various jurisdictions to disclose publicly its financial results and events that could materially affect the financial results of the Group. Regulators routinely review the financial statements of listed companies for compliance with accounting and regulatory requirements. The Group believes that it complies with the appropriate regulatory requirements concerning our financial statements and disclosure of material information. However, should we be subject to an investigation into potential non-compliance with accounting and disclosure requirements, there is potential for restatements of previously reported results and we could be subject to significant penalties.

**Failure to comply with current tax law, or react to the rapidly evolving tax environment. Incurring significant losses due to treasury activities.**

*Risk impact*

Changes in tax laws or in their application with respect to matters such as transfer pricing, foreign dividends, controlled companies, R&D tax credits, taxation of intellectual property or a restriction in tax relief allowed on the interest on intra-group debt, could impact our effective tax rate. Significant losses may arise from Treasury activities through inconsistent application of Treasury policies, dealing or settlement errors, or counterparty defaults. Any such changes in tax laws or their application, failure to comply with tax law or significant losses due to treasury activities could materially and adversely affect our financial results.

*Context*

Our Treasury group deals in high value transactions, mostly foreign exchange and cash management transactions, on a daily basis. The Group's effective tax rate is driven by rates of tax in jurisdictions that are both higher and lower than the UK. In addition, many jurisdictions currently offer regimes that encourage innovation and investment in science by providing tax incentives, such as R&D tax credits and lower tax rates on income derived from patents. Furthermore, as an international business, we face risks associated with intra-group transfer pricing.

The tax charge included in our financial statements is our best estimate of tax liability pending audits by tax authorities. We submit tax returns according to statutory time limits and engage tax authorities to help ensure our tax affairs are current. In exceptional cases where matters cannot be settled by agreement with tax authorities, we may have to resolve disputes through formal appeals or other proceedings. As an international business, we are also subject to a range of other duties and taxes carrying similar types of risk.

There is an increased focus on the tax position of multinational businesses, as a consequence of the challenging economic environment and the priority placed by the G20 on addressing allegations of unlawful tax avoidance. We have seen some increase in audits as governments seek to raise revenues, both from corporate taxes and above the line taxes such as customs duties. Such audits regardless of their merit or outcomes can be costly, divert management attention and may adversely impact our reputation. In addition, there are an increasing number of changes to the international tax framework which could lead to an increase or decrease in our tax costs.

**There is a risk that GSK personnel, or third parties acting on our behalf, seek to induce improper performance of someone's role in order to gain or retain GSK a business advantage through the offer, promise or giving of a bribe. This goes against our ethical standards and is contrary to the laws by which we are bound.**



*Risk impact*

Failure to mitigate this risk could expose the Group and associated persons to governmental investigation, regulatory action and civil and criminal liability, as well as damage the Group's reputation, shareholder value, and our licence to operate in particular jurisdictions, all of which could materially and adversely affect our financial results.

*Context*

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.

As has previously been disclosed, the Group in 2014 has been subject to regulatory action and media focus with regard to bribery investigations in China and other markets. On 19 September 2014, the Group announced that the Changsha Intermediate People's Court in Hunan Province, China ruled that, according to Chinese law, GSK China Investment Co. Ltd ("GSKCI"), had offered money or property to non-government personnel in order to obtain improper commercial gains, and been found guilty of bribing non-government personnel. The verdict followed investigations initiated by China's Ministry of Public Security in June 2013. As a result of the Court's verdict, GSKCI has paid a fine of RMB 3 billion (£301 million) to the Chinese government.

The US and UK authorities are leading extra-territorial ABAC inquiries into certain of the Group's operations. These investigations are further discussed in Note 45, 'Legal proceedings,' on pages 206 to 210 of the GSK Annual Report 2014.

**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 associated therapeutic areas; appropriate interactions with healthcare professionals (HCPs) and patients; and legitimate and transparent transfer of value.**

*Risk impact*

Failure to comply with applicable laws, rules and regulations may result in governmental investigation, regulatory action and legal proceedings brought against the Group by governmental and private plaintiffs. Failure to provide accurate and complete information related to our products may result in incomplete awareness of the benefit: risk profile of our medicines and possibly suboptimal treatment of patients. Any of these consequences could materially and adversely affect our financial results. Any practices that are found to be misaligned with our values could also result in reputational damage and dilute trust established with key stakeholders. In 2012, we paid \$3 billion to resolve government investigations in the US focused in large part on promotional practices.

*Context*

We are committed to legitimate Scientific Engagement and the ethical and responsible commercialisation of medicines to support our mission to improve the quality of human life by enabling people to do more, feel better, and live longer. To accomplish this mission, we engage the healthcare community in various ways to advance our scientific knowledge as well as to provide important information about our medicines.

The Group disseminates information about its products through both non-promotional Scientific Engagement and promotional activities. The former is the interaction and exchange of information between the Group and partners and external communities in order to advance scientific and medical understanding including the appropriate development and use of our products; the management of disease; and patient care. It is distinct from promotional activities which may take place only after authorisation of a new product or indication, and must be conducted strictly in accordance with promotional laws, codes and the Group's Policy.

Promotion of approved medicines helps ensure that HCPs globally have access to information they need, that patients have access to the medicines they need and that medicines are prescribed and used in a manner that provides the maximum healthcare benefit to patients. We are committed to communicating information related to our approved products in a responsible, legal, and ethical manner.

At times, researchers, HCPs, healthcare organisations (HCOs) and other external experts that we engage may be compensated for services and expertise provided. However, payments must not be excessive and must never be or be perceived to be an inducement or reward for prescribing our products. Consistent with our ABAC policies, they also must comply with a market's ABAC laws if the recipient of any payment is a government official.



**Failure adequately to protect and inform patients involved in human clinical trial research; conduct objective, ethical preclinical and clinical trials using sound scientific principles; guarantee the integrity of discovery, preclinical, and clinical development data; manage human biological samples according to established ethical standards and regulatory expectations; treat animals ethically and practice good animal welfare; appropriately disclose human subject research for medicinal products; and ensure the integrity of our regulatory filings and of the data that we publish.**

*Risk impact*

The impacts of the risk include harm to patients, reputational damage, failure to obtain the necessary regulatory approvals for our products, governmental investigation, legal proceedings (product liability suits and claims for damages), and regulatory action such as fines, penalties or loss of product authorisation, which could materially and adversely affect our financial results.

*Context*

Research relating to animals can raise ethical concerns. While we attempt to proactively address this, animal studies remain a vital part of our research. In many cases, they are the only method that can be used to investigate the effects of a potential new medicine in a living body before it is tested in humans, and they are generally mandated by regulators and ethically imperative. Animal research can provide critical information about the causes of diseases and how they develop. Some countries require additional animal testing even when medicines have been approved for use elsewhere.

Clinical trials in healthy volunteers and patients are used to assess and demonstrate an investigational product's efficacy and safety or further evaluate the product once it has been approved for marketing. We also work with human biological samples. These samples are fundamental to the discovery, development and safety monitoring of our products.

The integrity of our data is essential to success in all stages of the research data lifecycle: design, generation, recording and management, analysis, reporting and storage and retrieval. Our research data is governed by legislation and regulatory requirements.

Research data and supporting documents are core components at various stages of pipeline progression decision-making and also form the content of regulatory submissions. Poor data integrity can compromise our research efforts.

There are innate complexities and interdependencies required for regulatory filings, particularly given our global research and development footprint. Rapid changes in submission requirements in developing countries continue to increase the complexity of worldwide product registration.

**Failure to manage environment, health and safety and sustainability (EHSS) risks consistent with the Group's ethics, objectives, policies and relevant laws and regulations.**

*Risk impact*

Failure to manage EHSS risks could lead to significant harm to people, the environment and communities in which we operate, fines, failure to meet stakeholder expectations and regulatory requirements, litigation or regulatory action, and damage to the Group's reputation and could materially and adversely affect our financial results.

*Context*

The Group is subject to health, safety and environmental laws of various jurisdictions. These laws impose duties to protect people, the environment and the communities in which we operate as well as potential obligations to remediate contaminated sites. We have also been identified as a potentially responsible party under the US Comprehensive Environmental Response Compensation and Liability Act at a number of sites for remediation costs relating to our use or ownership of such sites. Failure to manage these environmental risks properly could result in litigation, regulatory action and additional remedial costs that may materially and adversely affect our financial results. See Note 45 to the financial statements, 'Legal proceedings', for a discussion of the environmental related proceedings in which we are involved. We routinely accrue amounts related to our liabilities for such matters.

**Risk to the Group's business activity if critical or sensitive computer systems or information are not available when needed, are accessed by those not authorised, or are deliberately changed or corrupted.**



*Risk impact*

Failure to adequately protect critical and sensitive systems and information may result in our inability to maintain patent rights, loss of commercial or strategic advantage, damage to our reputation or business disruption including litigation or regulatory sanction and fines, which could materially and adversely affect our financial results.

*Context*

We rely on critical and sensitive systems and data, such as corporate strategic plans, sensitive personally identifiable information, intellectual property, manufacturing systems and trade secrets. There is the potential that malicious or careless actions expose our computer systems or information to misuse or unauthorised disclosure.

**Inability to recover and sustain critical operations following a disruption or to respond to a crisis incident in a timely manner.**

*Risk impact*

Failure to manage crisis and continuity management (CCM) effectively can lead to prolonged business disruption, greater damage to the Group's assets, and risk of supply disruption to patients of a medicine, any of which could materially and adversely affect our financial results. Delays to operational activities and delivery of our products to consumers and patients who rely on them could also expose us to litigation or regulatory action, materially and adversely affect our financial results and lead to reputational damage.

*Context*

The Group's international operations, and those of its partners, maintain a vast global footprint exposing our workforce, facilities, operations and information technology to potential disruption resulting from a natural event (e.g., storm or earthquake), a man-made event (e.g., civil unrest, terrorism), or a global emergency (e.g., Ebola outbreak, Flu pandemic). Through effective crisis management and business continuity planning we are committed to providing for the health and safety of our people, minimising damage and impact to the Group, and maintaining functional operations following a natural or man-made disaster, or a public health emergency.

**Failure to maintain adequate governance and oversight over third-party relationships; failure of third-parties to meet their contractual, regulatory, confidentiality or other obligations; failure of third-parties to comply with the law or appropriately manage their respective operations to mitigate the Principal Risks to the Group outlined above.**

*Risk impact*

Failure to adequately manage third-party relationships could result in business interruption and exposure to risk ranging from sub-optimal contractual terms and conditions, to severe business sanctions and/or significant reputational damage. Any of these consequences could materially and adversely affect our business operations and financial results.

*Context*

Third parties are critical to our business delivery and are an integral part of the solution to improve our productivity, quality, service and innovation. We rely on third-parties, including suppliers, distributors, individual contractors, licensees, and other pharmaceutical and biotechnology collaboration partners for discovery, manufacture, and marketing of our products and important business processes.

However, these business relationships present a material risk. For example, we share critical and sensitive information such as marketing plans, clinical data, and employee data with specific third parties who are conducting the relevant outsourced business operations. Inadequate protection or misuse of this information by third parties could have significant business impact. Similarly, we use distributors and agents in a range of activities such as promotion and tendering which have inherent risks such as inappropriate promotion or corruption. Insufficient internal compliance and controls by the distributors could affect our reputation. These risks are further increased by the complexities of working with large numbers of third parties.



Item 4. **Information on the Company**

4.A History and development of the company

The information set forth under the heading:

- ‘About GSK’ on the inside back cover;
- “Head Office and Registered Office” on the outside back cover; and
- “Note 38 – Acquisitions and disposals” on pages 183 to 187

of the GSK Annual Report 2014 is incorporated herein by reference.

4.B Business overview

- See Item 3D “Risk factors” above;

In addition, the information set forth under the headings:

- “Overview of 2014” on the inside front cover;
- “Chairman’s statement” on pages 2 to 3;
- “CEO’s Statement” on pages 4 to 5;
- “What we do” on pages 6 to 7;
- “Our Global Marketplace” on pages 8 to 10;
- “Our business model” on page 11;
- “Our strategic priorities” on pages 12 to 13;
- “How we performed” on pages 14 to 15;
- “Risk management,” on pages 16 to 17;
- “Deliver” within “Pharmaceuticals and Vaccines” on pages 24 to 26, “Viiv Healthcare” on page 32 and “Consumer Healthcare” on page 34;
- “Pharmaceuticals R&D Approach” on pages 26 to 27;
- “Investment in R&D” on page 27;
- “Vaccines R&D Approach” on page 28;
- “Late-stage pipeline” on page 29;
- “Simplify” within “Pharmaceuticals and Vaccines” on page 30, “Viiv Healthcare” on page 32 and “Consumer Healthcare” on page 35;
- “Responsible business” on pages 36 to 47;
- “Note 6 – Segment Information” on pages 147 to 151;
- “Note 38 – Acquisitions and disposals” on pages 183 to 187;
- “Pharmaceutical products, competition and intellectual property” on pages 229 to 231; and
- “Consumer Healthcare products and competition” on page 231

of the GSK Annual Report 2014 is incorporated herein by reference.

4.C Organizational structure

The information set forth under the heading:

- “Note 44 – Principal Group companies” on pages 204 to 205

of the GSK Annual Report 2014 is incorporated herein by reference.

4.D Property, plants and equipment

The information set forth under the headings:

- “Note 6 – Segment information” on pages 147 to 151; and
- “Note 17 – Property, plant and equipment” on pages 158 to 159

of the GSK Annual Report 2014 is incorporated herein by reference.



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Item 4A. **Unresolved Staff Comments**

Not applicable.

Item 5. **Operating and Financial Review and Prospects**

5.A Operating results

The information set forth under the headings:

- “Pricing and Regulation” on pages 8 to 10;
- “Intellectual Property and patent protection on page 10;
- “Grow” within “Pharmaceuticals and Vaccines” on pages 21 to 23, “Viiv Healthcare” on pages 31 to 32 and “Consumer Healthcare” on page 34;
- “Group financial review” on pages 48 to 60 and 62 to 70; and
- “Financial record – Quarterly trend” on pages 218 to 219

of the GSK Annual Report 2014 is incorporated herein by reference.

The following tables reconcile total results to core results. References in the GSK Annual Report 2014 to the reconciliations on page 61 of that report should be read to refer to the information in these tables.

**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
Gross profit	16,471	(503)	(78)	(204)		(3)	15,683
Operating profit	6,594	(575)	(150)	(750)	(548)	(974)	3,597
Profit before taxation	5,978	(575)	(150)	(755)	(548)	(982)	2,968
Profit after taxation	4,806	(366)	(121)	(540)	(522)	(426)	2,831
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
<b>The following adjustments are made in arriving at core gross profit</b>							
Cost of sales	(6,535)	(503)	(78)	(204)		(3)	(7,323)
<b>The following adjustments are made in arriving at core operating profit</b>							
Selling, general and administration	(7,074)			(430)	(548)	(194)	(8,246)
Research and development	(3,113)	(72)	(72)	(116)		(77)	(3,450)
Other operating income	—					(700)	(700)
<b>The following adjustments are made in arriving at core profit before tax</b>							
Net finance costs	(646)			(5)		(8)	(659)
<b>The following adjustments are made in arriving at core profit after tax</b>							
Taxation	(1,172)	209	29	215	26	556	(137)



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## Core results reconciliation – 31 December 2013

	Core results excluding 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
Gross profit	18,527	429	18,956	(450)	(408)	(178)			17,920
Operating profit	7,771	244	8,015	(547)	(739)	(517)	(252)	1,068	7,028
Profit before taxation	7,122	244	7,366	(547)	(739)	(523)	(252)	1,342	6,647
Profit after taxation	5,487	184	5,671	(398)	(513)	(378)	(243)	1,489	5,628
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

**The following  
adjustments are  
made in arriving at  
core gross profit**

Turnover	25,602	903	26,505						26,505
Cost of sales	(7,075)	(474)	(7,549)	(450)	(408)	(178)			(8,585)

**The following  
adjustments are  
made in arriving at  
core operating profit**

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)
Other operating income			—					1,124	1,124

**The following  
adjustments are  
made in arriving at  
core profit before tax**

Net finance costs	(692)		(692)			(6)		(8)	(706)
Profit on disposal of interest in associates and joint ventures			—					282	282

**The following  
adjustments are  
made in arriving at  
core profit after tax**

Taxation	(1,635)	(60)	(1,695)	149	226	145	9	147	(1,019)
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Core results reconciliation – 31 December 2012

	Core results £ m	Intangible amortisation £ m	Intangible impairment £ m	Major restructuring £ m	Legal charges £ m	Acquisition accounting and other £ m	Total results £ m
Gross profit	19,322	(378)	(309)	(128)		(1)	18,506
Operating profit	8,238	(477)	(693)	(557)	(436)	1,225	7,300
Profit before taxation	7,543	(477)	(693)	(558)	(436)	1,221	6,600
Profit after taxation	5,705	(332)	(497)	(843)	(286)	931	4,678
Earnings per share	111.4p	(6.8)p	(7.3)p	(17.4)p	(5.8)p	17.5p	91.6
Weighted average number of shares (millions)	4,912						4,912
<b>The following adjustments are made in arriving at core gross profit</b>							
Cost of sales	(7,109)	(378)	(309)	(128)		(1)	(7,925)
<b>The following adjustments are made in arriving at core operating profit</b>							
Selling, general and administration	(7,905)			(418)	(436)	(30)	(8,789)
Research and development	(3,485)	(99)	(384)	(11)			(3,979)
Other operating income						1,256	1,256
<b>The following adjustments are made in arriving at core profit before tax</b>							
Net finance costs	(724)			(1)		(4)	(729)
<b>The following adjustments are made in arriving at core profit after tax</b>							
Taxation	(1,838)	145	196	(285)	150	(290)	(1,922)

**Financial review 2014**

The Financial review summarises the performance of the Group for the year, in comparison with the results of the previous year. The Financial review also sets out the balance sheet position of the Group at 31 December 2013.

**Group performance**

Our 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 and on a CER basis. In this review we discuss the results on both a core basis and a total basis.

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

**Financial review 2013**

The discussion that follows on movements in turnover is presented excluding divestments completed in 2013. The 2012 turnover analyses have been presented on a comparable basis.

*Group turnover by business*

	2013 £m	2012 (restated) £m	Growth CER%*	Growth £%
Pharmaceuticals	17,426	17,411	1	—
Vaccines	3,420	3,325	2	3
Pharmaceuticals and Vaccines	20,846	20,736	1	1
Consumer Healthcare	4,756	4,747	2	—
	25,602	25,483	2	—
Divestments completed in 2013	903	948		
	26,505	26,431	1	—

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

Total Group turnover for 2013 was £26,505 million, up 1%. Excluding the impact of divestments completed in 2013, turnover increased 2%. Pharmaceuticals and Vaccines turnover grew 1%. Pharmaceuticals turnover grew 1% and, as growth in the US, Japan and Emerging Markets was partially offset by continued pricing pressures and generic competition in Europe. ViiV Healthcare turnover for 2013 was flat. Vaccines turnover grew 2%, despite the adverse comparison with strong *Cervarix* sales in Japan in 2012. Excluding *Cervarix* in Japan, Vaccines sales grew 5%, reflecting the strong growth in the US of *Infanrix/Pediarix* and *Boostrix*, both of which benefited from competitor supply issues, and *Fluarix/FluLaval*, which benefited from the launch of the new Quadrivalent formulation, as well as a better performance by the business in Europe. Consumer Healthcare turnover increased 2% to £4,756 million.

*Group turnover by geographic region*

	2013 £m	2012 (restated) £m	Growth CER%	Growth £%
US	8,620	8,330	2	3
Europe	6,862	6,675	—	3
Emerging Markets	6,579	6,629	2	(1)
Japan	1,886	2,219	2	(15)
Other	1,655	1,630	5	2
	25,602	25,483	2	—
Divestments completed in 2013	903	948		
	26,505	26,431	1	—

Group sales outside the USA and Europe accounted for 40% of total turnover and reported growth of 2%, adversely impacted by sales declines in China.



Group turnover by segment

	2013 £m	2012 (restated) £m	Growth CER%	Growth £%
Pharmaceuticals and Vaccines:				
US	5,817	5,508	4	6
Europe	4,226	3,956	3	7
Emerging Markets	3,370	3,309	3	2
Japan	1,058	1,203	6	(12)
ViiV Healthcare	1,386	1,374	—	1
Established Products	3,874	4,351	(8)	(11)
Other trading and unallocated	1,115	1,035	11	8
Pharmaceuticals and Vaccines	20,846	20,736	1	1
Consumer Healthcare	4,756	4,747	2	—
	25,602	25,483	2	—
Divestments completed in 2013	903	948		
	26,505	26,431	1	—

Pharmaceuticals turnover

	2013 £m	2012 (restated) £m	Growth CER%	Growth £%
Respiratory	7,289	7,044	4	3
Oncology	969	798	22	21
Cardiovascular, metabolic and urology	1,073	1,144	(5)	(6)
Immuno-inflammation	161	70	>100	>100
Other pharmaceuticals	2,674	2,630	5	2
ViiV Healthcare (HIV)	1,386	1,374	—	1
Established Products	3,874	4,351	(8)	(11)
	17,426	17,411	1	—

Respiratory

Respiratory sales in 2013 grew 4% to £7,289 million, with the US up 7%, Europe down 2%, Emerging Markets up 4% and Japan up 10%. *Seretide/Advair* sales were up 4% to £5,274 million, largely driven by a strong US performance. *Flixotide/Flovent* sales increased 2% to £796 million, and *Ventolin* sales grew 2% to £642 million. *Xyzal* sales, almost exclusively made in Japan, grew 26% to £137 million, reflecting a strong allergy season.

In the US, Respiratory sales grew 7%, with *Advair* up 8% to £2,769 million, compared with 6% estimated underlying growth for the year (5% volume decline more than offset by an 11% positive impact of price and mix). *Flovent* sales were up 6% to £482 million with estimated underlying growth for the year up 6% (4% volume decrease offset by a 10% positive impact of price and mix). *Ventolin* grew 4% to £291 million, with estimated underlying growth of 8% driven mostly by improved price realisation in the first half of the year. The launch of *Breo Ellipta* began in Q4 2013 with £5 million of sales recorded in the quarter.

European Respiratory sales were down 2% reflecting increased competition in many markets. *Seretide* sales were down 2% to £1,458 million, with a 2% volume decrease and no net impact of price and mix.

Respiratory sales in Emerging Markets grew 4%, but 9% excluding China, led by *Seretide*, which grew 4% to £429 million (12% excluding China). *Seretide* continued to deliver strong growth across many Emerging Markets markets. *Veramyst*, grew 16% to £71 million and *Ventolin* increased 2% to £171 million.

In Japan, Respiratory sales grew 10% to £554 million, with strong growth from both *Xyzal* and *Veramyst*. *Adair* sales grew 8% to £277 million. *Relvar Ellipta* was launched in December 2013, recording sales of £3 million.

Oncology

Oncology sales grew 22% to £969 million, marking the second consecutive year of double digit percentage growth for the business. US sales were up 17% with strong performances by *Votrient*, *Promacta* and *Arzerra*, but also contributions from the launches of two new metastatic melanoma products *Tafinlar* and *Mekinist*. Sales in Europe grew 28% and Emerging Markets grew 18%. *Votrient* sales grew 80% to £331 million, *Promacta* sales grew 46% to £186 million and *Arzerra* sales grew 23% to £75 million. *Tykerb/Tyverb* sales fell 13% to £207 million due to increased competition. Both *Hycamtin* in Europe and Emerging Markets and *Argatroban* in the US continued to be adversely affected by generic competition.

In the US, there were continued strong growth contributions from *Votrient*, up 56% to £144 million, and *Promacta*, up 33% to £73 million, which benefited from a new indication for thrombocytopenia associated with Hepatitis C received during Q4 2012. *Arzerra* grew 18% to £46 million. The US performance also reflects contributions totalling £21 million from *Tafinlar* and *Mekinist*, which were both launched in Q2 2013 as monotherapy treatments and achieved strong uptake in the BRAF V600 melanoma market during the first few months on the market. In January 2014, *Tafinlar* and *Mekinist* were approved by the FDA for combination use.



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In Europe, sales grew 28% to £339 million, led by sales of *Votrient*, which increased by 91% to £130 million, as it continued to build market share in many markets. *Revolade* received approval in Europe for use in thrombocytopenia associated with Hepatitis C at the end of Q3 2013 and sales in the year increased by 47% to £55 million. *Tafinlar* was launched in Q3 2013 in certain markets and has achieved strong uptake in these early launch markets.

Emerging Markets sales grew 18% to £149 million led by strong growth of *Votrient* (up 77% to £37 million) and *Promacta* (up 92% to £22 million). In the region *Tykerb* was down 9% to £47 million, and *Hycamtin* was down 36% to £7 million.

#### Cardiovascular, metabolic and urology

Sales in the category fell 5% primarily as a result of the impact of the conclusion of the Vesicare co-promotion agreement in Q1 2012.

The *Avodart* franchise grew 10% to £857 million with 31% growth in sales of *Duodart/Jalyn*. *Avodart* sales grew 5% to £648 million.

The increase in Metabolic product sales primarily reflected higher sales of *Prolia* in Europe and EMAP.

#### Other pharmaceuticals

Sales of Anti-virals more than doubled reflecting tender shipments of *Relenza* in Japan.

*Augmentin* sales grew 5% to £630 million with strong growth in Emerging Markets, reflecting, in part, a comparison with some supply interruptions in 2012. *Zinnat* sales were flat at £169 million, and *Zinacef* sales fell 14% to £55 million.

Dermatology sales declined 5% to £631 million, primarily as a result of the decline in the US, down 37% to £115 million, which continued to suffer from the impact of generic competition, particularly to *Bactroban*, *Duac* and *Soriatane*, together with the effect of the disposal of a number of tail brands in Q2 2013. Emerging Markets sales grew 8% to £289 million, reflecting strong growth in *Bactroban*, *Dermovate* and *Duac* particularly in Middle East/Africa and Latin America. European sales grew 6% to £170 million.

*Volibris*, up 21% to £147 million, and *Mepron*, up 8% to £101 million, were the main drivers of the 7% growth in the Rare diseases category. *Flolan* sales fell 16% to £103 million, primarily as a result of the biennial price reduction in Japan in Q2 2012 and continued generic competition in the US and Europe.

#### Immuno-inflammation

*Benlysta* turnover in the year was £146 million, with £134 million in the US. Total in-market sales of *Benlysta* in the US in 2012 were £96 million.

#### ViiV Healthcare (HIV)

ViiV Healthcare sales of £1,386 million were flat as sales in the US were up 5%, Europe down 3% and Emerging Markets down 12%. *Epzicom/Kivexa* sales increased 14% to £763 million and *Selzentry* was up 10% to £143 million. *Tivicay* recorded sales of £19 million from the early stages of its launch in the US, which started in August 2013. *Tivicay* was approved in Europe in January 2014 and launches are planned in several markets throughout 2014. Growth contributions within this business were offset by declines in the mature portion of the portfolio, mainly *Combivir*, down 36% to £116 million

#### Established Products

Established Products declined 8% to £3,874 million as sales of *Lovaza* fell 5% to £584 million as a result of increased competition and the decline in the non-statin dyslipidemia prescription market. Declines in *Zeffix* and *Hepsera* reflected the sales decline in China.

*Serevent* sales were down 10%. *Seroxat/Paxil* sales fell 16% to £285 million, primarily due to generic competition in Japan and Europe and *Requip* sales fell 18% to £125 million reflecting generic competition in the US and Europe. *Lamictal* sales fell 7% to £557 million, primarily as a result of generic competition to *Lamictal XR* in the US, which started in Q1 2013. Sales of the *Lamictal* franchise in the US fell 18% to £276 million.

#### Vaccines turnover

	2013 £m	2012 £m	Growth CER%	Growth £%
Vaccines sales	3,420	3,325	2	3



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Performance of the Vaccines business improved towards the end of the year, with a significant increase in tender sales in the last quarter. The 2% increase in Vaccines sales was principally attributable to the growth of *Infanrix/Pediarix*, *Fluarix/FluLaval* and *Boostrix*, which was largely offset by the decline of *Cervarix* in Japan, reflecting the suspension of the recommendations for the use of HPV vaccines in Japan, together with an adverse comparison with strong *Cervarix* sales in 2012, which benefited from the final stages of the HPV vaccination catch-up programme in Japan. *Cervarix* sales declined 37% to £172 million. Excluding *Cervarix* in Japan, Vaccines sales increased by 5%.

*Infanrix/Pediarix* sales increased 9% to £862 million, with the growth primarily reflecting stronger tender shipments in Europe and Emerging Markets as well as the benefit in the US of a competitor supply shortage. *Boostrix* sales, which also benefited from a competitor supply issue in the US, grew 19% to £288 million.

Sales of hepatitis vaccines fell 4% to £629 million, primarily reflecting lower sales in the US as a result of the return of competing vaccines to the market during the second half of 2012, together with declines in Europe and China.

*Synflorix* sales increased 2% to £405 million, helped by strong tender sales in Middle East/Africa and Latin America.

*Rotarix* sales grew 5% to £375 million, with strong growth in Middle East/Africa and Europe partially offset by the impact of increased competition in Japan.

*Fluarix, FluLaval* sales increased 25% to £251 million, following the launch of the Quadrivalent formulation in the US.

#### Consumer Healthcare turnover

	2013 £m	2012 (restated) £m	Growth CER%	Growth £%
Wellness	1,865	1,991	(5)	(6)
Oral care	1,884	1,806	6	4
Nutrition	627	590	12	6
Skin health	380	360	6	6
	4,756	4,747	2	—

	2013 £m	2012 (restated) £m	Growth CER%	Growth £%
USA	951	926	1	3
Europe	1,392	1,386	(2)	—
ROW	2,413	2,435	5	(1)
	4,756	4,747	2	—

Consumer Healthcare turnover grew 2% in the year.

#### Wellness

Total wellness sales, excluding the non-core OTC brands that were divested in H1 2012, fell 5%. In both the US and Europe *alli* reported strong growth, in large part due to being out of stock for much of 2012. A severe cold and flu season in early 2013 helped drive growth of several respiratory brands including *Coldrex*, *Beechams* and *Panadol Cold and Flu*. This growth was partly offset by a 57% reduction in sales in China of *Contac*, due to new shelving requirements, and *Fenbid*, down 31%, in advance of mandatory price reductions.

#### Oral care

Strong growth in Oral care sales was led by growth in Specialist oral health, with *Sensodyne* Sensitivity and Acid erosion up 15% and denture care brands up 9%, but *Aquafresh* was down 12%.

#### Nutrition

Nutrition sales grew 12% with strong growth in Rest of World markets, led by *Horlicks*, up 14%, and *Boost* in India and key expansion markets in the sub-continent.

#### Skin health

Skin health sales grew 6%, led by *Abreva* in the US.



### Regional performance

US sales grew 1%, led by strong contributions from Oral care brands, *alli* and *Abreva*. This was partially offset by declines in Gastro-intestinal products, reflecting increased competitor activity, and Smoking control products impacted by supply disruptions. In Europe, sales declined 2% helped by sales of *alli* and strong growth in products for Respiratory health and Pain.

Oral care sales in Europe were flat, as strong growth in *Sensodyne* and denture care brands was offset by a decline in *Aquafresh*, due in part to supply issues in Q4 2013. Rest of World markets grew 5%, reflecting growth across most categories and markets, particularly in India, partially offset by a 23% reduction of sales in China, mainly due to the reduction in sales of *Contac* and *Fenbid*.

### Core results

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. The analyses that follow do not exclude divestments completed in 2013.

Major restructuring costs charged in arriving at operating profit include costs arising under the Operational Excellence restructuring programme, initiated in 2007 and expanded in 2009, 2010 and 2011, the Major Change restructuring programme initiated in 2013 and restructuring costs following the acquisitions of Human Genome Sciences, Inc. in August 2012 and Stiefel Laboratories, Inc. in July 2009.

Reconciliations of core results to total results are presented on page 65.

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 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 Financial review also presents and discusses the total results of the Group.

### Cost of sales

	£m	2013 % of turnover	£m	2012 (restated) % of turnover	Growth	
					CER%	£%
Cost of sales	(7,549)	(28.5)	(7,109)	(26.9)	6	6

Core cost of sales was 28.5% of turnover compared with 26.9% in 2012. Net of currency effects of 0.3 percentage points and the impact of a 0.3 percentage point reduction to the 2012 cost of sales percentage due to the settlement in early 2012 of a royalty agreement and the conclusion of the Vesicare agreement, the cost of sales percentage increased 1.0 percentage points. This reflected the expected impact of the unwinding of costs of manufacturing volume shortfalls, adverse mix and the impact of preparing for the launches of new pipeline products, partially offset by ongoing cost management, better price realisation and restructuring benefits.

### Selling, general and administration

	£m	2013 % of turnover	£m	2012 (restated) % of turnover	Growth	
					CER%	£%
Selling, general and administration	(7,928)	(29.9)	(7,905)	(29.9)	1	—

Core SG&A costs as a percentage of sales were 29.9%, flat on 2012, as the net favourable year-on-year benefits of the Group's restructuring programmes and ongoing cost management efforts funded investments in growth businesses and preparations for new product launches.

Advertising and promotion expenses decreased 2%, Selling and distribution decreased 1% and general administration increased 6%.



*Research and development*

	2013	2012	Growth	
	£m	£m	CER%	£%
Research and development	(3,400)	(3,485)	(3)	(2)

Core R&D expenditure declined 3% to £3,400 million (12.8% of turnover) compared with £3,485 million (13.2% of turnover) in 2012. This reflected the completion of a number of large trials, the phasing of ongoing project spending as well as continuing cost management.

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.

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).

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

	2013	2012
	£m	(restated) £m
Discovery	742	800
Development	1,535	1,655
Facilities and central support functions	449	377
Pharmaceuticals R&D	2,726	2,832
Vaccines R&D	496	498
Consumer Healthcare R&D	178	155
Core R&D	3,400	3,485

The proportion of Pharmaceuticals R&D investment made in the late-stage portfolio decreased from 58% of Pharmaceuticals R&D costs in 2012 to 56% in 2013.

*Royalty income*

Royalty income was £387 million (2012: £306 million) and included a prior year royalty catch-up adjustment recorded early in 2013.

*Core operating profit*

	2013	2012	Growth	
	£m	£m	CER%	£%
Core operating profit	8,015	8,238	—	(3)

Core operating profit was £8,015 million, flat in CER terms on a turnover increase of 1%. The core operating margin of 30.2% was 1.0 percentage points lower than in 2012. Excluding currency effects, the margin declined 0.5 percentage points. This reflected the negative impact of an expected increase in cost of sales, partially offset by higher royalty income and lower R&D expenditure, as the Group's continuing restructuring programmes contributed incremental year-on-year savings of around £400 million from both ongoing and structural initiatives.

The contribution in 2013 from structural benefits was approximately £115 million lower than in 2012. Total savings realised from changes to post-retirement medical obligations in 2013 were approximately £280 million. In 2012, the Group realised £395 million of savings from the capping of future pensionable salary increases and a change in the basis of future discretionary pension increases from RPI to CPI in certain legacy plans.



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*Net finance costs*

	2013 £m	2012 £m
<u>Finance income</u>		
Interest and other income	59	77
Fair value movements	2	2
	61	79
<u>Finance expense</u>		
Interest expense	(726)	(745)
Unwinding of discounts on liabilities	—	(10)
Remeasurements and fair value movements	(5)	(24)
Other finance expense	(22)	(24)
	(753)	(803)

Core net finance expense was £692 million compared with £724 million in 2012, despite higher average net debt levels during the year, largely driven by continuing share repurchases and dividends to shareholders. This reflected our strategy to improve the funding profile of the Group. Net debt at 31 December 2013 was £1.4 billion lower than at 31 December 2012, reflecting receipts of £2.5 billion from the disposals of businesses, intangible assets, Aspen shares and other investments realised largely at the end of the year.

*Share of after tax profits of associates and joint ventures*

The share of after tax profits of associates of £43 million (2012 – £29 million) principally arose from the Group's holding in Aspen Pharmacare.

*Core profit before taxation*

	£m	2013 % of turnover	£m	2012 (restated) % of turnover	Growth	
					CER%	£%
Core profit before tax	7,366	27.8	7,543	28.5	—	(2)

*Taxation*

Tax on core profit amounted to £1,695 million and included recognition of US R&D credits reflected in the effective core tax rate of 23.0% (2012: 24.4%).

We continue to believe that we have made adequate provision for the liabilities likely to arise from periods which are open and not yet agreed by tax authorities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with the relevant tax authorities or litigation.

*Core earnings per share*

Core EPS of 112.2p (2012 – 111.4p) increased 4% in CER terms and 1% at actual exchange rates.

*Dividend*

The Board declared four interim dividends resulting in a dividend for the year of 78 pence, a 4 pence increase on the dividend for 2012. See Note 16 to the financial statements, 'Dividends'.



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*Total results*

	£m	2013 % of turnover	£m	2012 (restated) % of turnover	Growth	
					CER%	£%
Turnover	26,505	100	26,431	100	1	—
Cost of sales	(8,585)	(32.4)	(7,925)	(30.0)	8	8
Selling, general and administration	(8,480)	(32.0)	(8,789)	(33.3)	(3)	(4)
Research and development	(3,923)	(14.8)	(3,979)	(15.1)	(2)	(1)
Royalty income	387	1.5	306	1.2	25	26
Other operating income	1,124	4.2	1,256	4.8	(10)	(11)
Operating profit	7,028	26.5	7,300	27.6	(1)	(4)
Net finance costs	(706)		(729)			
Profit on disposal of interest in associates	282		—			
Share of after tax profits of associates and joint ventures	43		29			
Profit before taxation	6,647		6,600		4	1
Taxation	(1,019)		(1,922)			
Total profit after taxation for the year	5,628		4,678		24	20
Total profit attributable to shareholders	5,436		4,499			
Earnings per share (p)	112.5		91.6		27	23
Earnings per ADS (US\$)	3.53		2.91			

*Cost of sales*

Total cost of sales was 32.4% of turnover compared with 30.0% in 2012. The increase primarily reflected the expected impact of the unwinding of costs of manufacturing volume shortfalls, adverse mix effects, the impact of preparing for the launches of new pipeline products and higher amortisation and impairments of intangible assets, partially offset by ongoing cost management, better price realisation and restructuring benefits.

*Selling, general and administration*

Total SG&A costs decreased to 32.0% of turnover compared with 33.3% in 2012, reflecting lower legal and restructuring charges. The net favourable year-on-year benefits of the Group's restructuring programmes and ongoing cost management efforts funded investments in growth businesses and preparations for new product launches.

Advertising and promotion expenses decreased 2%, selling and distribution fell 1% and general and administration decreased 5%, primarily reflecting lower legal charges.

*Research and development*

Total R&D expenditure declined 2% to £3,923 million (14.8% of turnover) compared with £3,979 million (15.1% of turnover) in 2012. This reflected the completion of a number of large trials, the phasing of ongoing project spending as well as continuing cost management, partially offset by higher restructuring and required regulatory charges.

*Other operating income*

Other operating income of £1,124 million (2012 – £1,256 million) included the profit on the disposal of the *Lucozade* and *Ribena* business and the anti-coagulant products of £1,331 million. The 2012 income included gains on the profit on disposal of the non-core OTC brands of £559 million and the gain of £581 million arising on the revaluation of pre-existing collaborations as part of the HGS and ViiV Healthcare/Shionogi joint venture acquisitions.

*Operating profit*

Total operating profit was £7,028 million compared with £7,300 million in 2012. The non-core items resulted in total net charges of £987 million in 2013 (2012 – £938 million).

The intangible asset amortisation of £547 million (2012 – £477 million) included £94 million related to the amortisation of the *Benlysta* intangible asset acquired as part of the HGS acquisition in late 2012. Intangible asset impairments of £739 million (2012 – £693 million) included write-offs of several R&D assets, together with the partial impairment of *Lovaza*, reflecting a reassessment of the Group's expectations on the likelihood of potential generic competition.

Major restructuring charges of £517 million (2012 – £557 million) comprised £238 million under the Operational Excellence programme, £260 million under the Major Change programme and £19 million related to the acquisition of HGS.

The Operational Excellence programme was initiated in 2007 and after several expansions is expected to cost approximately £4.85 billion. It is expected to deliver annual pre-tax savings of approximately £2.9 billion by the end of 2014.

The Major Change programme 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 the non-cash charge will be £350 million, and is expected to deliver annual pre-tax savings of at least £1.0 billion by 2016.

Legal charges of £252 million (2012 – £436 million) principally related to provisions for existing product liability matters.

Acquisition accounting and other credits of a net £1,068 million (2012 – £1,225 million credit) included items related to major acquisitions, business, equity investment and asset disposals, one-off required regulatory charges in R&D and certain other adjusting items. The 2013 net credit included gains on the disposals of the *Lucozade* and *Ribena* business and the anti-coagulant products of £1,331 million. The 2012 net credit included gains on the profit on disposal of the non-core OTC brands of £559 million and the gain of £581 million arising on the revaluation of pre-existing collaborations as part of the HGS and ViiV Healthcare/Shionogi joint venture acquisitions.

*Net finance costs*

	2013 £m	2012 £m
<b>Finance income</b>		
Interest and other finance income	59	77
Fair value movements	2	2
	61	79
<b>Finance expense</b>		
Interest expense	(726)	(745)
Unwinding of discounts on liabilities	(14)	(15)
Remeasurements and fair value movements	(5)	(24)
Other finance expense	(22)	(24)
	(767)	(808)

Total net finance expense was £706 million compared with £729 million in 2012, despite higher average net debt levels during the year, reflecting our strategy to improve the funding profile of the Group.

*Profit on disposal of interest in associates*

The pre-tax profit on disposal of interest in associates was £282 million (2012 – £nil) and 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 £43 million (2012 – £29 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 profits of associates, profit before taxation was £6,647 million compared with £6,600 million in 2012, a 4% CER increase and a 1% increase in sterling terms.

*Taxation*

	2013 £m	2012 (restated) £m
UK corporation tax at the UK statutory rate	265	350
Less double taxation relief	—	(180)
	265	170
Overseas taxation	1,284	1,510
Current taxation	1,549	1,680
Deferred taxation	(530)	242
Taxation on total profits	1,019	1,922

The charge for taxation on total profits amounted to £1,019 million and represented an effective tax rate of 15.3% (2012 – 29.1%), reflecting the differing tax effects of the various non-core items. It included a net deferred tax charge of £234 million related to the unwinding of deferred profit in inventory as existing inventory produced prior to the 2012 restructuring of the supply chain is sold. The 2013 charge for taxation on total profits also included deferred tax credits of £393 million, primarily reflecting continuing restructuring of the supply chain compared to a predominantly non cash deferred tax charge of £420 million in 2012. The Group's balance sheet at 31 December 2013 included a tax payable liability of £1,452 million and a tax recoverable asset of £129 million.

We continue to believe that we have made adequate provision for the liabilities likely to arise from periods which are open and not yet agreed by tax authorities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with relevant tax authorities or litigation.

*Earnings per share*

Total earnings per share was 112.5p for the year, compared with 91.6p in 2012 and non-core net credits totalled 0.3p (2012 – 19.8p charges).

**Financial position and resources***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 2013 was £18,853 million, with a net book value of £8,872 million. Of this, land and buildings represented £3,909 million, plant and equipment £2,509 million and assets in construction £2,454 million. In 2013, we invested £1,235 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 2013, we had contractual commitments for future capital expenditure of £443 million and operating lease commitments of £777 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 57 and in Note 44 to the financial statements, 'Legal proceedings'.

*Goodwill*

Goodwill decreased during the year to £4,205 million at December 2013, from £4,359 million. The decrease primarily reflects a weakening of overseas currencies.

*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 2013 was £9,283 million (2012 – £10,161 million). The decrease in 2013 reflected assets acquired from the acquisition of Okairos AG of £190 million, capitalised development costs of £246 million and £183 million of computer software costs, more than offset by the amortisation and impairment of existing intangibles of £682 million and £745 million, respectively.

*Investments*

We held investments, including associates and joint ventures, with a carrying value at 31 December 2013 of £1,525 million (2012 – £1,366 million). The market value at 31 December 2013 was £2,212 million (2012 – £1,968 million). The largest of these investments are in an associate, Aspen Pharmacare Holdings Limited, which had a book value at 31 December 2013 of £229 million (2012 – £430 million) and an investment in Theravance, Inc. which had a book value at 31 December 2013 of £644 million (2012 – £362 million). During the year we sold 28.2 million shares in Aspen Pharmacare Holdings Limited, representing 6.2% of our interest, for £429 million. The investments include equity stakes in companies where the Group has research collaborations, which provide access to biotechnology developments of potential interest and interests in companies that arise from business divestments.

*Derivative financial instruments: assets*

We had both non-current and current derivative financial instruments held at fair value of £156 million (2012 – £103 million). The majority of this amount relates to interest rate swaps and foreign exchange contracts both designated and non-designated (inter-company loans and deposits) as accounting hedges.

*Inventories*

Inventory of £3,900 million has decreased by £69 million during the year. The decrease reflects the impact of the disposal of the *Lucozade/Ribena* and anti-coagulant products businesses partly offset by higher vaccine stocks and stockbuilding for new product launches.

*Trade and other receivables*

Trade and other receivables of £5,442 million have increased from 2012 reflecting the receivable due from Aspen in respect of the inventory and a manufacturing site which formed part of the disposal of the anti-coagulants products business partly offset by a weakening of overseas currencies.

*Derivative financial instruments: liabilities*

We held both non-current and current derivative financial instruments at fair value of £130 million (2012 – £65 million). This primarily relates to foreign exchange contracts both designated and non-designated (inter-company loans and deposits, external debt and legal provisions) as accounting hedges.

*Trade and other payables*

Trade and other payables amounting to £8,317 million have increased from £8,054 million in 2012, reflecting the current year accrual in respect of the acquisition of further shares in the Group's Indian Pharmaceutical subsidiary of £635 million partly offset by the effect of the increased shareholding in the Indian Consumer Healthcare subsidiary accrued in 2012, together with a weakening of overseas currencies.

*Provisions*

We carried deferred tax provisions and other short-term and non-current provisions of £2,237 million at 31 December 2013 (2012 – £2,396 million) in respect of estimated future liabilities, of which £646 million (2012 – £527 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 £613 million (2012 – £1,312 million) on pension arrangements and £1,246 million (2012 – £1,685 million) on unfunded post-employment liabilities.

In December 2010, the UK scheme purchased an insurance contract that will guarantee payment of specified pensioner liabilities. This contract was valued at £775 million at 31 December 2013.

*Net debt*

Net debt decreased by £1,392 million and reflected the receipts of £2.5 billion from the disposals of the *Lucozade/Ribena* and anti-coagulant products businesses, intangible assets, part of the Group's investment in Aspen Pharmacare Holdings Limited and other investments. The impact of these was partly offset by the consideration paid to increase the shareholding in the Group's Indian Consumer Healthcare subsidiary from 43.2% to 72.5% at a cost of £588 million and to acquire Okarios AG for £205 million.

The Group's strong cash generation enabled the financing of share repurchases of £1.5 billion and dividend payments of £3.7 billion.

*Total equity*

At 31 December 2013, total equity had increased from £6,737 million at 31 December 2012 to £7,812 million. The increase arose principally from a reduction in the pension deficit of £699 million, a reduction in the post-retirement provision of £439 million and retained profits in the year exceeding shares repurchased, partly offset by the liability of £635 million arising from the open offer to purchase shares held by the non-controlling interest in the Group's Indian Pharmaceutical subsidiary, GlaxoSmithKline Pharmaceuticals Limited.

The changes in non-controlling interests in the year primarily arose from the voluntary open offer to acquire further shares in GSK Pharmaceuticals Ltd, the Group's Pharmaceutical subsidiary in India.

*Cash generation and conversion*

The net cash inflow from operating activities for the year was £7,222 million (2012 – £4,374 million). The increase primarily reflected legal settlements being some £2.5 billion lower than in 2012, together with the phasing of restructuring expenditure, lower tax payments and pension contributions, partially offset by a smaller reduction in working capital compared with 2012 given supply chain investments in inventory and launch preparation.

*Capital expenditure and financial investment*

Cash payments for tangible and intangible fixed assets amounted to £1,701 million (2012 - £1,520 million) and disposals realised £2,033 million (2012 – £1,124 million). Cash payments to acquire equity investments of £133 million (2012 – £229 million) were made in the year and sales of equity investments realised £59 million (2012 – £28 million).

## 5.B Liquidity and capital resources

The information set forth under the heading:

- “Financial position and resources” on pages 65 to 70

of the GSK Annual Report 2014 is incorporated herein by reference.



5.C Research and development, patents and licenses, etc.

The information set forth under the headings:

- “Intellectual property and patent protection” on page 10;
- “Competition” on page 10;
- “Deliver” within “Pharmaceuticals and Vaccines” on pages 24 to 26, “Viiv Healthcare” on page 32 and “Consumer Healthcare” on page 34;
- “Pharmaceuticals R&D Approach” on pages 26 to 27;
- “Investment in R&D” on page 27;
- “Vaccines R&D Approach” on page 28;
- “Late-stage pipeline” on page 29;
- “Pharmaceuticals and Vaccines product development pipeline” on pages 225 to 228;
- “Pharmaceutical products, competition and intellectual property” on pages 229 to 231; and
- “Consumer Healthcare products and competition” on page 231

of the GSK Annual Report 2014 is incorporated herein by reference.

The information set forth under the headings:

- “Financial Review 2013 – Core results – Research and development”; and
- “Financial Review 2013 – Total results – Research and development”

of item 5.A hereof is incorporated herein by reference.

5.D Trend information

The information set forth under the heading:

- “Group financial review” on pages 48 to 60 and 62 to 70; and
- “Financial record – Quarterly trend” on pages 218 to 219

of the GSK Annual Report 2014 is incorporated herein by reference.

5.E Off-balance sheet arrangements

Not applicable.

5.F Tabular disclosure of contractual obligations

The information set forth under the heading:

- “Contractual obligations and commitments” on page 67

of the GSK Annual Report 2014 is incorporated herein by reference.

Item 6. **Directors, Senior Management and Employees**

6.A Directors and senior management

The information set forth under the headings:

- “Our Board” on pages 72 to 75; and
- “Our Corporate Executive Team” on pages 76 to 77

of the GSK Annual Report 2014 is incorporated herein by reference.

6.B Compensation

The information set forth under the heading:

- “Remuneration report” on pages 96 to 128

of the GSK Annual Report 2014 is incorporated herein by reference.

6.C Board practices

The information set forth under the heading:

- “Corporate governance” on pages 78 to 95;
- “Governance” on page 108;
- “Termination of employment” on page 124;



- “Directors” on page 246; and
- “Donations to political organisations and political expenditure” on page 246

of the GSK Annual Report 2014 is incorporated herein by reference.

6.D Employees

The information set forth under the headings:

- “Performance and Engagement” on page 44;
- “Note 9 – Employee costs” on page 153;
- “Note 28 – Pensions and other post-employment benefits” on pages 167 to 174; and
- “Five year record, Number of employees” on page 224

of the GSK Annual Report 2014 is incorporated herein by reference.

6.E Share ownership

The information set forth under the headings:

- “Note 42 – Employee share schemes” on pages 200 to 203;
- “Total remuneration for 2014” on pages 97 to 98;
- “Long-term incentive plans” on pages 101 to 102;
- “Update on performance of ongoing awards” on page 103; and
- “Directors’ interests in shares” on pages 111 to 116

of the GSK Annual Report 2014 is incorporated herein by reference.

Item 7. **Major Shareholders and Related Party Transactions**

7.A Major shareholders

The information set forth under the headings:

- “Share capital and control” on page 242;
- “Analysis of shareholdings at 31 December 2014” on page 243; and
- “Change of control and essential contracts” on page 247

of the GSK Annual Report 2014 is incorporated herein by reference.

7.B Related party transactions

The information set forth under the heading:

- “Note 35 – Related party transactions” on page 181

of the GSK Annual Report 2014 is incorporated herein by reference.

7.C Interests of experts and counsel

Not applicable.

Item 8. **Financial Information**

8.A Consolidated Statements and Other Financial Information

See item 18 below.

In addition, the information set forth under the headings:

- “Dividends” on page 244; and
- “Note 45 – Legal proceedings” on pages 206 to 210

of the GSK Annual Report 2014 is incorporated herein by reference.



8.B Significant Changes

There has been no significant change since 31 December 2014, being the date of the latest annual financial statements.

Item 9. **The Offer and Listing**

9.A Offer and listing details

The information set forth under the headings:

- “Market capitalisation” on page 242;
- “Share price” on page 242; and
- “Nature of trading market” on page 243

of the GSK Annual Report 2014 is incorporated herein by reference.

9.B Plan of distribution

Not applicable.

9.C Markets

The information set forth under the headings:

- “Nature of trading market” on page 243

of the GSK Annual Report 2014 is incorporated herein by reference.

9.D Selling shareholders

Not applicable.

9.E Dilution

Not applicable.

9.F Expenses of the issue

Not applicable.

Item 10. **Additional Information**

10.A Share Capital

Not applicable.

10.B Memorandum and articles of association

Articles of Association of GlaxoSmithKline plc

The following is a summary of the principal provisions of the company’s Articles of Association (the “Articles”). Shareholders should not rely on this summary, but should instead refer to the current Articles which are filed with the Registrar of Companies in the UK and can be viewed on the company’s website. The Articles contain the fundamental provisions of the company’s constitution, and the rules for the internal management and control of the company. The company has no statement of objects in its Articles of Association and accordingly its objects are unrestricted in accordance with the provisions of the Companies Act 2006.

Articles of Association

(a) Voting

All resolutions put to the vote at general meetings will be decided by poll. On a poll, every shareholder who is present in person or by proxy shall have one vote for every Ordinary Share of which he or she is the holder. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names stand on the register. Unless the Directors otherwise decide, the right to attend a general meeting and voting rights may not be exercised by a shareholder who has not



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paid to the company all calls and other sums then payable by him or her in respect of his or her Ordinary Shares. The right to attend a general meeting and voting rights may not be exercised by a shareholder who is subject to an order under Section 794 of the Companies Act 2006 because he or she has failed to provide the company with information concerning his or her interests in Ordinary Shares within the prescribed period, as required by Section 793 of the Companies Act 2006.

(b) Transfer of Ordinary Shares

Any shareholder may transfer his or her Ordinary Shares which are in certificated form by an instrument of transfer in any usual form or in any other form which the Directors may approve. Such instrument must be properly signed and stamped or certified (or otherwise shown to the satisfaction of the Directors as being exempt from stamp duty) and lodged with the company together with the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

Any member may transfer title to his or her uncertificated Ordinary Shares by means of a relevant system, such as CREST.

The transferor of a share is deemed to remain the holder until the transferee's name is entered on the register.

The Directors may decline to register any transfer of any Ordinary Share which is not fully paid.

Registration of a transfer of uncertificated Ordinary Shares may be refused in the circumstances set out in the uncertificated securities rules, and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated Ordinary Share is to be transferred exceeds four.

The Articles contain no other restrictions on the transfer of fully paid certificated Ordinary Shares provided: (i) the instrument of transfer is duly stamped or certified or otherwise shown to the satisfaction of the Directors to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Directors may reasonably require; (ii) the transfer, if to joint transferees, is in favour of not more than four transferees; (iii) the instrument of transfer is in respect of only one class of shares; and (iv) the holder of the Ordinary Shares is not subject to an order under Section 794 of the Companies Act 2006. Notice of refusal to register a transfer must be sent to the transferee within two months of the instrument of transfer being lodged. The Directors may decline to register a transfer of Ordinary Shares by a person holding 0.25 per cent. or more of the existing Ordinary Shares if such person is subject to an order under Section 794 Companies Act 2006, after failure to provide the company with information concerning interests in those Ordinary Shares required to be provided under Section 793 of the Companies Act 2006, unless the transfer is carried out pursuant to an arm's length sale.

Provisions in the Articles will not apply to uncertificated Ordinary Shares to the extent that they are inconsistent with:

- (i) the holding of Ordinary Shares in uncertificated form;
- (ii) the transfer of title to Ordinary Shares by means of a system such as CREST; and
- (iii) any provisions of the relevant regulations.

(c) Dividends and distribution of assets on liquidation

The profits of the company which are available for distribution and permitted by law to be distributed and which the company may by ordinary resolution from time to time declare, upon the recommendation of the Directors to distribute by way of dividend, in respect of any accounting reference period shall be distributed by way of dividend among holders of Ordinary Shares.

If in their opinion the company's financial position justifies such payments, the Directors may, as far as any applicable legislation allows, pay interim dividends on shares of any class of such amounts and in respect of such periods as they think fit. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends will be declared, apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid. As the company has only one class of Ordinary Shares, the holders of such Ordinary Shares will be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings.



(d) Variation of rights and changes in capital

Subject to the provisions of any statute (including any orders, regulations or other subordinate legislation made under it) from time to time in force concerning companies in so far as it applies to the company (the "Companies Acts"), the rights attached to any class of shares may be varied with the written consent of the holders of three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class. At every such separate meeting, the provisions of the Articles relating to general meetings shall apply, except the necessary quorum shall be at least two persons holding or representing as proxy at least one-third in nominal value of the issued shares of the relevant class(excluding any shares of that class held as treasury shares) (but provided that at any adjourned meeting any holder of shares of the relevant class present in person or by proxy shall be a quorum).

The rights conferred upon the holders of any Ordinary Shares shall not, unless otherwise expressly provided in the rights attaching to those Ordinary Shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

(e) Unclaimed dividends

All dividends or other sums payable on or in respect of any Ordinary Shares which remain unclaimed may be invested or otherwise made use of by the Directors for the benefit of the company until claimed. Unless the Directors decide otherwise, any dividend or other sums payable on or in respect of any Ordinary Shares unclaimed after a period of 12 years from the date when declared or became due for payment will be forfeited and revert to the company. The company may stop sending dividend cheques or warrants by post, or employ such other means of payment in respect of any Ordinary Shares, if at least two consecutive payments have remained uncashed or are returned undelivered or if one payment has remained uncashed or is returned undelivered and the company cannot establish a new address for the holder after making reasonable enquiries; however, in either case, the company must resume sending cheques or warrants or employ such other means of payment if the holder or any person entitled to the Ordinary Shares by transmission requests the resumption in writing.

(f) Untraced shareholders

The company may sell any certificated Shares in the company after advertising its intention and waiting for three months if the Ordinary Shares have been in issue for at least ten years and during that period at least three dividends have become payable on them and have not been claimed and, so far as any Director is aware, the company has not received any communication from the holder of the Ordinary Shares or any person entitled to them by transmission. Upon any such sale, the company will become indebted to the former holder of the Ordinary Shares or the person entitled to them by transmission for an amount equal to the net proceeds of sale unless forfeited.

(g) Limitations on rights of non-resident or foreign shareholders

There are no limitations imposed by the Articles on the rights of non-resident or foreign shareholders except that there is no requirement for the company to serve notices on shareholders outside the United Kingdom and the United States, if no postal address in the United States or United Kingdom has been provided to the company.

(h) General meetings of shareholders

The Articles rely on the Companies Act 2006 provisions dealing with the calling of general meeting. The company is required by the Companies Act 2006 to hold an annual general meeting each year. General meetings of shareholders may be called as necessary by the Directors and must be called promptly upon receipt of a requisition from shareholders. Under the Companies Act 2006, an annual general meeting must be called by notice of at least 21 clear days. A general meeting other than an annual general meeting may be called on not less than 14 clear days' notice provided a special resolution reducing the notice period to 14 clear days has been passed at the immediately preceding annual general meeting or a general meeting held since that annual general meeting.

(i) Conflicts of interest

The Directors may, subject to the provisions of the Articles, authorise any matter which would otherwise involve a Director breaching his or her duty under the Companies Acts to avoid conflicts of interest (each a "Conflict"). A Director seeking authorisation in respect of a Conflict shall declare to the other Directors the nature and extent of his or her Conflict as soon as is reasonably practicable and shall provide the other Directors with such details of the matter as are necessary to decide how to address the Conflict. The board



may resolve to authorise the relevant Director in relation to any matter the subject of a Conflict, save that the relevant Director and any other Director with a similar interest shall not count towards the quorum nor vote on any resolution giving such authority, and, if the other Directors so decide, shall be excluded from any meeting of the Directors while the Conflict is under consideration.

(j) Other Conflicts of Interest

Subject to the provisions of the Companies Acts, and provided the nature and extent of a Director's interest has been declared to the Directors, a Director may:

- (i) be party to, or otherwise interested in, any contract with the company, or in which the company has a direct or indirect interest;
- (ii) hold any other office or place of profit with the company (except that of auditor) in conjunction with his office of director for such period and upon such terms, including remuneration, as the Directors may decide;
- (iii) act by himself or through a firm with which he is associated in a professional capacity for the company or any other company in which the company may be interested (otherwise than as auditor);
- (iv) be or become a director of, or employed by, or otherwise be interested in any holding company or subsidiary company of the company or any other company in which the company may be interested; and
- (v) be or become a director of any other company in which the company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as director of that other company.

No contract in which a Director is interested shall be liable to be avoided, and any Director who is so interested is not liable to account to the company or its shareholders for any benefit realised by the contract by reason of the Director holding that office or of the fiduciary relationship thereby established. However, no Director may vote on, or be counted in the quorum, in relation to any resolution of the board relating specifically to his or her own appointment (including remuneration) or the terms of his or her termination of appointment or relating to any contract in which he or she has an interest (subject to certain exceptions).

Subject to the Companies Acts, the company may by ordinary resolution suspend or relax to any extent the provisions relating to directors' interests or restrictions on voting or ratify any transaction not duly authorised by reason of a contravention of such provisions.

(k) Directors' remuneration

Each of the Directors will be paid a fee at such rate as may from time to time be determined by the Directors, but the total fees paid to all of the directors for acting as directors (including amounts paid to any director who acts as chairman or is chairman of, or serves on any committee of the board of directors but excluding any amounts paid under any other provision of the Articles) shall not exceed the higher of:

- (i) £3 million a year; and
- (ii) any higher amount as the company may by ordinary resolution decide. Such fees may be satisfied in cash or in shares or any other non-cash form. Any Director who is appointed to any executive office, acts as Chairman, acts as senior independent director, acts as a scientific/medical expert on the board, is Chairman of, or serves on any committee of the Directors or performs any other services which the Directors consider to extend beyond the ordinary services of a Director shall be entitled to receive such remuneration (whether by way of salary, commission or otherwise) as the Directors may decide. Each Director may be paid reasonable travelling, hotel and other incidental expenses he or she incurs in attending and returning from meetings of the Directors or committees of the Directors, or general meetings of the company, or otherwise incurred in connection with the performance of his or her duties for the company.

(l) Pensions and gratuities for Directors

The Directors or any committee authorised by the Directors may provide benefits by the payment of gratuities, pensions or insurance or in any other manner for any Director or former Director or their relations, connected persons or dependants, but no benefits (except those provided for by the Articles) may



be granted to or in respect of a Director or former Director who has not been employed by or held an executive office or place of profit under the company or any of its subsidiary undertakings or their respective predecessors in business without the approval of an ordinary resolution of the company.

(m) Borrowing powers

Subject to the provisions of the Companies Act 2006, the Directors may exercise all the company's powers to borrow money; to mortgage or charge all or any of the company's undertaking, property (present and future), and uncalled capital; to issue debentures and other securities; and to give security either outright or as collateral security for any debt, liability or obligation of the company or of any third party.

(n) Retirement and removal of Directors

A Director is subject to re-election at every annual general meeting of the company if he or she:

- (i) held office at the time of the two previous annual general meetings and did not retire by rotation at either of them;
- (ii) has held office, other than employment or executive office, for a continuous period of nine years or more; or
- (iii) he or she has been appointed by the Directors since the last annual general meeting.

In addition to any power of removal conferred by the Companies Acts the company may by special resolution remove any Director before the expiration of his or her period of office. No Director is required to retire by reason of his or her age, nor do any special formalities apply to the appointment or re-election of any Director who is over any age limit. No shareholding qualification for Directors shall be required.

(o) Vacation of office

The office of a director shall be vacated if:

- (i) he resigns or offers to resign and the board resolves to accept such offer;
- (ii) his resignation is requested by all of the other directors and all of the other directors are not less than three in number;
- (iii) he is or has been suffering from mental or physical ill health and the board resolves that his office be vacated;
- (iv) he is absent without permission of the board from meetings of the board (whether or not an alternate director appointed by him attends) for six consecutive months and the board resolves that his office is vacated;
- (v) he becomes bankrupt or compounds with his creditors generally;
- (vi) he is prohibited by law from being a director; or
- (vii) he is removed from office pursuant to the Articles or the Companies Acts.

(p) Share rights

Subject to any rights attached to existing shares, shares may be issued with such rights and restrictions as the company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the board may decide. Such rights and restrictions shall apply as if they were set out in the Articles. Redeemable shares may be issued, subject to any rights attached to existing shares. The board may determine the terms, conditions and manner of redemption of any redeemable share so issued. Such terms and conditions shall apply to the relevant shares as if they were set out in the Articles. Subject to the articles, any resolution passed by the shareholders and other shareholders' rights, the Board may decide how to deal with any shares in the company.

10.C

Material contracts

On April 22, 2014, GSK and Novartis AG ("Novartis") entered into a three-part, inter-conditional transaction (the "Transaction"), pursuant to which they executed an implementation agreement (as subsequently amended, the "Implementation Agreement"), a contribution agreement relating to a consumer healthcare joint venture (as subsequently amended, the "Contribution Agreement"), a share and business sale agreement relating to the vaccines business of Novartis (as subsequently amended, the "Vaccines SAPA"), a sale and purchase agreement relating to the oncology business of GSK (as subsequently amended, the "Oncology SAPA") and a put option deed relating to the influenza vaccines business of Novartis (as subsequently amended, the "Put Option Deed" and, together with the Implementation Agreement, the Contribution Agreement, the Vaccines SAPA and the Oncology SAPA, the "Transaction Contracts"). The Transaction remains subject to certain conditions.



Under the Vaccines SAPA, Novartis has agreed to sell, and GSK has agreed to purchase, Novartis' vaccines business (excluding Novartis' influenza vaccines business). The purchase price for the business is up to US\$7,055,000,000 plus royalties. The US\$7,055,000,000 consists of US\$5,255,000,000 upfront and up to US\$1,800,000,000 in milestone payments. Under the Oncology SAPA, GSK has agreed to sell or license, and Novartis has agreed to purchase or license, certain assets, rights and liabilities relating to GSK's oncology business. Novartis has agreed to acquire GSK's oncology products for an aggregate cash consideration of US\$16,000,000,000. Under the terms of the transaction, Novartis also has preferred partner rights over GSK's current and future oncology research and development pipeline, excluding oncology vaccines, for a period of 12.5 years following the closing of the Transaction. Under the Put Option Deed, Novartis has the right to unilaterally require GSK to acquire from Novartis its entire influenza vaccines business for US\$250,000,000, or certain parts of the influenza vaccines business for a pro rata portion thereof (subject to certain customary purchase price adjustments) if the divestment of this business to a certain third party does not complete (the "Influenza Put Option"). The Influenza Put Option is exercisable during an 18-month period. Any divestment to GSK under the Influenza Put Option (if exercised) would be subject to applicable antitrust clearances and satisfaction of certain other conditions. Under the Contribution Agreement, GSK will contribute its consumer healthcare business and Novartis will contribute its over-the-counter business into a newly-created joint venture company, which will operate under the "GSK Consumer Healthcare" name. Upon completion, GSK will own a 63.5% share of the joint venture. Pursuant to the shareholders' agreement expected to be entered into by GSK and Novartis upon closing of the Transaction, GSK will have seven of eleven seats on the joint venture's board of directors, and Novartis will have customary minority rights and exit rights at a pre-defined, market-based pricing mechanism.

GSK's shareholders approved the Transaction on December 18, 2014. The Transaction received clearance from the U.S. Federal Trade Commission on November 26, 2014 and from the European Commission on January 28, 2015, in each case subject to the fulfillment of certain conditions. The closing of the Transaction also remains subject to the satisfaction of closing conditions pursuant to the terms of certain of the Transaction Contracts. If the conditions to the closing of the Transaction are not satisfied (or, where applicable, waived) by October 22, 2015 (or such later date as GSK and Novartis may agree), the Transaction will terminate and, in certain circumstances, termination fees may be payable by either party. Subject to the satisfaction of the remaining conditions, the Transaction is expected to close in the week commencing March 2, 2015.

10.D Exchange controls

The information set forth under the heading:

- "Exchange controls and other limitations affecting security holders" on page 242

of the GSK Annual Report 2014 is incorporated herein by reference.

10.E Taxation

The information set forth under the heading:

- "Tax information for shareholders" on pages 244 to 245

of the GSK Annual Report 2014 is incorporated herein by reference.

10.F Dividends and paying agents

Not applicable.

10.G Statement by experts

Not applicable.

10.H Documents on display

The information set forth under the heading:

- "Documents on display" on page 245

of the GSK Annual Report 2014 is incorporated herein by reference.

10.I Subsidiary information

Not applicable.



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Item 11. **Quantitative and Qualitative Disclosures About Market Risk**

The information set forth under the headings:

- “Treasury policies” on page 69
- “Treasury operations” on page 70; and
- “Note 41 – Financial instruments and related disclosures” on pages 190 to 200

of the GSK Annual Report 2014 is incorporated herein by reference.



Item 12. **Description of Securities Other than Equity Securities**

12.A Debt Securities

Not applicable.

12.B Warrants and Rights

Not applicable.

12.C Other Securities

Not applicable.

12.D American Depositary Shares

**Fees and charges payable by ADR holders**

The Bank of New York serves as the depository (the "Depository") for GlaxoSmithKline plc's American Depositary Receipt ("ADR") programme. Pursuant to the deposit agreement between GSK, the Depository and owners and holders of ADRs (the "Deposit Agreement"), ADR holders may be required to pay various fees to the Depository, and the Depository may refuse to provide any service for which a fee is assessed until the applicable fee has been paid. In particular, the Depository, under the terms of the Deposit Agreement, shall charge a fee of \$0.05 or less per ADR (or portion thereof) for (i) the issuance, execution and delivery of ADRs or (ii) the withdrawal of shares underlying the ADRs. In addition, ADR holders may be required under the Deposit Agreement to pay the Depository (i) any tax, duty, governmental charge or fee or stock transfer or registration fee arising in connection with the foregoing transactions or otherwise, (ii) any expense resulting from the conversion of a foreign currency into U.S. dollars and (iii) the expense of certain communications made, at the request of the ADR holder, by cable, telex or facsimile. The Depository may (i) withhold dividends or other distributions or sell any or all of the shares underlying the ADRs in order to satisfy any tax or governmental charge and (ii) deduct from any cash distribution any tax payable thereon or the cost of any currency conversion.

**Direct and indirect payments by the Depository**

The Depository reimburses GSK for certain expenses it incurs in connection with the ADR programme, subject to a ceiling agreed between GSK and the Depository from time to time. The Depository has also agreed to waive certain standard fees associated with the administration of the programme.

The table below sets forth the amount of such payments received in respect of the years ended 31 December 2013 and 31 December 2014 and such payments claimed but not yet received in respect of the year ended 31 December 2014.

<u>Direct and indirect payments by the depository</u>	<u>Received in Respect of 2013</u>	<u>Received in Respect of 2014</u>	<u>Claimed in Respect of 2014 But Not Yet Received</u>
Reimbursement of NYSE listing fees	\$372,414.00	\$381,152.00	—
Reimbursement of legal fees claimed in U.S. dollars	\$210,000.00	—	\$ 600,000.00
Reimbursement of legal fees claimed in Sterling	£ 34,444.50	—	—
Reimbursement of PCAOB fees	\$182,100.00	—	\$ 191,500.00
Reimbursement of Annual Report production costs <sup>(1)</sup>	£214,256.47	—	£ 272,423.01
Reimbursement of investor relations expenses <sup>(2)</sup>	\$341,212.25	—	\$ 998,455.09
Distribution of annual general meeting materials	\$555,387.61	—	\$ 653,861.77
Tabulation of voting instructions cards	\$ 721.53	—	—
Reimbursement of other programme-related expenditures claimed in U.S. Dollars	\$ 6,279.12	—	—
Reimbursement of other programme-related expenditures claimed in Sterling	—	—	—

(1) Annual Report production costs include SEC filing fees.

(2) Investor relations expenses include travel expenses, fees of investor relations consultants, expenses involved in arranging investor relations meetings and telephone expenses.



**PART II**

Item 13. **Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

Item 14. **Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

Item 15. **Controls and Procedures**

The information set forth under the heading:

- “Accountability” on pages 84 to 85

of the GSK Annual Report 2014 is incorporated herein by reference.

**US law and regulation**

A number of provisions of US law and regulation apply to the company because our shares are quoted on the New York Stock Exchange (the “NYSE”) in the form of American Depositary Shares.

**NYSE rules**

In general, the NYSE rules permit the company to follow UK corporate governance practices instead of those applied in the USA, provided that we explain any significant variations. This explanation is contained in our Form 20-F filing, which can be accessed from the Securities and Exchange Commission’s (SEC) EDGAR database or via our website. NYSE rules that came into effect in 2005 require us to file annual and interim written affirmations concerning the Audit & Risk Committee and our statement on significant differences in corporate governance.

**Sarbanes-Oxley Act of 2002**

Following a number of corporate and accounting scandals in the USA, Congress passed the Sarbanes-Oxley Act of 2002. Sarbanes-Oxley is a wide ranging piece of legislation concerned largely with financial reporting and corporate governance.

As recommended by the SEC, the company has established a Disclosure Committee. The Committee reports to the CEO, the CFO and to the Audit & Risk Committee. It is chaired by the Company Secretary and the members consist of senior managers from finance, legal, corporate communications and investor relations.

External legal counsel, the external auditors and internal experts are invited to attend its meetings periodically. It has responsibility for considering the materiality of information and, on a timely basis, determining the disclosure of that information. It has responsibility for the timely filing of reports with the SEC and the formal review of the Annual Report and Form 20-F. In 2014, the Committee met 11 times.

Sarbanes-Oxley requires that the Annual Report contains a statement as to whether a member of our Audit & Risk Committee (ARC) is an audit committee financial expert as defined by Sarbanes-Oxley. For a summary regarding the Board’s judgement on this matter, please refer to pages 87 and 249 of the GSK Annual Report 2014. Additional disclosure requirements arise under section 302 and section 404 of Sarbanes-Oxley in respect of disclosure controls and procedures and internal control over financial reporting.

**Section 302: Corporate responsibility for financial reports**

Sarbanes-Oxley also introduced a requirement for the CEO and the CFO to complete formal certifications, confirming that:

- they have each reviewed the Annual Report and Form 20-F;
- based on their knowledge, the Annual Report and Form 20-F contain no material misstatements or omissions;
- based on their knowledge, the financial statements and other financial information fairly present, in all material respects, the financial condition, results of operations and cash flows as of the dates, and for the periods, presented in the Annual Report and Form 20-F;
- they are responsible for establishing and maintaining disclosure controls and procedures that ensure that material information is made known to them, and have evaluated the effectiveness of these controls and procedures as at the year-end, the results of such evaluation being contained in the Annual Report and Form 20-F;



- they are responsible for establishing and maintaining internal control over financial reporting that provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- they have disclosed in the Annual Report and Form 20-F any changes in internal controls over financial reporting during the period covered by the Annual Report and Form 20-F that have materially affected, or are reasonably likely to affect materially, the company's internal control over financial reporting; and
- they have disclosed, based on their most recent evaluation of internal control over financial reporting, to the external auditors and the ARC, all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to affect adversely the company's ability to record, process, summarise and report financial information, and any fraud (regardless of materiality) involving persons that have a significant role in the company's internal control over financial reporting.

The Group has carried out an evaluation under the supervision and with the participation of its management, including the CEO and CFO, of the effectiveness of the design and operation of the Group's disclosure controls and procedures as at 31 December 2014.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on the Group's evaluation, the CEO and CFO have concluded that, as at 31 December 2014, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that the Group files and submits under the US Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported as and when required and that it is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding disclosure.

The CEO and CFO completed these certifications on February 27, 2015.

#### **Section 404: Management's annual report on internal control over financial reporting.**

In accordance with the requirements of section 404 of Sarbanes-Oxley, the following report is provided by management in respect of the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the US Securities Exchange Act of 1934):

- management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS;
- management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission;
- management has assessed the effectiveness of internal control over financial reporting, as at 31 December 2014 and has concluded that such internal control over financial reporting was effective. In addition, there have been no changes in the Group's internal control over financial reporting during 2014 that have materially affected, or are reasonably likely to affect materially, the Group's internal control over financial reporting; and
- PricewaterhouseCoopers LLP, which has audited the consolidated financial statements of the Group for the year ended 31 December 2014, has also assessed the effectiveness of the Group's internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board (United States). Their audit report can be found in Item 18 below.

Item 16. **[Reserved]**

Item 16.A **Audit committee financial expert**

The information set forth under the heading:

- "Membership and attendance", within the "Audit & Risk Committee Report", on page 87; and
- "Sarbanes-Oxley Act of 2002" on page 247

of the GSK Annual Report 2014 is incorporated herein by reference.

**Item 16.B Code of Ethics**

The information set forth under the heading:

- “Code of Conduct and reporting lines” on page 91

of the GSK Annual Report 2014 is incorporated herein by reference.

No waivers were granted from a provision of our code of ethics to an officer or person described in Item 16B(a) that relates to one or more of the items set forth in Item 16B(b) in 2014.

**Item 16.C Principal Accountant Fees and Services**

The information set forth under the heading:

- “Non-audit services” on pages 90 to 91; and
- “Note 8 – Operating profit” on page 152

of the GSK Annual Report 2014 is incorporated herein by reference.

**Item 16.D Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16.E Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The information set forth under the heading:

- “Note 33 – Share capital and share premium account” on page 178

of the GSK Annual Report 2014 is incorporated herein by reference.

**Item 16.F Change in Registrant’s Certifying Accountant**

Not applicable.

**Item 16.G Corporate Governance**

Comparison of New York Stock Exchange Corporate Governance Standards and GlaxoSmithKline plc’s corporate governance practice.

On 4 November 2003, the New York Stock Exchange (the “NYSE”) adopted new corporate governance standards. The application of the NYSE’s standards is restricted for foreign companies, recognising that they have to comply with domestic requirements. As a foreign private issuer, GlaxoSmithKline plc (“GlaxoSmithKline” or the “Company”) must comply with the following NYSE standards:

1. the Company must satisfy the audit committee requirements of the Securities and Exchange Commission (the “SEC”);
2. the Chief Executive Officer (the “CEO”) must promptly notify the NYSE in writing after any executive officer of the Company becomes aware of any non-compliance with any applicable provisions of the NYSE’s corporate governance standards;
3. the Company must submit an annual affirmation to the NYSE affirming GlaxoSmithKline’s compliance with applicable NYSE corporate governance standards, and submit interim affirmations to the NYSE notifying it of specified changes to the audit committee or a change to the status of the Company as a foreign private issuer; and
4. the Company must provide a brief description of any significant differences between its corporate governance practices and those followed by US companies under the NYSE listing standards.



As a Company listed on the London Stock Exchange, GlaxoSmithKline is required to comply with the UK Listing Authority's Listing Rules (the "Listing Rules") and to report non-compliance with the UK Corporate Governance Code (the "UK Code").

The table below discloses differences between GlaxoSmithKline's current domestic corporate governance practices, which are based on the UK Code, and the NYSE corporate governance standards, applicable to US companies.

<u>NYSE Corporate Governance Standards</u>	<u>Description of differences between GlaxoSmithKline's governance practice and the NYSE Corporate Governance Standards</u>
<b>Director Independence</b>	
1. Listed companies must have a majority of independent directors.	<p>GlaxoSmithKline complies with the equivalent domestic requirements contained in the UK Code which was issued in September 2012.</p> <p>The UK Code provides that the board of directors of GlaxoSmithKline (the "Board") and its committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively (B.1). The Board should include an appropriate combination of Executive and Non-Executive Directors (and, in particular, independent Non-Executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking (B.1). At least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent (B.1.2). The roles of Chairman and Chief Executive should not be exercised by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the Board (A.2.1).</p> <p>The Board considers that Professor Sir Roy Anderson, Dr Stephanie Burns, Stacey Cartwright, Lynn Elsenhans, Sir Philip Hampton, Judy Lewent, Sir Deryck Maughan, Dr Daniel Podolsky, Urs Rohner, Tom de Swaan, Jing Ulrich and Hans Wijers, are "independent" for the purpose of the UK Code.</p> <p>A majority of the Board members are "independent" Non-Executive Directors and, in accordance with the recommendations of the UK Code, the Board has appointed one of the "independent" Non-Executive Directors as Senior Independent Director to provide a sounding board for the Chairman and act as an intermediary for other Non-Executive Directors where necessary (A.4.1). In January 2012 the Board adopted a formal written role specification for the Senior Independent Director.</p>
2. In order to tighten the definition of "independent director" for purposes of these standards:	<p>GlaxoSmithKline complies with the corresponding domestic requirements contained in the UK Code, which sets out the principles for the Company to determine whether a director is "independent".</p> <p>The Board is required to determine and state its reasons for the determination of whether directors are independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could affect, the directors' judgment. In undertaking this process, the Board is required, amongst other factors, to consider if the director:</p>
(a) (i) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company).	(a) has been an employee of GlaxoSmithKline within the last five years;



- (ii) In addition, in affirmatively determining the independence of any director who will serve on the compensation committee of the listed company's board of directors, the board of directors must consider all factors specifically relevant to determining whether a director has a relationship to the listed company which is material to that director's ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to:
- (A) the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the listed company to such director; and
- (B) whether such director is affiliated with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company.
- (b) In addition, a director is not independent if:
- (i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer, of the listed company.
- (ii) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
- (iii) (A) The director is a current partner or employee of a firm that is the listed company's internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the listed company's audit; or (D) the director or an immediate family member was within the last three years a partner or
- (b) has, or has had within the last three years, a material business relationship with the Company either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company;
- (c) has received or receives additional remuneration from the Company apart from a director's fee, participates in the Company's share option or a performance-related pay scheme, or is a member of the Company's pension scheme;
- (d) has close family ties with any of the Company's advisers, directors or senior employees;
- (e) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- (f) represents a significant shareholder; or
- (g) has served on the Board for more than nine years from the date of his or her first election (B.1.1).

The Board considers all its Non-Executive Directors to be independent in character and judgment and has concluded that all its Non-Executive Directors are independent in accordance with the UK Code. The Chairman satisfied the independence criteria on appointment.

GlaxoSmithKline complied with the UK Code requirement that all Directors should be subject to annual election or re-election by shareholders (B.7) at its Annual General Meeting in 2014, and intends to comply with this requirement at its 2015 Annual General Meeting.

The UK Code also provides that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors (B.6). Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness (B.6). GlaxoSmithKline has complied with this requirement. In addition, the evaluation of the Board should be externally facilitated at least every three years and a statement should be made available of whether an external facilitator has any other connection with the Company and the external facilitator should be identified in the annual report (B.6.2). The Company conducted an externally facilitated evaluation in 2014 and expects to conduct an internally facilitated evaluation in 2015.

The UK Code provides that all Directors should receive an induction on joining the Board (B.4). The Chairman should regularly review and agree with each Director their training and development needs (B.4.2).

GlaxoSmithKline complied with this requirement.



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employee of such a firm and personally worked on the listed company's audit within that time.

- (iv) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee.
- (v) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

(For the purposes of these standards "executive officer" is defined to have the meaning specified for the term "officer" in Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended, the "Exchange Act").

- 3. To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

GlaxoSmithKline complies with the equivalent domestic requirements set out in the UK Code, which requires that the Chairman of GlaxoSmithKline should hold meetings with the Non-Executive Directors without executives present. The Non-Executive Directors, led by the Senior Independent Director, also meet without the Chairman present to appraise the Chairman's performance (A.4.2).

The UK Code provides that the Chairman should promote a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors (A.3) and, in particular, ensuring constructive relations between Executive and Non-Executive Directors (A.3). In addition, the Chairman is responsible for ensuring that all Directors are made aware of shareholders' concerns (E.1).

**Nominating / corporate governance committee**

- 4. (a) Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.
- (b) The nominating/corporate governance committee must have a written charter that addresses:
  - (i) the committee's purpose and responsibilities – which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by

GlaxoSmithKline complies with the corresponding domestic requirements set out in the UK Code, which requires that GlaxoSmithKline should have a Nominations Committee that is comprised of a majority of independent Non-Executive Directors (B.2.1).

GlaxoSmithKline's Nominations Committee has written terms of reference in accordance with the UK Code. The terms of reference are available on the Company's website and explain the Nominations Committee's role and the authority delegated to it by the Board (B.2.1). The Nominations Committee reviews the structure, size, diversity (including gender diversity), and composition of the Board and appointment of members to the



the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management; and

- (ii) an annual performance evaluation of the committee.

Board and the Corporate Executive Team (the "CET"), and makes recommendations to the Board as appropriate. The Committee also monitors the planning of succession for the Board and Senior Management.

In compliance with the UK Code, the terms and conditions of appointment of Non-Executive Directors are available for inspection (B.3.2).

The UK Code requires that a separate section in the Company's Annual Report describe the work of the Nominations Committee in discharging its duties, including the process it has used in relation to Board appointments (B.2.4). An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director. Where an external search consultancy has been used, it should be identified in the report and a statement should be made as to whether it has any other connection with the company (B.2.4). This section should include a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives (B.2.4). GlaxoSmithKline has complied with this requirement.

As described above, there is an annual Board evaluation exercise, which also includes evaluation of the Board's committees (B.6).

The Board is responsible for regularly reviewing its corporate governance standards and practices. The Company Secretary oversees corporate governance matters for the Group. The Company Secretary is responsible for advising the Board through the Chairman on all corporate governance matters. Domestic requirements do not mandate that GlaxoSmithKline establish a corporate governance committee.

#### Management resources and compensation committee

5. (a) Listed companies must have a compensation committee composed entirely of independent directors. Compensation committee members must satisfy the additional independence requirements specific to compensation committee membership set forth in Section 303A.02(a)(ii).
- (b) The compensation committee must have a written charter that addresses:
- (i) the committee's purpose and responsibilities – which, at a minimum, must be to have direct responsibility to:
- (A) review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and, either as a committee or together with the other independent

GlaxoSmithKline complies with the equivalent domestic requirements set out in the UK Code, which require that GlaxoSmithKline should have a Remuneration Committee that is comprised of at least three "independent" Non-Executive Directors in addition to the Chairman (D.2.1).

GlaxoSmithKline's Remuneration Committee has written terms of reference in accordance with the UK Code. The terms of reference are available on the Company's website (D.2.1). The Remuneration Committee determines the terms of service and remuneration of the Executive Directors and members of the CET and, with the assistance of external independent advisers, it evaluates and makes recommendations to the Board on overall executive remuneration policy (the Chairman and the CEO are responsible for evaluating and making recommendations to the Board on the remuneration of Non-Executive Directors). Where remuneration consultants are appointed, they should be identified in the annual report and a statement should be made as to whether they have any other connection with the company (D.2.1).



directors (as directed by the board), determine and approve the CEO's compensation level based on this evaluation;

- (B) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval; and
  - (C) prepare the disclosure required by item 407(e)(5) or Regulation S-K under the Exchange Act;
- (ii) an annual performance evaluation of the compensation committee.
  - (iii) The rights and responsibilities of the compensation committee set forth in Section 303A.05(c).
- (c) (i) The compensation committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, independent legal counsel or other adviser.
  - (ii) The compensation committee shall be directly responsible for the appointment, compensation and oversight of the work of any compensation consultant, independent legal counsel or other adviser retained by the compensation committee.
  - (iii) The listed company must provide for appropriate funding, as determined by the compensation committee, for payment of reasonable compensation to a compensation consultant, independent legal counsel or any other adviser retained by the compensation committee.
  - (iv) The compensation committee may select a compensation consultant, legal counsel or other adviser to the compensation committee only after taking into consideration, all factors relevant to that person's independence from management, including the following:
    - (A) The provision of other services to the listed company by the person that employs the compensation consultant, legal counsel or other adviser;
    - (B) The amount of fees received from the listed company by the person that employs the compensation consultant, legal counsel or other adviser, as a percentage of the

The UK Code provides that the Remuneration Committee:

- (a) should consult with the Chairman and/or CEO about their proposals relating to the remuneration of other Executive Directors (D.2) and should have delegated responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments (D.2.2);
- (b) should recommend and monitor the level and structure of remuneration for senior management (D.2.2);
- (c) should consider what compensation commitments (including pension contributions and all other elements) the directors' terms of appointment would entail in the event of early termination (D.1.4.);
- (d) should invite shareholders specifically to approve all new long-term incentive schemes and significant changes to existing schemes (D.2.4.);
- (e) should judge where to position the Company relative to other companies and should be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases (D.1); and
- (f) should consider whether the Directors should be eligible for annual bonuses and benefits under long-term incentive schemes, bearing in mind that performance-related elements of Executive Directors' remuneration should be designed to promote the long-term success of the Company (D.1 and D.1.1).

The UK Code requires that payouts under incentive schemes should be subject to challenging performance criteria, including non-financial performance criteria where appropriate and compatible with the Company's risk policies and systems (Schedule A). In addition, remuneration of Non-Executive Directors should not include share options or other performance-related elements (D.1.3).

As described above, there is an annual Board evaluation exercise, which also includes evaluation of the Board's committees (B.6).



total revenue of the person that employs the compensation consultant, legal counsel or other adviser;

- (C) The policies and procedures of the person that employs the compensation consultant, legal counsel or other adviser that are designed to prevent conflicts of interest;
- (D) Any business or personal relationship of the compensation consultant, legal counsel or other adviser with a member of the compensation committee;
- (E) Any stock of the listed company owned by the compensation consultant, legal counsel or other adviser; and
- (F) Any business or personal relationship of the compensation consultant, legal counsel, other adviser or the person employing the adviser with an executive officer of the listed company.

#### Audit & Risk Committee

6. Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

GlaxoSmithKline complies with equivalent domestic requirements set out in the UK Code, which require that GlaxoSmithKline has an Audit Committee that is comprised entirely of “independent” Non-Executive Directors (C.3.1). The Board also satisfies itself, in line with the UK Code, that at least one member of the Audit Committee has recent and relevant financial experience.

The UK Code requires the Audit Committee to:

- (a) monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company’s financial performance, reviewing significant financial reporting judgments contained in them (C.3.2);
- (b) review the Company’s internal financial controls and internal control and risk management systems (C.3.2);
- (c) monitor and review the effectiveness of the Company’s internal audit function (C.3.2);
- (d) make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor (C.3.2);
- (e) review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements (C.3.2);
- (f) develop and implement policy on the engagement of external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken (C.3.2);



- (g) report to the Board on how it has discharged its responsibilities;
- (h) review arrangements by which the staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters (C.3.5)

GlaxoSmithKline’s Audit & Risk Committee meets the requirements of the Sarbanes-Oxley Act of 2002 in that:

- each member of the Audit & Risk Committee is deemed to be “independent” in accordance with the Securities Exchange Act of 1934, as amended, and applicable NYSE and UK requirements;
- the Audit & Risk Committee, amongst other things, is responsible for recommending the appointment, compensation, maintenance of independence and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and each such accounting firm must report directly to the Audit & Risk Committee;
- the Audit & Risk Committee has established a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- the Audit & Risk Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties; and
- GlaxoSmithKline must provide appropriate funding for the Audit & Risk Committee.

The Board has determined that Tom de Swaan, Judy Lewent and Stacey Cartwright all have the appropriate qualifications and background to be an “Audit Committee Financial Expert” as defined in rules promulgated by the SEC under the Sarbanes-Oxley Act of 2002.

- 7. (a) The audit committee must have a minimum of three members. All audit committee members must satisfy the requirements for independence set out in Section 303A.02 and, in the absence of an applicable exemption, Rule 10A-3(b)(1) under the Exchange Act.
- (b) The audit committee must have a written charter that addresses:
  - (i) the committee’s purpose – which, at minimum, must be to:
    - (A) assist board oversight of (1) the integrity of the listed company’s

GlaxoSmithKline complies with the equivalent domestic requirements set out in the UK Code, which require that the Audit Committee should be comprised of a minimum of three “independent” Non-Executive Directors.

GlaxoSmithKline’s Audit & Risk Committee has written terms of reference in accordance with the UK Code. The terms of reference are available on the Company’s website (C.3.3). The Committee’s main responsibilities include reviewing the financial reporting process, the system of internal control and overseeing the identification and management of risks, the external and internal process and for monitoring compliance with laws, regulations and ethical codes of practice, including review throughout the year of integrated assurance reports comprising business unit and



financial statements, (2) the listed company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the listed company's internal audit function and independent auditors (if the listed company does not yet have an internal audit function because it is availing itself of a transition period pursuant to Section 303A.00, the charter must provide that the committee will assist board oversight of the design and implementation of the internal audit function); and

- (B) prepare the disclosure required by Item 407(d)(3)(i) of Regulation S-K under the Exchange Act;
- (ii) an annual performance evaluation of the audit committee; and
- (iii) the duties and responsibilities of the audit committee – which, at a minimum, must include those set out in Rule 10A-3(b)(2), (3), (4) and (5) of the Exchange Act as well as to:
- (A) at least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the listed company;
- (B) meet to review and discuss the listed company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the listed company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";

associated consolidated internal audit reports. Where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy (C.3.4).

The UK Code requires that a separate section of the annual report should describe the work of the committee in discharging its responsibilities (C.3.8).

The report should include:

- the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed (C.3.8);
- an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted (C.3.8); and
- if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded (C.3.8).

Please see section 6 above for a description of the main role and responsibilities of the Audit & Risk Committee.

In accordance with the UK Code (C.3.6), GlaxoSmithKline has an internal audit function.



- (C) discuss the listed company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
- (D) discuss policies with respect to risk assessment and risk management;
- (E) meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors;
- (F) review with the independent auditor any audit problems or difficulties and management's response;
- (G) set clear hiring policies for employees or former employees of the independent auditors; and
- (H) report regularly to the board of directors.

(c) Each listed company must have an internal audit function.

8. Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans.

GlaxoSmithKline complies with corresponding domestic requirements in the Listing Rules, which mandate that the Company must seek shareholder approval for employee share schemes (D.2.4 and Listing Rule 9.4). Please see section 5(d) above.

#### Corporate governance guidelines

9. Listed companies must adopt and disclose corporate governance guidelines.

GlaxoSmithKline complies with corresponding domestic requirements in the Listing Rules and the UK Code, which require that GlaxoSmithKline include an explanation in its Annual Report of how it complies with the principles of the UK Code and that it confirm that it complies with the Code's provisions or, where it does not, provide an explanation of how and why it does not comply (Listing Rule 9.8.6). In addition, GlaxoSmithKline is required to make certain mandatory corporate governance statements in the Directors' Report in accordance with the UK Listing Authority's Disclosure and Transparency Rules, DTR 7, which was issued by the UK Financial Conduct Authority to implement the eighth Company Law Directive; GlaxoSmithKline has complied with these requirements in its 2014 Annual Report.

10. Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

GlaxoSmithKline's Code of Conduct for all employees, including the CEO, CFO and other senior financial officers, is available on the Company's website.

#### Description of significant differences

11. Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under NYSE listing standards.

GlaxoSmithKline fulfils this requirement by publishing this document.



Listed foreign private issuers are required to provide this disclosure in the English language and in their annual reports filed on Form 20-F.

GlaxoSmithKline fulfils this requirement by including this disclosure in its annual report on Form 20-F.

Item 16H **Mine Safety Disclosure**

Not applicable.

**PART III**

Item 17 **Financial Statements**

Not applicable.

Item 18 **Financial Statements**

The information set forth under the headings:

- “Consolidated income statement” on page 136;
- “Consolidated statement of comprehensive income” on page 136;
- “Consolidated balance sheet” on page 137;
- “Consolidated statement of changes in equity” on page 138;
- “Consolidated cash flow statement” on page 139; and
- “Notes to the financial statements” on pages 140 to 210

of the GSK Annual Report 2014 is incorporated herein by reference.

**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Shareholders of GlaxoSmithKline plc**

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, consolidated cash flow statements, consolidated statements of comprehensive income and consolidated statements of changes in equity present fairly, in all material respects, the financial position of GlaxoSmithKline plc and its subsidiaries at 31 December 2014 and 31 December 2013 and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2014 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at 31 December 2014, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in “Management’s annual report on internal control over financial reporting” included in item 15 of this 20-F. Our responsibility is to express opinions on these financial statements and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.



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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP (signed) London, United Kingdom  
27 February 2015



Item 19 Exhibits

- 1.1 Memorandum and Articles of Association of the Registrant as in effect on the date hereof.
- 2.1 Deposit Agreement among the Registrant and The Bank of New York, as Depositary, and the holders from time to time of the American Depositary Receipts issued thereunder, including the form of American Depositary Receipt, is incorporated by reference to the Registration Statement on Form F-6 (No. 333-148017) filed with the Commission on December 12, 2007.
- 4.1 Service Agreement between SmithKline Beecham Corporation and Moncef Slaoui is incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 20-F filed with the Commission on February 29, 2008.
- 4.2 Amended and Restated Service Agreement between GlaxoSmithKline LLC (formerly known as SmithKline Beecham Corporation) and Moncef Slaoui dated December 21, 2010 is incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 20-F filed with the Commission on March 4, 2011.
- 4.3 UK Service Agreement between GlaxoSmithKline Services Unlimited and Sir Andrew Witty is incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 20-F filed with the Commission on February 29, 2008.
- 4.4 UK Service Agreement between GlaxoSmithKline Services Unlimited and Sir Andrew Witty dated June 18, 2008 is incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 20-F filed with the Commission on March 4, 2009.
- 4.5 Amendment to UK Service Agreement between GlaxoSmithKline Services Unlimited and Sir Andrew Witty dated February 4, 2010 is incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 20-F filed with the Commission on March 1, 2010.
- 4.6 UK Service Agreement between GlaxoSmithKline Services Unlimited and Simon Dingemans dated September 8, 2010 is incorporated by reference to Exhibit 4.7 to the Registrant's Annual Report on Form 20-F filed with the Commission on March 4, 2011.
- 4.7 Implementation Agreement made on April 22, 2014, as amended and restated on May 29, 2014, between GlaxoSmithKline plc and Novartis AG.
- 4.8 Contribution Agreement relating to the Consumer Healthcare Joint Venture made on April 22, 2014, as amended and restated on May 29, 2014, between Novartis AG, GlaxoSmithKline plc and Leo Constellation Limited. Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.
- 4.9 Share and Business Sale Agreement relating to the Vaccines Group made on April 22, 2014, as amended and restated on May 29, 2014, and as further amended on October 9, 2014, between Novartis AG and GlaxoSmithKline plc. Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.
- 4.10 Sale and Purchase Agreement made on April 22, 2014, as amended and restated on May 29, 2014, and as further amended and restated on November 21, 2014, between GlaxoSmithKline plc and Novartis AG. Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.
- 4.11 Put Option Deed relating to all or part of the Influenza Business of the Novartis Group made on April 22, 2014, as amended and restated on May 29, 2014, between Novartis AG and GlaxoSmithKline plc. Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.
- 8.1 A list of the Registrant's principal subsidiaries is incorporated by reference to "Note 44 – Principal Group companies" on pages 204 to 205 of the GSK Annual Report 2014 included as Exhibit 15.2.
- 12.1 Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 – Sir Andrew Witty.
- 12.2 Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 – Simon Dingemans.



- 13.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).
- 15.1 Consent of PricewaterhouseCoopers LLP.
- 15.2\* GSK Annual Report 2014.

\* Certain of the information included within Exhibit 15.2, which is provided pursuant to Rule 12b-23(a)(3) of the Securities Exchange Act of 1934, as amended, is incorporated by reference in this Form 20-F, as specified elsewhere in this Form 20-F. With the exception of the items and pages so specified, the GSK Annual Report 2014 is not deemed to be filed as part of this Form 20-F.



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**Signature**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

**GlaxoSmithKline plc**

February 27, 2015

By: /s/ Simon Dingemans  
 Simon Dingemans  
 Chief Financial Officer



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**Exhibit 1.1**



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Company No. 3888792

**ARTICLES OF ASSOCIATION**

**(As adopted by Special Resolution passed on 6 May 2010 and amended by Special Resolutions passed on 5 May 2011, 3 May 2012, 1 May 2013 and 7 May 2014)**

**OF**

**GlaxoSmithKline plc**



Company No. 3888792

The Companies Acts 1948 to 2006

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COMPANY LIMITED BY SHARES

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SPECIAL RESOLUTIONS

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GlaxoSmithKline plc

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Passed: 6 May 2010

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At the TENTH ANNUAL GENERAL MEETING of the Company held on Thursday 6<sup>th</sup> May 2010, the following resolutions were duly passed as SPECIAL RESOLUTIONS:-

**12 Disapplication of pre-emption rights (Special resolution)**

THAT subject to Resolution 11 being passed, the Directors be and are hereby empowered to allot equity securities (as defined in the Act) for cash pursuant to the authority conferred on the Directors by Resolution 11 and/or where such allotment constitutes an allotment of equity securities under section 560(3) of the Act, free of the restrictions in section 561(1) of the Act, provided that this power shall be limited:

(a) to the allotment of equity securities in connection with an offer or issue of equity securities (but in the case of the authority granted under paragraph (b) of Resolution 11, by way of a rights issue only):

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities, as required by the rights of those securities or as the Board otherwise considers necessary,

but so that the Directors may impose any limits or make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems under the laws of, or the requirements of any relevant regulatory body or stock exchange, in any territory, or any matter whatsoever; and

(b) in the case of the authority granted under paragraph (a) of Resolution 11 and/or in the case of any transfer of treasury shares which is treated as an allotment of equity securities under section 560(3) of the Act, to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £64,893,333.

and shall expire at the end of the next Annual General Meeting of the company to be held in 2011 (or, if earlier, at the close of business on 30th June 2011) save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.



**13 Purchase of own shares by the company (Special resolution)**

THAT the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its own Ordinary shares of 25p each provided that:

- (a) the maximum number of Ordinary shares hereby authorised to be purchased is 519,146,669;
- (b) the minimum price which may be paid for each Ordinary share is 25p;
- (c) the maximum price which may be paid for each Ordinary share shall be the higher of (i) an amount equal to 5% above the average market value for the company's Ordinary shares for the five business days immediately preceding the day on which the Ordinary share is contracted to be purchased and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Official List at the time the purchase is carried out; and
- (d) the authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next Annual General Meeting of the company to be held in 2011 or, if earlier, on 30th June 2011 (provided that the company may enter into a contract for the purchase of Ordinary shares before the expiry of this authority which would or might be completed wholly or partly after such expiry and the company may purchase Ordinary shares pursuant to any such contract under this authority).

**15 Reduced notice of a general meeting other than an Annual General Meeting (Special resolution)**

THAT a general meeting of the company other than an Annual General Meeting may be called on not less than 14 clear days' notice.

**16 Adopt new Articles of Association (Special resolution)**

THAT:

- (a) the Articles of Association of the company be amended by deleting all the provisions of the company's Memorandum of Association which, by virtue of section 28 of the Act, are to be treated as provisions of the company's Articles of Association; and
- (b) the Articles of Association produced to the meeting, and initialled by the Chairman for the purpose of identification, be adopted as the Articles of Association of the company in substitution for, and to the exclusion of, all existing Articles of Association of the company.



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Company No. 3888792

The Companies Acts 1948 to 2006

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COMPANY LIMITED BY SHARES

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SPECIAL RESOLUTIONS

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GlaxoSmithKline plc

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Passed: 5 May 2011

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At the ELEVENTH ANNUAL GENERAL MEETING of the Company held on Thursday 5<sup>th</sup> May 2011, the following resolutions were duly passed as SPECIAL RESOLUTIONS:-

**22 Disapplication of pre-emption rights (Special resolution)**

THAT subject to Resolution 21 being passed, in substitution for all subsisting authorities, the Directors be and are hereby empowered to allot equity securities (as defined in the Act) for cash pursuant to the authority conferred on the Directors by Resolution 21 and/or where such allotment constitutes an allotment of equity securities under section 560(3) of the Act, free of the restrictions in section 561(1) of the Act, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with an offer or issue of equity securities:
  - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
  - (ii) to holders of other equity securities, as required by the rights of those securities or as the Board otherwise considers necessary,
 but so that the Directors may impose any limits or make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems under the laws of, or the requirements of any relevant regulatory body or stock exchange, in any territory, or any matter whatsoever; and
- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £64,845,990.

and shall expire at the end of the next Annual General Meeting of the company to be held in 2012 (or, if earlier, at the close of business on 30th June 2012) save that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.



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**23 Purchase of own shares by the company (Special resolution)**

THAT the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its own Ordinary shares of 25 pence each provided that:

- (a) the maximum number of Ordinary shares hereby authorised to be purchased is 518,767,924;
- (b) the minimum price which may be paid for each Ordinary share is 25 pence;
- (c) the maximum price, exclusive of expenses, which may be paid for each Ordinary share shall be the higher of (i) an amount equal to 5% above the average market value for the company's Ordinary shares for the five business days immediately preceding the day on which the Ordinary share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Official List at the time the purchase is carried out; and
- (d) the authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next Annual General Meeting of the company to be held in 2012 or, if earlier, on 30th June 2012 (provided that the company may, before such expiry, enter into a contract for the purchase of Ordinary shares, which would or might be completed wholly or partly after such expiry and the company may purchase Ordinary shares pursuant to any such contract under this authority).

**25 Reduced notice of a general meeting other than an Annual General Meeting (Special resolution)**

THAT a general meeting of the company other than an Annual General Meeting may be called on not less than 14 clear days' notice.



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Company No. 3888792

The Companies Acts 1948 to 2006

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COMPANY LIMITED BY SHARES

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RESOLUTIONS

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GlaxoSmithKline plc

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Passed: 3 May 2012

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At the TWEFLTH ANNUAL GENERAL MEETING of the Company held on Thursday 3 May 2012, the following resolutions were duly passed as SPECIAL RESOLUTIONS:-

**21 Disapplication of pre-emption rights (special resolution)**

THAT subject to resolution 20 being passed, in substitution for all subsisting authorities, the Directors be and are hereby empowered to allot equity securities (as defined in the Act) for cash pursuant to the authority conferred on the Directors by resolution 20 and/or where such allotment constitutes an allotment of equity securities under section 560(3) of the Act, free of the restrictions in section 561(1) of the Act, provided that this power shall be limited to:

- (a) the allotment of equity securities in connection with an offer or issue of equity securities to:
  - (i) Ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
  - (ii) holders of other equity securities, as required by the rights of those securities or as the Board otherwise considers necessary, but so that the Directors may impose any limits or make such exclusions or other arrangements as they consider expedient in relation to Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems under the laws of, or the requirements of, any relevant regulatory body or stock exchange, in any territory, or any matter whatsoever; and
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £63,109,370.

and shall expire at the end of the next AGM of the company to be held in 2013 or, if earlier, at the close of business on 28 June 2013, save that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.



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**22 Purchase of own shares by the company (special resolution)**

THAT the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its own Ordinary Shares of 25 pence each provided that the:

- (a) maximum number of Ordinary Shares hereby authorised to be purchased is 504,874,967;
- (b) minimum price, exclusive of expenses, which may be paid for each Ordinary Share is 25 pence;
- (c) maximum price, exclusive of expenses, which may be paid for each Ordinary Share shall be the higher of (i) an amount equal to 5% above the average market value for the company's Ordinary Shares for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Official List at the time the purchase is carried out; and
- (d) authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next AGM of the company to be held in 2013 or, if earlier, at the close of business on 28 June 2013, save that the company may, before such expiry, enter into a contract for the purchase of Ordinary Shares which would or might be completed wholly or partly after such expiry and the company may purchase Ordinary Shares pursuant to any such contract as if this authority had not expired.

**24 Reduced notice of a general meeting other than an Annual General Meeting (special resolution)**

THAT a general meeting of the company other than an Annual General Meeting may be called on not less than 14 clear days' notice.



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Company No. 3888792

The Companies Acts 1948 to 2006

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COMPANY LIMITED BY SHARES

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RESOLUTIONS

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GlaxoSmithKline plc

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Passed: 1 May 2013

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At the THIRNTEENTH ANNUAL GENERAL MEETING of the Company held on Wednesday 1 May 2013, the following resolutions were duly passed as SPECIAL RESOLUTIONS:-

**22 Disapplication of pre-emption rights (special resolution)**

THAT subject to resolution 21 being passed, in substitution for all subsisting authorities, the Directors be and are hereby empowered to allot equity securities (as defined in the Act) for cash pursuant to the authority conferred on the Directors by resolution 21 and/or where such allotment constitutes an allotment of equity securities under section 560(3) of the Act, free of the restrictions in section 561(1) of the Act, provided that this power shall be limited to:

- (a) the allotment of equity securities in connection with an offer or issue of equity securities to:
  - (i) Ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
  - (ii) holders of other equity securities, as required by the rights of those securities or as the Board otherwise considers necessary,

but so that the Directors may impose any limits or make such exclusions or other arrangements as they consider expedient in relation to Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems under the laws of, or the requirements of, any relevant regulatory body or stock exchange, in any territory, or any matter whatsoever; and

- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £61,330,345.

and shall expire at the end of the next AGM of the company to be held in 2014 or, if earlier, at the close of business on 30 June 2014, save that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.



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**23 Purchase of own shares by the company (special resolution)**

THAT the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its own Ordinary Shares of 25 pence each provided that the:

- (a) maximum number of Ordinary Shares hereby authorised to be purchased is 490,642,760;
- (b) minimum price, exclusive of expenses, which may be paid for each Ordinary Share is 25 pence;
- (c) maximum price, exclusive of expenses, which may be paid for each Ordinary Share shall be the higher of (i) an amount equal to 5% above the average market value for the company's Ordinary Shares for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Official List at the time the purchase is carried out; and
- (d) authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next AGM of the company to be held in 2014 or, if earlier, at the close of business on 30 June 2014, save that the company may, before such expiry, enter into a contract for the purchase of Ordinary Shares which would or might be completed wholly or partly after such expiry and the company may purchase Ordinary Shares pursuant to any such contract as if this authority had not expired.

**25 Reduced notice of a general meeting other than an Annual General Meeting (special resolution)**

THAT a general meeting of the company other than an Annual General Meeting may be called on not less than 14 clear days' notice.



Company No. 3888792

The Companies Acts 1948 to 2006

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COMPANY LIMITED BY SHARES

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RESOLUTIONS

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GlaxoSmithKline plc

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Passed: 7 May 2014

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At the FOURTEENTH ANNUAL GENERAL MEETING of the Company held on Wednesday 7 May 2014, the following special resolutions were duly passed under special business:-

**22 Disapplication of pre-emption rights (special resolution)**

THAT subject to resolution 21 being passed, in substitution for all subsisting authorities, the Directors be and are hereby empowered to allot equity securities (as defined in the Act) for cash pursuant to the authority conferred on the Directors by resolution 21 and/or where such allotment constitutes an allotment of equity securities under section 560(3) of the Act, free of the restrictions in section 561(1) of the Act, provided that this power shall be limited to:

(a) the allotment of equity securities in connection with an offer or issue of equity securities to:

- (i) Ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
- (ii) holders of other equity securities, as required by the rights of those securities or as the Board otherwise considers necessary,

but so that the Directors may impose any limits or make such exclusions or other arrangements as they consider expedient in relation to Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems under the laws of, or the requirements of, any relevant regulatory body or stock exchange, in any territory, or any matter whatsoever; and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £60,728,484,

and shall expire at the end of the next AGM of the company to be held in 2015 or, if earlier, at the close of business on 30 June 2015, save that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

**23 Purchase of own shares by the company (special resolution)**

THAT the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its own Ordinary Shares of 25 pence each provided that the:

(a) maximum number of Ordinary Shares hereby authorised to be purchased is 485,827,872;



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- (b) minimum price, exclusive of expenses, which may be paid for each Ordinary Share is 25 pence;
- (c) maximum price, exclusive of expenses, which may be paid for each Ordinary Share shall be the higher of (i) an amount equal to 5% above the average market value for the company's Ordinary Shares for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Official List at the time the purchase is carried out; and
- (d) authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next AGM of the company to be held in 2015 or, if earlier, at the close of business on 30 June 2015, save that the company may, before such expiry, enter into a contract for the purchase of Ordinary Shares which would or might be completed wholly or partly after such expiry and the company may purchase Ordinary Shares pursuant to any such contract as if this authority had not expired.

**25 Reduced notice of a general meeting other than an Annual General Meeting (special resolution)**

THAT a general meeting of the company other than an Annual General Meeting may be called on not less than 14 clear days' notice.



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Company No. 3888792

**ARTICLES OF ASSOCIATION**

**(As adopted by Special Resolution passed on 6 May 2010 and amended by Special Resolutions passed on 5 May 2011, 3 May 2012, 1 May 2013 and 7 May 2014)**

**OF**

**GLAXOSMITHKLINE PLC**



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ARTICLES OF ASSOCIATION

of

GLAXOSMITHKLINE PLC

(adopted by Special Resolution passed on 6 May 2010)

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**Interpretation**

**1. Exclusion of Model Articles**

No articles set out in any statute, or in any statutory instrument or other subordinate legislation made under any statute, concerning companies shall apply as the articles of the company.

**2. Definitions**

In these articles unless the context otherwise requires:

“**address**” includes a number or address used for the purposes of sending or receiving documents or information by electronic means;

“**these articles**” means these articles of association as altered from time to time and the expression “**this article**” shall be construed accordingly;

“**associated company**” means any company (i) which is the company’s holding company or (ii) in which the company or its holding company or any of the predecessors of the company or of such holding company has any interest whether direct or indirect or (iii) which is in any way allied to or associated with the company or its holding company or any of the predecessors of the company or of such holding company, of (iv) which is a subsidiary undertaking or any other associated company;

“**the auditors**” means the auditors from time to time of the company or, in the case of joint auditors, any one of them;

“**the Bank of England base rate**” means the base lending rate most recently set by the Monetary Policy Committee of the Bank of England in connection with its responsibilities under Part 2 of the Bank of England Act 1998;

“**the board**” means the board of directors from time to time of the company or the directors present at a meeting of the directors at which a quorum is present;



“**certificated share**” means a share which is not an uncertificated share and references in these articles to a share being held in certificated form shall be construed accordingly;

“**clear days**” in relation to the period of a notice means that period excluding the day when the notice is served or deemed to be served and the day for which it is given or on which it is to take effect;

“**the Companies Acts**” means every statute (including any orders, regulations or other subordinate legislation made under it) from time to time in force concerning companies in so far as it applies to the company;

“**the holder**” in relation to any shares means the person whose name is entered in the register as the holder of those shares;

“**the office**” means the registered office from time to time of the company;

“**paid up**” means paid up or credited as paid up;

“**participating class**” means a class of shares title to which is permitted by an Operator to be transferred by means of a relevant system;

“**person entitled by transmission**” means a person whose entitlement to a share in consequence of the death or bankruptcy of a member or of any other event giving rise to its transmission by operation of law has been noted in the register;

“**the register**” means the register of members of the company;

“**seal**” means any common or official seal that the company may be permitted to have under the Companies Acts;

“**the secretary**” means the secretary, or (if there are joint secretaries) any one of the joint secretaries, of the company and includes an assistant or deputy secretary and any person appointed by the board to perform any of the duties of the secretary;

“**the uncertificated securities rules**” means any provision of the Companies Acts relating to the holding, evidencing of title to, or transfer of uncertificated shares and any legislation, rules or other arrangements made under or by virtue of such provision;

“**uncertificated share**” means a share of a class which is at the relevant time a participating class, title to which is recorded on the register as being held in uncertificated form and references in these articles to a share being held in uncertificated form shall be construed accordingly;

“**United Kingdom**” means Great Britain and Northern Ireland;

references to a document being **signed** or to **signature** include references to its being executed under hand or under seal or by any other method and, in the case of a communication in electronic form, such references are to its being authenticated as specified by the Companies Acts;



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references to **writing** include references to any method of representing or reproducing words in a legible and non-transitory form whether sent or supplied in electronic form or otherwise;

words or expressions to which a particular meaning is given by the Companies Acts in force when these articles or any part of these articles are adopted bear (if not inconsistent with the subject matter or context) the same meaning in these articles or that part (as the case may be) save that the word "**company**" shall include any body corporate; and

references to a **meeting** shall not be taken as requiring more than one person to be present if any quorum requirement can be satisfied by one person.

Headings are included only for convenience and shall not affect meaning.

**3. Limited Liability**

The liability of members of the company is limited to the amount, if any, unpaid on the shares in the company held by them.

**4. Change of Name**

The company may change its name by resolution of the board.

**Share Capital**

**5. Rights Attached to Shares**

Subject to any rights attached to existing shares, any share may be issued with or have attached to it such rights and restrictions as the company may by ordinary resolution decide or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the board may decide. Such rights and restrictions shall apply to the relevant shares as if the same were set out in these articles.

**6. Redeemable Shares**

Subject to any rights attached to existing shares, any share may be issued which is to be redeemed, or is liable to be redeemed at the option of the company or the holder. The board may determine the terms, conditions and manner of redemption of any redeemable share so issued. Such terms and conditions shall apply to the relevant shares as if the same were set out in these articles.

**7. Variation of Rights**

Subject to the provisions of the Companies Acts, all or any of the rights attached to any existing class of shares may from time to time (whether or not the company is being wound up) be varied either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. All the provisions of these articles as to general meetings of the company shall, with any necessary modifications,



apply to any such separate general meeting, but so that the necessary quorum shall be two persons entitled to vote and holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (excluding any shares of that class held as treasury shares), (but so that at any adjourned meeting one holder entitled to vote and present in person or by proxy (whatever the number of shares held by him) shall be a quorum). The foregoing provisions of this article shall apply to the variation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class and their special rights were to be varied.

**8. Pari Passu Issues**

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

**9. Shares**

Subject to the provisions of these articles and to any resolution passed by the company and without prejudice to any rights attached to existing shares, the board may offer, allot, grant options over or otherwise deal with or dispose of shares in the company to such persons, at such times and for such consideration and upon such terms as the board may decide.

**10. Payment of Commission**

The company may in connection with the issue of any shares or the sale for cash of treasury shares exercise all powers of paying commission and brokerage conferred or permitted by the Companies Acts. Any such commission or brokerage may be satisfied by the payment of cash or by the allotment of fully or partly-paid shares or other securities or partly in one way and partly in the other.

**11. Trusts Not Recognised**

Except as ordered by a court of competent jurisdiction or as required by law, no person shall be recognised by the company as holding any share upon any trust and the company shall not be bound by or required in any way to recognise (even when having notice of it) any interest in any share or (except only as by these articles or by law otherwise provided) any other right in respect of any share other than an absolute right to the whole of the share in the holder.

**12. Suspension of Rights Where Non-Disclosure of Interest**

(A) Where the holder of any shares in the company, or any other person appearing to be interested in those shares, fails to comply within the relevant period with any statutory notice in respect of those shares or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, the company may give the holder of those shares a further notice (a "**restriction notice**") to the effect that from the service of the restriction notice those shares will be subject to some or all of the relevant restrictions, and from service of the



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restriction notice those shares shall, notwithstanding any other provision of these articles, be subject to those relevant restrictions accordingly. For the purpose of enforcing the relevant restriction referred to in sub-paragraph (iii) of the definition of “relevant restrictions”, the board may give notice to the relevant member requiring the member to change the relevant shares held in uncertificated form to certificated form by the time stated in the notice and to keep them in certificated form for as long as the board requires. The notice may also state that the member may not change any of the relevant shares held in certificated form to uncertificated form. If the member does not comply with the notice, the board may authorise any person to instruct the Operator to change the relevant shares held in uncertificated form to certificated form.

- (B) If after the service of a restriction notice in respect of any shares the board is satisfied that all information required by any statutory notice relating to those shares or any of them from their holder or any other person appearing to be interested in the shares the subject of the restriction notice has been supplied, the company shall, within seven days, cancel the restriction notice. The company may at any time at its discretion cancel any restriction notice or exclude any shares from it. The company shall cancel a restriction notice within seven days after receipt of a notice in writing that the relevant shares have been transferred pursuant to an arm's length sale.
- (C) Where any restriction notice is cancelled or ceases to have effect in relation to any shares, any moneys relating to those shares which were withheld by reason of that notice shall be paid without interest to the person who would but for the notice have been entitled to them or as he may direct.
- (D) Any new shares in the company issued in right of any shares subject to a restriction notice shall also be subject to the restriction notice, and the board may make any right to an allotment of the new shares subject to restrictions corresponding to those which will apply to those shares by reason of the restriction notice when such shares are issued.
- (E) Any holder of shares on whom a restriction notice has been served may at any time request the company to give in writing the reason why the restriction notice has been served, or why it remains uncanceled, and within 14 days of receipt of such a notice the company shall give that information accordingly.
- (F) Where a person appearing to be interested in shares has been served with a statutory notice and the shares in which he appears to be interested are held by an Approved Depositary, this article applies only to those shares which are held by the Approved Depositary in which that person appears to be interested and not (so far as that person's apparent interest is concerned) to any other shares held by the Approved Depositary.
- (G) Where a member who is an Approved Depositary has been served with a statutory notice, the obligations of that member will be limited to disclosing to the company information relating to any person who appears to be interested in the shares held by it which has been recorded by it in accordance with the arrangement under which it was appointed as an Approved Depositary.



- (H) If a statutory notice is given by the company to a person appearing to be interested in any share, a copy shall at the same time be given to the holder, but the failure or omission to do so or the non-receipt of the copy by the holder shall not invalidate such notice.
- (I) This article is in addition to, and shall not in any way prejudice or affect, the statutory rights of the company arising from any failure by any person to give any information required by a statutory notice within the time specified in it. For the purpose of this article a statutory notice need not specify the relevant period, and may require any information to be given before the expiry of the relevant period.
- (J) In this article:

a sale is an “**arm’s length sale**” if the board is satisfied that it is a bona fide sale of the whole of the beneficial ownership of the shares to a party unconnected with the holder or with any person appearing to be interested in such shares and shall include a sale made by way of or in pursuance of acceptance of a takeover offer and a sale made through a recognised investment exchange or any other stock exchange outside the United Kingdom. For this purpose an associate (within the definition of that expression in any statute relating to insolvency in force at the date of adoption of this article) shall be included amongst the persons who are connected with the holder or any person appearing to be interested in such shares;

“**person appearing to be interested**” in any shares shall mean any person named in a response to a statutory notice or otherwise notified to the company by a member as being so interested or shown in any register or record kept by the company under the Companies Acts as so interested or, taking into account a response or failure to respond in the light of the response to any other statutory notice and any other relevant information in the possession of the company, any person whom the company knows or has reasonable cause to believe is or may be so interested;

“**person with a 0.25 per cent. interest**” means a person who holds, or is shown in any register or record kept by the company under the Companies Acts as having an interest in, shares in the company which comprise in total at least 0.25 per cent. in number or nominal value of the shares of the company (calculated exclusive of any shares held as treasury shares), or of any class of such shares (calculated exclusive of any shares of that class held as treasury shares), in issue at the date of service of the restriction notice;

“**relevant period**” means a period of 14 days following service of a statutory notice;

“**relevant restrictions**” mean in the case of a restriction notice served on a person with a 0.25 per cent. interest that:

- (i) the shares shall not confer on the holder any right to attend or vote either personally or by proxy at any general meeting of the company or at any separate general meeting of the holders of any class of shares in the company or to exercise any other right conferred by membership in relation to general meetings;



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- (ii) the board may withhold payment of all or any part of any dividends or other moneys payable in respect of the shares and the holder shall not be entitled to receive shares in lieu of dividend;
- (iii) the board may decline to register a transfer of any of the shares which are certificated shares, unless such a transfer is pursuant to an arm's length sale,

and in any other case mean only the restriction specified in sub-paragraph (i) of this definition; and

“**statutory notice**” means a notice served by the company under the Companies Acts requiring particulars of interests in shares or of the identity of persons interested in shares.

**13. Uncertificated Shares**

(A) Pursuant and subject to the uncertificated securities rules, the board may permit title to shares of any class to be evidenced otherwise than by a certificate and title to shares of such a class to be transferred by means of a relevant system and may make arrangements for a class of shares (if all shares of that class are in all respects identical) to become a participating class. Title to shares of a particular class may only be evidenced otherwise than by a certificate where that class of shares is at the relevant time a participating class. The board may also, subject to compliance with the uncertificated securities rules, determine at any time that title to any class of shares may from a date specified by the board no longer be evidenced otherwise than by a certificate or that title to such a class shall cease to be transferred by means of any particular relevant system.

(B) In relation to a class of shares which is a participating class and for so long as it remains a participating class, no provision of these articles shall apply or have effect to the extent that it is inconsistent in any respect with:

- (i) the holding of shares of that class in uncertificated form;
- (ii) the transfer of title to shares of that class by means of a relevant system; and
- (iii) any provision of the uncertificated securities rules,

and, without prejudice to the generality of this article, no provision of these articles shall apply or have effect to the extent that it is in any respect inconsistent with the maintenance, keeping or entering up by the Operator, so long as that is permitted or required by the uncertificated securities rules, of an Operator register of securities in respect of that class of shares in uncertificated form.

(C) Shares of a class which is at the relevant time a participating class may be changed from uncertificated to certificated form, and from certificated to uncertificated form, in accordance with and subject as provided in the uncertificated securities rules.



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- (D) If, under these articles or the Companies Acts, the company is entitled to sell, transfer or otherwise dispose of, forfeit, re-allot, accept the surrender of or otherwise enforce a lien over an uncertificated share, then, subject to these articles and the Companies Acts, such entitlement shall include the right of the board to:
- (i) require the holder of that uncertificated share by notice in writing to change that share from uncertificated to certificated form within such period as may be specified in the notice and keep it as a certificated share for as long as the board requires;
  - (ii) appoint any person to take such other steps, by instruction given by means of a relevant system or otherwise, in the name of the holder of such share as may be required to effect the transfer of such share and such steps shall be as effective as they had been taken by the registered holder of that share; and
  - (iii) take such other action that the board considers appropriate to achieve the sale, transfer, disposal, forfeiture, re-allotment or surrender of that share or otherwise to enforce a lien in respect of that share.
- (E) Unless the board otherwise determines, shares which a member holds in uncertificated form shall be treated as separate holdings from any shares which that member holds in certificated form. However shares held in uncertificated form shall not be treated as forming a class which is separate from certificated shares with the same rights.
- (F) Unless the board otherwise determines or the uncertificated securities rules otherwise require, any shares issued or created out of or in respect of any uncertificated shares shall be uncertificated shares and any shares issued or created out of or in respect of any certificated shares shall be certificated shares.
- (G) The company shall be entitled to assume that the entries on any record of securities maintained by it in accordance with the uncertificated securities rules and regularly reconciled with the relevant Operator register of securities are a complete and accurate reproduction of the particulars entered in the Operator register of securities and shall accordingly not be liable in respect of any act or thing done or omitted to be done by or on behalf of the company in reliance on such assumption; in particular, any provision of these articles which requires or envisages that action will be taken in reliance on information contained in the register shall be construed to permit that action to be taken in reliance on information contained in any relevant record of securities (as so maintained and reconciled).

#### 14. Right to Share Certificates

Every person (except a person to whom the company is not by law required to issue a certificate) whose name is entered in the register as a holder of any certificated shares shall be entitled, without payment, to receive within the time limits prescribed by the Companies Acts (or, if earlier, within any prescribed time limit or within a time specified when the shares were issued) one certificate for all those shares of any one class. In the case of a certificated share held jointly by several persons, the company shall not be



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bound to issue more than one certificate and delivery of a certificate to one of several joint holders shall be sufficient delivery to all. A member who transfers some but not all of the shares comprised in a certificate shall be entitled to a certificate for the balance without charge to the extent the balance is to be held in certificated form.

**15. Replacement of Share Certificates**

If a share certificate is defaced, worn out, lost or destroyed, it may be replaced on such terms (if any) as to evidence and indemnity as the board may decide and, where it is defaced or worn out, after delivery of the old certificate to the company. Any two or more certificates representing shares of any one class held by any member shall at his request be cancelled and a single new certificate for such shares issued in lieu. Any certificate representing shares of any one class held by any member may at his request be cancelled and two or more certificates for such shares may be issued instead. The board may require the payment of any exceptional out-of-pocket expenses of the company incurred in connection with the issue of any certificates under this article. Any one of two or more joint holders may request replacement certificates under this article.

**16. Share Certificates Sent at Holder's Risk**

Every share certificate sent in accordance with these articles will be sent at the risk of the member or other person entitled to the certificate. The company will not be responsible for any share certificate lost or delayed in the course of delivery.

**17. Execution of Share Certificates**

Every share certificate shall be executed under a seal or in such other manner as the board, having regard to the terms of issue and any listing requirements, may authorise and shall specify the number and class of the shares to which it relates and the amount or respective amounts paid up on the shares. The board may by resolution decide, either generally or in any particular case or cases, that any signatures on any share certificates need not be autographic but may be applied to the certificates by some mechanical or other means or may be printed on them or that the certificates need not be signed by any person.

**Lien**

**18. Company's Lien on Shares Not Fully Paid**

The company shall have a first and paramount lien on every share (not being a fully paid share) for all amounts payable to the company (whether presently or not) in respect of that share. The company's lien on a share shall extend to every amount payable in respect of it. The board may at any time either generally or in any particular case waive any lien that has arisen or declare any share to be wholly or in part exempt from the provisions of this article.

**19. Enforcing Lien by Sale**

The company may sell, in such manner as the board may decide, any share on which the company has a lien if a sum in respect of which the lien exists is presently payable and is



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not paid within 14 clear days after a notice has been served on the holder of the share or the person who is entitled by transmission to the share, demanding payment and stating that if the notice is not complied with the share may be sold. For giving effect to the sale the board may authorise some person to sign an instrument of transfer of the share sold to or in accordance with the directions of the purchaser. The transferee shall not be bound to see to the application of the purchase money, nor shall his title to the share be affected by any irregularity or invalidity in relation to the sale.

**20. Application of Proceeds of Sale**

The net proceeds, after payment of the costs, of the sale by the company of any share on which it has a lien shall be applied in or towards payment or discharge of the debt or liability in respect of which the lien exists so far as it is presently payable, and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the share prior to the sale and upon surrender, if required by the company, for cancellation of the certificate for the share sold) be paid to the person who was entitled to the share at the time of the sale.

**Calls on Shares**

**21. Calls**

Subject to the terms of issue, the board may from time to time make calls upon the members in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not payable on a date fixed by or in accordance with the terms of issue, and each member shall (subject to the company serving upon him at least 14 clear days' notice specifying when and where payment is to be made) pay to the company as required by the notice the amount called on his shares. A call may be made payable by instalments. A call may be revoked or postponed, in whole or in part, as the board may decide. A person upon whom a call is made shall remain liable jointly and severally with the successors in title to his shares for all calls made upon him notwithstanding the subsequent transfer of the shares in respect of which the call was made.

**22. Timing of Calls**

A call shall be deemed to have been made at the time when the resolution of the board authorising the call was passed.

**23. Liability of Joint Holders**

The joint holders of a share shall be jointly and severally liable to pay all calls in respect of the share.

**24. Interest Due on Non-Payment**

If a call remains unpaid after it has become due and payable, the person from whom it is due and payable shall pay interest on the amount unpaid from the day it is due and payable to the time of actual payment at such rate (not exceeding the Bank of England base rate by more than five percentage points) as the board may decide, and all expenses



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that have been incurred by the company by reason of such non-payment, but the board shall be at liberty in any case or cases to waive payment of the interest or expenses wholly or in part.

**25. Sums Due on Allotment Treated as Calls**

Any amount which becomes payable in respect of a share on allotment or on any other date fixed by or in accordance with the terms of issue, whether in respect of the nominal amount of the share or by way of premium or as an instalment of a call, shall be deemed to be a call and, if it is not paid, all the provisions of these articles shall apply as if the sum had become due and payable by virtue of a call.

**26. Power to Differentiate**

The board may on or before the issue of shares differentiate between the allottees or holders as to the amount of calls to be paid and the times of payment.

**27. Payment of Calls in Advance**

The board may, if it thinks fit, receive from any member who is willing to advance them all or any part of the moneys uncalled and unpaid upon any shares held by him and on all or any of the moneys so advanced may (until they would, but for the advance, become presently payable) pay interest at such rate (not exceeding the Bank of England base rate by more than five percentage points, unless the company by ordinary resolution shall otherwise direct) as the board may decide.

**Forfeiture of Shares**

**28. Notice if Call or Instalment Not Paid**

If any call or instalment of a call remains unpaid on any share after the day appointed for payment, the board may at any time serve a notice on the holder requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and any expenses incurred by the company by reason of such non-payment.

**29. Form of Notice**

The notice shall name a further day (not being less than 14 clear days from the date of the notice) on or before which, and the place where, the payment required by the notice is to be made and shall state that in the event of non-payment on or before the day and at the place appointed, the shares in respect of which the call has been made or instalment is payable will be liable to be forfeited.

**30. Forfeiture for Non-Compliance with Notice**

If the notice is not complied with, any share in respect of which it was given may, at any time before payment of all calls or instalments and interest and expenses due in respect of it have been made, be forfeited by a resolution of the board to that effect and the forfeiture shall include all dividends declared and other moneys payable in respect of the forfeited shares and not paid before the forfeiture. The board may accept the surrender of any share liable to be forfeited and, in that event, references in these articles to forfeiture shall include surrender.



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**31. Notice after Forfeiture**

When any share has been forfeited, notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share but no forfeiture shall be invalidated by any omission or neglect to give notice.

**32. Sale of Forfeited Shares**

Until cancelled in accordance with the requirements of the Companies Acts, a forfeited share shall be deemed to be the property of the company and may be sold or otherwise disposed of either to the person who was, before forfeiture, the holder or to any other person upon such terms and in such manner as the board shall decide. The board may for the purposes of the disposal authorise some person to sign an instrument of transfer to the designated transferee. The company may receive the consideration (if any) given for the share on its disposal. At any time before a sale or disposition the forfeiture may be cancelled by the board on such terms as the board may decide.

**33. Arrears to be Paid Notwithstanding Forfeiture**

A person whose shares have been forfeited shall cease to be a member in respect of them and shall surrender to the company for cancellation the certificate for the forfeited shares but shall remain liable to pay to the company all moneys which at the date of the forfeiture were payable by him to the company in respect of those shares with interest thereon at such rate (not exceeding the Bank of England base rate by more than five percentage points) as the board may decide from the date of forfeiture until payment, and the company may enforce payment without being under any obligation to make any allowance for the value of the shares forfeited or for any consideration received on their disposal.

**34. Statutory Declaration as to Forfeiture**

A statutory declaration that the declarant is a director of the company or the secretary and that a share has been forfeited on a specified date shall be conclusive evidence of the facts stated in it as against all persons claiming to be entitled to the share. The declaration shall (subject to the signing of an instrument of transfer if necessary) constitute a good title to the share and the person to whom the share is sold or otherwise disposed of shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings relating to the forfeiture, sale or disposal.

**Transfer of Shares**

**35. Transfer**

- (A) Subject to such of the restrictions of these articles as may be applicable:
  - (i) any member may transfer all or any of his uncertificated shares by means of a relevant system in such manner provided for, and subject as provided in,



the uncertificated securities rules, and accordingly no provision of these articles shall apply in respect of an uncertificated share to the extent that it requires or contemplates the effecting of a transfer by an instrument in writing or the production of a certificate for the share to be transferred; and

- (ii) any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the board may approve.
- (B) The transferor of a share shall be deemed to remain the holder of the share concerned until the name of the transferee is entered in the register in respect of it.

### 36. Signing of Transfer

The instrument of transfer of a certificated share shall be signed by or on behalf of the transferor and (in the case of a partly paid share) the transferee. All instruments of transfer, when registered, may be retained by the company.

### 37. Rights to Decline Registration of Partly Paid Shares

The board can decline to register any transfer of any share which is not a fully paid share.

### 38. Other Rights to Decline Registration

- (A) Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules, and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.
- (B) The board may decline to register any transfer of a certificated share unless:
- (i) the instrument of transfer is duly stamped or duly certified or otherwise shown to the satisfaction of the board to be exempt from stamp duty and is left at the office or such other place as the board may from time to time determine accompanied (save in the case of a transfer by a person to whom the company is not required by law to issue a certificate and to whom a certificate has not been issued) by the certificate for the share to which it relates and such other evidence as the board may reasonably require to show the right of the person signing the instrument of transfer to make the transfer and, if the instrument of transfer is signed by some other person on his behalf, the authority of that person so to do;
  - (ii) the instrument of transfer is in respect of only one class of share; and
  - (iii) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.
- (C) For all purposes of these articles relating to the registration of transfers of shares, the renunciation of the allotment of any shares by the allottee in favour of some other person shall be deemed to be a transfer and the board shall have the same powers of refusing to give effect to such a renunciation as if it were a transfer.



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**39. No Fee for Registration**

No fee shall be charged by the company for registering any transfer, document or instruction relating to or affecting the title to any share or for making any other entry in the register.

**40. Untraced Shareholders**

- (A) The company may sell any certificated shares in the company on behalf of the holder of, or person entitled by transmission to, the shares at the best price reasonably obtainable at the time of sale if:
- (i) the shares have been in issue either in certificated or uncertificated form throughout the qualifying period and at least three cash dividends have become payable on the shares during the qualifying period;
  - (ii) no cash dividend payable on the shares has either been claimed by presentation to the paying bank of the relevant cheque or warrant or been satisfied by the transfer of funds to a bank account designated by the holder of, or person entitled by transmission to, the shares or by the transfer of funds by means of a relevant system at any time during the relevant period;
  - (iii) so far as any director of the company at the end of the relevant period is then aware, the company has not at any time during the relevant period received any communication from the holder of, or person entitled by transmission to, the shares; and
  - (iv) the company has caused two advertisements to be published, one in a newspaper with a national circulation and the other in a newspaper circulating in the area in which the last known postal address of the holder of, or person entitled by transmission to, the shares or the postal address at which service of notices may be effected under these articles is located, giving notice of its intention to sell the shares and a period of three months has elapsed from the date of publication of the advertisements or of the last of the two advertisements to be published if they are published on different dates.
- (B) The company shall also be entitled to sell at the best price reasonably obtainable at the time of sale any additional certificated shares in the company issued either in certificated or uncertificated form during the qualifying period in right of any share to which paragraph (A) of this article applies (or in right of any share so issued), if the criteria in paragraph (A)(ii) to (iv) are satisfied in relation to the additional shares.
- (C) To give effect to any sale of shares pursuant to this article the board may authorise some person to transfer the shares in question and an instrument of transfer signed by that person shall be as effective as if it had been signed by the holder of, or person entitled by transmission to, the shares. The purchaser shall not be bound to



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see to the application of the purchase moneys nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of sale shall belong to the company and, upon their receipt, the company shall become indebted to the former holder of, or person entitled by transmission to, the shares for an amount equal to the net proceeds unless and until forfeited under this article. No trust shall be created in respect of the debt and no interest shall be payable in respect of it and the company shall not be required to account for any moneys earned from the net proceeds which may be employed in the business of the company or as it thinks fit. If no valid claim for the money has been received by the company during a period of six years from the date on which the relevant shares were sold by the company under this article, the money will be forfeited and will belong to the company.

(D) For the purpose of this article:

“**the qualifying period**” means the period of 10 years immediately preceding the date of publication of the advertisements referred to in paragraph (A)(iv) above or of the first of the two advertisements to be published if they are published on different dates; and

“**the relevant period**” means the period beginning at the commencement of the qualifying period and ending on the date when all the requirements of paragraphs (A)(i) to (iv) above have been satisfied.

**Transmission of Shares**

**41. Transmission on Death**

If a member dies, the survivor or survivors, where he was a joint holder, and his personal representatives, where he was a sole holder or the only survivor of joint holders, shall be the only persons recognised by the company as having any title to his shares; but nothing contained in these articles shall release the estate of a deceased holder from any liability in respect of any share held by him solely or jointly with other persons.

**42. Entry of Transmission in Register**

Where the entitlement of a person to a certificated share in consequence of the death or bankruptcy of a member or of any other event giving rise to its transmission by operation of law is proved to the satisfaction of the board, the board shall within two months after proof cause the entitlement of that person to be noted in the register.

**43. Election of Person Entitled by Transmission**

Any person entitled by transmission to a share may, subject as provided elsewhere in these articles, elect either to become the holder of the share or to have some person nominated by him registered as the holder. If he elects to be registered himself he shall give notice to the company to that effect. If he elects to have another person registered and the share is a certificated share, he shall sign an instrument of transfer of the share to that person. If he elects to have himself or another person registered and the share is an uncertificated share, he shall take any action the board may require (including, without



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limitation, the signing of any document and the giving of any instruction by means of a relevant system) to enable himself or that person to be registered as the holder of the share. The board may at any time require the person to elect either to be registered himself or to transfer the share and if the requirements are not complied with within 60 days of being issued the board may withhold payment of all dividends and other moneys payable in respect of the share until the requirements have been complied with. All the provisions of these articles relating to the transfer of, and registration of transfers of, shares shall apply to the notice or transfer as if the death or bankruptcy of the member or other event giving rise to the transmission had not occurred and the notice or transfer was given or signed by the member.

#### 44. Rights of Person Entitled by Transmission

Where a person becomes entitled by transmission to a share, the rights of the holder in relation to that share shall cease, but the person entitled by transmission to the share may give a good discharge for any dividends or other moneys payable in respect of it and shall have the same rights in relation to the share as he would have had if he were the holder of it save that, until he becomes the holder, he shall not be entitled in respect of the share (except with the authority of the board) to receive notice of, or to attend or vote at, any general meeting of the company or at any separate general meeting of the holders of any class of shares in the company or to exercise any other right conferred by membership in relation to general meetings.

### Alteration of Share Capital

#### 45. Sub-division

Any resolution authorising the company to sub-divide its shares or any of them may determine that, as between the shares resulting from the sub-division, any of them may have any preference or advantage or be subject to any restriction as compared with the others.

#### 46. Fractions

Whenever as a result of a consolidation, consolidation and sub-division or sub-division of shares any holders would become entitled to fractions of a share, the board may deal with the fractions as it thinks fit including by ignoring fractions altogether or by aggregating and selling them or by dealing with them in some other way. For the purposes of effecting any such sale, the board may arrange for the shares representing the fractions to be entered in the register as certificated shares. The board may sell shares representing fractions to any person, including the company and may authorise some person to transfer or deliver the shares to, or in accordance with the directions of, the purchaser. The person to whom any shares are transferred or delivered shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity in, or invalidity of, the proceedings relating to the sale.



### Notice of General Meetings

#### 47. Omission or Non-Receipt of Notice

- (A) The accidental omission to give any notice of a meeting or the accidental omission to send or supply any document or other information relating to any meeting to, or the non-receipt (even if the company becomes aware of such non-receipt) of any such notice, document or other information by, any person entitled to receive the notice, document or other information shall not invalidate the proceedings at that meeting.
- (B) A member present in person or by proxy at a meeting shall be deemed to have received proper notice of that meeting and, where applicable, of the purpose of that meeting.

#### 48. Postponement of General Meetings

If the board, in its absolute discretion, considers that it is impractical or undesirable for any reason to hold a general meeting on the date or at the time or place specified in the notice calling the general meeting, it may postpone or move the general meeting to another date, time and/or place. The board shall take reasonable steps to ensure that notice of the date, time and place of the rearranged meeting is given to any member trying to attend the meeting at the original time and place. Notice of the date, time and place of the rearranged meeting shall, if practicable, also be placed in: (i) at least two national newspapers in the United Kingdom, and (ii) The Wall Street Journal and/or such other newspaper published in the United States as the directors consider to be appropriate. Notice of the business to be transacted at such rearranged meeting shall not be required. If a meeting is rearranged in this way, the appointment of a proxy will be valid if it is received as required by these articles not less than 48 hours before the time appointed for holding the rearranged meeting. The board may also postpone or move the rearranged meeting under this article.

#### 49. Resolutions of members at Annual General Meetings

- (A) If, on or before, 31st January in any year any members shall, in accordance with the Companies Acts, require the company, in relation to the Annual General Meeting to be held in that year, to give notice of a resolution which may properly be moved or require the company to circulate a statement in acceptable form, the company shall circulate that resolution or statement with the notice of the Annual General Meeting without cost to the requisitionists.
- (B) If any such requisition is made in accordance with the Companies Acts after 31st January in any year and prior to the Annual General Meeting to be held in that year, the company shall require that the requisitionists deposit or tender a sum sufficient to meet the Company's reasonable expenses in complying with such requisition in accordance with the Companies Acts.



## Proceedings at General Meetings

### 50. Quorum

- (A) No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the choice or appointment of a chairman of the meeting which shall not be treated as part of the business of the meeting. Save as otherwise provided by these articles, two members present in person or by proxy and entitled to vote shall be a quorum for all purposes. A shareholder which is a company is to be considered present if it is represented by a duly authorised representative.
- (B) If the directors so determine, any or all members (or their proxies) may participate in a general meeting by means of a conference telephone, video teleconference equipment or any communication equipment which allows all persons participating in the meeting to speak to and hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly. A meeting which takes place by conference telephone, video teleconference or other such communication equipment will be treated as taking place at the place where the chairman is.

### 51. Procedure if Quorum Not Present

If within five minutes (or such longer time not exceeding one hour as the chairman of the meeting may decide to wait) after the time appointed for the commencement of the meeting a quorum is not present, or if during the meeting a quorum ceases to be present, the meeting:

- (i) if convened by or upon the requisition of members, shall be dissolved; and
- (ii) in any other case, it shall stand adjourned to such other day (being not less than ten days later, excluding the day on which the meeting is adjourned and the day for which it is reconvened) and at such other time or place as the chairman of the meeting may decide. At any adjourned meeting one member present in person or by proxy and entitled to vote (whatever the number of shares held by him) shall be a quorum and any notice of an adjourned meeting shall state that one member present in person or by proxy and entitled to vote (whatever the number of shares held by him) shall be a quorum.

### 52. Security Arrangements

- (A) The directors or the secretary may take any action and may put in place any arrangements both before and during any meeting that they/he consider appropriate for:
  - (i) the safety of people attending a meeting;
  - (ii) proper and orderly conduct of a meeting; or
  - (iii) the meeting to reflect the wishes of the majority.



- (B) This includes the power to refuse entry to, or eject from meetings, any person who fails to comply with any arrangements made or any person who in the opinion of the directors or the secretary is acting in a manner that threatens the safety of people attending the meeting and/or the proper and orderly conduct at a meeting.
- (C) The board may direct that persons wishing to attend any general meeting should submit to such searches or other security arrangements or restrictions (including, without limitation, a requirement that such persons refrain from taking electronic equipment into a general meeting) as the board shall consider appropriate in the circumstances and the board shall be entitled in its absolute discretion to, or to authorise some one or more persons who shall include a director or the secretary or the chairman of the meeting to, refuse entry to, or to eject from, such general meeting any person who fails to submit to such searches or otherwise to comply with such security arrangements or restrictions.

**53. Confidential Information**

No shareholder at any general meeting is entitled to require disclosure of or any information about any detail of the company's trading, or any matter that is or may be in the nature of a trade secret, commercial secret or secret process, or that may relate to the conduct of the business of the company, if the directors decide it would be inexpedient in the interests of the company to make that information public.

**54. Chairman of General Meeting**

The chairman (if any) of the board or, in his absence, the deputy chairman (if any) shall preside as chairman at every general meeting. If more than one deputy chairman is present they shall agree amongst themselves who is to take the chair or, if they cannot agree, the deputy chairman who has been in office as a director longest shall take the chair. If there is no chairman or deputy chairman, or if at any meeting neither the chairman nor any deputy chairman is present within five minutes after the time appointed for the commencement of the meeting, or if neither the chairman nor any deputy chairman is willing to act as chairman, the directors present shall choose one of their number to act, or if one director only is present he shall preside as chairman of the meeting if willing to act. If no director is present, or if each of the directors present declines to take the chair, the persons present and entitled to vote shall appoint one of their number to be chairman of the meeting. Nothing in these articles shall restrict or exclude any of the powers or rights of a chairman of a meeting which are given by law.

**55. Orderly Conduct**

- (A) The chairman of the meeting shall take such action or give directions for such action to be taken as he thinks fit to promote the orderly conduct of the business of the meeting. The chairman's decision on points of order, matters of procedure or arising incidentally from the business of the meeting shall be final as shall be his determination as to whether any point or matter is of such a nature.
- (B) The directors may arrange for any people who they consider cannot be seated in the main meeting room, where the chairman will be, to attend and take part in a general meeting in an overflow room or rooms. Any overflow room will have a live



video link from the main room, and a two-way sound link. The notice of the meeting does not have to give details of any arrangements under this Article. The directors may decide how to divide people between the main room and any overflow room. If any overflow room is used, the meeting will be treated as being held, and taking place, in the main room.

**56. Entitlement to Attend and Speak**

Each director shall be entitled to attend and speak at any general meeting of the company. The chairman of the meeting may invite any person to attend and speak at any general meeting of the company where he considers that this will assist in the deliberations of the meeting.

**57. Adjournments**

The chairman of the meeting may at any time without the consent of the meeting adjourn any meeting (whether or not it has commenced or a quorum is present) either sine die or to another time or place where it appears to him that (a) the members entitled to vote and wishing to attend cannot be conveniently accommodated in the place appointed for the meeting (b) the conduct of persons present prevents or is likely to prevent the orderly continuation of business or (c) an adjournment is otherwise necessary so that the business of the meeting may be properly conducted. In addition, the chairman of the meeting may at any time with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting) adjourn the meeting either sine die or to another time or place. When a meeting is adjourned sine die the time and place for the adjourned meeting shall be fixed by the board. No business shall be transacted at any adjourned meeting except business which might properly have been transacted at the meeting had the adjournment not taken place. Any meeting may be adjourned more than once.

**58. Notice of Adjournment**

If the continuation of an adjourned meeting is to take place three months or more after it was adjourned or if business is to be transacted at an adjourned meeting the general nature of which was not stated in the notice of the original meeting, notice of the adjourned meeting shall be given as in the case of an original meeting. Except as provided in this article, it shall not be necessary to give any notice of an adjourned meeting or of the business to be transacted at an adjourned meeting.

**Amendments**

**59. Amendments to Resolutions**

In the case of a resolution duly proposed as a special resolution no amendment thereto (other than an amendment to correct a patent error) may be considered or voted upon and in the case of a resolution duly proposed as an ordinary resolution no amendment thereto (other than an amendment to correct a patent error) may be considered or voted upon unless either at least two working days prior to the date appointed for holding the meeting or adjourned meeting at which such ordinary resolution is to be proposed notice in writing of the terms of the amendment and intention to move the same has been received by the company at its office or the chairman of the meeting in his absolute discretion decides that it may be considered or voted upon. With the consent of the chairman of the meeting, an amendment may be withdrawn by its proposer before it is put to the vote.



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**60. Amendments Ruled Out of Order**

If an amendment shall be proposed to any resolution under consideration but shall be ruled out of order by the chairman of the meeting the proceedings on the substantive resolution shall not be invalidated by any error in such ruling.

**Voting****61. Votes of Members**

Subject to any special terms as to voting upon which any shares may be issued or may at the relevant time be held and to any other provisions of these articles, members shall be entitled to vote at a general meeting as provided in the Companies Acts.

**62. Method of Voting**

At any general meeting a resolution put to the vote of the meeting shall be decided on a poll, which shall be taken in such manner as the chairman of the meeting shall direct, including by means of electronic vote casters. The result of the vote shall be deemed to be the resolution of the meeting at which the vote was demanded. A vote to elect the chairman of the meeting or to adjourn the meeting must be taken immediately at the meeting. Any other vote may be taken at any other time (within 30 days of the meeting) and place determined by the chairman. The chairman can appoint scrutineers (who need not be shareholders) and set a day, time and place for the result of the poll to be declared.

**63. Votes of Joint Holders**

In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

**64. Voting on Behalf of Incapable Member**

A member in respect of whom an order has been made by any competent court or official on the ground that he is or may be suffering from a mental disorder or is otherwise incapable of managing his affairs may vote at any general meeting of the company and may exercise any other right conferred by membership in relation to general meetings by or through any person authorised in such circumstances to do so on his behalf (and that person may vote by proxy), provided that evidence to the satisfaction of the board of the authority of the person claiming to exercise the right to vote or such other right has been received by the company not later than the last time at which appointments of proxy should have been received in order to be valid for use at that meeting or on the holding of that poll.



**65. No Right to Vote where Sums Overdue on Shares**

No member shall, unless the board otherwise decides, be entitled in respect of any share held by him to attend or vote (either personally or by proxy) at any general meeting of the company or to exercise any other right conferred by membership in relation to general meetings unless all calls or other sums presently payable by him in respect of that share have been paid.

**66. Objections or Errors in Voting**

If:

- (i) any objection shall be raised to the qualification of any voter, or
- (ii) any votes have been counted which ought not to have been counted or which might have been rejected, or
- (iii) any votes are not counted which ought to have been counted,

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless it is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be conclusive.

**Approved Depositaries**

**67. Meaning of Approved Depositary**

- (A) In these articles, unless the context otherwise requires, "**Approved Depositary**" means a person approved by the board and appointed:
  - (i) to hold the company's shares or any rights or interests in any of the company's shares; and
  - (ii) to issue securities, documents of title or other documents which evidence that the holder of them owns or is entitled to receive the shares, rights or interests held by the Approved Depositary,and shall include a nominee acting for a person appointed to do these things.
- (B) The trustees of any scheme or arrangements for or principally for the benefit of employees of the company and its associated companies will be deemed to be an Approved Depositary for the purposes of these articles unless the board resolves otherwise.
- (C) References in these articles to an Approved Depositary or to shares held by it refer only to an Approved Depositary and to its shares held in its capacity as an Approved Depositary.



**68. Appointment of Approved Depositaries**

Subject to these articles and to applicable law, an Approved Depositary may appoint as its proxy or proxies in relation to any ordinary shares which it holds, anyone it thinks fit and may determine the manner and terms of any such appointment. Each appointment must state the number and class of shares to which it relates and the total number of shares of each class in respect of which appointments exist at any one time, which must not exceed the total number of shares of each such class registered in the name of the Approved Depositary or its nominee (the "**Depositary Shares**") at that time.

**69. Register of Approved Depositaries**

The Approved Depositary must keep a register (the "**Proxy Register**") of each person it has appointed as a proxy under Article 71 (an "**Appointed Proxy**") and the number of Depositary Shares (his "**Appointed Number**") to which the appointment relates. The directors will determine the requisite information to be recorded in the Proxy Register relating to each Appointed Proxy.

Any person authorised by the company may inspect the Proxy Register during usual business hours and the Approved Depositary will give such person any information which he requests as to the contents of the Proxy Register.

**70. Approved Depositaries' Attendance at General Meetings**

- (A) An Appointed Proxy may only attend a general meeting if he provides the company with written evidence of his appointment as such. This must be in a form agreed between the directors and the Approved Depositary.
- (B) Subject to applicable law and to these articles, and so long as the Approved Depositary or a nominee of the Approved Depositary holds at least his Appointed Number of shares, an Appointed Proxy is entitled to attend a general meeting which holders of that class of shares are entitled to attend, and he is entitled to the same rights, and subject to the same obligations, in relation to his Appointed Number of Depositary Shares as if he had been validly appointed in accordance with Articles 73 to 77 by the registered holder of these shares as its proxy in relation to those shares.

**71. Proxies of Appointed Depositaries**

An Appointed Proxy may appoint another person as his proxy for his Appointed Number of Depositary Shares, provided the appointment is made and deposited in accordance with Articles 73 to 77. These articles apply to that appointment and to the person so appointed as though those Depositary Shares were registered in the name of the Appointed Proxy and the appointment was made by him in that capacity. The directors may require such evidence as they think appropriate to decide that such appointment is effective.



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**72. Identifying Appointed Proxies**

- (A) For the purposes of determining who is entitled as an Appointed Proxy to exercise the rights conferred by Articles 70 and 71 and the number of Depositary Shares in respect of which a person is to be treated as having been appointed as an Appointed Proxy for these purposes, the Approved Depositary may decide that the Appointed Proxies who are so entitled are the persons entered in the Proxy Register at a time and on a date (a “**Record Time**”) agreed between the Approved Depositary and the company.
- (B) When a Record Date is decided for a particular purpose:
- (i) an Appointed Proxy is to be treated as having been appointed for that purpose for the number and class of shares appearing against his name in the Proxy Register as at the Record Time; and
  - (ii) changes to entries in the Proxy Register after the Record Time will be ignored for this purpose.
- (C) Except for recognising the rights given in relation to General Meetings by appointments made by Appointed Proxies pursuant to Article 71, the company is entitled to treat any person entered in the Proxy Register as an Appointed Proxy as the only person (other than the Approved Depositary) who has any interest in the Depositary Shares in respect of which the Appointed Proxy has been appointed.
- (D) At a general meeting the chairman has the final decision as to whether any person has the right to vote or exercise any other right relating to any Depositary Shares. In any other situation, the directors have the final decision as to whether any person has the right to exercise any right relating to any Depositary Shares.

**Proxies****73. Appointment of Proxies**

The appointment of a proxy shall be in writing signed by the appointor or his duly authorised attorney or, if the appointor is a corporation, shall either be executed under its seal or signed by an officer, attorney or other person authorised to sign it. If a member appoints more than one proxy and the proxy forms appointing those proxies would give those proxies the apparent right to exercise votes on behalf of the member in a general meeting over more shares than are held by the member, then each of those proxy forms will be invalid and none of the proxies so appointed will be entitled to attend, speak or vote at the relevant general meeting.

**74. Receipt of Proxies**

- (A) The appointment of a proxy must:
- (i) in the case of an appointment made in hard copy form, be received at the office (or such other place in the United Kingdom or in the United States as may be specified by the company for the receipt of appointments of proxy in



hard copy form) not less than 48 hours (or such shorter time as the board may determine) before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote together with (if required by the board) any authority under which it is made or a copy of the authority, certified notarially or in accordance with the Powers of Attorney Act 1971 or in some other manner approved by the board;

- (ii) in the case of an appointment made by electronic means, be received at the address specified by the company for the receipt of appointments of proxy by electronic means not less than 48 hours (or such shorter time as the board may determine) before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote. Any authority pursuant to which such an appointment is made or a copy of the authority, certified notarially or in accordance with the Powers of Attorney Act 1971 or in some other manner approved by the board, must, if required by the board, be received at such address or at the office (or such other place in the United Kingdom as may be specified by the company for the receipt of such documents) not less than 48 hours (or such shorter time as the board may determine) before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote;
- (iii) in the case of an appointment delivered by an Approved Depositary (except in respect of a proxy appointed in accordance with Article 68) be delivered to the appropriate place referred to in (i) or (ii) above, as appropriate, depending on whether the appointment is made in hard copy or electronic form;
- (iv) in the case of a vote taken more than 48 hours subsequently to the date of the meeting or adjourned meeting, be received as aforesaid not less than 24 hours (or such shorter time as the board may determine) before the time appointed for the taking of the vote; and
- (v) in the case of a vote taken not more than 48 hours subsequently to the date of the meeting or adjourned meeting, be received as aforesaid by the time at which the vote was demanded (or at such later time as the board may determine),

and an appointment of a proxy which is not, or in respect of which the authority or copy thereof is not, received in a manner so permitted shall be invalid. When two or more valid but differing appointments of a proxy are received in respect of the same share for use at the same meeting or poll, the one which is last received (regardless of its date or of the date of its signature) shall be treated as replacing and revoking the others as regards that share; if the company is unable to determine which was last received, none of them shall be treated as valid in respect of that share. The appointment of a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned. The proceedings at a general meeting shall not be invalidated where an appointment of a proxy in respect of that meeting is sent in electronic form as provided in these articles, but because of a technical problem it cannot be read by the recipient.

- (B) The board may at its discretion determine that in calculating the periods mentioned in this article no account shall be taken of any part of a day that is not a working day.



**75. Maximum Validity of Proxy**

No appointment of a proxy shall be valid after 12 months have elapsed from the date of its receipt save that, unless the contrary is stated in it, an appointment of a proxy shall be valid for use at an adjourned meeting or vote after a meeting or an adjourned meeting even after 12 months, if it was valid for the original meeting.

**76. Form of Proxy**

The appointment of a proxy shall be in any usual form or in such other form as the board may approve. The appointment of a proxy shall be deemed to confer authority to vote on any amendment of a resolution put to, or any other business which may properly come before, the meeting for which it is given as the proxy thinks fit. The appointment of a proxy shall, unless the contrary is stated in it, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

**77. Cancellation of Proxy's Authority**

A vote given by a proxy or by the duly authorised representative of a corporation shall be valid notwithstanding the previous determination of the authority of the person voting, unless notice in writing of the determination was received by the company at the office (or such other place or address as was specified by the company for the receipt of appointments of proxy) not later than the last time at which an appointment of a proxy should have been received in order to be valid for use at the meeting at which the vote was given.

**Class Meetings**

**78. Separate General Meetings**

The provisions of these articles relating to general meetings shall apply, with any necessary modifications to any separate general meeting of the holders of shares of a class convened otherwise than in connection with the variation or abrogation of the rights attached to the shares of that class. For this purpose, a general meeting at which no holder of a share other than an ordinary share may, in his capacity as a member, attend or vote shall also constitute a separate general meeting of the holders of the ordinary shares.

**Appointment, Retirement and Removal of Directors**

**79. Number of Directors**

Unless otherwise determined by ordinary resolution of the company, the directors (disregarding alternate directors) shall be not less than two nor more than 24 in number.



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**80. Directors' Shareholding Qualification**

No shareholding qualification for directors shall be required.

**81. Power of Company to Appoint Directors**

Subject to the provisions of these articles, the company may by ordinary resolution elect any person who is willing to act to be a director, either to fill a vacancy or as an addition to the existing board, but so that the total number of directors shall not at any time exceed any maximum number fixed by or in accordance with these articles.

**82. Power of Board to Appoint Directors**

Subject to the provisions of these articles, the board may appoint any person who is willing to act to be a director, either to fill a vacancy or as an addition to the existing board, but so that the total number of directors shall not at any time exceed any maximum number fixed by or in accordance with these articles. Any director so appointed shall retire at the next annual general meeting and shall then be eligible for re-appointment.

**83. Retirement of Directors by Rotation**

At every annual general meeting any director:

- (i) who has been appointed by the board since the last annual general meeting, or
- (ii) who held office at the time of the two preceding annual general meetings and who did not retire at either of them, or
- (iii) who has held office with the company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting,

shall retire from office and may offer himself for re-appointment by the members.

**84. Filling Vacancies**

Subject to the provisions of these articles, at the meeting at which a director retires the company can pass an ordinary resolution to re-appoint the director or to elect some other eligible person in his place.

**85. Power of Removal by Special Resolution**

In addition to any power of removal conferred by the Companies Acts, the company may by special resolution remove any director before the expiration of his period of office and may (subject to these articles) by ordinary resolution appoint another person who is willing to act to be a director in his place.

**86. Persons Eligible as Directors**

No person other than a director retiring at the meeting shall be appointed or re-appointed a director at any general meeting unless:

- (i) he is recommended by the board; or



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- (ii) not less than seven nor more than 42 days before the day appointed for the meeting, notice in writing by a member qualified to vote at the meeting (not being the person to be proposed) has been given to the secretary of the intention to propose that person for appointment or re-appointment together with confirmation in writing by that person of his willingness to be appointed or re-appointed.

#### 87. Position of Retiring Directors

A director who retires at an annual general meeting may, if willing to continue to act, be re-appointed. If he is re-appointed he is treated as continuing in office throughout. If he is not re-appointed, he shall retain office until the end of the meeting or (if earlier) when a resolution is passed to appoint someone in his place or when a resolution to re-appoint the director is put to the meeting and lost.

#### 88. Vacation of Office by Directors

Without prejudice to the provisions for retirement contained in these articles, the office of a director shall be vacated if:

- (i) he resigns his office by notice in writing sent to or received at the office or at an address specified by the company for the purposes of communication by electronic means or tendered at a meeting of the board; or
- (ii) by notice in writing sent to or received at the office or at an address specified by the company for the purposes of communication by electronic means or tendered at a meeting of the board, he offers to resign and the board resolves to accept such offer; or
- (iii) by notice in writing sent to or received at the office or at an address specified by the company for the purposes of communication by electronic means or tendered at a meeting of the board, his resignation is requested by all of the other directors and all of the other directors are not less than three in number; or
- (iv) he is or has been suffering from mental or physical ill health and the board resolves that his office is vacated; or
- (v) he is absent without the permission of the board from meetings of the board (whether or not an alternate director appointed by him attends) for six consecutive months and the board resolves that his office is vacated; or
- (vi) he becomes bankrupt or compounds with his creditors generally; or
- (vii) he is prohibited by law from being a director; or
- (viii) he ceases to be a director by virtue of the Companies Acts or is removed from office pursuant to these articles.



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If the office of a director is vacated for any reason, he shall cease to be a member of any committee or sub-committee of the board.

#### 89. Alternate Directors

- (A) Each director may appoint any person to be his alternate and may at his discretion remove an alternate director so appointed. If the alternate director is not already a director, the appointment, unless previously approved by the board, shall have effect only upon and subject to its being so approved. Any appointment or removal of an alternate director shall be effected by notice in writing signed by the appointor and sent to or received at the office or at an address specified by the company for the purpose of communication by electronic means or tendered at a meeting of the board, or in any other manner approved by the board. An alternate director shall be entitled to receive notice of all meetings of the board or of committees of the board of which his appointor is a member. He shall also be entitled to attend and vote as a director at any such meeting at which the director appointing him is not personally present and at such meeting to exercise and discharge all the functions, powers, rights and duties of his appointor as a director and for the purposes of the proceedings at such meeting the provisions of these articles shall apply as if he were a director.
- (B) Every person acting as an alternate director shall (except as regards power to appoint an alternate and remuneration) be subject in all respects to the provisions of these articles relating to directors and shall during his appointment be an officer of the company. An alternate director shall alone be responsible to the company for his acts and defaults and shall not be deemed to be the agent of or for the director appointing him. An alternate director may be paid expenses and shall be entitled to be indemnified by the company to the same extent as if he were a director. An alternate director shall not be entitled to receive from the company any fee in his capacity as an alternate director but the company shall, if so requested in writing by the appointor, pay to the alternate director any part of the fees or remuneration otherwise due to the appointor.
- (C) A director or any other person may act as an alternate director to represent more than one director. Every person acting as an alternate director shall have one vote for each director for whom he acts as alternate, in addition to his own vote if he is also a director but he shall count as only one for the purposes of determining whether a quorum is present. Signature by an alternate director of any resolution in writing of the board or a committee of the board shall, unless the notice of his appointment provides to the contrary, be as effective as signature by his appointor.
- (D) An alternate director shall cease to be an alternate director:
- (i) if his appointor ceases for any reason to be a director except that, if at any meeting any director retires but is re-appointed at the same meeting, any appointment made by him pursuant to this article which was in force immediately before his retirement shall remain in force as though he had not retired; or



- (ii) on the happening of any event which if he were a director would cause him to vacate his office as director; or
- (iii) if he resigns his office by notice in writing to the company.

## 90. Executive Directors

The board or any committee authorised by the board may from time to time appoint one or more directors to hold any employment or executive office with the company for such period and upon such other terms as the board or any committee authorised by the board may in its discretion decide and may revoke or terminate any appointment so made. Any revocation or termination of the appointment shall be without prejudice to any claim for damages that the director may have against the company or the company may have against the director for any breach of any contract of service between him and the company which may be involved in the revocation or termination. A director so appointed shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board or any committee authorised by the board may decide, and either in addition to or in lieu of his remuneration as a director.

### Fees, Remuneration, Expenses and Pensions

## 91. Directors' Fees

(A) The directors can decide on the amount, timing and manner of payment of fees to be paid by the company to the directors for acting as directors, but the total fees paid to all of the directors for acting as directors (including amounts paid under Article 92(ii) to 92(v) but excluding any amounts paid under any other provision of these articles) shall not exceed the higher of:

- (i) £3 million a year; and
- (ii) any higher amount as the company may by ordinary resolution decide.

These fees can be satisfied in cash or in any other form.

(B) If the directors decide to satisfy any of these fees in shares or in any other non-cash form, the value of the shares or other assets to be counted towards this limit will be their value at the time the entitlement to them is first allocated, or provisionally allocated, to the director. This value will be taken into account for the purpose of the limit in the year in which the entitlement is first allocated, or provisionally allocated, and not in any later year when the fees, shares or other assets are actually paid or delivered to the director. This paragraph applies even if:

- (i) the director's entitlement to the fees, or to receive the assets, is subject to conditions which will, or may, be fulfilled at a later time;
- (ii) the fees, shares or other assets are to be, or may be, paid or delivered to the director at a later time or the director elects, agrees or is required to receive the cash equivalent of the shares or other assets as determined by reference to their value at such later time;
- (iii) the company has not paid for the relevant shares or other assets at the time the director first becomes, or becomes provisionally, entitled to them, and their value subsequently changes.



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- (C) Unless an ordinary resolution is passed saying otherwise, the fees will be divided between some or all of the directors in the way that they decide. If they fail to decide, the fees will be shared equally by the directors, except that any director holding office as a director for only part of the period covered by the fee is only entitled to a pro rata share covering that part period.

## 92. Additional Remuneration

The directors can award special pay to any director who:

- (i) holds any executive post;
- (ii) acts as chairman;
- (iii) acts as senior independent director;
- (iv) acts as a scientific/medical expert on the board;
- (v) is chairman of, or serves on, any committee of the directors; or
- (vi) performs any other services which the directors consider to extend beyond the ordinary duties of a director.

Special pay can take the form of salary, commission or other benefits or can be paid in some other way. This is decided on by the directors.

## 93. Expenses

- (A) Each director may be paid his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the board or committees of the board or general meetings of the company or any other meeting which as a director he is entitled to attend and shall be paid all other costs and expenses properly and reasonably incurred by him in the conduct of the company's business or in the discharge of his duties as a director. The company may also fund a director's or former director's expenditure for the purposes permitted under the Companies Acts and may do anything to enable a director or former director of the company to avoid incurring such expenditure as provided in the Companies Acts.
- (B) The directors can award extra pay to any director who, at the request of the directors, performs special services or goes or lives abroad for any purposes of the company.

**94. Pensions and Gratuities for Directors**

The board or any committee authorised by the board may exercise all the powers of the company to provide benefits, either by the payment of gratuities or pensions or by insurance or in any other manner whether similar to the foregoing or not, for any director or former director or the relations, or dependants of, or persons connected to, any director or former director, provided that no benefits (except such as may be provided for by any other article) may be granted to or in respect of a director or former director who has not been employed by, or held an executive office or place of profit under, the company or any body corporate which is or has been its subsidiary undertaking or any predecessor in business of the company or any such body corporate without the approval of an ordinary resolution of the company. No director or former director shall be accountable to the company or the members for any benefit provided pursuant to this article and the receipt of any such benefit shall not disqualify any person from being or becoming a director of the company.

**Directors' Interests****95. Conflicts of interest requiring board authorisation**

- (A) The board may, subject to the quorum and voting requirements set out in this article, authorise any matter which would otherwise involve a director breaching his duty under the Companies Acts to avoid conflicts of interest ("**Conflict**").
- (B) A director seeking authorisation in respect of a Conflict shall declare to the board the nature and extent of his interest in a Conflict as soon as is reasonably practicable. The director shall provide the board with such details of the relevant matter as are necessary for the board to decide how to address the Conflict together with such additional information as may be requested by the board.
- (C) Any director (including the relevant director) may propose that the relevant director be authorised in relation to any matter the subject of a Conflict. Such proposal and any authority given by the board shall be effected in the same way that any other matter may be proposed to and resolved upon by the board under the provisions of these articles save that:
- (i) the relevant director and any other director with a similar interest shall not count towards the quorum nor vote on any resolution giving such authority; and
  - (ii) the relevant director and any other director with a similar interest may, if the other members of the board so decide, be excluded from any board meeting while the Conflict is under consideration.
- (D) Where the board gives authority in relation to a Conflict, or where any of the situations described in Article 96(B) apply in relation to a director ("**Relevant Situation**"):
- (i) the board may (whether at the relevant time or subsequently) (a) require that the relevant director is excluded from the receipt of information, the



participation in discussion and/or the making of decisions (whether at meetings of the board or otherwise) related to the Conflict or Relevant Situation; and (b) impose upon the relevant director such other terms for the purpose of dealing with the Conflict or Relevant Situation as it may determine;

- (ii) the relevant director will be obliged to conduct himself in accordance with any terms imposed by the board in relation to the Conflict or Relevant Situation;
- (iii) the board may provide that where the relevant director obtains (otherwise than through his position as a director of the company) information that is confidential to a third party, the director will not be obliged to disclose that information to the company, or to use or apply the information in relation to the company's affairs, where to do so would amount to a breach of that confidence;
- (iv) the terms of the authority shall be recorded in writing (but the authority shall be effective whether or not the terms are so recorded); and
- (v) the board may revoke or vary such authority at any time but this will not affect anything done by the relevant director prior to such revocation in accordance with the terms of such authority.

#### 96. Other conflicts of interest

- (A) If a director is in any way directly or indirectly interested in a proposed contract with the company or a contract that has been entered into by the company, he must declare the nature and extent of that interest to the directors in accordance with the Companies Acts.
- (B) Provided he has declared his interest in accordance with paragraph (A), a director may:
  - (i) be party to, or otherwise interested in, any contract with the company or in which the company has a direct or indirect interest;
  - (ii) hold any other office or place of profit with the company (except that of auditor) in conjunction with his office of director for such period and upon such terms, including as to remuneration, as the board may decide;
  - (iii) act by himself or through a firm with which he is associated in a professional capacity for the company or any other company in which the company may be interested (otherwise than as auditor);
  - (iv) be or become a director or other officer of, or employed by or otherwise be interested in any holding company or subsidiary company of the company or any other company in which the company may be interested; and
  - (v) be or become a director of any other company in which the company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as a director of that other company.



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**97. Benefits**

A director shall not, by reason of his office or of the fiduciary relationship thereby established, be liable to account to the company or the members for any remuneration, profit or other benefit realised by reason of his having any type of interest authorised under Article 95(A) or permitted under Article 96(B) and no contract shall be liable to be avoided on the grounds of a director having any type of interest authorised under Article 95(A) or permitted under Article 96(B).

**98. Quorum and voting requirements**

- (A) A director shall not vote on or be counted in the quorum in relation to any resolution of the board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the company or any other company in which the company is interested.
- (B) Where proposals are under consideration concerning the appointment, or the settlement or variation of the terms or the termination of the appointment, of two or more directors to offices or places of profit with the company or any other company in which the company is interested, a separate resolution may be put in relation to each director and in that case each of the directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution unless it concerns his own appointment or the settlement or variation of the terms or the termination of his own appointment or the appointment of another director to an office or place of profit with a company in which the company is interested and the director seeking to vote or be counted in the quorum has a Relevant Interest in it.
- (C) A director shall not vote on, or be counted in the quorum in relation to, any resolution of the board in respect of any contract in which he has an interest and, if he shall do so, his vote shall not be counted, but this prohibition shall not apply to any resolution where that interest cannot reasonably be regarded as likely to give rise to a conflict of interest or where that interest arises only from one or more of the following matters:
  - (i) the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or by any other person at the request of or for the benefit of the company or any of its subsidiary undertakings;
  - (ii) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;



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- (iii) the giving to him of any other indemnity where all other directors are also being offered indemnities on substantially the same terms;
  - (iv) the funding by the company of his expenditure on defending proceedings or the doing by the company of anything to enable him to avoid incurring such expenditure where all other directors are being offered substantially the same arrangements;
  - (v) where the company or any of its subsidiary undertakings is offering securities in which offer the director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to participate;
  - (vi) any contract in which he is interested by virtue of his interest in shares or debentures or other securities of the company or by reason of any other interest in or through the company;
  - (vii) any contract concerning any other company (not being a company in which the director has a Relevant Interest) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;
  - (viii) any contract concerning the adoption, modification or operation of a pension fund, superannuation or similar scheme or retirement, death or disability benefits scheme or employees' share scheme which relates both to directors and employees of the company or of any of its subsidiary undertakings and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
  - (ix) any contract for the benefit of employees of the company or of any of its subsidiary undertakings under which he benefits in a similar manner to the employees and which does not accord to any director as such any privilege or advantage not accorded to the employees to whom the contract relates; and
  - (x) any contract for the purchase or maintenance of insurance against any liability for, or for the benefit of, any director or directors or for, or for the benefit of, persons who include directors.
- (D) A company shall be deemed to be one in which a director has a Relevant Interest if and so long as (but only if and so long as) he is to his knowledge (either directly or indirectly) the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of that company (calculated exclusive of any shares of that class in that company held as treasury shares) or of the voting rights available to members of that company. In relation to an alternate director, an interest of his appointor shall be treated as an interest of the alternate director without prejudice to any interest which the alternate director has otherwise.



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- (E) Where a company in which a director has a Relevant Interest is interested in a contract, he also shall be deemed interested in that contract.
- (F) If any question shall arise at any meeting of the board as to the interest of a director (other than the chairman of the meeting) in a contract and whether it is likely to give rise to a conflict of interest or as to the entitlement of any director (other than the chairman of the meeting) to vote or be counted in the quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question shall be referred to the chairman of the meeting and his ruling in relation to the director concerned shall be conclusive except in a case where the nature or extent of the director's interest (so far as it is known to him) has not been fairly disclosed to the board. If any question shall arise in respect of the chairman of the meeting, the question shall be decided by a resolution of the board (for which purpose the chairman of the meeting shall be counted in the quorum but shall not vote on the matter) and the resolution shall be conclusive except in a case where the nature or extent of the interest of the chairman of the meeting (so far as it is known to him) has not been fairly disclosed to the board.
- (G) Subject to these articles, the board may also cause any voting power conferred by the shares in any other company held or owned by the company or any power of appointment to be exercised in such manner in all respects as it thinks fit, including the exercise of the voting power or power of appointment in favour of the appointment of the directors or any of them as directors or officers of the other company, or in favour of the payment of remuneration to the directors or officers of the other company. Subject to these articles, a director may also vote on and be counted in the quorum in relation to any of such matters.

**99. General**

- (A) References in Articles 95 to 98 to:
  - (i) a contract include references to any proposed contract and to any transaction or arrangement or proposed transaction or arrangement whether or not constituting a contract; and
  - (ii) a conflict of interest include a conflict of interest and duty and a conflict of duties.
- (B) The company may by ordinary resolution suspend or relax the provisions of Articles 95 to 98 to any extent or ratify any contract not properly authorised by reason of a contravention of any of the provisions of Articles 95 to 98.

**Powers and Duties of the Board**

**100. General Powers of Company Vested in Board**

Subject to the these articles and to any directions given by the company in general meeting by special resolution, the business of the company shall be managed by the board which may exercise all the powers of the company whether relating to the management of the business of the company or not. No alteration of these articles and no



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special resolution shall invalidate any prior act of the board which would have been valid if that alteration had not been made or that resolution had not been passed. The powers given by this article shall not be limited by any special power given to the board by any other article.

#### 101. Borrowing Powers

Subject to the provisions of the Companies Acts, the directors may exercise all the powers of the company:

- (i) to borrow money;
- (ii) to mortgage or charge all or any of the company's undertaking, property (present and future) and uncalled capital;
- (iii) to issue debentures and other securities; and
- (iv) to give security either outright or as collateral security for any debt, liability or obligation of the company or of any third party.

#### 102. Agents

- (A) The board can appoint anyone as the company's attorney by granting a power of attorney or by authorising them in some other way. Attorneys can either be appointed directly by the board or the board can give someone else the power to select attorneys. The board or the persons who are authorised by it to select attorneys can decide on the purposes, powers, authorities and discretions of attorneys. But they cannot give an attorney any power, authority or discretion which the board does not have under these articles.
- (B) The board can decide how long a power of attorney will last for and attach any conditions to it. The power of attorney can include any provisions which the board decides on for the protection and convenience of anybody dealing with the attorney. The power of attorney can allow the attorney to grant any or all of his power, authority or discretion to any other person.
- (C) The board can:
  - (i) delegate any of its authority, powers or discretions to any manager or agent of the company;
  - (ii) allow managers or agents to delegate to another person;
  - (iii) remove any people it has appointed in any of these ways; and
  - (iv) cancel or change anything that it has delegated, although this will not affect anybody who acts in good faith who has not had any notice of any cancellation or change.



- (D) Any appointment or delegation by the board which is referred to in this article can be on any conditions decided on by the board.
- (E) The ability of the board to delegate under this article applies to all its powers and is not limited because certain articles refer to powers being exercised by the board or by a committee authorised by the board while other articles do not.

**103. Delegation to Individual Directors**

The board may entrust to and confer upon any director any of its powers, authorities and discretions (with power to sub-delegate) upon such terms and conditions and with such restrictions as it thinks fit, and either collaterally with, or to the exclusion of, its own powers, authorities and discretions and may from time to time revoke or vary all or any of them but no person dealing in good faith and without notice of the revocation or variation shall be affected by it. The power to delegate contained in this article shall be effective in relation to the powers, authorities and discretions of the board generally and shall not be limited by the fact that in certain articles, but not in others, express reference is made to particular powers, authorities or discretions being exercised by the board or by a committee authorised by the board.

**104. Registers**

The company may keep an overseas or local or other register in any place and the board may make and vary such regulations as it may think fit respecting the keeping of the register.

**105. Provision for Employees**

The board may exercise any power conferred by the Companies Acts to make provision for the benefit of persons employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or the transfer to any person of the whole or part of the undertaking of the company or that subsidiary.

**Proceedings of the Board**

**106. Board Meetings**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit. A director at any time may, and the secretary on the requisition of a director at any time shall, summon a board meeting.

**107. Notice of Board Meetings**

Notice of a board meeting shall be deemed to be properly given to a director if it is given to him personally or by word of mouth or sent in writing to him at his last known address or any other address given by him to the company for this purpose. A director may waive his entitlement to notice of any meeting either prospectively or retrospectively and any retrospective waiver shall not affect the validity of the meeting or of any business conducted at the meeting.



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**108. Quorum**

The quorum necessary for the transaction of the business of the board may be fixed by the board and, unless so fixed at any other number, shall be two. Subject to the provisions of these articles, any director who ceases to be a director at a board meeting may continue to be present and to act as a director and be counted in the quorum until the termination of the board meeting if no other director objects and if otherwise a quorum of directors would not be present.

**109. Directors below Minimum through Vacancies**

The continuing directors or a sole continuing director may act notwithstanding any vacancy in their number but, if and so long as the number of directors is reduced below the minimum number fixed by or in accordance with these articles or is below the number fixed by or in accordance with these articles as the quorum or there is only one continuing director, the continuing directors or director may act for the purpose of filling vacancies or of summoning general meetings of the company but not for any other purpose. If there are no directors or director able or willing to act, then any two members (excluding any member holding shares as treasury shares) may summon a general meeting for the purpose of appointing directors.

**110. Appointment of Chairman**

The board may appoint a director to be the chairman or a deputy chairman of the board, and may at any time remove him from that office. The chairman of the board or failing him a deputy chairman shall act as chairman at every meeting of the board. If more than one deputy chairman is present they shall agree amongst themselves who is to take the chair or, if they cannot agree, the deputy chairman who has been in office as a director longest shall take the chair. But if no chairman of the board or deputy chairman is appointed, or if at any meeting neither the chairman nor any deputy chairman is present within five minutes after the time appointed for holding the meeting, the directors present may choose one of their number to be chairman of the meeting. References in these articles to a deputy chairman include, if no one has been appointed to that title, a person appointed to a position with another title which the board designates as equivalent to the position of deputy chairman.

**111. Competence of Meetings**

A meeting of the board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions vested in or exercisable by the board.

**112. Voting**

Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

**113. Delegation to Committees**

(A) The board may delegate any of its powers, authorities and discretions (with power to sub-delegate) to any committee, consisting of such person or persons (whether a



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member or members of its body or not) as it thinks fit, provided that the majority of persons on any committee or sub-committee must be directors. References in these articles to committees include sub-committees permitted under this article.

- (B) Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed on it by the board. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in these articles for regulating the meetings and proceedings of the board so far as the same are applicable and are not superseded by any regulations imposed by the board.
- (C) The power to delegate contained in this article shall be effective in relation to the powers, authorities and discretions of the board generally and shall not be limited by the fact that in certain articles, but not in others, express reference is made to particular powers, authorities or discretions being exercised by the board or by a committee authorised by the board.

**114. Participation in Meetings**

All or any of the members of the board may participate in a meeting of the board by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to speak to and hear each other or by a series of telephone calls from the chairman of the meeting. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote and be counted in a quorum accordingly. Any such meeting will be treated as taking place where the chairman is located.

**115. Resolution in Writing**

A resolution in writing signed by all the directors who are at the relevant time entitled to receive notice of a meeting of the board and who would be entitled to vote on the resolution at a meeting of the board (if that number is sufficient to constitute a quorum) shall be as valid and effectual as a resolution passed at a meeting of the board properly called and constituted. The resolution may be contained in one document or in several documents in like form each signed by one or more of the directors concerned.

**116. Validity of Acts of Board or Committee**

All acts done by the board or by any committee or by any person acting as a director or member of a committee shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any member of the board or committee or person so acting or that they or any of them were disqualified from holding office or had vacated office or were not entitled to vote, be as valid as if each such member or person had been properly appointed and was qualified and had continued to be a director or member of the committee and had been entitled to vote.



## Seals

### 117. Use of Seals

The board shall provide for the custody of every seal of the company. A seal shall only be used by the authority of the board or of a committee of the board authorised by the board in that behalf. Subject as otherwise provided in these articles, and to any resolution of the board or committee of the board dispensing with the requirement for any counter-signature on any occasion, any instrument to which the common seal is applied shall be signed by at least one director and the secretary, or by at least two directors or by one director in the presence of a witness who attests the signature or by such other person or persons as the board may approve. Any instrument to which an official seal is applied need not, unless the board otherwise decides or the law otherwise requires, be signed by any person.

## Dividends and Other Payments

### 118. Declaration of Dividends by Company

The company may by ordinary resolution from time to time declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the board.

### 119. Payment of Interim and Fixed Dividends by Board

The board may pay such interim dividends as appear to the board to be justified by the financial position of the company and may also pay any dividend payable at a fixed rate at intervals settled by the board whenever the financial position of the company, in the opinion of the board, justifies its payment. If the board acts in good faith, it shall not incur any liability to the holders of any shares for any loss they may suffer in consequence of the payment of an interim or fixed dividend on any other class of shares ranking pari passu with or after those shares.

### 120. Calculation and Currency of Dividends

- (A) Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide:
- (i) all dividends shall be declared and paid according to the amounts paid up on the share in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for the purposes of this article as paid up on the share;
  - (ii) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the share during any portion or portions of the period in respect of which the dividend is paid; and
  - (iii) dividends may be declared or paid in any currency.
- (B) The board may decide the basis of conversion for any currency conversions that may be required and how any costs involved are to be met.



- (C) The board may also decide that a particular Approved Depository should be able to receive dividends in a currency other than the currency in which it is declared and may make arrangements accordingly. In particular, if an Approved Depository has chosen or agreed to receive dividends in another currency, the directors may make arrangements with that Approved Depository for payment to be made to them for value on the date on which the relevant dividend is paid, or a later date decided on by the directors.

#### 121. Amounts Due on Shares may be Deducted from Dividends

The board may deduct from any dividend or other moneys payable to a member by the company on or in respect of any shares all sums of money (if any) presently payable by him to the company on account of calls or otherwise in respect of shares of the company. Sums so deducted can be used to pay amounts owing to the company in respect of the shares.

#### 122. No Interest on Dividends

Subject to the rights attaching to, or the terms of issue of, any shares, no dividend or other moneys payable by the company on or in respect of any share shall bear interest against the company.

#### 123. Payment Procedure

Any dividend or other sum payable in cash by the company in respect of a share may be paid by cheque, warrant or similar financial instrument sent by post addressed to the holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the shares at his address as appearing in the register or addressed to such person and at such address as the holder or joint holders may in writing direct. Every cheque, warrant or similar financial instrument shall, unless the holder or joint holders otherwise direct, be made payable to the holder or, in the case of joint holders, to the holder whose name stands first on the register in respect of the shares, and shall be sent at his or their risk and payment of the cheque, warrant or similar financial instrument by the financial institution on which it is drawn shall constitute a good discharge to the company. In addition, any such dividend or other sum may be paid by any bank or other funds transfer system or such other means including, in respect of uncertificated shares, by means of the facilities and requirements of a relevant system and to or through such person as the holder or joint holders may in writing direct and the company may agree, and the making of such payment shall be a good discharge to the company and the company shall have no responsibility for any sums lost or delayed in the course of payment by any such system or other means or where it has acted on any such directions and accordingly, payment by any such system or other means shall constitute a good discharge to the company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable on or in respect of the shares held by them. Where a person is entitled by transmission to a share, any dividend or other sum payable by the company in respect of the share may be paid as if he were a holder of the share and his address noted in the register were his registered address and where two or more persons are so entitled, any one of them may give effectual receipts for any dividends or other moneys payable or property distributable on or in respect of the shares.



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**124. Uncashed Dividends**

The company may cease to send any cheque, warrant or similar financial instrument through the post or to employ any other means of payment, including payment by means of a relevant system, for any dividend payable on any shares in the company which is normally paid in that manner on those shares if in respect of at least two consecutive dividends payable on those shares the cheques, warrants or similar financial instruments have been returned undelivered or remain uncashed during or at the end of the period for which the same are valid or that means of payment has failed. In addition, the company may cease to send any cheque, warrant or similar financial instrument through the post or may cease to employ any other means of payment if, in respect of one dividend payable on those shares, the cheque, warrant or similar financial instrument has been returned undelivered or remains uncashed during or at the end of the period for which the same is valid or that means of payment has failed and reasonable enquiries have failed to establish any new postal address or account of the holder. Subject to the provisions of these articles, the company must recommence sending cheques, warrants or similar financial instruments or employing such other means in respect of dividends payable on those shares if the holder or person entitled by transmission requests such recommencement in writing.

**125. Forfeiture of Unclaimed Dividends**

All dividends or other sums payable on or in respect of any shares which remain unclaimed may be invested or otherwise made use of by the board for the benefit of the company until claimed. Any dividend or other sum unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and shall revert to the company unless the board decides otherwise and the payment by the board of any unclaimed dividend or other sum payable on or in respect of a share into a separate account shall not constitute the company a trustee in respect of it.

**126. Dividends Not in Cash**

Any general meeting declaring a dividend may, upon the recommendation of the board, by ordinary resolution direct, and the board may in relation to any interim dividend direct, that it shall be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, and where any difficulty arises in regard to the distribution the board may settle it as it thinks expedient, and in particular may authorise any person to sell and transfer any fractions or may ignore fractions altogether, and may fix the value for distribution purposes of any assets or any part thereof to be distributed and may determine that cash shall be paid to any members upon the footing of the value so fixed in order to secure equality of distribution and may vest any assets to be distributed in trustees as may seem expedient to the board.

**127. Scrip Dividends and Dividend Plans Generally**

The board may, if authorised by an ordinary resolution of the company, offer any holders of ordinary shares (excluding any member holding shares as treasury shares) the right to elect to receive ordinary shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the board) of any dividend specified by the ordinary resolution. The following provisions shall apply:

- (i) an ordinary resolution may specify some or all of a particular dividend (whether or not already declared) or may specify some or all of any dividends declared or paid within a specified period, but such period may not end later than the fifth anniversary of the date of the meeting at which the ordinary resolution is passed;



- (ii) the entitlement of each holder of ordinary shares to new ordinary shares shall be such that the relevant value of the entitlement shall be as nearly as possible equal to (but not greater than) the cash amount (disregarding any tax credit) of the dividend that such holder elects to forgo. For this purpose “**relevant value**” shall be calculated by reference to the average of the middle market quotations for the company’s ordinary shares on the London Stock Exchange as derived from the Daily Official List (or any other publication of a recognised investment exchange showing quotations for the company’s ordinary shares) on such five consecutive dealing days as the board shall determine provided that the first of such days shall be on or after the day on which the ordinary shares are first quoted “ex” the relevant dividend or in such other manner as may be determined by or in accordance with the ordinary resolution. A certificate or report by the auditors as to the amount of the relevant value in respect of any dividend shall be conclusive evidence of that amount and in giving such a certificate or report the auditors may rely on advice or information from brokers or other sources of information as they think fit;
- (iii) no fraction of any ordinary share shall be allotted. The board may make such provisions as it thinks fit for any fractional entitlements including provisions whereby, in whole or in part, the benefit thereof accrues to the company and/or under which fractional entitlements are accrued and/or retained without interest and in each case accumulated on behalf of any holder of ordinary shares and such accruals or retentions are applied to the allotment by way of bonus to or cash subscription on behalf of such holder of fully paid ordinary shares and/or provisions whereby cash payments may be made to such holders in respect of their fractional entitlements;
- (iv) the board, if it intends to offer an election in respect of any dividend, shall give notice to the holders of ordinary shares of the right of election offered to them, and specify the procedure to be followed which, for the avoidance of doubt, may include an election by means of a relevant system and the place at which, and the latest time by which, elections must be lodged in order for elections to be effective; no such notice need be given to holders of ordinary shares who have previously given election mandates in accordance with this article and whose mandates have not been revoked; the accidental omission to give notice of any right of election to, or the non receipt (even if the company becomes aware of such non-receipt) of any such notice by, any holder of ordinary shares entitled to the same shall neither invalidate any offer of an election nor give rise to any claim, suit or action;
- (v) the board shall not proceed with any election unless the company has sufficient reserves or funds that may be capitalised, and the board has authority to allot sufficient shares, to give effect to it after the basis of allotment is determined;
- (vi) the board may exclude or restrict from any offer any shareholder who is an Approved Depositary or a nominee for an Approved Depositary if the offer or exercise of the right to or by the persons on whose behalf the Approved Depositary



holds the shares would suffer legal or practical problems of the kind mentioned in Article 127(vii). If other shareholders (other than those excluded under Article 127(vii)) have the right to opt for new shares, the directors must be satisfied that an appropriate dividend reinvestment plan or similar arrangement is available to a substantial majority of the people on whose behalf the Approved Depository holds shares or that such arrangement will be available promptly and the first sentence of this Article 127(vi) does not apply until the directors are satisfied of this;

- (vii) the board may exclude from any offer or make other arrangement in relation to any holders of ordinary shares where the board believes that such exclusion or arrangement is necessary or expedient in relation to legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory, or the board believes that for any other reason the offer should not be made to them;
- (viii) the dividend (or that part of the dividend in respect of which a right of election has been offered) shall not be payable on ordinary shares in respect of which an election has been made (for the purposes of this article "**the elected ordinary shares**") and instead additional ordinary shares shall be allotted to the holders of the elected ordinary shares on the basis of allotment calculated as stated. For such purpose the board shall capitalise, out of any amount standing to the credit of any reserve or fund (including the retained earnings) at the relevant time whether or not the same is available for distribution as the board may determine, a sum equal to the aggregate nominal amount of the additional ordinary shares to be allotted on that basis and apply it in paying up in full the appropriate number of ordinary shares for allotment and distribution to the holders of the elected ordinary shares on that basis. The board may do all acts and things considered necessary or expedient to give effect to any such capitalisation;
- (ix) the additional ordinary shares when allotted shall rank pari passu in all respects with the fully-paid ordinary shares then in issue except that they will not be entitled to participation in the relevant dividend;
- (x) unless the board otherwise determines, or unless the uncertificated securities rules otherwise require, the new ordinary share or shares which a member has elected to receive instead of cash in respect of the whole (or some part) of the specified dividend declared or paid in respect of his elected ordinary shares shall be in uncertificated form (in respect of the member's elected ordinary shares which were in uncertificated form on the date of the member's election) and in certificated form (in respect of the member's elected ordinary shares which were in certificated form on the date of the member's election);
- (xi) the board may also from time to time establish or vary a procedure for election mandates, which, for the avoidance of doubt, may include an election by means of a relevant system, under which a holder of ordinary shares may elect in respect of future rights of election offered to that holder under this article until the election mandate is revoked or deemed to be revoked in accordance with the procedure;



- (xii) the board may decide how any costs relating to making new shares available in place of a cash dividend will be met, including deciding to deduct an amount from the entitlement of a shareholder under this article; and
- (xiii) at any time before new ordinary shares are allotted instead of cash in respect of any part of a dividend, the board may determine that such new ordinary shares will not be allotted. Any such determination may be made before or after any election has been made by holders of ordinary shares in respect of the relevant dividend.

### Capitalisation of Reserves

#### 128. Power to Capitalise Reserves and Funds

The company may, upon the recommendation of the board, at any time and from time to time pass an ordinary resolution to the effect that it is desirable to capitalise all or any part of any amount standing to the credit of any reserve or fund (including retained earnings) at the relevant time whether or not the same is available for distribution and accordingly that the amount to be capitalised be set free for distribution among the members or any class of members who would be entitled to it if it were distributed by way of dividend and in the same proportions, on the footing that it is applied either in or towards paying up the amounts unpaid at the relevant time on any shares in the company held by those members respectively or in paying up in full shares, debentures or other obligations of the company to be allotted and distributed credited as fully paid up among those members, or partly in one way and partly in the other, but so that, for the purposes of this article: (i) a share premium account and a capital redemption reserve, and any reserve or fund representing unrealised profits, may be applied only in paying up in full shares of the company that are to be allotted and distributed as fully paid up; and (ii) where the amount capitalised is applied in paying up in full shares that are to be allotted and distributed as fully paid up, the company will also be entitled to participate in the relevant distribution in relation to any shares of the relevant class held by it as treasury shares and the proportionate entitlement of the relevant class of members to the distribution will be calculated accordingly. The board may authorise any person to enter into an agreement with the company on behalf of the persons entitled to participate in the distribution and the agreement shall be binding on those persons.

#### 129. Settlement of Difficulties in Distribution

Where any difficulty arises in regard to any distribution of any capitalised reserve or fund the board may settle the matter as it thinks expedient and in particular may authorise any person to sell and transfer any fractions or may resolve that the distribution should be as nearly as may be practicable in the correct proportion but not exactly so or may ignore fractions altogether, and may determine that cash payments shall be made to any members in order to adjust the rights of all parties, as may seem expedient to the board.

### Record Dates

#### 130. Power to Choose Any Record Date

Notwithstanding any other provision of these articles, the company or the board may fix any date as the record date for any dividend, distribution, allotment or issue and such



record date may be on or at any time before or after any date on which the dividend, distribution, allotment or issue is declared, paid or made. The power to fix any such record date shall include the power to fix a time on the chosen date.

### Records and Summary Financial Statements

#### 131. Inspection of Records

No member in his capacity as such shall have any right of inspecting any accounting record or book or document of the company except as conferred by law, ordered by a court of competent jurisdiction or authorised by the board or by ordinary resolution of the company.

#### 132. Summary Financial Statements

The company may send or supply summary financial statements to members of the company instead of copies of its full accounts and reports.

### Service of Notices, Documents and Other Information

#### 133. Method of Service

- (A) Any notice, document (including a share certificate) or other information may be served on or sent or supplied to any member by the company:
- (i) personally;
  - (ii) by sending it through the post addressed to the member at his registered address or by leaving it at that address addressed to the member;
  - (iii) by means of a relevant system;
  - (iv) where appropriate, by sending or supplying it in electronic form to an address notified by the member to the company for that purpose;
  - (v) where appropriate, by making it available on a website and notifying the member of its availability in accordance with this article; or
  - (vi) by any other means authorised in writing by the member.

In the case of joint holders of a share, service, sending or supply of any notice, document or other information on or to one of the joint holders shall for all purposes be deemed a sufficient service on or sending or supplying to all the joint holders.

- (B) In the case of joint holders of a share, anything to be agreed or specified in relation to any notice, document or other information to be served on or sent or supplied to them may be agreed or specified by any one of the joint holders and the agreement or specification of the senior shall be accepted to the exclusion of that of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.



- (C) If any member, including any joint holder, who is without a United Kingdom or United States postal address provides the company with such postal address is entitled to have notice or documents served or supplied to him at that address. If such a member fails to provide the company with a United Kingdom or United States postal address he may be ignored for the purposes of sufficient service or supply of any notice or documents.
- (D) If on three consecutive occasions any notice, document or other information served on or sent or supplied to a member has been returned undelivered, such member shall not thereafter be entitled to receive notices, documents or other information from the company until he shall have communicated with the company and supplied to the company (or its agent) a new registered address, or a postal address within the United Kingdom or the United States for the service of notices and the despatch or supply of documents and other information, or shall have informed the company of an address for the service of notices and the despatch or supply of documents and other information in electronic form. For these purposes, any notice, document or other information sent by post shall be treated as returned undelivered if the notice, document or other information is served, sent or supplied back to the company (or its agents) and a notice, document or other information served, sent or supplied in electronic form shall be treated as returned undelivered if the company (or its agents) receives notification that the notice, document or other information was not delivered to the address to which it was sent.
- (E) The company may at any time and in its sole discretion choose to serve, send or supply notices, documents or other information in hard copy form alone to some or all members.

**134. Record Date for Service**

Any notice, document or other information may be served, sent or supplied by the company by reference to the register as it stands at any time not more than 15 days before the date of service, sending or supply. No change in the register after that time shall invalidate that service, sending or supply. Where any notice, document or other information is served on or sent or supplied to any person in respect of a share in accordance with these articles, no person deriving any title or interest in that share shall be entitled to any further service, sending or supply of that notice, document or other information.

**135. Members Resident Abroad or on Branch Registers**

- (A) Any member whose registered address is not within the United Kingdom or the United States and who gives to the company a postal address within the United Kingdom or the United States at which notices, documents or other information may be served upon, or sent or supplied to, him shall be entitled to have notices, documents or other information served on or sent or supplied to him at that address or, where applicable, by making them available on a website and notifying the holder at that address. Any member whose registered address is not within the United Kingdom or the United States and who gives to the company an address for the purposes of communications by electronic means may, subject to these articles, have notices, documents or other information served on or sent or supplied to him



at that address or, where applicable, by making them available on a website and notifying the holder at that address. Otherwise, a member whose registered address is not within the United Kingdom or the United States shall not be entitled to receive any notice, document or other information from the company.

- (B) For a member registered on a branch register, notices, documents or other information can be posted or despatched in the United Kingdom, the United States or in the country where the branch register is kept.

**136. Service of Notice on Person Entitled by Transmission**

A person who is entitled by transmission to a share, upon supplying the company with a postal address within the United Kingdom or the United States for the service of notices and the despatch or supply of documents and other information shall be entitled to have served upon or sent or supplied to him at such address any notice, document or other information to which he would have been entitled if he were the holder of that share or, where applicable, to be notified at that address of the availability of the notice, document or other information on a website. A person who is entitled by transmission to a share, upon supplying the company with an address for the purposes of communications by electronic means for the service of notices and the despatch or supply of documents and other information may have served on, sent or supplied to him at such address any notice, document or other information to which he would have been entitled if he were the holder of that share or, where applicable, may be notified at that address of the availability of the notice, document or other information on a website. In either case, such service, sending or supply shall for all purposes be deemed a sufficient service, sending or supply of such notice, document or other information on all persons interested (whether jointly with or as claimants through or under him) in the share. Otherwise, any notice, document or other information served on or sent or supplied to any member pursuant to these articles shall, notwithstanding that the member is then dead or bankrupt or that any other event giving rise to the transmission of the share by operation of law has occurred and whether or not the company has notice of the death, bankruptcy or other event, be deemed to have been properly served, sent or supplied in respect of any share registered in the name of that member as sole or joint holder.

**137. Deemed Delivery**

- (A) Any notice, document or other information, if served, sent or supplied by the company by post, shall be deemed to have been received on the day following that on which it was posted if first class post was used or 48 hours after it was posted if first class post was not used and, in proving that a notice, document or other information was served, sent or supplied, it shall be sufficient to prove that the notice, document or other information was properly addressed, prepaid and put in the post.
- (B) Any notice, document or other information not served, sent or supplied by post but left by the company at a registered address or at an address (other than an address for the purposes of communications by electronic means) notified to the company in accordance with these articles by a person who is entitled by transmission to a share shall be deemed to have been received on the day it was so left.



- (C) Any notice, document or other information served, sent or supplied by the company by means of a relevant system shall be deemed to have been received when the company or any sponsoring system-participant acting on its behalf sends the issuer-instruction relating to the notice, document or other information.
- (D) Any notice, document or other information served, sent or supplied by the company using electronic means shall be deemed to have been received on the day on which it was sent notwithstanding that the company subsequently sends a hard copy of such notice, document or information by post. Any notice, document or other information made available on a website shall be deemed to have been received on the day on which the notice, document or other information was first made available on the website or, if later, when a notice of availability is received or deemed to have been received pursuant to this article. In proving that a notice, document or other information served, sent or supplied by electronic means was served, sent or supplied, it shall be sufficient to prove that it was properly addressed.
- (E) Any notice, document or other information served, sent or supplied by the company by any other means authorised in writing by the member concerned shall be deemed to have been received when the company has carried out the action it has been authorised to take for that purpose.

**138. Notice When Post Not Available**

If there is a suspension or curtailment of postal services within the United Kingdom, the United States or some part of either the United Kingdom or the United States, the company need only give notice of a general meeting to those members with whom the company can communicate by electronic means and who have provided the company with an address for this purpose. The company shall also advertise the notice in at least one newspaper with a national circulation and make it available on its website from the date of such advertisement until the conclusion of the meeting or any adjournment thereof. If at least six clear days prior to the meeting the sending or supply of notices by post in hard copy form has again become generally possible, the company shall send or supply confirmatory copies of the notice by post to those members who would otherwise receive the notice in hard copy form.

**Destruction of Documents**

**139. Presumptions Where Documents Destroyed**

If the company destroys or deletes:

- (i) any share certificate which has been cancelled at any time after a period of one year has elapsed from the date of cancellation, or
- (ii) any instruction concerning the payment of dividends or other moneys in respect of any share or any notification of change of name or address at any time after a period of two years has elapsed from the date the instruction or notification was recorded by the company, or



- (iii) any instrument of transfer of shares or Operator-instruction for the transfer of shares which has been registered by the company at any time after a period of six years has elapsed from the date of registration, or
- (iv) any instrument of proxy which has been used for the purpose of a poll at any time after a period of one year has elapsed from the date of use, or
- (v) any instrument of proxy which has not been used for the purpose of a poll at any time after a period of one month has elapsed from the end of the meeting to which the instrument of proxy relates, or
- (vi) any other document on the basis of which any entry is made in the register at any time after a period of six years has elapsed from the date the entry was first made in the register in respect of it,

and the company destroys or deletes the document or instruction in good faith and without express notice that its preservation was relevant to a claim, it shall be presumed irrebuttably in favour of the company that every share certificate so destroyed was a valid certificate and was properly cancelled, that every instrument of transfer or Operator-instruction so destroyed or deleted was a valid and effective instrument of transfer or instruction and was properly registered and that every other document so destroyed was a valid and effective document and that any particulars of it which are recorded in the books or records of the company were correctly recorded. If the documents relate to uncertificated shares, the company must comply with any requirements of the uncertificated securities rules which limit its ability to destroy these documents. Nothing contained in this article shall be construed as imposing upon the company any liability which, but for this article, would not exist or by reason only of the destruction of any document of the kind mentioned above before the relevant period mentioned in this article has elapsed or of the fact that any other condition precedent to its destruction mentioned above has not been fulfilled. References in this article to the destruction of any document include references to its disposal in any manner.

### Indemnity and Insurance

#### 140. Indemnity of Directors

- (A) To the extent permitted by the Companies Acts, every director or former director or other officer of the company or of any associated company shall be indemnified by the company out of its own funds against all costs, charges, losses, expenses and liabilities incurred by him in performing his duties and/or in exercising his powers and/or in supposedly doing these things and/or otherwise in relation to or in connection with his duties, powers or office.
- (B) To the extent permitted by the Companies Acts, every director or former director or other officer of the company or of any associated company is exempted from any liability to the company where that liability would be covered by the indemnity in Article 140(A).



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- (C) Without prejudice to Article 140(A), the company may purchase and maintain insurance against any liability for any persons who are or were at any time directors, officers or employees of the company or of any associated company or trustees of any pension fund or employee share scheme in which employees of any such company are interested.
- (D) No director or former director of the company or of any associated company shall be accountable to the company or the members for any benefit provided pursuant to this article and the receipt of any such benefit shall not disqualify the person from being or becoming a director of the company.
- (E) For the purposes of this article, no person appointed or employed by the company or an associated company as an auditor is an officer.



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Exhibit 4.7

**EXECUTION VERSION**

29 May 2014

NOVARTIS AG

and

GLAXOSMITHKLINE PLC

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**DEED OF AMENDMENT AND RESTATEMENT**

**relating to the**

**IMPLEMENTATION AGREEMENT**

**dated 22 April 2014**

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**Freshfields Bruckhaus Deringer**

Freshfields Bruckhaus Deringer LLP  
65 Fleet Street  
London EC4Y 1HS



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This Deed (the “Deed”) is made on 29 May 2014 between:

- (1) **NOVARTIS AG**, a corporation (*Aktiengesellschaft*) incorporated in Switzerland whose registered office is at Lichtstrasse 35, 4056 Basel, Switzerland (the “**Seller**”); and
- (2) **GLAXOSMITHKLINE PLC**, a public limited company incorporated in England and Wales whose registered office is at 980 Great West Road Brentford, TW8 9GS (the “**Purchaser**”),

each a “party” and together the “parties”.

Whereas:

- (A) The Seller and the Purchaser entered into the Original Agreement (as defined below) on 22 April 2014 (the “**Signing Date**”).
- (B) The Seller and the Purchaser now wish to amend and restate the Original Agreement, in the form of the Amended Agreement (as defined below).

It is agreed as follows:

**1 Definitions and Interpretation**

In this Deed, unless the context otherwise requires, the provisions in this Clause 1 apply.

**1.1 Incorporation of defined terms**

Unless otherwise stated, terms defined in the Original Agreement shall have the same meaning in this Deed.

**1.2 Definitions**

“**Amended Agreement**” means the Original Agreement, as amended and restated in the form set out in the Schedule to this Deed; and

“**Original Agreement**” means the Implementation Agreement in relation to Project Constellation, dated 22 April 2014.

**1.3 Interpretation clauses**

**1.3.1** The principles of interpretation set out in Clause 1 of the Original Agreement shall have effect as if set out in this Deed, save that references to “this Agreement” shall be construed as references to “this Deed”.

**1.3.2** References to this Deed include the Schedule.

**2 Amendment**

- 2.1** In accordance with Clauses 20.3 and 13.1 of the Original Agreement, the parties agree that the Original Agreement shall be amended and restated as set out in the Schedule to this Deed.
- 2.2** The amendment and restatement of the Original Agreement pursuant to clause 2.1 shall take effect from the Signing Date, as if the Amended Agreement had been entered into on the Signing Date. Therefore, upon this Deed being entered into the Amendment Agreement shall supersede the Original Agreement in its entirety.

**3 Miscellaneous**

- 3.1** Each party represents and warrants that it has full power and authority to enter into this Deed and to perform its obligations under it.



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3.2 The provisions of Clauses 10, 11.1, 11.2, 12, 13, 15.2, 15.3, 16 and 18 to 24 of the Amended Agreement shall apply to this Deed as if set out in full in this Deed and as if references in that clause to “this Agreement” are references to this Deed and references to “party” or “parties” are references to parties to this Deed.



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**In witness whereof** this Deed has been delivered on the date first stated above.

Executed as a DEED by /s/ Roy Papatheodorou  
Roy Papatheodorou

and  
Jonathan Emery }  
on /s/ Jonathan Emery  
behalf of  
**NOVARTIS AG**



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Executed as a DEED by  
**GLAXOSMITHKLINE PLC**  
acting by its duly appointed attorney

)  
) /s/ David Redfern  
) (Signature of attorney)

in the presence of:

)

Witness's signature:

/s/ Claire Jackson

Name (print):

Claire Jackson

Occupation:

Solicitor

Address:

One Bunhill Row, London



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**Dated 22 April 2014**

**as amended and restated on 29 May 2014**

**GLAXOSMITHKLINE PLC**

and

**NOVARTIS AG**

---

**IMPLEMENTATION AGREEMENT**  
**in relation to Project Constellation**

---

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY  
(SRN/RJZS/SVKW)  
521285161



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This **AGREEMENT** is entered into on 22 April 2014 and amended and restated on 29 May 2014

BETWEEN:

- (1) **GLAXOSMITHKLINE PLC**, a company registered in England under number 03888792 and whose registered office is at 980 Great West Road, Brentford, Middlesex TW8 9GS (“**GSK**”); and
- (2) **NOVARTIS AG**, a share corporation (Aktiengesellschaft) registered in the Commercial Register of the Canton of Basel-Stadt, Switzerland under number CHE-103.867.266 and whose registered office is at Basel Switzerland and whose address is Lichtstrasse 35, 4056 Basel (“**Novartis**”),

each, a “**party**” and together, the “**parties**”.

**WHEREAS:**

- 1. On the same date as this Agreement, the parties entered into the Target Asset Agreements and the Put Option Agreement (as defined below).
- 2. The parties wish to enter into this Agreement to set out their agreement in relation to various matters that apply to the Transaction and the Put Option Agreement (each as defined below) as a whole, including the GSK Shareholder Approval Condition (as defined below) and the process in relation to the satisfaction of the same, and certain deal protection measures, including exclusivity and break fees.

**IT IS AGREED** as follows:

**1. DEFINITIONS AND INTERPRETATION**

1.1 In this Agreement:

- “**Affiliates**” means, with respect to any person, any other person that Controls, is Controlled by or is under common Control with such person, and “**Affiliates**” shall be interpreted accordingly;
- “**Agreed Form**” in relation to any document means that document in a form agreed by the parties and initialled or otherwise confirmed for the purposes of identification by or on behalf of the parties (including by its counsel);
- “**Alternative Transaction**” has the meaning given in clause 4.1(A);
- “**Business Day**” means a day which is not a Saturday, a Sunday or public holiday in the canton of Basel Stadt (Switzerland), in New York (US) or in London (United Kingdom);



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<b>“CHJV”</b>	has the meaning given to it in the definition of Target Asset Agreements;
<b>“CH Target Asset Agreement”</b>	has the meaning given to it in the definition of Target Asset Agreements;
<b>“Clean Team Members”</b>	has the meaning given in Schedule 4;
<b>“Clean Team Meeting”</b>	has the meaning given in clause 4.7;
<b>“Clean Team Only Information”</b>	has the meaning given to it in Schedule 4, Part B, paragraph 3;
<b>“Clean Team Notice”</b>	has the meaning given in clause 4.6;
<b>“Completion”</b>	means closing of the Transaction pursuant to the terms of the Target Asset Agreements;
<b>“Consumer Antitrust Judgment”</b>	means an order, writ, judgment, injunction, decree, stipulation, determination, decision or award issued by or on the application of a Consumer Competent Authority pursuant to its antitrust or competition functions;
<b>“Consumer Antitrust Reason”</b>	means a horizontal, vertical or other competition concern held by one or more Consumer Competent Authorities arising solely from a relationship between the assets agreed to be transferred under the CH Target Asset Agreement;
<b>“Consumer Competent Authorities”</b>	means the authorities responsible for granting approvals under the Consumer Competition Condition;
<b>“Consumer Competition Condition”</b>	means the condition relating to anti-trust and competition matters as set out in clause 4.1.1 to 4.1.3 and 4.1.5 of the CH Target Asset Agreement;
<b>“Control”</b>	means, in relation to a person, the ability of another person to ensure that the activities and business of the first mentioned person are conducted in accordance with the wishes of that other person (whether by exercise of contractual rights, ownership of shares or otherwise), and a person shall be deemed to have Control of a body corporate if that person has the contractual right to procure that the activities and business of that body corporate are conducted in accordance with that person’s wishes or if that person possesses the majority of the issued share capital or the voting rights in that body corporate or the right to receive the majority of the income of that body corporate on any distribution by it of all of its income or the majority of its assets on a winding up (and <b>“Controller”</b> , <b>“Controlled”</b> and <b>“Controlling”</b> shall be construed accordingly);



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<b>“Exclusivity Period”</b>	has the meaning given in clause 4.1;
<b>“FCA”</b>	means the Financial Conduct Authority;
<b>“Firm”</b>	has the meaning given to it in clause 4.10;
<b>“FSMA”</b>	means the Financial Services and Markets Act 2000;
<b>“Group”</b>	means any party’s Affiliates, as the context may require;
<b>“GSK Articles of Association”</b>	means the articles of association of GSK in force and effect from time to time;
<b>“GSK Break Fee”</b>	means an amount equal to USD\$900,000,000;
<b>“GSK Class 1 Circular”</b>	means the Class 1 circular to be prepared by GSK and approved by the UKLA in connection with the Transaction and the Put Option Agreement under and in accordance with the Listing Rules, including a notice convening the GSK Shareholder Meeting;
<b>“GSK Directors”</b>	means the directors of GSK from time to time;
<b>“GSK Exclusive Assets”</b>	has the meaning given in clause 4.1;
<b>“GSK’s Group”</b>	means GSK and its Affiliates from time to time;
<b>“GSK Recommendation”</b>	has the meaning given in clause 2.11(A);
<b>“GSK Shareholder Approval Condition”</b>	means the condition set out in clause 2.1;
<b>“GSK Shareholder Meeting”</b>	has the meaning given in clause 2.1;
<b>“GSK Shareholder Resolution”</b>	has the meaning given in clause 2.1;
<b>“GSK Shareholders”</b>	means the holders of ordinary shares in the capital of GSK from time to time;
<b>“GSK Sponsor”</b>	means the person acting as sponsor for GSK in relation to the GSK Class 1 Circular;
<b>“GSK Transaction Announcement”</b>	means the announcement to be made by GSK substantially in the Agreed Form;



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<b>“Key Objectives”</b>	has the meaning given in clause 2.4;
<b>“Listing Rules”</b>	means the listing rules made by the FCA under section 73A of FSMA;
<b>“Longstop Date”</b>	has the meaning given to the term Long Stop Date in the Target Asset Agreements (and includes any agreed extension thereof);
<b>“Notified Party”</b>	has the meaning given in clause 4.6;
<b>“Notifying Party”</b>	has the meaning given in clause 4.6;
<b>“Oncology Antitrust Judgment”</b>	means an order, writ, judgment, injunction, decree, stipulation, determination, decision, or award issued by or on the application of an Oncology Competent Authority pursuant to its antitrust or competition functions;
<b>“Oncology Antitrust Reason”</b>	means a horizontal, vertical or other competition concern held by one or more Oncology Competent Authorities arising solely from a relationship between Novartis’s assets (and those of its Group) and the assets agreed to be sold under the Oncology Target Asset Agreement;
<b>“Oncology Competent Authorities”</b>	means the authorities responsible for granting approvals under the Oncology Competition Condition;
<b>“Oncology Competition Condition”</b>	means the condition relating to anti-trust and competition matters as set out in clause 4.1.1 to 4.1.3 and 4.1.7 of the Oncology Target Asset Agreement;
<b>“Oncology Target Asset Agreement”</b>	has the meaning given to it in the definition of Target Asset Agreements;
<b>“Option Completion”</b>	has the meaning given to “Option Closing” in the Put Option Agreement;
<b>“Novartis Approval”</b>	has the meaning given in clause 3.2;
<b>“Novartis Board”</b>	means the board of directors (Verwaltungsrat) of Novartis from time to time;
<b>“Novartis Board Certificate”</b>	has the meaning in clause 3.6;
<b>“Novartis Break Fee”</b>	means USD\$900,000,000;
<b>“Novartis Businesses”</b>	has the meaning given in Schedule 2, paragraph (B)(i);



“Novartis Exclusive Assets”	has the meaning given in clause 4.1;
“Novartis’s Group”	means Novartis and its Affiliates from time to time;
“Novartis Shareholders”	mean the holders of ordinary shares in Novartis from time to time;
“Novartis Transaction Announcement”	means the announcement to be made by Novartis substantially in the Agreed Form;
“Payee”	has the meaning given in clause 5.20;
“Payer”	has the meaning given in clause 5.20;
“Permitted Purpose”	has the meaning given in Schedule 4;
“Possible Alternative Transaction”	has the meaning given in clause 4.6;
“Proceedings”	means any proceeding, suit or action arising out of or in connection with this Agreement, whether contractual or non-contractual;
“Project Sponsor”	has the meaning given to it in clause 8;
“Put Option Agreement”	means the Put Option Deed of even date herewith between GSK and Novartis relating to all or part of the Flu vaccines business;
“Relevant Payment”	has the meaning given in clause 5.22;
“Relevant Provisions”	means clause 4.2 of the Vaccines Target Asset Agreement, clause 4.2 of the Oncology Target Asset Agreement and clause 4.2 of the CH Target Asset Agreement;
“Representatives”	means, in relation to any party, any of its and/or any other member of its Group’s directors, officers, employees, agents, representatives, bankers, auditors, accountants, financial advisers, legal advisers and any other professional advisers;
“Service Document”	means a claim form, application notice, order, judgment or other document relating to any Proceedings;
“Shareholders’ Agreement”	means the Agreed Form shareholders’ agreement in respect of CHJV to be entered into by, among others, the parties, on the date of completion of the Target Asset Agreements;



- “Steering Committee” has the meaning given to it in clause 8;
- “Steering Committee Representative” has the meaning given to it in clause 8;
- “Target Asset Agreements” means:
  - (A) the Share and Business Sale Agreement dated 22 April 2014, and as amended and/or restated relating to the Vaccines Group (as defined therein) between GSK and Novartis (the “**Vaccines Target Asset Agreement**”);
  - (B) the Asset Sale and Purchase Agreement relating to the sale or licence of certain assets and other rights relating to certain oncology products dated 22 April 2014, and as amended and/or restated between GSK and Novartis (the “**Oncology Target Asset Agreement**”); and
  - (C) the Contribution Agreement dated 22 April 2014, and as amended and/or restated among GSK, Novartis and Leo Constellation Limited (“**CHJV**”) under which (i) GSK will contribute its consumer healthcare business to CHJV and (ii) Novartis will contribute its over-the-counter consumer healthcare business to CHJV (the “**CH Target Asset Agreement**”);
- “Tax” has the meaning given thereto in the Vaccines Target Asset Agreement;
- “Tax Authority” has the meaning given thereto in the Vaccines Target Asset Agreement;
- “Third Party Beneficiary” has the meaning given in clause 20.1;
- “Third Party Rights Provisions” has the meaning given in clause 20.1;
- “Transaction” means the inter-conditional transactions comprised by the Target Asset Agreements;
- “UKLA” means the FCA acting in its capacity as the competent authority under FSMA;
- “Vaccines Antitrust Judgment” means an order, writ, judgment, injunction, decree, stipulation, determination, decision, or award issued by or on the application of a Vaccines Competent Authority pursuant to its antitrust or competition functions;



- “**Vaccines Antitrust Reason**” means a horizontal, vertical or other competition concern held by one or more Vaccines Competent Authorities arising solely from a relationship between GSK’s assets (and those of its Group) and the assets agreed to be sold under the Vaccines Target Asset Agreement;
- “**Vaccines Competent Authorities**” means the authorities responsible for granting approvals under the Vaccines Competition Condition;
- “**Vaccines Competition Condition**” means the condition relating to anti-trust and competition matters as set out in clause 4.1.1 to 4.1.3 and 4.1.5 of the Vaccines Target Asset Agreement; and
- “**Vaccines Target Asset Agreement**” has the meaning given to it in the definition of Target Asset Agreements;
- “**VAT**” has the meaning given thereto in the Vaccines Target Asset Agreement;
- “**Vaccines Group**” has the meaning given thereto in the Vaccines Target Asset Agreement;
- “**Wider Transaction Documents**” means each of the Target Asset Agreements and any other ancillary documents relating thereto (but not, for the purposes of clause 8, the Shareholders’ Agreement); and
- “**Working Hours**” means 9.30 a.m. to 5.30 p.m. on a Business Day;
- “**Work Stream Lead**” has the meaning given to it in clause 8.

1.2 In construing this Agreement, unless otherwise specified:

- (A) references to clauses and schedules are to clauses of, and schedules to, this Agreement;
- (B) use of any gender includes the other genders and (unless the context otherwise requires) the singular shall include the plural and *vice versa*;
- (C) references to a “**person**” shall be construed so as to include any individual, firm, company or other body corporate, government, state or agency of a state, local or municipal authority or government body or any joint venture, association or partnership (whether or not having separate legal personality);
- (D) “**body corporate**” shall have the meaning given in section 1173 of the Companies Act 2006;



- (E) a reference to any statute or statutory provision shall be construed as a reference to the same as it may have been, or may from time to time be, amended, modified or re-enacted;
  - (F) any reference to a “**day**” (including within the phrase “**Business Day**”) shall mean a period of 24 hours running from midnight to midnight;
  - (G) references to times are to London times;
  - (H) references to “**include**” and “**including**” shall be deemed to be followed by the words “**without limitation**”;
  - (I) a reference to any other document referred to in this Agreement is a reference to that other document as amended, varied, novated or supplemented (other than in breach of the provisions of this Agreement or that other document) at any time;
  - (J) headings and titles are for convenience only and do not affect the interpretation of this Agreement;
  - (K) a reference to any English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any legal concept or thing shall in respect of any jurisdiction other than England be treated as a reference to any analogous term in that jurisdiction;
  - (L) the rule known as the ejusdem generis rule shall not apply and accordingly general words introduced by the word “other” shall not be given a restrictive meaning by reason of the fact that they are preceded by words indicating a particular class of acts, matters or things; and
  - (M) general words shall not be given a restrictive meaning by reason of the fact that they are followed by particular examples intended to be embraced by the general words.
- 1.3 The schedules form part of this Agreement and shall have the same force and effect as if expressly set out in the body of this Agreement, and any reference to this Agreement shall include the schedules.

## 2. GSK SHAREHOLDER APPROVAL

- 2.1 The sale and purchase under each of the Target Asset Agreements and any sale and purchase under the Put Option Agreement shall be conditional upon the passing, at a duly convened and held general meeting of the GSK Shareholders, of an ordinary resolution validly approving the same in accordance with the GSK Articles of Association, the Listing Rules and all other applicable law and regulation (such condition being the “**GSK Shareholder Approval Condition**”, such resolution being the “**GSK Shareholder Resolution**” and such meeting being the “**GSK Shareholder Meeting**”). Subject to any requirement of the FCA to the contrary, GSK shall procure that the GSK Shareholder Resolution as proposed to GSK Shareholders includes approval of the Novartis put option set out in clause 19 of the Shareholders’ Agreement and such other Novartis exit and share transfer rights under that agreement as fall, under Chapter 10 of the Listing Rules, to be classified at the date of this Agreement and the CH Target Asset Agreement.



2.2 Subject to clause 2.12, GSK shall use reasonable endeavours to:

- (A) publish (or procure the publishing of) the GSK Class 1 Circular (together with the relevant forms of proxy) in accordance with (as to both issuance and content) applicable law and regulation;
- (B) following the publication of the GSK Class 1 Circular and without prejudice to the other provisions of this clause 2.2 and clauses 2.3, 2.4 and 2.5, publish (or procure the publishing of) any supplementary circular to the GSK Class 1 Circular (or any other amended, supplemental or supplemented material, document, announcement or notice to, or following the publishing of, the GSK Class 1 Circular) as is required to be published by GSK in connection with the Transaction and/or the Put Option Agreement under and in accordance with the Listing Rules or other applicable law or regulation (and, for the avoidance of doubt, unless so required by the Listing Rules or other applicable law or regulation, GSK shall not, subject always to clause 2.12, seek to revise, alter, supplement or modify the GSK Class 1 Circular following its initial publication without Novartis's written consent (such consent not to be unreasonably withheld or delayed)); and
- (C) fulfil (or procure the fulfilment of) the GSK Shareholder Approval Condition, in each case, as soon as reasonably practicable having regard to the Key Objectives.

2.3 Subject to clause 2.12, GSK shall:

- (A) prior to the GSK Shareholder Meeting and subject to applicable law and regulation, keep Novartis informed, on a regular basis, of the number of proxy votes received in respect of the GSK Shareholder Resolution;
- (B) in accordance with applicable law and regulation and the GSK Articles of Association, (i) hold (subject to any adjournment (any such adjournment being subject to the provisions of clause 2.3(F)) such GSK Shareholder Meeting at the time and date specified in the GSK Class 1 Circular, and (ii) propose and hold a vote upon the GSK Shareholder Resolution (such resolution(s) to be voted on by way of a poll) on such date;
- (C) not amend the GSK Shareholder Resolution other than with the prior written consent of Novartis (not to be unreasonably withheld);
- (D) permit a reasonable number of Novartis's advisers and representatives to attend the GSK Shareholder Meeting;
- (E) not propose any resolution that would result in the revocation or invalidity of the GSK Shareholder Resolution such that the Transaction cannot be implemented in accordance with its terms; and



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- (F) not adjourn the GSK Shareholder Meeting (or the vote on the GSK Shareholder Resolution) from the time and date specified in the GSK Class 1 Circular without the prior written consent of Novartis (not to be unreasonably withheld or delayed) unless, in the view of the GSK Directors (acting in good faith): (i) such adjournment is required by applicable law or regulation, (ii) it is not reasonably practicable to seek such consent because the adjournment is on account of a force majeure event or an emergency adjournment; (iii) such adjournment is reasonably necessary for the proper conduct of, or proper consideration of any matter at, the GSK Shareholder Meeting; or (iii) the motion to adjourn is only moved at the GSK Shareholder Meeting by GSK Shareholders (other than the GSK Directors);
- (G) if the GSK Shareholder Meeting is adjourned to another day than that for which it was originally convened, procure that it shall be adjourned for as short a period as is reasonably practicable and permissible; and
- (H) shall not induce or encourage any shareholder to seek to adjourn the GSK Shareholder Meeting.

2.4 For the purposes of clause 2.2, the “**Key Objectives**” are the following:

- (A) that the GSK Class 1 Circular contains all information necessary for the GSK Shareholders to make a properly informed decision as to whether or not to pass the GSK Shareholder Resolution, taking account of all the constituent parts of the Transaction as well as the Put Option Agreement, the conditions to which each of them is subject, and the matters, circumstances or requirements relevant to any of them or to the satisfaction of such conditions;
- (B) that the process of fulfilling the GSK Shareholder Approval Condition, including, for the avoidance of doubt, the publication of the GSK Class 1 Circular, shall be conducted so as to minimise, to the greatest extent possible, the risk of a supplementary circular to the GSK Class 1 Circular (or any other amended, supplemental or supplemented material, document, announcement or notice to, or following the publishing of, the GSK Class 1 Circular) being required to be published by GSK under the Listing Rules or otherwise; and
- (C) that the process of satisfying the GSK Shareholder Approval Condition shall be conducted so as to avoid, to the greatest extent possible, any prospect of more than one resolution of the GSK Shareholders being required by virtue of Listing Rule 10.5.2 or otherwise in connection with the Transaction and the Put Option Agreement.



- 2.5 The Key Objectives shall be solely for the GSK Directors to assess and deliver, acting in good faith after consultation with outside counsel and the GSK Sponsor. As at the date of this Agreement, and subject to Novartis's compliance with clause 2.8 and Schedule 2, GSK's good faith expectation is that the Key Objectives are likely to be satisfied (and that it would therefore be in a position to publish or procure the publishing of the GSK Class 1 Circular) once either:
- (A) all matters, facts and circumstances that potentially materially affect (i) the Transaction, any or all of its constituent parts, the Put Option Agreement and/or any or all of the conditions to which any of the foregoing is subject, or (ii) the matters, circumstances or requirements relevant to the Transaction, any of its constituent parts, the Put Option Agreement and/or to the satisfaction of such conditions have, in each case, been finalised (including, without limitation, conditions relating to competition and anti-trust matters); or
  - (B) to the extent that any such matters, facts and/or circumstances referred to in clause 2.5(A) have not been finalised, any remaining uncertainty in respect of them is not material, and such remaining uncertainty and the range of possible outcomes in relation to such matters, facts and/or circumstances are capable of full and fair disclosure in the GSK Class 1 Circular in a way that meets the Key Objectives,
- and, without prejudice to the generality of clauses 2.6 and 2.9, GSK shall keep Novartis informed and consult with Novartis in relation to its assessment of the matters specified in (A) and (B) above.
- 2.6 GSK shall keep Novartis informed on an on-going basis of anticipated timings in relation to the publishing of the GSK Class 1 Circular and of the satisfaction of the GSK Shareholder Approval Condition.
- 2.7 GSK shall take all reasonable steps as are required in connection with the preparation and approval by the UKLA of the GSK Class 1 Circular, with a view to having a near finalised draft of the GSK Class 1 Circular (subject to any such amendments as may be required to satisfy the Key Objectives and/or to reflect any updates, developments or changes in relation to the Transaction, any or all of its constituent parts, the Put Option Agreement or any other matter) as soon as reasonably practicable following the date of this Agreement. GSK's current indicative timetable in connection with the preparation and approval by the UKLA of the GSK Class 1 Circular is set out in Schedule 1.
- 2.8 Novartis shall use reasonable endeavours to provide, either itself or through its Representatives, to GSK and/or its Representatives (having regard to the indicative timetable in connection with the preparation and approval by the UKLA of the GSK Class 1 Circular as set out in Schedule 1) all such information, documentation, co-operation and assistance as GSK and/or any other member of its Group and/or any of its and/or their Representatives may reasonably request in connection with:
- (A) the preparation, approval by the UKLA and/or publishing of the GSK Class 1 Circular;
  - (B) the preparation, approval by the UKLA and/or publishing of any supplementary circular to the GSK Class 1 Circular (or any other amended, supplemental or supplemented material, document, announcement or notice to, or following the publication of, the GSK Class 1 Circular) required to be published by GSK in connection with the Transaction and/or the Put Option Agreement under and in accordance with the Listing Rules or otherwise;



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- (C) any preparation, approval by the UKLA and/or publishing of any ancillary documents to those set out in clauses 2.8(A) and 2.8(B), including, for the avoidance of doubt, any form of proxy in connection with the GSK Shareholder Resolution;
- (D) the convening of the GSK Shareholder Meeting for the purposes of passing the GSK Shareholder Resolution; and
- (E) any other matter in connection with the satisfaction of the GSK Shareholder Approval Condition,

which information, documentation, co-operation and assistance shall include those matters set out in Schedule 2. Novartis further agrees that: (i) any information or documentation provided by it and/or any other member of its Group and/or any of its and/or their Representatives on its behalf pursuant to this clause 2.8 and/or Schedule 2 shall be prepared in good faith and shall not be misleading in any material respect at the time of supply; and (ii) prior to publication of the GSK Class 1 Circular it will (reasonably promptly upon request by GSK) confirm to GSK whether any information or documentation within (i) continues not to be misleading in any material respect.

2.9 GSK shall and/or shall procure that its relevant professional advisers shall:

- (A) prior to first submitting a draft of the GSK Class 1 Circular to the UKLA and prior to publishing the GSK Class 1 Circular:
  - (i) give Novartis and its advisers a reasonable opportunity to review such GSK Class 1 Circular (or draft thereof); and
  - (ii) give reasonable consideration (acting in good faith) to all comments proposed by Novartis and its advisers in relation to the same within the timeframe specified, acting reasonably, by GSK and/or its professional advisers; and
- (B) prior to publishing any supplementary circular to the GSK Class 1 Circular (and/or any other draft amended, supplemental and/or supplemented material, document, announcement and/or notice thereto or following the publication thereof), to the extent reasonably practicable:
  - (i) give Novartis and its advisers a reasonable opportunity to review the same; and
  - (ii) give reasonable consideration (acting in good faith) to all comments proposed by Novartis and its advisers in relation to the same within the timeframe specified, acting reasonably, by GSK and/or its professional advisers.

2.10 GSK shall provide Novartis and its advisers with any material written comments that GSK or its advisers may receive from time to time from the UKLA or its staff with respect to information contained in the GSK Class 1 Circular (or any ancillary or supplemental



document thereto and/or any draft thereof) that (i) relates to or impacts upon the Transaction (or the timing thereof) or (ii) is information on or from Novartis and its Group. GSK shall promptly consult with Novartis and its advisers prior to responding to any such comments and shall provide Novartis with copies of all written responses to such comments (or if oral responses, reasonable summaries thereof). GSK and Novartis shall each use all reasonable endeavours to resolve, and each party agrees to consult and cooperate with the other party in resolving, all such comments as promptly as practicable after receipt thereof.

- 2.11 GSK confirms that its board of directors has by way of unanimous board resolution determined that this Agreement, the Transaction and the Put Option Agreement are in the best interests of GSK and the GSK Shareholders as a whole. Subject to clause 2.12, GSK shall procure that:
- (A) the GSK Transaction Announcement shall include a statement of the GSK Directors' intention to unanimously recommend that the GSK Shareholders vote in favour of the GSK Shareholder Resolution at the GSK Shareholder Meeting when convened (the "**GSK Recommendation**");
  - (B) the GSK Directors shall give the GSK Recommendation in the GSK Class 1 Circular;
  - (C) subject to clause 2.13, the GSK Directors shall not adversely change, withdraw or qualify the GSK Recommendation (or, prior to publication of the GSK Class 1 Circular, their intention to provide such recommendation); and
  - (D) the GSK Class 1 Circular shall contain a statement that the GSK Directors intend, in respect of any personal shareholding in GSK that any such director may have at the time of the vote on the GSK Shareholder Resolution, to vote in accordance with the GSK Recommendation.

In the event that the GSK Directors shall at any time be minded to adversely change, withdraw or qualify the GSK Recommendation (or, prior to publication of the GSK Class 1 Circular, their intention to provide such recommendation), GSK shall promptly notify Novartis of the same and, in reasonable detail, of the facts, matters and circumstances underlying the same.

- 2.12 The obligations of GSK set out in clauses 2.2, 2.3 and 2.11(A) to 2.11(D) (inclusive) are subject to the fiduciary duties (and any other duty to provide advice or recommendation to the GSK Shareholders) from time to time of the GSK Directors (as determined in good faith by the GSK Directors after consultation with external counsel).
- 2.13 For the purposes of clause 2.11(C) and clause 5.1(A)(iii), the GSK Directors shall be deemed not to have adversely changed, withdrawn or qualified:
- (A) the GSK Recommendation if, following the publishing of the GSK Class 1 Circular, GSK is required to produce a supplementary circular thereto (and/or any other amended, supplemental and/or supplemented material, document, announcement and/or notice thereto or following the publishing thereof); or
  - (B) their intention to provide the GSK Recommendation if, prior to publishing of the GSK Class 1 Circular, GSK is required to make or issue any further announcement, statement or notice in relation to the Transaction and/or the Put Option Agreement,



provided that in any such supplementary circular (or such amended, supplemental or supplemented material, document, announcement or notice thereto or following the publishing thereof) or, as the case may be, announcement, statement or notice, the GSK Directors re-affirm the GSK Recommendation or, as the case may be, their intention to provide the GSK Recommendation, in any such case, based on the matters, facts and circumstances as set out in any public announcements, statements or notices that have been and/or are made or given or in any documents that have been and/or are published, in any such case, by GSK in connection with the Transaction and/or the Put Option Agreement.

### 3. NOVARTIS BOARD RECOMMENDATION

- 3.1 The sale and purchase under each of the Target Asset Agreements and any sale and purchase under the Put Option Agreement shall be conditional upon Novartis not delivering, in accordance with this clause 3, an Novartis Board Certificate prior to the conclusion of the vote on the GSK Shareholder Resolution at the GSK Shareholder Meeting.
- 3.2 The Novartis Board has, at its board meeting on or around the date hereof, passed a unanimous resolution that the Transaction is in the best interests of Novartis and Novartis Shareholders as a whole (the “**Novartis Approval**”). Novartis shall procure that the Novartis Transaction Announcement shall include a statement of the Novartis Approval.
- 3.3 Subject to clause 3.5, the Novartis Board shall not adversely change, withdraw or qualify the Novartis Approval prior to the vote on the GSK Shareholder Resolution at the GSK Shareholder Meeting.
- 3.4 In the event that the Novartis Board shall at any time prior to the vote on the GSK Shareholder Resolution at the GSK Shareholder Meeting be minded to adversely change, withdraw or qualify the Novartis Approval, Novartis shall promptly notify GSK of the same and, in reasonable detail, of the facts, matters and circumstances underlying the same.
- 3.5 The Novartis Board shall be entitled to adversely change, withdraw or qualify the Novartis Approval in the event that the Novartis Board determines (acting in good faith after consultation with external counsel and having taken advice from an independent financial adviser) that, based on the notional assumptions that:
- (A) Novartis is incorporated in England;
  - (B) Novartis is the subject of a premium listing in the United Kingdom under the Listing Rules;
  - (C) Novartis is not the subject of a listing or registration in any other jurisdiction; and
  - (D) the transactions specified in clause 3.1 above constitute a class 1 transaction for the purposes of the Listing Rules and, as such, require approval of Novartis Shareholders,



they would advise Novartis Shareholders to vote against a shareholder resolution approving the transactions specified in clause 3.1 above.

- 3.6 In the event that, in circumstances entitling them to do so under clause 3.5, the Novartis Board adversely changes, withdraws or qualifies the Novartis Approval at any time prior to the vote on the GSK Shareholder Resolution at the GSK Shareholder Meeting, Novartis may, by no later than the earlier of (i) the vote on the GSK Shareholder Resolution at the GSK Shareholder Meeting and (ii) the close of business on the first Business Day after such change, withdrawal or qualification, deliver a certificate to GSK in the form set out in Schedule 3 of the Agreement (the “**Novartis Board Certificate**”) and any such certificate shall:
- (A) be accompanied by the form of announcement to be made by Novartis under clause 3.7; and
  - (B) include confirmation that the Novartis Board has received independent financial advice from a named adviser prior to reaching its conclusion.
- 3.7 In the event that Novartis delivers an Novartis Board Certificate pursuant to clause 3.6, it shall contemporaneously make an ad-hoc announcement (in accordance with applicable listing rules, regulatory requirements and Novartis’s own ad hoc publication practice) which includes:
- (A) a statement that the Novartis Board has concluded that the Transaction is no longer in the best interests of Novartis and Novartis Shareholders as a whole; and
  - (B) a reasonable statement of the reasons for the change, withdrawal or qualification of the Novartis Approval (with the reasonableness of such statement being judged by reference to Novartis’s own ad hoc publication practice).

#### 4. EXCLUSIVITY

- 4.1 Each of GSK and Novartis agree that they shall not (and shall procure that no other member of its respective Group shall), between (i) the date of this Agreement, and (ii) Completion or, as the case may be, termination of the Target Asset Agreements (inclusive) (the “**Exclusivity Period**”):
- (A) enter into any agreement, form any understanding or arrangement, or enter into, participate in or continue any discussions or process with any third party:
    - (i) to dispose of or otherwise transfer (whether in a single transaction or a series of transactions and whether by share and/or asset sale or otherwise) all of, a material part of, or material rights in respect of or referable to:
      - (a) in the case of GSK, the assets being sold or contributed by GSK and/or members of its Group under the Oncology Target Asset Agreement and/or the CH Target Asset Agreement (the “**GSK Exclusive Assets**”); and
      - (b) in the case of Novartis, the assets being sold or contributed by Novartis and/or members of its Group under the Vaccines Target Asset Agreement and/or the CH Target Assets Agreement (the “**Novartis Exclusive Assets**”); or
    - (ii) in relation to a transaction which would or might reasonably be expected to adversely affect the prospect of satisfying the Consumer Competition Condition, the Oncology Competition Condition or the Vaccines Competition Condition (other than to an extent which is de minimis),



any such actual or proposed disposal, transfer, acquisition or transaction being an “**Alternative Transaction**”;

- (B) supply or continue to supply any information or provide or continue to provide any due diligence facilities, materials or data room access relating to:
  - (i) in the case of GSK, the GSK Exclusive Assets; and
  - (ii) in the case of Novartis, the Novartis Exclusive Assets,to any third party in connection with an Alternative Transaction;
- (C) solicit or encourage any proposals or offers from any third party in relation to an Alternative Transaction; or
- (D) initiate, or communicate to any third party the initiation of, any formal or informal sale process (whether by auction or otherwise) in relation to an Alternative Transaction,

in each case, without the consent of the other party, provided that the provisions of this clause 4.1 shall not apply to (i) any disposal transaction being proposed in order to assist the satisfaction of any competition or anti-trust condition to any Target Asset Agreement, or (ii) any other assets of GSK’s Group or Novartis’s Group that would otherwise be caught by the provisions of this clause 4.1 as may be agreed by GSK and Novartis.

4.2 The restrictions contained in clause 4.1 shall not prohibit any transaction that has a wider strategic rationale for the relevant party than the Transaction and the principal purpose of which:

- (A) in the case of GSK, is not the acquisition (whether direct or indirect) by a third party or third parties of all or a material part of the GSK Exclusive Assets (or a material interest therein or material rights referable thereto) or another transaction having the same or equivalent effect; or
- (B) in the case of Novartis, is not the acquisition (whether direct or indirect) by a third party or third parties of all or a material part of the Novartis Exclusive Assets (or a material interest therein or material rights referable thereto) or another transaction having the same or equivalent effect,



and the provisions of clauses 4.3 and 4.4 shall not apply in relation thereto.

- 4.3 During the Exclusivity Period, each party shall notify the other party promptly (and, in any event, within two Business Days) in writing if it (and/or any other member of its respective Group and/or any of its and/or their respective Representatives) receives any proposal or offer from any third party in relation to an Alternative Transaction which is restricted under clause 4.1, such notification to include (to the extent not prohibited by applicable law or regulation, but provided that no party shall voluntarily assume any obligation of confidence in respect of the proposal or offer) the material terms of such Alternative Transaction, including, without limitation, details of the price, form of consideration, timetable, conditionality and the identity of all interested parties involved in such Alternative Transaction, to the extent the same are known.
- 4.4 Prior to responding to any proposal or offer from any third party as referred to in clause 4.3, the party that has received the proposal or offer shall discuss its response with the other party and, in any event, such response shall be limited to confirming the existence of the exclusivity and non-solicit measures set out in this Agreement (with such confirmation being in terms of the description in the GSK Transaction Announcement).
- 4.5 Each party warrants that any and all negotiations and supply or provision of information, due diligence facilities, materials and/or data room access between (i) it (and/or any other member of its respective Group and/or any of its and/or their respective Representatives), and (ii) any third party in connection with an Alternative Transaction which is restricted under clause 4.1 (or which would be so restricted but for clause 4.2) have been discontinued.

#### *Dispute Resolution Mechanism*

- 4.6 If during the Exclusivity Period, either party is uncertain as to the application of clause 4.1(A)(ii) and whether any proposed transaction or arrangement would constitute an Alternative Transaction (a "**Possible Alternative Transaction**"), such party (the "**Notifying Party**") may notify the other party (the "**Notified Party**") in writing that it wishes to convene a meeting of the parties' respective Clean Team Members to discuss such Possible Alternative Transaction (a "**Clean Team Notice**") and the parties shall procure that a meeting of the Clean Team Members is convened within 3 Business Days of the receipt of the Clean Team Notice by the Notified Party.
- 4.7 No later than 2 Business Days prior to the meeting convened pursuant to clause 4.6 (the "**Clean Team Meeting**"), the Notifying Party shall provide a written summary of the Possible Alternative Transaction to the other party's Clean Team Members (or such Clean Team Members as are confirmed to be attending the relevant Clean Team Meeting), such notification to include the material terms of the Possible Alternative Transaction, including, without limitation, details of the price, form of consideration, timetable, conditionality and the identity of all interested parties involved in any such Possible Alternative Transaction, to the extent the same are known.



- 4.8 Each party shall procure that their respective Clean Team Members (or a minimum of at least two of their Clean Team Members) attend the Clean Team Meeting and use reasonable endeavours to resolve whether any notified Possible Alternative Transaction is a restricted Alternative Transaction for the purposes of clause 4.1(A)(ii) (acting reasonably and in good faith). Each party shall comply with and shall procure that their respective Clean Team Members comply with the confidentiality and conduct provisions set out in Part B of Schedule 4.
- 4.9 If the parties' respective Clean Team Members agree that a Possible Alternative Transaction is or is not an Alternative Transaction, such determination shall be recorded in writing and signed by a Clean Team Member on behalf of each party. Such determination shall, in the absence of manifest error, fraud or breach of the Notifying Party's disclosure obligations in clause 4.7), be final and binding on the parties and, without prejudice to any other rights which they may respectively have under this Agreement, the parties expressly waive, to the extent permitted by law, any rights of recourse they may otherwise have to challenge it.
- 4.10 If the parties' respective Clean Team Members do not reach agreement at the Clean Team Meeting or within 10 Business Days thereof, any remaining dispute with respect to the application of clause 4.1(A)(ii) may be referred (on the application of either party) for determination by such independent law firm of international standing with extensive experience in the competition and merger control aspects of international transactions as the parties shall agree or, failing agreement, such firm as is appointed on application by either party by the President of the Law Society of England and Wales from time to time (the "**Firm**"). The Firm shall be requested to make its decision within 30 Business Days of confirmation and acknowledgement by the Firm of its appointment (or such later date as the parties and the Firm agree in writing). The following provisions shall apply once the Firm has been appointed:
- (A) the parties shall each prepare a written statement within 7 days of the Firm's appointment on the matters in dispute which (together with the relevant supporting documents) shall be submitted to the Firm for determination and copied at the same time to the other;
  - (B) following delivery of their respective submissions, the parties shall each have the opportunity to comment once only on the other's submission by written comment delivered to the Firm not later than 7 days after receipt of the other's submission and, thereafter, neither party shall be entitled to make further statements or submissions except insofar as the Firm so requests (in which case it shall, on each occasion, give the other party (unless otherwise directed) 5 days to respond to any statements or submission so made);
  - (C) in giving its determination, the Firm shall state the reasons for its determination; and
  - (D) the Firm shall act as an expert (and not as an arbitrator) in making its determination which shall, in the absence of manifest error or fraud, be final and binding on the parties and, without prejudice to any other rights which they may respectively have under this Agreement, the parties expressly waive, to the extent permitted by law, any rights of recourse they may otherwise have to challenge it.



4.11 The parties shall each be responsible for their own costs in connection with the review and agreement or determination of the Possible Alternative Transaction. The fees and expenses of the Firm shall be borne equally between the parties or in such other proportions as the Firm shall determine.

**5. BREAK FEES**

*Break fee payable by GSK to Novartis*

5.1 Subject to clause 5.16 (and, where applicable, clauses 5.2, 5.3, 5.5 and 5.6), GSK shall pay to Novartis by way of compensation the GSK Break Fee if:

(A) in relation to the GSK Shareholder Approval Condition any of the following occur:

- (i) as at 5 p.m. on the Longstop Date, no vote has been held on the GSK Shareholder Resolution at a GSK Shareholder Meeting (except where such vote is not able to held on the GSK Shareholder Resolution at a GSK Shareholder Meeting by 5pm on the Longstop Date because Novartis has failed to provide information, documentation, co-operation or assistance that it is required to provide under paragraph (A) or (B) of Schedule 2 or as otherwise may be required (in respect of Novartis) by reason of applicable law or regulation (or by any regulator) and such failure has caused GSK to be unable (despite its reasonable efforts to otherwise obtain or generate any required information or documentation) to obtain UKLA approval and post the GSK Shareholder Circular in time to enable such vote to take place prior to 5 p.m. on the Longstop Date;);
- (ii) with a vote having been held on the GSK Shareholder Resolution, such resolution is not passed by the GSK Shareholders at the GSK Shareholder Meeting (or any adjournment thereof); or
- (iii) subject to clause 2.13, the GSK Directors adversely change, withdraw or qualify the GSK Recommendation (or, prior to publication of the GSK Class 1 Circular, their intention to provide such recommendation) and the GSK Shareholder Resolution is not then passed by the GSK Shareholders at the GSK Shareholder Meeting (or any adjournment thereof) within eight weeks of any such change, withdrawal or qualification; or

(B) in relation to the Vaccines Competition Condition:

- (i) the Vaccines Competition Condition has not been satisfied by the Longstop Date; and



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- (ii) either:
  - (a) the Vaccines Competition Condition would have been satisfied by the Longstop Date but for a Vaccines Antitrust Reason; or
  - (b) GSK has not complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the non-satisfaction of the Vaccines Competition Condition; and
- (iii) Novartis has complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the non-satisfaction of the Vaccines Competition Condition; or
- (C) in relation to the Consumer Competition Condition:
  - (i) the Consumer Competition Condition has not been satisfied by the Longstop Date; and
  - (ii) the Consumer Competition Condition would have been satisfied by the Longstop Date but for a Consumer Antitrust Reason; and
  - (iii) GSK has not complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the non-satisfaction of the Consumer Competition Condition; and
  - (iv) Novartis has complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the non-satisfaction of the Consumer Competition Condition; or
- (D) in relation to the Vaccines Target Asset Agreement:
  - (i) either GSK or Novartis has validly issued a notice to terminate the Vaccines Target Asset Agreement pursuant to clause 4.4.1(ii) thereof on the basis of a Vaccines Antitrust Judgment; and
  - (ii) either:
    - (a) that Vaccines Antitrust Judgment would not have been issued but for a Vaccines Antitrust Reason; or
    - (b) GSK has not complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the issuance of the Vaccines Antitrust Judgment; and
  - (iii) Novartis has complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to issuance of the Vaccines Antitrust Judgment; or
- (E) in relation to the CH Target Asset Agreement:
  - (i) either GSK or Novartis has validly issued a notice to terminate the CH Target Asset Agreement pursuant to clause 4.4.1(ii) thereof on the basis of a Consumer Antitrust Judgment; and



- (ii) that Consumer Antitrust Judgment would not have been issued but for a Consumer Antitrust Reason; and
- (iii) GSK has not complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the issuance of the Consumer Antitrust Judgment; and
- (iv) Novartis has complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the issuance of the Consumer Antitrust Judgment.

5.2 Subject to Clause 5.4, GSK shall not be required to pay the GSK Break Fee pursuant to clause 5.1(B) in circumstances where the Vaccines Competition Condition has not been satisfied by the Longstop Date:

- (A) because one or more Vaccines Competent Authorities requires a remedy that entails the approval of a specific third party purchaser prior to completion of GSK's acquisition of Novartis's vaccines-related assets; and
- (B) the actual or expected non-satisfaction of the Oncology Competition Condition or Consumer Competition Condition is a factor that materially contributes to no suitable third party purchaser being able and prepared to be put forward for approval by the relevant Vaccines Competent Authority.

5.3 Subject to Clause 5.4, GSK shall not be required to pay the GSK Break Fee pursuant to clause 5.1(B) in circumstances where the Vaccines Competition Condition has not been satisfied by the Longstop Date:

- (A) because one or more Vaccines Competent Authorities declines to issue a decision on the compatibility of GSK's acquisition of Novartis's vaccine-related assets with the relevant law; and
- (B) the actual or expected non-satisfaction of the Oncology Competition Condition or the Consumer Competition Condition is a factor that materially contributes to the relevant Vaccines Competent Authority declining to issue a decision.

5.4 Clause 5.2 and clause 5.3 shall not apply if GSK's failure to comply with its obligations under the Relevant Provisions and this Agreement materially contributes to the actual or expected non-satisfaction of the Oncology Competition Condition or Consumer Competition Condition.

5.5 Subject to Clause 5.7, GSK shall not be required to pay the GSK Break Fee pursuant to clause 5.1(C) in circumstances where the Consumer Competition Condition has not been satisfied by the Longstop Date:

- (A) because one or more Consumer Competent Authorities requires a remedy that entails the approval of a specific third party purchaser prior to completion of the transactions envisaged in the CH Target Asset Agreement; and
- (B) the actual or expected non-satisfaction of the Oncology Competition Condition is a factor that materially contributes to no suitable third party purchaser being able and prepared to be put forward for approval by the relevant Consumer Competent Authority.



- 5.6 Subject to Clause 5.7, GSK shall not be required to pay the GSK Break Fee pursuant to clause 5.1(C) in circumstances where the Consumer Competition Condition has not been satisfied by the Longstop Date:
  - (A) because one or more Consumer Competent Authorities declines to issue a decision on the compatibility of transactions envisaged in the CH Target Asset Agreement with the relevant law; and
  - (B) the actual or expected non-satisfaction of the Oncology Competition Condition is a factor that materially contributes to the relevant Consumer Competent Authority declining to issue a decision.
- 5.7 Clause 5.5 and clause 5.6 shall not apply if GSK's failure to comply with its obligations under the Relevant Provisions and this Agreement materially contributes to the actual or expected non-satisfaction of the Oncology Competition Condition.

*Break fee payable by Novartis to GSK*

- 5.8 Subject to clause 5.17 (and, where applicable, to clauses 5.9, 5.10, 5.12 and 5.13), Novartis shall pay to GSK by way of compensation the Novartis Break Fee if:
  - (A) in relation to the Oncology Competition Condition:
    - (i) the Oncology Competition Condition has not been satisfied by the Longstop Date; and
    - (ii) either:
      - (a) the Oncology Competition Condition would have been satisfied by the Longstop Date but for an Oncology Antitrust Reason; or
      - (b) Novartis has not complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the non-satisfaction of the Oncology Competition Condition; and
    - (iii) GSK has complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the non-satisfaction of the Oncology Competition Condition; or
  - (B) in relation to the Consumer Competition Condition:
    - (i) the Consumer Competition Condition has not been satisfied by the Longstop Date; and
    - (ii) the Consumer Competition Condition would have been satisfied by the Longstop Date but for a Consumer Antitrust Reason; and
    - (iii) Novartis has not complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the non-satisfaction of the Consumer Competition Condition; and
    - (iv) GSK has complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the non-satisfaction of the Consumer Competition Condition; or



(C) in relation to the Oncology Target Asset Agreement:

- (i) either GSK or Novartis has validly issued a notice to terminate the Oncology Target Asset Agreement pursuant to clause 4.4.1(ii) thereof on the basis of an Oncology Antitrust Judgment; and
- (ii) either:
  - (a) that Oncology Antitrust Judgment would not have been issued but for an Oncology Antitrust Reason; or
  - (b) Novartis has not complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the issuance of the Oncology Antitrust Judgment; and
- (iii) GSK has complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to issuance of the Oncology Antitrust Judgment; or

(D) in relation to the CH Target Asset Agreement:

- (i) either GSK or Novartis has validly issued a notice to terminate the CH Target Asset Agreement pursuant to clause 4.4.1(ii) thereof on the basis of a Consumer Antitrust Judgment; and
- (ii) that Consumer Antitrust Judgment would not have been issued but for a Consumer Antitrust Reason; and
- (iii) Novartis has not complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to the non-satisfaction of the Consumer Competition Condition; and
- (iv) GSK has complied with its obligations under the Relevant Provisions and this Agreement, other than in any respect which is immaterial in its contribution to issuance of the Consumer Antitrust Judgment; or

(E) an Novartis Board Certificate is delivered to GSK.

5.9 Subject to clause 5.11, Novartis shall not be required to pay the Novartis Break Fee pursuant to clause 5.8(A) in circumstances where the Oncology Competition Condition has not been satisfied by the Longstop Date:

- (A) because one or more Oncology Competent Authorities requires a remedy that entails the approval of a specific third party purchaser prior to completion of Novartis's acquisition of GSK's oncology-related assets; and
- (B) the actual or expected non-satisfaction of the Vaccines Competition Condition or Consumer Competition Condition is a factor that materially contributes to no suitable third party purchaser being able and prepared to be put forward for approval by the relevant Oncology Competent Authority.



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- 5.10 Subject to clause 5.11, Novartis shall not be required to pay the Novartis Break Fee pursuant to clause 5.8(A) in circumstances where the Oncology Competition Condition has not been satisfied by the Longstop Date:
- (A) because one or more Oncology Competent Authorities declines to issue a decision on the compatibility of GSK's acquisition of Novartis's oncology-related assets with the relevant law; and
  - (B) the actual or expected non-satisfaction of the Vaccines Competition Condition or Consumer Competition Condition is a factor that materially contributes to the relevant Oncology Competent Authority declining to issue a decision.
- 5.11 Clause 5.9 and clause 5.10 shall not apply if Novartis's failure to comply with its obligations under the Relevant Provisions and this Agreement materially contributes to the actual or expected non-satisfaction of the Vaccines Competition Condition or the Consumer Competition Condition.
- 5.12 Subject to clause 5.14, Novartis shall not be required to pay the Novartis Break Fee pursuant to clause 5.8(B) in circumstances where the Consumer Competition Condition has not been satisfied by the Longstop Date:
- (A) because one or more Consumer Competent Authorities requires a remedy that entails the approval of a specific third party purchaser prior to completion of the transactions envisaged in the CH Target Asset Agreement; and
  - (B) the actual or expected non-satisfaction of the Vaccines Competition Condition is a factor that materially contributes to no suitable third party purchaser being able and prepared to be put forward for approval by the relevant Consumer Competent Authority.
- 5.13 Subject to clause 5.14, Novartis shall not be required to pay the Novartis Break Fee pursuant to clause 5.8(B) in circumstances where the Consumer Competition Condition has not been satisfied by the Longstop Date:
- (A) because one or more Consumer Competent Authorities declines to issue a decision on the compatibility of transactions envisaged in the CH Target Asset Agreement with the relevant law; and
  - (B) the actual or expected non-satisfaction of the Vaccines Competition Condition is a factor that materially contributes to the relevant Consumer Competent Authority declining to issue a decision.
- 5.14 Clause 5.12 and clause 5.13 shall not apply if Novartis's failure to comply with its obligations under the Relevant Provisions and this Agreement materially contributes to the actual or expected non-satisfaction of the Vaccines Competition Condition.



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*Expert determination*

5.15 In the event of any dispute between the parties as regards whether:

- (A) for the purposes of clause 5.1(B)(ii)(a), the Vaccines Competition Condition would have been satisfied by the Longstop Date but for a Vaccines Antitrust Reason;
- (B) for the purposes of clause 5.1(C)(ii), the Consumer Competition Condition would have been satisfied by the Longstop Date but for a Consumer Antitrust Reason;
- (C) for the purposes of clause 5.1(D)(ii)(a), a Vaccines Antitrust Judgment would not have been issued but for a Vaccines Antitrust Reason;
- (D) for the purposes of clause 5.1(E)(ii), a Consumer Antitrust Judgment would not have been issued but for a Consumer Antitrust Reason;
- (E) for the purposes of clause 5.3, one or more Vaccines Competent Authorities has declined to issue a decision on the compatibility of GSK’s acquisition of Novartis’s vaccine-related assets with the relevant law and, if so, whether the actual or expected non-satisfaction of the Oncology Competition Condition or the Consumer Competition Condition was a factor that materially contributed to the relevant Vaccines Competent Authority declining to issue a decision;
- (F) for the purposes of clause 5.6, one or more Consumer Competent Authorities has declined to issue a decision on the compatibility of transactions envisaged in the CH Target Asset Agreement with the relevant law and, if so, whether the actual or expected non-satisfaction of the Oncology Competition Condition was a factor that materially contributed to the relevant Consumer Competent Authority declining to issue a decision;
- (G) for the purposes of clause 5.8(A)(ii)(a), the Oncology Competition Condition would have been satisfied by the Longstop Date but for an Oncology Antitrust Reason;
- (H) for the purposes of clause 5.8(B)(ii), the Consumer Competition Condition would have been satisfied by the Longstop Date but for a Consumer Antitrust Reason;
- (I) for the purposes of clause 5.8(C)(ii)(a), an Oncology Antitrust Judgment would not have been issued but for an Oncology Antitrust Reason;
- (J) for the purposes of clause 5.8(D)(ii), a Consumer Antitrust Judgment would not have been issued but for a Consumer Antitrust Reason;
- (K) for the purposes of clause 5.10, one or more Oncology Competent Authorities has declined to issue a decision on the compatibility of Novartis’s acquisition of GSK’s vaccine-related assets with the relevant law and, if so, whether the actual or expected non-satisfaction of the Vaccines Competition Condition or the Consumer Competition Condition was a factor that materially contributed to the relevant Oncology Competent Authority declining to issue a decision; or
- (L) for the purposes of clause 5.13, one or more Consumer Competent Authorities has declined to issue a decision on the compatibility of transactions envisaged in the CH Target Asset Agreement with the relevant law and, if so, whether the actual or expected non-satisfaction of the Vaccines Competition Condition was a factor that materially contributed to the relevant Consumer Competent Authority declining to issue a decision,



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the matter shall be referred to an expert appointed in accordance with the procedure under clause 4.10 (the “**Expert**”). The Expert shall be requested to make its decision within 25 Business Days of confirmation and acknowledgement by the Expert of its appointment (or such later date as the parties and the Expert agree in writing). The following provisions shall apply once the Expert has been appointed:

- (i) the parties shall each prepare a written statement within 14 days of the Expert’s appointment on the matters in dispute which (together with the relevant supporting documents) shall be submitted to the Expert for determination and copied at the same time to the other;
- (ii) following delivery of their respective submissions, the parties shall each have the opportunity to comment once only on the other’s submission by written comment delivered to the Expert not later than 7 days after receipt of the other’s submission and, thereafter, neither party shall be entitled to make further statements or submissions except insofar as the Expert so requests (in which case it shall, on each occasion, give the other party (unless otherwise directed) 5 days to respond to any statements or submission so made);
- (iii) in giving its determination, the Expert shall state the reasons for its determination;
- (iv) the Expert shall act as an expert (and not as an arbitrator) in making its determination which shall, in the absence of manifest error or fraud, be final and binding on the parties and, without prejudice to any other rights which they may respectively have under this Agreement, the parties expressly waive, to the extent permitted by law, any rights of recourse they may otherwise have to challenge it; and
- (v) the parties shall each be responsible for their own costs in connection with the above Expert determination process. The fees and expenses of the Expert shall be borne equally between the parties or in such other proportions as the Expert shall determine.

*Miscellaneous*

5.16 For the avoidance of doubt, in no event or circumstance shall GSK be required to make a payment pursuant to:

- (A) more than one of clauses 5.1(A), (B), (C), (D) and (E) and, accordingly, subject to clause 5.16(B), the maximum amount payable by GSK pursuant to clause 5.1 shall not in any event exceed the GSK Break Fee; or
- (B) (i) clause 5.1(A), (B), (C), (D) or (E), and (ii) clause 5.21 and 5.22 (in each case, if applicable), which equals more than the maximum amount permitted under the Listing Rules.

5.17 For the avoidance of doubt, in no event or circumstance shall Novartis be required to make a payment pursuant to:

- (A) more than one of clauses 5.8(A), (B), (C), (D) and (E) and, accordingly, subject to clause 5.17(B), the maximum amount payable by Novartis pursuant to clause 5.8 shall not in any event exceed the Novartis Break Fee; or
- (B) (i) clause 5.8(A), (B), (C), (D) or (E) and (ii) clauses 5.21 and 5.22 (in each case, if applicable), which equals more than an amount equal to the limit set by clause 5.16(B) in respect of GSK.



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5.18 In the event that both:

- (A) the GSK Break Fee; and
- (B) the Novartis Break Fee,

become payable pursuant to clause 5.1 and clause 5.8, respectively, the sums payable shall be set-off against one another, resulting in no payment being made by GSK to Novartis or *vice versa*.

5.19 In the event that only the GSK Break Fee or the Novartis Break Fee becomes payable, GSK shall pay the GSK Break Fee or Novartis shall pay the Novartis Break Fee (as the case may be) within five Business Days of the circumstances set out in clause 5.1 or clause 5.8, respectively, occurring.

5.20 Any payment to be made pursuant to clause 5.19 shall be made in immediately available funds (and without any deduction or withholding, save as required by law) to the bank account notified to the party paying the break fee (the “**Payer**”) by the party receiving the break fee (the “**Payee**”).

5.21 If any deduction or withholding is required by law to be made from any payment required to be made pursuant to clause 5.19 then the Payer shall be obliged to pay to the Payee such sum as will, after the deduction or withholding has been made, leave the Payee with the same amount as it would have been entitled to receive in the absence of any such requirement to make a deduction or withholding. If the Payer thus makes an increased payment and the Payee, in respect of the Tax that gave rise to such increased payment, receives and utilises a loss, relief, allowance or credit in respect of any Tax or any deduction in computing its income, profits or gains for the purposes of any Tax, the Payee shall reimburse the Payer such amount as shall leave the Payee in the same position as the Payee would have been in had no such deduction or withholding been required to be made.

5.22 The parties anticipate that any payment to be made pursuant to clause 5.19 would not be treated as the consideration for a taxable supply for VAT purposes. If any Tax Authority determines that any such payment (the “**Relevant Payment**”) is the consideration for a taxable supply then the Relevant Payment shall be inclusive of any amounts in respect of VAT but shall be subject to adjustment on the following basis:

- (A) if the Payer (or the representative member of its VAT group) is liable to account for VAT under a reverse charge mechanism, to the extent that the Payer (or such representative member) is not entitled to recover such VAT from the relevant Tax Authority, the Relevant Payment shall be reduced such that the aggregate of the reduced payment and any irrecoverable VAT in respect thereof equals the original amount of the Relevant Payment; and
- (B) if the Payee (or the representative member of its VAT group) is liable to account for VAT, the Payee shall issue a valid VAT invoice to the Payer and the amount of the Relevant Payment (inclusive of amounts in respect of VAT) shall be increased by the amount which the Payer (or the representative member of its VAT group) is entitled to recover as input tax in respect thereof.



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- 5.23 The parties agree that in the event that the GSK Break Fee becomes payable pursuant to clause 5.1, Novartis shall not have any other rights or remedies under, or in connection with, the Target Asset Agreements and the Put Option Agreement against GSK or any member of its Group (save in respect of any rights or provisions that are expressly preserved under any of the Target Asset Agreements or the Put Option Agreement).
- 5.24 The parties agree that in the event the Novartis Break Fee becomes payable pursuant to clause 5.8, GSK shall not have any other rights or remedies under, or in connection with, the Target Asset Agreements against Novartis or any member of its Group (save in respect of any rights or provisions that are expressly preserved under any of the Target Asset Agreements or the Put Option Agreement).

**6. TERMINATION**

6.1 This Agreement shall terminate:

- (A) if agreed in writing between the parties;
- (B) automatically if any Target Asset Agreement terminates or is terminated in accordance with its terms; or
- (C) automatically in the event that the GSK Break Fee and/or the Novartis Break Fee becomes payable under clause 5.1 or clause 5.8, respectively,

except for:

- (i) in all cases, clause 1 and clauses 9 to 24 (inclusive) and any rights and obligations that have accrued as a result of such termination or prior thereto;
- (ii) clauses 5.16 to 5.24 (inclusive) if this Agreement terminates in accordance with clause 6.1(C); and
- (iii) clause 5 in its entirety if this Agreement terminates at the Longstop Date in accordance with clause 6.1(B) in circumstances where the Vaccines Competition Condition, the Consumer Competition Condition and/or the Oncology Competition Condition is not satisfied as at the Longstop Date,

which shall survive such termination.

6.2 Any termination of this Agreement pursuant to this clause 6 shall be without prejudice to any accrued rights, obligations and liabilities of any party under this Agreement prior to such termination.



**7. INITIAL BUSINESS PLAN**

7.1 The parties agree that the initial business plan relating to the joint venture to be formed pursuant to the Shareholders' Agreement shall be agreed by the parties prior to Completion and shall:

- (A) cover the period from the Completion Date up to and including 31 December 2017; and
- (B) include at least the items listed in Schedule 1 (Business Plan) of the Shareholders' Agreement (on the basis provided therein).

Notwithstanding the foregoing, the parties agree that Novartis shall not have a veto right over any element of the initial business plan that would result in Novartis obtaining "control" of the joint venture for the purposes of the European Union Merger Regulation.

**8. STEERING COMMITTEE**

8.1 Each of the parties shall appoint:

- (A) a project sponsor (the "**Project Sponsor**") who shall be generally responsible for managing the overall performance of that party's obligations under this Agreement and each of the Wider Transaction Documents; and
  - (B) workstream leaders in respect of each of the regulatory, financial, commercial, distribution and clinical workstreams (each a "**Workstream Lead**") who shall be generally responsible for coordinating performance of the relevant party's obligations under this Agreement and the Wider Transaction Documents in respect of the relevant workstream,
- each Project Sponsor, and Workstream Lead, a "**Steering Committee Representative**".

8.2 It is envisaged that the Project Sponsors and Workstream Leads shall meet once per week or fortnight (or as otherwise agreed between them) as a committee (the "**Steering Committee**") in person, by telephone or teleconference to discuss progress towards Completion.

8.3 The Steering Committee shall be the primary forum through which the parties will work together to:

- (A) monitor the performance of each of the parties' respective obligations under this Agreement and the Wider Transaction Documents;
- (B) plan for the separation and integration aspects of the Transaction; and
- (C) resolve disputes under this Agreement and the Wider Transaction Documents.

8.4 Either party may substitute or replace any of its Steering Committee Representatives by written notice to the other party with a person it considers to be of equivalent business seniority. Each party shall promptly notify the other of any temporary or permanent change to the contact details of any of its Steering Committee Representatives.



- 8.5 Both parties will use reasonable endeavours to manage all issues relating to this Agreement and the Wider Transaction Documents. Any dispute or difference which arises between the parties shall, if not first resolved within ten (10) Business Days by the relevant Workstream Leads, be referred to the Steering Committee for determination.
- 8.6 If the Steering Committee is unable to resolve the matter within ten (10) Business Days, the dispute is to be referred to a senior executive (to be notified after the date hereof) of the Novartis Group (on the one hand) and a senior executive (to be notified after the date hereof) of the GSK Group (on the other hand) for resolution, who shall act in good faith to seek to resolve the dispute.

## 9. ANNOUNCEMENTS

- 9.1 Subject to clauses 9.2 and 9.3, no announcement (or other publication) concerning the Transaction and/or the Put Option Agreement shall be made by or on behalf of any party without the prior written consent of the other party.
- 9.2 Notwithstanding clause 9.1, any party may make an announcement concerning the Transaction and/or the Put Option Agreement if required by:

- (A) applicable law or regulation; or
- (B) any securities exchange or regulatory or governmental body or any Tax Authority to which that party is subject or submits, wherever situated, including (amongst other bodies) the Financial Conduct Authority, the London Stock Exchange plc, the Panel on Takeovers and Mergers, HMRC, the SIX Swiss Exchange, the Swiss Federal Tax Administration, the U.S. Securities and Exchange Commission or the New York Stock Exchange;
- (C) whether or not the requirement has the force of law.

Any announcement to be made pursuant to this clause 9.2 shall, to the extent reasonably practicable and legally permissible, be made only after notice to, and consultation with, the other party.

- 9.3 Following execution of this Agreement, GSK shall release the GSK Transaction Announcement and Novartis shall release the Novartis Transaction Announcement.
- 9.4 The restrictions contained in this clause 9 shall continue to apply without limit in time, unless otherwise agreed between the parties.

## 10. CONFIDENTIALITY

- 10.1 Each party shall, and shall procure that any other member of their respective Groups shall, treat as confidential all information obtained as a result of the negotiations and/or discussions regarding the Transaction and/or the Put Option Agreement and/or the



entering into and/or performance of the Wider Transaction Documents and/or the Put Option Agreement and/or the Shareholders' Agreement any agreements or documents thereunder, which relates to:

- (A) the provisions of the Wider Transaction Documents and/or the Put Option Agreement and/or the Shareholders' Agreement;
- (B) the negotiations relating to the Wider Transaction Documents and/or the Put Option Agreement and/or the Shareholders' Agreement;
- (C) the subject matter of the Wider Transaction Documents and/or the Put Option Agreement and/or the Shareholders' Agreement; or
- (D) the termination of any of the Wider Transaction Documents (and, for the avoidance of doubt, including any statement of facts, matters or circumstances underlying any notification of a prospective change of the Novartis Approval or the GSK Recommendation that is provided by GSK or Novartis, as the case may be, under clause 3.4 or 2.11);
- (E) any other party or any member of its Group and its or their business, rights and/or assets,

provided that,

- (i) with effect from Completion:
  - (a) the information relating to the business, affairs and operations within the scope of the transaction comprised in the Vaccines Target Asset Agreement shall be treated as confidential by Novartis and each other member of its Group and shall not be required to be kept confidential by GSK or any other member of its Group;
  - (b) the information relating to the business, affairs and operations within the scope of the transaction comprised in the Oncology Target Asset Agreement shall be treated as confidential by GSK and each other member of its Group and shall not be required to be kept confidential by Novartis or any other member of its Group; and
  - (c) the information relating to the business, affairs and operations within the scope of the transaction comprised in the contribution by Novartis under the CH Target Asset Agreement shall be treated as confidential by Novartis and each other member of its Group and shall not be required to be kept confidential by GSK or any other member of its Group (save as required under the provisions of the Shareholders' Agreement); and
- (ii) with effect from Option Completion (if any), the information relating to the business, affairs and operations within the scope of any transaction under the Put Option Agreement shall be treated as confidential by Novartis and each other member of its Group and shall not be required to be kept confidential by GSK or any other member of its Group.



10.2 Notwithstanding the other provisions of this clause 10, a party may disclose any such confidential information:

- (A) if and to the extent required by applicable law or regulation (including, for the avoidance of doubt, the listing rules) or for the purpose of any judicial or arbitral proceedings to which it is a party;
- (B) if and to the extent required by any securities exchange or regulatory or governmental body to which that party (or a member of its group for any Tax purpose) is subject or submits, wherever situated, including (amongst other bodies) the Financial Conduct Authority, the London Stock Exchange plc, the Panel on Takeovers and Mergers, HMRC, the SIX Swiss Exchange, the Swiss Federal Tax Administration, the U.S. Securities and Exchange Commission or the New York Stock Exchange, whether or not the requirement for disclosure of such information has the force of law;
- (C) to a Tax Authority in connection with the disclosing party's (or a member of its group's Tax affairs);
- (D) to any member of its respective Group and its and any member of its respective Group's Representatives, in each case, on a "need-to-know" basis and provided they have a duty (contractual or otherwise) to keep such information confidential;
- (E) to the extent the information is in or has come into the public domain through no fault of that party;
- (F) if and to the extent the other party has given prior written consent to the disclosure;
- (G) if and to the extent necessary to exercise its rights or perform its obligations under the Target Asset Agreements and/or the Put Option Agreement; or
- (H) if and to the extent required in connection with any regulatory consent or clearance process.

Any information to be disclosed pursuant to clause 10.2(A), clause 10.2(B) or clause 10.2(c) shall, to the extent reasonably practicable and legally permissible, be disclosed only after notice to and consultation with the other party.

10.3 The restrictions contained in this clause 10 shall continue to apply to each party without limit in time, unless otherwise agreed between the parties.



10.4 The parties agree that the confidentiality agreement dated 29 November 2013 between them shall be terminated with effect from the date of this Agreement, without any prejudice to any accrued rights and obligations under such confidentiality agreement prior to such termination.

**11. REMEDIES AND WAIVERS**

11.1 No delay or omission by any party to this Agreement in exercising any right, power or remedy provided by law or under this Agreement or any other documents referred to in it shall:

- (A) affect that right, power or remedy; or
- (B) operate as a waiver or variation of it.

11.2 The single or partial exercise of any right, power or remedy provided by law or under this Agreement shall not preclude any other or further exercise of it or the exercise of any other right, power or remedy.

11.3 The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

11.4 Notwithstanding any express remedies provided under this agreement and without prejudice to any other right or remedy which any party may have, the parties acknowledge and agree that damages alone may not be an adequate remedy for any breach of this Agreement. Accordingly, the parties may be entitled to the remedies of injunction, specific performance and other equitable relief for any threatened or actual breach of this Agreement. Furthermore, each party acknowledges and agrees that it will not raise any objection to the application by or on behalf of the other party or any other member of its respective Group for any such remedies.

**12. ASSIGNMENT**

No party shall without the prior written consent of the other:

- (A) assign, or purport to assign, all or any part of the benefit of, or its rights or benefits under, this Agreement (together with any causes of action arising in connection with any of them);
- (B) unless otherwise expressly set out in this Agreement, make a declaration of trust in respect of or enter into any arrangement whereby it agrees to hold in trust for any other person all or any part of the benefit of, or its rights or benefits under, this Agreement;
- (C) sub-contract or enter into any arrangement whereby another person is to perform any or all of its obligations under this Agreement;
- (D) transfer, charge or otherwise deal with any of its rights or obligations under this Agreement; or
- (E) grant, declare, create or dispose of any right or interest in it, in whole or in part,

and any purported assignment in contravention of this clause 12 shall be void.

**13. VARIATION**

13.1 No variation of this Agreement shall be valid unless it is in writing and duly executed by or on behalf of all the parties to it.

13.2 If this Agreement is varied:

- (A) the variation shall not constitute a general waiver of any provisions of this Agreement;
- (B) the variation shall not affect any rights, obligations or liabilities under this Agreement that have already accrued up to the date of variation; and
- (C) the rights and obligations of the parties under this Agreement shall remain in full force and effect, except as, and only to the extent that, they are so varied.

**14. FURTHER ASSURANCE**

14.1 Each party shall at its own cost, from time to time on request of the other party, now or at any time in the future, do or procure the doing of all acts and/or execute or procure the execution of all documents in a form satisfactory to such other party which such other party may reasonably consider necessary for giving full effect to this Agreement and securing to such other party the full benefit of the rights, powers and remedies conferred upon such other party under this Agreement.

14.2 Without prejudice to the generality of clause 14.1, each party agrees that it and the members of its Group shall use all reasonable endeavours to finalise full-form documentation in respect of the various term-sheets and other short-form arrangements referenced in the Wider Transaction Documents, the Put Option Agreement, the Shareholders' Agreement and documents thereunder (including, in the case of the Shareholders' Agreement, the principles governing the Shareholder Loan terms). In the event that full-form documentation is not finalised, the parties agree that the terms of the relevant term-sheet or other short-form arrangement or specified principles shall operate as and constitute binding agreements for the provision of the relevant service or the relevant matter.

14.3 Each of the parties shall use reasonable endeavours to procure that their respective external auditors cooperate prior to Completion to agree the necessary processes and reporting procedures in relation to CHJV, its subsidiaries and subsidiary undertakings (the "**CHJV Group**") that are required to ensure that Novartis's external auditors are able to meet their obligations in relation to the US Securities and Exchange Commission and Public Company Accounting Oversight Board auditing requirements. The parties shall procure, to the extent they are legally able, that CHJV takes reasonable steps from Completion to implement such agreed processes and reporting procedures and to provide Novartis's external auditors with reasonable access to CHJV's external auditors as is required to enable Novartis to finalise its annual reporting procedures.



14.4 Each of the parties shall use reasonable endeavours to procure that their respective external auditors cooperate (acting reasonably) prior to Completion to agree the necessary processes and procedures that are required to be undertaken by each of them in relation to the CHJV Group and the preparation of the information set out in Schedule 2 and other further information and comfort letters required in relation to the preparation of the GSK Class 1 Circular, in each case having regard to the indicative timetable in Schedule 1.

**15. WARRANTIES AND ENTIRE AGREEMENT**

15.1 GSK and Novartis each warrant to the other that:

- (A) it is validly existing and is a company duly incorporated and registered under the law of its jurisdiction of incorporation;
- (B) it has the legal right and full power and authority to enter into and perform this Agreement which will constitute valid and binding obligations on it in accordance with its terms;
- (C) except as referred to in this Agreement or any Target Asset Agreement, it
  - (i) is not required to make any announcement, consultation, notice, report or filing; and
  - (ii) does not require any consent, approval, registration, authorisation or permit,in each case in connection with the performance of this Agreement.

15.2 The parties agree that:

- (A) this Agreement, the Wider Transaction Documents and the Put Option Agreement, respectively, constitute the whole and only agreement between the parties relating to the respective subject matter of such agreements or documents;
- (B) each party acknowledges that in entering into this Agreement, the Wider Transaction Documents and/or the Put Option Agreement and/or any other agreement or document thereunder it is not relying upon any pre contractual statement which is not set out in such agreements or documents.
- (C) except in the case of fraud or fraudulent misrepresentation, each party acknowledges that in entering this Agreement, the Target Asset Agreements and the Put Option Agreement, it is not relying on any pre-contractual statement which is not set out in this Agreement, the Target Asset Agreements and the Put Option Agreement;



- (D) except in the case of fraud or fraudulent misrepresentation, no party shall have a right of action against any other party arising out of, or in connection with, any pre-contractual statement which is not set out in this Agreement, the Target Asset Agreements and the Put Option Agreement; and
- (E) this Agreement, the Target Asset Agreements and the Put Option Agreement may only be varied in writing signed by each of the parties.

15.3 For the purposes of this clause 15, “**pre-contractual statement**” means any draft, agreement, undertaking, representation, warranty, promise, assurance or arrangement of any nature whatsoever, whether or not in writing, relating to the subject matter of this Agreement, the relevant Target Asset Agreement or the Put Option Agreement (as the case may be) made or given by any person at any time prior to the date of this Agreement, the relevant Target Asset Agreement or the Put Option Agreement (as the case may be).

15.4 Notwithstanding any provision of this Agreement, the only conditions precedent to completion of each of the Target Asset Agreements shall be those set out in the relevant clause of each such agreement as well as the matters specified in clauses 2.1 and 3.1 of this Agreement.

**16. NOTICES**

16.1 A notice under this Agreement shall only be effective if it is in writing. E-mail is permitted.

16.2 Notices under this Agreement shall be sent to a party at its address and for the attention of the individual set out below:

<u>Party and title of individual</u>	<u>Address</u>	<u>E-mail address</u>
GSK	As stated above	As shall be notified
For the attention of: Company Secretary		
Novartis	As stated above	As shall be notified
For the attention of: Corporate Secretary		

provided that a party may change its notice details on giving notice to the other party of the change in accordance with this clause 16.2. That notice shall only be effective on the day falling five clear Business Days after the notification has been received or such later date as may be specified in the notice.

16.3 Any notice given under this Agreement shall be deemed to have been duly given as follows:

- (A) if delivered personally, on delivery;



- (B) if sent by first class inland post, two clear Business Days after the date of posting;
- (C) if sent by airmail, six clear Business Days after the date of posting; and
- (D) if sent by e-mail, when despatched.

- 16.4 Any notice given under this agreement outside Working Hours in the place to which it is addressed shall be deemed not to have been given until the start of the next period of Working Hours in such place.
- 16.5 No notice given under this agreement may be withdrawn or revoked except with the agreement of the other parties.
- 16.6 The provisions of this clause 16 shall not apply in relation to the service of Service Documents.

**17. COSTS AND EXPENSES**

Without prejudice to clause 5, each party shall bear their own costs and expenses in connection with the Transaction, this Agreement, the Target Asset Agreements, and the Put Option Agreement, including, for the avoidance of doubt and without limitation, the negotiation, entering into and completion of this Agreement, the Target Asset Agreements and the Put Option Agreement.

**18. INVALIDITY**

If at any time any provision (or part of any provision) of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, that shall not affect or impair:

- (A) the legality, validity or enforceability in that jurisdiction of any other (or the remainder of a) provision of this Agreement; or
- (B) the legality, validity or enforceability under the law of any other jurisdiction of that or any other provision of this Agreement.

**19. COUNTERPARTS**

- 19.1 This Agreement may be executed in any number of counterparts, and by the parties on separate counterparts, but shall not be effective until each party has executed at least one counterpart.
- 19.2 Each counterpart shall constitute an original of this Agreement, but all the counterparts shall together constitute but one and the same instrument.

**20. THIRD PARTY RIGHTS**

- 20.1 Certain provisions of this Agreement (such provisions, the “**Third Party Rights Provisions**”) confer a benefit on certain persons named therein who are not a party to this



Agreement (each, a “**Third Party Beneficiary**”) and, subject to the remaining provisions of this clause 20, are intended to be enforceable by the Third Party Beneficiary by virtue of the Contracts (Rights of Third Parties) Act 1999.

- 20.2 The parties do not intend that any term of this Agreement, save for the Third Party Rights Provisions, should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Agreement.
- 20.3 Notwithstanding the provisions of clause 20.1, this Agreement may be terminated or varied in any way and at any time by the agreement of the parties to this Agreement without the consent of any Third Party Beneficiary.

**21. GOVERNING LAW**

This Agreement is to be governed by, and construed in accordance with, English law. Any matter, claim or dispute arising out of, or in connection with, this Agreement, whether contractual or non-contractual, is to be governed by and determined in accordance with English law.

**22. JURISDICTION**

- 22.1 The courts of England are to have exclusive jurisdiction to settle any dispute, whether contractual or non-contractual, arising out of, or in connection with, this Agreement. Any Proceedings shall be brought in the English courts.
- 22.2 Each party waives (and agrees not to raise) any objection, on the grounds of *forum non conveniens* or on any other ground, to the taking of Proceedings in the English courts. Each party also agrees that a judgment against it in Proceedings brought in England shall be conclusive and binding upon it and may be enforced in any other jurisdiction.
- 22.3 Each party irrevocably submits and agrees to submit to the exclusive jurisdiction of the English courts.

**23. LANGUAGE**

- 23.1 Each notice or other communication under, or in connection with, this Agreement shall be:
  - (A) in English; or
  - (B) if not in English, accompanied by an English translation made by a translator, and certified by an officer of the party giving the notice to be accurate.
- 23.2 The receiving party/agent shall be entitled to assume the accuracy of, and rely upon any English translation of, any document provided pursuant to clause 23.1(B).

**24. AGENT FOR SERVICE**

- 24.1 Novartis irrevocably appoints Linklaters LLP of One Silk Street, London EC2Y 8HQ to be its agent for the receipt of Service Documents. It agrees that any Service Document may be effectively served on it in connection with Proceedings in England and Wales by service on its agent effected in any manner permitted by the UK Civil Procedure Rules.



- 24.2 If the agent at any time ceases for any reason to act as such, Novartis shall appoint a replacement agent having an address for service in England or Wales and shall notify GSK of the name and address of the replacement agent. Failing such appointment and notification, GSK shall be entitled by notice to Novartis to appoint a replacement agent to act on behalf of Novartis. The provisions of this clause 24 applying to service on an agent apply equally to service on a replacement agent.
- 24.3 A copy of any Service Document served on an agent shall be sent by post to Novartis. Failure or delay in so doing shall not prejudice the effectiveness of service of the Service Document.



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SCHEDULE 1  
INDICATIVE TIME TABLE: GSK CLASS 1 CIRCULAR

			Week commencing																												
			21/04	28/04	05/05	12/05	19/05	26/05	02/06	09/06	16/06	23/06	30/06	07/07	14/07	21/07	28/07	04/08	11/08	18/08	25/08	01/09	08/09	15/09	22/09	29/09	06/10	13/10	20/10	27/10	
Announcement	Orion/Leo																														
Account Separation Accountants	Orion/Leo																														
Milestone 1 Kick-off Meeting	Orion/Leo																														
Leo Oncology Workstream	Leo																														
Create Market Level Data Collection Template	Leo																														
Data template sent to Markets	Leo																														
Data template completed by Markets and returned to Leo	Leo																														
Market Data Consolidation and Validation	Leo																														
Final Review	Leo																														
Milestone 2 Completion of Leo Oncology Care Out Financials (no Q1)	Leo																														
Q2 Update template to markets	Leo																														
Q2 template completed and returned	Leo																														
Q2 Data Validation and Consolidation	Leo																														
Q2 Review	Leo																														
Milestone 3 Completion of Leo Oncology Care Out Updated for Q2 results	Leo																														
Orion Consumer and Vaccines Historical Financial Information Workstream	Orion																														
Proforma Statements	Leo / Sponsor																														
Working Capital Statement	Leo / Sponsor																														
Risk Factors	Leo / Sponsor																														
Summary Statement	Leo / Sponsor																														
Summary of Material Contracts	Leo / Sponsor																														
Summary of Significant Litigation	Leo / Sponsor																														
Chairman's Letter	Leo / Sponsor																														
Current Trading	Leo / Sponsor																														
Milestone 4 First draft circular completed and sent to UKLA	Leo/Orion/Sponsor/UKLA																														
Iterative Review (estimated 8 submissions to UKLA)	Leo/Orion/Sponsor/UKLA																														
Milestone 5 UKLA Approval	Leo/Sponsor																														
Print overnight post (2 days), 14 days notice to shareholders	Leo/Sponsor																														
Milestone 6 Leo Shareholder meeting	Leo																														
Leo Q3 Results Announcement	Leo																														



## SCHEDULE 2

### GSK SHAREHOLDER APPROVAL CONDITION: NOVARTIS INFORMATION AND ASSISTANCE

The information, documentation and assistance referred to in clause 2.8 shall include:

- (A) the provision of information about Novartis and/or any other member of its Group reasonably required or necessary to be included in any public documents, announcements, statements and/or notices to be produced by GSK in connection with the GSK Shareholder Approval Condition under the Listing Rules or otherwise (including, for the avoidance of doubt, the GSK Class 1 Circular and/or any supplementary circular thereto (and/or any other amended, supplemental or supplemented material, document, announcement or notice thereto or following the publication thereof));
- (B) without prejudice to the generality of paragraph (A) above, the provision of the necessary information, documentation, co-operation and assistance in connection with the following requirements of the GSK Class 1 Circular, whether pursuant to the Listing Rules or otherwise:
  - (i) the following historical financial information in respect of each of (i) the business/operations to be sold under the Vaccines Target Asset Agreement, (ii) the business/operations to be contributed to CHJV under the CH Target Asset Agreement, and (iii) each of the various possible packages of assets which may be the subject of a sale under the Put Option Agreement (the “**Novartis Businesses**”) for the last three financial years:
    - (a) balance sheet and explanatory notes;
    - (b) income statement and explanatory notes;
    - (c) cash flow statement and explanatory notes;
    - (d) statement showing changes in equity, other than those arising from capital transactions with owners and distributions to owners;
    - (e) accounting policies; and
    - (f) any additional explanatory notes,

in each case, presented on a basis that is consistent with the accounting policies and practices used by GSK in its last published annual consolidated accounts as at the date of the GSK Class 1 Circular (or, if not so presented, then accompanied by all such information as is reasonably required by GSK for the purpose of converting such historic financial information to such basis of presentation);



- (ii) an opinion from an independent accountant confirming (on customary terms) that the financial information referred to in paragraph (B)(i) above:
- (a) is presented in a form that is consistent with the accounting policies and practices used by GSK in its last published annual consolidation accounts as at the date of the GSK Class 1 Circular (or, if not so presented, then accompanied by all such information as is reasonably required by GSK for the purpose of converting such historic financial information to such basis of presentation); and
  - (b) gives a true and fair view of the financial position of each of the Novartis Businesses.

Instead of requiring such opinion from Novartis's accountant, GSK may procure that such opinion is instead provided by its accountant, and, in the event it does so, Novartis shall procure that its accountant provides to GSK's accountant customary back-to-back comfort (in the form of comfort letters) in respect of the same;

- (iii) confirmation that Novartis has not made any acquisitions during or subsequent to the three year period referred to in paragraph (B)(i) above which would trigger the requirement under the Listing Rules to include additional financial information in the GSK Class 1 Circular such that the financial information provided represents at least 75 per cent. of each of the Novartis Businesses;
- (iv) in relation to the Novartis Businesses, the provision of information and assistance to the extent reasonably requested by GSK in respect of the requirement to include in the GSK Class 1 Circular a statement of the effect of the Transaction on the earnings, assets and liabilities of GSK's Group, which may be presented as a pro forma statement(s) and/or by way of narrative description(s);
- (v) in relation to the Novartis Businesses, the provision of information and assistance to the extent reasonably requested by GSK in connection with the preparation of the working capital statement required to be included in the GSK Class 1 Circular;
- (vi) a confirmation from Novartis's accountant (on customary terms) that there has been no significant change in the financial or trading position of any of the Novartis Businesses since the end of the last financial period when audited or interim financial information was published;
- (vii) in relation to the Novartis Businesses, the provision of information and assistance to the extent reasonably requested by GSK in relation to the following matters that are required to be included in the GSK Class 1 Circular:
- (a) the material risks to the Transaction;
  - (b) the material new risks to GSK's Group as a result of the Transaction;



- (c) any existing risk factors affecting GSK's Group that will be impacted by the Transaction;
  - (d) the most significant recent trends in production, sales and inventory, costs and selling prices affecting GSK (assuming the Transaction has taken place);
  - (e) information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on GSK's prospects for the financial year in which the GSK Class 1 Circular is published (assuming the Transaction has taken place);
- (viii) the provision of information and assistance to the extent reasonably requested by GSK in relation to any estimated synergies or other quantified estimated financial benefits expected to arise from the Transaction that are to be included in the GSK Class 1 Circular, to the extent the information is required to be included in the GSK Class 1 Circular in respect of the same under the Listing Rules;
- (ix) a summary of the material contracts relating to the Novartis Businesses that the GSK Shareholders would reasonably require for the purposes of making a properly informed assessment of the Transaction (as determined by Novartis, acting reasonably); and
- (x) a summary of any Significant Litigation relating to the Novartis Businesses (and for these purposes, "**Significant Litigation**" means any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Novartis is aware) which may have, or have had, significant effects on the financial position or profitability of the GSK Group or the relevant Novartis Businesses (as determined by Novartis, acting reasonably));
- (C) in relation to Novartis and the Novartis Businesses, the verification in accordance with the requirements of clause 2.8 of any public documents or parts thereof produced by GSK in connection with the GSK Shareholder Approval Condition under the Listing Rules or otherwise (including, for the avoidance of doubt, the GSK Class 1 Circular and any supplementary circular thereto (and/or any other amended, supplemental or supplemented material, document, announcement or notice thereto or following publication thereof));
- (D) upon reasonable request by GSK, assisting GSK and its Representatives in the making of any submissions, applications and/or notifications to, providing information to and/or engaging in discussions, negotiations and/or any other communication with, the FCA (including, for the avoidance of doubt, the UKLA) in connection with the GSK Shareholder Approval Condition; and



- (E) taking reasonable steps to provide access to, and to procure that information, documentation, co-operation and assistance is provided by, Novartis's professional advisers (including, for the avoidance of doubt, Novartis's accountants) in connection with the GSK Shareholder Approval Condition, including reasonable co-operation and assistance for the purposes of and in connection with:
- (i) the provision of customary comfort letters (addressed to GSK and/or and of its respective Representatives) in relation to the GSK Class 1 Circular and/or any supplementary circular thereto (and/or any other amended, supplemental or supplemented material, document, announcement or notice thereto or following the publishing thereof); and
  - (ii) the preparation and approval by the UKLA of the GSK Class 1 Circular and/or any supplementary circular thereto (and/or any other amended, supplemental or supplemented material, document, announcement or notice thereto or following the publishing thereof).

For the avoidance of doubt, nothing in this Schedule 2 shall impose a higher standard in relation to the provision of information, co-operation or assistance than the provisions of clause 2.8.



**SCHEDULE 3  
FORM OF NOVARTIS BOARD CERTIFICATE**

To: GlaxoSmithKline plc  
[ADDRESS]

FAO: The Board

[DATE]

Dear Sirs

**Novartis Board Certificate - Implementation agreement in relation to Project Constellation dated 22 April 2014 (the "Implementation Agreement")**

*Capitalised terms used but not defined in this certificate have the meaning set forth in the Implementation Agreement.*

In accordance with clause 3.6 of the Implementation Agreement, we hereby notify you that the Novartis Board has concluded that the Transaction and the Put Option Agreement are no longer in the best interests of Novartis and Novartis Shareholders as a whole. The Novartis Board received independent financial advice from [name adviser] prior to the Board reaching such conclusion.

Yours faithfully

[•] (Corporate Secretary)  
On behalf of the Directors of Novartis AG



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**SCHEDULE 4  
CLEAN TEAM**

**Part A: Clean Team Members**

	<u>Name</u>	<u>Function</u>
<b>GSK:</b>	To be notified as provided below	
<b>Novartis:</b>	To be notified as provided below	

**Part B: Clean Team Confidentiality Provisions**

- Each of the parties recognises that the other party may provide it with access to certain potentially competitively sensitive information pursuant to clause 4.7 of this Agreement. Access to this information will be limited to certain employees of the parties, external counsel and external advisors hired by the parties in connection with the Transaction listed in Part A of this Schedule 4 (the “**Clean Team Members**”). Each of GSK and Novartis can add or remove Clean Team Members by written notice to the other party provided that any additional Clean Team Members satisfy the criterion in paragraph 4 below.
- The purpose of the Clean Team Members is to analyse information provided to them pursuant to clause 4.7 of the Agreement solely for the purpose of making the determination required pursuant to clause 4.8 (the “**Permitted Purpose**”). The Permitted Purpose will be undertaken in a manner that is fully consistent with and in compliance with all applicable competition and other laws and regulations.
- Any information provided by a party for the Permitted Purpose that is competitively sensitive will be designated “**Clean Team Only Information**” and the permitted disclosure, sharing or use of such Clean Team Only Information is limited to that prescribed in this Agreement.
- Clean Team Members shall not be involved in any day-to-day commercial role (including any role with day-to-day responsibility for determining pricing or commercial strategy) with respect to any product areas in which the parties compete for such time as is reasonably necessary to ensure that any Clean Team Only Information could not be used with anticompetitive object or effect, and in any event for a period of no less than twelve months from Completion.
- The parties shall limit disclosure and access to Clean Team Only Information to Clean Team Members and Clean Team Members shall use the Clean Team Only Information only for the Permitted Purpose.
- The parties shall procure that all Clean Team Members who are permitted access to Clean Team Only Information shall be advised that such information may be competitively sensitive, may contain business secrets confidential to either party and is provided on the terms set out in this Agreement.



7. Clean Team Members will preserve the confidential nature of Clean Team Only Information. The parties shall not disclose, reproduce or distribute any of the Clean Team Only Information in whole or in part, directly or indirectly, (or permit any of the foregoing) to any third party which is not a Clean Team Member, unless required to do so by law, applicable regulation, any stock exchange or competent governmental or regulatory authority or a valid and effective order or other document issued by any court of competent jurisdiction. If a party is obliged to disclose Clean Team Only Information to any third party pursuant to this paragraph 7, it shall, to the extent permitted by law:
- (a) consult with the other party as to possible steps to avoid or limit disclosure and take any such steps which would not result in significant adverse consequences to the other party;
  - (b) take all reasonable steps to agree the contents of the disclosure with the other party prior to making the disclosure;
  - (c) use its reasonable endeavours to gain assurances as to confidentiality from the body to whom the information is to be disclosed;
  - (d) co-operate with the other party if it wishes to issue legal or other proceedings to challenge the validity of the requirement to disclose such Clean Team Only Information;
  - (e) disclose only the minimum amount of information necessary in order to satisfy such requirement as advised by legal counsel and exercise reasonable effort to obtain reliable assurance that confidential treatment will be accorded to the Clean Team Only Information disclosed; and
  - (f) keep the other party promptly informed of the full circumstances of any such disclosure and all related matters and developments.
8. Clean Team Only Information shall not include information which: (i) is in the public domain prior to its disclosure; (ii) is lawfully in the other party's possession prior to disclosure; (iii) becomes available in the public domain by virtue of publication or otherwise, unless this is the result of an unauthorised act or omission by or on behalf of the other party; (iv) is independently developed by an employee or other agent of the other party; or (v) is otherwise not competitively sensitive.



IN WITNESS whereof, the parties have entered into this Agreement the day and year first before written

\_\_\_\_\_  
 For and on behalf of **GLAXOSMITHKLINE PLC**

**NOVARTIS AG**

\_\_\_\_\_  
 Name:  
 Function: Attorney-in-Fact

\_\_\_\_\_  
 Name  
 Function: Attorney-in-Fact



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Exhibit 4.8

**CONFIDENTIAL TREATMENT REQUESTED**

**EXECUTION VERSION**

29 May 2014

NOVARTIS AG

and

GLAXOSMITHKLINE PLC

and

LEO CONSTELLATION LIMITED

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**DEED OF AMENDMENT AND RESTATEMENT**

relating to the

**CONTRIBUTION AGREEMENT**

relating to the Consumer Healthcare Joint Venture

dated 22 April 2014

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**Freshfields Bruckhaus Deringer**

Freshfields Bruckhaus Deringer LLP  
65 Fleet Street  
London EC4Y 1HS



**This Deed** (the “**Deed**”) is made on 29 May 2014 **between:**

- (1) **NOVARTIS AG**, a corporation (*Aktiengesellschaft*) incorporated in Switzerland whose registered office is at Lichtstrasse 35, 4056 Basel, Switzerland (“**Novartis**”);
- (2) **GLAXOSMITHKLINE PLC**, a public limited company incorporated in England and Wales whose registered office is at 980 Great West Road, Brentford, Middlesex, TW8 9GS (“**GSK**”); and
- (3) **LEO CONSTELLATION LIMITED**, a company incorporated in England and Wales whose registered office is at 980 Great West Road, Brentford, Middlesex, TW8 9GS (the “**Purchaser**”).

each a “**party**” and together the “**parties**”.

**Whereas:**

- (A) The parties entered into the Original Agreement (as defined below) on 22 April 2014 (the “**Signing Date**”).
- (B) In connection with the Original Agreement, GSK provided the Original GSK Disclosure Letter (as defined below) to the Purchaser and Novartis provided the Original Novartis Disclosure Letter (as defined below) to the Purchaser.
- (C) The parties now wish to amend and restate the Original Agreement, in the form of the Amended Agreement (as defined below).
- (D) GSK and the Purchaser now wish to amend and restate the Original GSK Disclosure Letter, in the form of the Amended GSK Disclosure Letter (as defined below).
- (E) Novartis and the Purchaser now wish to amend and restate the Original Novartis Disclosure Letter, in the form of the Amended Novartis Disclosure Letter (as defined below).

**It is agreed** as follows:

**1 Definitions and Interpretation**

In this Deed, unless the context otherwise requires, the provisions in this clause 1 apply.

**1.1 Incorporation of defined terms**

Unless otherwise stated, terms defined in the Original Agreement shall have the same meaning in this Deed.

**1.2 Definitions**

“**Amended Agreement**” means the Original Agreement, as amended and restated in the form set out in Schedule 1 to this Deed;

“**Amended GSK Disclosure Letter**” means the Original GSK Disclosure Letter, as amended and restated in the form set out in Schedule 2 to this Deed;

“**Amended Novartis Disclosure Letter**” means the Original Novartis Disclosure Letter, as amended and restated in the form set out in Schedule 3 to this Deed;

“**Original Agreement**” means the Contribution Agreement relating to the Consumer Healthcare Joint Venture, dated 22 April 2014;



“**Original GSK Disclosure Letter**” means the letter given on the Signing Date from GSK to the Purchaser disclosing information constituting exceptions to the Seller’s Warranties; and

“**Original Novartis Disclosure Letter**” means the letter given on the Signing Date from Novartis to the Purchaser disclosing information constituting exceptions to the Seller’s Warranties.

**1.3 Interpretation Clauses**

**1.3.1** The principles of interpretation set out in Clause 1 of the Original Agreement shall have effect as if set out in this Deed, save that references to “this Agreement” shall be construed as references to “this Deed”.

**1.3.2** References to this Deed include the Schedules.

**2 Amendment**

**2.1** In accordance with Clauses 15.5.3 and 15.6.1 of the Original Agreement, the parties agree that the Original Agreement shall be amended and restated as set out in Schedule 1 to this Deed.

**2.2** GSK and the Purchaser agree that the Original GSK Disclosure Letter shall be amended and restated as set out in Schedule 2 to this Deed.

**2.3** Novartis and the Purchaser agree that the Original Novartis Disclosure Letter shall be amended and restated as set out in Schedule 3 to this Deed.

**2.4** The amendment and restatement of:

**2.4.1** the Original Agreement pursuant to clause 2.1;

**2.4.2** the Original GSK Disclosure Letter pursuant to clause 2.2; and

**2.4.3** the Original Novartis Disclosure Letter pursuant to clause 2.3,

shall take effect from the Signing Date, as if the Amended Agreement, the Amended GSK Disclosure Letter and the Amended Novartis Disclosure Letter had been entered into on the Signing Date. Therefore, upon this Deed being entered into:

- (i) the Amended Agreement shall supersede the Original Agreement in its entirety;
- (ii) the Amended GSK Disclosure Letter shall supersede the Original GSK Disclosure Letter in its entirety; and
- (iii) the Amended Novartis Disclosure Letter shall supersede the Original Novartis Disclosure Letter in its entirety.

**2.5** GSK and Novartis agree that the Agreed Terms of the Shareholders’ Agreement and the Articles of Association and the Agreed Terms of the Completion Board Resolutions (as defined in the Shareholders’ Agreement) have been amended in the form initialled for identification purposes by GlaxoSmithKline’s Lawyers and Novartis’s Lawyers on the date of this Deed.



**3 Miscellaneous**

- 3.1** Each party represents and warrants that it has full power and authority to enter into this Deed and to perform its obligations under it.
- 3.2** The provisions of Clauses 12, 15.3 to 15.6 and 15.14 to 15.18 of the Amended Agreement shall apply to this Deed as if set out in full in this Deed and as if references in that clause to “this Agreement” are references to this Deed and references to “party” or “parties” are references to parties to this Deed.



**In witness whereof** this Deed has been delivered on the date first stated above.

Executed as a DEED by

Roy Papatheodorou and

Jonathan Emery  
on behalf of **NOVARTIS AG**

} /s/ Roy Papatheodorou  
/s/ Jonathan Emery



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Executed as a DEED by )  
**GLAXOSMITHKLINE PLC** acting by its ) /s/ David Redfern  
duly appointed attorney ) (Signature of attorney)  
)

in the presence of: )

Witness's signature: /s/ Claire Jackson

Name (print): Claire Jackson

Occupation: Solicitor

Address: One Bunhill Row, London



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Executed as a DEED by )  
**LEO CONSTELLATION LIMITED** ) /s/ David Redfern  
acting by its duly appointed attorney ) (Signature of attorney)

in the presence of: )

Witness's signature: /s/ Claire Jackson

Name (print): Claire Jackson

Occupation: Solicitor

Address: One Bunhill Row, London



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Schedule 1

**Amended Agreement**



Dated 22 April 2014  
as amended and restated on 29 May 2014

**GLAXOSMITHKLINE PLC**

and

**NOVARTIS AG**

and

**LEO CONSTELLATION LIMITED**

---

**CONTRIBUTION AGREEMENT**  
relating to the Consumer Healthcare Joint Venture

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## Contribution Agreement

This Agreement is made on 22 April 2014 and amended and restated on May 2014

between:

- (1) **Novartis AG**, a corporation (Aktiengesellschaft) registered in the Commercial Register of the Canton of Basel-Stadt, Switzerland under number CHE-103.867.266 and whose registered office is at Basel Switzerland and whose address is Lichtstrasse 35, 4056 Basel (“**Novartis**”);
- (2) **GlaxoSmithKline Plc**, a company registered in England under number 03888792 and whose registered office is at 980 Great West Road, Brentford, Middlesex TW8 9GS (“**GlaxoSmithKline**”, with each of Novartis and GlaxoSmithKline being, a “**Seller**” and together, the “**Sellers**”); and
- (3) **Leo Constellation Limited**, a company registered in England under number 08998608 whose registered office is at 980 Great West Road, Brentford, Middlesex TW8 9GS (the “**Purchaser**”),

each a “**party**” and together the “**parties**”.

Whereas:

- (A) Each Seller and certain of its Affiliates (as defined below), including that Seller’s Target Group Companies (as defined below), are engaged in that Seller’s Contributed Business (as defined below).
- (B) As of the date of this Agreement, each Seller and certain of its Affiliates directly or indirectly own shares or other equity interests in that Seller’s Target Group Companies.
- (C) Each Seller has agreed to sell (or procure the sale of) its Target Group (as defined below) and to assume the obligations imposed on it as a Seller under this Agreement, in each case, on the terms and subject to the conditions of this Agreement.
- (D) The Purchaser has agreed to purchase (or procure the purchase of) the Target Groups and to assume the obligations imposed on the Purchaser under this Agreement, in each case, on the terms and subject to the conditions of this Agreement.
- (E) In connection with the transactions contemplated by this Agreement, the Purchaser and GlaxoSmithKline and/or Novartis, and/or certain of their respective Affiliates, have entered into or will enter into the Ancillary Agreements (as defined below).

It is agreed as follows:

### 1. Interpretation

In this Agreement, unless the context otherwise requires, the provisions in this Clause 1 apply:

#### 1.1 Definitions

“**2012 Accounts**” means, for each Target Group Company, the audited financial statements of that Target Group Company, prepared in accordance with legislation as in force and applicable to that Target Group Company for the accounting reference period ended on the 2012 Accounts Date, comprising the balance sheet, the profit and loss account and the notes to the accounts;



“**2012 Accounts Date**” means 31 December 2012;

“**2013 Operating Income**” means the operating income for 2013 annexed to the Disclosure Letter at Annex B.

“**A Shares**” means the A ordinary shares in the capital of the Purchaser, having the rights and restrictions set out in the articles of association of the Purchaser as at Closing, and which, immediately following Closing, will represent 63.5 per cent. of the ordinary share capital of the Purchaser;

“**Action**” means the taking of any steps by any Governmental Entity to seek a Judgment which would have the effect of preventing the consummation of the transactions contemplated by this Agreement by the Purchaser;

“**Affiliate**” means,

- (i) with respect to the parties, any other person that is Controlled by such person; or
- (ii) with respect to any other person, any other person that Controls, is Controlled by or is under common Control with such person, and “**Affiliates**” shall be interpreted accordingly;

“**Affiliate Contract**” means:

- (i) in respect of GlaxoSmithKline, any Contract between or among any member of GlaxoSmithKline’s Group (other than its Target Group Company) on the one hand, and its Target Group Company on the other hand, to the extent that it relates to any services that will be and, as at Closing are, provided under the Ancillary Agreements, but excluding, for the avoidance of doubt: (i) any Ancillary Agreement; and (ii) any Contract comprising or related to any Intra-Group Trading Payables or Intra-Group Trading Receivables; or
- (ii) in respect of Novartis, any Contract between or among any member of Novartis’s Group (other than its Target Group Company) on the one hand, and its Target Group Company on the other hand, but excluding (i) any Ancillary Agreement; (ii) any Contract comprising or related to any Intra-Group Trading Payables or Intra-Group Trading Receivables; (iii) any Novartis Services Contract; and (iv) any Novartis Distribution and Sales Products Contract;

“**Agreed Terms**” means, in relation to a document, such document in the terms agreed between GlaxoSmithKline and Novartis and initialled for identification purposes by GlaxoSmithKline’s Lawyers and Novartis’s Lawyers, with such alterations as may be agreed in writing between the parties from time to time;

“**Agreed UK Restructuring Arrangement**” means the pension augmentation (or cash in lieu of augmentation) policy applying on redundancy to UK employees of the GlaxoSmithKline Group who joined service prior to 1 April 2005 as disclosed to Novartis prior to the date of this Agreement via a document which was signed on 22 April 2014 by Eleanor Hart of Slaughter and May and Andrew Murphy of Freshfields Bruckhaus Deringer LLP for identification purposes;

“**Agreement**” means this contribution agreement as it may have been amended or restated from time to time;

“**Ancillary Agreements**” means the Implementation Agreement, the Local Transfer Documents, the Disclosure Letters, the Tax Indemnity, the France Offer Letters, the France SAPAs, the Netherlands Offer Letter, the Netherlands SAPA, the Transitional Services Agreements, the Manufacturing, Distribution and Supply Agreements, the Seller Intellectual Property Licence Agreement, the Purchaser Trademark Licence Agreement, the Seller Trademark Licence Agreement, the Intellectual Property Assignment Agreements, the Pharmacovigilance Agreement, the Services Agreement and the Shareholders’ Agreement;



“**Animal Health Term Sheet**” has the meaning given to it in Clause 5.2.3(i);

“**Anti-Bribery Law**” means any Applicable Law that relates to bribery or corruption, including the US Foreign Corrupt Practices Act of 1977 and the UK Bribery Act 2010, in each case, as amended, re-enacted or replaced from time to time;

“**Applicable Law**” means any supra-national, federal, national, state, municipal or local statute, law, ordinance, regulation, rule, code, order (whether executive, legislative, judicial or otherwise), judgment, injunction, notice, decree or other requirement or rule of law or legal process (including common law), or any other order of, or agreement issued, promulgated or entered into by, any Governmental Entity or any rule or requirement of any national securities exchange, including all Healthcare Laws, and GCP, GLP, and GMP, each as may be amended, re-enacted or replaced from time to time;

“**Appointment Notice**” has the meaning given to it in paragraph 1.4 of Schedule 12;

“**Articles of Association**” means the articles of association of the Purchaser in the Agreed Terms, as amended from time to time in accordance with the provisions of the Shareholders’ Agreement;

“**Associated Person**” means, in relation to a Seller’s Group, a person (including any director, officer, employee, agent or other intermediary) who performs services for or on behalf of any member of that Seller’s Group or who holds shares of capital stock, partnership interests, limited liability company membership interests or units, shares, interests or other participations in any member of that Seller’s Group (in each case, when performing such services or acting in such capacity);

“**Assumed Liabilities**” means all Liabilities relating to the Target Group Businesses other than: (i) the Excluded Liabilities; (ii) any Assumed Pension and Employment Liabilities; and (iii) any Liabilities in respect of Tax (other than Tax which has been provided for or reflected in the Closing Statement and Tax which has been assumed by a member of the Purchaser’s Group under an express provision of this Agreement);

“**Assumed Pension and Employment Liabilities**” means (i) any Liabilities assumed by the Purchaser or a member of the Purchaser’s Group as contemplated by Schedule 7; and (ii) any Transferred Employee Benefit Liabilities (as defined in Schedule 8) which the Purchaser agrees to assume in accordance with Schedule 8;

“**B Shares**” means the B ordinary shares in the capital of the Purchaser, having the rights and restrictions set out in the articles of association of the Purchaser as at Closing, and which, immediately following Closing, will represent 36.5 per cent. of the ordinary share capital of the Purchaser;

“**Base Working Capital Range**” means, in respect of a Seller, the range between its Minimum Working Capital Amount and its Maximum Working Capital Amount;

“**Benefit Plans**” means the US Benefit Plans and the Non-US Benefit Plans;

“**Brand**” means the primary name of a Product;

“**Business Day**” means a day which is not a Saturday, a Sunday or a public holiday in the canton of Basel-Stadt (Switzerland) or London (United Kingdom);

“**Business Information**” means, in respect of a Seller: (i) Commercial Information; (ii) Medical Information; and (iii) any other information Predominantly Related to its Contributed Business;



“**Business Sellers**” means, in respect of a Seller, the members of that Seller’s Group (other than its Target Group Companies) that own assets of or otherwise conduct any of its Target Group Businesses;

“**Call for New Tender**” means, in respect of a Seller, any calls for a tender (including any tender for a basket of products), whether a new tender or the renewal of an existing tender, which includes its Products and which is published after Closing of which that Seller and/or any of its Affiliates become aware and which relates in whole or in part to the sale of its Products;

“**Cash Balances**” means cash in hand or credited to any account with a financial institution and securities which are readily convertible into cash;

“**Cash Pooling Arrangements**” means, in respect of a Seller, the cash pooling arrangements of that Seller’s Group in which any of its Target Group Companies participate;

“**Cash Portion**” means, in respect of GlaxoSmithKline, £190,500,000 and, in respect of Novartis, £109,500,000;

“**Certificate**” means, in the case of a Seller, a certificate signed by a director, officer or an authorised signatory of that Seller in the form set out in Schedule 5 to be provided to the Purchaser immediately prior to Closing;

“**CFIUS**” means the Committee on Foreign Investment in the United States;

“**CFIUS Approval**” means written notice from CFIUS that any review or investigation of the Transaction under Section 721 of the Defense Production Act of 1950 of the United States, as amended (50 U.S.C. App. Section 2170), has been concluded and there are no unresolved national security concerns with respect to the Transaction or the President shall have determined not to take action with respect to the Transaction;

“**CFIUS Filing**” has the meaning given to it in Clause 4.2.3(ii);

“**Chinese JV Contracts**” means the joint venture contract between Tianjin Pharmaceutical Corporation and SmithKline Beckman Corporation dated April 1984, as amended from time to time, and any other ancillary agreements thereto;

“**Chinese JV Interests**” means all of the shares or other equity interests held by SmithKline Beckman Corporation in The Sino-American Tianjin Smith Kline & French Laboratories, Ltd, a joint venture company governed by the Chinese JV Contracts;

“**Clinical Trials/Data Liability**” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the conduct of, or reporting or data in relation to, clinical studies or trials (including post-approval studies) sponsored or supported by or in relation to a Target Group or otherwise recommended by a Governmental Entity;

“**Closing**” means the completion of the sale of (i) the Shares and (ii) the Target Group Businesses in respect of each of GlaxoSmithKline and Novartis, in each case, pursuant to this Agreement and any Ancillary Agreement, and Closing shall be deemed to have taken place even if some of the Shares in relation to the Joint Venture Entities only or other elements of the Contributed Businesses have not transferred to the Purchaser pursuant to Schedule 6 to which the provisions of Schedule 6 shall then apply;

“**Closing Date**” means the date on which Closing takes place in accordance with Clause 6.1;

“**Closing Statement**” means, in respect of a Seller, the statement setting out the Working Capital, the Working Capital Adjustment, the Target Group Companies’ Cash Balances, the Intra-Group Non-Trade Receivables, the Third Party Indebtedness, the Intra-Group Non-Trade Payables and the Tax Adjustment, to be prepared by that Seller and agreed or determined in accordance with Clause 7 and Schedule 12;



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“**COBRA**” means the Consolidated Omnibus Budget Reconciliation Act of 1985 of the United States, as amended, section 4980B of the Code, Title I Part 6 of ERISA and any similar US state group health plan continuation law, together with its implementing regulations;

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended, together with its implementing regulations;

“**Commercial Information**” means, in respect of a Seller, information that is, as of the Closing Date, owned by that Seller and/or its Affiliates and Predominantly Related to that Seller’s Contributed Business;

“**Commercial Practices Liability**” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with Commercialisation;

“**Commercialise**” means to promote, market, distribute, sell and/or otherwise commercialise a product and

“**Commercialising**” and “**Commercialisation**” shall be construed accordingly;

“**Company Lease**” has the meaning given to it in paragraph 1.1 of Part 3 of Schedule 2;

“**Company Leased Properties**” has the meaning given to it in paragraph 1.1 of Part 3 of Schedule 2;

“**Company Owned Properties**” has the meaning given to it in paragraph 1.1 of Part 3 of Schedule 2;

“**Company Properties**” means the Company Owned Properties and the Company Leased Properties, and “**Company Property**” means any one of them;

“**Consumer Healthcare Product**” means, in respect of any jurisdiction, any oral care, nutritional care, skin care or other cosmetic or healthcare product or device of any kind, in each case, for the treatment of, or use by, human beings which is available without, or both with and without, a prescription, but excluding any such product or device that is subject to the same regulatory classification and/or regulatory treatment (including in relation to advertising) as a product or device that is available only with a prescription;

“**Contract**” means any binding contract, agreement, instrument, lease, licence or commitment, excluding: (i) any lease or other related or similar agreements, undertakings and arrangements with respect to the leasing or ownership of the Properties (to which the provisions set out in Schedule 2 shall apply); and (ii) any contract with any Employee;

“**Contracts Liabilities**” means Liabilities relating to: (i) the Transferred Contracts; (ii) the Transferred Intellectual Property Contracts; and (iii) all other contracts (or any part thereof) transferred, assigned, novated or assumed by the Purchaser pursuant to this Agreement or to which a Target Group Company is or was a party or under which a Target Group Company has any Liability, and “**Contracts Liability**” shall be construed accordingly;

“**Contributed Business**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Consumer Business and, in respect of Novartis, the Novartis OTC Business;

“**Control**” means the power to direct the management and policies of a person (directly or indirectly), whether through ownership of voting securities, by Contract or otherwise (and the term “**Controlled**” shall be interpreted accordingly);



“**Co-Owned Target Group Intellectual Property Rights**” means any Target Group Intellectual Property Right that is owned in part by a third party;

“**Copyright**” means any works of authorship, copyrights, database rights, mask work rights and registrations and applications thereof;

“**December Presentation**” means, in the case of GlaxoSmithKline, the GlaxoSmithKline December 2013 Presentation and, in the case of Novartis, the Novartis December 2013 Presentation;

“**Decision**” means the issuing of any decision by a competition, antitrust, foreign investment, national, local, supranational or supervisory or other government, governmental, quasi-governmental, trade, or regulatory body, agency, branch, subdivision, department, commission, official or authority, including any Tax Authority and any governmental department and any court or other tribunal, that would have the effect of prohibiting the acquisition of the Target Groups by the Purchaser;

“**Deferred Employee**” means, in respect of GlaxoSmithKline, any GlaxoSmithKline Deferred Employee and, in respect of Novartis, any Novartis Deferred Employee;

“**Disclosure Letter**” means, in respect of GlaxoSmithKline, the letter dated on the same date as this Agreement from GlaxoSmithKline to the Purchaser and, in respect of Novartis, the letter dated on the same date as this Agreement from Novartis to the Purchaser;

“**Draft Closing Statement**” has the meaning given to it in Clause 7.1.1;

“**Effective Time**” means 11.59 p.m. (local time in the relevant location) on the Closing Date or, if the Closing Date is not the last day of a month but the first Business Day of a month, 11.59 p.m. on the last day of the immediately preceding month;

“**Election Date**” has the meaning given to it in Clause 4.2.3(ii);

“**Employee Benefit Indemnification Amount**” has the meaning given to it in Schedule 8;

“**Employee Benefits**” has the meaning given to it in Schedule 8;

“**Employees**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Employees and, in respect of Novartis, the Novartis Employees;

“**Encumbrance**” means any claim, charge, mortgage, lien, option, equitable right, power of sale, pledge, hypothecation, usufruct, retention of title, right of pre-emption, right of first refusal or other security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing, and for the avoidance of doubt, shall exclude any licences of, or claims of infringement in relation to, Intellectual Property Rights;

“**Endo Excluded Contract**” means the license and supply agreement between Novartis, Novartis Consumer Health, Inc. and Endo Pharmaceuticals Inc. dated 4 March 2008, in relation to, among other things, a license to Commercialise Voltaren Gel as a Prescription Product;

“**Environmental Laws**” means any and all Applicable Law regulating or imposing Liability or standards of conduct concerning pollution or protection of the environment (including surface water, groundwater or soil);

“**Environmental Liabilities**” means any Liability arising out of, relating to or resulting from any Environmental Law or environmental, health or safety matter or condition, including natural resources, but excluding any Product Liability;



“**Environmental Permit**” means any permit, licence, consent or authorisation required by Environmental Laws issued by any relevant competent authority and used in relation to the operation or conduct of Manufacturing at any Property;

“**ERISA**” means the Employee Retirement Income Security Act of 1974 of the United States, as amended, together with its implementing regulations;

“**Estimated Employee Benefit Adjustment**” means, in respect of a Seller, that Seller’s reasonable estimate (in so far as practicable), made in good faith after consulting with the other Seller, of 95 per cent of the anticipated aggregate of its Employee Benefit Indemnification Amounts, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Intra-Group Non-Trade Payables**” means, in respect of a Seller, that Seller’s reasonable estimate of its Intra-Group Non-Trade Payables, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Intra-Group Non-Trade Receivables**” means, in respect of a Seller, that Seller’s reasonable estimate of its Intra-Group Non-Trade Receivables, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Intra-Group Trade Balances**” means, in respect of a Seller, that Seller’s reasonable estimate of its Intra-Group Trade Balances, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Intra-Group Trade Payables**” means, in respect of a Seller, that Seller’s reasonable estimate of its Intra-Group Trade Payables, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Intra-Group Trade Receivables**” means, in respect of a Seller, that Seller’s reasonable estimate of its Intra-Group Trade Receivables, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Target Group Companies’ Cash Balances**” means, in respect of a Seller, that Seller’s reasonable estimate of its Target Group Companies’ Cash Balances, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Tax Adjustment**” means, in respect of a Seller, that Seller’s reasonable estimate of its Tax Adjustment, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Third Party Indebtedness**” means, in respect of a Seller, that Seller’s reasonable estimate of its Third Party Indebtedness, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Transferred Accounts Payables**” means, in respect of a Seller, that Seller’s reasonable estimate of its Transferred Accounts Payables, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Transferred Accounts Receivables**” means, in respect of a Seller, that Seller’s reasonable estimate of its Transferred Accounts Receivables, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Working Capital**” means, in respect of a Seller, that Seller’s reasonable estimate of its Working Capital, to be notified by that Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Working Capital Adjustment**” means, in respect of a Seller:



- (i) if its Estimated Working Capital is no less than its Minimum Working Capital Amount and no greater than its Maximum Working Capital Amount, zero;
- (ii) if its Estimated Working Capital is less than its Minimum Working Capital Amount, the amount by which its Estimated Working Capital is less than its Minimum Working Capital Amount, such amount being treated as a negative amount; or
- (iii) if its Estimated Working Capital is greater than its Maximum Working Capital Amount, the amount by which its Estimated Working Capital exceeds its Maximum Working Capital Amount, such amount being treated as a positive amount;

“**Excluded Assets**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Excluded Assets and, in respect of Novartis, the Novartis Excluded Assets;

“**Excluded Contracts**” means, in respect of a Seller, each Contract that is not Exclusively Related to that Seller’s Contributed Business;

“**Excluded Employees**” means, in respect of GlaxoSmithKline, GlaxoSmithKline Excluded Employees and, in respect of Novartis, the Novartis Excluded Employees;

“**Excluded Liabilities**” means, in respect of a Seller:

- (i) all Liabilities:
  - (a) relating to that Seller’s Target Group Businesses; and
  - (b) of that Seller’s Target Group Companies (other than Liabilities in respect of Tax),
 in either case, to the extent that they have arisen or arise (whether before or after Closing) as a result of, or otherwise relate to, any act, omission, fact, matter, circumstance or event undertaken, occurring, in existence or arising before Closing, and in either case, other than (a) any Assumed Pension and Employment Liabilities, (b) any Liabilities to the extent taken into account, provided for or reflected in the Closing Statement (including in respect of Tax), (c) any Intra-Group Trade Payables and (d) Transferred Accounts Payables between any member of that Seller’s Group (other than a Target Group Company) and a Business Seller of that Seller’s Group; and
- (ii) all Liabilities relating to its Seller’s Retained Business;

“**Exclusively Related to**” means, in respect of a Seller’s Contributed Businesses, exclusively related to, or used or held for use exclusively in connection with, that Contributed Business;

“**FCA**” means the Financial Conduct Authority;

“**FDA**” means the United States Food and Drug Administration (or its successor);

“**Final Payment Date**” means five Business Days after the date on which the process described in Part 1 of Schedule 12 for the preparation of its Closing Statement is complete;

“**France Assumed Liabilities**” means, in respect of a Seller, the Assumed Liabilities to the extent they relate to that Seller’s France Business;

“**France Business**” means, in respect of Novartis, that part of its Contributed Business that is conducted in France, including Novartis Santé Familiale S.A.S, its France Assumed Liabilities and its France Employees and, in respect of GlaxoSmithKline, that part of its Contributed Business that is conducted in France, its France Assumed Liabilities and its France Employees;



“**France Closing**” has, in respect of a Seller, the meaning given to it in that Seller’s France SAPA;

“**France Employees**” means, in respect of Novartis, the Employees employed by Novartis Santé Familiale S.A.S. and, in respect of GlaxoSmithKline, those of the GlaxoSmithKline Employees who are employed in France;

“**France Offer Letter**” means, in respect of a Seller, the letter from the Purchaser to that Seller in respect of the binding offer from the Purchaser to acquire that Seller’s France Business dated on the date hereof;

“**France Put Option Exercise**” means, in respect of a Seller, the meaning given to it in that Seller’s France Offer Letter;

“**France SAPA**” means, in respect of a Seller, the meaning given to it in that Seller’s France Offer Letter;

“**FSAs**” has the meaning given to it in paragraph 7 of Schedule 7;

“**FSMA**” means the Financial Services and Markets Act 2000;

“**Full Title Guarantee**” means, in respect of a Seller on the basis that the covenants implied under Part 1 of the Law of Property (Miscellaneous Provisions) Act 1994 where a disposition is expressed to be made with full title guarantee are deemed to be given by that Seller (on behalf of its relevant Share Seller or Business Seller) on Closing;

“**GlaxoSmithKline’s Articles of Association**” means the articles of association of GlaxoSmithKline in force and effect from time to time;

“**GlaxoSmithKline Business Employees**” means the employees of any member of GlaxoSmithKline’s Group who work wholly or substantially in the GlaxoSmithKline Consumer Business from time to time including, for the avoidance of any doubt, the GlaxoSmithKline International Assignees other than the GlaxoSmithKline Company Employees and the GlaxoSmithKline Excluded Employees and provided that, in relation to the Seller’s Warranties only, the words “from time to time” shall be deemed to be replaced by “at the date of this Agreement”, and “**GlaxoSmithKline Business Employee**” means any one of them;

[\*\*\*]

“**GlaxoSmithKline Company Employees**” means the employees from time to time of any of the GlaxoSmithKline Consumer Group Companies other than the GlaxoSmithKline Excluded Employees, and provided that, in relation to the Seller’s Warranties only, the words “from time to time” shall be deemed to be replaced by “at the date of this Agreement”, and “**GlaxoSmithKline Company Employee**” means any one of them;

“**GlaxoSmithKline Consumer Business**” means:

- (i) the business of researching and developing, manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising the GlaxoSmithKline Products in the GlaxoSmithKline Territories;
- (ii) the business of researching and developing the GlaxoSmithKline Pipeline Products;

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



- (iii) all rights, title and interest in relation to researching and developing, manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising GlaxoSmithKline's In-Scope Switch Product, in any jurisdiction, as a Consumer Healthcare Product only;
- (iv) the business of manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising the Prescription Products which are managed by and reported for financial purposes in the GlaxoSmithKline Consumer Healthcare Division for, or since, the year ended December 2013 and, in respect of any such Prescription Product, in the territories in which sales are reported for such Prescription Product for financial purposes in the GlaxoSmithKline Consumer Healthcare Division for, or since, the year ended December 2013; and
- (v) any royalty streams in respect of any products received by and reported for financial purposes in the GlaxoSmithKline Consumer Healthcare Division for, or since, the year ended 31 December 2013,

in each case, conducted by GlaxoSmithKline's Group, but excluding the GlaxoSmithKline Excluded Assets;

**"GlaxoSmithKline Consumer Group"** means the GlaxoSmithKline Consumer Group Companies and the GlaxoSmithKline Consumer Group Businesses;

**"GlaxoSmithKline Consumer Group Businesses"** means the businesses of the GlaxoSmithKline Consumer Business (but excluding the businesses carried on by the GlaxoSmithKline Consumer Group Companies) as set out in Clause 2.3.1, but subject always to Clause 2.3.2, and **"GlaxoSmithKline Consumer Group Business"** means any of them;

**"GlaxoSmithKline Consumer Group Companies"** means those members of GlaxoSmithKline's Group whose operations, assets and/or businesses are Exclusively Related to the GlaxoSmithKline Consumer Business, an indicative list of which are set out in the table in Part A of Part 1 of Schedule 1, including any Intermediate Holdco as defined in Schedule 17 (Reorganisations), but excluding any such members whose operations, assets and/or businesses form any part of the GlaxoSmithKline Excluded Assets and **"GlaxoSmithKline Consumer Group Company"** shall mean any one of them;

**"GlaxoSmithKline December 2013 Presentation"** means the management presentation entitled Project Constellation Consumer Healthcare and dated 3 December 2013 and attached to this Agreement as Attachment 1;

**"GlaxoSmithKline Deferred Employee"** means any person to whom GlaxoSmithKline, any GlaxoSmithKline Consumer Group Company or any other member of GlaxoSmithKline's Group has made an offer of employment for a role in the GlaxoSmithKline Consumer Business in compliance with Clause 5 and who has accepted such offer in writing and whose employment in the GlaxoSmithKline Consumer Business will take effect on a date following the Closing Date, save that no person shall become a GlaxoSmithKline Deferred Employee unless and until GlaxoSmithKline has provided to Novartis a copy of the offer letter setting out the agreed principal terms of employment and/or employment agreement (if executed) applicable to such person;

**"GlaxoSmithKline Employees"** means the GlaxoSmithKline Business Employees and the GlaxoSmithKline Company Employees, and **"GlaxoSmithKline Employee"** means any one of them;



“**GlaxoSmithKline Excluded Assets**” means the property, rights, businesses and assets referred to in Clause 2.3.2 in respect of the GlaxoSmithKline Consumer Group Businesses and the assets and businesses set out in Part 1 of Schedule 3;

“**GlaxoSmithKline Excluded Businesses**” means:

- (i) the business(es) (from time to time) of or reported for financial purposes in the business(es) of GlaxoSmithKline Consumer Healthcare Limited, an Indian listed company, and its successors and assigns and any person Controlled by GlaxoSmithKline Consumer Healthcare Limited from time to time;
- (ii) the business(es) (from time to time) of or reported for financial purposes in the business(es) of GlaxoSmithKline Consumer Nigeria plc, a Nigerian listed company, and its successor and assigns and any person Controlled by GlaxoSmithKline Consumer Nigeria plc from time to time;
- (iii) the business(es) (from time to time) of the GlaxoSmithKline Pharmaceutical Division, including the business of researching and developing, manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising any Consumer Healthcare Products which are managed by and reported for financial purposes in the GlaxoSmithKline Pharmaceutical Division on or prior to the date of this Agreement (including any development of such products);
- (iv) any business(es) (from time to time) of or reported for financial purposes in the business(es) of: (i) Asia Private Limited, a private limited company incorporated in India; and/or (ii) its successors and assigns and any person Controlled by Asia Private Limited from time to time, in each case, to the extent that such business(es) are part of the business(es) conducted by the business(es) referred to in paragraph (i) of this definition; and
- (v) any assets or liabilities that are deemed to constitute GlaxoSmithKline Excluded Assets pursuant to paragraph 10.1 of Schedule 6;

“**GlaxoSmithKline Excluded Employees**” means the employees of any member of GlaxoSmithKline’s Group (including the GlaxoSmithKline Consumer Group Companies) as may be agreed in writing between GlaxoSmithKline and Novartis after the date of this Agreement but before the Closing Date;

“**GlaxoSmithKline’s Group**” means GlaxoSmithKline and its Affiliates from time to time, provided that, for the purposes of this Agreement, the Purchaser and any person Controlled by the Purchaser (whether directly or indirectly) from time to time shall not be included in GlaxoSmithKline’s Group;

“**GlaxoSmithKline International Assignees**” means the employees of any member of GlaxoSmithKline’s Group (including the GlaxoSmithKline Consumer Group Companies) as may be agreed in writing between GlaxoSmithKline and Novartis after the date of this Agreement but before the Closing Date;

“**GlaxoSmithKline Joint Venture Entities**” means all entities in which GlaxoSmithKline’s Group holds equity interests of less than 100 per cent. but whose operations, assets and/or businesses are Exclusively Related to the GlaxoSmithKline Consumer Business, an indicative list of which are set out in the relevant part of the table in Part B of Part 1 of Schedule 1, excluding any such entity whose operations, assets and/or businesses form part of the GlaxoSmithKline Excluded Assets;



“**GlaxoSmithKline Key Personnel**” means the GlaxoSmithKline Employees listed in Part 1 of Schedule 16;

“**GlaxoSmithKline’s Lawyers**” means Slaughter and May of One Bunhill Row, London EC1Y 8YY;

“**GlaxoSmithKline Material Employee Jurisdictions**” means Brazil, China, Germany, the United Kingdom and the United States of America;

“**GlaxoSmithKline Pakistan**” means GlaxoSmithKline Pakistan Limited, a company incorporated in Pakistan as a limited liability company and listed on the Karachi and Lahore Stock Exchanges;

“**GlaxoSmithKline Pakistan Business**” means that part of the GlaxoSmithKline Consumer Business conducted by GlaxoSmithKline Pakistan or any person Controlled by GlaxoSmithKline Pakistan from time to time;

“**GlaxoSmithKline Pakistan Consent**” has the meaning given in paragraph 8.1 of Schedule 6;

“**GlaxoSmithKline Pipeline Products**” means each product that the GlaxoSmithKline Consumer Healthcare Division is researching and developing;

“**GlaxoSmithKline Products**” means, in respect of any territory, any Consumer Healthcare Products which are managed by and reported for financial purposes in the GlaxoSmithKline Consumer Healthcare Division in that territory for the year ended 31 December 2013 or since, an indicative list of which is set out in Part 1 of Schedule 9;

“**GlaxoSmithKline Shareholder Meeting**” has the meaning given to it in Clause 4.1.6;

“**GlaxoSmithKline Shareholder Resolution**” has the meaning given to it in Clause 4.1.6;

“**GlaxoSmithKline Shareholders**” means the holders of ordinary shares in the capital of GlaxoSmithKline from time to time;

“**GlaxoSmithKline Shares**” means the shares and other ownership interests in the capital of: (i) the GlaxoSmithKline Consumer Group Companies; and (ii) the GlaxoSmithKline Joint Venture Entities that are owned by any member of GlaxoSmithKline’s Group;

“**GlaxoSmithKline Statement of Net Assets**” has the meaning given to it in Part 1 of Schedule 18;

“**GlaxoSmithKline Territories**” means, in respect of any GlaxoSmithKline Product, each of the territories in which sales are reported for such GlaxoSmithKline Product for financial purposes in the GlaxoSmithKline Consumer Healthcare Division for the year ended 31 December 2013 or since;

“**GlaxoSmithKline US RX Products**” means all rights, title and interest in and to any Prescription Products that are researched or developed, manufactured, distributed, marketed, sold, promoted or otherwise Commercialised by GlaxoSmithKline’s Seller’s Group in the United States of America and which are managed by and reported for financial purposes in the GlaxoSmithKline Consumer Healthcare Division for the year ended 31 December 2013 or since;

“**Good Clinical Practices**” or “**GCP**” means the then-current standards, practices and procedures promulgated or endorsed by: (i) the ICH Harmonised Tripartite Guidelines for Good Clinical Practice (CPMP/ICH/135/95) and any other guidelines for good clinical practices for trials on medicinal products in the European Union; (ii) the FDA as set forth in the guidelines entitled “Guidance for Industry E6 Good Clinical Practice: Consolidated Guidance,” including related regulatory requirements imposed by the FDA; and (iii) the equivalent Applicable Law in any relevant country;



“**Good Laboratory Practices**” or “**GLP**” means the then-current standards, practices and procedures promulgated or endorsed by: (i) the European Commission Directive 2004/10/EC relating to the application of the principles of good laboratory practices as well as “The rules governing medicinal products in the European Union,” Volume 3, Scientific guidelines for medicinal products for human use (ex - OECD principles of GLP); (ii) the then-current standards, practices and procedures promulgated or endorsed by the FDA as defined in 21 C.F.R. Part 58; and (iii) the equivalent Applicable Law in any relevant country;

“**Good Manufacturing Practices**” or “**GMP**” means the then-current standards, practices and procedures promulgated or endorsed by: (i) the European Commission Directive 91/356/EEC, as amended by Directives 2003/94/EC and 91/412/EEC respectively, as well as “The rules governing medicinal products in the European Union,” Volume 4, Guidelines for good manufacturing practices for medicinal products for human and veterinary use; (ii) the FDA and the provisions of 21 C.F.R. Parts 210 and 211; (iii) the principles detailed in the ICH Q7A guidelines; and (iv) all Applicable Law with respect to each of (i) through (iii);

“**Governmental Entity**” means any supra-national, federal, national, state, county, local, municipal or other governmental, regulatory or administrative authority, agency, commission or other instrumentality, any court, tribunal or arbitral body with competent jurisdiction, or any national securities exchange or automated quotation service, including any governmental regulatory authority or agency responsible for the grant, approval, clearance, qualification, licensing or permitting of any aspect of the research, development, manufacture, marketing, distribution, promotion, sale or other commercialisation of the relevant Products including the FDA, the European Medicines Agency, or any successor agency thereto;

“**Governmental Liability**” means any Liability arising out of, relating to or resulting from any claim, demand, action, suit, proceedings or investigation by a Governmental Entity (other than a Tax Authority) brought or undertaken in connection with products sold or developed by, or operations or practices of, the relevant Target Group prior to Closing;

“**Hazardous Substance**” means any gasoline or petroleum products, polychlorinated biphenyls, urea-formaldehyde insulation, hazardous wastes, toxic substances, asbestos, pollutants, or contaminants defined as such in or regulated under any applicable Environmental Law;

“**Healthcare Laws**” means the federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)); the Anti-Inducement Law (42 U.S.C. § 1320a-7a (a)(5)); the civil False Claims Act (31 U.S.C. §§ 3729 et seq.); the administrative False Claims Law (42 U.S.C. § 1320a-7b(a)); the Exclusion Laws (42 U.S.C. § 1320a-7); the Medicare statute (Title XVIII of the Social Security Act), including Social Security Act §§ 1860D-1 to 1860D-43 (relating to Medicare Part D and the Medicare Part D Coverage Gap Program); the Medicaid statute (Title XIX of the Social Security Act); the Physician Payment Sunshine Act (42 U.S.C. § 1320a-7h) and any analogous state laws; the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. § 1320d et seq.), as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and any other similar law, including the price reporting requirements and the requirements relating to the processing of any applicable rebate, chargeback or adjustment, under applicable rules and regulations relating to the Medicaid Drug Rebate Program (42 U.S.C. § 1396r-8), any state supplemental rebate program, Medicare average sales price reporting (42 U.S.C. § 1395w-3a); the Public Health Service Act (42 U.S.C. § 256b); the Veterans Health Care Act (38 U.S.C. § 8126), regulatory requirements applicable to sales on the Federal Supply Schedule or under any state pharmaceutical assistance program or United States Department of Veterans Affairs agreement, all legal requirements relating to the billing or submission of claims, collection of accounts receivable, underwriting the cost of, or provision of management or administrative services in connection with, any and all of the foregoing, by the relevant Seller’s Group and any successor government programmes, and all foreign equivalents of the foregoing;



“**HSR Act**” means the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, together with its implementing regulations;

“**IFRS**” means International Financial Reporting Standards, comprising the accounting standards and interpretations issued, adopted and/or approved by the International Accounting Standards Board;

“**Implementation Agreement**” means the implementation agreement dated the date of this Agreement between Novartis and GlaxoSmithKline relating to, amongst other things, the implementation of the Transaction;

“**In-Market Inventory**” means, in respect of a Seller, all inventory of the Products for Commercialisation that, at any particular time: (i) is beneficially owned by a member of that Seller’s Group; (ii) is in finished packed form and released for Commercialisation; and (iii) is located: (a) in (or in transit to) the relevant market; or (b) in (or in transit to) a multi-market warehouse owned or operated by a member of that Seller’s Group or by a third party; or (c) at a Property pending despatch following release by the relevant qualified person to the relevant market or multi-market warehouse;

“**In-Scope Switch Product**” means, in respect of GlaxoSmithKline, Flonase /Flixonase and, in respect of Novartis, Voltaren, but, in each case, only to the extent relating to the rights to research and develop, manufacture, distribute, market, sell, promote and/or otherwise Commercialise the same as a Consumer Healthcare Product, and “**GlaxoSmithKline’s In-Scope Switch Product**” and “**Novartis’s In-Scope Switch Product**” shall be construed accordingly;

“**Indebtedness**” means all loans and other financing liabilities and obligations in the nature of borrowed moneys and overdrafts, but excluding trade debt and liabilities arising in the ordinary course of business;

“**Information Technology**” means computer hardware, software and network;

“**Intellectual Property Assignment Agreements**” means the assignments between a Seller and/or one or more of its Affiliates and the Purchaser and/or one or more of its Affiliates on terms consistent with the Agreed Terms, to be entered into at Closing, in respect of the transfer of certain Intellectual Property Rights in each of the relevant jurisdictions;

“**Intellectual Property Rights**” means all (i) Patents; (ii) Know-How; (iii) Trademarks; (iv) internet domain names; (v) Copyrights; (vi) rights in designs; (vii) database rights; and (viii) all rights or forms of protection, anywhere in the world, having equivalent or similar effect to the rights referred to in paragraphs (i) to (vii) above, in each case, whether registered or unregistered and including applications for registration of any such thing;

“**International Assignees**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline International Assignees and, in respect of Novartis, the Novartis International Assignees;

“**Intra-Group Non-Trade Payables**” means, in respect of a Seller, all outstanding loans or other financing liabilities or obligations (including, for the avoidance of doubt, interest accrued, dividends declared or payable but not paid) owed by its Target Group Company to a member of that Seller’s Group (other than its Target Group Company) as at the Effective Time as derived from the Closing Statement, but excluding: (i) Intra-Group Trade Payables and Intra-Group Trade Receivables; and (ii) any item which falls to be included in calculating the Target Group Companies’ Cash Balances or the Third Party Indebtedness;



“**Intra-Group Non-Trade Receivables**” means, in respect of a Seller, all outstanding loans or other financing liabilities or obligations (including, for the avoidance of doubt, interest accrued, dividends declared or payable but not paid) owed by a member of that Seller’s Group (other than its Target Group Company) to its Target Group Company as at the Effective Time as derived from the Closing Statement, but excluding: (i) Intra-Group Trade Payables and Intra-Group Trade Receivables; and (ii) any item which falls to be included in calculating the Target Group Companies’ Cash Balances or the Third Party Indebtedness;

“**Intra-Group Trade Payables**” means, in respect of a Seller, all trade accounts and notes payable to any member of any Seller’s Group (excluding a Target Group Company) on the one hand, by any Target Group Company, on the other hand, in each case, to the extent related to its Target Group, arising in the ordinary course, together with any unpaid financing charges accrued thereon;

“**Intra-Group Trade Receivables**” means, in respect of a Seller, all trade accounts and notes receivable from any member of any Seller’s Group (excluding a Target Group Company) on the one hand, to any Target Group Company, on the other hand, in each case, to the extent related to its Target Group, arising in the ordinary course, together with any unpaid financing charges accrued thereon;

“**Intra-Group Trading Balances**” means, in respect of a Seller, the aggregate of its Intra-Group Trade Payables and its Transferred Accounts Payables payable to any member of that Seller’s Group (other than a Target Group Company) by a Business Seller of that Seller’s Group less the aggregate of its Intra-Group Trade Receivables and its Transferred Accounts Receivables payable by any member of that Seller’s Group (other than a Target Group Company) to a Business Seller of that Seller’s Group;

“**IP Liability**” means any Liability arising out of, relating to or resulting from any actual or alleged infringement, misappropriation or other violation of Intellectual Property Rights of third parties;

“**Joint Venture Entities**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Joint Venture Entities and, in respect of Novartis, the Novartis Joint Venture Entities;

“**Judgment**” means any order, writ, judgment, injunction, decree, decision, stipulation, determination or award entered by or with any Governmental Entity of competent jurisdiction;

“**Key Personnel**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Key Personnel and, in respect of Novartis, the Novartis Key Personnel;

“**Know-How**” means all existing and available technical information, know-how and data, including inventions (whether patentable or not), discoveries, trade secrets, specifications, instructions, processes and formulae, including all biological, chemical, pharmacological, biochemical, toxicological, pharmaceutical, physical, safety, quality control, preclinical and clinical data;

“**Lease**” has the meaning given to it in paragraph 1.1 of Part 4 of Schedule 2;

“**Liabilities**” means all liabilities, claims, damages, proceedings, demands, orders, suits, costs, losses and expenses, in each case, of every description, whether deriving from contract, common law, statute or otherwise, whether present or future, actual or contingent, ascertained or unascertained or disputed and whether owed or incurred severally or jointly or as principal or surety;

“**LIBOR**” means the London interbank offered rate, being the interest rate offered in the London inter-bank market for three month US dollar deposits as displayed on pages LIBOR01 or LIBOR02 of the Reuters screen at 11 a.m. (London) on the second Business Day prior to the Closing Date;



“**Licensed Intellectual Property Contract**” means any Target Group Intellectual Property Contract constituting or containing a licence of Intellectual Property Rights in respect of the Contributed Business or Products;

“**Listing Rules**” means the listing rules made by the FCA under section 73A of FSMA;

“**Local Transfer Document**” has the meaning given to it in Clause 2.6.1;

“**Long Stop Date**” has the meaning given to it in Clause 4.3;

“**Losses**” means all losses, liabilities, costs (including legal costs and experts’ and consultants’ fees), charges, expenses, actions, proceedings, claims and demands;

“**MA Costs**” has the meaning given to it in paragraph 4 of Part 2 of Schedule 4;

“**MA Documentation**” has the meaning given to it in paragraph 1.4 of Part 2 of Schedule 4;

“**Manufacture**” or “**Manufacturing**” or “**Manufactured**” means, as applicable, the planning, purchasing of materials for, production, processing, compounding, storage, filling, packaging, labelling, leafleting, warehousing, quality control testing, waste disposal, quality release, sample retention and stability testing of any products of the relevant Seller’s Contributed Business;

“**Manufacturing Inventory**” means, in respect of a Seller, any packed inventory of Products for Commercialisation that is: (i) in finished form (save for any secondary packaging undertaken outside of a primary manufacturing site); (ii) beneficially owned by any member of that Seller’s Group; (iii) held at a primary manufacturing site; and (iv) not yet released by the qualified person at a primary manufacturing site, and excluding in each case, for the avoidance of doubt, any In-Market Inventory and Manufacturing Stocks;

“**Manufacturing Liability**” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the Manufacturing of products of the relevant Seller’s Contributed Business;

“**Manufacturing Licences**” means any certificates, permits, licences, consents and approvals issued by any Governmental Entity, used in the operation or conduct of Manufacturing at each relevant Property, and “**Manufacturing Licence**” shall be construed accordingly;

“**Manufacturing Stocks**” means, in respect of a Seller, all stocks of raw materials, active pharmaceutical ingredients, ingredients, adjuvants, drug substances, intermediates, packaging materials, components, devices and other production and pre-production consumables and work-in-progress that are beneficially owned by any member of that Seller’s Group for use in the Manufacture of Products or Pipeline Products, respectively, and held at a primary manufacturing Property;

“**Manufacturing, Supply and Distribution Agreement**” means, in respect of a Seller, the manufacturing, supply and distribution agreement expected to be entered into between that Seller and the Purchaser at Closing on terms consistent with the Agreed Terms;

“**Marketing Authorisation Data**” means, in respect of a Seller, the existing and available dossiers containing the relevant Know-How used by that Seller and/or its Affiliates to obtain and maintain the Marketing Authorisations;



“**Marketing Authorisation Holder**” means the holder of a Marketing Authorisation;

“**Marketing Authorisation Re-Registration**” has the meaning given to it in paragraph 1.1(ii) of Part 2 of Schedule 4;

“**Marketing Authorisation Re-Registration Date**” means the date on which the Governmental Entity approves, or is deemed to approve, the Marketing Authorisation Re-Registration;

“**Marketing Authorisation Transfer**” has the meaning given to it in paragraph 1.1(i) of Part 2 of Schedule 4;

“**Marketing Authorisation Transfer Date**” means the date on which the Governmental Entity approves, or is deemed to approve, the Marketing Authorisation Transfer;

“**Marketing Authorisation Transferee**” means the member of the Purchaser’s Group or, where no member of the Purchaser’s Group satisfies the requirements under Applicable Law to be transferred the relevant Marketing Authorisation, such third party as is nominated by the Purchaser, in either case, to whom the relevant Marketing Authorisation is to be transferred;

“**Marketing Authorisations**” means, in respect of a Seller, the marketing authorisations issued or applications for marketing authorisations with respect to its Products, and all supplements, amendments and revisions thereto;

“**Markets**” means, in respect of a Seller, the markets in which its Products are marketed and sold under the relevant Marketing Authorisation and “**Market**” shall be construed accordingly;

“**Material Adverse Effect**” means, in respect of a Seller, any matter, change, event or circumstance arising or discovered on or after the date of this Agreement and prior to Closing (including a breach of that Seller’s obligations under Clause 5 or Clause 9.1) (a “**Relevant Matter**”) that, individually or in aggregate with other Relevant Matters, if known to the Purchaser prior to the date of this Agreement, could reasonably have been expected to have resulted in the Purchaser reducing the number of A Shares or B Shares (as the case may be) to be issued by 30 per cent. or more, and, in determining such reduction regard shall be had to the actual basis on which the number of A Shares to be issued or the number of B Shares to be issued (as the case may be) was calculated. A Relevant Matter shall not constitute or count towards a

“**Material Adverse Effect**” to the extent resulting or arising from:

- (i) any change that is generally applicable to, or generally affects, the industries or markets in which the relevant Seller’s Target Group operates (including changes arising as a result of usual seasonal variations) or arises from or relates to changes in Applicable Law or accounting rules or changes in any authoritative interpretation of any Applicable Law by any Governmental Entity;
- (ii) any change in financial, securities or currency markets or general economic or political conditions or changes in prevailing interest rates or exchange rates;
- (iii) the execution of this Agreement, the public announcement thereof or the pendency or consummation of the transactions contemplated hereby (including any cancellations of or delays in customer orders or other decreases in customer demand, any reduction in revenues and any disruption in supplier, distributor, customer or similar relationships); or
- (iv) the taking of any action expressly required by this Agreement or by any Ancillary Agreement or otherwise taken with the advance written consent of the Purchaser,



except, in relation to either paragraph (i) or paragraph (ii) above, if that change adversely affects that Seller's Target Group in a disproportionate manner relative to other comparable businesses operating in the same industry and geographic markets as that Seller's Target Group (in which case it may constitute or count towards a "Material Adverse Effect");

**"Material Employee Jurisdictions"** means, in respect of GlaxoSmithKline, the GlaxoSmithKline Material Employee Jurisdictions and, in respect of Novartis, the Novartis Material Employee Jurisdictions;

**"Maximum Working Capital Amount"** means, in respect of GlaxoSmithKline, £600,000,000 and, in respect of Novartis, US\$600,000,000;

**"Medical Information"** means, in respect of each Seller, information Predominantly Related to its Contributed Business which is available to or used by it and/or its Affiliates as of the Closing Date relating to clinical and technical matters, such as therapeutic uses for the approved indications, drug-disease information, and other product characteristics;

**"Minimum Working Capital Amount"** means, in respect of GlaxoSmithKline, £500,000,000 and, in respect of Novartis, US\$500,000,000;

**"Minority Notification"** has the meaning given in clause 4.2.10;

**"Netherlands Assumed Liabilities"** means the Assumed Liabilities to the extent that they relate to the Netherlands Business;

**"Netherlands Business"** means that part of GlaxoSmithKline's Contributed Business that is conducted in the Netherlands, the Netherlands Assumed Liabilities and the Netherlands Employees;

**"Netherlands Closing"** has the meaning given to it in the Netherlands SAPA;

**"Netherlands Employees"** means those of the GlaxoSmithKline Employees who are employed in the Netherlands;

**"Netherlands Offer Letter"** means the letter from the Purchaser to the Seller in respect of the binding offer from the Purchaser to acquire the Netherlands Business dated on or around the date hereof;

**"Netherlands Put Option Exercise"** has the meaning given to it in the Netherlands Offer Letter;

**"Netherlands SAPA"** has the meaning given in the Netherlands Offer Letter;

**"Non-US Benefit Plans"** has the meaning given to it in paragraph 17.3.1 of Schedule 13;

**"Notice"** has the meaning given to it in Clause 15.14.1;

**"Notifier"** has the meaning given in paragraph 1.1 of Schedule 17;

**"Novartis Animal Health Business"** means the business conducted by any member of Novartis's Group of researching and developing, manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising the Novartis Animal Health Products;

**"Novartis Animal Health Products"** means any products which are managed by the Novartis Animal Health Division and reported in the Animal Health reporting segment of Novartis's Consumer Health Division;



“**Novartis Business Employees**” means the employees of any member of Novartis’s Group who work wholly or substantially in the Novartis OTC Business from time to time including, for the avoidance of any doubt, the Novartis International Assignees other than the Novartis Company Employees and the Novartis Excluded Employees and provided that, in relation to the Seller’s Warranties only, the words “from time to time” shall be deemed to be replaced by “at the date of this Agreement”, and “**Novartis Business Employee**” means any one of them;

“**Novartis Company Employees**” means the employees from time to time of any of the Novartis OTC Group Companies other than the Novartis Excluded Employees, and provided that, in relation to the Seller’s Warranties only, the words “from time to time” shall be deemed to be replaced by “at the date of this Agreement”, and “**Novartis Company Employee**” means any one of them;

“**Novartis December 2013 Presentation**” mean the management presentation entitled “Gazelle Management Presentation: NOTC” and dated December 2013 and attached to this Agreement as Attachment 2;

“**Novartis Deferred Employee**” means any person to whom Novartis, any Novartis OTC Group Company or any other member of Novartis’s Group has made an offer of employment for a role within the Novartis OTC Business in compliance with clause 5 and who has accepted such offer in writing and whose employment within the Novartis OTC Business will take effect on a date following the Closing Date, save that no person shall become an Novartis Deferred Employee unless and until Novartis has provided to GlaxoSmithKline a copy of the offer letter setting out the agreed principal terms of employment and/or employment agreement (if executed) applicable to such person;

“**Novartis Distribution and Sales Products Contracts**” means any contract between a member of Novartis’s Group (other than a Novartis OTC Group Company) on the one hand, and any Novartis OTC Group Company on the other hand, relating to the distribution and sale by the Novartis OTC Business of products owned, managed and reported by the Seller’s Retained Business;

“**Novartis Employees**” means the Novartis Business Employees and the Novartis Company Employees, and “**Novartis Employee**” means any one of them;

“**Novartis Excluded Assets**” means the property, rights, businesses and assets referred to in Clause 2.3.2 in respect of the Novartis OTC Group Businesses and the assets and businesses set out in Part 2 of Schedule 3;

“**Novartis Excluded Businesses**” means:

- (i) the Novartis Animal Health Business;
- (ii) the Novartis US NRT Business;
- (iii) the Novartis Pharmaceutical Division’s business of researching and developing, manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising any Consumer Healthcare Products which are managed by and reported for financial purposes in the Novartis Pharmaceutical Division on or prior to the date of this Agreement (including any development of such products);
- (iv) the business(es) (as conducted from time to time) owned or managed by, or reported for financial purposes in, Novartis’s:
  - (a) Alcon division (including for the avoidance of doubt, Ciba-Giegy); or



- (b) Sandoz division (excluding, for the avoidance of doubt, Sandocal and Calcium Sandoz, which are included within the definition of the Novartis OTC Business); and
- (v) any assets or liabilities that are deemed to constitute Novartis Excluded Assets pursuant to paragraph 9.2 of Schedule 6;

“**Novartis Excluded Employees**” means the employees of any member of Novartis’s Group (including the Novartis OTC Group Companies) as may be agreed in writing between Novartis and GlaxoSmithKline after the date of this Agreement but before the Closing Date;

“**Novartis’s Group**” means Novartis and its Affiliates from time to time, provided that, for the purposes of this Agreement, the Purchaser and any person Controlled by the Purchaser (whether directly or indirectly) from time to time shall not be included in Novartis’s Group;

“**Novartis IndiaCo**” means Novartis India Ltd, an Indian listed company;

“**Novartis Indian Business**” means that part of the Novartis OTC Business conducted by Novartis IndiaCo or any person Controlled by Novartis IndiaCo from time to time;

“**Novartis Indian Consent**” has the meaning given in paragraph 7.1 of Schedule 6;

“**Novartis International Assignees**” means the employees of any member of Novartis’s Group (including the Novartis OTC Group Companies) who are listed in Schedule 20, and such other employees as may be agreed in writing between GlaxoSmithKline and Novartis after the date of this Agreement but before the Closing Date;

“**Novartis Joint Venture Entities**” means an entity in which Novartis’s Group holds equity interests of less than 100 per cent. but whose operations, assets and/or businesses are Exclusively Related to the Novartis OTC Business, an indicative list of which are set out in Part B of Part 2 of Schedule 1, excluding any such entity whose operations, assets and/or businesses form part of the Novartis Excluded Assets;

“**Novartis Key Personnel**” means the Novartis Employees listed in Part 2 of Schedule 16;

“**Novartis’s Lawyers**” means Freshfields Bruckhaus Deringer LLP of 65 Fleet Street, London EC4Y 1HS;

“**Novartis Material Employee Jurisdictions**” means United States, Switzerland, Russia, China and India;

“**Novartis OTC Business**” means:

- (i) the business of researching and developing, manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising the Novartis Products in the Novartis Territories;
- (ii) the business of researching and developing any Novartis Pipeline Products;
- (iii) all rights, title and interest in relation to researching and developing, manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising Novartis’s In-Scope Switch Product, in any jurisdiction, as a Consumer Healthcare Product only;



- (iv) the business of manufacturing, marketing, distributing, selling, promoting and/or otherwise Commercialising the Prescription Products which are managed by the Novartis OTC Division and which have been reported for financial purposes in the OTC reporting segment of the Novartis Consumer Health Division for, or since, the year ended 31 December 2013 and, in respect of any such Prescription Product, in the territories in which sales are reported for such Prescription Product in the OTC reporting segment of the Novartis Consumer Health Division for the year ended 31 December 2013 or since; and
- (v) any royalty streams in respect of any products received by and reported for financial purposes in the OTC reporting segment of the Novartis Consumer Healthcare Division for, or since, the year ended 31 December 2013,

in each case, conducted by Novartis's Group, but excluding the Novartis Excluded Assets;

**"Novartis OTC Group"** means the Novartis OTC Group Companies and the Novartis OTC Group Businesses, taken as a whole;

**"Novartis OTC Group Businesses"** means the businesses of the Novartis OTC Business (but excluding the businesses carried on by the Novartis OTC Group Companies) as set out in Clause 2.3.1, but subject always to Clause 2.3.2, and

**"Novartis OTC Group Business"** means any of them;

**"Novartis OTC Group Companies"** means the members of Novartis's Group whose operations, assets and/or businesses are Exclusively Related to the Novartis OTC Business, a non-exhaustive list of which are set out in Part A of Part 2 of Schedule 1, but excluding any such members whose operations, assets and/or businesses form part of the Novartis Excluded Assets, and **"Novartis OTC Group Company"** means any one of them;

**"Novartis Pipeline Product"** means each product that the Novartis OTC Division is researching and developing, with the intention of that product becoming a Consumer Healthcare Product (but excluding, in any event, Diovan), an indicative list of which is set out in Schedule 9, Part 3;

**"Novartis Products"** means, in respect of any territory, any Consumer Healthcare Products which are managed by the Novartis OTC Division and which have been reported for financial purposes in the OTC reporting segment of the Novartis Consumer Health Division in that territory for the year ended 31 December 2013 or since, an indicative list of which is set out in Schedule 9, Part 2;

**"Novartis Services Contracts"** means any Contract between or among any member of Novartis's Group (other than its Target Group Company and its Business Seller) on the one hand, and its Target Group Company or Business Seller on the other hand which, in addition to the Ancillary Agreements and any other assets to be transferred pursuant to this Agreement, is necessary to enable the Purchaser and/or any other member of the Purchaser's Group to carry on Novartis's Contributed Business (or the relevant part thereof) in substantially the same manner as it has been during the twelve months prior to the date of this Agreement;

**"Novartis Shares"** means the shares and other equity, partnership or similar interests in the capital of: (i) the Novartis OTC Group Companies; and (ii) the Novartis Joint Venture Entities that are owned by any member of Novartis's Group;

**"Novartis Statement of Net Assets"** has the meaning given to it in Part 2 of Schedule 18;



“**Novartis Territories**” means, in respect of any Novartis Product, each of the Territories in which sales are reported for such Novartis Product in the OTC reporting segment of the Novartis Consumer Healthcare Division for the year ended 31 December 2013 or since;

“**Novartis US NRT Business**” means the business of researching and developing, manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising any nicotine related products of any nature whatsoever in the United States of America, conducted by Novartis’s Group, including those commercialised under the Habitrol brand and any other private label nicotine related products;

“**Novartis US RX Products**” means all rights, title and interest in and to any Prescription Products that are developed or researched, manufactured, distributed, marketed, sold, promoted or otherwise Commercialised by Novartis’ Seller’s Group in the United States of America and which are managed by the Novartis OTC Division and which have been reported for financial purposes in the OTC reporting segment of the Novartis Consumer Health Division in that territory for the year ended 31 December 2013 or since, but excluding any Prescription Product that is governed by the Endo Excluded Contract;

[\*\*\*]

“**Oncology Sale and Purchase Agreement**” means the sale and purchase agreement dated the date of this agreement between GlaxoSmithKline and Novartis relating to the sale and purchase of certain oncology products;

“**Ongoing Clinical Trials**” means, in respect of a Seller, the ongoing clinical studies sponsored or supported by that Seller’s Group (including post-approval studies) or otherwise recommended by a Governmental Entity in respect of the relevant Products;

“**Owned Information Technology**” means, in respect of a Seller, the Information Technology Exclusively Related to its Contributed Business and owned by any of its Target Group Companies;

“**Owned Intellectual Property Contracts**” means, in respect of a Seller, the Contracts Exclusively Related to its Contributed Business which relate to Intellectual Property Rights and that are held by any of its Target Group Companies;

“**Owned Intellectual Property Rights**” means, in respect of a Seller, the Intellectual Property Rights Exclusively Related to its Contributed Business and owned by any of its Target Group Companies;

“**PA Transfer Date**” means, in relation to a Product or Product Application, the date upon which the relevant Governmental Entity approves and notifies such Product Approval or Product Application (as applicable) naming the Purchaser or the relevant Affiliate of the Purchaser (or designee thereof) as the holder of such Product Approval or Product Application in the relevant country or territory covered by that Product Approval or Product Application;

“**Patents**” means patents, design patents, patent applications, and any reissues, re-examinations, divisionals, continuations, continuations-in-part, provisionals, and extensions thereof or any counterparts to any of the foregoing (including rights resulting from any post-grant proceedings relating to any of the foregoing);

“**Payment**” has the meaning given to it in Clause 1.9;

“**Payee**” has the meaning given in Clause 15.11.1;

“**Payer**” has the meaning given in Clause 15.11.1;

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



“Permit” has the meaning given to it in paragraph 10.2 of Schedule 13;

“Permitted Encumbrance” means, in respect of a Seller:

- (i) Encumbrances imposed by Applicable Law;
- (ii) Encumbrances imposed in the ordinary course of business which are not yet due and payable or which are being contested in good faith;
- (iii) pledges or deposits to secure obligations under Applicable Law relating to workers’ compensation, unemployment insurance or to secure public or statutory obligations; and
- (iv) liens, title retention arrangements or deposits to secure the performance of bids, trade contracts (other than for borrowed money), conditional sales contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of its Contributed Business;

“Pharmacovigilance Agreement” means the agreement between each of the Sellers and the Purchaser, to be entered into at Closing, in respect of pharmacovigilance and regulatory matters;

“Pipeline Product Approvals” means, in respect of a Seller, the approvals in relation to its Pipeline Products;

“Pipeline Products” means the GlaxoSmithKline Pipeline Products and the Novartis Pipeline Products;

“Predominantly Related to” means, in respect of a Seller’s Contributed Business, exclusively or predominantly related to, or used or held for use predominantly in connection with, that Seller’s Contributed Business;

“Prescription Product” means, in respect of any jurisdiction, any oral care, nutritional care, skin care or other cosmetic or healthcare product or device of any kind, in each case, for the treatment of, or use by, human beings, which is (i) only available with a prescription, or (ii) available without, or both with and without, a prescription but is subject to the same regulatory classification and/or regulatory treatment (including in relation to advertising) as a product or device that is only available with a prescription;

“Proceedings” means any legal actions, proceedings, suits, litigations, prosecutions, investigations, enquiries, mediations or arbitrations;

“Product Applications” means, in respect of a Seller, all applications for Product Approval filed with respect to the relevant Products Under Registration, with each individual application being a “Product Application”;

“Product Approvals” means, in respect of a Seller, all permits, licences, certificates, registrations or other authorisations or consents issued by any Governmental Entity to that Seller or one of its Affiliates with respect to its Products or the use, research, development, marketing, distribution or sale thereof, including the Marketing Authorisations;

“Product Filings” means, in respect of any Seller, all filings, written representations, declarations, listings, registrations, reports or submissions with or to any Governmental Entity, including adverse event reports and all submitted data relating to each relevant Product;



“**Product Liabilities**” means any Liability arising out of, relating to or resulting from actual or alleged harm, injury, damage or death to persons in connection with the use of any product (including in any clinical trial or study);

“**Product Partners**” means, in respect of a Seller, any third parties which, pursuant to a Contract with that Seller or any of its Affiliates, co-develop, co-promote, co-market, or otherwise have a licence or other right to research, develop, manufacture, promote, distribute, market, or sell any Product, including all manufacturers and suppliers of that Product;

“**Products**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Products and, in respect of Novartis, the Novartis Products;

“**Products Under Registration**” means, in respect of a Seller, the Products of that Seller which are pending Product Approval as of the date hereof;

“**Properties**” means the Company Properties and the Transferred Properties, and “**Property**” means any one of them;

“**Proprietary Information**” means, in respect of a Seller, all confidential and proprietary information of that Seller or its Affiliates that is Predominantly Related to its Contributed Business, including relevant confidential Medical Information, confidential Know-How and confidential Commercial Information;

“**Purchase Consideration**” has the meaning given to it in Clause 3.1.1;

“**Purchaser’s Bank Account**” means the account notified by the Purchaser to each of the Sellers no later than two Business Days prior to the Closing Date;

“**Purchaser’s Disagreement Notice**” has the meaning given to it in paragraph 1.4 of Schedule 12;

“**Purchaser’s Group**” means the Purchaser and its Affiliates from time to time, excluding any member of GlaxoSmithKline’s Group or Novartis’s Group;

“**Purchaser Trademark Licence Agreement**” means the agreement between a Seller and/or one or more of its Affiliates and the Purchaser and/or one or more of its Affiliates on terms consistent with the Agreed Terms, to be entered into at Closing, in respect of the grant of licences from that Seller to the Purchaser of certain Intellectual Property Rights;

“**Recipient**” has the meaning given in paragraph 1.1 of Schedule 17;

“**Registered Intellectual Property Rights**” means all Intellectual Property Rights that are registered, issued, filed, or applied for under the authority of any Governmental Entity;

“**Registered Target Group Intellectual Property Rights**” means all Target Group Intellectual Property Rights that are Registered Intellectual Property Rights;

“**Regulation**” has the meaning given to it in Clause 4.1.1;

“**Relevant Employees**” means, in respect of GlaxoSmithKline, the Relevant GlaxoSmithKline Employees and, in respect of Novartis, the Relevant Novartis Employees;

“**Relevant Employers**” means, in respect of each Seller, the Business Seller’s and such other members of that Seller’s Group that employ that Seller’s Relevant Employees;

“**Relevant Employer’s FSAs**” has the meaning given to it in paragraph 7 of Schedule 7;



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“**Relevant GlaxoSmithKline Business Employees**” means the GlaxoSmithKline Business Employees immediately prior to the Closing Date, and “**Relevant GlaxoSmithKline Business Employee**” means any one of them;

“**Relevant GlaxoSmithKline Company Employees**” means the GlaxoSmithKline Company Employees immediately prior to the Closing Date (excluding any who do not work wholly or substantially in the GlaxoSmithKline Consumer Business), and “**Relevant GlaxoSmithKline Company Employee**” means any one of them;

“**Relevant GlaxoSmithKline Employees**” means the Relevant GlaxoSmithKline Business Employees and the Relevant GlaxoSmithKline Company Employees, and “**Relevant GlaxoSmithKline Employee**” means any one of them;

“**Relevant Novartis Business Employees**” means the Novartis Business Employees immediately prior to the Closing Date, and “**Relevant Novartis Business Employee**” means any one of them;

“**Relevant Novartis Company Employees**” means the Novartis Company Employees immediately prior to the Closing Date (excluding any who do not work wholly or substantially in the Novartis OTC Business), and “**Relevant Novartis Company Employee**” means any one of them;

“**Relevant Novartis Employees**” means the Relevant Novartis Business Employees and the Relevant Novartis Company Employees, and “**Relevant Novartis Employee**” means any one of them;

“**Relevant Part**” means, in respect of a Shared Business Contract, the part of it which Exclusively Relates to the relevant Contributed Business (or the part of the relevant Contributed Business that is transferred to the Purchaser at Closing);

“**Relevant Period**” means the period of two years prior to the date of this Agreement;

“**Relevant Persons**” has the meaning given to it in Clause 8.2.2(vi);

“**Relevant Target Business Employees**” means, in respect of GlaxoSmithKline, the Relevant GlaxoSmithKline Business Employees and, in respect of Novartis, the Relevant Novartis Business Employees, and “**Relevant Target Business Employee**” means any one of them;

“**Relevant Target Company Employees**” means, in respect of GlaxoSmithKline, the Relevant GlaxoSmithKline Company Employees and, in respect of Novartis, the Relevant Novartis Company Employees, and “**Relevant Target Company Employee**” means any one of them;

“**Relevant Tax Deduction**” has the meaning given in Clause 15.11.2;

“**Reorganisation**” has the meaning given to it in Clause 2.3.5;

“**Reporting Accountants**” means the London office of Ernst & Young or, if that firm is unable or unwilling to act in any matter referred to them under this Agreement, the London office of Deloitte or, if that firm is also unable or unwilling to act in any matter referred to them under this Agreement, an internationally recognised and independent firm of accountants who does not act as auditor to the relevant Seller or the Purchaser, to be agreed by the Seller and the Purchaser within seven days of a notice by one to the other requiring such agreement or, failing such agreement, to be nominated on the application of either of them by or on behalf of the Institute of Chartered Accountants of England and Wales;

“**Required Notifications**” has the meaning given to it in Clause 4.2.1;



“**Sanctions Law**” has the meaning given to it in paragraph 10.5 of Schedule 13;

“**Select Equity Plans**” means the Novartis Restricted Stock Plan of 1 November 2007 (Rest of the World), the Novartis Restricted Stock Plan of 1 November 2007 (Switzerland), the Novartis Restricted Stock Unit Plan of November 2007 (Rest of the World and Switzerland), the Novartis Stock Option Plan of September 2003 (Rest of the World), the Novartis Stock Option Plan of February 2005 (Switzerland) and the Novartis Corporation 2011 Stock Incentive Plan for North American Employees effective 1 January 2011, and a “**Select Equity Plan**” means any one of them;

“**Seller Intellectual Property Licence Agreement**” means the agreement between the relevant Seller and/or one or more of its Affiliates and the Purchaser and/or one or more of its Affiliates on terms consistent with the Agreed Terms, to be entered into at Closing, in respect of the grant of licences from the Purchaser to the relevant Seller of certain Target Group Intellectual Property Rights;

“**Seller Marks**” means:

- (i) with respect to GlaxoSmithKline, any Trademark of GlaxoSmithKline containing the mark “GlaxoSmithKline”, and any other mark listed in Part 1 of Schedule 21, or any variants of the foregoing; and
- (ii) with respect to Novartis, any Trademark of Novartis containing the mark including the names “Novartis”, “Sandoz”, “Alcon” or “Ciba Vision” or any of the variants of the foregoing;

“**Seller Partner**” means, in respect of a Seller, any counterparty to a development, contract research, commercialisation, manufacturing, distribution, sales, marketing, supply, consulting or other collaboration contract with that Seller or any of its Affiliates;

“**Seller Trademark Licence Agreement**” means the agreement between the relevant Seller and/or one or more of its Affiliates and the Purchaser and/or one or more of its Affiliates on terms consistent with the Agreed Terms, to be entered into at Closing, in respect of the grant of licences from the relevant Seller to the Purchaser of certain Intellectual Property Rights;

“**Seller’s Bank Account**” means, in respect of a Seller, the account notified by such Seller to the Purchaser no later than two Business Days prior to the Closing Date;

“**Seller’s Disagreement Notice**” has the meaning given to it in paragraph 1.5 of Schedule 12;

“**Seller’s Group**” means, in respect of a Seller, that Seller and its Affiliates from time to time, provided that, for the purposes of this Agreement, the Purchaser and any person Controlled by the Purchaser (whether directly or indirectly) from time to time shall not be included in any Seller’s Group;

“**Seller’s Group Insurance Policy**” means, in respect of a Seller, all insurance policies (whether under policies maintained with third party insurers or any member of that Seller’s Group), other than the Target Group Insurance Policies, maintained by that Seller or any member of that Seller’s Group in relation to its Contributed Business or under which, immediately prior to Closing, any of that Seller’s Target Group Companies or that Seller or member of that Seller’s Group in relation to its Contributed Business is entitled to any benefit, and “**Seller’s Group Insurance Policy**” means any one of them;

“**Seller’s Knowledge**” has the meaning given to it in Clause 9.1.4;

“**Seller’s Retained Business**” means, in respect of a Seller, all businesses of that Seller’s Group from time to time, including its Excluded Assets, but excluding its Contributed Business;



“**Seller’s Warranties**” means, in respect of a Seller, the warranties given by that Seller pursuant to Clause 9 and Schedule 13, and “**Seller’s Warranty**” means any one of them;

“**Service Provider**” means an Associated Person who is a legal person;

“**Services Agreement**” means the services agreement expected to be entered into between GlaxoSmithKline and the Purchaser at Closing on the terms consistent with the Agreed Terms;

“**Share Sellers**” means, in respect of a Seller, the members of that Seller’s Group (other than its Target Group Companies and Joint Venture Entities) that own shares or other equity interests in any of that Seller’s Target Group Companies or Joint Venture Entities, an indicative list of which is set out in column (1) of Schedule 1, Part A (in respect of GlaxoSmithKline) or Part B (in respect of Novartis);

“**Shared Business Contracts**” means, in respect of a Seller, any Contract which relates both:

- (i) to its Contributed Business; and
- (ii) to any other business of its Group, any part of its Contributed Business which is not transferred to the Purchaser at Closing (until it is so transferred), or any of its Excluded Assets,

and to which a member of the Seller’s Group is a party or in respect of which a member of the Seller’s Group has any right liability or obligation at Closing, and “**Shared Business Contract**” shall mean any of them;

“**Shareholders’ Agreement**” means the shareholders’ agreement to be entered into by the parties and certain of the Sellers’ Affiliates on Closing in the Agreed Terms;

“**Shares**” means, together, the GlaxoSmithKline Shares and the Novartis Shares;

“**Statement of Net Assets**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Statement of Net Assets and, in respect of Novartis, the Novartis Statement of Net Assets;

“**Statement of Net Assets Date**” means 31 December 2013;

“**Statement of Net Asset Rules**” means, for each Seller, the rules in accordance with which its Statement of Net Assets was prepared, as set out in Part 1 (in the case of GlaxoSmithKline) or Part 2 (in respect of Novartis) of Schedule 18;

“**Target Asset Agreement**” has the meaning given in the Implementation Agreement;

“**Target Business Employees**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Business Employees and, in respect of Novartis, the Novartis Business Employees, and “**Target Business Employee**” means any of them;

“**Target Company Employees**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Company Employees and, in respect of Novartis, the Novartis Company Employees, and “**Target Company Employee**” means any one of them;

“**Target Group**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Consumer Group Companies and the GlaxoSmithKline Consumer Group Businesses, and, in respect of Novartis, the Novartis OTC Group Companies and the Novartis OTC Group Businesses, in each case, taken as a whole, and “**Target Groups**” shall mean both of them;



“**Target Group Businesses**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Consumer Group Businesses and, in respect of Novartis, Novartis OTC Group Businesses, and “**Target Group Business**” means any one of them;

“**Target Group Companies**” means, in respect of GlaxoSmithKline, the GlaxoSmithKline Consumer Group Companies, and, in respect of Novartis, the Novartis OTC Group Companies, and “**Target Group Company**” means any one of them;

“**Target Group Companies’ Cash Balances**” means, in respect of a Seller, an amount equal to the sum of the aggregate amount of Cash Balances held by or on behalf of the Target Group Companies within that Seller’s Group at the Effective Time, as derived from the Closing Statement;

“**Target Group Goodwill**” means all goodwill of the Target Group Businesses, but excluding any Trademark goodwill;

“**Target Group Information Technology**” means the Transferred Information Technology and the Owned Information Technology;

“**Target Group Insurance Policies**” means all insurance policies held exclusively by and for the benefit of the relevant Target Group Companies, and “**Target Group Insurance Policy**” means any one of them;

“**Target Group Intellectual Property Contracts**” means the Transferred Intellectual Property Contracts and the Owned Intellectual Property Contracts;

“**Target Group Intellectual Property Rights**” means the Transferred Intellectual Property Rights and the Owned Intellectual Property Rights;

“**Taxation**” or “**Tax**” has the meaning given to it in the Tax Indemnity;

“**Tax Adjustment**” means, in respect of a Seller, the amount by which:

- (i) the aggregate amount of the income taxes and sales taxes payable by the Target Group Companies, as at the Effective Time, as derived from the Closing Statement;

exceeds or is less than

- (ii) the aggregate amount of the current income tax and sales tax receivables of the Target Group Companies, as at the Effective Time, as derived from the Closing Statement,

and any such excess amount shall be treated as a positive number and any shortfall shall be treated as a negative amount;

“**Tax Authority**” has the meaning given to it in the Tax Indemnity;

“**Tax Group**” has the meaning given to it in the Tax Indemnity;

“**Tax Indemnity**” means the deed of covenant against taxation, on terms consistent with the Agreed Terms, to be entered into on the Closing Date between each Seller and the Purchaser;

“**Tax Return**” has the meaning given to it in the Tax Indemnity;

“**Tax Warranties**” means, in respect of a Seller, the Seller’s Warranties set out in paragraph 14 of Schedule 13;

“**Third Party Claim**” has the meaning given to it in Clause 11.4;



“**Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from third parties, and “**Third Party Consent**” means any one of them;

“**Third Party Indebtedness**” means the aggregate amount as at the Effective Time of all outstanding Indebtedness owed by the Target Group Companies to any third party less any Indebtedness owed by any third party to any Target Group Company as derived from the Closing Statement (but excluding any item included in respect of any Target Group Companies’ Cash Balances or Intra-Group Non-Trade Payables), and, for the purposes of this definition, third party shall exclude any member of either Seller’s Group;

“**Time-Limited Excluded Liability**” means an Excluded Liability which is:

- (i) a Contracts Liability;
- (ii) an Environmental Liability;
- (iii) a Manufacturing Liability; or
- (iv) a Commercial Practices Liability,

but excludes an IP Liability;

“**Trademarks**” means trademarks, service marks, trade names, certification marks, service names, industrial designs, brand names, brand marks, trade dress rights, identifying symbols, logos, emblems, and signs or insignia and all goodwill of the business in relation to which any of the foregoing are used (but no other or greater goodwill);

“**Transaction**” has the meaning given to it in Clause 4.1.1;

“**Transfer Regulations**” means the relevant national measure by which the employment of a Relevant Target Business Employee automatically transfers to the Purchaser or a relevant member of the Purchaser’s Group;

“**Transferred Accounts Payables**” means, in respect of a Seller, all trade accounts and notes payable of that Seller’s Group (other than its Target Group Companies) to the extent related to its Contributed Business, and outstanding at the Effective Time, arising in the ordinary course, together with any unpaid financing charges accrued thereon;

“**Transferred Accounts Receivables**” means, in respect of a Seller, all trade accounts and notes receivable of that Seller’s Group (other than its Target Group Companies) to the extent related to its Contributed Business, and outstanding at the Effective Time, arising in the ordinary course, together with any unpaid financing charges accrued thereon;

“**Transferred Books and Records**” means, in respect of a Seller, all books, ledgers, files, reports, plans, records, manuals and other materials (in any form or medium) to the extent of, or maintained predominantly for, that Seller’s Contributed Business by that Seller’s Group (excluding its Target Group Companies) (other than emails), but excluding:

- (i) any such items to the extent that: (A) they are related to any Excluded Assets or Excluded Liabilities; (B) they are related to any corporate, Tax, human resources or stockholder matters of that Seller or its Affiliates (other than its Target Group Companies); (C) any Applicable Law prohibits their transfer; or (D) any transfer thereof otherwise would subject that Seller or any of its Affiliates to any material liability; and



- (ii) any laboratory notebooks to the extent containing research and development information unrelated to its Contributed Business and any books and records that are more than five years old containing, in whole or in part, research and development information (other than any laboratory notebooks, books or records described in this paragraph (ii) that are maintained for its Contributed Business by its Target Group Companies);

“**Transferred Contracts**” means: (i) in respect of a Seller, the Contracts, other than its Transferred Intellectual Property Contracts, that are Exclusively Related to that Seller’s Contributed Business between a Business Seller of that Seller’s Group, on the one hand, and any third party, on the other hand (other than this Agreement and any Ancillary Agreement); and (ii) in the case of Novartis, the Novartis Distribution and Sales Products Contracts and the Novartis Services Contracts; and (iii) in the case of GlaxoSmithKline, any Contracts between a member of its Group (other than its Target Group Company and its Business Seller) on the one hand and its Business Seller, on the other hand, that are Exclusively Related to GlaxoSmithKline’s Contributed Business, other than any contracts that relate to any services that will be and, as at Closing are, provided under the Ancillary Agreements;

“**Transferred Employees**” means, in relation to a Seller: (i) any Target Business Employees of that Seller to whom the Purchaser (or a member of the Purchaser’s Group) offers employment and who accept such employment and become employed by the Purchaser (or a member of the Purchaser’s Group) in accordance with Schedule 7; (ii) any Relevant Target Business Employees of that Seller who transfer to the Purchaser (or a member of the Purchaser’s Group) by operation of the Transfer Regulations and do not object to such transfer (to the extent permitted by the Transfer Regulations) in accordance with Schedule 7; and (iii) the Relevant Target Company Employees of that Seller, and “**Transferred Target Business Employees**” means the employees in (i) and (ii), “**Transferred Target Company Employees**” means the employees in (iii), and “**Transferred Employee**”, “**Transferred Target Business Employee**” and “**Transferred Target Company Employee**” respectively means any one of them;

“**Transferred Information Technology**” means, in respect of a Seller, all Information Technology of any member of that Seller’s Group (other than its Target Group Company) to the extent Exclusively Related to that Seller’s Contributed Business;

“**Transferred Intellectual Property Contracts**” means, in respect of a Seller, Contracts Exclusively Related to its Contributed Business which relate to Intellectual Property Rights (but excluding the rights under any such Contracts that are held by its Target Group Companies);

“**Transferred Intellectual Property Rights**” means, in respect of a Seller, the Intellectual Property Rights of any member of that Seller’s Group (other than a Target Group Company) Exclusively Related to its Contributed Business. For the avoidance of doubt, whether a Trademark is Exclusively Related to a Contributed Business will be assessed on a Brand basis rather than a country by country basis, so that a Brand (and the Trademarks used or registered for use with a Product to which that Brand is associated) shall be deemed not to be Exclusively Related to a Contributed Business where, as at the date of this Agreement, a Brand is Commercialised by a Seller or its Affiliates in relation to both (i) a Product and (ii) a product of that Seller’s Retained Business, in any part of the world;

“**Transferred Inventory**” means, in respect of a Seller, all inventories (including its Manufacturing Inventory, Manufacturing Stocks and In-Market Inventory), wherever located, including all raw materials, work in progress, finished GlaxoSmithKline Products or Novartis Products (as the case may be), and packaging and labelling material in respect of the GlaxoSmithKline Products or Novartis Products (as the case may be) and otherwise, in each case, that are, Predominantly Related to its Contributed Business (but excluding any such items held by its Target Group Companies), whether held at any location or facility of a member of that Seller’s Group or in transit to a member of that Seller’s Group, in each case, as of the Effective Time;



“**Transferred Leased Properties**” has the meaning given to it in paragraph 1.1 of Part 4 of Schedule 2;

“**Transferred Owned Properties**” has the meaning given to it in paragraph 1.1 of Part 4 of Schedule 2;

“**Transferred Plant and Equipment**” means, in respect of a Seller:

- (i) its Transferred Information Technology; and
- (ii) all plant, furniture, furnishings, vehicles, equipment, tools and other tangible personal property (other than its Transferred Inventory or its Transferred Information Technology) of that Seller’s Group that are Predominantly Related to its Contributed Business (but excluding any such items owned by its Target Group Companies);

“**Transferred Properties**” means, in respect of a Seller:

- (i) its Transferred Owned Properties;
- (ii) its Transferred Leased Properties;
- (iii) all other freehold, leasehold or other immovable property comprising research and development, production or manufacturing facilities Exclusively Related to its Contributed Business, other than any freehold, leasehold or other immovable property within the definition of “Excluded Assets”; and
- (iv) all other freehold, leasehold or other immovable property comprising warehousing, distribution or office facilities Predominantly Related to its Contributed Business, other than any freehold, leasehold or other immovable property within the definition of “Excluded Assets”,

and “**Transferred Property**” means any one of them;

“**Transitional Services Agreement**” means, in respect of a Seller, the transitional services agreement expected to be entered into between it and the Purchaser at Closing on terms consistent with the Agreed Terms;

“**US Benefit Plans**” means all United States “employee benefit plans” (within the meaning of section 3(3) of ERISA), severance, change in control or employment, vacation, incentive, bonus, stock option, stock purchase, or restricted stock plans, programmes, agreements or policies benefiting the relevant Target Business Employees;

“**US RX Product Disposal**” has the meaning given to it in paragraph 10.3 of Schedule 6;

“**US RX Products**” means any of the GlaxoSmithKline US RX Products or the Novartis US RX Products;

“**US Transferred Employees**” has the meaning given to it in paragraph 7.1 of Schedule 7;

“**Vaccines Sale and Purchase Agreement**” means the sale and purchase agreement dated the date of this agreement between Novartis and GlaxoSmithKline relating to the sale and purchase of Novartis’s vaccines business (excluding Novartis’s Influenza vaccines business);



“**VAT**” means, within the European Union, such Taxation as may be levied in accordance with (but subject to derogations from) Council Directive 2006/112/EC and, outside the European Union, any Taxation levied by reference to added value or sales;

“**WARN Act**” means the Worker Adjustment and Retraining Notification Act of 1988 of the United States;

“**Wholly-Owned Subsidiary**” means, in respect of GlaxoSmithKline, any body corporate that is a 100 per cent. owned and controlled subsidiary of GlaxoSmithKline and, in respect of Novartis, any body corporate that is a 100 per cent. owned and controlled subsidiary of Novartis (where “**subsidiary**” has the meaning given in section 1159 of the Companies Act 2006);

“**Working Capital**” means, in respect of a Seller, the aggregate amount of the working capital items of its Target Group falling into the categories set out in Part A of Part 4 of Schedule 12 (in respect of Novartis) or Part B of Part 4 of Schedule 12 (in respect of GlaxoSmithKline) as set out in its Closing Statement (which shall not include any amount in respect of Tax), at the Effective Time, as derived from its Closing Statement;

“**Working Capital Adjustment**” means, in respect of a Seller:

- (i) if its Working Capital is no less than its Minimum Working Capital Amount and no greater than its Maximum Working Capital Amount, zero;
- (ii) if its Working Capital is less than its Minimum Working Capital Amount, the amount by which its Working Capital is less than its Minimum Working Capital Amount, such amount being treated as a negative amount; or
- (iii) if its Working Capital is greater than its Maximum Working Capital Amount, the amount by which its Working Capital exceeds its Maximum Working Capital Amount, such amount being treated as a positive amount;

“**Withholding Seller**” has the meaning given in Clause 15.11.2; and

“**Workstream Lead**” has the meaning given to it in the Implementation Agreement.

**1.2 Shares**

References to shares shall include, where relevant, quotas.

**1.3 Singular, plural, gender**

References to one gender include all genders and references to the singular include the plural and vice versa.

**1.4 References to persons and companies**

References to:

- 1.4.1** a person include any individual, company, partnership or unincorporated association (whether or not having separate legal personality); and
- 1.4.2** a company include any company, corporation or any body corporate, wherever incorporated.



**1.5 Schedules etc.**

References to this Agreement shall include any Recitals and Schedules to it and references to Clauses and Schedules are to Clauses of, and Schedules to, this Agreement. References to paragraphs and Parts are to paragraphs and Parts of the Schedules.

**1.6 Reference to documents**

References to any document (including this Agreement), or to a provision in a document, shall be construed as a reference to such document or provision as amended, supplemented, modified, restated or novated from time to time.

**1.7 References to enactments**

Except as otherwise expressly provided in this Agreement, any express reference to an enactment (which includes any legislation in any jurisdiction) includes references: (i) to that enactment as amended, consolidated or re-enacted by or under any other enactment before or after the date of this Agreement; (ii) any enactment which that enactment re-enacts (with or without modification); and (iii) any subordinate legislation (including regulations) made before or after the date of this Agreement under that enactment as amended, consolidated or re-enacted as described in paragraph (i) or paragraph (ii) above, except to the extent that any of the matters referred to in paragraph (i) to paragraph (iii) (inclusive) above occurs after the date of this Agreement and increases or alters the liability of a Seller or the Purchaser under this Agreement.

**1.8 Information**

References to books, records or other information mean books, records or other information in any form including paper, electronically stored data, magnetic media, film and microfilm.

**1.9 References to “indemnify”**

Unless specified to the contrary, references to “indemnify” and “indemnifying” any person against any circumstance include indemnifying and holding that person harmless on an after-Tax basis and:

- 1.9.1** references to the Purchaser indemnifying each member of a Seller’s Group shall constitute undertakings by the Purchaser to that Seller for itself and on behalf of each other member of that Seller’s Group;
- 1.9.2** references to the relevant Seller indemnifying each member of the Purchaser’s Group shall constitute undertakings by that Seller to the Purchaser for itself and on behalf of each other member of the Purchaser’s Group;
- 1.9.3** to the extent that the obligation to indemnify relates to any Shares (including any Target Group Companies) or other assets or liabilities transferred by a Share Seller or Business Seller (as the case may be) to a member of the Purchaser’s Group pursuant to this Agreement, references to the Seller indemnifying the Purchaser and references to the Seller indemnifying the Purchaser or any member of the Purchaser’s Group shall constitute undertakings by the Seller to indemnify or procure the indemnification of the relevant purchaser of the Shares transferred by that Share Seller or the relevant purchaser of the assets or liabilities transferred by that Business Seller (as the case may be), and references to the Purchaser indemnifying the Seller and references to the Purchaser indemnifying the Seller and each member of the Seller’s Group shall constitute undertakings by the Purchaser to indemnify or procure the indemnification of the relevant member of the Seller’s Group; and



**1.9.4** where under the terms of this Agreement one party is liable to indemnify or reimburse another party in respect of any costs, charges or expenses, the payment shall include an amount equal to any VAT thereon not otherwise recoverable by the other party or any member of any group or consolidation of which it forms part for VAT purposes, subject to that party using reasonable endeavours to recover or to procure recovery of such amount of VAT as may be practicable.

For the purposes of this Clause 1.9, indemnifying and holding harmless a person on an “after-Tax basis” means that the amount payable pursuant to the indemnity (the “**Payment**”) shall be calculated in such a manner as will ensure that, after taking into account:

- (i) any Tax required to be deducted or withheld from the Payment and any additional amounts required to be paid by the payer of the Payment in consequence of such withholding;
- (ii) the amount and timing of any additional Tax which becomes (or would, but for the use of any credit or other relief which would otherwise have been available to reduce the Tax liabilities of any member of a Seller’s Group or of the Purchaser’s Group, as the case may be, have become) payable by the recipient of the Payment (or a member of a Seller’s Group or the Purchaser’s Group, as the case may be) as a result of the Payment’s being subject to Tax in the hands of that person; and
- (iii) the amount and timing of any Tax benefit which is obtained by the recipient of the Payment (or a member of a Seller’s Group or the Purchaser’s Group, as the case may be) to the extent that such Tax benefit is attributable to the matter giving rise to the indemnity payment or to the receipt of the Payment,

which amount and timing is to be determined by the auditors of the recipient at the shared expense of both relevant parties and is to be certified as such to the party making the Payment, the recipient of the Payment is in no better and no worse after Tax position as that in which it would have been if the matter giving rise to the indemnity payment had not occurred, provided that if any party to this Agreement shall have assigned or novated the benefit of this Agreement in whole or in part or shall, after the date of this Agreement, have changed its Tax residence or the permanent establishment to which the rights under this Agreement are allocated then no Payment to that party shall be increased by reason of the operation of paragraphs (i) to (iii) above to any greater extent than would have been the case had no such assignment, novation or change taken place.

**1.10 References to wholly or substantially in the Contributed Business**

References to any employee employed by a member of a Seller’s Group working “wholly or substantially” in a Contributed Business (whether the GlaxoSmithKline Consumer Business or the Novartis OTC Business, as the case may be) means that such employee spends more than 70 per cent. of their time working in the Contributed Business at the relevant time.



**1.11 Legal terms**

References to any English legal term shall, in respect of any jurisdiction other than England and Wales, be construed as references to the term or concept which most nearly corresponds to it in that jurisdiction.

**1.12 Non-limiting effect of words**

The words “including”, “include”, “in particular” and words of similar effect shall not be deemed to limit the general effect of the words that precede them.

**1.13 Currency conversion**

**1.13.1** Subject to Clause 1.13.1, any amount to be converted from one currency into another currency for the purposes of this Agreement shall be converted into an equivalent amount at the Conversion Rate prevailing at the Relevant Date. For the purposes of this Clause 1.13:

“**Conversion Rate**” means the spot reference rate for a transaction between the two currencies in question as quoted by the European Central Bank on the Business Day immediately preceding the Relevant Date or, if no such rate is quoted on that date, on the preceding date on which such rates are quoted;

“**Relevant Date**” means, save as otherwise provided in this Agreement, the date on which a payment or an assessment is to be made, save that, for the following purposes, the date shall mean:

- (i) for the purposes of Clause 5, the date of this Agreement;
- (ii) for the purposes of Clause 7 and Schedule 12 and Schedule 18, the Closing Date; or
- (iii) for the purposes of Clause 10, the date of this Agreement; and
- (iv) for the purposes of the monetary amounts set out in Schedule 13, the date of this Agreement.

**1.13.2** For the purposes of Schedule 12, the conversion of an amount from one currency into another shall be carried out in accordance with the accounting policies and practices of the Purchaser’s Group in operation from time to time.

**2. Sale and Purchase of the Target Groups**

**2.1 Sale and Purchase of the Target Groups**

On and subject to the terms of this Agreement and the Local Transfer Documents:

**2.1.1** GlaxoSmithKline undertakes to Novartis and the Purchaser to procure that its Share Sellers and Business Sellers shall sell the GlaxoSmithKline Target Group;



- 2.1.2 Novartis undertakes to GlaxoSmithKline and the Purchaser to procure that its Share Sellers and Business Sellers shall sell the Novartis Target Group; and
- 2.1.3 the Purchaser undertakes to GlaxoSmithKline and Novartis to purchase (or procure the purchase by a member (s) of the Purchaser’s Group of) each of the Target Groups, in each case, as a going concern.

**2.2 Sale of the Shares**

- 2.2.1 GlaxoSmithKline shall procure that its Share Sellers shall sell the GlaxoSmithKline Shares, and Novartis shall procure that its Share Sellers shall sell the Novartis Shares, and the Purchaser shall purchase (or procure the purchase of) the Shares, in each case, with Full Title Guarantee free from Encumbrances (other than any rights of first refusal that exist as at the date of this Agreement in relation to any Shares in any Joint Venture Entities) and together with all rights and advantages attaching to them as at Closing (including the right to receive all dividends or distributions declared, made or paid on or after Closing), subject to and in accordance with the provisions of Schedule 6.
- 2.2.2 GlaxoSmithKline shall procure that, on or prior to Closing, any and all rights of pre-emption over the GlaxoSmithKline Shares (other than such rights of pre-emption that exist at the date of this Agreement in respect of its Joint Venture Entities) and Novartis shall procure that, on or prior to Closing, any and all rights of pre-emption over the Novartis Shares (other than in respect of its Joint Venture Entities), in each case, are waived irrevocably by the persons entitled thereto.

**2.3 Sale of the Target Group Businesses**

- 2.3.1 Each Seller shall sell (or procure the sale of) the assets comprising its Target Group Businesses and the Purchaser shall purchase (or procure the purchase of), each Seller’s Target Group Businesses, in each case, under this Agreement or, where relevant, the Local Transfer Documents. Each of those assets shall be sold by that Seller or Business Seller (as the case may be) with Full Title Guarantee (save in respect of the Transferred Intellectual Property Rights) and free from Encumbrances other than Permitted Encumbrances (save for the Transferred Properties, which shall be sold free from Encumbrances other than as provided in paragraph 1.9 of Part 4 of Schedule 2) and shall comprise, in respect of each Target Group Business of each Seller (unless otherwise expressly provided below):
  - (i) the Transferred Properties;
  - (ii) the Transferred Plant and Equipment;
  - (iii) the Transferred Inventory;



- (iv) the Transferred Accounts Receivables;
- (v) the Transferred Books and Records;
- (vi) subject to and in accordance with Schedule 6, the Transferred Intellectual Property Rights;
- (vii) subject to and in accordance with Schedule 6, the Transferred Intellectual Property Contracts;
- (viii) the Transferred Information Technology;
- (ix) subject to and in accordance with Schedule 6, its Transferred Contracts and the Relevant Part of the Shared Business Contracts;
- (x) subject to and in accordance with Clause 6.2 and Schedule 4, all Product Approvals and all Product Applications and all other permits, licences, certificates, registrations, marketing or other authorisations or consents issued by a Governmental Entity Predominantly Related to that Seller's Contributed Business and not held by its Target Group Companies;
- (xi) subject to and in accordance with Schedule 4, all Marketing Authorisation Data not held by its Target Group Companies;
- (xii) all Business Information not held at Closing by its Target Group Companies;
- (xiii) all rights of the Purchaser, its Affiliates and its Target Group Companies as contemplated by Schedule 7 and Schedule 8;
- (xiv) the Target Group Goodwill; and
- (xv) all other property, rights and assets owned or held by that Seller's Group (other than its Target Group Companies) and Predominantly Related to that Seller's Contributed Business at Closing (other than any property, rights and assets of that Seller's Target Group expressly excluded from the sale under this Agreement).

**2.3.2** There shall be excluded from the sale of each Target Group Business by a Seller under this Agreement and the Local Transfer Documents the following:

- (i) the Seller's Retained Business;
- (ii) any Intellectual Property Right that is not a Target Group Intellectual Property Right;
- (iii) any Information Technology other than the Target Group Information Technology;



- (iv) the Seller Marks;
- (v) any product and any permits, licences, certificates, registrations, marketing or other authorisations or consents issued by any Governmental Entity in respect of any products, or any applications therefor, other than: (a) products to the extent included in the relevant Seller's Contributed Business (including the Products), Product Approvals, Products Under Registration and Pipeline Product Approvals; and (b) Permits Predominantly Related to that Seller's Contributed Business;
- (vi) all cash, marketable securities and negotiable instruments, and all other cash equivalents, of that Seller's Group (other than its Target Group Companies);
- (vii) the land and buildings of Novartis's Group at 4560 Horton Street, Emeryville CA, United States of America, together with all fixtures and improvements erected thereon;
- (viii) the land and buildings of the Novartis's Group at Jaboatão dos Guarapas, State of Pernambuco, Brazil, together with all fixtures and improvements erected thereon and any other assets, rights and Contracts related thereto;
- (ix) all real property and any leases therefor and interests therein other than the Properties;
- (x) the company seal, minute books, charter documents, stock or equity record books and such other books and records pertaining to that Seller or its Affiliates (other than the Target Group Companies and the Transferred Books and Records), as well as any other records or material relating to that Seller or its Affiliates (other than its Target Group Companies) generally and not involving or related to that Seller's Target Group;
- (xi) any right of that Seller or its Affiliates to be indemnified in respect of Assumed Liabilities;
- (xii) all Tax assets (including Tax refunds and prepayments), other than Tax assets of any Target Group Company;
- (xiii) all Tax Returns of that Seller's Group (other than its Target Group Companies) and all Tax Returns relating to Tax Groups of which persons other than Target Group Companies are members and, in each case, all books and records (including working papers) related thereto;
- (xiv) any rights in respect of any insurance policies of that Seller's Group as provided in and subject to Clause 13;



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- (xv) all artwork, paintings, drawings, sculptures, prints, photographs, lithographs and other artistic works of that Seller's Group that are not embodiments of the Target Group Intellectual Property Rights;
- (xvi) any rights of that Seller's Group (other than its Target Group Companies) under any of its Intra-Group Non-Trade Payables or Intra-Group Non-Trade Receivables (excluding its Transferred Accounts Receivables);
- (xvii) any rights of that Seller or its Affiliates (other than its Target Group Companies) contemplated by Schedule 7 and Schedule 8;
- (xviii) any equity interest in any person other than a Target Group Company or the Joint Venture Entities;
- (xix) the Excluded Contracts, including the Endo Excluded Contract;
- (xx) all rights of that Seller's Group under this Agreement and the Ancillary Agreements;
- (xxi) the Seller's Bank Account;
- (xxii) in the case of GlaxoSmithKline only, those items, assets and businesses set out in Part 1 of Schedule 3; and
- (xxiii) in the case of Novartis only, those items, assets and businesses set out in Part 2 of Schedule 3.

**2.3.3** Each Seller agrees to procure the transfer of (to the extent it is able so to do) and the Purchaser agrees to accept or procure the acceptance by another member of the Purchaser's Group of the transfer of, and to assume, duly and punctually pay, satisfy, discharge, perform or fulfil or procure that another member of the Purchaser's Group will assume, duly and punctually pay, satisfy, discharge, perform or fulfil, the Assumed Liabilities relating to that Seller's Contributed Business, with effect from Closing.

**2.3.4** Clause 2.3.3 shall not apply to, and the Purchaser shall not be obliged to accept (or procure the acceptance by another member of the Purchaser's Group of), the transfer of or to assume, duly and punctually pay, satisfy, discharge, perform or fulfil (or procure that another member of the Purchaser's Group will assume, duly and punctually pay, satisfy, discharge, perform or fulfil):

- (i) any Excluded Liability; or
- (ii) any Liability to the extent it relates to an Excluded Asset.

**2.3.5** Each Seller shall comply with its obligations in Schedule 17 (Reorganisations) in respect of any reorganisation of that Seller's Group carried out prior to Closing involving its Target Group (including assigning or otherwise transferring assets, liabilities and (only where in compliance with Clause 5 other than Clause 5.2.5)



employees between members of that Seller’s Group and including, without limitation, transferring all or part of its Target Group into or (directly or indirectly) beneath, as the case may be, a single newly incorporated company or holding company, as the case may be, with the intention of that new company being transferred to the Purchaser on Closing) (each a “**Reorganisation**”). In the event that a Seller carries out a Reorganisation such that the structure of the Target Group has been altered, the provisions of this Agreement shall apply to such altered structure *mutatis mutandis*.

**2.3.6** Promptly after the date of this Agreement:

- (i) the project manager of each of GlaxoSmithKline and Novartis shall appoint a Workstream Lead who shall be generally responsible for the implementation of this Agreement; and
- (ii) GlaxoSmithKline, Novartis and each Workstream Lead appointed in accordance with Clause 2.3.6 (i) shall use their reasonable endeavours to further identify the assets and liabilities comprising GlaxoSmithKline’s and Novartis’s respective Target Group and make any amendments or updates to Schedule 1, Schedule 2, Schedule 3, Schedule 6, Schedule 9, Schedule 16, Schedule 19 and Schedule 21 as may be necessary to ensure that such Schedules accurately reflect the scope of each of GlaxoSmithKline’s and Novartis’s respective Target Group,

provided that nothing in this Clause 2.3.6 shall be construed as a right or obligation to amend or update the scope of each of GlaxoSmithKline’s and Novartis’s respective Target Group as defined in this Agreement.

**2.4 Employees and Employee Benefits**

**2.4.1** The provisions of Schedule 7 shall apply in respect of the Employees.

**2.4.2** The provisions of Schedule 8 shall apply in respect of Employee Benefits.

**2.5 Properties**

The provisions of Schedule 2 shall apply in respect of the Properties.

**2.6 Local Transfer Documents**

**2.6.1** On Closing or at such other time as agreed between the parties, each Seller shall procure that its Share Sellers and Business Sellers execute, and the Purchaser shall execute (or procure the execution by one or more other members of the Purchaser’s Group of), such agreements, transfers, conveyances and other documents, as may be required pursuant to the relevant local law and otherwise as may be agreed between such Seller and the Purchaser to implement the transfer of (i) the Shares held by such Share Sellers and (ii) the Target Group Businesses held by such Business Sellers, in each case on Closing subject to the provisions of Schedule 6 (the “**Local Transfer Documents**” and each, a “**Local Transfer Document**”). The parties do not intend this Agreement to transfer title to any of the Shares. Title shall be transferred by the applicable Local Transfer Document.



- 2.6.2** To the extent that the provisions of a Local Transfer Document are inconsistent with or (except to the extent they implement a transfer in accordance with this Agreement) additional to the provisions of this Agreement:
- (i) the provisions of this Agreement shall prevail; and
  - (ii) so far as permissible under the laws of the relevant jurisdiction, the relevant Seller and the Purchaser shall procure that the provisions of the relevant Local Transfer Document are adjusted, to the extent necessary to give effect to the provisions of this Agreement or, to the extent this is not permissible, that Seller shall indemnify the Purchaser against all Liabilities suffered by the Purchaser or its Affiliates or, as the case may be, the Purchaser shall indemnify that Seller against all Liabilities suffered by that Seller or its Affiliates, in either case, through or arising from the inconsistency between the Local Transfer Document and this Agreement or the additional provisions (except to the extent they implement a transfer in accordance with this Agreement).
- 2.6.3** If there is an adjustment to the Purchase Consideration under Clause 7.3 which relates to a part of the Target Group which is the subject of a Local Transfer Document, then, if required to implement the adjustment and so far as permissible under Applicable Law, the Purchaser shall (or shall procure that the relevant member of the Purchaser's Group will), and the relevant Seller shall procure that its relevant Affiliate shall, enter into a supplemental agreement reflecting such adjustment and the allocation of such adjustment.
- 2.6.4** Neither Seller shall, and each Seller shall procure that none of its Affiliates shall, bring any claim against the Purchaser or any member of the Purchaser's Group in respect of or based upon the Local Transfer Documents save to the extent necessary to implement any transfer of the Shares or Target Group Businesses as contemplated by this Agreement. To the extent that any Seller or a member of that Seller's Group does bring a claim in breach of this Clause, that Seller shall indemnify the Purchaser and each member of the Purchaser's Group against all Liabilities which the Purchaser or that member of the Purchaser's Group may suffer through or arising from the bringing of such a claim.
- 2.6.5** The Purchaser shall not, and shall procure that none of its Affiliates shall, bring any claim against any Seller or any member of any Seller's Group in respect of or based upon the Local Transfer Documents save to the extent necessary to implement any transfer of the Shares or the Target Group Businesses as contemplated by this Agreement. To the extent that the Purchaser or a member of the Purchaser's Group does bring a claim in breach of this Clause, the Purchaser shall indemnify the relevant Seller and each member of that Seller's Group against all Liabilities which that Seller or any member of that Seller's Group may suffer through or arising from the bringing of such a claim.



3. Consideration

3.1 Amount

3.1.1 The aggregate consideration for the purchase of each of the GlaxoSmithKline Consumer Group and the Novartis OTC Group under this Agreement and the Local Transfer Documents (together with any payment required to be made pursuant to clause 3.1.3, the “Purchase Consideration”) shall be:

- (i) in the case of the GlaxoSmithKline Consumer Group, the allotment and issue by the Purchaser to GlaxoSmithKline (and/or such other of its Affiliates as are Wholly-Owned Subsidiaries as GlaxoSmithKline may direct prior to Closing, provided that no more than two members of GlaxoSmithKline’s Group shall be issued A Shares at Closing) of the A Shares in accordance with the provisions of this Agreement; and
- (ii) in the case of the Novartis OTC Group, the allotment and issue by the Purchaser to Novartis (and/or such other of its Affiliates as are Wholly-Owned Subsidiaries as Novartis may direct prior to Closing, provided that no more than two members of Novartis’s Group shall be issued B Shares at Closing of the B Shares in accordance with the provisions of this Agreement).

3.1.2 The Sellers and the Purchaser acknowledge and agree that the Purchase Consideration has been determined on the basis of the Base Working Capital Range, with the intention that for each of the Target Groups, the sum of the amounts set out in Clause 3.1.3(i) to 3.1.3(vii) will equal zero.

3.1.3 If, in respect of the GlaxoSmithKline Consumer Group or the Novartis OTC Group, the sum of the following:

- (i) the Target Group Companies’ Cash Balances and the Intra-Group Non-Trade Receivables;  
minus
- (ii) the Third Party Indebtedness  
minus
- (iii) the Intra-Group Non-Trade Payables;  
minus
- (iv) any Employee Benefit Indemnification Amount paid in accordance with Schedule 8;  
minus
- (v) the excess over US\$20,000,000, if any, of the Intra-Group Trading Balances;



minus

(vi) the Tax Adjustment; and

plus (if it is zero or a positive amount) or minus (if it is a negative amount)

(vii) the Working Capital Adjustment,

does not equal zero, balancing payments shall be made between GlaxoSmithKline and the Purchaser (in the case of the GlaxoSmithKline Consumer Group) or Novartis and the Purchaser (in the case of the Novartis OTC Group) in accordance with Clauses 6.3 and 7.3 to 7.6 (inclusive).

**3.2 Satisfaction of Purchase Consideration**

**3.2.1** The Purchaser shall allot and issue the A Shares and the B Shares credited as fully paid. The amount payable under Clause 3.1.3 shall be paid in cash to the relevant Seller's Bank Account(s) or the Purchaser's Bank Account, as the case may be, pursuant to Clauses 6.3 and 7.6.

**3.2.2** Any cash payment required to be made by the Purchaser pursuant to Clauses 3.1.3, 3.2.1, 3.3, 6.3 and/or 7.3 to 6 (inclusive), shall be funded through Shareholder Loans (as defined in the Shareholders' Agreement), made pro rata to each Seller's Group's shareholding in the Purchaser (and each Seller shall procure its relevant Affiliates make such Shareholder Loans required by this Clause 3.2.2).

**3.3 VAT**

**3.3.1** The provisions of Schedule 10 shall apply in respect of VAT.

**3.3.2** Each Seller and the Purchaser agree that the consideration given under this Agreement in respect of the sale of the Target Group Businesses and the Shares is exclusive of any VAT.

**3.3.3** To the extent that VAT is chargeable in respect of that sale or any part thereof, the Purchaser shall, against delivery of a valid VAT invoice (or equivalent, if any), in addition to any other amount expressed in this Agreement to be payable by the Purchaser, pay or procure the payment to the relevant Seller (on behalf of its relevant Business Seller or Share Seller as applicable) any amount of any VAT so chargeable for which that Seller (or the relevant member of that Seller's Group, as the case may be) is liable to account, in accordance with Schedule 10.

**3.4 Treatment of Payments**

If any payment is made or procured (i) by a Seller to the Purchaser or relevant member of the Purchaser's Group, or (ii) by a Purchaser to a member of a Seller's Group, in either case, in respect of any claim under or for any breach of this Agreement or pursuant to an indemnity (or equivalent covenant to pay) under this Agreement, the payment shall be treated, so far as possible, as an adjustment of the Purchase Consideration paid by the relevant member of the Purchaser's Group for the particular part of the Target Group to which the payment and/or claim relates under this Agreement and the Purchase Consideration shall be deemed to be increased or reduced (as applicable) by the amount of such payment,



PROVIDED THAT this Clause 3.4 shall not require any amount to be treated as an amount in respect of the Purchase Consideration for the purposes of Clause 15.11 (Grossing-up) if it would not otherwise have been so treated.

4. Conditions

4.1 Conditions Precedent

The sale and purchase of each Target Group is conditional upon satisfaction of the following conditions, or their satisfaction subject only to Closing:

- 4.1.1** to the extent that the proposed transaction contemplated under this agreement (the “**Transaction**”) either constitutes (or is deemed to constitute under Article 4(5) or Article 5(2)) a concentration with a Community dimension within the meaning of Council Regulation (EC) 139/2004 (as amended) (the “**Regulation**”) or is to be examined by the European Commission as a result of a decision under Article 22(3) of the Regulation:
- (i) the European Commission taking a decision (or being deemed to have taken a decision) under Article 6(1)(b) or, if the Commission has initiated proceedings pursuant to Article 6(1)(c), under Article 8(1) or 8(2) of the Regulation declaring the Transaction compatible with the common market; or
  - (ii) the European Commission taking a decision (or being deemed to have taken a decision) to refer the whole or part of the Transaction to the competent authorities of one or more Member States under Article 4(4) or 9(3) of the Regulation; and
    - (a) each such authority taking a decision with equivalent effect to Clause 4.1.1(i) with respect to those parts of the Transaction referred to it; and
    - (b) the European Commission taking any of the decisions under Clause 4.1.1(i) with respect to any part of the Transaction retained by it;
- 4.1.2** any waiting period (and any extension thereof) under the HSR Act applicable to the Transaction having expired;
- 4.1.3** to the extent required or otherwise agreed between the parties as appropriate to permit the parties to consummate the Transaction in the jurisdictions listed in Schedule 20, any additional clearances, approvals, waivers, no-action letters and consents having been obtained and any additional waiting periods having expired under applicable antitrust, merger control or foreign investment rules set forth in Schedule 20;



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- 4.1.4 receipt of CFIUS Approval if CFIUS has initiated a review of the transactions contemplated by this Agreement, whether pursuant to Clause 4.2.3 or otherwise;
- 4.1.5 no Governmental Entity having enacted, issued, promulgated, enforced or entered any Applicable Law or Judgment (whether temporary, preliminary or permanent) that is in effect at the Closing Date and that has the effect of making the transactions contemplated by this Agreement illegal or otherwise restraining or prohibiting the consummation of such transactions;
- 4.1.6 the passing at a duly convened and held general meeting of GlaxoSmithKline’s Shareholders (as defined in the Implementation Agreement) of an ordinary resolution validly approving the sale and purchase under each of the Target Asset Agreements and any sale and purchase under the Put Option Agreement (as defined in the Implementation Agreement) in accordance with GlaxoSmithKline’s Articles of Association, the Listing Rules (as defined in the Implementation Agreement) and all other Applicable Law and regulation (such resolution being the “**GlaxoSmithKline Shareholder Resolution**” and such meeting being the “**GlaxoSmithKline Shareholder Meeting**”);
- 4.1.7 Novartis not delivering, in accordance with Clause 3 of the Implementation Agreement, a Novartis Board Certificate (as defined in the Implementation Agreement) prior to the conclusion of the vote on the GlaxoSmithKline Shareholder Resolution at the GlaxoSmithKline Shareholder Meeting; and
- 4.1.8 each of the other Target Asset Agreements having become unconditional in accordance with its terms (save for any condition in those agreements relating to this Agreement or the other of those agreements having become unconditional).

**4.2 Responsibility for Satisfaction**

- 4.2.1 The Sellers shall prepare and file the notifications necessary for the fulfilment of the conditions in Clauses 4.1.1 to 4.1.3 (the “Required Notifications”) as soon as reasonably practicable (with notifications under the HSR Act to be filed by 29 May 2014). Notwithstanding anything to the contrary contained in this Agreement, GlaxoSmithKline shall have primary responsibility for obtaining all consents, approvals or actions of any Governmental Entity which are required in connection with the Required Notifications (with the exception of the Minority Notifications addressed in Clause 4.2.10, for which Novartis shall have such responsibility).
- 4.2.2 GlaxoSmithKline shall be responsible for payment of all filing and other fees and expenses in connection with the Required Notifications and the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3, (with the exception of the Minority Notifications addressed in Clause 4.2.10, for which Novartis shall have such responsibility).
- 4.2.3 CFIUS:



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- (i) The Sellers and the Purchaser shall consult, cooperate and keep each other reasonably informed regarding communications with, and requests for additional information from, CFIUS with respect to the Transaction. The Sellers and the Purchaser shall use their respective reasonable best efforts to provide promptly all information that is pursuant to a request by CFIUS.
- (ii) Within 30 calendar days after the execution of this Agreement, any party wishing to submit a formal joint voluntary notice to CFIUS pursuant to 31 C.F.R. Section 800.401, et. seq. (“**CFIUS Filing**”) shall provide the other parties with written notice of its intent to make a CFIUS Filing (“**Election Date**”). Prior to making its election to submit a CFIUS Filing, the party wishing to make a CFIUS Filing shall consult in good faith with senior executives of the other parties. If neither of the Sellers nor the Purchaser provide notice to submit a formal joint voluntary notice to CFIUS, a CFIUS Filing will not be made unless requested by CFIUS.
- (iii) If any one or more of the parties elects to make a CFIUS Filing following the procedures and consultations in Clause 4.2.3(ii) or if CFIUS requires a filing, then:
  - (a) the Sellers and the Purchaser shall use their respective reasonable best efforts to submit a draft CFIUS Filing no later than 15 Business Days following the Election Date, and a final CFIUS Filing the earlier of (1) five Business Days after submitting the draft CFIUS filing or (2) five calendar days after the receipt of any comments from CFIUS staff regarding the draft CFIUS Filing;
  - (b) the Sellers and the Purchaser will provide each other with the reasonable opportunity to review and comment on any information provided to CFIUS to the extent permitted by Applicable Law, with the exception of personal identifier information required under Section 800.402(c)(6)(vi)(B) of the CFIUS regulations, 31 C.F.R. competitively sensitive information, or information not related to the transactions contemplated by this Agreement, may be restricted to each party’s external counsel to the extent reasonably considered necessary or advisable by the providing party;
  - (c) the Sellers and the Purchaser shall each have an opportunity to approve and mutually agree on the joint contents of the CFIUS Filing and shall be jointly responsible for the accuracy of such contents. The Sellers and the Purchaser respectively, shall each be responsible for the accuracy of contents of the CFIUS Filing that exclusively relate to itself, its business, and any subsidiaries, parents or other related parties; and



- (d) the Sellers and the Purchaser shall use their respective reasonable best efforts to obtain CFIUS Approval as promptly as practicable and shall consult with each other on strategic matters related to obtaining such CFIUS Approval, provided that the Purchaser shall have no obligation to agree to any mitigation or other restrictive provision that could reasonably be considered to have a substantial impact on either of the Contributed Business or the Purchaser.

**4.2.4** Notwithstanding any other provision of this Agreement to the contrary, GlaxoSmithKline shall and, shall cause its subsidiaries and affiliates to:

- (i) propose, negotiate, offer to commit and effect (and if such offer is accepted, commit to and effect), by consent decree, undertaking, hold separate order, or otherwise, the sale, divestiture, licence or disposition of such combination of assets or businesses of: (i) the GlaxoSmithKline Target Group; (ii) GlaxoSmithKline's other assets, businesses, subsidiaries or affiliates; and (ii) the Novartis Target Group; and/or
- (ii) otherwise offer to take or offer to commit to take any action (including any action that limits its freedom of action, ownership or control with respect to, or its ability to retain or hold, any of the businesses, assets, product lines, properties or services of: the GlaxoSmithKline Target Group; GlaxoSmithKline's other assets, businesses, subsidiaries or affiliates; or the Novartis Target Group) and, if the offer is accepted, take or commit to take such action; and/or
- (iii) use its best efforts to defend through litigation on the merits any claim asserted in court by any party in order to avoid entry of, or to have vacated or terminated, any decree, order or Judgment (whether temporary, preliminary or permanent) that would restrain, prevent, or delay the Closing,

in each case, as may be required or desirable in order to procure the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3 as soon as reasonably possible (and, in any event, not later than the Longstop Date) or to avoid the commencement of any Action or the issuing of any Decision to prohibit the Transaction, or if such Action is already commenced, to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order in any Action so as to enable the Closing to occur as soon as reasonably possible (and, in any event, not later than the Longstop Date).

**4.2.5** GlaxoSmithKline, after reasonably and in good faith consulting with Novartis and considering Novartis's views, shall make all decisions, lead all discussions, negotiations and other proceedings, and coordinate all activities and any requests that may be made by, or any actions, consents, undertakings, approvals, waivers or authorizations that may be sought by or from, any Governmental Entity, including determining the strategy and manner in which to contest or otherwise respond, by litigation or otherwise, to objections to, or proceedings or other actions challenging, the consummation of the Transaction.



- 4.2.6** At GlaxoSmithKline's request, Novartis shall, and shall cause the Novartis Target Group to take all reasonable actions GlaxoSmithKline deems prudent in order to reasonably assist GlaxoSmithKline in obtaining any actions, consents, undertakings, approvals, waivers or authorizations by or from any Governmental Entity for or in connection with consummating the Transaction including, inter alia:
- (i) providing to GlaxoSmithKline such information with respect to the Novartis Target Group as GlaxoSmithKline may reasonably require in connection with satisfaction of its obligations under this Clause;
  - (ii) effecting the sale, divestiture, licence or disposition of such assets or businesses of the Novartis Target Group or any of its subsidiaries or affiliates as may be reasonably necessary to consummate the Transaction;
  - (iii) reasonably assisting GlaxoSmithKline in litigating or otherwise contesting any objections to or proceedings or other actions challenging, the consummation of the Transaction; and/or
  - (iv) assisting to ensure that any proposal or offer made (or intended to be made) by GlaxoSmithKline to a Governmental Entity pursuant to Clause 4.2.4 can also be proposed or offered to a Governmental Entity which examines the transaction pursuant to a Minority Notification.
- 4.2.7** GlaxoSmithKline will, to the extent practicable and subject to Applicable Law: (i) consult with Novartis in advance of participating in any substantive meeting or discussion with any Governmental Entity with respect to any filings, investigation or inquiry concerning the Transaction and, to the extent permitted by such Governmental Entity, give Novartis the opportunity to attend and participate in any such meeting or discussion; (ii) discuss with and permit Novartis to review in advance, and consider in good faith Novartis's reasonable comments in connection with, any proposed filing or communication to any Governmental Entity concerning the Transaction, or relating to any investigation, inquiry or other proceeding in connection with the Transaction; and (iii) furnish Novartis with copies of all written correspondence and communications between GlaxoSmithKline and its Affiliates and their respective representatives on the one hand, and any Governmental Entity or members of their respective staffs on the other hand, with respect to the Transaction.
- 4.2.8** Novartis shall not participate in or permit any of its representatives to participate in any meeting with any Governmental Entity in respect of any filings, investigation, proceeding or other matters relating to the Transaction unless Novartis consults with GlaxoSmithKline in advance and, to the extent permitted by such Governmental Entity, gives GlaxoSmithKline the opportunity to attend and lead the discussions at such meeting.
- 4.2.9** Novartis shall (i) discuss with and permit GlaxoSmithKline to review in advance, and consider in good faith GlaxoSmithKline's reasonable comments in connection with, any proposed filing or communication to any Governmental Entity concerning the Transaction, or relating to any investigation, inquiry or other proceeding



in connection with the Transaction; and (ii) furnish GlaxoSmithKline with copies of all written correspondence and communications between Novartis and its Affiliates and their respective representatives on the one hand, and any Governmental Entity or members of their respective staffs on the other hand, with respect to the Transaction.

- 4.2.10 In respect of any filings or notifications to Governmental Entities that are related solely to Novartis’s non-controlling minority stake in the Purchaser (the “**Minority Notifications**”), Novartis shall be responsible for all filing fees and other fees and expenses and responsible for obtaining any necessary clearances, approvals, waivers, no action letters, consents or waiting period expirations.
- 4.2.11 Clauses 4.2.5 to 4.2.10 (inclusive) shall not apply in respect of dealings with any Tax Authority in connection with any Tax matter.
- 4.2.12 The party responsible for satisfaction of each condition pursuant to this Clause 4.2 shall give notice to the other parties of the satisfaction of the relevant condition within one Business Day of becoming aware of the same.
- 4.2.13 The Sellers shall cooperate to confirm, within 21 Business Days from signing of this Agreement, any additional merger notification requirements reasonably required or advisable in respect of the Transaction in jurisdictions beyond those listed in Schedule 20, and shall cooperate with each other, in accordance with the other provisions of this Clause 4, in achieving any additional clearances, approvals, waivers, no action letters, consents or waiting period expirations in such jurisdictions. For the avoidance of doubt, Closing shall not be conditional upon such additional clearances, approvals and consents or waiting period expirations.
- 4.2.14 The Sellers shall cooperate, in accordance with the other provisions of this Clause 4, and use reasonable endeavours to ensure that no Governmental Entity shall enact, issue, promulgate, enforce or enter any Applicable Law or Judgment as contemplated under Clause 4.1.5. In the event that any Governmental Entity enacts, issues, promulgates, enforces or enters any Applicable Law or Judgment as contemplated under Clause 4.1.5, the parties shall cooperate and use reasonable endeavours to put in place arrangements that would allow the Transaction to complete to the greatest possible extent in compliance with the relevant Applicable Law or Judgment.

**4.3 Non-Satisfaction by the Long Stop Date**

If the conditions in Clause 4.1 are not satisfied as of 22 October 2015 (the “**Long Stop Date**”), any party may, in its sole discretion, terminate this Agreement (other than Clauses 1, 12 and 15.1 to 15.17) and no party shall have any claim against any other under it, save for any claim arising from breach of any obligation contained in such Clauses or Clause 4.2. Neither of the Sellers nor the Purchaser may terminate this Agreement after satisfaction of the conditions in Clause 4.1, except in accordance with this Agreement.

**4.4 Termination**

**4.4.1** This Agreement may be terminated at any time prior to Closing:

- (i) by written consent of the parties;
- (ii) by any of the parties by notice to the other parties in the event that any Judgment restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement shall have become final and non-appealable, provided that the party seeking to terminate this Agreement pursuant to this Clause 4.4 has complied with the terms of the Implementation Agreement and this Agreement in connection with having such Judgment vacated or denied; or
- (iii) by the Purchaser by notice to the Sellers if:
  - (a) a Material Adverse Effect occurs in relation to any Seller prior to Closing (which shall include any breach or breaches of Clause 9.1 which alone or together constitute a Material Adverse Effect); or
  - (b) any Seller fails to provide a Certificate immediately prior to Closing; or
- (iv) in accordance with the terms of the Implementation Agreement.

**4.4.2** This Agreement shall terminate automatically at any time prior to Closing if:

- (i) any other Target Asset Agreement terminates or is terminated in accordance with its terms; or
- (ii) the GSK Break Fee or the Novartis Break Fee (each as defined in the Implementation Agreement) becomes payable in accordance with clause 5.1 or clause 5.8, respectively, of the Implementation Agreement.

**4.4.3** Save as provided in this Clause 4, no party shall be entitled to terminate or rescind this Agreement, whether before or after Closing. If this Agreement is terminated pursuant to this Clause 4.4, this Agreement shall be of no further force and effect and there shall be no further liability under this Agreement or any of the Ancillary Agreements on the part of any party, except that Clauses 1, 12 and 15.1 to 15.17, in each case, to the extent applicable, shall survive any termination.

**4.4.4** Nothing in this Clause 4.4 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement prior to termination of this Agreement.



5. Pre-Closing

**5.1 The Sellers' Obligations in Relation to the Conduct of Business**

- 5.1.1 Each Seller undertakes to procure that between the date of this Agreement and Closing, it and the relevant members of that Seller's Group shall, so far as permitted by Applicable Law, carry on its Contributed Business as a going concern in the ordinary course as carried on immediately prior to the date of this Agreement save in so far as agreed in writing by the other Seller (such consent not to be unreasonably withheld or delayed).
- 5.1.2 Without prejudice to the generality of Clause 5.1.1 and subject to Clause 5.2, each Seller undertakes to procure that, with respect to its Contributed Business, between the date of this Agreement and Closing, no member of that Seller's Group shall, except as may be required to comply with this Agreement, without the prior written consent of the other Seller (such consent not to be unreasonably withheld or delayed) take any of the actions listed in Part 1 of Schedule 15.
- 5.1.3 Without prejudice to the generality of Clause 5.1.1, each Seller shall, in each case with respect to its Contributed Business only: (i) undertake to procure the satisfaction of its obligations listed in paragraph 1, Part 2 of Schedule 15; and (ii) procure that that Seller's Group shall, between the date of this Agreement and Closing, comply with the requirements of paragraph 2, Part 2 of Schedule 15.

**5.2 Exceptions to Sellers' Obligations in Relation to the Conduct of Business**

Clause 5.1 shall not operate so as to prevent or restrict:

- 5.2.1 the disposal or transfer by one or more members of Novartis's Group of any or all or part of the Novartis US NRT Business in accordance with Schedule 6;
- 5.2.2 any US RX Product Disposal in accordance with Schedule 6;
- 5.2.3 the entry by Novartis or its Target Group Companies into any arm's length transitional arrangements, contracts or agreements (including any transitional services agreement, manufacturing and supply agreement, distribution or other similar agreement) in relation to the disposal to a third party purchaser of any of its Seller's Retained Business (including its Novartis Animal Health Business, and/or any of the Novartis US RX Products) with such a purchaser, any other member of the Seller's Group that owns, or any successor in title to, any part of the Seller's Retained Business being disposed of, provided that:
  - (i) prior to entering into any such transitional arrangements, contracts or agreements, Novartis shall:
    - (a) provide GlaxoSmithKline with a copy of the substantially final draft of the written agreement (s) in relation to the same;
    - (b) give GlaxoSmithKline a reasonable period of time to review the terms of such arrangements, contracts or agreements and provide any comments thereon; and
    - (c) take into account (acting reasonably and in good faith) any reasonable (in the context of, to the extent applicable, the terms of the term sheet agreed between Novartis and the purchaser of the



Novartis Animal Health Business upon entry into the sale agreement in respect of the Novartis Animal Health Business (the “**Animal Health Term Sheet**”) and the services to be provided thereunder) comments of GlaxoSmithKline in relation to such transitional arrangements, contracts or agreements provided within that period of time;

- (ii) without prejudice to the above and other than in relation to any manufacturing and supply agreement or any arrangements to which Clause 5.2.3(iii) below applies, any such transitional arrangement, contract or agreement terminates or is terminable by the relevant Target Group Company or the Business Seller (as the case may be) without any costs, losses, liabilities, expenses or penalties being incurred or payable within a period of 12 months following closing of the relevant transaction; and
- (iii) the transitional services to be provided to the Novartis Animal Health Business pursuant to the terms of the Animal Health Term Sheet shall not be required to be provided by the relevant Target Group Company or the Business Seller (as the case may be) for any longer term than the relevant service period as set out in the Animal Health Term Sheet and, in any event, not more than 24 months following the closing of the sale and purchase of the Novartis Animal Health Business (subject to any extension that may be agreed by the relevant member of the Purchaser’s Group and the counterparty thereto);

5.2.4 the disposal or transfer by a Seller of any Seller’s Retained Business;

5.2.5 any matter undertaken by any member of the relevant Seller’s Group to facilitate or implement a Reorganisation in accordance with Clause 2.3.5;

5.2.6 any action to the extent it is required to be undertaken to comply with Applicable Law; or

5.2.7 any matter reasonably undertaken by any member of the relevant Seller’s Group in an emergency or disaster situation with the intention of minimising any adverse effect of such situation in relation to that Seller’s Group and where any delay arising by virtue of having to give notice to the other Seller and await consent would materially prejudice that Seller’s Group,

provided that the relevant Seller shall, other than in respect of any action taken or proposed to be taken as described in Clause 5.2.5 (to which the provisions of Clause 2.3.5 and Schedule 17 (Reorganisations) shall apply), notify the other Seller as soon as reasonably practicable of any action taken or proposed to be taken as described in this Clause 5.2, shall provide to the other Seller all such information as the other Seller may reasonably request in respect of any such action and shall use reasonable endeavours to consult with the Purchaser in respect of any such action.

**5.3 The Sellers’ Obligations in relation to Cash, Intra-Group Payables and Receivables and Third Party Indebtedness**

Prior to Closing, each Seller shall seek to minimise the amounts which would, but for this Clause 5.3, otherwise fall to be treated as its:

5.3.1 Intra-Group Non-Trade Payables;



- 5.3.2 Intra-Group Non-Trade Receivables;
- 5.3.3 Target Group Companies Cash Balances; and
- 5.3.4 Third Party Indebtedness,

in each case: (i) including any such items which arise in connection with any Reorganisation; and (ii) to the extent reasonably possible, taking into account the consequences of any such reduction for the Seller's Group. In addition, each Seller shall use reasonable endeavours to minimise any adjustment payable by it in accordance with Clause 7.3.7.

**5.4 Other Sellers' Obligations Prior to Closing**

5.4.1 Prior to Closing each Seller shall, and shall procure that its Target Group Companies and that Seller's Affiliates shall, allow the other Seller and its respective agents, upon reasonable notice, reasonable access to, and to take copies of, the books, records and documents of or relating in whole or in part to its Target Group, provided that the obligations of each Seller under this Clause shall not extend to allowing access to information which is (i) reasonably regarded as confidential to the activities of that Seller and that Seller's Group otherwise than in relation to its Target Group or (ii) commercially sensitive or other information of its Target Group if such information cannot be shared with the other Seller prior to Closing in compliance with Applicable Law (though the Seller sharing the books, records and/or documents shall seek to share such information with the other Seller to the extent and in such a manner as would comply with Applicable Law).

5.4.2 The parties shall comply with their respective obligations under Schedule 6.

**5.5 Affiliate Contracts**

Other than as provided in and without prejudice to the provisions of the Ancillary Agreements, each Seller and the Purchaser shall procure that:

- 5.5.1 the Cash Pooling Arrangements; and
- 5.5.2 each Affiliate Contract in force immediately prior to Closing,

shall terminate prior to Closing and each counterparty thereto shall, effective as of Closing, settle all outstanding financial obligations arising out of any such Affiliate Contract and unconditionally release and irrevocably discharge each other party thereto from (i) any and all further obligations to perform or any further performance of the various covenants, undertakings, warranties and other obligations contained in such Affiliate Contract and (ii) any and all claims and Liabilities whatsoever arising out of, in any way connected with, as a result of or in respect of such Affiliate Contract.

**5.6 Tax Groups**

5.6.1 Each Seller shall take all reasonable steps to procure that any Tax Group existing between any member of that Seller's Group and any GlaxoSmithKline Consumer Group Company or the Novartis OTC Group Company (as the case may be) is terminated on or before Closing, so far as permitted by Applicable Law, or otherwise on the earliest date on which such termination is permitted under Applicable Law, and that Seller and the Purchaser shall take such action as is necessary to procure or effect this, including timely submitting any necessary Tax documents.



**5.6.2** Pending the taking effect of the action referred to in Clause 5.6.1, and for so long thereafter as may be necessary, the Purchaser shall (subject to the provisions of the Tax Indemnity) procure that such information is provided to each Seller as may reasonably be required to enable any relevant member of that Seller's Group to make all Tax Returns and other filings required of it in respect of the Tax Group.

**5.6.3** Each Seller shall take, and shall procure that each member of that Seller's Group takes, all reasonable procedural or administrative steps (including the making of elections and filings with any relevant Tax Authority) which are reasonably necessary to procure the minimisation of the extent to which Tax liabilities of members of that Seller's Group (other than the GlaxoSmithKline Consumer Group Companies or Novartis OTC Group Companies (as the case may be)) can be assessed on the Purchaser or members of the Purchaser's Group or on the relevant Target Group Companies by reason of having been members of a Tax Group.

**5.7 US tax classification**

Between the date of this Agreement and Closing, the Purchaser shall not file any election to be treated as a partnership or disregarded entity for US federal income tax purposes.

**5.8 Insurance**

Without prejudice to the generality of this Clause 5, between the date of this Agreement and Closing, each Seller shall and shall procure that the relevant member of that Seller's Group shall maintain in force all its Target Group Insurance Policies and all Seller's Group Insurance Policies for the benefit of its Target Group.

**6. Closing**

**6.1 Date and Place**

Closing shall take place simultaneously with closing under the other Target Asset Agreements at 11:59 pm (Central European Time) at the offices of Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London, EC4Y 1HS (other than in respect of any Local Transfer Documents agreed between the parties to be executed in another jurisdiction) on the last Business Day of the month in which fulfilment of the condition(s) set out in Clause 4.1 takes place, except that:

**6.1.1** where the last day of such month is not a Business Day, the Closing shall instead take place on the first Business Day of the following month; and

**6.1.2** where less than five Business Days remain between such fulfilment and the last Business Day of the month, Closing shall take place:



- (i) on the last Business Day of the following month;
- (ii) where the last day of such month is not a Business Day, the Closing shall instead take place on the first Business Day of the month following the month referred to in Clause 6.1.2(i); or
- (iii) at such other location, time or date as may be agreed between the Sellers,

provided that Closing shall not take place and shall not be effective in any circumstances unless closing also takes place simultaneously under and in accordance with the terms of the other Target Asset Agreements.

## 6.2 Closing Events

- 6.2.1** On Closing, the parties shall comply with their respective obligations specified in Schedule 11. GlaxoSmithKline may waive some or all of the obligations of Novartis and/or of the Purchaser insofar as they relate to GlaxoSmithKline or its Affiliates as set out in Schedule 11 and Novartis may waive some or all of the obligations of GlaxoSmithKline and/or the Purchaser insofar as they relate to Novartis or its Affiliates as set out in Schedule 11.
- 6.2.2** The parties acknowledge that the transfer of Product Approvals and Product Applications to the Purchaser or other members of the Purchaser's Group may be subject to the approval of applicable Governmental Entities, and that, notwithstanding anything in this Agreement to the contrary, each Product Approval and Product Application shall continue to be held by the relevant member of the relevant Seller's Group from the Closing Date until the relevant PA Transfer Date.
- 6.2.3** The parties shall perform their respective obligations with respect to:
- (i) the transfer of the Product Approvals, Product Applications and Pipeline Product Approvals as set out in Schedule 4;
  - (ii) the transfer of Contracts (other than Product Approvals, Product Applications and Pipeline Product Approvals) and the Transferred Intellectual Property Contracts as set out in Schedule 6;
  - (iii) to the extent the Purchaser has elected to have the Relevant Part of a Shared Business Contract transferred to it, the separation and treatment of each Shared Business Contract as set out in Schedule 6;
  - (iv) the Chinese JV Interests and the Chinese JV Contracts, the Novartis US NRT Business, and the Novartis Indian Business, in each case, as set out in Schedule 6; and
  - (v) Novartis Consumer Health-Gebro GmbH, if Novartis does not hold its Shares in Novartis Consumer Health-Gebro GmbH through a Novartis Group Company at Closing, as set out in Schedule 6.



**6.3 Payment on Closing**

**6.3.1** On Closing the Purchaser shall pay (for itself and on behalf of each relevant member of the Purchaser's Group) to a Seller (if such amount is positive) or that Seller (for itself and on behalf of each other relevant member of that Seller's Group) shall pay to the Purchaser (if such amount is negative), in each case, in accordance with Clause 15.7, an amount in cleared funds, to that Seller or the Purchaser (as the case may be) to that Seller's Bank Account or the Purchaser's Bank Account (as the case may be), which is equal to the sum of the following, in respect of that Seller:

- (i) the Estimated Target Group Companies' Cash Balances and the Estimated Intra-Group Non-Trade Receivables;  
minus
- (ii) the Estimated Third Party Indebtedness;  
minus
- (iii) the Estimated Intra-Group Non-Trade Payables;  
minus
- (iv) any Estimated Employee Benefit Adjustment;  
minus
- (v) the Estimated Tax Adjustment; and  
plus (if it is zero or a positive amount) or minus (if it is a negative amount)
- (vi) the Estimated Working Capital Adjustment.

**6.3.2** On Closing each Seller shall pay to the Purchaser an amount equal to its Cash Portion in cleared funds to the Purchaser's Bank Account. In the event that the amount set out in Clause 6.3.1 is a positive amount in respect of any Seller, that Seller and the Purchaser may (but shall not be obliged to) agree to net off any or all of the amount owed by the Purchaser to that Seller under Clause 6.3.1 against any or all of the Cash Portion owned by that Seller to the Purchaser under this Clause 6.3.2. The parties' current intention is that the Cash Portion will be used to fund the short-term working capital requirements of the Purchaser's Group.

**6.4 Notifications to determine payments on Closing**

**6.4.1** Five Business Days prior to Closing, each Seller shall notify the Purchaser of:

- (i) the Estimated Target Group Companies' Cash Balances;
- (ii) the Estimated Third Party Indebtedness;



- (iii) the Estimated Intra-Group Non-Trade Receivables;
- (iv) the Estimated Intra-Group Non-Trade Payables;
- (v) any Estimated Employee Benefit Adjustment;
- (vi) the Estimated Tax Adjustment;
- (vii) the Estimated Working Capital;
- (viii) the Estimated Working Capital Adjustment; and
- (ix) the Estimated Intra-Group Trading Balances,

and shall at the same time provide to the Purchaser reasonable supporting calculations and information to enable the Purchaser to review the basis on which the estimates have been prepared. Each Seller shall also provide the Purchaser with reasonable details (including the relevant debtor and creditor) in relation to the Intra-Group Trading Balances.

**6.4.2** Each Seller’s notification pursuant to Clause 6.4.1 shall specify the relevant debtor and creditor for each Estimated Intra-Group Non-Trade Payable, Estimated Intra-Group Non-Trade Receivable, Estimated Intra-Group Trade Payable, Estimated Intra-Group Trade Receivable, and Estimated Transferred Accounts Payable or Estimated Transferred Accounts Receivable included within the Estimated Intra-Group Trading Balances.

**6.4.3** Immediately following Closing:

- (i) the Purchaser shall procure that each Target Group Company repays to the relevant member of each Seller’s Group the amount of any Estimated Intra-Group Non-Trade Payables and shall acknowledge on behalf of each Target Group Company the payment of the Estimated Intra-Group Non-Trade Receivables in accordance with Clause 6.4.3(ii); and
- (ii) each Seller shall procure that each relevant member of that Seller’s Group repays to the relevant Target Group Company the amount of any relevant Estimated Intra-Group Non-Trade Receivables and shall acknowledge on behalf of each relevant member of that Seller’s Group the payment of the relevant Estimated Intra-Group Non-Trade Payables in accordance with Clause 6.4.3(i).

**6.4.4** The repayments made pursuant to Clause 6.4.3 shall be adjusted in accordance with Clauses 7.3 and 7.4 when the Closing Statement becomes final and binding in accordance with Clause 7.2.1.

**6.5 Breach of Closing Obligations**

Subject to Clause 6.2.1, if any party fails to comply with any material obligation in Clauses 6.2, 6.3 and 6.4, and Schedule 11 in relation to Closing, GlaxoSmithKline, in the case of non-compliance by Novartis, or Novartis, in the case of



non-compliance by GlaxoSmithKline or the Purchaser, shall be entitled (in addition to and without prejudice to all other rights or remedies available) by written notice to Novartis or GlaxoSmithKline (as the case may be) to fix a new date for Closing (which, except as agreed by the parties, shall be the last day of the month next ending or, if that day is not a Business Day, the first Business Day falling after that day) in which case the provisions of Schedule 11 shall apply to Closing as so deferred, but provided such deferral may only occur once. In all circumstances Closing shall only occur simultaneously with closing under the other Target Asset Agreements.

7. Post-Closing Adjustments

7.1 Closing Statements

7.1.1 Each Seller shall procure that as soon as practicable following Closing there shall be drawn up a draft of its Closing Statement (the “**Draft Closing Statement**”) in accordance with Schedule 12 in relation to its Target Group, on a combined basis.

7.1.2 The Closing Statements shall be drawn up as at the Effective Time.

7.2 Determination of Closing Statement

7.2.1 Any Draft Closing Statement as agreed or determined pursuant to paragraph 1 of Part 1 of Schedule 12:

- (i) shall constitute the Closing Statement as between the relevant Seller and the Purchaser for the purposes of this Agreement; and
- (ii) shall be final and binding on that Seller and the Purchaser.

7.2.2 The Working Capital, the Target Group Companies’ Cash Balances, the Third Party Indebtedness, the Intra-Group Non-Trade Receivables, the Intra-Group Non-Trade Payables, the Employee Benefit Adjustment and the Tax Adjustment in respect of a Seller shall each be derived from its Closing Statement.

7.3 Adjustments to Consideration

7.3.1 Target Group Companies’ Cash Balances:

- (i) in respect of each Seller, if the Target Group Companies’ Cash Balances are less than the Estimated Target Group Companies’ Cash Balances, that Seller shall repay to the Purchaser an amount equal to the deficiency; or
- (ii) in respect of each Seller, if the Target Group Companies’ Cash Balances are greater than the Estimated Target Group Companies’ Cash Balances, the Purchaser shall pay to that Seller an additional amount equal to the excess.

7.3.2 Intra-Group Non-Trade Receivables:



- (i) in respect of each Seller, if the Intra-Group Non-Trade Receivables are less than the Estimated Intra-Group Non-Trade Receivables, that Seller shall repay to the Purchaser an amount equal to the deficiency; or
- (ii) in respect of each Seller, if the Intra-Group Non-Trade Receivables are greater than the Estimated Intra-Group Non-Trade Receivables, the Purchaser shall pay to that Seller an additional amount equal to the excess.

**7.3.3** Third Party Indebtedness:

- (i) in respect of each Seller, if the Third Party Indebtedness is less than the Estimated Third Party Indebtedness, the Purchaser shall repay to that Seller an amount equal to the deficiency; or
- (ii) in respect of each Seller, if the Third Party Indebtedness is greater than the Estimated Third Party Indebtedness, that Seller shall pay to the Purchaser an additional amount equal to the excess.

**7.3.4** Intra-Group Non-Trade Payables:

- (i) in respect of each Seller, if the Intra-Group Non-Trade Payables are greater than the Estimated Intra-Group Non-Trade Payables, that Seller shall repay to the Purchaser an amount equal to the excess; or
- (ii) in respect of each Seller, if the Intra-Group Non-Trade Payables are less than the Estimated Intra-Group Non-Trade Payables, the Purchaser shall pay to that Seller an additional amount equal to the deficiency.

**7.3.5** Tax Adjustment

- (i) in respect of each Seller, if the Tax Adjustment is greater than the Estimated Tax Adjustment, that Seller shall repay to the Purchaser an amount equal to the difference; or
- (ii) in respect of each Seller, if the Tax Adjustment is less than the Estimated Tax Adjustment, the Purchaser shall pay to that Seller an additional amount equal to the difference.

**7.3.6** Working Capital:

- (i) in respect of each Seller, if the Working Capital Adjustment is less than the Estimated Working Capital Adjustment, that Seller shall repay to the Purchaser an amount equal to the deficiency; or
- (ii) in respect of each Seller, if the Working Capital Adjustment exceeds the Estimated Working Capital Adjustment, the Purchaser shall pay to that Seller an additional amount equal to the excess.



**7.3.7** Intra-Group Trading Balances: in respect of each Seller, if the amount of that Seller's Intra-Group Trading Balances is greater than US\$20,000,000, that Seller shall pay to the Purchaser the amount of the excess.

**7.4 Adjustments to repayment of Intra-Group Non-Trade Payables and Intra-Group Non-Trade Receivables**

Following the determination of any Closing Statement pursuant to Clause 7.1.2 and paragraph 1 of Part 1 of Schedule 12, if the amount of any Intra-Group Non-Trade Payable and/or any Intra-Group Non-Trade Receivable contained in that Closing Statement is greater or less than the amount of the corresponding Estimated Intra-Group Non-Trade Payable or Estimated Intra-Group Non-Trade Receivable, then the relevant Seller and the Purchaser shall procure that such adjustments to the repayments pursuant to Clause 6.4.3 are made as are necessary to ensure that (taking into account such adjustments) the actual amount of each Intra-Group Non-Trade Payable and each Intra-Group Non-Trade Receivable has been repaid by each Target Group Company to the relevant member of that Seller's Group or by the relevant member of that Seller's Group to the relevant Target Group Company, as the case may be.

**7.5 Interest**

Any payment to be made in accordance with Clause 7.3 shall include interest thereon calculated from the Closing Date to the date of payment at a rate per annum of LIBOR.

**7.6 Payment**

**7.6.1** Any payments pursuant to Clause 7.3 or 7.4, and any interest payable pursuant to Clause 7.5, shall be made on or before the Final Payment Date.

**7.6.2** Where any payment is required to be made pursuant to Clause 7.3 or Clause 7.5 (in relation to a payment pursuant to Clause 7.3) the payment made pursuant to clause 3.1.3 on account of the Purchase Consideration shall be reduced or increased accordingly.

**8. Post-Closing Obligations**

**8.1 Indemnities**

**8.1.1 Indemnity by Purchaser against Assumed Liabilities**

The Purchaser hereby undertakes to each Seller (for itself and on behalf of each other member of such Seller's Group and their respective directors, officers, employees and agents) that, with effect from Closing, the Purchaser will indemnify on demand and hold harmless each member of that Seller's Group and their respective directors, officers, employees and agents against and in respect of any and all Assumed Liabilities.

**8.1.2 Indemnity by Sellers**

Subject to Clause 8.1.3, each Seller hereby undertakes to the Purchaser (for itself and on behalf of each other member of the Purchaser's Group and their respective directors, officers, employees and agents) that, with effect from Closing, such Seller will indemnify on demand and hold harmless each member of the Purchaser's Group and their respective directors, officers, employees and agents against and in respect of any and all:



- (i) Excluded Liabilities; and
- (ii) Liabilities, including legal fees, to the extent they have arisen or arise (whether before or after Closing) as a result of or otherwise relate to any act, omission, fact, matter, circumstance or event undertaken, occurring or in existence or arising before Closing so far as related to: (a) any anti-bribery warranty set out in this Agreement, including without limitation those set forth in paragraph 10 of Schedule 13, not being true and correct when made; (b) any governmental inquiries or investigations involving that Seller, its Affiliates or its Associated Persons; (c) save to the extent in existence as at the date of this Agreement, any limitation, restriction or other reduction in drug registrations, regulatory licenses, listings or market approvals, governmental pricing or reimbursement rates relating to any products of the relevant Seller's Contributed Business and affecting their future profits as a result of any such limitation, restriction or reduction; or (d) any other claim, litigation, investigation or proceeding to the extent related to any of the foregoing (a) to (c), including but not limited to costs of investigation and defense and legal fees.

### 8.1.3 Limitations on Indemnities

Subject to Clause 8.1.4, no Seller shall be liable under Clause 8.1.2 in respect of:

- (i) any Time-Limited Excluded Liability unless a notice of a claim in respect of the matter giving rise to such Liability is given by the Purchaser to that Seller within ten years of Closing, provided that this Clause 8.1.3(i) shall not apply in respect of any claim by the Purchaser which relates to:
  - (a) a Product Liability;
  - (b) a Governmental Liability;
  - (c) a Clinical Trials/Data Liability; or
  - (d) an Excluded Asset;
- (ii) any claim if and to the extent that the relevant Liability is included in the Closing Statement; or
- (iii) any individual claim (or a series of claims arising from similar or identical facts or circumstances) where the Liability (disregarding the provisions of this Clause 8.1.3(iii)) in respect of any such claim or series of claims does not exceed US\$10 million, provided that, for the avoidance of doubt, where the Liability in respect of any such claim or series of claims exceeds US\$10 million, the Liability of such Seller shall be for the whole amount of such claim(s) and not just the excess.



**8.1.4** Disapplication of limitations

None of the limitations contained in Clause 8.1.3 shall apply to any claim to the extent that such claim arises or is increased as the consequence of, or which is delayed as a result of, fraud by any member of the relevant Seller's Group or any director, officer or employee of any member of the relevant Seller's Group.

**8.1.5** Endo Excluded Contract

- (i) The parties acknowledge and agree that the Endo Excluded Contract is an Excluded Asset and is to remain with Novartis rather than transferring (in whole or in part) to the Purchaser upon Closing. The parties further agree that all rights, title and interest in relation to researching and developing, manufacturing, distributing, marketing, selling, promoting and/or otherwise Commercialising Novartis's In-Scope Switch Product as a Consumer Healthcare Product will be transferred to the Purchaser upon Closing.
- (ii) With effect from Closing, Novartis shall within 15 Business Days of receipt pay to the Purchaser the amount of any royalties that Novartis or any member of the Novartis Group receives under the Endo Contract of any nature whatsoever (net of any Taxes, costs and expenses incurred by any member of Novartis's Group in connection with the receipt of such royalties, after taking account of any related deductions available to offset such receipts, including any deduction in respect of the onward payments to the Purchaser). The parties, acting reasonably and in good faith, shall discuss structuring of the arrangements for the onward payments and shall take commercially reasonable steps in relation to those arrangements to minimise the tax costs involved in aggregate for members of Novartis's Group and the Purchaser (such steps to include Novartis's consenting, if requested by the Purchaser and such step is commercially reasonable, to an assignment by the Purchaser of the right to such royalties to another member of the Purchaser's Group).
- (iii) In the event that, following a switch of Novartis's In-Scope Switch Product in the United States of America from being a Prescription Product to being a Consumer Healthcare Product and the Endo Excluded Contract terminates, the Purchaser shall indemnify Novartis in respect of any losses, liabilities, costs and expenses incurred by Novartis (or any of its Affiliates) in relation to the royalties payable under clause 9.2 of the Endo Excluded Contract as it is as at the date of this Agreement.



## 8.2 Conduct of Claims

### 8.2.1 Assumed Liabilities

- (i) If the Seller becomes aware after Closing of any claim by a third party which constitutes or may constitute an Assumed Liability, the Seller shall as soon as reasonably practicable:
  - (a) give written notice thereof to the Purchaser and the other Seller setting out such information as is available to the Seller as is reasonably necessary to enable the Purchaser and the other Seller to assess the merits of the potential claim;
  - (b) take all appropriate actions to preserve evidence; and
  - (c) provide the Purchaser and the other Seller with periodic updates on the status of the claim upon request and shall not admit, compromise, settle, discharge or otherwise deal with such claim without the prior written agreement of the Purchaser and the other Seller (such agreement not to be unreasonably withheld or delayed).
- (ii) Each Seller shall, and shall procure that each of its Share Sellers and Business Sellers shall, take such action as the Purchaser may reasonably request to avoid, dispute, resist, appeal, compromise, defend or mitigate any claim which constitutes or may constitute an Assumed Liability subject to that Seller and each of its Share Sellers and Business Sellers being indemnified and secured to their reasonable satisfaction by the Purchaser against all Liabilities which may thereby be incurred. In connection therewith, that Seller shall make or procure to be made available to the Purchaser or its duly authorised agents on reasonable notice during normal business hours all relevant books of account, records and correspondence relating to its Target Group Businesses which have been retained by that Seller's Group (and shall permit the Purchaser to take copies thereof at its expense) for the purposes of enabling the Purchaser to ascertain or extract any information relevant to the claim.

### 8.2.2 Excluded Liabilities

- (i) If the Purchaser becomes aware after Closing of any claim by a third party which constitutes or may constitute an Excluded Liability or relates to an Excluded Liability or any investigations related thereto, regardless of whether the Purchaser believes that such claim would be made against a member of the Purchaser's Group or a member of a Seller's Group, the Purchaser shall as soon as reasonably practicable:
  - (a) give written notice thereof to the relevant Seller, setting out such information as is available to the Purchaser as is reasonably necessary to enable that Seller to assess the merits of the potential claim;



- (b) take all appropriate actions to preserve evidence; and
  - (c) provide the relevant Seller with periodic updates on the status upon request and shall not admit, compromise, settle, discharge or otherwise deal with such claim without the prior written agreement of that Seller (such agreement not to be unreasonably withheld or delayed).
- (ii) The Purchaser shall take such action as the relevant Seller may reasonably request to avoid, dispute, resist, appeal, compromise, defend or mitigate any claim which constitutes or may constitute an Excluded Liability subject to the Purchaser being indemnified and secured to its reasonable satisfaction by the relevant Seller against all Liabilities which may thereby be incurred.
- (iii) In addition, where any such claim or investigation involves a Governmental Entity, the Purchaser shall, subject to Applicable Law, the requirements of any relevant Governmental Entity and the relevant Seller providing an appropriate confidentiality undertaking in favour of the Purchaser's Group, provide to that Seller, at least five Business Days in advance (or, where not possible, as soon as reasonably possible), any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals they or their agents make or submit to a Governmental Entity. Without limiting the foregoing, the parties agree, subject to Applicable Law and the requirements of the relevant Governmental Entity and the Seller providing an appropriate confidentiality undertaking in favour of the Purchaser's Group to:
- (a) give that Seller reasonable advance notice of all meetings with any Governmental Entity;
  - (b) give that Seller an opportunity to participate in each of such meetings;
  - (c) to the extent practicable, give that Seller reasonable advance notice of all substantive oral communications with any Governmental Entity;
  - (d) if any Governmental Entity initiates a substantive oral communication, promptly notify that Seller of the substance of such communication;
  - (e) provide that Seller with a reasonable advance opportunity to review and comment upon all substantive written communications (including any substantive correspondence, analyses, presentations, memoranda, briefs, arguments, opinions and proposals) that the Purchaser or its agents intend to make or submit to a Governmental Entity in connection with such claim;



- (f) provide that Seller with copies of all substantive written communications to or from any Governmental Entity; and
- (g) not advance arguments with the Governmental Entity without prior agreement of that Seller that would reasonably be likely to have a significant adverse impact on the Seller,

provided however, that the Purchaser shall not be required to comply with paragraph (b) above to the extent that the Governmental Entity objects to the participation of a party, or with paragraph (e) or (f) above to the extent that such disclosure may raise regulatory concerns (in which case, the disclosure may be made on an outside counsel basis).

- (iv) Other than in respect of any claim to the extent it relates to an IP Liability, a Commercial Practices Liability, or a Governmental Liability (other than in respect of any Liability arising solely by virtue of a breach of Contract with any Governmental Entity which breach does not also constitute a breach of Applicable Law), the relevant Seller shall be entitled at its own expense and in its absolute discretion, by notice in writing to the Purchaser, to take such action as it shall deem necessary to avoid, dispute, deny, defend, resist, appeal, compromise or contest any such claim (including making counterclaims or other claims against third parties) in the name of and on behalf of the Purchaser or other member of the Purchaser's Group concerned and to have the conduct of any related proceedings, negotiations or appeals. In taking action on behalf of any member of the Purchaser's Group as permitted by this Clause 8.2, the relevant Seller shall, in good faith, take into account and have due regard to any reputational matters or issues arising out of the claim for any member of the Purchaser's Group or any of their respective directors, officers, employees or agents which are brought to its attention by the Purchaser or a member of the Purchaser's Group.
- (v) The Purchaser shall make or procure to be made available to the relevant Seller or its duly authorised agents on reasonable notice during normal business hours full and free access to all relevant books of account, records and correspondence relating to its Target Group which are in the possession of the Purchaser or any member of the Purchaser's Group (and shall permit the relevant Seller to take copies thereof) for the purposes of enabling that Seller to ascertain or extract any information relevant to the claim.
- (vi) The Purchaser shall, and shall procure that each other member of the Purchaser's Group shall, on reasonable notice from the relevant Seller, give such assistance to that Seller as it may reasonably require in relation to the claim including providing the relevant Seller or any member of that Seller's Group and its representative and advisers with access to and assistance from directors, officers, managers, employees, advisers, agents or consultants of the Purchaser and/or of each



other member of the Purchaser's Group (collectively, the "**Relevant Persons**") and the Purchaser will use its reasonable endeavours to procure that such Relevant Persons comply with any reasonable requests from that Seller and generally co-operate with and assist that Seller and other members of that Seller's Group.

- (vii) When seeking assistance under Clauses 8.2.2(v) and 8.2.2(vi), the relevant Seller, or any other relevant member of that Seller's Group, shall use reasonable endeavours to minimise interference with the Purchaser and the Purchaser's Group's conduct of the relevant business or the performance by the Relevant Persons of their employment duties.

### 8.3 Release of Guarantees

**8.3.1** The Purchaser shall use reasonable endeavours to procure as soon as reasonably practicable after Closing, the release of each Seller or any member of that Seller's Group from any securities, guarantees or indemnities given by or binding upon that Seller or any member of that Seller's Group in respect of any Assumed Liabilities or in connection with a liability of any of the relevant Target Group Companies (other than an Excluded Liability). Pending such release, the Purchaser shall indemnify that Seller and any member of that Seller's Group against all amounts paid by any of them (acting reasonably) pursuant to any such securities, guarantees or indemnities in respect of such Assumed Liabilities or such liability of the relevant Target Group Companies (other than an Excluded Liability).

**8.3.2** Each Seller shall use reasonable endeavours to procure by Closing or, to the extent not done by Closing, as soon as reasonably practicable thereafter, the release of its Target Group Companies from any securities, guarantees or indemnities given by or binding upon those Target Group Companies in respect of any liability of that Seller or any member of that Seller's Group (other than those Target Group Companies). Pending such release, that Seller shall pay to the Purchaser an amount equal to the sum that would have been payable to the Target Group Companies had that Seller indemnified the relevant Target Group Companies against all amounts paid by any of them (acting reasonably) pursuant to any such securities, guarantees or indemnities in respect of such liability of that Seller which arises after Closing.

### 8.4 Transferred Accounts Payable

If at any time after Closing, a Seller or any of its Affiliates pays any monies in respect of any Transferred Accounts Payable, then the Purchaser shall pay or procure payment to that Seller (for the relevant Business Seller), as soon as reasonably practicable the amount paid, plus any Taxation suffered or incurred by that Seller's Group which would not have arisen but for the payment and receipt of such monies.



**8.5 Transferred Accounts Receivable**

If at any time after Closing, a Business Seller receives any monies in respect of any Transferred Accounts Receivables, then that Business Seller shall pay or procure payment to the Purchaser, as soon as reasonably practicable the amount recovered, less any Taxation suffered or incurred by the relevant Seller's Group which would not have arisen but for the receipt and payment of such monies.

**8.6 Intra-Group Trading Balances**

Any Intra-Group Trade Payables, any Intra-Group Trade Receivables and any Transferred Accounts Payables and Transferred Accounts Receivables, in each case, between a member of the Seller's Group (other than a Target Group Company) and a Business Seller of that Seller's Group, shall be settled after Closing in the ordinary course of business and, in any event, within 60 days of Closing.

**8.7 Wrong Pockets Obligations**

**8.7.1** Except as provided in Schedule 2, Schedule 4, Schedule 6, Schedule 7, or Schedule 8, if any property, right or asset forming part of a Target Group (other than any property, right or asset expressly excluded from the sale under this Agreement) has not and should have been transferred to the Purchaser, or to another member of the Purchaser's Group, pursuant to this Agreement, the relevant Seller shall procure that such property, right or asset (and any related liability which is an Assumed Liability) is transferred to the Purchaser (or another member of the Purchaser's Group as the Purchaser may nominate reasonably acceptable to the Seller) as soon as practicable and at no cost to the Purchaser.

**8.7.2** If, following Closing, any property, right or asset not forming part of a Target Group (other than any property, right or asset expressly included in the sale under this Agreement) is found to have and should not have been transferred to the Purchaser or another member of the Purchaser's Group pursuant to this Agreement, the Purchaser shall transfer (or procure the transfer of) such property, right or asset as soon as practicable to the transferor or another member of the relevant Seller's Group nominated by the relevant Seller reasonably acceptable to the Purchaser at no cost to the Seller.

**8.8 Covenant not to sue**

**8.8.1** Each Seller hereby undertakes not to enforce any Intellectual Property Rights against the Purchaser or its Affiliates which qualify to be transferred pursuant to Clause 8.7.1 in relation to the period from Closing to the completion of the transfer under that Clause.

**8.8.2** The Purchaser hereby undertakes not to enforce any Intellectual Property Rights against a Seller or its Affiliates which qualify to be transferred pursuant to Clause 8.7.2 in relation to the period from Closing to the completion of the transfer under that Clause.



**8.9 The Purchaser's Continuing Obligations**

- 8.9.1** Except as provided in the GlaxoSmithKline Seller Intellectual Property Trademark Licence, or if the Purchaser is unable to obtain the necessary third party consent to do so in relation to a Joint Venture Entity, the Purchaser shall procure that as soon as practicable after Closing, each of the Target Group Companies and Joint Venture Entities shall change its name so that it does not contain the Seller Marks or any name which is likely to be confused with the same and shall provide the relevant Seller with appropriate evidence of such change of name.
- 8.9.2** Except as provided in the Ancillary Agreements, the Purchaser shall not, and shall procure that no member of the Purchaser's Group shall, after Closing, use the Seller Marks or any confusingly similar name or mark, any extensions thereof or developments thereto in any business which competes with the Seller's business, or any other business of a Seller or any member of a Seller's Group in which the Seller Marks are used for a minimum period of five years following Closing and thereafter for so long as any member of a Seller's Group continues to retain an interest in the name.
- 8.9.3** During the 90 calendar days following the Closing Date, the Purchaser shall provide and cause to be provided to each Seller the information reasonably required to enable that Seller to prepare and audit the standard monthly reporting forms of the Seller's Group, to the extent that such financial reporting relates to the Contributed Business, in respect of the period prior to the Closing and in respect of the calendar month in which the Closing occurs. The Purchaser shall provide such financial reporting in respect of the calendar month in which Closing occurs to each Seller within six Business Days of the last day of the relevant month.

**8.10 The Sellers' Continuing Obligations**

For a period of ten years from Closing, each Seller shall make or procure to be made available to the Purchaser or their duly authorised agents on reasonable notice during normal business hours:

- 8.10.1** all relevant books, accounts, other records and correspondence relating to that Seller's Contributed Business which have been retained by that Seller's Group (and shall permit the Purchaser to take copies thereof); and
- 8.10.2** reasonable access to any employees of that Seller's Group who have knowledge relating to products of the relevant Seller's Contributed Business (including any inventor of such products) for the purposes of the defence, prosecution or enforcement of any Target Group Intellectual Property Rights, or as required by law or a Governmental Entity, provided that the Purchaser shall promptly reimburse the relevant Seller for expenses reasonably incurred by the Seller in relation to providing such access if it exceed 25 man hours in aggregate per annum.



**8.11 Ancillary Agreements**

If any of the Seller Intellectual Property Licence Agreement, the Purchaser Trademark Licence Agreement or the Seller Trademark Licence Agreement have not been entered into at Closing, the provisions of the licences in the Agreed Terms shall be binding on the relevant Seller and the Purchaser until the earlier of: (i) the date on which the relevant licence is entered into; or, if applicable, (ii) the date on which the relevant licence expires or terminates (if applicable) in accordance with its Agreed Terms.

**8.12 Transitional Services Agreement**

In respect of each Seller, if the Transitional Services Agreement has not been entered into at Closing, the provision of the heads of terms in the Agreed Terms shall be binding on that Seller and the Purchaser until the earlier of: (i) the date on which the Transitional Services Agreement is entered into; or (ii) the date on which that Seller no longer provides such transitional services to the Purchaser.

**8.13 Manufacturing, Supply and Distribution Agreement**

In respect of each Seller, if the Manufacturing, Supply and Distribution Agreement has not been entered into at Closing, the provisions of the heads of terms in the Agreed Terms shall be binding on that Seller and the Purchaser until the earlier of: (i) the date on which the Manufacturing, Supply and Distribution Agreement is entered into; or (ii) the date on which the Seller no longer manufactures and supplies Products to that Seller for distribution.

**8.14 Services Agreement**

In respect of GlaxoSmithKline, if the Services Agreement has not been entered into at Closing, the provisions of the heads of terms in the Agreed Terms shall be binding on GlaxoSmithKline and the Purchaser until the earlier of: (i) the date on which the Services Agreement is entered into; or (ii) the date on which GlaxoSmithKline no longer provides the relevant services to the Purchaser.

**8.15 Transfer of Marketing Authorisations and Tenders**

**8.15.1** The transfer of the Marketing Authorisations following Closing shall take place in accordance with Part 2 of Schedule 4 and the terms of the Manufacturing, Supply and Distribution Agreements.

**8.15.2** Between the Closing Date and the Marketing Authorisation Transfer Date, the Seller agrees to assist the Purchaser in accordance with Part 3 of Schedule 4 in respect of any tenders relating to the Products.

**9. Warranties**

**9.1 The Sellers' Warranties**

**9.1.1** Subject to Clause 9.2, each Seller warrants (on behalf of the relevant Business Sellers or Share Sellers, as applicable) to the Purchaser and each member of the Purchaser's Group to which shares or assets are transferred pursuant to this Agreement or any Local Transfer Document, that the statements set out in Schedule 13 (save for paragraph 2.4.2 in the case of GlaxoSmithKline and 2.4.1 in the case of Novartis) are true and accurate as of the date of this Agreement.



- 9.1.2** Each of the Seller's Warranties shall be separate and independent and shall not be limited by reference to any other paragraph of Schedule 13 or by anything in this Agreement or any Local Transfer Document or in the Tax Indemnity.
- 9.1.3** Neither of the Sellers gives or makes any warranty as to the accuracy of the forecasts, estimates, projections, statements of intent or statements of opinion provided to the Purchaser or any of its directors, officers, employees, agents or advisers on or prior to the date of this Agreement.
- 9.1.4** Any Seller's Warranty qualified by the expression "so far as the Seller is aware" or to the "Seller's Knowledge" or any similar expression shall, unless otherwise stated, be deemed to refer to the knowledge of:
- (i) in the case of GlaxoSmithKline, the following persons: [\*\*\*] and
  - (ii) in the case of Novartis, the following persons: [\*\*\*],
- in each case having made due and reasonable enquiry.
- 9.1.5** Each of the Seller's Warranties shall be deemed to be repeated immediately before Closing by reference to the facts, circumstances and knowledge then existing as if references in the Seller's Warranties to the date of this Agreement were references to the Closing Date. Without prejudice to the provisions of Clause 4.4, no Seller shall have any liability for any breach of any Seller's Warranty given by it where such Seller's Warranty was true as at the date of this Agreement unless (i) the fact, event or circumstances giving rise to the breach (i) constitutes a Material Adverse Effect and (ii) was not the result of an act or omission expressly permitted by the terms of this Agreement or any other Ancillary Agreement. No Seller shall have any liability under this Clause 9.1.5 if the Purchaser has exercised its termination right in accordance with Clause 4.4.1(iii).

**9.2 Sellers' Disclosures**

- 9.2.1** Each Seller's Warranties are subject to all matters which are fairly disclosed in this Agreement or in the Disclosure Letter.
- 9.2.2** References in a Disclosure Letter to paragraph numbers shall be to the paragraphs in Schedule 13 to which the disclosure is most likely to relate. Such references are given for convenience only and, shall not limit the effect of any of the disclosures, all of which are made against the Seller's Warranties as a whole.

**9.3 The Purchaser's Warranties**

The Purchaser warrants to each Seller that the statements set out in Schedule 14 are true and accurate as of the date of this Agreement. Limitation of Liability

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**9.4 Application**

**9.4.1** In respect of the Tax Indemnity, the provisions of this Clause 10 shall operate to limit the liability of a Seller only in so far as any provision in this Clause 10 is expressed to be applicable to the Tax Indemnity, and the provisions of the Tax Indemnity shall further operate to limit the liability of the Sellers in respect of any claims thereunder.

**9.4.2** References to the Seller’s Warranties in Clauses 10.2 to 10.5 (inclusive), 10.7, 10.8 and 10.10 shall not include the Tax Warranties and the provisions of clauses 3 and 9 of the Tax Indemnity shall operate to limit the liability of the Sellers and to govern the claims procedure in respect of any claim under the Tax Warranties in respect of a liability for Tax as if such claim had been a claim in respect of a Tax Liability (as defined in the Tax Indemnity) under the Tax Indemnity.

**9.5 Time Limitation for Claims**

No Seller shall be liable under this Agreement or any Local Transfer Document for breach of any Seller’s Warranty, any Tax Warranty or under the Tax Indemnity in respect of any claim unless a notice of the claim is given by the Purchaser to such Seller specifying the matters set out in Clause 11.2:

**9.5.1** in the case of a claim under any of paragraphs 1, 2.1, 2.2.1, 2.2.3 or 2.5 of Schedule 13, within the applicable statutory limitation period;

**9.5.2** in respect of claims under the Tax Warranties or the Tax Indemnity, before the date falling six months after the expiry of the period specified by statute during which an assessment of the relevant liability to Tax may be issued by the relevant Tax Authority; and

**9.5.3** in the case of any other claim, before the date falling two years following Closing.

**9.6 Minimum Claims**

**9.6.1** No Seller shall be liable under:

- (i) this Agreement or any Local Transfer Document for breach of any Seller’s Warranty in respect of any individual claim (or a series of claims arising from similar or identical facts or circumstances) where the liability agreed or determined (disregarding the provisions of this Clause 10.3) in respect of any such claim or series of claims does not exceed, in the case of Novartis, US\$10.95 million, or, in the case of GlaxoSmithKline, US\$19.05 million; or
- (ii) this Agreement for breach of any Tax Warranty or under the Tax Indemnity in respect of any individual claim (or a series of claims arising from similar or identical facts or circumstances) where the liability agreed or determined (disregarding the provisions of this Clause 10.3) in respect of any such claim or series of claims does not exceed US\$1 million.



**9.6.2** Where the liability agreed or determined in respect of any such claim or series of claims exceeds, in the case of claims falling within Clause 10.3.1(i), US\$10.95 million (in the case of Novartis) or US\$19.05 million (in the case of GlaxoSmithKline) or, in the case of claims falling within Clause 10.3.1(ii), US\$1 million, the liability of the relevant Seller shall be for the whole amount of such claim(s) and not just the excess.

**9.7 Aggregate Minimum Claims**

**9.7.1** No Seller shall be liable under this Agreement or any Local Transfer Document for breach of any Seller's Warranty in respect of any claim unless the aggregate amount of all claims for which such Seller would otherwise be liable under this Agreement or any Local Transfer Document for breach of any Seller's Warranty (disregarding the provisions of this Clause 10.4) exceeds, in the case of Novartis, US\$109.5 million, or, in the case of GlaxoSmithKline, US\$190.5 million, in which case the relevant Seller shall be liable for the aggregate amount of all claims as agreed or determined and not just the excess.

**9.7.2** Where the liability agreed or determined in respect of all claims exceeds US\$109.5 million (in the case of Novartis) or US\$190.5 million (in the case of GlaxoSmithKline) such Seller shall be liable for the aggregate amount of all claims as agreed or determined and not just the excess.

**9.7.3** For the avoidance of doubt, the Purchaser may give notice of any single claim in accordance with and for the purposes of Clause 10.2, irrespective of whether, at the time the notice is given, the amount set out in Clause 10.4.2 has been exceeded.

**9.8 Maximum Liability**

The aggregate liability of a Seller in respect of:

**9.8.1** any breaches of the Seller's Warranties (other than the Seller's Warranties contained in paragraphs 1, 2.1, 2.2.1, 2.2.3 or 2.5 of Schedule 13) shall not exceed an amount equal to, in the case of Novartis, US\$3.285 billion, or, in the case of GlaxoSmithKline, US\$5.715 billion; and

**9.8.2** any breaches of such Seller's Warranties contained in paragraphs 1, 2.1, 2.2.1, 2.2.3 or 2.5 of Schedule 13 shall not exceed, in the case of Novartis, US\$10.95 billion, or, in the case of GlaxoSmithKline, US\$19.05 billion.

**9.9 Contingent Liabilities**

No Seller shall be liable under this Agreement or any Local Transfer Document for breach of any such Seller's Warranties in respect of which the liability is contingent, unless and until such contingent liability becomes an actual liability and is due and payable (but the Purchaser has the right under Clause 11.1 to give notice of such claim before such time). For the avoidance of doubt, the fact that the liability may not have become an actual liability by the relevant date provided in Clause 10.2 shall not exonerate such Seller in respect of any claim properly notified before that date.



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**9.10 Provisions**

No Seller shall be liable under this Agreement or any Local Transfer Document in either case in respect of any claim for breach of any Seller's Warranty in respect of any claim if and to the extent that any allowance, provision or reserve has been properly made in the Closing Statement applicable to that Seller for the matter giving rise to the claim and such Seller can demonstrate that the allowance, provision or reserve so made was in respect of such matter.

**9.11 Matters Arising Subsequent to this Agreement**

Subject to Clause 8.1.2, no Seller shall be liable under this Agreement or any Local Transfer Document in either case in respect of any claim for breach of any Seller's Warranty in respect of any matter, act, omission or circumstance (or any combination thereof), to the extent that the same would not have occurred but for:

**9.11.1** Agreed matters

any matter or thing done or omitted to be done by such Seller or any member of such Seller's Group before Closing pursuant to and in compliance with this Agreement or any Local Transfer Document or otherwise at the request in writing of the Purchaser; or

**9.11.2** Changes in legislation

the passing of, or any change in, after the Closing Date, any Applicable Law or administrative practice of any government, governmental department, agency or regulatory body having the force of the law including (without prejudice to the generality of the foregoing) any increase in the rates of Taxation or any imposition of Taxation or any withdrawal of relief from Taxation not in force at the Closing Date.

**9.12 Insurance**

Without prejudice to Clause 13, any Seller's Liability under this Agreement for breach of any Seller's Warranty shall be reduced by an amount equal to any loss or damage to which such claim related which has actually been recovered under a policy of insurance held by the Purchaser or a Target Group Company (after deducting any reasonable costs incurred in making such recovery including the amount of any excess or deductible).

**9.13 Purchaser's Right to Recover**

If any Seller has paid an amount in discharge of any claim under this Agreement for breach of any Seller's Warranty and subsequently the Purchaser recovers (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Purchaser (in whole or in part) in respect of the loss or liability which is the subject matter of the claim, the Purchaser shall pay to such Seller as soon as practicable after receipt an amount equal to (i) the sum recovered from the third party less any costs and expenses incurred in obtaining such recovery and any Tax on any amounts recovered (or Tax that would have been payable on such amounts but for the availability of any Tax relief), or if less (ii) the amount previously paid by such Seller to the Purchaser. Any payment made by the Purchaser to such Seller under this Clause shall be made or procured by way of further adjustment of the Purchase Consideration.



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**9.14 No Double Recovery and no Double Counting**

A party shall be entitled to make more than one claim under this Agreement arising out of the same subject matter, fact, event or circumstance but shall not be entitled to recover under this Agreement or any relevant Local Transfer Document or the Tax Indemnity or otherwise more than once in respect of the same Losses suffered or amount for which the party is otherwise entitled to claim (or part of such Losses or amount), regardless of whether more than one claim arises in respect of it. No amount (including any relief) (or part of any amount) shall be taken into account, set off or credited more than once under this Agreement or any relevant Local Transfer Document or the Tax Indemnity or otherwise, with the intent that there will be no double counting under this Agreement or any Local Transfer Document or the Tax Indemnity or otherwise.

**9.15 Fraud**

None of the limitations contained in this Clause 10 shall apply to any claim to the extent that such claim arises or is increased as the consequence of, or which is delayed as a result of, fraud by any director or officer of any member of a Seller's Group.

10. Claims

**10.1 Notification of Potential Claims**

Without prejudice to the obligations of the Purchaser under Clause 11.2, if the Purchaser becomes aware of any fact, matter or circumstance that may give rise to a claim against any Seller under this Agreement or any Local Transfer Document for breach of any Seller's Warranty other than a Tax Warranty (ignoring for these purposes the application of Clause 11.2 or 11.3), the Purchaser shall as soon as reasonably practicable give a notice in writing to that Seller of such facts, matters or circumstances as are then available regarding the potential claim. Failure to give notice within such period shall not affect the rights of the Purchaser to make a relevant claim under this Agreement or any Local Transfer Document for breach of any Seller's Warranty, except that the failure shall be taken into account in determining the liability of that Seller for such claim to the extent that Seller establishes that the amount of it is increased, or is not reduced, as a result of such failure.

**10.2 Notification of Claims under this Agreement**

Notices of claims under this Agreement or any relevant Local Transfer Document for breach of any Seller's Warranty (other than a Tax Warranty) shall be given by the Purchaser to the relevant Seller within the time limits specified in Clause 10.2 and shall specify information (giving reasonable detail) in relation to the basis of the claim and setting out the Purchaser's estimate of the amount of Losses which are, or are to be, the subject of the claim.

**10.3 Commencement of Proceedings**

Any claim notified pursuant to Clause 11.2 shall (if it has not been previously satisfied, settled or withdrawn) be deemed to be irrevocably withdrawn 9 months after the relevant time limit set out in Clause 10.2 unless, at the relevant time, legal proceedings in respect of the relevant claim have been commenced by being both issued and served except:

- 10.3.1** where the claim relates to a contingent liability, in which case it shall be deemed to have been withdrawn unless legal proceedings in respect of it have been commenced by being both issued and served with 9 months of it having become an actual liability; or



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**10.3.2** where the claim is a claim for breach of any Seller’s Warranty of which notice is given for the purposes of Clause 11.2 at a time when the amount set out in Clause 10.4.1 has not been exceeded, in which case it shall be deemed to have been withdrawn unless legal proceedings in respect of it have been commenced by being both issued and served within 9 months of the date of any subsequent notification to that Seller pursuant to Clause 11.1 of one or more claims which result(s) in the total amount claimed in all claims notified to that Seller pursuant to Clause 11.2 exceeding the amount set out in Clause 10.4.1 for the first time.

**10.4 Conduct of Third Party Claims**

If the matter or circumstance that may give rise to a claim against a Seller under this Agreement or any relevant Local Transfer Document for breach of any Seller’s Warranty (other than a Tax Warranty) is a result of or in connection with a claim by a third party (a “Third Party Claim”) then:

- 10.4.1** the Purchaser shall as soon as reasonably practicable give written notice thereof to that Seller and thereafter shall provide that Seller with periodic updates upon reasonable request and shall consult with that Seller so far as reasonably practicable in relation to the conduct of the Third Party Claim and shall take reasonable account of the views of that Seller in relation to the Third Party Claim;
- 10.4.2** the Third Party Claim shall not be admitted, compromised, disposed of or settled without the written consent of that Seller (such consent not to be unreasonably withheld or delayed); and
- 10.4.3** subject to that Seller indemnifying the Purchaser or other member of the Purchaser’s Group concerned against all reasonable costs and expenses (including legal and professional costs and expenses) that may be incurred thereby, the Purchaser shall, or the Purchaser shall procure that any other members of the Purchaser’s Group shall, take such action as that Seller may reasonably request to avoid, dispute, deny, defend, resist, appeal, compromise or contest the Third Party Claim, provided that this Clause 11.4.3 shall not apply where the claim by the third party relates to matters or circumstances referred to in paragraph 4 or paragraph 9 of Schedule 13 and the Purchaser shall then have the right to conduct the claim at its discretion (subject to Clauses 11.4.1 and 11.4.2),

provided that failure to give notice in accordance with Clause 11.4.1 shall not affect the rights of the Purchaser to make a relevant claim under this Agreement for breach of any Seller’s Warranty, except that the failure shall be taken into account in determining the liability of that Seller for such claim to the extent that Seller establishes that the amount of it is increased, or is not reduced, as a result of that failure.



11. Confidentiality

11.1 Announcements

No announcement, communication or circular concerning the existence or the subject matter of this Agreement shall be made or issued by or on behalf of any member of any Seller's Group or the Purchaser's Group without the prior written approval of the parties (such consent not to be unreasonably withheld or delayed). This shall not affect any announcement, communication or circular required by law or any governmental or regulatory body or the rules of any stock exchange on which the shares of any party (or its holding company) are listed but the party with an obligation to make an announcement or communication or issue a circular (or whose holding company has such an obligation) shall consult with the other parties (or shall procure that its holding company consults with the other parties) insofar as is reasonably practicable before complying with such an obligation.

11.2 Confidentiality

11.2.1 Subject to Clause 12.1 and Clause 12.2.2, each of the parties shall treat as strictly confidential and not disclose or use any information received or obtained as a result of entering into this Agreement, any Ancillary Agreement (or any other agreement entered into pursuant to this Agreement, including the Ancillary Agreements) which relates to:

- (i) the existence and provisions of this Agreement, the Ancillary Agreements, or any other agreement entered into pursuant to this Agreement, including the Ancillary Agreements;
- (ii) the negotiations relating to this Agreement, the Ancillary Agreements, or any other agreement entered into pursuant to this Agreement;
- (iii) (in the case of a Seller) any information relating to its Target Group Companies and Target Group Businesses following Closing and any other information relating to the business, financial or other affairs (including future plans and targets) of the Purchaser's Group; or
- (iv) (in the case of the Purchaser) any information relating to the business, financial or other affairs (including future plans and targets) of any Seller's Group including, prior to Closing, the Target Group Companies and Target Group Businesses, and, for the avoidance of doubt, the Purchaser shall not disclose any such information relating to a Seller Group to the other Seller Group.

11.2.2 Clause 12.2.1 shall not prohibit disclosure or use of any information if and to the extent:

- (i) the disclosure or use is required by law, any governmental or regulatory body or any stock exchange on which the shares of any party (or its holding company) are listed;
- (ii) the disclosure or use is required to vest the full benefit of this Agreement or the Ancillary Agreements in any party;



- (iii) the disclosure or use is required for the purpose of any arbitral or judicial proceedings arising out of this Agreement, the Ancillary Agreements, or any other agreement entered into under or pursuant to this Agreement or to enable a determination to be made by the Reporting Accountants under this Agreement;
- (iv) the disclosure is made to a Tax Authority in connection with the Tax affairs of the disclosing party;
- (v) the disclosure is made on a confidential basis to a ratings agency in connection with the affairs of the disclosing party;
- (vi) the disclosure is made to professional advisers of any party on a need to know basis and on terms that such professional advisers undertake to comply with the provisions of Clause 12.2.1 in respect of such information as if they were a party to this Agreement;
- (vii) the information was lawfully in the possession of that party without any obligation of secrecy prior to its being received or held, in either case as evidenced by written records;
- (viii) the information is or becomes publicly available (other than by breach of this Agreement);
- (ix) the other party(ies) in respect of whom the information relates has given prior written approval to the disclosure or use; or
- (x) the information is independently developed,

provided that prior to disclosure or use of any information pursuant to Clause 12.2.2(i), (ii) or (iii), the party concerned shall, where not prohibited by law, promptly notify the other parties of such requirement with a view to providing the other parties with the opportunity to contest such disclosure or use or otherwise to agree the timing and content of such disclosure or use.

12. Insurance

**12.1 No cover under any Seller's Group Insurance Policies from Closing**

Subject to the provisions of the Services Agreement, the Purchaser acknowledges and agrees that following Closing:

**12.1.1** neither the Purchaser nor any Target Group Purchaser shall have or be entitled to the benefit of any Seller's Group Insurance Policy in respect of any event, act or omission that takes place after Closing and it shall be the sole responsibility of the Purchaser to ensure that adequate insurances are put in place for the Target Group Companies and the Target Group Businesses with effect from Closing;

**12.1.2** no Seller nor any member of its Group shall be required to maintain any Seller's Group Insurance Policy for the benefit of the relevant Target Group; and



**12.1.3** no Target Group Company shall make or shall be entitled to make or notify a claim under any Seller's Group Insurance Policy in respect of any event, act or omission that occurred prior to the Closing Date.

**12.2 Existing claims under any Seller's Group Insurance Policies**

With respect to any claim made before the Closing Date under any Seller's Group Insurance Policy by or on behalf of any Target Group Company or in relation to any Target Group Business, to the extent that:

**12.2.1** neither the Purchaser nor the Target Group Companies have been indemnified by a Seller prior to the Closing Date in respect of the matter in respect of which the claim was made; or

**12.2.2** the Liability in respect of which the claim was made has not been properly provided for in the Closing Statement and reduced the Working Capital accordingly,

that Seller shall use reasonable endeavours after Closing to recover all monies due from insurers and shall pay any monies received (after taking into account any deductible under such Seller's Group Insurance Policies and less any Taxation suffered on the proceeds and any reasonable out of pocket expenses suffered or incurred by such Seller or any member of such Seller's Group in connection with the claim) to the Purchaser or, at the Purchaser's written direction, the relevant Target Group Company as soon as practicable after receipt.

**12.3** GlaxoSmithKline and the Purchaser shall co-operate together after the date of this Agreement with a view to determining the most effective way of insuring the Purchaser's Group following Closing, taking into account the fact that the Purchaser's Group will be consolidated with GlaxoSmithKline's Group following Closing. In the event that they determine that it is preferable for GlaxoSmithKline's Group's existing insurance arrangements to remain in place following Closing and for the Purchaser's Group to be included within them, the provisions in this Cause 13.3 shall not apply to the extent they are no longer relevant and the parties shall seek to agree the details in relation to such insurance arrangements to be included in the Services Agreement.

13. France Business and the Netherlands Business

**13.1 France Business**

Notwithstanding any other provision of this Agreement, this Agreement shall not constitute a binding agreement by a Seller to sell or purchase its France Business, provided that:

**13.1.1** in the event that a France Put Option Exercise occurs before Closing, this Clause 14.1 (other than this Clause 14.1.1) shall terminate and shall cease to have effect, and the sale and purchase of the relevant France Business shall be subject to the terms of this Agreement as if it had been with effect from the date of this Agreement;

**13.1.2** in the event that a France Put Option Exercise does not occur before Closing:



- (i) the provisions of Clauses 2, 6 and 9 (the “**Disapplied Provisions**”) shall not apply to the relevant France Business;
- (ii) prior to the relevant France Closing, the provisions of Schedule 7 and Schedule 8 (the “**Suspended Provisions**”) shall not apply to the relevant France Business; and
- (iii) in respect of the Disapplied Provisions and, prior to the relevant France Closing, the Suspended Provisions only:
  - (a) the term “Contributed Business” shall be deemed to exclude the relevant France Business;
  - (b) the term “Target Group Companies” shall be deemed to exclude, in the case of Novartis, Novartis Santé Familiale S.A.S. and, in the case of GlaxoSmithKline, any Target Group Companies that relate to its France Business;
  - (c) Target Group Businesses shall be deemed to exclude, in the case of GlaxoSmithKline only, its France Business;
  - (d) the term “Assumed Liabilities” shall be deemed to exclude the relevant France Assumed Liabilities; and
  - (e) the term “Employees” shall be deemed to exclude the relevant France Employees;

**13.1.3** with effect from a France Closing, the Suspended Provisions shall apply to the France Business *mutatis mutandis* save that in respect of the Suspended Provisions only (A) the term “Closing” shall be deemed to refer to that France Closing and (B) the term “Closing Date” shall be deemed to refer to the date of that France Closing;

**13.1.4** the parties shall negotiate in good faith to agree any amendments to this Agreement and any Ancillary Agreements as are required in order to give effect to the principles set forth in this Clause 14.1 for the purposes of complying with the information and consultation requirements in respect of the relevant works council(s) in respect of GlaxoSmithKline’s France Business (in the case of GlaxoSmithKline) and the Délégation Unique du Personnel (being the relevant works council in respect of Novartis France Business) (in the case of Novartis); and

**13.1.5** the provisions of Clause 8 shall apply to the relevant France Business as if the remaining provisions of this Clause 14.1 did not have any force or effect.

**13.2 Netherlands Business**

Notwithstanding any other provision of this Agreement, this Agreement shall not constitute a binding agreement to sell or purchase the Netherlands Business, provided that:



- 13.2.1** in the event that the Netherlands Put Option Exercise occurs before Closing, this Clause 14.2 (other than this Clause 14.2.1) shall terminate and shall cease to have effect, and the sale and purchase of the Netherlands Business shall be subject to the terms of this Agreement as if it had been with effect from the date of this Agreement;
- 13.2.2** in the event that the Netherlands Put Option Exercise does not occur before Closing:
- (i) the Disapplied Provisions shall not apply to the Netherlands Business;
  - (ii) prior to the Netherlands Closing, the Suspended Provisions shall not apply to the Netherlands Business; and
  - (iii) in respect of the Disapplied Provisions and, prior to the Netherlands Closing, the Suspended Provisions only:
    - (a) the term “Contributed Business” (when used in respect of GlaxoSmithKline) shall be deemed to exclude the Netherlands Business;
    - (b) the term “GlaxoSmithKline Consumer Group Businesses” shall be deemed to exclude the Netherlands Business;
    - (c) the term “Assumed Liabilities” (when used in respect of GlaxoSmithKline) shall be deemed to exclude the Netherlands Assumed Liabilities; and
    - (d) the term “Employees” (when used in respect of GlaxoSmithKline) shall be deemed to exclude the Netherlands Employees;
- 13.2.3** with effect from the Netherlands Closing, the Suspended Provisions shall apply to the Netherlands Business *mutatis mutandis* save that in respect of the Suspended Provisions only (A) the term “Closing” shall be deemed to refer to the Netherlands Closing and (B) the term “Closing Date” shall be deemed to refer to the date of the Netherlands Closing;
- 13.2.4** the parties shall negotiate in good faith to agree any amendments to this Agreement and any Ancillary Agreements as are required in order to give effect to the principles set forth in this Clause 14.2 for the purposes of complying with such information and consultation requirements (if any) required under Applicable Law with the relevant works council or employee representative body (if any) in respect of GlaxoSmithKline’s Netherlands Business; and
- 13.2.5** the provisions of Clause 8 shall apply to the Netherlands Business as if the remaining provisions of this Clause 14.2 did not have any force or effect.



14. Other Provisions

**14.1 Further Assurances**

Without prejudice to any restriction or limitation on the extent of any party's obligations under this Agreement, each of the parties shall from time to time, so far as each is reasonably able, do or procure the doing of all such acts and/or execute or procure the execution of all such documents in a form reasonably satisfactory to the party concerned as it may reasonably consider necessary to transfer the relevant Contributed Business to the Purchaser or otherwise to give the other parties the full benefit of this Agreement.

**14.2 Ancillary Agreements**

The parties shall negotiate in good faith to agree definitive and legally binding documentation in respect of each of the Ancillary Agreements for which heads of terms are in Agreed Terms on the date of this Agreement, and shall duly execute and deliver such definitive and legally binding documentation in respect of the Ancillary Agreements at Closing.

**14.3 Whole Agreement**

**14.3.1** This Agreement and the Ancillary Agreements contain the whole agreement between the parties relating to the subject matter of this Agreement at the date hereof to the exclusion of any terms implied by law which may be excluded by contract and supersedes any previous written or oral agreement between the parties in relation to the matters dealt with in this Agreement.

**14.3.2** The Purchaser acknowledges that, in entering into this Agreement, it is not relying on any representation, warranty or undertaking not expressly incorporated into it.

**14.3.3** Each of the parties agrees and acknowledges that its only right and remedy in relation to any representation, warranty or undertaking made or given in connection with this Agreement shall be for breach of the terms of this Agreement and each of the parties waives all other rights and remedies (including those in tort or arising under statute) in relation to any such representation, warranty or undertaking.

**14.3.4** In Clauses 15.3.1 to 15.3.3, "this Agreement" includes the Ancillary Agreements and all documents entered into pursuant to this Agreement.

**14.3.5** Nothing in this Clause 15.3 excludes or limits any liability for fraud.

**14.4 No Assignment**

No party may, without the prior written consent of the other parties, assign, grant any security interest over, hold on trust or otherwise transfer the benefit of the whole or any part of this Agreement.



**14.5 Third Party Rights**

- 14.5.1** Subject to Clause 15.5.2, the parties do not intend that any term of this Agreement should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Agreement.
- 14.5.2** Certain provisions of this Agreement confer benefits on the Affiliates of the Purchaser and the Affiliates of any Seller (each such Affiliate being, for the purposes of this Clause 15.5, a “**Third Party**”) and, subject to Clause 15.5.3, are intended to be enforceable by each Third Party by virtue of the Contracts (Rights of Third Parties) Act 1999.
- 14.5.3** Notwithstanding Clause 15.5.2, this Agreement may be varied in any way and at any time without the consent of any Third Party.

**14.6 Variation or waiver**

- 14.6.1** No variation of this Agreement shall be effective unless in writing and signed by or on behalf of each of the parties.
- 14.6.2** No failure or delay by a party in exercising any right or remedy provided by Applicable Law or under this Agreement or any Ancillary Agreement shall impair such right or remedy or operate or be construed as a waiver or variation of it or preclude its exercise at any subsequent time and no single or partial exercise of any such right or remedy shall preclude any further exercise of it or the exercise of any other remedy.

**14.7 Method of Payment and set off**

- 14.7.1** Except as set out in Clause 15.7.2, payments (including payments pursuant to an indemnity, compensation or reimbursement provision ) made or expressed to be made by the Purchaser or the Sellers pursuant to this Agreement or any claim for breach of this Agreement shall, insofar as the payment or claim relates to or affects any Shares (including the underlying Target Group Companies transferred (directly or indirectly) by reason of the transfer of those Shares), assets or liabilities, transferred pursuant to this Agreement and the Local Transfer Documents, be made or received (as the case may be) by:
  - (i) the relevant Seller, for itself or on behalf of its Share Seller or Business Seller (each in respect of the Shares and/or assets and liabilities to be transferred by it pursuant to this Agreement and the relevant Local Transfer Documents); and
  - (ii) the Purchaser, for itself and on behalf of the relevant members of the Purchaser’s Group (each in respect of the Shares and/or the assets and liabilities to be transferred by it pursuant to this Agreement and the relevant Local Transfer Documents).
- 14.7.2** The repayment of the Estimated Intra-Group Non-Trade Receivables and the Estimated Intra-Group Non-Trade Payables pursuant to Clause 6.4.3 and any adjustments to such repayment pursuant to Clause 7.4 shall be settled by payments between the Seller, for itself and on behalf of the relevant members of the Seller’s Group, and the Purchaser, for itself and on behalf of the relevant Target Group Companies.



**14.7.3** Without prejudice to Clause 6.3.2, any payments pursuant to this Agreement shall be made in full, without any set-off, counterclaim, restriction or condition and without any deduction or withholding (save as may be required by law or as otherwise agreed), except that payments due between any Seller and the Purchaser:

- (i) in relation to repayments of the Estimated Intra-Group Non-Trade Payables and Estimated Intra-Group Non-Trade Receivables pursuant to Clause 6.4.3; or
- (ii) in relation to adjustments to those repayments pursuant to Clause 7.4,

respectively, shall be discharged to the fullest extent possible by way of set-off against each other.

**14.7.4** Any payments pursuant to this Agreement shall be effected by crediting for same day value the account specified by each Seller or the Purchaser (as the case may be) on behalf of the party entitled to the payment (reasonably in advance and in sufficient detail to enable payment by telegraphic or other electronic means to be effected) on or before the due date for payment.

**14.7.5** Payment of a sum in accordance with this Clause 15.7 shall constitute a payment in full of the sum payable and shall be a good discharge to the payer (and those on whose behalf such payment is made) of the payer's obligation to make such payment and the payer (and those on whose behalf such payment is made) shall not be obliged to see to the application of the payment as between those on whose behalf the payment is received.

**14.8 Costs**

**14.8.1** Subject to Clause 15.9, each Seller shall bear all costs incurred by it and its Affiliates in connection with the preparation and negotiation of, and the entry into, this Agreement the relevant Ancillary Agreements and the sale of its Target Group.

**14.8.2** The Purchaser shall bear all such costs incurred by it and its Affiliates in connection with the preparation and negotiation of, and the entry into, this Agreement the relevant Ancillary Agreements and the purchase of Target Groups.

**14.9 Notarial Fees, Registration, Stamp and Transfer Taxes and Duties**

Each Seller shall bear the cost of all notarial fees and all registration, stamp and transfer taxes and duties or their equivalents in all jurisdictions where such fees, taxes and duties are payable as a result of that Seller's sale of its Target Group to the Purchaser pursuant to this Agreement.



**14.10 Interest**

If any party defaults in the payment when due of any sum payable under this Agreement, the Local Transfer Documents or the Tax Indemnity the liability of that party shall be increased to include interest on such sum from the date when such payment is due until the date of actual payment (as well after as before judgment) at a rate per annum of two per cent. above LIBOR. Such interest shall accrue from day to day.

**14.11 Grossing-up**

- 14.11.1** All sums payable under this Agreement, the Local Transfer Documents and the Tax Indemnity shall be paid free and clear of all deductions, withholdings, set-offs or counterclaims whatsoever save only as may be permitted by Clause 15.7.3 or required by law. Subject to 15.11.2 to 15.11.7 (inclusive), if any deductions or withholdings are required by law, the party making the payment (the “**Payer**”) shall (except in the case of any interest payable under this Agreement) be obliged to pay to the party to whom the payment is being made (the “**Payee**”) such sum as will after such deduction or withholding has been made leave the Payee with the same amount as it would have been entitled to receive in the absence of any such requirement to make a deduction or withholding, provided that if the Payee shall have assigned or novated the benefit in whole or in part of this Agreement or shall, after the date of this Agreement, have changed its tax residence or the permanent establishment to which the rights under this Agreement are allocated then the liability of the Payer under this Clause 15.11.1 shall be limited to that (if any) which it would have been had no such assignment, novation or change taken place.
- 14.11.2** If either Seller is or becomes aware of any facts making it reasonably likely that the Purchaser will be required to deduct or withhold any amount in respect of the Purchase Consideration (a “**Relevant Tax Deduction**”) payable to a Seller (the “**Withholding Seller**”), then that Seller shall, as soon as reasonably practicable, give notice to the other Seller and the Purchaser (including details of the relevant facts and, so far as possible, details of the rate and basis of such withholding).
- 14.11.3** The Sellers and the Purchaser shall, and shall procure that the members of their respective groups shall (at the Withholding Seller’s cost), co-operate with each other in good faith and use all reasonable efforts to reduce or mitigate any Relevant Tax Deduction (or its amount) and /or to enable the Withholding Seller or the relevant Share Seller or Business Seller to obtain any available credit or refund in respect of such Relevant Tax Deduction, including, without limitation, making any available claim under an applicable double taxation treaty.
- 14.11.4** Without prejudice to the generality of Clause 15.11.3, the Sellers and the Purchaser shall co-operate in good faith to establish or agree the amount or basis of calculation of any Relevant Tax Deduction prior to Closing (and in this regard the Purchaser shall consider reasonably any relevant information or evidence provided or obtained by the Sellers) including, if requested by the Withholding Seller and at the Withholding Seller’s expense, by seeking to obtain a ruling or confirmation from a relevant Tax Authority, or obtaining an opinion from reputable local tax counsel or a firm of accountants of international standing satisfactory to the Purchaser (acting reasonably) and instructed jointly by the Withholding Seller and the Purchaser.



- 14.11.5** The Purchaser shall make any Relevant Tax Deduction in the minimum amount required by applicable law, provided that:
- (i) if a double taxation treaty between the jurisdiction under the laws of which the Relevant Tax Deduction is required and the jurisdiction of residence of the Withholding Seller or the relevant Share Seller or Business Seller is in force, the Purchaser shall (and shall procure that any relevant member of the Purchaser's Group shall) make any Relevant Tax Deduction in an amount not exceeding the rate specified in such double taxation treaty (which may be nil), provided that the Withholding Seller has provided the Purchaser with such evidence as is required under applicable law to establish the entitlement of the Withholding Seller (or relevant Share Seller or Business Seller) to the benefit of the applicable treaty; and
  - (ii) if an opinion from reputable local counsel or a firm of accountants of international standing has been obtained at the request of the Withholding Seller as envisaged by Clause 15.11.4, the Purchaser shall (and shall procure that any relevant member of the Purchaser Group shall) make such Relevant Tax Deduction in an amount or on a basis which is consistent with that opinion (which may result in no withholding or deduction), provided that the Withholding Seller has indemnified the Purchaser and any relevant member of the Purchaser's Group, to the Purchaser's reasonable satisfaction, against any Liabilities arising (including any interest and penalties) should such opinion be wholly or partly incorrect.
- 14.11.6** The Purchaser shall promptly provide the Withholding Seller with evidence reasonably satisfactory to the Withholding Seller that a Relevant Tax Deduction has been made and an appropriate amount paid to the relevant Tax Authority.
- 14.11.7** If any Relevant Tax Deduction is required an additional sum shall be payable in accordance with Clause 15.11.1 only if and to the extent that such deduction or withholding would not have been required had the Purchaser been resident for Tax purposes only in the United Kingdom.

**14.12 Structure of indemnity payments**

Where it is agreed or determined that an amount is payable by either Seller to the Purchaser or to another member of the Purchaser's Group pursuant to any indemnity or covenant to pay in this Agreement, or as damages in respect of a breach of this Agreement, then both Sellers and the Purchaser shall consult in good faith for a period of not less than ten Business Days (or such longer or shorter period as the parties may agree) with a view to agreeing an acceptable arrangement for satisfying that obligation to pay the amount so claimed in an efficient manner that does not prejudice the interests of the Purchaser's Group (which may involve, by way of example only, a subscription for deferred shares in the Purchaser or making an additional contribution to the Purchaser in respect of existing shares in the Purchaser). If both Sellers and the Purchaser fail to agree on any particular manner of payment during the course of such consultations (but not before), the Seller which is liable to make the payment under or in respect of this Agreement shall make that payment in cash to the person entitled to it.



**14.13 Changes to share rights**

- 14.13.1** GlaxoSmithKline shall be entitled, by written notice to Novartis and the Purchaser not less than 20 Business Days before the Closing Date, to stipulate that, subject to the parties implementing the changes agreed pursuant to the final sentence of this clause 15.13.1, the A Shares which shall be issued to members of GlaxoSmithKline's Group under this Agreement shall be split, before Closing, into two classes of Shares, referred to as "A1" and "A2" shares. To the extent permitted by Applicable Law, GlaxoSmithKline shall be entitled to specify the rights attaching to each of these classes of shares, provided that the rights attaching to the A1 and A2 shares, in aggregate, may not in any respect exceed the rights attaching to the A Shares as set out in the Agreed Terms Shareholders' Agreement. If GlaxoSmithKline gives notice of the same, the parties shall promptly agree and implement such changes to the Agreed Terms Shareholders' Agreement as are necessary to give effect to the division of the A Shares into "A1" and "A2" shares and to ensure that both Sellers will be in the same relative economic and governance position as they would have been in had the A Shares not been divided into two classes.
- 14.13.2** Novartis shall be entitled, by written notice to GlaxoSmithKline and the Purchaser not less than 20 Business Days before the Closing Date, to stipulate that, subject to the parties implementing the changes agreed pursuant to the final sentence of this clause 15.13.2, the B Shares which shall be issued to members of Novartis's Group under this Agreement shall be split, before Closing, into two classes of Shares, referred to as "B1" and "B2" shares. To the extent permitted by Applicable Law, Novartis shall be entitled to specify the rights attaching to each of these classes of shares, provided that the rights attaching to the B1 and B2 shares, in aggregate, may not in any respect exceed the rights attaching to the B Shares as set out in the Agreed Terms Shareholders' Agreement. If Novartis gives notice of the same, the parties shall promptly agree and implement such changes to the Agreed Terms Shareholders' Agreement as are necessary to give effect to the division of the B Shares into "B1" and "B2" shares and to ensure that both Sellers will be in the same relative economic and governance position as they would have been in had the B Shares not been divided into two classes.
- 14.13.3** GlaxoSmithKline shall be entitled, by written notice to Novartis and the Purchaser not less than 20 Business Days before the Closing Date, to stipulate that it will only have one shareholder in the Purchaser as at Closing. If GlaxoSmithKline gives notice of the same, the parties shall promptly agree such changes to the Agreed Terms Shareholders' Agreement and Agreed Terms Articles of Association as are necessary to give effect to the fact that the A Shares will be held by just one shareholder as at Closing.
- 14.13.4** Novartis shall be entitled, by written notice to GlaxoSmithKline and the Purchaser not less than 20 Business Days before the Closing Date, to stipulate that it will only have one shareholder in the Purchaser as at Closing.



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If Novartis gives notice of the same, the parties shall promptly consult each other in good faith with a view to agreeing such changes to the Agreed Terms Shareholders' Agreement and Agreed Terms Articles of Association as are necessary to give effect to the fact that the B Shares will be held by just one shareholder as at Closing

**14.14 Notices**

**14.14.1** Any notice or other communication in connection with this Agreement (each, a "Notice") shall be:

- (i) in writing in English;
- (ii) delivered by hand, fax, or by courier using an internationally recognised courier company.

**14.14.2** A Notice to GlaxoSmithKline shall be sent to such party at the following address, or such other person or address as GlaxoSmithKline may notify to the Purchaser from time to time:

GlaxoSmithKline

980 Great West Road  
Brentford  
Middlesex TW8 9GS  
United Kingdom

Fax: +44 (0)208 0476904

Attention: Company Secretary and General Counsel of Consumer Healthcare

with a copy to the GlaxoSmithKline's Lawyers, marked for the urgent attention of Richard Smith (delivery of such copy shall not in itself constitute valid notice).

**14.14.3** A Notice to Novartis shall be sent to such party at the following address, or such other person or address as Novartis may notify to the Purchaser from time to time:

Novartis

c/o Novartis International AG  
Postfach  
CH-4002 Basel  
Switzerland

Fax: +41 613244300

Attention: Head M&A and Head M&A Legal

with a copy to Novartis's Lawyers, marked for the urgent attention of Jennifer Bethlehem (delivery of such copy shall not in itself constitute valid notice).



**14.14.4** A Notice to the Purchaser shall, prior to Closing, be sent to each Seller at the addresses specified above, and, with effect from Closing, be sent to such party at the following address, or such other person or address as the Purchaser may notify to the Sellers from time to time:

The Purchaser

980 Great West Road  
Brentford Middlesex TW8 9GS  
United Kingdom

Fax: +44 (0)208 0476904

Attention: Company Secretary and General Counsel of Consumer Healthcare

with a copy to GlaxoSmithKline's Lawyers, marked for the urgent attention of Richard Smith, and to Novartis's Lawyers, marked for the urgent attention of Jennifer Bethlehem (delivery of such copy shall not in itself constitute valid notice).

**14.14.5** A Notice shall be effective upon receipt and shall be deemed to have been received:

- (i) at the time of delivery, if delivered by hand or courier; or
- (ii) at the time of transmission in legible form, if delivered by fax.

**14.15 Invalidity or Conflict**

**14.15.1** If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, the provision shall apply with whatever deletion or modification is necessary so that the provision is legal, valid and enforceable and gives effect to the commercial intention of the parties.

**14.15.2** To the extent it is not possible to delete or modify the provision, in whole or in part, under Clause 15.15.1, then such provision or part of it shall, to the extent that it is illegal, invalid or unenforceable, be deemed not to form part of this Agreement and the legality, validity and enforceability of the remainder of this Agreement shall, subject to any deletion or modification made under Clause 15.15.1, not be affected.

**14.15.3** If there is any conflict between the terms of this Agreement and any of the Ancillary Agreements this Agreement shall prevail (as between the parties between this Agreement and as between any member of the relevant Seller's Group and any member of the Purchaser's Group) unless (i) such Ancillary Agreement expressly states that it overrides this Agreement in the relevant respect and (ii) that Seller and the Purchaser are either also parties to that Ancillary Agreement or otherwise expressly agree in writing that such Ancillary Agreement shall override this Agreement in that respect.

**14.16 Counterparts**

This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. Any party may enter into this Agreement by executing any such counterpart. Delivery of a counterpart of this Agreement by email attachment shall be an effective mode of delivery.

**14.17 Governing Law and Submission to Jurisdiction**

**14.17.1** This Agreement and the documents to be entered into pursuant to it, save as expressly referred to therein, and any non-contractual obligations arising out of or in connection with the Agreement and such documents shall be governed by and construed in accordance with English law.

**14.17.2** Each of the parties irrevocably agrees that the courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Agreement and the documents to be entered into pursuant to it, save as expressly referred to therein, and that accordingly any proceedings arising out of or in connection with this Agreement and the documents to be entered into pursuant to it, save as expressly referred to therein, shall be brought in such courts. Each of the parties irrevocably submits to the jurisdiction of such courts and waives any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

**14.18 Appointment of Process Agent**

**14.18.1** Novartis hereby irrevocably appoints Hackwood Secretaries Limited of One Silk Street, London EC2Y 8HQ as its agent to accept service of process in England and Wales in any legal action or proceedings arising out of this Agreement, service upon whom shall be deemed completed whether or not forwarded to or received by Novartis.

**14.18.2** Novartis agrees to inform the Purchaser in writing of any change of address of such process agent within 28 days of such change.

**14.18.3** If such process agent ceases to be able to act as such or to have an address in England and Wales, Novartis irrevocably agrees to appoint a new process agent in England and Wales and to deliver to the Purchaser within 14 days a copy of a written acceptance of appointment by the process agent.

**14.18.4** Nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

This Agreement has been entered into on the date stated at the beginning.



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**GLAXOSMITHKLINE PLC**

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Name:

Function:

**NOVARTIS AG**

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Name:

Name:

Function: Attorney

Function: Attorney

**LEO CONSTELLATION LIMITED**

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Name:

Function:



**Schedule 1**  
**Details of the Share Sellers, Shares etc.**

**Part 1**  
**GlaxoSmithKline Shares**

**Part A**

<u>(1)</u> <u>Name</u> <u>of Share Seller</u>	<u>(2)</u> <u>Name of Target</u> <u>Group Company</u>	<u>(3)</u> <u>Shares</u>
Glaxo Group Limited		84.2%
Setfirst Limited	GlaxoSmithKline Argentina S.A.	15.8%
Wellcome Limited (UK)	GlaxoSmithKline Consumer Healthcare S.A.	100%
SmithKline Beecham Limited	GlaxoSmithKline Consumer Healthcare Inc. (Canada)	100% (common shares)
GlaxoSmithKline Inc.		100% (preference shares)
Setfirst Limited	GlaxoSmithKline Consumer Healthcare A/S	100%
Groupe GlaxoSmithKline SAS (France)	GlaxoSmithKline Sante Grand Public SAS	100%
GlaxoSmithKline Beteiligungs GmbH (Germany)	GlaxoSmithKline GmbH & Co. KG	100%
GlaxoSmithKline GmbH & Co. KG	GlaxoSmithKline Healthcare GmbH	100%
GlaxoSmithKline Healthcare GmbH	GlaxoSmithKline Consumer Healthcare GmbH & Co. KG	88.89%
GlaxoSmithKline Consumer Holding B.V.		11.11%
GlaxoSmithKline Consumer Healthcare GmbH & Co. KG	Panadol GmbH	100%
GlaxoSmithKline Consumer Healthcare GmbH & Co. KG	Fink GmbH	100%



(1) Name of Share Seller	(2) Name of Target Group Company	(3) Shares
Fink GmbH	Lingner-Produktion GmbH	100% (DM 2,500,000 shares)
Panadol GmbH		100% (DM 1,600,000 shares)
Panadol GmbH		100% (DM 1,500,000 shares)
Setfirst Limited		100% (DM 80,000 shares)
Setfirst Limited		100% (DM 40,000 shares)
Setfirst Limited		100% (DM 20,000 shares)
Fink GmbH	Fink Naturarznei GmbH	100%
GlaxoSmithKline Consumer Healthcare GmbH & Co. KG	Abtei Pharma Vertriebs GmbH	100%
Setfirst Limited	GlaxoSmithKline Dungarvan Limited	100%
Setfirst Limited	GlaxoSmithKline Consumer Healthcare (Ireland) Limited	100%
Glaxo Group Limited	Stafford-Miller (Ireland) Limited	100%
Glaxo Group Limited	GlaxoSmithKline Consumer Healthcare Investments (Ireland) Limited	100%
Setfirst Limited	GlaxoSmithKline Consumer Healthcare Investments (Ireland) (No.2)	100%
SmithKline Beecham Limited (UK)	GlaxoSmithKline Consumer Healthcare SpA	100%
Beecham Group plc (UK)	GlaxoSmithKline Consumer Healthcare Sdn. Bhd.	100%
S.R. One International B.V.	GlaxoSmithKline Consumer Holding B.V.	100%
S.R. One International B.V.	GlaxoSmithKline Consumer Healthcare B.V.	100%
Setfirst Limited	GlaxoSmithKline Consumer Healthcare S.p.z.o.o.	100%
Glaxo Group Limited	GlaxoSmithKline Consumer Healthcare SRL	100%



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<u>(1)</u> <u>Name</u> <u>of Share Seller</u>	<u>(2)</u> <u>Name of Target</u> <u>Group Company</u>	<u>(3)</u> <u>Shares</u>
Glaxo Group Limited	GlaxoSmithKline Consumer Healthcare Pte. Limited	100%
Glaxo Group Limited	GlaxoSmithKline South Africa (Pty) Limited	100%
Setfirst Limited	GlaxoSmithKline Consumer Healthcare S.A.	100%
Setfirst Limited	GlaxoSmithKline Consumer Healthcare A.B.	100%
Setfirst Limited	GlaxoSmithKline Consumer Healthcare AG	100%
Setfirst Limited	GlaxoSmithKline Consumer Trading Services Limited (UK)	100%
The Wellcome Foundation Limited (UK)	Wellcome Consumer Products Limited	100%
The Wellcome Foundation Limited (UK)	Wellcome Consumer Healthcare Limited (UK)	100%
GlaxoSmithKline LLC	Block Drug Company Inc.	100%
Block Drug Company Inc.	Block Drug Corporation	100%
Block Drug Company Inc.	Stafford-Miller Limited (UK)	100% (common shares)
Wellcome Limited		100% (non-cumulative non-redeemable preference shares)
GlaxoSmithKline LLC	GlaxoSmithKline Consumer Healthcare LLC	100%
Block Drug Company Inc.	Stafford-Miller Limited (UK) branches	100%

**Part B**

<u>(1)</u> <u>Name</u> <u>of Share Seller</u>	<u>(2)</u> <u>Name of</u> <u>Joint Venture Entity</u>	<u>(3)</u> <u>Shares</u>
GlaxoSmithKline Consumer Healthcare LLC	GlaxoSmithKline Consumer Healthcare L.P.	0.4%
GlaxoSmithKline LLC		87.6%
Sanofi-Aventis US		12.0%



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GSK (China) Investment Co. Limited	The Sino-American Tianjin Smith Kline & French Laboratories Limited	55%
Tianjin Pharmaceutical Group Co. Limited		20%
Tianjin Zhong Xin Pharmaceutical Group Corporation Limited		25%
Setfirst Limited	GlaxoSmithKline Algérie SPA	99%
Nominees / private individuals		1%
Interpharma Dienstleistungen Gmbh	Laboratoire Pharmaceutique Algérien	99%
Private individuals	LPA Production SPA	1%
Laboratoire Pharmaceutique Algérien LPA Production SPA	Laboratoire Pharmaceutique Algérien SPA	66%
GlaxoSmithKline SAS		33%
Nominees / private individuals		1%



**Part 2  
Novartis Shares**

**Part A**

<u>(1)</u> Name of Share Seller	<u>(2)</u> Name of Company	<u>(3)</u> Shares
Novartis AG	Novartis Consumer Health Australasia Pty Ltd	100%
Novartis AG	Novartis Consumer Health S.A.	100%
Novartis AG	Novartis Consumer Health Schweiz AG	100%
Novartis Consumer Health S.A.	N.V. Novartis Consumer Health S.A.	99.33%
Various minority shareholders		0.67%
Novartis Deutschland GmbH	Novartis Consumer Health GmbH	51%
Novartis Consumer Health S.A.		49%
Novartis Farma SpA	Novartis Consumer Health SpA	100%
Novartis Farmacéutica S.A.	Novartis Consumer Health S.A.	100%
Novartis Finance Corporation	Novartis Consumer Health, Inc.	80%
Novartis Consumer Health S.A.		20%
Novartis Groupe France S.A.	Novartis Santé Familiale SAS	100%
Novartis Holding AG	Ex-Lax, Inc.	100%
Novartis Pharma AG	Novartis Consumer Health Canada	100%
Novartis Portugal SGPS Lda	Novartis Consumer Health - Produtos Farmacêuticos	100%



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<u>(1)</u> Name of Share Seller	<u>(2)</u> Name of Company	<u>(3)</u> Shares
Novartis UK Limited	Novartis Consumer Health UK Limited	100%

**Part B**

<u>(1)</u> Name of Share Seller	<u>(2)</u> Name of Joint Venture Entity	<u>(3)</u> Shares
Novartis Consumer Health S.A.	Novartis Consumer Health-Gebro GmbH	60%
Gebro Pharma GmbH		40%



**Schedule 2  
The Properties**

**Part 1  
GlaxoSmithKline Properties**

*Manufacturing and production facilities:*

[\*\*\*]

*Research and development facilities:*

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Part 2**  
**Novartis Properties**

*Manufacturing and production facilities:*

1. [\*\*\*]
2. [\*\*\*]
3. [\*\*\*]
4. [\*\*\*]

*Research and development facilities:*

1. [\*\*\*]
2. [\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Part 3**  
**Terms Relating to the Company Properties**

**1 GENERAL PROVISIONS RELATING TO THE COMPANY PROPERTIES**

**1.1 Interpretation**

The following further definitions apply in this Part 3 of Schedule 2:

“**Company Landlord**” means the person for the time being entitled to the reversion immediately expectant on the termination of the term granted by a Company Lease;

“**Company Leased Properties**” means the properties identified in Parts 1 and 2 of this Schedule 2 which, as at Closing, are held by a Target Group Company under a lease, licence or tenancy agreement, and “**Company Leased Property**” means any one of them;

“**Company Leases**” means the leases, licence documents or tenancy agreements under which the Company Leased Properties are held, including all documents supplemental to them, and “**Company Lease**” means any one of them;

“**Company Owned Properties**” means the properties identified in Parts 1 and 2 of this Schedule 2 in which the freehold estate (or nearest local law equivalent) is owned by a Target Group Company as at Closing, together (subject to Clause 2.3.2) with all buildings, structures, fixed plant, fixed machinery and fixed equipment thereon (except as excluded in Clause 2.3.2, and “**Company Owned Property**” means any one of them;

“**Company Property Longstop Date**” means the date on which a court of competent jurisdiction finally determines that a Company Third Party Consent has been lawfully refused or cannot be obtained and/or that the Purchaser may not acquire (directly or indirectly, acting through a subsidiary) the relevant Company Property; and

“**Company Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from any Company Landlord, superior landlord and/or other third party, including any consents, licences, approvals, permits, authorisations or waivers required by any legislation or regulation or by any statutory, governmental, state, provincial or municipal bodies or authorities which are required under a Company Lease or otherwise in relation to any change of control, shareholders or directors of the relevant Target Group Company, and “**Company Third Party Consent**” means any one of them.

**1.2 Company Third Party Consents**

- 1.2.1** This paragraph 1.2.1 applies to those Company Properties in relation to which a Company Third Party Consent is required, and if such Company Third Party Consent remains to be obtained as at the Closing Date this paragraph 1.2.1 shall continue to apply until the relevant Company Third Party Consent shall have been obtained or until the Company Property Longstop Date. If any Company Third Party Consents are required:
- (i) the Seller in relation to the Target Group Company which owns the Company Property in question shall make an application for, and shall use all reasonable endeavours to obtain each Company Third Party Consent as soon as reasonably practicable following the date of this Agreement and shall at all times keep the Purchaser informed of progress in obtaining such Company Third Party Consents;



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- (ii) the Purchaser and each Seller shall supply such information and references as may reasonably be required by a Company Landlord, any superior landlord or other relevant third party in connection with a Company Third Party Consent;
- (iii) the Purchaser shall be responsible for and undertake to pay, or procure the giving of undertakings to pay the professional and other fees of any Company Landlord, any superior landlord or other relevant person (including any Tax or disbursements in respect of such fees but excluding any Tax on the actual net income, profit or gains of the Company Landlord, any superior landlord or any other relevant person) properly incurred in connection with any application for Company Third Party Consents, whether or not such Company Third Party Consents are given; and
- (iv) in respect of the period after Closing only, the Purchaser shall enter into such covenants for the payment of the rent under the Company Lease and for the observance and performance of the covenants and conditions contained in the Company Lease as may reasonably be required by the Company Landlord, any superior landlord or other relevant third party.

**1.2.2** Each Seller shall give written notice to the other Seller as soon as reasonably practicable after obtaining any Company Third Party Consents which shall be accompanied by a copy of such consent.

**1.2.3** Save as set out in paragraph 1.2.1(iii) of this Part 3 of Schedule 2, the Seller in relation to the Target Group Company which owns the Company Property in question shall pay any moneys or provide or procure the giving of any guarantees or other security, in each case as may be lawfully required by a Company Landlord, superior landlord or other relevant third party in connection with the obtaining of the Company Third Party Consents, provided that the Purchaser shall indemnify and keep indemnified that Seller in an amount equal to:

- (i) any moneys required to be paid by that Seller pursuant to this paragraph; and
- (ii) any Liabilities under any guarantees or other security given or procured by that Seller pursuant to this paragraph 1.2.3 and arising out of, or in connection with, an act or omission on the part of the Purchaser or (following Closing) the relevant Target Group Company,

and where the Company Landlord, superior landlord or other relevant third party lawfully requires any guarantees or other security to be given by the person who is acquiring a membership interest in respect of the relevant Target Group Company, the Purchaser shall provide or procure the giving of any such guarantees or security.



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**Company Third Party Consent not Obtained**

- 1.2.4** If a Company Third Party Consent has been refused or otherwise not obtained within 12 months following the Closing Date, the Sellers may (acting reasonably) agree that an application is to be made to a court of competent jurisdiction that the relevant Company Third Party Consent has been unreasonably withheld or delayed.
- 1.2.5** If an application is to be made to a court of competent jurisdiction pursuant to paragraph 1.2.4 of this Part 3 of Schedule 2:
- (i) the proceedings shall be brought by, and prosecuted at the expense of the Purchaser;
  - (ii) the Sellers shall provide all such assistance in connection with such proceedings as the Purchaser (acting reasonably) may require in the interests of obtaining the Company Third Party Consent; and
  - (iii) provided that the Seller has complied with its obligation under paragraph 1.2.1(i) of this Part 3 of Schedule 2, the Purchaser shall indemnify and keep indemnified the Seller for any costs and expenses properly incurred in connection with any such assistance provided by the Seller.
- 1.2.6** If a Company Third Party Consent has not been obtained by the Company Property Longstop Date then the relevant Seller in relation to the Target Group Company which owns the Company Property in question shall indemnify and keep indemnified the Purchaser against all Losses arising out of or in connection with the failure to obtain such Company Third Party Consent.



**Part 4**  
**Terms Relating to the Transferred Properties**

**1 GENERAL PROVISIONS RELATING TO THE TRANSFERRED PROPERTIES**

**1.1 Interpretation**

The following further definitions apply in this Part 4 of Schedule 2:

“**Expert**” has the meaning given to it in paragraph 1.3.2(i) of this Part 4 of Schedule 2;

“**Landlord**” means the person for the time being entitled to the reversion immediately expectant on the termination of the term granted by a Lease;

“**Leases**” means the leases, licences or tenancy agreements under which the Transferred Leased Properties are held by the relevant member of the Seller’s Group, including all documents supplemental to them, and “**Lease**” means any one of them;

“**Letting Document**” means any lease, licence or tenancy agreement to which a Transferred Property is subject;

“**Licence**” means a right in favour of the Purchaser and all persons authorised by it to occupy the Licensed Premises during the Licence Period pursuant to this Part 4 of Schedule 2;

“**Licence Fee**” means the payments to be made by the Purchaser to the Seller’s Group pursuant to paragraph 1.4.4 of this Part 4 of Schedule 2;

“**Licence Period**” means a period, which may be different for each of the Licensed Premises, commencing on the Closing Date and ending on the earliest of the following dates:

- (i) the date on which this Agreement is terminated by whatever means whether in whole or in relation to the relevant Licensed Premises;
- (ii) the date immediately preceding the date on which the term of the relevant Lease ends by whatever means;
- (iii) the date of Property Transfer Completion in relation to the relevant Transferred Property; and
- (iv) the Property Longstop Date;

“**Licensed Premises**” means any of the Transferred Properties for which all relevant Property Third Party Consents have not been obtained prior to, or at, the Closing Date;

“**President**” has the meaning given to it in paragraph 1.3.2(ii) of this Part 4 of Schedule 2;

“**Property Agreed Terms**” means a transfer in the terms agreed between the Sellers, the Purchaser and any relevant third party or determined pursuant to paragraph 1.3.2 of this Part 4 of Schedule 2 and signed for identification by or on behalf of the Sellers and by or on behalf of the Purchaser from time to time before or after the date of this Agreement, with such alterations as may be agreed from time to time in writing between the Sellers, the Purchaser and any relevant third party;

“**Property Longstop Date**” means the date on which a court of competent jurisdiction finally determines that a Property Third Party Consent has been lawfully refused;



“**Property Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from any Landlord, superior landlord and/or other third party, including any consents, licences, approvals, permits, authorisations or waivers required by any legislation or regulation or by any statutory, governmental, state, provincial or municipal bodies or authorities for or in connection with the transfer of a Transferred Property by the relevant member of the Seller’s Group to the Purchaser and includes (where the context so admits) Sublease Consents;

“**Property Transfer Completion**” means the completion of the transfer of a Transferred Property under this Agreement, where such completion does not take place on the Closing Date because any relevant Property Third Party Consents have not been obtained on or prior to such date;

“**Property Transfer Completion Date**” means the date of Property Transfer Completion in accordance with paragraph 1.7 of this Part 4 of Schedule 2;

“**Registered Title**” means the registered title relating to a Transferred Property;

“**Sublease Consent**” has the meaning given to it in paragraph 1.11.2 of this Part 4 of Schedule 2;

“**transfer**”, for the purposes of this Part 4 of Schedule 2 only, means in respect of a Transferred Leased Property, the transfer or assignment of the relevant Lease or Leases, and in the case of a Transferred Owned Property the transfer thereof, and “**a transfer**” means and includes any instruments, deeds or agreements effecting such transfer;

“**Transferred Leased Properties**” means the leasehold properties identified in Parts 1 and 2 of this Schedule 2 which are not owned by a Target Group Company as at Closing, and “**Transferred Leased Property**” means any one of them; and

“**Transferred Owned Properties**” means the properties identified in Parts 1 and 2 of this Schedule 2 in which the freehold estate (or nearest local law equivalent) is not owned by a Target Group Company as at Closing, together (subject to Clause 2.3.2) with all buildings, structures, fixed plant, fixed machinery and fixed equipment thereon (except as excluded in Clause 2.3.2), and “**Transferred Owned Property**” mean any one of them.

**1.2** Each of the Transferred Properties and/or the Leases thereof shall be transferred subject to the terms set out in this Part 4 of Schedule 2 and all other applicable terms of this Agreement.

**1.3 Pre-Closing**

**1.3.1** Prior to Closing, the Business Sellers and the Purchaser shall agree (acting reasonably) the form of all documents on Property Agreed Terms necessary for the transfer of each of the Transferred Properties pursuant to the terms set out in this Part 4 of Schedule 2 and all other applicable terms of this Agreement.

**1.3.2** Any dispute arising out of or connected with paragraph 1.3.1 of this Part 4 of Schedule 2 which is not resolved by agreement between the parties within nine months of such dispute arising shall be referred for and resolved by expert determination as follows:

- (i) either Seller may initiate an expert reference under this provision by proposing to the other Seller the appointment of an expert (the “**Expert**”);



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- (ii) the Expert shall either be the nearest equivalent to a chartered surveyor in the relevant jurisdiction or (in relation to legal issues) a single QC (or equivalent), in each case with no less than 15 years' post-qualification experience in commercial real estate in the relevant jurisdiction chosen by agreement between the Sellers or, failing agreement within 14 days of the initiation of the reference, by the President for the time being of the relevant professional body to which the Expert belongs (the "**President**") on the application of either Seller;
- (iii) the Sellers shall request that the Expert determines the referred dispute within ten days of receiving the reference;
- (iv) if the Expert has been appointed but is unable or unwilling to complete the reference, another Expert shall be appointed by agreement between the Sellers or, failing agreement within 7 days of the parties being notified that the Expert is unable or unwilling to complete the reference, by the President on the application of either party;
- (v) the Expert shall act as an expert and not as an arbitrator;
- (vi) the Sellers shall have the right to make representations and submissions to the Expert, but there will be no formal hearing;
- (vii) the Sellers shall make all relevant documents and information within their control available to the Expert;
- (viii) the costs of the Expert shall be borne by the Sellers in equal shares; and
- (ix) the decision of the Expert shall, in the absence of fraud or manifest error, be final and binding on the parties.

**1.3.3** This paragraph 1.3.3 applies to those Transferred Properties in relation to which a Property Third Party Consent is required and if such Property Third Party Consent remains to be obtained as at the Closing Date this paragraph 1.3.3 shall continue to apply until the relevant Property Third Party Consent shall have been obtained or until the Property Longstop Date. If any Property Third Party Consents are required:

- (i) the Seller in relation to the Transferred Property in question shall make an application for, and shall use all reasonable endeavours to obtain each Property Third Party Consent as soon as reasonably practicable following the date of this Agreement for the transfer of the Transferred Property and shall, at all times, keep the Purchaser and the other Seller informed of progress in obtaining such Property Third Party Consents;
- (ii) the Purchaser and each Seller shall supply such information and references as may reasonably be required by a Landlord, any superior landlord or other relevant third party in connection with a Property Third Party Consent;



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- (iii) in respect of the period after Closing only, the Purchaser shall enter into such covenants for the payment of the rent in respect of the Transferred Leased Properties and for the observance and performance of the covenants and conditions on the part of the lessee contained in any Lease as may reasonably be required by the Landlord, any superior landlord or other relevant third party;
- (iv) if reasonably required by a Landlord, any superior landlord or any other relevant third party, the Purchaser shall provide a rent deposit or the Purchaser shall procure that a surety acceptable to such person guarantees the Purchaser's obligations under the Lease following the transfer of the relevant Transferred Leased Property; and
- (v) the Purchaser shall be responsible for and undertake to pay, or procure the giving of undertakings to pay the professional and other fees of any Landlord, any superior landlord or other relevant person (including any Tax or disbursements in respect of such fees but excluding any Tax on the actual net income, profit or gains of the Landlord, any superior landlord or any other relevant person) properly in connection with any application for Property Third Party Consents, whether or not such Property Third Party Consents are given.

**1.3.4** Each Seller shall give written notice to each other Seller as soon as reasonably practicable after obtaining any Property Third Party Consents which shall be accompanied by a copy of such consent.

**1.3.5** Subject to the Purchaser complying with its obligations under paragraphs 1.3.3(iii) to (v) of this Part 4 of this Schedule 2, the Seller in relation to the Transferred Property in question shall pay, or shall procure that a member of the Seller's Group pays, any moneys or provide or procure the giving of any guarantees or other security, in each case as may be lawfully required by a Landlord, superior landlord or other relevant third party in connection with the obtaining of the Property Third Party Consents, provided that the Purchaser shall indemnify and keep indemnified such Seller in an amount equal to:

- (i) any moneys required to be paid or procured to be paid by the Seller pursuant to this paragraph; and
- (ii) any Liabilities under any guarantees or other security given or procured by the Seller pursuant to this paragraph and arising out of, or in connection with, an act or omission on the part of the Purchaser.

**1.4 Licence**

**1.4.1** In the event that any Property Third Party Consents are not obtained on or before the Closing Date, notwithstanding the terms of the Leases, the Seller shall procure that the owner of the Transferred Property in question allows the Purchaser to occupy the Licensed Premises for the Licence Period relating to the relevant Licensed Premises on the terms set out in this paragraph 1.4.



**1.4.2** The Purchaser acknowledges that the grant of each Licence may amount to a breach of the terms of the relevant Lease.

**1.4.3** The Licence of each Licensed Premises is granted:

- (i) subject to all of the matters to which the relevant Leases relating to the Transferred Leased Property are subject;
- (ii) subject to the matters referred to in the Registered Title and the Letting Documents;
- (iii) out of whatever right, title and interest that the owner of the Transferred Property has in the Licensed Premises and/or under the relevant Lease;
- (iv) in such state of repair and condition as the Licensed Premises may be in as at the date on which the relevant Licence is granted; and
- (v) without making any statement or representation that the owner of the Transferred Property is entitled to grant it.

**1.4.4** From Closing and pending Property Transfer Completion, the Purchaser shall pay to the owner of the Transferred Property in question a "**Licence Fee**" equivalent to:

- (i) all rents and other charges (including VAT due thereon under the relevant Lease where payable at the date of this Agreement by the relevant owner) payable in respect of the Licensed Premises; and
- (ii) all outgoing (including VAT due thereon under the relevant Lease) (including, but not limited to, rates, service charges, management charges, levies, air-conditioning charges, insurance, heating, electricity, gas, telecommunications and other services and the cost of complying with fire and other statutory regulations) payable by the relevant owner in respect of the Licensed Premises or charged upon the owner or occupier of the Licensed Premises,

such payments to be made not less than ten Business Days before any such sum falls due subject to the Seller in relation to the Transferred Property in question giving the Purchaser not less than ten Business Days' prior written notice to that effect. To the extent that there has been a prepayment at the Closing Date of the amounts in paragraphs 1.4.4(i) and (ii) of this Part 4 of Schedule 2 by the owner of the Transferred Property which is not otherwise accounted for in the Closing Statement, the Purchaser shall pay to such owner within ten Business Days of written demand an amount equal to the amount of such prepayment in respect of any period after the Closing Date.

**1.4.5** Throughout the Licence Period, the Purchaser shall, in respect of the Licensed Premises only:

- (i) keep the Licensed Premises in no worse a state of repair than they are in at the Closing Date, fair wear and tear excepted;



- (ii) observe and perform the covenants and conditions on the part of the lessee in the relevant Lease under which the Licensed Premises are held (other than in relation to the payment of rent and other charges paid as part of the Licence Fee and subject to paragraph 1.4.5(i) of this Part 4 of Schedule 2); and
- (iii) use the Licensed Premises only in accordance with the terms of the Lease of the relevant Licensed Premises and in compliance with the law and regulations where the relevant Licensed Premises is located (save for any such law or regulation that prohibits the use of the Licensed Premises without a Property Third Party Consent having been obtained).

**1.4.6** The Purchaser and each Seller agrees that:

- (i) the Licence is personal to the Purchaser and may only be exercised by the Purchaser and those authorised by it;
- (ii) (subject to paragraph 1.4.5 of this Part 4 of Schedule 2) the Purchaser and all persons authorised by it are permitted to have the unrestricted use and occupation of the Licensed Premises; and
- (iii) no relationship of landlord and tenant is created as a result of the Licence.

**1.4.7** If a Landlord or any other relevant third party commences proceedings, raises any lawful objection or takes any other action in connection with the Purchaser's occupation or use of any of the Licensed Premises pending the obtaining of the relevant Property Third Party Consents, the Purchaser and the Sellers shall meet and negotiate in good faith in order to determine which steps should be taken in respect of the relevant Transferred Property.

**1.4.8** Throughout the Licence Period, the Purchaser shall, in respect of the Licensed Premises only, indemnify and keep indemnified the owner of the Transferred Property in question from and against any Licence Fee, any Losses arising from the Licence and/or as a result of the occupation of the Licensed Premises by the Purchaser.

**1.4.9** The Purchaser and the Sellers shall each inform each other forthwith of any notice received by any of them in relation to any of the Licensed Premises from the Landlord or any other third party.

**1.5 Determination of Licence**

**1.5.1** The Licence in relation to any one or more of the Licensed Premises shall determine:

- (i) immediately if the Property Longstop Date occurs;
- (ii) by the Seller in relation to the Transferred Property in question giving at least three months' prior written notice to the Purchaser if the Purchaser fails to make the payment of the Licence Fee for a period of one month or is otherwise in material breach of the provisions of the Licence for a



continuous period of one month following written notification by such Seller to the Purchaser of the same, and in either case the Purchaser has failed to remedy the relevant failure to pay or to remedy the breach prior to the expiry of the three month notice period or, if the breach is not capable of remedy within such three month period, the Purchaser has failed to commence to remedy the breach within that period and thereafter failed diligently to continue with such remedy; or

- (iii) if the relevant Landlord in relation to a Transferred Leased Property prosecutes forfeiture proceedings (or the nearest local law equivalent) as a result of the occupation by the Purchaser of the Licensed Premises then the parties shall either:
  - (a) agree that the Licence shall determine on a date to be agreed between the parties (acting reasonably); or
  - (b) in the absence of such agreement, either party may require a QC (or equivalent) with no less than 15 years' post-qualification experience in commercial real estate in the relevant jurisdiction to be appointed (such appointment to be by agreement between the Sellers or, failing agreement, within 14 days, by the President (as defined in paragraph 1.3.2(ii) of this Part 4 of Schedule 2)). Should the QC determine that there is more than a 50% chance of the proceedings in question resulting in the Lease in question being forfeited (or equivalent), then the Licence shall determine on a date to be agreed between the Sellers (acting reasonably) in order to afford the relevant Seller the opportunity to apply for relief from forfeiture or otherwise challenge the proceedings in question on the basis that any breach resulting from the grant of the Licence has been cured,

provided that this paragraph 1.5.1(iii) shall at all times operate without prejudice to paragraphs 1.4.7, 1.5.1(i) and 1.12.

**1.5.2** If, for whatever reason, the Licence Period comes to an end in relation to any of the Licensed Premises then:

- (i) the Licence insofar as it relates to the relevant Licensed Premises shall be severable from the remainder of this Agreement and this Agreement shall otherwise remain in full force and effect;
- (ii) the Purchaser shall be entitled to a refund in respect of any Licence Fee prior to the termination of the Licence for the Licensed Premises and which relates to the period following termination of the Licence;
- (iii) it shall not prejudice or affect any claim in respect of any prior breach of this Agreement by the Purchaser in respect of that Licensed Premises; and



- (iv) unless the Licence Period comes to an end due to Property Transfer Completion in respect of the relevant Licensed Premises taking place, the Purchaser shall:
  - (a) vacate the Licensed Premises forthwith;
  - (b) remove from the Licensed Premises all items belonging to it;
  - (c) leave the Licensed Premises in a clean and tidy condition; and
  - (d) at the request of the Seller in relation to the Transferred Property in question, reinstate the Licensed Premises or any part or parts thereof to at least as good a state of repair or condition as at Closing, fair wear and tear excepted.

**1.6 Closing**

- 1.6.1** The transfer of the Transferred Property shall only take place on Closing to the extent that all necessary Property Third Party Consents in respect of the relevant transfer have been obtained prior to the Closing Date.
- 1.6.2** Completion of the transfer of the Transferred Property shall take place at such place (or places) as the parties may agree.

**1.7 Property Transfer Completion**

Property Transfer Completion in respect of a Transferred Property shall take place on the date falling 15 Business Days following the grant of all relevant Property Third Party Consents for such Transferred Property or on such other date as the parties shall agree acting reasonably (but not before the Closing Date).

**1.8 General Transfer Provisions**

- 1.8.1** Each Seller shall procure that each member of that Seller's Group shall transfer the Transferred Property to the Purchaser subject to the terms set out in this Part 4 of Schedule 2 and all other applicable terms of this Agreement on the Closing Date or (if later) Property Transfer Completion.
- 1.8.2** The Transferred Property is sold subject to the Letting Documents (if any) but otherwise with vacant possession together with all buildings, structures, fixed plant, fixed machinery and fixed equipment thereon except as excluded in Clause 2.3.2.
- 1.8.3** The transfer of each Transferred Property shall contain covenants with the relevant transferor by the Purchaser to comply with the:
  - (i) obligations arising from the matters mentioned in the Registered Title; and
  - (ii) obligations on the part of the landlord arising under the Letting Documents (if any),



insofar as the relevant transferor may remain liable directly or indirectly for them after the Closing Date or Property Transfer Completion (as the case may be) and to indemnify and keep indemnified the relevant transferor against any non-compliance, and a further covenant by the Purchaser to indemnify the relevant transferor against any liability arising under an authorised guarantee agreement (or equivalent) entered into by the relevant transferor.

**1.8.4** The transfer of each Transferred Property shall be on the nearest equivalent terms that exist under local (national) law to a transfer of real property in England and Wales made with full title guarantee save that where it is a Transferred Leased Property the covenant set out in Section 4(2) (b) of the Law of Property (Miscellaneous Provisions) Act 1994 shall not extend to the imposition on the transferor of liability for any subsisting breach of obligation relating to the physical state of the Transferred Leased Property.

**1.8.5** On the Closing Date or Property Transfer Completion (as the case may be) in respect of each of the Transferred Properties:

- (i) each Seller shall procure that each relevant transferor delivers to the Purchaser a duly executed transfer in respect of the relevant Transferred Property on Property Agreed Terms; and
- (ii) the Purchaser shall deliver to the Seller a duly executed transfer in respect of the relevant Transferred Property on Property Agreed Terms.

**1.8.6** The Purchaser shall procure that all transfers are duly stamped, filed or registered at the relevant registries on a timely basis and within the statutory period (if any) and the Seller in relation to the Transferred Property in question shall promptly assist the Purchaser with any requisitions or enquiries raised in relation thereto. Any notarial fees and registration, stamp and transfer taxes and duties (or their equivalents in any jurisdiction) in connection with such transfers shall be borne as provided in Clause 15.8.

**1.9 Subjections**

Notwithstanding anything contained in this Agreement:

**1.9.1** Each of the Transferred Properties is transferred subject to and (where appropriate) with the benefit of the following matters (to the extent applicable under the laws of the relevant jurisdiction):

- (i) any unregistered interest which overrides first registration under Schedule 1 of the Land Registration Act 2002 (the “**2002 Act**”) and any interest which fall within Section 11(4)(c) of the 2002 Act and any unregistered interests which override registered dispositions under Schedule 3 of the 2002 Act or their local jurisdiction equivalent (if any);
- (ii) such unregistered interests as may affect that Transferred Property to the extent and for so long as they are preserved by the transitional provisions of Schedule 12 of the 2002 Act or its local jurisdiction equivalent (if any);



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- (iii) all matters contained or referred to in the Letting Documents;
- (iv) all matters contained or referred to in the Property, Proprietorship and Charges registers (or equivalent entries and registers) of the Registered Title relating to that Transferred Property (except fixed and floating charges securing money or liabilities);
- (v) all exceptions, reservations, rights, easements, quasi-easements, wayleaves, rent charges, covenants, conditions, declarations, leases, tenancies (including statutory tenancies), licences and agreements affecting the same;
- (vi) (in the case of a leasehold property) the rents, covenants and conditions reserved by or contained in the Lease under which the same is respectively held;
- (vii) all local land charges (whether or not registered before the date of this Agreement) and all matters capable of registration as local land charges (whether or not actually registered) or their local jurisdiction equivalent (if any);
- (viii) all notices served and orders, demands, proposals, or requirements made by any local or other public or competent authority;
- (ix) all actual or proposed orders, directions, plans, notices, instruments, charges, restrictions, conditions, agreements or other matters arising under any statute relating to town and country planning and any laws and regulations intended to control or regulate the construction, demolition, alteration or change of use of land or buildings or to preserve or protect the environment; and
- (x) matters which are fairly disclosed by the Disclosure Letter.

**1.9.2** The Purchaser is deemed to acquire with full knowledge of the matters referred to in paragraph 1.9.1 of this Part 4 of Schedule 2.

**1.9.3** Each Seller shall procure that any and all financial charges affecting the Transferred Properties will be discharged on or before the date on which such Transferred Property is to be transferred to the Purchaser, and shall provide to the Purchaser and the other Seller such evidence as the Purchaser or the other Seller may reasonably require in order to satisfy itself that such discharge has been effected and to remove any notices or entries in respect of such charges from any relevant register.

**1.9.4** The Sellers do not give any warranty as to the use or area of any of the Transferred Properties and shall not be required to define the boundaries of any of the Transferred Properties. The transfer of the Transferred Properties shall not be annulled, nor shall any compensation be allowed or payable, in respect of any error in respect of any such matters.



- 1.9.5** On the date on which the transfer of each Transferred Property is completed, the Seller in relation to the Transferred Property in question shall deliver to the Purchaser (or such other third party as the Purchaser may reasonably direct) all of the original documents in the possession of the Seller or the transferor of the Transferred Property in question in respect of each of the Transferred Properties.
- 1.9.6** The Purchaser shall not raise any requisition on matters arising after the date of this Agreement, except where the subject matter of the requisition is registered at the Land Registry (or equivalent local registry) after the date of this Agreement and does not relate to any matter referred to in paragraph 1.9.1 of this Part 4 of Schedule 2.
- 1.9.7** To the extent that deposit guarantees have been given by a Seller or any member of a Seller's Group in respect of any Transferred Property and/or insofar as a Seller or any member of a Seller's Group retains any residual or ongoing liabilities or obligations including performance guarantees in connection with the Transferred Property, the Purchaser shall use all reasonable endeavours to procure that the Seller or the relevant member of the Seller's Group is released from all deposit guarantees and all other residual or ongoing liabilities or obligations and, insofar as the counterparties thereto shall properly and lawfully refuse to give any such release, the Purchaser shall indemnify and keep indemnified that Seller (or the member of that Seller's Group) in an amount equal to any Liabilities under any such residual or ongoing liabilities or obligations arising out of, or in connection with, an act or omission on the part of the Purchaser.

**1.10 Insurance**

The Sellers shall procure that any existing insurance (if any) on the Transferred Properties shall be maintained and that any such insurance will be cancelled with effect from the Closing Date or, if later, the date of Property Transfer Completion (as the case may be) unless agreed otherwise with the Purchaser.

**1.11 Grant of Sublease**

If a Seller is unable to obtain a Property Third Party Consent from a Landlord for the transfer of a Transferred Leased Property the provisions of this paragraph 1.11 of Part 4 of Schedule 2 shall apply:

- 1.11.1** where a Lease permits a sublease to be granted without the requirement for any Property Third Party Consent from the Landlord, the Seller shall procure that the owner of the Transferred Property in question shall grant to the Purchaser a sublease of the Transferred Leased Property on the same rent and other terms and conditions as the Lease of the Transferred Leased Property with such changes as are appropriate and agreed between the Seller in relation to the Transferred Leased Property in question and the Purchaser acting reasonably and the term of the sublease shall be the term of such Lease less one day; and



**1.11.2** where the Transferred Leased Property is held from a Landlord on terms which require the consent of the Landlord to:

- (i) the grant of a sublease; or
- (ii) the terms on which a sublease is granted,

the Seller in relation to the Transferred Leased Property in question shall use all reasonable endeavours to obtain such consent (“**Sublease Consent**”) from such Landlord. Where the Seller is able to obtain the appropriate Sublease Consent (or, where applicable, the court of competent jurisdiction referred to in paragraph 1.12.1 of this Part 4 of Schedule 2 declares that the Sublease Consent has been unreasonably withheld or delayed), the Seller shall procure that the owner of the Transferred Property in question shall grant to the Purchaser a sublease of the Transferred Leased Property on the same rent and other terms and conditions as the Lease of the Transferred Leased Property with such changes as are appropriate and agreed between the Seller and the Purchaser acting reasonably and the term of the sublease shall be the term of such Lease less one day.

**1.12 Property Third Party Consent not Obtained**

**1.12.1** If a Property Third Party Consent (and, where applicable, a Sublease Consent) has been refused or otherwise not obtained within 12 months following the Closing Date, the Sellers may (acting reasonably) agree that an application is to be made to a court of competent jurisdiction that the relevant Property Third Party Consent has been unreasonably withheld or delayed.

**1.12.2** If an application is to be made to a court of competent jurisdiction pursuant to paragraph 1.12.1 of this Part 4 of Schedule 2:

- (i) the proceedings shall be brought by, and prosecuted by the relevant Seller;
- (ii) the Purchaser and the other Seller shall provide all such assistance in connection with such proceedings as the relevant Seller (acting reasonably) may require in the interests of obtaining the Property Third Party Consent; and
- (iii) provided that the Seller has complied with its obligations under paragraphs 1.3.3(i) and 1.11.2 of this Part 4 of this Schedule 2, the Purchaser shall indemnify and keep indemnified the Sellers for any costs and expenses properly incurred in connection with any such assistance provided by them and in bringing and prosecuting proceedings under this paragraph.

**1.12.3** If a Property Third Party Consent has not been obtained by the Property Longstop Date then the relevant Seller in relation to the Transferred Property in question shall indemnify and keep indemnified the Purchaser against all Losses arising out of or in connection with the failure to obtain such Property Third Party Consent.



**Part 5**  
**Site Separation**

**1.1 Interpretation**

The following further definition applies in this Part 5 of Schedule 2:

“**Separation Properties**” means any Property or part of a Property which, as at the date of this Agreement, forms part of a wider building or site that is used by both the Target Group and a Seller’s retained business.

**1.2 Separation**

- 1.2.1** As soon as reasonably practicable following the date of this Agreement, and in any event prior to Closing, the Sellers and the Purchaser will agree the form of transfers, leases, facilities services arrangements or other agreements (the “**Separation Documents**”) to reflect the arrangements described in this Part 5 of Schedule 2.
- 1.2.2** Without prejudice to the principles as to the preservation of arrangements existing at the date of this Agreement set out in the remainder of this paragraph, all Separation Documents are to be negotiated between the parties in good faith, on an arm’s length basis and on reasonable commercial terms.
- 1.2.3** The Separation Documents will enable the owner of the Separation Property and the relevant Seller’s retained business to continue to use the Property and the adjoining or neighbouring property of that Seller’s retained business respectively in the same manner (including as to terms of use/occupation and costs) as they are used at the date of this Agreement and will incorporate such other provisions (including as to site security or physical site separation) as the Sellers may agree are fair and reasonable in all the circumstances.
- 1.2.4** Each Separation Document will grant and reserve rights to continue to use all roads, access ways and conduits used and enjoyed by the relevant Separation Property (or the adjoining or neighbouring property of the relevant Seller’s retained business, as the case may be) at the date of this Agreement on terms reflecting as closely as possible their use at the date of this Agreement.
- 1.2.5** Each Separation Document is to be in a form appropriate to the jurisdiction in which the relevant Separation Property is situated and will comply with all formalities and other requirements in the relevant jurisdiction.
- 1.2.6** The Separation Documents which are underleases will follow the form of the relevant headlease (other than in respect of the amount of rent and the length of term) insofar as is reasonably appropriate.
- 1.2.7** In the event of any disagreement under or in respect of this paragraph 1.2, the matter may be referred by either Seller to the person (or persons) within each Seller with ultimate responsibility



(on a national level) for property matters within the jurisdiction in question, and in the event that the matter is not resolved by agreement between the parties within three months, may be referred by either party to an independent lawyer in the relevant jurisdiction, being a partner in a reputable law firm with not less than ten years' post-qualification experience in dealing with commercial property transactions (the "**Independent Lawyer**"). In the absence of agreement between the Sellers, the Independent Lawyer is to be appointed by the President of the Law Society (or other body responsible for regulation of the legal profession in the relevant jurisdiction) on the application of either party.

- 1.2.8 The Independent Lawyer will act as an expert and not as an arbitrator and his decision will be binding on the parties.
- 1.2.9 The Independent Lawyer may obtain any additional professional advice in order to reach a decision as he may deem necessary or desirable.
- 1.2.10 The cost of the determination by the Independent Lawyer will be met by the Sellers in equal shares.

### 1.3 Preservation of Rights

- 1.3.1 If following Closing the Purchaser or either Seller shall be of the view that a Separation Document omits the grant or reservation of any rights (including any rights of access, rights to use facilities and/or rights in respect of any item of apparatus or equipment) which is required for the purposes of the business carried out at a Separation Property or the adjoining or neighbouring property of the relevant Seller's retained business (each such right being an "**Omitted Right or Easement**"), it shall give the notice referred to in paragraph 1.3.2 and the Sellers (acting reasonably and in the utmost good faith) will meet and attempt to reach agreement with regard to any amendments needed to the relevant Separation Document, or any additional document or documents that are necessary.
- 1.3.2 If any party identifies any Omitted Rights or Easements, that party shall give written notice thereof to the other parties as soon as reasonably practicable and in any event within two years of the Closing Date (time to be of the essence).
- 1.3.3 Any dispute or difference as to Omitted Rights or Easements shall be resolved in the manner set out in paragraph 1.2.7, and as soon as practicable following agreement or determination as to any Omitted Rights or Easements (and in any case within two months of such agreement or determination) the Purchaser and the Sellers will procure to be executed any deeds or other documents required in order to give effect to the agreed or determined position.

## 2 General



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**2.1** The Purchaser and each of the Sellers acknowledge and undertake to each other that:

- 2.1.1** notwithstanding that certain of the arrangements provided for or envisaged by this Part 5 of Schedule 2 (including the reference to the grant or reservation of rights in paragraph 1.3.1) may not be capable of being directly or appropriately applied in jurisdictions other than England and Wales (“**Other Jurisdictions**”) under the laws, established law practices and procedures of those jurisdictions, the commercial principles underlying the provisions and intentions of this Part 5 of Schedule 2 shall be applied as closely as possible in the Other Jurisdictions to produce as nearly as possible the same commercial results (taking into account any Applicable Laws) as would be achieved in England and Wales on the application of those arrangements;
- 2.1.2** to the extent necessary in order to achieve in Other Jurisdictions the commercial results intended by this Schedule, Clause 15.1 will apply; and
- 2.1.3** to the extent required to give effect to these provisions each party agrees to ensure that any relevant local registration, filing or other requirement is complied with as soon as practicable, and in any event within the requisite time period for such registration, filing or other requirement to be submitted, carried out or otherwise completed (as the case may be).



**Schedule 3  
Excluded Assets**

**Part 1  
GlaxoSmithKline Excluded Assets**

- 1 The GlaxoSmithKline Excluded Businesses and the shares in the companies mentioned in the definition of GlaxoSmithKline Excluded Businesses.
- 2 Any shares in, and assets of, Horlicks Limited, a private limited company incorporated in the UK, and its successors and assigns and any person Controlled by Horlicks Limited from time to time, including any rights which relate to the Horlicks product in India, Nepal and/or Bhutan.
- 3 The shares that any member of GlaxoSmithKline's Group holds in Aspen Pharmacare Holdings Limited.

**Part 2  
Novartis Excluded Assets**

- 1 The Novartis Excluded Businesses.
- 2 The land and buildings of Novartis's Seller's Group at:
  - (i) Plot Number (*Parzelle*) 329, Route de L'Etraz No 6, Switzerland;
  - (ii) Plot Number (*Parzelle*) 330, Chemin du Coutelet No10, Switzerland;
  - (iii) Plot Number (*Parzelle*) 331, Route de L'Etraz No 8, Switzerland;
  - (iv) Plot Number (*Parzelle*) 332, Le Coutelet, Switzerland; and
  - (v) Plot Number (*Parzelle*) 333, Le Coutelet Sur la CroixRoute de L'Etraz No 6, Switzerland.
- 3 The Endo Excluded Contract.



**Schedule 4**  
**Product Approvals etc.**

**Part 1**  
**Terms Relating to the Product Approvals and Product Applications**

**1 General Provisions**

- 1.1** The Purchaser shall do all things necessary to effect the transfer of each Product Approval and Product Application, including complying with requirements and requests of Governmental Entities with respect to the transfer of each Product Approval and Product Application.
- 1.2** The Marketing Authorisations shall be transferred in accordance with Part 2 of this Schedule 4.

**2 Product Applications**

- 2.1** The Purchaser shall file or cause to be filed applications for the transfer of each Product Application in each country or territory in which such transfer is required to be submitted as soon as possible after the Closing Date.
- 2.2** Pending the transfer of each Product Application each Seller shall, and shall cause the relevant members of its Group to:
  - 2.2.1** upon reasonable request from the Purchaser and at the Purchaser's expense, reasonably cooperate and coordinate with the Purchaser in relation to the transfer of the Product Applications, including by providing the Purchaser with regulatory documentation concerning the Products owned or controlled by that Seller or any of its Affiliates;
  - 2.2.2** perform such acts and services as may be requested by the Purchaser that are reasonably necessary or required by any Governmental Entity to maintain or renew any Product Application or are reasonably necessary for the Purchaser to pursue the regulatory approval for any Product Application, including conducting any studies, including clinical and stability studies, concerning the Products; and
  - 2.2.3** notify the Purchaser as soon as is reasonably practicable of any written communication received by such Seller or any member of its Group with respect to any Product Application and shall consult with the Purchaser with respect to such communication and take into account the Purchaser's views as to the form and content of any communication with any Governmental Entity concerning such Product Application.

**3 Fees and Expenses**

From and after the Closing Date, the Purchaser shall promptly reimburse the relevant members of each Seller's Group for all maintenance and renewal fees and similar fees paid, and all out of pocket expenses reasonably incurred in connection with the satisfaction of any commitments or obligations by such members of such Seller's Group with respect to each Product Approval and each Product Application.



**4 Notification**

As soon as a Seller or the Purchaser or any of their respective Affiliates receives notification, if any, of impending approval or approval of the transfer of a Product Application from a Governmental Entity, the notified party or the party whose Affiliate was notified shall inform the other parties of the expected date of appointment or transfer and actual date of appointment or transfer of that Product Application.

**5 Responsibility for Transfer**

Notwithstanding any other provision of this Agreement, no Seller nor any of its Affiliates shall have any Liability to the Purchaser in the event that the transfer of any Product Application alone results in any further obligations, commitments or Liabilities in relation to such Product Application.

**Part 2  
Marketing Authorisations Transfer Provisions**

**1 Transfer of Marketing Authorisations**

*Marketing Authorisation Transfer and Marketing Authorisation Re-Registration*

**1.1** Each Seller and the Purchaser hereby agree they will each use, and will procure that their respective Affiliates will use, all reasonable endeavours to ensure that, as soon as reasonably practicable after the Closing Date:

- (i) subject to paragraph 1.1(ii), each Marketing Authorisation shall be transferred in accordance with Applicable Law by the Marketing Authorisation Holder to the Marketing Authorisation Transferee (“**Marketing Authorisation Transfer**”); and
- (ii) where Applicable Law does not permit Marketing Authorisation Transfer, a new marketing authorisation shall be registered in the name of the Marketing Authorisation Transferee to replace the existing Marketing Authorisation (“**Marketing Authorisation Re-Registration**”) and such Seller shall procure that the relevant Marketing Authorisation Holder takes all necessary steps to withdraw, abandon, cancel or allow to lapse the superseded Marketing Authorisation as soon as practicable after the Marketing Authorisation Re-Registration Date.

**1.2** Any Marketing Authorisation Transfer or Marketing Authorisation Re-Registration (as applicable) shall each be effected on a Market-by-Market basis (such that there shall not be any staggered Marketing Authorisation Transfer or Marketing Authorisation Re-Registration (as the case may be) on a Product-by-Product basis in any Market), unless otherwise agreed between the relevant Seller and the Purchaser.

**1.3** With effect from the Closing Date until the Marketing Authorisation Transfer Date or the Marketing Authorisation Re-Registration Date (as applicable), each Seller shall procure that each Marketing Authorisation Holder shall hold the Marketing Authorisation(s) in its name but for the account, risk and benefit of the relevant Marketing Authorisation Transferee.

*Submission of MA Documentation*

- 1.4** Without prejudice to paragraph 1.5 below, the Purchaser shall be responsible for preparing and submitting, or for procuring that there is prepared and submitted (in any such case at the Purchaser's cost and expense), all notices, applications, submissions, reports and any other instruments, documents, correspondence or filings necessary to complete Marketing Authorisation Transfer or Marketing Authorisation Re-Registration (as applicable) (the "**MA Documentation**"). The MA Documentation shall be prepared in accordance with Applicable Law as soon as reasonably practicable.
- 1.5** At a Seller's election, the Purchaser shall procure that advanced drafts of the MA Documentation are submitted to that Seller so as to allow that Seller and/or the Marketing Authorisation Holder a reasonable opportunity to provide comments on such MA Documentation before it is submitted to the relevant Governmental Entity. The Purchaser shall incorporate all comments on such drafts as may reasonably be made by that Seller and/or the Marketing Authorisation Holder PROVIDED THAT the Purchaser shall not be obliged to incorporate any comments if the Purchaser considers, acting reasonably that to do so would materially delay Marketing Authorisation Transfer or Marketing Authorisation Re-Registration (as applicable).
- 1.6** Where under Applicable Law the MA Documentation is required to be submitted to the relevant Governmental Entity:
- (i) by the Marketing Authorisation Holder, the Purchaser shall procure that the finalised MA Documentation is provided to the relevant Seller after such MA Documentation is finalised in accordance with paragraph 1.5 above and that Seller shall, in turn, procure that the Marketing Authorisation Holder submits such MA Documentation to the relevant Governmental Entity (the timing and date of such submission to be agreed with the Purchaser) and that Seller shall promptly thereafter advise the Purchaser of such submission and provide a copy of the relevant MA Documentation (in the form submitted) to the Purchaser; and
  - (ii) by the Marketing Authorisation Transferee, the Purchaser shall procure that the relevant Marketing Authorisation Transferee submits the finalised MA Documentation to the relevant Governmental Entity as soon as reasonably after such MA Documentation is finalised in accordance with paragraph 1.5 above and the Purchaser shall promptly thereafter advise the relevant Seller of such submission and provide a copy of the relevant MA Documentation (in the form submitted) to that Seller.
- 1.7** From the Closing Date, each Seller shall procure that the relevant Marketing Authorisation Holder shall, as soon as reasonably practicable, sign any notices, applications, submissions, reports and other instruments, documents, correspondence or filings presented to it by the Purchaser or the relevant Marketing Authorisation Transferee that are necessary to effect Marketing Authorisation Transfer or Marketing Authorisation Re-Registration (as applicable). The Marketing Authorisation Holder shall:
- (i) provide notice of its consent to a Marketing Authorisation Transfer or Marketing Authorisation Re-Registration if required by any Governmental Entity; and
  - (ii) provide to the Purchaser or the relevant Marketing Authorisation Transferee any information or other data or technical or other information in its possession that relates to the relevant Marketing Authorisation and that is required by a relevant Governmental Entity or otherwise reasonably required by the Purchaser or the relevant Marketing Authorisation Transferee to assist the Purchaser or the relevant Marketing Authorisation Transferee to effect the relevant Marketing Authorisation Transfer or Marketing Authorisation Re-Registration; and



(iii) in the event of any request for information or any query from any relevant Governmental Entity in respect of Marketing Authorisation Transfer or the Marketing Authorisation Re-Registration (as applicable), the relevant party receiving such request or query shall provide copies of any such request or query to that Seller or, as the case may be, to the Purchaser. The Purchaser shall be responsible for preparing, or shall be responsible for procuring that there is prepared, (at the Purchaser's cost and expense) any response to such a request or query with the intention that such request or query shall be dealt with as promptly and efficiently as possible. In advance of finalising any such response, the Purchaser shall procure that the relevant response is submitted to the that Seller so as to allow that Seller and/or the relevant Marketing Authorisation Holder a reasonable opportunity to provide comments on such response before it is submitted to the Governmental Entity. The Purchaser shall procure that relevant Marketing Authorisation Transferee (i) shall submit the response to the relevant Governmental Entity as soon as reasonably practicable after the same has been finalised in accordance with this paragraph 1.7(C) and (ii) shall provide a copy of the relevant response (in the form submitted) to such Seller.

**2 Obligations pending Marketing Authorisation Transfer or Marketing Authorisation Re-Registration**

**2.1** Unless otherwise required by Applicable Law or a relevant Governmental Entity (or unless otherwise agreed in writing by a Seller and the Purchaser), from the Closing Date until the applicable Marketing Authorisation Transfer Date or Marketing Authorisation Re-Registration Date:

- (i) each Seller shall:
  - (A) maintain in force (or procure that there is maintained in force) each Marketing Authorisation, and shall not voluntarily amend, cancel or surrender any Marketing Authorisation unless requested to do so in writing by the Purchaser or required to do so by any Applicable Law or any Governmental Entity;
  - (B) with the Purchaser's consent (not to be unreasonably withheld or delayed) progress (or procure that there is progressed) any registrations, variations or renewals to Marketing Authorisations initiated by such Seller (or any other member of such Seller's Group) prior to the Closing Date or withdraw them upon the request of the Purchaser;
  - (C) procure that each Marketing Authorisation Holder shall comply with the terms of any Marketing Authorisation and shall notify the Purchaser as soon as reasonably practicable of the details of any variations or renewals initiated following the Closing Date;
  - (D) inform the Purchaser of any impending renewals of Marketing Authorisations as at the Closing Date and the parties shall discuss in good faith to what extent any such renewal will be pursued or withdrawn (it being agreed that the Purchaser shall have the final decision in any such matter);



- (E) not without the consent of the Purchaser, initiate any additional variations or amendments to the Marketing Authorisations, except to the extent required by any Governmental Entity or where failure to do so would breach Applicable Law; and
  - (F) consider in good faith any request by the Purchaser to apply for a new marketing authorisation in respect of a Product PROVIDED THAT if such Seller agrees to submit such application, any costs or expenses incurred by such Seller in making such application shall be for the Purchaser's account and shall constitute MA Costs;
- (ii) without prejudice to the generality of the foregoing paragraph 2.1(i)(c), the Purchaser acknowledges and agrees that each Marketing Authorisation Holder shall be entitled to do (or to procure that there is done) any or all of the following (and the Purchaser acknowledges that, where the relevant Marketing Authorisation Holder so chooses and unless otherwise agreed, responsibility for each of the following activities shall rest with the relevant Marketing Authorisation Holder):
- (A) pharmacovigilance activities related to the Marketing Authorisations, which activities shall be conducted in accordance with the Applicable Laws, the Pharmacovigilance Agreement, and the standards, policies and procedures of the relevant Seller's Group from time to time in force; and
  - (B) conducting any and all communications with a Governmental Entity in respect of a Marketing Authorisation (including, without limitation to the generality of the foregoing, attending any meetings with relevant Governmental Entities and filing and submitting all reports and other documents which it reasonably considers necessary to be submitted in order to comply with Applicable Law or its obligations under this Agreement), PROVIDED THAT responsibility for (a) the costs of preparation of any such documents, reports and/or filings shall be borne by the Purchaser (or the relevant Marketing Authorisation Transferee) to the extent such costs are reasonably necessary, and (b) the submission of MA Documentation shall be the responsibility of the Purchaser in accordance with paragraph 1.4 above, PROVIDED THAT the Seller shall ensure that the Purchaser is kept fully and promptly informed of any such communications or submissions in advance, to the extent reasonably practicable;
- (iii) each Seller shall procure that each Marketing Authorisation Holder shall act in accordance with the reasonable instructions of the Purchaser or the Marketing Authorisation Transferee in respect of each Marketing Authorisation in respect of which such Marketing Authorisation Holder is the holder, PROVIDED THAT no Marketing Authorisation Holder shall be obliged to comply with such instructions to the extent the same: (i) infringe the terms of the relevant Marketing Authorisation(s); or (iii) are otherwise inconsistent with the provisions of the Pharmacovigilance Agreement relating to that Seller;



- (iv) the Purchaser shall only request artwork changes to the extent such changes are required in order to comply with Applicable Law;
- (v) the Purchaser shall submit to the relevant Seller (or shall procure that there is submitted) written details (in such form and with such supporting materials as such Seller may reasonably request) of any new, amended or proposed advertising and promotional activity or training materials in respect of any Product Commercialised pursuant to any Marketing Authorisation (including (without limitation) any material reasonably requested by such Seller in order to validate new and/or amended promotional or training materials), and the Purchaser acknowledges and agrees that no such advertising, promotional or training activity shall be implemented, undertaken or otherwise commenced without the prior written consent of that Seller (for itself and on behalf of the relevant Marketing Authorisation Holder), such consent not to be unreasonably withheld. The Purchaser further agrees and acknowledges that, if it so chooses, the Seller shall be entitled to assume responsibility for obtaining (or procuring that there is obtained) the consent(s) and approval(s) of any relevant Governmental Entity required for such new, amended or proposed advertising and promotional activity or training activity; and
- (vi) to the extent permitted by the terms of the relevant Marketing Authorisation, the Purchaser or any other member of the Purchaser's Group shall Commercialise the Product(s) which are the subject of such Marketing Authorisation (notwithstanding that such Marketing Authorisation is held in the name of the relevant Marketing Authorisation Holder and, for the avoidance of doubt, the proceeds of any such Commercialisation shall be for the benefit of the Purchaser's Group) and the Purchaser shall:
  - (A) indemnify each member of the Seller's Group against any and all actions, claims, demands, investigations, judgments, proceedings, liabilities, loss, damages, payments, costs and expenses arising in relation to the Commercialisation of the Product(s) by the Purchaser or any other member of the Purchaser's Group under this paragraph 2.1(vi); and
  - (B) procure that such Product(s) are Commercialised in compliance with the terms of the relevant Marketing Authorisation and/or the requirements of the relevant Governmental Entity.

### 3 New and Pending Marketing Authorisations in Respect of the Products

- 3.1 If, at any time prior to Closing, any member of any Seller's Group is granted or otherwise comes to hold any marketing authorisation which relates exclusively to one or more Products (a "**New Marketing Authorisation**") then:
- (i) that Seller undertakes to the Purchaser to notify the Purchaser as soon as reasonably practicable following the date on which the relevant member of that Seller's Group is granted, or becomes entitled to, the New Marketing Authorisation; and
  - (ii) the provisions of paragraphs 1 and 2 above shall apply to that new Marketing Authorisation.
- 3.2 Where a member of a Seller's Group has submitted to any Governmental Entity any application relating to the grant of a new marketing authorisation in respect of its Contributed Business which is pending or in process as at the date of this Agreement (a "**Pending Marketing Authorisation**");



- (i) that Seller shall continue to be responsible for preparation and submission of all documents required to register such Pending Marketing Authorisation but, following Closing, it shall do so at the Purchaser's cost and shall pass responsibility for such Pending Marketing Authorisation to the Purchaser (or such member of the Purchaser's Group as the Purchaser may nominate) as soon reasonably possible after Closing, subject to Applicable Law; and
- (ii) from the Closing Date, the provisions of paragraph 1 shall apply *mutatis mutandis* to any registration process for any Pending Marketing Approval.

**4 MA Costs**

From the Closing Date, the Purchaser shall be responsible for all necessary costs of preparation and submission of MA Documentation and, save as expressly provided in this Agreement, any other necessary costs incurred by any Seller or a member of such Seller's Group in connection with the maintenance and any variations, amendments and renewals of the Marketing Authorisations relating to the Products or for any matter requested by the Purchaser pursuant to this Part 2 of Schedule 4 and for all fees and costs reasonably incurred by the relevant member of the Seller's Group in complying with its obligations in respect of a Marketing Authorisation Transfer or Marketing Authorisation Re-Registration ("MA Costs").

**5 Obligations Following Marketing Authorisation Transfer or Marketing Authorisation Re-Registration**

**5.1** On and from the relevant Marketing Authorisation Transfer Date or Marketing Authorisation Re-Registration Date (as applicable), the Purchaser shall procure that each Marketing Authorisation Transferee shall assume and be solely responsible for:

- (i) all obligations as the holder of such Marketing Authorisation including (subject to the terms of the Pharmacovigilance Agreement) pharmacovigilance activities related to such Marketing Authorisation;
- (ii) all activities and actions required by Applicable Law in connection with such Marketing Authorisation; and
- (iii) any and all outstanding commitments and obligations to the relevant Governmental Entities with respect to the relevant Marketing Authorisation, save for any such commitments or obligations arising from a breach of this Agreement by the relevant Seller.

**5.2** In the event that, following Marketing Authorisation Transfer or Marketing Authorisation Re-Registration in respect of any Product, any Seller wishes to apply for a Marketing Authorisation in respect of a retained product, the Purchaser shall (and shall procure that the relevant Marketing Authorisation Transferee shall) co-operate with and provide all reasonable assistance to that Seller (or the relevant member of the Seller's Group) at that Seller's costs as may be reasonably required for the purposes of applying for such New Marketing Authorisation, including (without limitation) providing that Seller (or the relevant member of the Seller's Group) and/or any Governmental Entity with such access to Marketing Authorisation Data or such other data or technical or other information as is reasonably requested by the relevant Governmental Entity or is otherwise reasonably required by that Seller or the relevant member of that Seller's Group.

**Part 3  
Tenders**



- 1.1 From the Closing Date until the Marketing Authorisation Transfer Date in any Market, each Seller shall, and shall procure that each member of the Seller's Group and the relevant Marketing Authorisation Holder shall, to the extent permitted by Applicable Law:
- 1.1.1 inform the Purchaser in writing of any Call for New Tender as soon as reasonably practicable following receipt;
  - 1.1.2 co-operate with and provide reasonable assistance to the Purchaser (or the relevant member of the Purchaser's Group) for the purposes of responding to the Call for New Tender or otherwise applying for a new tender; and
  - 1.1.3 where Applicable Law requires such responses or applications to be made by the Marketing Authorisation Holder, the relevant Seller shall procure that the Marketing Authorisation Holder submits such responses or applications on behalf of the Purchaser PROVIDED THAT the Purchaser shall indemnify the relevant Seller and/or the relevant Marketing Authorisation Holder (as the case may be) for any and all costs, expenses and liabilities suffered or reasonably incurred by the relevant Seller and/or the Marketing Authorisation Holder in complying with or as a result of the provisions of this paragraph.



**Schedule 5  
Certificate**

To: Leo Constellation Limited (the “**Purchaser**”)

[Date]

**Certificate**

This Certificate is issued in accordance with Clause 4.4.1(iii)(b) and paragraph 1.1.4 of Schedule 11 of the sale and purchase agreement between GlaxoSmithKline Plc, Novartis AG and the Purchaser dated 22 April 2014 (the “**Agreement**”). Unless otherwise defined, capitalised words used in this Certificate shall have the meanings given to them in the Agreement.

We confirm that:

1. no Material Adverse Effect has occurred in relation to us between the date of the Agreement and the date of this Certificate;
2. having made due and careful enquiry, we are not aware of any breach or breaches of Clause 9.1 which alone or together give rise to a Material Adverse Effect having occurred in relation to us; and

[either]

3. having made due and careful enquiry, we are not aware of any breach or breaches of the Seller’s Warranties that would have occurred and that would, alone or together, have given rise to a Material Adverse Effect in relation to us had the Seller’s Warranties been repeated immediately before Closing by reference to the facts, circumstances and knowledge then existing as if references in the Seller’s Warranties to the date of this Agreement were references to the Closing Date.

[or]

3. having made due and careful enquiry, we are aware of the following material breaches of the Seller’s Warranties that would, alone or together, be material and have occurred had the Seller’s Warranties been repeated immediately before Closing by reference to the facts, circumstances and knowledge then existing as if references in the Seller’s Warranties to the date of this Agreement were references to the Closing Date.

[description of material breaches.]



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**Director**

For an on behalf of [Novartis AG][GlaxoSmithKline Plc]



**Schedule 6**  
**Transferred Contracts and Certain Other Business**

**1 Separation of Shared Business Contracts**

- 1.1 Prior to Closing, each Seller and the Purchaser shall discuss and agree in good faith a process to identify all material Shared Business Contracts.
- 1.2 Each Seller shall use all reasonable efforts to maintain relationships under its Shared Business Contracts and continue to operate the Shared Business Contracts, including without limitation fulfilling all its obligations under its Shared Business Contracts, in the same manner as it has for the 12 months prior to this Agreement.
- 1.3 The Purchaser may, by notice to the relevant Seller at any time prior to the Marketing Authorisation Transfer Date, elect to take the rights and obligations of the Relevant Part of any Shared Business Contract.
- 1.4 If the Purchaser makes an election under paragraph 1.3 above, the relevant Seller and the Purchaser shall use all reasonable endeavours to procure that an arrangement is entered into with the relevant counterparty to each Shared Business Contract, the effect of which shall be that, with effect from whichever is the later of Marketing Authorisation Transfer Date and the date of the relevant arrangement, the benefit and burden of the Relevant Part is severed from such Shared Business Contract and an agreement or arrangement equivalent to such Shared Business Contract is entered into between the relevant counterparty and a member of the Purchaser's Group (or the Relevant Part of the Shared Business Contract is sub-licensed to such Purchaser) (a "**Separation**"). For the avoidance of doubt, no part of any such Shared Business Contract shall be severed and transferred to the Purchaser in so far as it relates to the Seller's Retained Business, any product other than the products to the extent included in the relevant Seller's Contributed Business (including the Products) or any Excluded Asset.
- 1.5 In addition, in relation to a Separation of a Shared Business Contract the Relevant Part of which contains any material non-compete provisions that, without obtaining a Third Party Consent, are reasonably likely to be breached on Closing as a result of the Target Groups both being transferred to the Purchaser's Group, the parties shall each use reasonable endeavours to procure that any arrangement entered into with the relevant counterparty in respect of such Separation does not contain such material non-compete provisions or, if it does, that such material non-compete provisions are waived by the relevant counterparty.

**2 Obligation to Obtain Third Party Consents**

- 2.1 In relation to any:
  - 2.1.1 Transferred Contract or Transferred Intellectual Property Contract (excluding, for the purposes of this Schedule 6, any Product Approval or Product Application) or Co-Owned Target Group Intellectual Property Right which is not assignable without a Third Party Consent, or a Separation of a Shared Business Contract which is not separable without a Third Party Consent; or



**2.1.2** Transferred Contract or Transferred Intellectual Property Contract (excluding, for the purposes of this Schedule 6 any Product Approval or Product Application) which contains any material non-compete or change of control provisions that, without obtaining a Third Party Consent, are reasonably likely to be breached or triggered (as relevant) on Closing as a result of the Target Groups both being transferred or the relevant Target Group being transferred (as relevant) to the Purchaser (and/or any member of the Purchaser's Group)

this Agreement shall not be construed as an assignment or an attempted assignment, a sub-licensing or an attempted sub-licensing, and the relevant Seller and the Purchaser shall each use reasonable endeavours both before and after Closing to obtain all necessary Third Party Consents as soon as possible and shall keep each other informed of progress in obtaining such Third Party Consents. The relevant Seller shall deliver to the Purchaser, on Closing or, if later, as soon as possible after receipt, any Third Party Consent.

**2.2** In addition, in relation to any Contract (excluding, for the purposes of this Schedule 6, any Product Approval or Product Application) which is transferred to the Purchaser's Group as part of the Target Group Companies and which contains any non-compete or change of control provisions that, without obtaining a Third Party Consent, are reasonably likely to be breached or triggered (as relevant) on Closing as a result of the Target Groups both being transferred or the relevant Target Group being transferred (as relevant) to the Purchaser (and/or any other member of the Purchaser's Group), the parties shall each use reasonable endeavours both before and after Closing to obtain all such necessary Third Party Consents as soon as possible and shall keep each other informed of progress in obtaining such Third Party Consents. Each Seller shall deliver to the Purchaser, on Closing or, if later, as soon as possible after receipt, any such Third Party Consent.

**2.3** In connection with the obtaining of any Third Party Consent referred to in paragraph 2.1 and 2.2, the Purchaser shall supply to the relevant Seller such information as may be reasonably requested by the relevant Seller or any relevant third party.

**2.4** The cost of any fee demanded by the third party as consideration for giving the Third Party Consent shall be borne by the Purchaser, provided that:

**2.4.1** the cost is agreed in advance by the Purchaser (such agreement not to be unreasonably withheld or delayed); and

**2.4.2** no party shall be required to bear any internal or administrative costs of the other parties in relation to any Third Party Consent.

**3 Obligations until Third Party Consents are Obtained/where Third Party Consents are Refused**

**3.1** Subject to paragraph 3.2, the Purchaser shall assume, carry out, perform and discharge the relevant Seller's and the relevant Business Sellers' obligations arising under the Transferred Contracts, the Transferred Intellectual Property Contracts, the Co-Owned Target Group Intellectual Property Rights, and the Relevant Part of the Shared Business Contracts as from Closing.



**3.2** In respect of any Transferred Contract, Transferred Intellectual Property Contract, the Co-Owned Target Group Intellectual Property Rights or Relevant Part of any Shared Business Contract from Closing until the relevant Third Party Consent has been obtained as contemplated by paragraph 2.1 or where the Third Party Consent has been refused:

**3.2.1** the relevant Business Seller shall hold on trust to the extent it is lawfully able to do so or, where it is not lawfully able to do so or where holding on trust is not possible under local law, and to the extent that any such Transferred Contracts, Transferred Intellectual Property Contract for the Purchaser or Relevant Parts of the Shared Business Contract, includes licence of Intellectual Property Rights, the relevant Business Seller and the Purchaser shall make such other arrangements between themselves to provide to the Purchaser, the benefits of the Contract (other than amounts corresponding to any Tax Liability of the relevant Business Seller, in respect of amounts due under or in respect of the Transferred Contract or Transferred Intellectual Property Contract Co-Owned Target Group Intellectual Property Rights, or Relevant Part of the Shared Business Contract including the enforcement at the cost and for the account of the Purchaser of all rights of the relevant Business Seller against any other party thereto; and

**3.2.2** to the extent that the Purchaser is lawfully able to do so, the Purchaser shall perform (or procure the performance of) the relevant Business Seller's obligations under the Contract as agent or sub-contractor and shall indemnify the relevant Seller and the relevant Business Seller if the Purchaser fails to do so. To the extent that the Purchaser is not lawfully able to perform (or procure the performance of) such obligations, the relevant Seller shall procure that the relevant Business Seller shall (subject to being indemnified by the Purchaser for any Liabilities the relevant Seller or the relevant Business Seller may incur in connection therewith) do all such things as the Purchaser may reasonably require to enable due performance of the Transferred Contract or Transferred Intellectual Property Contract or Relevant Part of any Shared Business Contract and the Purchaser shall indemnify the relevant Business Seller in respect thereof.

**4 Failure to Obtain Third Party Consents**

**4.1** If a Third Party Consent is refused or otherwise not obtained on terms reasonably acceptable to the Purchaser within 18 months of Closing:

**4.1.1** the relevant Seller shall be entitled to procure the termination of the Transferred Contract, Transferred Intellectual Property Contract or Relevant Part of the Shared Business Contract and the obligations of the parties under this Agreement in relation to such Transferred Contract, Transferred Intellectual Property Contract, or the Relevant Part of the Shared Business Contract shall cease forthwith;



- 4.1.2 references in this Agreement to the Transferred Contracts, Transferred Intellectual Property Contract or Relevant Parts of the Shared Business Contracts (other than in this paragraph 4) shall be construed as excluding such Transferred Contract, Transferred Intellectual Property Contract or Relevant Part of such Shared Business Contract; and
- 4.1.3 the relevant Seller and the Purchaser shall use all reasonable efforts to put in place alternative arrangements so as to give the Purchaser equivalent benefits or rights as would have been enjoyed under the terminated Transferred Contract, Transferred Intellectual Property Contract, Co-Owned Target Group Intellectual Property Rights, or Relevant Part of the Shared Business Contract.

**5 Chinese Joint Venture**

- 5.1 The parties acknowledge and agree that the Chinese JV Interests and the Chinese JV Contracts cannot be transferred to the Purchaser without the consent of Tianjin Pharmaceutical Holdings Co. Ltd and Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the “**Tianjin Consents**”) and that therefore this Agreement shall not be construed as a transfer or attempted transfer of the Chinese JV Interests or the Chinese JV Contracts without such consent.
- 5.2 All parties shall use reasonable endeavours both before and after Closing to obtain the Tianjin Consents as soon as possible and shall keep each other informed of progress in relation to the same. GlaxoSmithKline shall deliver to the Purchaser, on Closing or, if later, as soon as possible after receipt, the Tianjin Consents.
- 5.3 In connection with the obtaining of the Tianjin Consents, each of the parties shall supply to the other parties and any relevant third party such information as may be reasonably requested by such other parties or any relevant third party.
- 5.4 In the event that the Tianjin Consents have not been obtained by Closing, from Closing until the Tianjin Consents have been obtained:
  - 5.4.1 GlaxoSmithKline shall procure that the relevant member of GlaxoSmithKline’s Group shall hold on trust for the Purchaser to the extent it is lawfully able to do so, or, where it is not lawfully able to do so or where holding on trust is not possible under local law, GlaxoSmithKline shall procure that the relevant member of GlaxoSmithKline’s Group and the Purchaser shall make such other arrangements between themselves as are necessary to provide the Purchaser with, all of the benefits of the relevant member of GlaxoSmithKline’s Group in relation to the Chinese JV Interests and the Chinese JV Contracts so that the Purchaser is no worse (or better) off than it would have been had the Chinese JV Interests and the Chinese JV Contracts been transferred to it (other than in respect of amounts corresponding to any Tax payable by GlaxoSmithKline or the relevant member of GlaxoSmithKline’s Group), including the enforcement and exercise at the cost and for the account of the Purchaser of all rights of the relevant member of GlaxoSmithKline’s Group against or in respect of the Chinese JV Interests and/or any other party to the Chinese JV Contracts; and



**5.4.2** to the extent that the Purchaser is lawfully able to do so, the Purchaser shall perform (or procure the performance of) the relevant member of GlaxoSmithKline's Group's obligations in respect of the Chinese JV Interests (if any) and under the Chinese JV Contracts as agent or as agent or sub-contractor and shall indemnify GlaxoSmithKline and the relevant member of GlaxoSmithKline's Group if the Purchaser fails to do so. To the extent that the Purchaser is not lawfully able to perform (or procure the performance of) such obligations, GlaxoSmithKline shall procure that the relevant member of GlaxoSmithKline's Group shall (subject to being indemnified by the Purchaser for any Liabilities GlaxoSmithKline or the relevant GlaxoSmithKline's Group may incur in connection therewith) do all such things as the Purchaser may reasonably require to enable due performance of the obligations in respect of the Chinese JV Interests and/or the Chinese JV Contracts and the Purchaser shall indemnify the relevant member of GlaxoSmithKline's Group in respect thereof.

**6 Novartis US NRT Business**

**6.1** The parties acknowledge and agree that the Novartis US NRT Business is a Novartis Excluded Asset and therefore shall not be transferred to the Purchaser at Closing or otherwise, except as agreed between the parties in writing.

**6.2** Promptly following the date of this Agreement, Novartis shall commence the process in relation to the sale (which may include an out-licensing) of the Novartis US NRT Business to a third party unconnected to the parties and shall use reasonable endeavours to effect such sale (or out-licensing as relevant) prior to Closing.

**6.3** The parties agree that the following provisions shall apply in respect of the sale (or out-licensing as relevant) process referred to above in relation to the Novartis US NRT Business (subject to Applicable Law):

**6.3.1** Novartis shall inform the Purchaser of, and consult with the Purchaser in relation to, all material steps to be taken in respect of such sale and shall take reasonable account of any views of the Purchaser so expressed in connection with the same;

**6.3.2** prior to the first circulation of any material draft sale (or out-licensing as relevant) documentation in respect of such sale (or out-licensing as relevant), Novartis shall provide the Purchaser with a reasonable opportunity to review and comment on such documentation and shall take reasonable account of any views of the Purchaser so expressed in connection with the same;



- 6.3.3** with effect from Closing, and only if Closing occurs, all of the proceeds of any such sale shall (or out-licensing as relevant), unless such proceeds are received by a Novartis OTC Group Company, be paid to the Purchaser to such account as it may direct promptly following receipt of the same by Novartis (or any of its Affiliates); and
- 6.3.4** the Purchaser shall indemnify Novartis for any reasonable costs and expenses incurred in connection with such sale process (or out-licensing process, as relevant), excluding, for the avoidance of doubt, any costs and expenses arising out of, or in connection with the exercising of rights and/or obligations under any definitive documentation in respect of such sale (or out-licensing as relevant) (and the parties shall work together to seek to avoid any potential double taxation of the proceeds).

## 7 Novartis Indian Business

- 7.1** The parties acknowledge and agree that Novartis's Indian Business cannot be transferred to the Purchaser without the requisite consent of the non-Novartis shareholders in Novartis IndiaCo pursuant to and in accordance with the rules and regulations of the Securities Exchange Board of India and any other Applicable Law (the "**Novartis Indian Consent**") and that therefore this Agreement shall not be constructed as a transfer or attempted transfer of the Novartis Indian Business without the Novartis Indian Consent.
- 7.2** Novartis agrees to use its reasonable endeavours to obtain the Novartis Indian Consent prior to Closing, and as soon as reasonably practicable following the date of this Agreement. Without prejudice to the generality of the foregoing, Novartis shall, promptly following the date of this Agreement:
- 7.2.1** commence the process in relation to the obtaining of the Novartis Indian Consent; and
- 7.2.2** give the Purchaser a reasonable opportunity to take part in the process of, and to review and comment on any material documentation in relation to (with Novartis to take reasonable account of any such comments), the obtaining of the Novartis Indian Consent.
- 7.3** In the event that the Novartis Indian Consent is not obtained prior to Closing, such that the Novartis Indian Business cannot be transferred to the Purchaser upon Closing in accordance with the provisions of this Agreement:
- 7.3.1** for a maximum of two years, the parties shall use reasonable endeavours to obtain the Novartis Indian Consent and to procure that the Novartis Indian Business is transferred to the Purchaser as soon as reasonably practicable after Closing; and
- 7.3.2** from Closing until such transfer (if any) takes place, Novartis shall procure that such arrangements are put in place between Novartis and the Purchaser as are necessary to put the Purchaser in no worse (or better) position than it would have been had the Novartis Indian Business been transferred to it at Closing, and prior to Closing the parties shall enter into discussions (acting reasonably and in good faith) with a view to reaching agreement on such arrangements.



**8 GlaxoSmithKline Pakistan Business**

- 8.1** The parties acknowledge and agree that the GlaxoSmithKline Pakistan Business cannot be transferred to the Purchaser without the requisite consent of the shareholders in GlaxoSmithKline Pakistan pursuant to and in accordance with the rules and regulations of the Security and Exchange Commission of Pakistan and any other Applicable Law and (if required) the approval of the Sindh High Court (the “**GlaxoSmithKline Pakistan Consent**”) and that therefore this Agreement shall not be constructed as a transfer or attempted transfer of the GlaxoSmithKline Pakistan Business without the GlaxoSmithKline Pakistan Consent. To the extent that the relevant member of GlaxoSmithKline’s Group is not able to vote its shares in favour of the transfer of the GlaxoSmithKline Pakistan Business (as confirmed by GlaxoSmithKline’s Pakistan legal adviser) or (if required) the approval of the Sindh High Court is not granted, paragraph 8.3 below will apply.
- 8.2** GlaxoSmithKline agrees to use its reasonable endeavours to obtain the GlaxoSmithKline Pakistan Consent prior to Closing, and as soon as reasonably practicable following the date of this Agreement. Without prejudice to the generality of the foregoing, GlaxoSmithKline shall, promptly following the date of this Agreement:
- 8.2.1** commence the process in relation to the obtaining of the GlaxoSmithKline Pakistan Consent; and
  - 8.2.2** give the Purchaser a reasonable opportunity to take part in the process of, and to review and comment on any material documentation in relation to (with GlaxoSmithKline to take reasonable account of any such comments), the obtaining of the GlaxoSmithKline Pakistan Consent.
- 8.3** In the event that the GlaxoSmithKline Pakistan Consent is not obtained prior to Closing, such that the GlaxoSmithKline Pakistan Business cannot be transferred to the Purchaser upon Closing in accordance with the provisions of this Agreement:
- 8.3.1** for a maximum of two years, the parties shall use reasonable endeavours to obtain the GlaxoSmithKline Pakistan Consent and to procure that the GlaxoSmithKline Pakistan Business is transferred to the Purchaser as soon as reasonably practicable after Closing; and
  - 8.3.2** from Closing until such transfer (if any) takes place, GlaxoSmithKline shall procure that such arrangements are put in place between GlaxoSmithKline and the Purchaser as are necessary to put the Purchaser in no worse (or better) position than it would have been had the GlaxoSmithKline Pakistan Business been transferred to it at Closing, and prior to Closing the parties shall enter into discussions (acting reasonably and in good faith) with a view to reaching agreement on such arrangements.

**9 Gebro Pharma Joint Venture**

- 9.1** If, at Closing, (i) the relevant shares in Novartis Consumer Health-Gebro GmbH are not held by a Novartis OTC Group Company and (ii) consent or approval from Gebro Pharma GmbH to the transfer of shares in Novartis Consumer Health-Gebro GmbH has not been obtained, then this Agreement shall not be construed as a transfer or attempted transfer of the relevant shares in Novartis Consumer Health-Gebro GmbH without such consent and:



- 9.1.1** Novartis shall procure that the relevant member of Novartis's Group shall hold on trust for the Purchaser to the extent it is lawfully able to do so, or, where it is not lawfully able to do so or where holding on trust is not possible under local law, Novartis shall procure that the relevant member of Novartis's Group and the Purchaser shall make such other arrangements between themselves to provide the Purchaser with, all of the benefits of the relevant shares in Novartis Consumer Health-Gebro GmbH so that the Purchaser is no worse (or better) off than it would have been had in Novartis Consumer Health-Gebro GmbH been transferred to it (other than in respect of amounts corresponding to any Tax payable by Novartis or the relevant member of Novartis's Group), including the enforcement and exercise at the cost and for the account of the Purchaser of all rights of the relevant member of Novartis's Group against or in respect of the relevant shares in Novartis Consumer Health-Gebro GmbH; and
- 9.1.2** to the extent that the Purchaser is lawfully able to do so, the Purchaser shall perform (or shall procure the performance of) the relevant member of Novartis's Group's obligations in respect of Novartis's Shares in Novartis Consumer Health-Gebro GmbH as agent or as agent or sub-contractor and shall indemnify Novartis and the relevant member of Novartis's Group if the Purchaser fails to do so. To the extent that the Purchaser is not lawfully able to perform (or shall procure the performance of) such obligations, Novartis shall procure that the relevant member of Novartis's Group shall (subject to being indemnified by the Purchaser for any Liabilities Novartis or the relevant member of Novartis's Group may incur in connection therewith) do all such things as the Purchaser may reasonably require to enable due performance of the obligations in respect of the relevant shares in Novartis Consumer Health-Gebro GmbH and the Purchaser shall indemnify the relevant member of Novartis's Group in respect thereof.

**10 US RX Products**

- 10.1** The parties acknowledge and agree that they will effect Closing with respect to US RX Products that are included in the Contributed Business in a manner that ensures that the Purchaser, its Affiliates, and their respective businesses shall not be subject to or bound by the terms of the [\*\*\*] and that there is no breach of the [\*\*\*] as a result of the transfer of Novartis US RX Products or GlaxoSmithKline US RX Products at Closing.
- 10.2** Subject to paragraph 9.3 of this Schedule 6 but notwithstanding any other provision of this Agreement:
- 10.2.1** Novartis shall not transfer to the Purchaser at Closing any assets or liabilities of its Contributed Business relating (in whole or in part) to the Novartis US RX Products; and

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



**10.2.2** GlaxoSmithKline shall not transfer to the Purchaser at Closing any assets or liabilities of its Contributed Business relating (in whole or in part) to the GlaxoSmithKline US RX Products, in the case of each US RX Product, if, and only to the extent that, such transfer would result in the Purchaser or any of its Affiliates or their respective businesses (including such US RX Product) being subject to or bound by the terms of the [\*\*\*] post-Closing and/or would result in any breach of the [\*\*\*]. Any assets or liabilities excluded from being transferred to the Purchaser in accordance with this paragraph 9.2 shall be deemed to constitute Novartis Excluded Assets or GlaxoSmithKline Excluded Assets, as the case may be.

**10.3** With effect from the date of this Agreement, the Sellers shall consult with one another (acting reasonably and in good faith) so as to determine whether the assets and liabilities comprised in each of their Contributed Businesses relating (in whole or in part) to each GlaxoSmithKline US RX Product and each Novartis US RX Product, as applicable, can be transferred to the Purchaser (or another member of its Group) at Closing without the transfer resulting in the Purchaser or any of its Affiliates or their respective businesses being subject to or bound by the terms of the [\*\*\*] post-Closing and without the transfer resulting in any breach of the [\*\*\*].

**10.4** To the extent that, notwithstanding paragraph 9.3 of this Schedule 6, any assets and liabilities of a Seller's Contributed Business are deemed to constitute Novartis Excluded Assets or GlaxoSmithKline Excluded Assets pursuant to paragraph 9.2 of this Schedule 6, then the following provisions shall apply to such Novartis Excluded Assets or GlaxoSmithKline Excluded Assets (subject to Applicable Law):

**10.4.1** with effect from Closing, and only if Closing occurs, until the date of completion of any US RX Product Disposal (if any) the relevant Seller shall procure that such arrangements are put in place between it and the Purchaser as are necessary to put the Purchaser in no worse (or better) position than it would have been had in such Novartis Excluded Assets or GlaxoSmithKline Excluded Assets (as the case may be) been transferred to it at Closing, and prior to Closing, the parties shall enter into discussions (acting reasonably and in good faith) with a view to reaching agreement on such arrangements; and

**10.4.2** the relevant Seller shall be entitled to dispose of, or out-licence, all or part of any such Novartis Excluded Assets or GlaxoSmithKline Excluded Assets at any time prior to or after Closing (a "**US RX Product Disposal**") and the following provisions shall apply in respect of any US RX Product Disposal (subject to Applicable Law):

- (i) the relevant Seller shall inform the Purchaser of, and consult with the Purchaser in relation to, all material steps to be taken in respect of such sale and shall take reasonable account of any views of the Purchaser so expressed in connection with the same;
- (ii) prior to the first circulation of any material draft sale (or out-licensing as relevant) documentation in respect of such sale (or out-licensing as relevant), the relevant Seller shall provide the Purchaser with a reasonable opportunity to review and comment on such documentation and shall take reasonable account of any views of the Purchaser so expressed in connection with the same;

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



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- (iii) with effect from Closing, and only if Closing occurs, all of the proceeds of any such sale (or out-licensing as relevant) shall, unless such proceeds are received by a Target Group Company, be paid to the Purchaser to such account as it may direct promptly following receipt of the same by the relevant Seller (or any of its Affiliates); and
- (iv) the Purchaser shall indemnify the relevant Seller for any reasonable costs and expenses incurred in connection with such sale process (or out-licensing process, as relevant), excluding, for the avoidance of doubt, any costs and expenses arising out of, or in connection with the exercising of rights and/or obligations under any definitive documentation in respect of such sale (or out-licensing, as relevant) (and the parties shall work together to seek to avoid any potential double taxation of the proceeds).



**Schedule 7  
Employees**

**1 INFORMATION AND CONSULTATION**

**1.1** At such time as the parties agree to be appropriate following the public announcement of the matters contemplated by this Agreement, each Seller and the Purchaser or the relevant member of the Purchaser's Group shall jointly communicate to the Employees an agreed notice which shall (other than to the extent the parties agree otherwise):

- 1.1.1** inform the Employees that following Closing those Employees who continue to be employed in the Contributed Business would be employed by the Purchaser or relevant member of the Purchaser's Group; and
- 1.1.2** comply with the requirements of any applicable national law.

For the avoidance of doubt, the parties may agree to issue such notice to different Employees or categories of Employees at different times and in different forms.

**1.2** Notwithstanding the operation of paragraph 1.1 above, each Seller and the Purchaser agree to comply with any more onerous notice requirements imposed by local laws.

**1.3** Each Seller agrees that it shall be permitted to conduct its own information and consultation exercise in respect of the matters contemplated by this Agreement with its own Employees without interference from the other Seller. Each Seller agrees to co-operate with the other Seller in respect of that other Seller's information and consultation process to ensure as far as practicable that the communications of a Seller with the Employees of that Seller are aligned with the communications of the other Seller with the Employees of that other Seller.

**1.4** The Purchaser (on its own behalf and on behalf of any relevant member of the Purchaser's Group) shall provide each Seller (for itself and any relevant member of such Seller's Group) with such information and assistance at such times as such Seller may reasonably request or as may be reasonably necessary for such Seller or any other member of such Seller's Group to comply with any formal or informal requirement to inform or consult with the Employees, a relevant trade union, a relevant works council, or any other employee representatives in connection with the matters contemplated by this Agreement (which formal or informal requirements the Seller hereby undertakes to comply or procure compliance with). Where reasonably necessary to ensure compliance with any formal or informal requirements or obligations to inform or consult with Employees, a relevant trade union, a relevant works council or any other employee representatives in connection with the matters contemplated by this Agreement, each Seller (for itself and for each member of its Group) and the Purchaser (for itself and for each member of its Group) agree that the Purchaser or relevant member of the Purchaser's Group shall cooperate with and participate in any information, negotiation and/or consultation process as reasonably required by that relevant Seller.



**1.5** As soon as practicable following the date of this Agreement each Seller agrees to provide on a timely basis such information, in writing, in respect of its existing terms and conditions of employment as may reasonably be required by the other Seller so as to facilitate that other Seller's information and consultation exercise with its Employees in respect of the matters set out in this Agreement.

**2 TARGET BUSINESS EMPLOYEES**

**2.1 General**

**2.1.1** The Purchaser shall (or shall procure that the relevant member of its Group shall) fulfil all its duties and obligations under Applicable Law in relation to the Target Business Employees. Where the provisions of local law do not provide for an automatic transfer of the employment of the Target Business Employees to the Purchaser or a relevant member of its Group with effect from (and including) the Closing Date, then paragraph 2.2 below shall apply. Where the provisions of local law do provide for an automatic transfer of employment of the Relevant Target Business Employees to the Purchaser or the relevant member of its Group with effect from (and including) the Closing Date, then paragraph 2.3 below shall apply.

**2.1.2** Each Seller and the Purchaser acknowledge and agree that, in relation to Deferred Employees of a member of that Seller's Group:

- (i) any Deferred Employee shall be treated for all purposes under this Agreement as if such Deferred Employee were a Target Business Employee or a Target Company Employee (as appropriate);
- (ii) the Purchaser's obligations under this Schedule 7 shall apply in respect of each Deferred Employee in the same way as they do to each Target Business Employee or Target Company Employee (as appropriate); and
- (iii) if any Deferred Employee accepts an offer of employment made by the Purchaser under paragraph 2.2.1 below or becomes an employee of a Target Group Company after the Closing Date, such Deferred Employee shall further be treated for all purposes under this Agreement as a Transferred Employee.

**2.1.3** For the avoidance of doubt, this paragraph 2 shall not apply to any Excluded Employee, who will remain employed by a Seller or the relevant member of that Seller's Group.

**2.2 Where no Automatic Transfer of Employment**

**2.2.1** In such timescale as each Seller and the Purchaser may agree, but in any event at least 30 Business Days prior to the Closing Date, the Purchaser or relevant member of its Group shall make an offer to each Target Business Employee employed by that Seller or a member of its Group to employ him or her under a new contract of employment to commence with effect from (and including) the Closing Date provided that such employee continues to be a Target Business Employee until the



Closing Date. Save as otherwise agreed with that Seller (such agreement not to be unreasonably withheld), the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that Target Business Employee immediately prior to the Closing Date. The Purchaser shall keep each Seller updated throughout the offer process on when offers are made and accepted or rejected.

- 2.2.2 If the Target Business Employee wishes to accept the offer of employment from the Purchaser or the relevant member of its Group, then the Seller who employs (whether directly or indirectly) that person shall (or shall procure that the relevant member of its Group shall), insofar as it is permitted by Applicable Law, waive the requirement on the Target Business Employee concerned to give any period of notice of termination of his or her employment under the terms of his or her employment so as to allow the Target Business Employee to commence employment with the Purchaser or relevant member of its Group with effect from (and including) the Closing Date.

**2.3 Where Automatic Transfer of Employment**

If the Transfer Regulations do not or are found not to or are alleged not to apply to any person who is a Relevant Target Business Employee, and to whom paragraph 2.2 does not apply, the Purchaser agrees that following Closing:

- 2.3.1 in consultation with the Seller who employs (whether directly or indirectly) that person, the Purchaser or relevant member of the Purchaser's Group shall within ten Business Days of being so requested by that Seller (as long as the request is made no later than three months after Closing) (or if the Purchaser so chooses) make such Relevant Target Business Employee an offer in writing to employ him or her under a new contract of employment subject to, and to take effect upon, a date agreed between that Seller, the Purchaser and such employee; and
- 2.3.2 save as otherwise agreed with that Seller (such agreement not to be unreasonably withheld) the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that Relevant Target Business Employee immediately prior to the Closing Date.

**3 WRONG-POCKET ARRANGEMENTS FOR PERSONS OTHER THAN RELEVANT EMPLOYEES**

- 3.1 If the contract of employment of any person other than a Relevant Employee is found or alleged to have effect upon Closing as if originally made with the Purchaser or another member of its Group (including any Target Group Company) as a consequence of this Agreement, or if any Target Group Company employs any person who does not work wholly or substantially in the relevant Contributed Business, the Seller whose Group had previously employed (whether directly or indirectly) such person agrees that following Closing:



**3.1.1** in consultation with the Purchaser, that Seller or relevant member of its Group may within ten Business Days of being so requested by the Purchaser (as long as the request is made no later than three months after Closing) (or if that Seller so chooses), make to that person an offer in writing to employ him or her under a new contract of employment subject to, and to take effect upon, the termination referred to below; and

**3.1.2** the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that person immediately prior to the Closing Date.

**3.2** After the expiry of the ten Business Days referred to at paragraph 3.1 above, and provided that the relevant member of the Purchaser's Group takes such steps as are legally possible to terminate the employment of the person concerned as soon as reasonably practicable after becoming aware of the finding or allegation referred to at paragraph 3.1 above (either by giving notice or transferring the person by agreement to be concluded between the relevant member of the Purchaser's Group, the person concerned and the relevant member of that Seller's Group), that Seller shall be responsible for and shall indemnify and keep indemnified the Purchaser (for itself and as trustee for any relevant member of its Group) against all Losses from time to time made, suffered or incurred by the Purchaser (or any other member of its Group) as a result of:

**3.2.1** the actual or alleged transfer to a member of the Purchaser's Group and (regardless of whether there has been such a transfer) any employment liabilities relating to such person;

**3.2.2** employing such person on and from the Closing Date until such termination (up to the time reasonably expected to have achieved such termination in accordance with the terms of the contract of employment and Applicable Law but subject to a maximum period of six months unless prevented by the terms of the contract of employment or Applicable Law); and

**3.2.3** such termination.

**3.3** Each Seller and the Purchaser agree to co-operate in good faith to minimise the Losses which are subject to the indemnity referred to in paragraph 3.2 above.

#### **4 EMPLOYMENT LIABILITIES**

**4.1** All wages, salaries, employer's liabilities in respect of associated Taxes and other periodic outgoings in respect of the Transferred Employees which relate to a period:

**4.1.1** after the Closing Date shall be borne or discharged by the Purchaser or relevant member of the Purchaser's Group; and

**4.1.2** on or before the Closing Date shall be borne or discharged by the Seller or relevant member of its Group to which they relate.



**4.2** Each Seller shall (for itself and for each member of its Group) indemnify and keep indemnified the Purchaser (for itself and as trustee for each other member of its Group) against all Losses (ignoring any amount in respect of Employee Benefits, as to which see Schedule 8) in respect of:

- 4.2.1** the employment of any Employee at any time prior to the Closing Date (excluding any Transferred Employee Benefit Liabilities (as defined in Schedule 8 of that Seller) which the Purchaser agrees to assume in accordance with Schedule 8);
- 4.2.2** any termination of the employment of any Employees prior to the Closing Date, including, but not limited to, all claims relating to severance, termination pay, pay in lieu of notice of termination and similar obligations (excluding any liability arising directly as a result of any breach of the commitments set out in paragraph 5 or 6 below by the Purchaser or a member of the Purchaser's Group and any act or omission by the Purchaser or any member of the Purchaser's Group in relation to any Employee before Closing as a result of which that Employee treats his employment as having been terminated prior to the Closing Date);
- 4.2.3** any amount which becomes payable to any Employee or benefit to which any Employee becomes entitled by reason of this Agreement or the matters it contemplates, including any change of control or other payment or benefit (and including any enhancement of severance terms on a subsequent termination of employment but excluding any Losses relating to any share-based incentive schemes, as to which see paragraph 10 below);
- 4.2.4** any failure by such Seller or any other member of such Seller's Group to comply with any obligation to inform or consult with employee representatives in connection with the matters contemplated by this Agreement (other than as a result of any failure set out in paragraph 4.3.3 below); and
- 4.2.5** any breach by such Seller or any other member of such Seller's Group of paragraph 4.1.2 above or paragraph 4.4, 4.5 or 9 below.

Where this paragraph 4.2 refers to an 'Employee' this is a reference to an Employee employed prior to the Closing Date by the Seller giving the indemnity (or a member of that Seller's Group) and not to an Employee of the other Seller's Group prior to the Closing Date.

**4.3** The Purchaser shall (for itself and for each member of the Purchaser's Group) indemnify and keep indemnified each Seller (for itself and as trustee for each other member of such Seller's Group) against all Losses (ignoring any amount in respect of Employee Benefits, as to which see Schedule 8) in respect of:

- 4.3.1** the employment of any of the Transferred Employees on and after the Closing Date (including, without limitation, any changes to terms and conditions of employment by the Purchaser or any other member of the Purchaser's Group);



- 4.3.2 any termination of the employment of any Transferred Employees on and after the Closing Date including, but not limited to, all claims relating to severance, termination pay, pay in lieu of notice of termination and similar obligations except as contemplated under paragraph 3.2 above;
- 4.3.3 any failure by the Purchaser or any other member of the Purchaser's Group to provide information and reasonable assistance to such Seller to enable such Seller or any other member of such Seller's Group to comply with any obligation to inform or consult with employee representatives in connection with the matters contemplated by this Agreement;
- 4.3.4 any breach by the Purchaser or any other member of the Purchaser's Group of paragraph 4.1.1 above or paragraphs 4.4 or 4.5 below; and
- 4.3.5 any act or omission by the Purchaser or any member of the Purchaser's Group in relation to any Employee before Closing as a result of which that Employee treats his employment as having been terminated prior to the Closing Date.

4.4 Any amount payable to or in respect of any Transferred Employee after Closing (including without limitation amounts paid under paragraph 4.5 below) which (ignoring vesting conditions and any amount payable in respect of Employee Benefits or otherwise in accordance with Schedule 8) is referable to the period prior to Closing is payable by the Seller to whom such Transferred Employee relates (for itself or on behalf of the relevant Business Seller or relevant Share Seller). Responsibility for amounts payable which are only partly referable to the period prior to Closing (again ignoring vesting conditions) is to be shared between the relevant Seller (for itself or on behalf of the relevant Business Seller or relevant Share Seller) and the Purchaser (for itself or on behalf of the relevant member of the Purchaser's Group) such that that Seller bears S per cent. of the cost and the Purchaser bears P per cent., where S is the percentage of the period by reference to which the amount was earned which fell on or before the Closing Date and P is the percentage of that period which falls after the Closing Date. The Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, pay such amounts when due to the relevant Transferred Employees on or after Closing and shall deduct and/or pay and account for any Tax payable or accountable for by the employer in respect of such amounts. Each Seller covenants to reimburse the Purchaser in respect of any such amount (or S per cent. of it where relevant), including any Tax due payable or accountable for by the employer in respect of such amount, within 30 days of receiving notification that it has been paid, to the extent such amounts are not reflected in the Closing Statement. Each Seller will provide the Purchaser with all information and documentation reasonably necessary to allow such payments to be made.

4.5 Following the Closing Date:



- 4.5.1 the Purchaser shall, or shall procure that a member of the Purchaser’s Group shall, pay a pro-rated cash bonus of an amount advised by each Seller to the Purchaser to each Transferred Employee formerly employed by that Seller’s Group and who participated in an annual cash bonus plan immediately before the Closing Date in their first payroll payment after the Closing Date; and
- 4.5.2 where the Seller to whom such Transferred Employee relates is able to determine performance, any such bonus payment made to such eligible employees by the Purchaser or a member of the Purchaser’s Group will be based on that Seller’s determination of performance to the Closing Date and pro-rated to the Closing Date; or
- 4.5.3 where that Seller is unable to determine performance (either business or individual), for example, because the Closing Date occurs near the start of the bonus year, that Seller shall calculate any such bonus payment based on a deemed achievement of performance conditions at target level pro-rated to the Closing Date; and
- 4.5.4 as soon as reasonably practicable after the Closing Date, the Purchaser shall, or shall procure that such other member of the Purchaser’s Group shall, provide such information as that Seller requires in order for that Seller to calculate the Tax payable or accountable for by the employer in respect of such bonus payments; and
- 4.5.5 the Purchaser shall, or shall procure that such other member of the Purchaser’s Group shall, deduct and/or account for any Tax payable or accountable for by the employer in respect of such bonus payments; and
- 4.5.6 that Seller shall reimburse the Purchaser for the aggregate bonuses advised by that Seller to the Purchaser which are paid pursuant to this paragraph 4.5 along with the employer’s social security contributions due in respect of such payments to the extent such amounts are not reflected in the Closing Statement.

**5 PROTECTION OF TERMS AND CONDITIONS AND TERMINATION RIGHTS POST-CLOSING**

**5.1** Without prejudice to paragraph 5.4 below, the Purchaser shall procure that for a period of 24 months following the Closing Date:

- 5.1.1 each Transferred Employee will (for so long as such Transferred Employee continues in the same role with any member of the Purchaser’s Group save that the Purchaser shall not seek to demote any Transferred Employee to avoid the application of this provision) continue to receive at least the same basic salary;
- 5.1.2 each Transferred Employee will continue to receive contractual benefits (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans) which the



Purchaser reasonably considers to be substantially comparable, taken as a whole, to the contractual benefits (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans) of such Transferred Employee immediately prior to the Closing Date; and

- 5.1.3** no Transferred Employee will suffer a change to his overall employment terms (whether contractual or otherwise) and including, without limitation, any related to length of service (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans) which, when taken as a whole viewed in the round (including to the extent relevant alongside any other changes being made at the same time to that Transferred Employee's employment terms), would in the Purchaser's reasonable opinion acting in good faith be regarded as materially detrimental.
- 5.2** The Purchaser confirms that, following the Closing Date and for so long as the Transferred Employees continue in the employment of any member of the Purchaser's Group, the Transferred Employees will be eligible to participate in those share-based incentive schemes or other long-term incentive plans that are operated by the Purchaser or relevant members of the Purchaser's Group from time to time for employees of equivalent status, subject always to the rules of such share-based incentive schemes or long-term incentive plans and any qualifying conditions.
- 5.3** Each Seller shall provide or shall cause to be provided to any member of the Purchaser's Group such information reasonably requested in writing by any member of the Purchaser's Group to enable the Purchaser to comply with its obligations in paragraph 5.1 above.
- 5.4** If the employment of any Transferred Employee is terminated by reason of redundancy within 24 months following the Closing Date, the Purchaser shall procure that there shall be provided to such Transferred Employee benefits which are equivalent to those provided under such redundancy and severance policies and benefits (whether contractual or otherwise and giving due credit to the Transferred Employees for any additional service or earnings from the Closing Date onwards) (but excluding Employee Benefits other than the Agreed UK Restructuring Arrangement) as were applicable in respect of the particular Transferred Employee immediately prior to the Closing Date, to the extent that such policies and benefits are notified in writing to the Purchaser prior to the Closing Date. If, at any time during the 24 month period immediately following the Closing Date, the Purchaser places any Transferred Employee into a redundancy selection process, the Purchaser undertakes that, in determining such selection, it will or will procure that the relevant member of the Purchaser's Group will take no account of the costs of dismissal of any person within the relevant selection pool (including such Transferred Employee).
- 5.5** For the avoidance of doubt, the provisions of this paragraph 5 are without prejudice to the operation of any rule of law in relation to the terms and conditions of employment of the Transferred Employees.



**6 BENEFITS ARRANGEMENTS/SERVICE CONTINUITY**

**6.1** Each Transferred Employee shall have their service with the Seller’s Group and their respective predecessors recognised under any employee benefit plans or arrangements of the Purchaser’s Group for all purposes of eligibility, vesting and accrual of benefits to the extent past service was recognised for such Transferred Employee under a comparable plan or arrangement immediately prior to the Closing Date. Notwithstanding the foregoing, nothing in this paragraph 6.1 shall be construed to require recognition of service for the purposes of calculation of Employee Benefits or that would result in:

- 6.1.1** any additional liability being assumed by the Purchaser’s Group in respect of Employee Benefits other than subject to and in accordance with the provisions of Schedule 8;
- 6.1.2** duplication of benefit;
- 6.1.3** recognition of service for any purposes under any plan or arrangement for which participation, service and/or benefits accrual is frozen or any post-retirement medical plan; or
- 6.1.4** recognition of service under a newly established plan or arrangement for which prior service is not taken into account for employees of the Purchaser’s Group generally.

**6.2** Without limiting the foregoing, with respect to the Transferred Employees, the Purchaser shall, or shall cause such other member of the Purchaser’s Group to, be responsible for all paid time off benefits, including vacation pay, sick pay, banked leave, flexitime and other payments for time off of normal work hours accrued by the Transferred Employees up to the Closing Date provided that if the value of such matters (excluding normal accrued but untaken annual leave for the year current as at Closing) would exceed US\$7.5 million if accrued for in a balance sheet in accordance with IFRS; then the Seller to whom such Transferred Employees relate shall compensate the Purchaser for such matters (again excluding normal accrued but untaken annual leave for the year current as at Closing) by paying the Purchaser an amount equal to that value, less any amount actually accrued and transferred to the Purchaser for such matters.

**6.3** With respect to any welfare plan maintained by the Purchaser or any other member of the Purchaser’s Group in which Transferred Employees are eligible to participate after the Closing Date, the Purchaser shall:

- 6.3.1** waive all limitations as to pre-existing conditions, exclusions, evidence of insurability provisions, waiting periods with respect to such participation and coverage requirements or similar provisions under the Purchaser’s benefit plans that are welfare plans (as defined in section 3(1) of ERISA or any equivalent Applicable Law) applicable to such employees to the extent such conditions, exclusions and waiting periods or other provisions were satisfied or did not apply to such employees under welfare plans maintained by the Seller to whom such Transferred Employees relate or other members of its Group prior to the Closing Date; and



6.3.2 provide each Transferred Employee with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any analogous deductible or out-of-pocket requirements to the extent applicable under any such plan in the year in which Closing occurs, to the extent credited under the welfare plans maintained by the Seller to whom such Transferred Employees relate or other members of its Group prior to the Closing Date.

7 US TRANSFERRED EMPLOYEES

7.1 To the extent the Purchaser or any other member of the Purchaser’s Group maintains a health care and dependent care flexible spending account arrangement pursuant to section 125 or 129 of the Code (collectively “FSAs”), the Purchaser will use commercially reasonable efforts to honour the elections of all Transferred Employees who are employed in the United States and/or covered by US Benefit Plans (“US Transferred Employees”) under the FSAs of any relevant member of the Seller’s Group to whom such Transferred Employees relate (“Relevant Employer’s FSAs”), as in effect immediately prior to the Closing Date, and the Purchaser will use commercially reasonable efforts to assume responsibility for administering all reimbursement claims of US Transferred Employees with respect to the calendar year in which the Closing Date occurs that are submitted for payment on or after the Closing Date, whether arising before, on or after the Closing Date, under the Purchaser’s FSAs. As soon as practicable but no more than 45 days following the Closing Date, the Seller will cause to be transferred to the Purchaser an amount in cash equal to: (i) the sum of all contributions to the Relevant Employer’s FSAs with respect to the calendar year in which the Closing Date occurs by or on behalf of the US Transferred Employees prior to the Closing Date, reduced by; (ii) the sum of all claims incurred in the calendar year in which the Closing Date occurs that are submitted to the Relevant Employer for payment prior to the Closing Date and paid by the Relevant Employer’s FSAs with respect to such US Transferred Employees prior to the date of such cash transfer to the Purchaser; provided, however, if this calculation results in a negative number, then the Purchaser will pay to the relevant Seller (on behalf of the Relevant Employer) as soon as practicable following the end of the calendar year in which the Closing Date occurs, the amount by which (ii) exceeds (i).

7.2 With effect on and from the Closing Date, the Purchaser shall, or shall procure that such other members of the Purchaser’s Group shall, assume the responsibility and obligation to provide COBRA continuation coverage to all US Transferred Employees whose employment is terminated after the Closing Date and their eligible dependents.

8 INTERNATIONAL ASSIGNEES

Where Applicable Law does not provide for the automatic transfer of employment of any International Assignee and/or the other terms governing their international assignment, the Purchaser shall assume and agree to be bound by the individual contract of employment and such other terms governing their international assignment including any tax equalisation agreement entered into between an International Assignee and a member of a Seller’s Group provided that such employee becomes a Transferred Employee and each Seller has disclosed to the other Seller the template international assignment terms of that Seller’s Group prior to the Closing Date.



## 9 LIABILITY FOR RETENTION ARRANGEMENTS

Each Seller or any other member of the Seller's Group has or will put in place certain retention arrangements (in the form of cash) to retain key employees in connection with the matters contemplated by this Agreement. To the extent that details of such retention arrangements are disclosed to the other Seller prior to the Closing Date, and in respect of arrangements put in place after the date of this Agreement, with the agreement of that other Seller, the Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, make the cash retention payments when due to the relevant Transferred Employees on or after Closing and shall deduct and/or pay and account for any Tax payable or accountable for by the employer in respect of such cash payments. Each Seller covenants to reimburse the Purchaser in respect of any cash retention payments, whether or not disclosed (including any Tax payable or accountable for by the employer in respect of such payments), which are put in place prior to the Closing Date. Each Seller will provide the Purchaser with all information and documentation reasonably necessary to allow such payments to be made.

## 10 SHARE-BASED INCENTIVE SCHEMES

This paragraph 10 applies notwithstanding any other provision of this Agreement.

### *Outstanding share-based awards under Novartis's Group plans*

**10.1** Subject to paragraph 10.10, Novartis undertakes to use its best endeavours to ensure that share-based awards held by Transferred Employees pursuant to a share-based incentive scheme operated by Novartis or another member of Novartis's Group ("**Novartis Awards**") shall be treated in a manner consistent with the "good leaver treatment" in the share-based incentive schemes operated by the Purchaser, to the extent possible under the relevant plan rules and any applicable law. Where Novartis Awards are subject to performance (or other) conditions and it is not possible to determine whether or not such conditions have been met at the applicable early vesting date (or within a reasonable period thereafter), the Sellers agree that performance shall be deemed "on target".

For the avoidance of doubt:

- (i) where necessary and subject to (ii), Novartis shall rely on the exercise of existing discretions in the relevant plan rules and (provided the approval of Novartis's shareholders is not required) shall be expected to amend the relevant plan rules to achieve the "good leaver treatment";
- (ii) Novartis (or relevant member of Novartis's Group) shall not take any action which would require shareholder approval or which could trigger any significant legal, Tax or operational issues for the relevant Transferred Employee (including the loss of any Tax-favourable treatment), GlaxoSmithKline's Group, Novartis's Group or the Purchaser's Group.

For the purposes of this paragraph 10.1, the "good leaver treatment" shall be that:

- (iii) Novartis Awards shall not lapse or be forfeited as a result of Closing except to the extent that they do not vest in accordance with (iv) and/or (v) below;
- (iv) Novartis Awards shall vest early as a result of Closing and shall be time pro-rated to take account of the reduced period of time, as a proportion of the original vesting period, that the relevant Transferred Employee worked within Novartis's Group (calculated on the basis of the number of years of service as at the Closing Date, where part years of service are rounded up); and



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(v) Novartis Awards that vest after the Closing Date shall remain subject to any relevant performance (or other) conditions, adjusted as necessary to take account of Closing and measured up to the applicable early vesting date.

- 10.2** For the purposes of this paragraph 10.2, “on target” performance shall not be construed as permitting share-based awards to vest in full.
- 10.3** Novartis agrees to indemnify the Purchaser (or relevant member of the Purchaser’s Group) for any Liabilities borne by the Purchaser’s Group in connection with the Novartis Awards, including any Tax. The Sellers agree to use their best endeavours to ensure that the Purchaser seeks any applicable Tax relief in respect of the Novartis Awards and indemnifies Novartis in respect of any Tax relief obtained, provided always that Novartis provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner.
- 10.4** Subject to paragraph 10.5, Novartis undertakes to inform the Purchaser of the vesting or exercise (as applicable) of the Novartis Awards and to provide, in a timely manner, details of the Novartis Awards that so vest or are exercised so that the Purchaser’s Group can make any applicable withholdings for Tax and pay any Tax for which the Purchaser’s Group is liable in respect of the Novartis Awards to the relevant Tax Authority within any applicable timescale.
- 10.5** To the extent permitted under the relevant plan rules and any applicable law, Novartis undertakes to sell such number of the shares underlying the Novartis Awards as may be necessary for the sale proceeds to satisfy any applicable Tax withholdings and to pay such amounts to the Purchaser in sufficient time for the Purchaser to pay such Tax to the relevant Tax Authority within any applicable timescale, provided always that the Purchaser provides Novartis with any information that Novartis may reasonably request in this respect in a timely manner.
- 10.6** Novartis undertakes to pay any Tax for which Novartis’s Group is liable in respect of the Novartis Awards to the relevant Tax Authority within any applicable timescale.
- 10.7** Novartis undertakes to complete any relevant Tax Return in respect of the Novartis Awards and to submit any such Tax Return to the relevant Tax Authority within any applicable timescale.
- 10.8** This paragraph shall apply where Novartis Awards lapse or are forfeited (or will lapse or be forfeited) either in whole or in part as a result of Closing. As soon as practicable following Closing (and, in any event, by the later of 30 days from the Closing Date and 30 days from the first date after the Closing Date when the granting of share-based awards is not prevented by dealing restrictions, subject in both cases to the relevant plan rules and any applicable law), GlaxoSmithKline (or member of GlaxoSmithKline’s Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of GlaxoSmithKline substantially equal in value (valued as at the date of grant) to the value of the portion of their Novartis Awards which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing (valued as at the Closing Date), where relevant, disregarding any loss (or expected loss) of Tax-favourable treatment (each a “**Compensation Award**”). To the extent that (i) it could reasonably have been expected that any related matching share award and/or free share award would have been granted to a Transferred Employee following Closing in connection with



any Novartis Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing (each an “**Novartis Matching Award**”), and (ii) such Novartis Matching Award has not been granted (or will not be granted) as a result of Closing, on or around the date on which such Novartis Matching Award would, in the ordinary course of business, have been made by Novartis (or member of Novartis’s Group), GlaxoSmithKline (or member of GlaxoSmithKline’s Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of GlaxoSmithKline substantially equal in value (valued as at the date of grant) to the value of such Novartis Matching Award (valued as at the date of grant of the related Matching Award, defined below), where relevant, disregarding any loss (or expected loss) of Tax-favourable treatment (each a “**Matching Award**”), subject to the relevant plan rules and any applicable law.

Such Compensation Awards and Matching Awards shall be granted pursuant to the rules of whichever share-based incentive plan operated by GlaxoSmithKline’s Group at the time of grant GlaxoSmithKline considers most closely aligned to the share-based incentive plan operated by Novartis’s Group pursuant to which the related Novartis Award had been granted (or related Novartis Matching Award would have been granted) but will vest according to a vesting schedule substantially similar to the vesting schedule that would have otherwise applied to the related Novartis Award or related Novartis Matching Award if Closing had not occurred. In such cases:

- (i) the Sellers agree to use their best endeavours to ensure that the Purchaser seeks any applicable Tax relief in respect of the Compensation Awards and Matching Awards and indemnifies Novartis in respect of 50 per cent. of any Tax relief obtained, and GlaxoSmithKline undertakes to provide the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner;
- (ii) where a Compensation Award or Matching Award is granted in the form of a restricted share award, the Sellers agree to use their reasonable endeavours to ensure that the Purchaser obtains a valid election pursuant to section 431 of the Income Tax (Earnings and Pensions) Act 2003 (or, as applicable, any similar Tax election that is available pursuant to any applicable law in another jurisdiction), provided that, if a Seller makes representations to the other Seller to waive this obligation in respect of certain Compensation Awards or certain Matching Awards and the other Seller consents to such waiver (such consent not to be unreasonably withheld), this paragraph (ii) shall not apply in respect of such Compensation Awards or Matching Awards; and
- (iii) Novartis agrees to indemnify GlaxoSmithKline (or relevant member of GlaxoSmithKline’s Group or the Purchaser’s Group) for any Liabilities borne by GlaxoSmithKline’s Group or the Purchaser’s Group in connection with such Compensation Awards and Matching Awards, including any Tax, provided that:
  - (A) Novartis shall not indemnify GlaxoSmithKline (or relevant member of GlaxoSmithKline’s Group or the Purchaser’s Group) to the extent that GlaxoSmithKline (or a member of GlaxoSmithKline’s Group or the Purchaser’s Group) compensates Transferred Employees for any loss (or expected loss) of Tax-favourable treatment in respect of Novartis Awards or for any Liabilities to Tax as contemplated in paragraph 10.9 below;
  - (B) Novartis only agrees to indemnify GlaxoSmithKline (or member of GlaxoSmithKline’s Group or the Purchaser’s Group) to a maximum of 50 per cent. of the total of: (i) the value of the portion of such Novartis Awards that lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing, (ii) the value of Novartis Matching Awards, and (iii) any related Liabilities, including Tax; and



- (C) for the avoidance of doubt, Novartis shall not indemnify GlaxoSmithKline (or member of GlaxoSmithKline's Group or the Purchaser's Group) for any lapse or forfeiture (or expected lapse or forfeiture) due to a failure to meet any applicable performance (or other) conditions.

For these purposes, the compensation in respect of the portion of an Novartis Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing shall not exceed the difference between (i) the value of the Novartis Award which could reasonably have been expected to vest on the normal vesting date but for Closing (subject, where applicable, to performance (or other) conditions), and (ii) the value of the Novartis Award which actually vested (or will vest) as a result of Closing.

For the purposes of this paragraph 10.8:

- (i) the portion of an Novartis Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing shall be valued on the basis of the average price of an ordinary share in the capital of Novartis over the five trading days immediately prior to Closing;
- (ii) the value of a Compensation Award to be granted shall be valued on the basis of the average price of an ordinary share in the capital of GlaxoSmithKline over the five trading days immediately prior to the date of grant;
- (iii) the value of an Novartis Matching Award shall be valued on the basis of the average price of an ordinary share in the capital of Novartis over the five trading days immediately prior to the date of grant of the related Matching Award;
- (iv) the value of a Matching Award to be granted shall be valued on the basis of the average price of an ordinary share in the capital of GlaxoSmithKline over the five trading days immediately prior to the date of grant; and
- (v) any currency conversion shall be made in accordance with Clause 1.13.1.

**10.9** To the extent that any payment to a Transferred Employee (whether by Novartis's Group, GlaxoSmithKline's Group or by the Purchaser's Group) would trigger Liabilities to Tax under section 280G of the United States Internal Revenue Code ("Section 280G"), the relevant Transferred Employee shall be allowed to choose whether to accept the full payment (and pay any relevant Section 280G Tax) or to receive such lower payment as may be necessary in order to fall below the Section 280G threshold for Tax. To the extent that any similar Tax would arise pursuant to any applicable law in another jurisdiction, this paragraph 10.9 shall apply *mutatis mutandis*.

**10.10** This paragraph shall apply if any member of Novartis's Group's corporate executive team (or similar body) is a Transferred Employee (each a "CET Member"). The treatment of share-based awards held by CET members shall be determined by the remuneration committee of the board of directors of Novartis (acting reasonably and in good faith and following informal consultation with GlaxoSmithKline), subject to the rules of any relevant share-based incentive scheme and any applicable law, and the provisions of paragraphs 10.8 and 10.16 shall apply.



*Outstanding Share-Based Awards under GlaxoSmithKline's Group Plans*

- 10.11** GlaxoSmithKline agrees to indemnify the Purchaser (or relevant member of the Purchaser's Group) for any Liabilities borne by the Purchaser's Group in connection with share-based awards held by Transferred Employees pursuant to a share-based incentive scheme operated by GlaxoSmithKline or another member of GlaxoSmithKline's Group and which were granted prior to Closing ("**GlaxoSmithKline Awards**"), including any Tax. The Sellers agree to use their best endeavours to ensure that the Purchaser seeks any applicable Tax relief in respect of the GlaxoSmithKline Awards and indemnifies GlaxoSmithKline in respect of any Tax relief obtained, provided always that GlaxoSmithKline provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner.
- 10.12** Subject to paragraph 10.13, GlaxoSmithKline undertakes to inform the Purchaser of the vesting or exercise (as applicable) of the GlaxoSmithKline Awards and to provide, in a timely manner, details of the GlaxoSmithKline Awards that so vest or are exercised so that the Purchaser's Group can make any applicable withholdings for Tax and pay any Tax for which the Purchaser's Group is liable in respect of the GlaxoSmithKline Awards to the relevant Tax Authority within any applicable timescale.
- 10.13** To the extent permitted under the relevant plan rules and any applicable law, GlaxoSmithKline undertakes to sell such number of the shares underlying the GlaxoSmithKline Awards as may be necessary for the sale proceeds to satisfy any applicable Tax withholdings and to pay such amounts to the Purchaser in sufficient time for the Purchaser to pay such Tax to the relevant Tax Authority within any applicable timescale, provided always that the Purchaser provides GlaxoSmithKline with any information that GlaxoSmithKline may reasonably request in this respect in a timely manner.
- 10.14** GlaxoSmithKline undertakes to pay any Tax for which GlaxoSmithKline's Group is liable in respect of the GlaxoSmithKline Awards to the relevant Tax Authority within any applicable timescale.
- 10.15** GlaxoSmithKline undertakes to complete any relevant Tax Return in respect of the GlaxoSmithKline Awards and to submit any such Tax Return to the relevant Tax Authority within any applicable timescale.

*2014 Performance Awards*

- 10.16** This paragraph 10.16 shall apply where: (i) a Transferred Employee would, in the ordinary course of business, have been granted a share-based award pursuant to a share-based incentive scheme operated by the relevant Seller or another member of the relevant Seller's Group on the basis of performance criteria linked to the relevant Seller's Group's 2014 financial year (which may, for the avoidance of doubt, be business and/or individual performance criteria and assessment) (each a "**2014 Performance Award**"), and (ii) Closing occurs prior to the grant of such 2014 Performance Award. As soon as practicable following Closing (and, in any event, by the later of 30 days from the Closing Date and 30 days from the date when the value of each 2014 Performance Award has been determined), the relevant Seller shall notify the Purchaser (and, where the relevant Seller is Novartis, shall also notify GlaxoSmithKline) in writing of the value of each 2014 Performance Award and under which share-based incentive plan operated by the relevant Seller's Group the related 2014 Performance



Award would have been granted. As soon as practicable following the receipt of such notice (and, in any event, by the later of 30 days from the receipt of such notice and 30 days from the first date following the receipt of such notice when the granting of share-based awards is not prevented by dealing restrictions, subject in both cases to the relevant plan rules and any applicable law), GlaxoSmithKline (or member of GlaxoSmithKline's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of GlaxoSmithKline substantially equal in value (valued as at the date of grant) to the value of the 2014 Performance Award which would have been granted but for the occurrence of Closing. Such 2014 Performance Awards shall be granted pursuant to the rules of whichever share-based incentive plan operated by GlaxoSmithKline's Group at the time of grant GlaxoSmithKline considers most closely aligned to the share-based incentive plan operated by the relevant Seller's Group pursuant to which the related 2014 Performance Award would have been granted. In such cases:

- (i) the Sellers agree to use their best endeavours to ensure that the Purchaser seeks any applicable Tax relief in respect of the 2014 Performance Awards and indemnifies the relevant Seller in respect of any Tax relief obtained, and GlaxoSmithKline undertakes to provide the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner;
- (ii) where a 2014 Performance Award is granted in the form of a restricted share award, the Sellers agree to use their reasonable endeavours to ensure that the Purchaser obtains a valid election pursuant to section 431 of the Income Tax (Earnings and Pensions) Act 2003 (or, as applicable, any similar Tax election that is available pursuant to any applicable law in another jurisdiction), provided that, if a Seller makes representations to the other Seller to waive this obligation in respect of certain 2014 Performance Awards and the other Seller consents to such waiver (such consent not to be unreasonably withheld), this paragraph (ii) shall not apply in respect of such 2014 Performance Awards; and
- (iii) the relevant Seller agrees to indemnify GlaxoSmithKline (or relevant member of GlaxoSmithKline's Group or the Purchaser's Group) for any Liabilities borne by GlaxoSmithKline's Group or the Purchaser's Group in connection with such 2014 Performance Awards, including any Tax.

The grant of a 2014 Performance Award to a Transferred Employee shall be taken into account by the Purchaser when determining the extent to which that Transferred Employee shall participate in incentive arrangements (other than any Compensation Award or Matching Award) for employees of the Purchaser's Group following Closing.

For the purposes of this paragraph 10.16:

- (i) the value of a 2014 Performance Award to be granted shall: (i) be determined by the relevant Seller acting reasonably and in good faith, (ii) be consistent with both past practice and with the level of similar awards granted to employees (where Novartis is the relevant Seller) remaining in service within Novartis's Group or (where GlaxoSmithKline is the relevant Seller) remaining in service within GlaxoSmithKline's Group, (iii) take into account the relevant business and/or individual performance criteria linked to the Seller's Group's 2014 financial year, and (iv) if Closing occurs before 31 December 2014, be time pro-rated to take account of the reduced period of time, as a proportion of the relevant Seller's Group's 2014 financial year, that the relevant Transferred Employee worked within (where Novartis is the relevant Seller) Novartis's Group or (where GlaxoSmithKline is the relevant Seller) within GlaxoSmithKline's Group (calculated on the basis of the number of complete months of service as at the Closing Date);



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- (ii) the number of shares to be placed under a 2014 Performance Award shall be valued on the basis of the average price of an ordinary share in the capital of GlaxoSmithKline over the five trading days immediately prior to the date of grant; and
- (iii) any currency conversion shall be made in accordance with Clause 1.13.1.

*Future share-based incentives*

**10.17** The Sellers confirm that it is envisaged that any share-based incentives to be provided to employees of the Purchaser's Group following Closing will be granted pursuant to share-based incentives schemes operated by GlaxoSmithKline or a member of GlaxoSmithKline's Group (the "**JV Awards**"). Subject to paragraphs 10.8 and 10.16, the Sellers undertake to use their best endeavours to ensure that the Purchaser indemnifies GlaxoSmithKline for any Liabilities borne by GlaxoSmithKline in connection with the JV Awards.



## Schedule 8 Employee Benefits

In this Schedule 8:

“**Employee Benefits**” means benefits to or in respect of any current or former employee, including without limitation, any pension, early retirement, disability, death benefit, long service awards, termination indemnity (such as Italian TFR) or post-retirement medical benefits or deferred compensation linked to retirement, disability or death benefits or old age part-time benefits (such as German ATZ) and jubilee payments;

“**Employee Benefit Liabilities**” means liabilities and obligations (whether funded or unfunded) in respect of any employee benefit promise, scheme, plan, fund, program, policy, practice or other individual or collective arrangement providing Employee Benefits;

“**Oncology Funding Assumptions**” means, in relation to any Transferred Employee Benefits which are similar or comparable to benefits in the same country which are Transferred Employee Benefits under the Oncology Sale and Purchase Agreement (the “**Equivalent Oncology Benefits**”), the method and assumptions used under the Oncology Sale and Purchase Agreement to value those Equivalent Oncology Benefits. For the avoidance of doubt, the Oncology Funding Assumptions are only available in respect of Transferred Employee Benefits for which there are Equivalent Oncology Benefits;

“**Other Party**” means (i) where GlaxoSmithKline is the Seller, Novartis and (ii) where Novartis is the Seller, GlaxoSmithKline;

“**Other Party Group**” means (i) where GlaxoSmithKline is the Other Party, GlaxoSmithKline’s Group and (ii) where Novartis is the Other Party, Novartis’s Group;

“**Other Party Funding Assumptions**” means, in relation to any Transferred Employee Benefits, where a member of the Other Party Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc.), and there is a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund those similar or comparable benefits to a funding target which is determined by reference to a method and assumptions other than IFRS (such as would, for example, be the case in relation to UK HMRC-registered defined benefit pension obligations), then that method and those assumptions as in force in relation to those similar or comparable benefits immediately prior to the date of this Agreement (so, taking the example of UK defined benefit obligations, this would be the method and assumptions used to determine the relevant plan’s technical provisions as at the date of this Agreement – regardless of whether the plan is in fact fully funded on that basis at any relevant time);

“**Other Party IFRS Assumptions**” means, in relation to any Transferred Employee Benefits, where a member of the Other Party Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc.), the method and assumptions used most recently prior to the date of this Agreement to value those similar or comparable benefits by the Other Party Group (or any relevant member thereof) for IFRS accounting purposes;

“**Partial Liquidation Longstop Date**” means, in relation to each of Novartis Pensionskasse 1, Novartis Pensionskasse 2 and Kaderkasse Novartis and any similar plans operated by GlaxoSmithKline in Switzerland, the earlier of: (i) the date (if any) after Closing on which the plan undergoes partial liquidation; and (ii) 12 months after Closing;

“**Seller Funding Assumptions**” means, in relation to any Transferred Employee Benefits, if there is a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund those Transferred Employee Benefits to a funding target which is



determined by reference to a method and assumptions other than IFRS (such as would, for example, be the case in relation to UK HMRC-registered defined benefit pension obligations), then that method and those assumptions as in force in relation to those Transferred Employee Benefits immediately prior to the date of this Agreement (so, taking the example of UK defined benefit obligations, this would be the method and assumptions used to determine the relevant plan's technical provisions as at the date of this Agreement – regardless of whether the plan is in fact fully funded on that basis at any relevant time);

“**Seller IFRS Assumptions**” means, in relation to any Transferred Employee Benefits, the method and assumptions used by the Seller's Group (or the most relevant member thereof) most recently prior to the date of this Agreement to value those Transferred Employee Benefits for IFRS accounting purposes;

“**Swiss Actuary**” means an actuary: (a) who can reasonably be viewed: (i) as independent of both the Other Party and each Seller; and (ii) as familiar with Swiss pension issues; and (b) whom the Other Party and each Seller have agreed should be jointly appointed by them for the purposes of determining the Swiss Assumptions or who in default of such agreement has been appointed by the Swiss Association of Actuaries or other industry body of actuaries in Switzerland as agreed by each Seller and the Other Party;

“**Swiss Assumptions**” means, in relation to any Transferred Employee Benefits in Switzerland, Novartis's Seller IFRS Assumptions adjusted:

- (i) by replacing – other than in so far as the Transferred Employee Benefits relate to any Swiss Potential Early Retirees – any assumed “cash balance” annuity conversion rate in Novartis's Seller IFRS Assumptions with a conversion rate which the Swiss Actuary certifies to GlaxoSmithKline and Novartis as representing a reasonable estimate of the likely effective overall blended conversion rate which will apply in relation to the Transferred Employee Benefits in question, having regard to the changes to the rate which can (having regard to longevity projections, legal and governance constraints around Swiss pension structures and such other matters as the Swiss Actuary considers relevant) in the Swiss Actuary's opinion reasonably be expected to occur during the expected service lives of the Transferred Employees to whom the Transferred Employee Benefits relate, and weighting the impact of those changes by reference to the ages of the relevant employees (and so the extent to which the changes will in fact operate to reduce the effective liability on GlaxoSmithKline); and
- (ii) by removing any reserve for death or disability benefits to the extent that the Swiss Actuary certifies to GlaxoSmithKline and Novartis that it constitutes a reserve for liabilities to and in respect of the relevant Transferred Employees which could reasonably be externally insured by the Purchaser's Group without introducing a new ongoing cost on the Purchaser's Group which was not reflected in Novartis's ongoing cost base prior to the date of this Agreement; and

“**Swiss Potential Early Retirees**” means those Transferred Employees employed in Switzerland who have “grandfathered” entitlements to a wholly or partly unreduced early retirement pension under the old final salary scheme operated by Novartis in Switzerland which closed at the end of 2010; and

“**Vaccines Funding Assumptions**” means, in relation to any Transferred Employee Benefits which are similar or comparable to benefits in the same country which are Transferred Employee Benefits under the Vaccines Sale and Purchase Agreement (the “**Equivalent Vaccines Benefits**”), the method and assumptions used under the Vaccines Sale and Purchase Agreement to value those Equivalent Vaccines Benefits. For the avoidance of doubt, the Vaccines Funding Assumptions are only available in respect of Transferred Employee Benefits for which there are Equivalent Vaccines Benefits.



For the purposes of each of the Other Party Funding Assumptions, the Other Party IFRS Assumptions, the Seller Funding Assumptions, the Seller IFRS Assumptions, the Swiss Assumptions (and, for the avoidance of doubt, the Vaccines Funding Assumptions and the Oncology Funding Assumptions), any economic and financial assumptions which are based (whether expressly or implicitly) on yields, rates or indices shall be updated for the purposes of such definitions to take account of those yields, rates or indices as at Closing (or the latest practicable time prior to Closing).

1 Except to the extent otherwise requested by each Seller and expressly agreed by the Other Party before Closing (such Other Party agreement not to be unreasonably withheld to the extent that it is not reasonably possible for such Seller or its Affiliates to retain the relevant Employee Benefit Liabilities – for example, where a relevant Target Group Company operates its own standalone arrangement, liability for which cannot lawfully be assumed by another member of such Seller’s Group, or where liability unavoidably transfers by operation of law under European Council Directive 2001/23/EC or its local implementing legislation), any Employee Benefit Liabilities in respect of service in the relevant Target Group or with any member of such Seller’s Group (including any relevant Target Group Company) or in any plan or arrangement in which any member of such Seller’s Group (including any relevant Target Group Company) participates or has participated:

- (a) (in the case of a Transferred Employee) prior to Closing; or
- (b) (in the case of any other person) at any time,

(together, “**Pre-Closing EB Liabilities**”) will stay with or be assumed by such Seller or its Affiliates (excluding any relevant Target Group Company) and such Seller shall fully indemnify the Purchaser and its Affiliates (which for the avoidance of doubt in the period from Closing includes any relevant Target Group Company) against any such Employee Benefit Liabilities and against any liabilities and obligations to or in respect of any plan or arrangement for the provision of Employee Benefits in which any member of such Seller’s Group (including any relevant Target Group Company) participates or participated prior to Closing. For the avoidance of doubt, the Other Party’s agreement under this paragraph 1 may, if the Other Party so determines, relate only to certain specified categories or tranches of relevant Pre-Closing EB Liabilities under a particular benefit programme (in other words, it does not need to be “all or nothing”), in which case it is only those specified Pre-Closing EB Liabilities which are excluded from the scope of the Purchaser’s indemnity entitlement hereunder.

2 Where and to the extent that the Other Party agrees under paragraph 1 that any Pre-Closing EB Liabilities may transfer to or remain with the Purchaser and/or its Affiliates (which for the avoidance of doubt in the period from Closing includes any relevant Target Group Company), (such Pre-Closing EB Liabilities being the “**Transferred Employee Benefit Liabilities**” and the benefits to which they relate being the “**Transferred Employee Benefits**”), the Purchaser will be compensated in respect of such Transferred Employee Benefit Liabilities as set out in the rest of this Schedule 8. Subject to being so compensated but without prejudice to paragraphs 9 and 12, the Purchaser shall, or shall procure that its relevant Affiliate shall, assume, with a full discharge for each Seller and its Affiliates, the Transferred Employee Benefit Liabilities. Without limiting the Other Party’s obligation not unreasonably to withhold consent under paragraph 1 above, the Seller and the Other Party hereby acknowledge that it would not be reasonably possible for the Seller or its Affiliates to retain those Pre-Closing EB Liabilities which attach to the relevant Target Group Companies in Germany or Switzerland. So



subject to appropriate identification during the period before Closing of such liabilities and to the operation of the compensation mechanism set out in this Schedule 8 they will become Transferred Employee Benefit Liabilities. The Other Party also acknowledges its agreement to the principle that the post-retirement medical healthcare plan to which it admits US Transferred Employees who immediately before Closing were members of such a plan will take account of periods of employment with the Seller's Group to the extent previously recognised under the equivalent Seller's Group plan for the purposes of determining eligibility, contributions, and vesting; again, therefore, subject to appropriate identification during the period before Closing of such liabilities and to the operation of the compensation mechanism set out in this Schedule 8, they will become Transferred Employee Benefit Liabilities.

**United Kingdom**

For the avoidance of doubt, it is also agreed that, where the Seller is Novartis, no UK defined benefit pension liabilities are to be Transferred Employee Benefit Liabilities. Without limiting paragraph 1, this means that Novartis must prior to Closing procure that no Novartis OTC Group Company is a participating employer under the governing documents, or an 'employer' for the purposes of the Pensions Act 1995 and the Pensions Act 2004, in the Chiron UK Pension Scheme or the Novartis UK Pension Scheme, and Novartis shall under paragraph 1 fully indemnify the Purchaser and its Affiliates (including any Target Group Company) against any liabilities and obligations to or in respect of either of those plans, including any debt under section 75 of the Pensions Act 1995.

**Switzerland**

For the avoidance of doubt, it is also agreed that the Purchaser shall procure that the Swiss Potential Early Retirees will as at Closing be provided with equivalent early retirement benefit provisions under the replacement pension plan to be provided by the Purchaser for and in respect of the Transferred Employees employed in Switzerland under the terms of this Agreement, provided that the Swiss Actuary confirms that such early retirement benefit provisions are allowed for in the Swiss Assumptions.

3 The value of the Transferred Employee Benefit Liabilities shall be determined on employee census data and plan provision as at Closing on the Vaccines Funding Assumptions where available, failing which on the Oncology Funding Assumptions if those are available, failing which on:

- (i) in relation to any Transferred Employee Benefits in Switzerland, the Swiss Assumptions; and
- (ii) in relation to any other Transferred Employee Benefits, the Seller IFRS Assumptions, PROVIDED that if any of the following values is available then that value will be used instead:
  - (A) if a member of the Other Party Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc.) and neither (B) nor (C) below is available, the value which is midway between the value based on the Seller IFRS Assumptions and the Other Party IFRS Assumptions;
  - (B) if (C) below is not available but there is a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund the Transferred Employee Benefits to a funding target which would lead to a greater value being placed on the Transferred Employee Benefit Liabilities than the Seller IFRS Assumptions, the value derived using the Seller Funding Assumptions; and



(C) if there is both: (i) a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund the Transferred Employee Benefits to a funding target which would lead to a greater value being placed on the Transferred Employee Benefit Liabilities than the Seller IFRS Assumptions; and (ii) a member of the Other Party Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc.), the value which is midway between the value based on the Seller Funding Assumptions and the Other Party Funding Assumptions.

The market value as at Closing of any underlying assets related to the Transferred Employee Benefit Liabilities which are or are to be transferred as per paragraph 8 below will be deducted from the value of the Transferred Employee Benefit Liabilities to the extent such assets are or will be available to the Purchaser or its Affiliates to meet such liabilities and the remaining value of the Transferred Employee Benefit Liabilities (if any) is the **“Employee Benefit Indemnification Amount”**. Such determination shall be carried out on a country-by-country basis and, where necessary, on a plan-by-plan basis. For the avoidance of doubt, in relation to Switzerland, the calculation shall, if partial liquidation occurs in relation to any of the Transferred Employee Benefit Liabilities by the Partial Liquidation Longstop Date, make allowance for the assets thereby transferred assuming that they will be available to meet such liabilities. If any Employee Benefit Indemnification Amount is greater than the estimate of such amount determined for the purposes of the Estimated Employee Benefit Adjustment (or, where no such estimate was made, greater than zero), each Seller shall pay or procure payment so far as possible, by way of a reduction in the Purchase Consideration paid for the particular part of the Target Group to which the payment relates, an amount equal to the difference (or, where no such estimate was made, such amount) to the Purchaser, or at the request of the Purchaser to an Affiliate of the Purchaser, as compensation for the Transferred Employee Benefit Liabilities. If any Employee Benefit Indemnification Amount is less than the estimate of such amount determined for the purposes of the Estimated Employee Benefit Adjustment (if any), the Purchaser shall pay an amount equal to the difference to the Seller.

4 Each Seller and its Affiliates shall, within 45 days after Closing (or, in the case of Switzerland, 45 days after the Partial Liquidation Longstop Date), provide its actuary, the Swiss Actuary and the actuary chosen by the Purchaser with all relevant plan, asset, assumptions and employee census information needed to calculate the Employee Benefit Indemnification Amounts in respect of any Transferred Target Business Employees. The actuary chosen by the Seller shall provide the actuary chosen by the Other Party with its calculation of the Employee Benefit Indemnification Amounts (including, but not limited to, any supporting documentation on which it relied as well as the methodologies it employed in calculating the Employee Benefit Indemnification Amounts), on a plan-by-plan basis, within 90 days following Closing (or, in the case of Switzerland, 90 days after the Partial Liquidation Longstop Date). The actuary chosen by the Other Party shall review the calculation of the Employee Benefit Indemnification Amounts of the Seller’s actuary within 120 days following Closing (or, in the case of Switzerland, 120 days after the Partial Liquidation Longstop Date). The Employee Benefit Indemnification Amounts shall be determined, on a plan-by-plan basis, by mutual agreement between the Seller and the Other Party within 180 days following the Closing Date (or, in the case of Switzerland, 180 days after the Partial Liquidation Longstop Date).



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- 5 If such Seller and the Purchaser cannot agree on any Employee Benefit Indemnification Amount within the 180-day period referred to in paragraph 4, such parties shall appoint within five days an independent actuary acceptable to both parties, or such actuary shall be selected by the President of the Institute and Faculty of Actuaries in the UK if they cannot agree, and the independent actuary thus appointed shall review their calculations and, within 75 days after appointment, render a final and binding decision on the amount of that Employee Benefit Indemnification Amount, and, in making such decision, shall be limited to adopting the position taken by either one of that Seller or the Purchaser. The cost of any independent actuary shall be borne jointly by that Seller and the Purchaser.
- 6 In connection with the procedures referred to in this Schedule 8, each Seller and the Purchaser shall provide each other and the actuaries referred to in this Schedule 8 with access to the relevant business records and other relevant documents and information as may reasonably be requested. All documents, records and information provided for the purposes of this Schedule 8 must be accurate and complete in all material respects.
- 7 Each Employee Benefit Indemnification Amount shall be paid by the relevant Seller so far as possible (by way of a reduction in the Purchase Consideration paid for the particular part of the Target Group to which the payment relates) within 14 days following its final determination. Each Seller may make an accelerated or advance payment at its own discretion (which, for the avoidance of doubt, includes in relation to each Employee Benefit Indemnification Amount so much (if any) of the Estimated Employee Benefit Adjustment as the Seller notified pursuant to Clause 6.4 was intended to relate to that Employee Benefit Indemnification Amount). Each relevant Employee Benefit Indemnification Amount shall include interest calculated from (and including) the Closing Date to (and including) the date of payment at a rate per annum of LIBOR (but where amounts are prepaid or paid in stages or treated as paid via inclusion in the Estimated Employee Benefit Adjustment then the interest will cease to accrue on so much of such Employee Benefit Indemnification Amount as has been paid). Such interest shall accrue from day to day. Any such payment shall be made in US dollars (and any underlying values shall be expressed in US dollars) and any currency other than US dollars shall be converted into US dollars at the exchange rates determined in accordance with Clause 1.13 of this Agreement on the Closing Date.
- 8 To the extent (if any) that there are any Transferred Employee Benefit Liabilities which prior to Closing were externally funded by assets held in a trust or other vehicle established for the purposes of meeting such Transferred Employee Benefit Liabilities, the Purchaser will, if requested by a Seller before Closing and unless it is not reasonably practicable to do so, establish or nominate a trust or other vehicle which is capable of receiving a transfer of assets from the pre-Closing trust or other vehicle to the extent that such assets relate to such Transferred Employee Benefit Liabilities.
- 9 If, within one year of Closing, a Seller or the Purchaser notifies the other that the membership or other benefit data (the “**Data**”) used for calculating any Employee Benefit Indemnification Amount may be inaccurate, then a “**Data Dispute**” has arisen and the following provisions shall apply:



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- (a) On such notification, the Seller shall procure that its actuary and the Purchaser shall procure that its actuary consult each other with a view to agreeing whether the Data is inaccurate and if so, what the accurate Data should be. If that Seller's actuary and the Purchaser's actuary agree that the Data is inaccurate, they will jointly certify this to be the case and advise on what the accurate Data should be. The notification is deemed to have occurred on the date of the certification.
- (b) If that Seller's actuary and the Purchaser's actuary fail to agree whether the Data is inaccurate within 60 days of the notification by one party to the other that the Data may be inaccurate, paragraph 5 shall apply *mutatis mutandis*. The notification is deemed to have occurred when the independent actuary advises that the Data is inaccurate and what the accurate Data should be.
- (c) On the occurrence of the Data Dispute, such Seller and the Purchaser shall respectively procure that a valuation of the relevant Employee Benefit Indemnification Amount is carried out in accordance with paragraphs 3 and 4 (*mutatis mutandis*) but on the basis of the accurate Data as agreed under sub-paragraph (a) or determined under sub-paragraph (b).
- (d) If as a consequence of sub-paragraph (c), such Seller has paid to the Purchaser an amount which on the basis of the further valuation is not payable, such amount (the "**Overpayment**") shall be repaid within 21 days of the amount of the Overpayment being agreed or determined. Any such payment shall bear interest calculated from (and including) the date the Overpayment was made to (and including) the date the payment is made in full in accordance with this sub-paragraph (d) at a rate per annum of LIBOR. Such interest shall accrue from day to day.
- (e) If as a consequence of sub-paragraph (c), such Seller has not paid to the Purchaser an amount which on the basis of the further valuation is payable, such amount (the "**Outstanding Amount**") shall be paid within 21 days of the amount of the Outstanding Amount being agreed or determined. Any such payment shall bear interest calculated from (and including) the Closing Date to (and including) the date the payment is made in full in accordance with this sub-paragraph (d) at a rate per annum of LIBOR. Such interest shall accrue from day to day.

**10** Except as otherwise agreed by each Seller, the Purchaser shall where a trust or other vehicle has been established under paragraph 8, procure that all of the assets transferred as envisaged by paragraph 8 are paid into such trust or other vehicle. If, after such payment or transfer, or after payment of an Employee Benefit Indemnification Amount or after making an Estimated Employee Benefit Adjustment, the Purchaser and/or its Affiliates achieves a reduction in its liability to any Tax in respect of or in connection with payment or transfer, the Purchaser shall pay to that Seller (for itself and on behalf of the relevant Share Seller or Business Seller, as applicable), within 30 days after the Purchaser would otherwise have been liable to pay the saved Tax, a sum equal to the amount of that Tax reduction so far as possible by way of an increase in the Purchase Consideration in respect of the particular part of the Target Group to which the payment relates. This paragraph 10 applies for a period of four years following the later of the date on which a transfer of assets is made, or payment of any Employee Benefit Indemnification Amount or Estimated Employee Benefit Adjustment is made to the Purchaser.

**11** Each Seller covenants with the Purchaser to pay to the Purchaser an amount equal to any cost, claim or liability incurred by any member of the Purchaser's Group which it is or becomes liable to make on or at any time after Closing by reason of



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any change or purported change made to the terms of any relevant Transferred Employee Benefits prior to Closing proving to be or have been legally ineffective or by reason of such terms and/or benefits failing to comply with any mandatory legal requirements (excluding any obligation to equalise guaranteed minimum pensions in the United Kingdom). The relevant Seller shall not be liable under this paragraph 11 in respect of any individual claim (or a series of claims arising from similar or identical facts or circumstances) unless the liability in respect of such claim or series of claims exceeds US\$100,000. If the Purchaser becomes aware of any fact, matter or circumstance that may give rise to a claim against the relevant Seller under this paragraph 11, the Purchaser shall as soon as reasonably practicable give notice in writing to the relevant Seller of such facts, matters or circumstances as are then available regarding the potential claim. Failure to give such notice within such period shall not affect the rights of the Purchaser to make a relevant claim under this paragraph 11, except that the relevant Seller shall not be liable for any increase in the amount of such claim arising from such failure. The latest date on which the Purchaser may give notice of a claim under this paragraph 11 is the fourth anniversary of the Closing Date.

- 12** Notwithstanding any general provision to the contrary in Schedule 7 and subject to being compensated in accordance with this Schedule 8, the Purchaser shall admit Transferred Employees in the United States who participated in a post-retirement medical plan immediately prior to Closing to its own post-retirement medical plan. Subject to being compensated in accordance with this Schedule 8, periods of employment with the relevant Seller's Group (including, without limitation, any current or former Affiliate of the relevant Seller, to the extent previously recognised under the applicable benefit plan arrangement provided by the relevant Seller's Group), shall be taken into account for the purposes of determining, as applicable, the eligibility for participation, contributions, and vesting for any employee under such post-retirement medical plan.
- 13** Notwithstanding any general provision to the contrary in Schedule 7, the US Transferred Employees shall, as of the Closing Date, become eligible to participate in a US tax-qualified defined contribution plan to the extent such plan is sponsored by the Purchaser or a relevant member of the Purchaser's Group. The Purchaser agrees that it will use commercially reasonable efforts to cause such plan to accept rollovers of the account balances of the US Transferred Employees (including participant loan promissory notes) from the relevant employer's tax-qualified retirement plans; provided that (i) the Purchaser will not be required to accept any such rollovers that might result in material liability to the Purchaser or may otherwise cause the relevant plan to cease to qualify under Section 401(a) of the Code and (ii) the Purchaser will not be required to amend any plan to permit participant loans.
- 14** GlaxoSmithKline covenants to pay Novartis an amount equal to any payment Novartis or any member of Novartis's Group (excluding, for the avoidance of doubt, any Novartis OTC Group Companies – as to which, see paragraph 1 above) is or becomes liable to make on or at any time after Closing to or in respect of any post-retirement benefit plan or arrangement (whether funded or unfunded, including without limitation any occupational pension scheme and any arrangement with only one member) in which the Purchaser, the GlaxoSmithKline Consumer Group Companies or GlaxoSmithKline's Group participates or has at any time participated (each a "**GlaxoSmithKline Retirement Plan**"). This covenant does not apply to liabilities in respect of any arrangement in which Novartis or a member of Novartis's Group participates after



Closing. If a financial support direction or contribution notice in respect of a pension scheme under the UK Pensions Act 2004 is received by Novartis or a member of Novartis's Group in respect of a GlaxoSmithKline Retirement Plan, Novartis shall, within five Business Days notify GlaxoSmithKline of the financial support direction, and will continue to pass on all related correspondence. Subject to that, however, Novartis will not be required to take any positive action in respect of the financial support direction (including entering into any discussion or negotiations with the UK Pensions Regulator or GlaxoSmithKline as to possible financial support arrangements) in order to benefit from the indemnity in respect of the direction or notice in this paragraph 14.

- 15** Novartis covenants to pay GlaxoSmithKline an amount equal to any payment GlaxoSmithKline or any member of GlaxoSmithKline's Group (excluding, for the avoidance of doubt, any GlaxoSmithKline Consumer Group Companies – as to which see paragraph 1 above) is or becomes liable to make on or at any time after Closing to or in respect of any post-retirement benefit plan or arrangement (whether funded or unfunded, including without limitation any occupational pension scheme and any arrangement with only one member) in which the Purchaser, the Novartis OTC Group Companies or Novartis's Group participates or has at any time participated (each an “**Novartis Retirement Plan**”). This covenant does not apply to liabilities in respect of any arrangement in which GlaxoSmithKline or a member of GlaxoSmithKline's Group participates after Closing. If a financial support direction or contribution notice in respect of a pension scheme under the UK Pensions Act 2004 is received by GlaxoSmithKline or a member of GlaxoSmithKline's Group in respect of an Novartis Retirement Plan, GlaxoSmithKline shall, within five Business Days notify Novartis of the financial support direction, and will continue to pass on all related correspondence. Subject to that, however, GlaxoSmithKline will not be required to take any positive action in respect of the financial support direction (including entering into any discussion or negotiations with the UK Pensions Regulator or Novartis as to possible financial support arrangements) in order to benefit from the indemnity in respect of the direction or notice in this paragraph 15.
- 16** If, after Closing, the Purchaser or any member of the Purchaser's Group participates in a GlaxoSmithKline Retirement Plan (as defined in paragraph 14 above), unless otherwise agreed among GlaxoSmithKline, Novartis and the Purchaser, then the parties agree that the mechanism for giving effect to GlaxoSmithKline's commitment at paragraph 1 above to the Purchaser in relation to such plan will be for GlaxoSmithKline to procure that the only amounts (as certified by the actuary to the GlaxoSmithKline Retirement Plan) which the Purchaser or any member of the Purchaser's Group is required to contribute to that GlaxoSmithKline Retirement Plan will relate to the service of the employees of the Purchaser or any member of the Purchaser's Group from and after Closing. The obligation in this paragraph 16 will continue to apply only for so long as Novartis retains a shareholding in the Purchaser.
- 17** By way of exception to the general principle at paragraph 1, where a Transferred Employee in the UK who had joined service with GlaxoSmithKline's Group before 1 April 2005 is made redundant within 24 months of Closing, then the Purchaser shall pay GlaxoSmithKline an amount equal to the cost of applying the Agreed UK Restructuring Arrangement to an employee of the employee's actual age at the date he is made redundant, but (unless the employee is prior to his redundancy still actively participating in a GlaxoSmithKline Retirement Plan) only to so much of the employee's benefits



in a GlaxoSmithKline Retirement Plan as were accrued prior to Closing and provided further that the Purchaser's aggregate liability under this paragraph in respect of all such Transferred Employees in the UK who are so made redundant is capped at £1,000,000. This cost shall be calculated on a basis consistent with that which is used across the GlaxoSmithKline's Seller's Retained Business for internal cross-charging purposes in relation to the Agreed UK Restructuring Arrangement, and GlaxoSmithKline shall supply the Purchaser with such evidence as the Purchaser may reasonably require to verify that. Subject to receipt of such payment, GlaxoSmithKline shall apply the Agreed UK Restructuring Arrangement to the relevant employee's GlaxoSmithKline Retirement Plan benefits. GlaxoSmithKline's commitments under paragraphs 1 and 16 above shall be amended accordingly.

18. The parties agree that where any Transferred Employee has accrued defined contribution benefits prior to Closing in a Seller's Group arrangement then:
- (a) that Seller shall use commercially reasonable efforts to procure the vesting of those benefits (if they would otherwise lapse as a result of Closing);
  - (b) the parties shall, provided this will not impose unreasonable administrative burdens on the Purchaser's Group, co-operate in good faith to procure a transfer of the account balances of such Transferred Employee from that Seller's Group arrangement to a Purchaser's Group arrangement; and
  - (c) for the avoidance of doubt, the Purchaser will comply with the provisions of paragraph 6.1 of Schedule 7.



**Schedule 9  
Products**

**Part 1  
GlaxoSmithKline Products**

Piriton / Piriteze  
Formigran  
Cholinex  
Fenbid  
Panadeine  
Panadol  
Panadol Cold  
Beechams Cold & Flu and Night/Day Nurse  
Coldrex  
Iodosan  
Abreva  
Eumovate  
Hinds  
Oilatum  
Physiogel  
Zovirax  
Citrucel  
ENO  
Gaviscon  
Tums  
Maxinutrition (parent company of Maximuscle, Maxifuel, Maxitone and Maxiraw)  
Committed Quitters  
Nicorette  
NiQuitin CQ/ Nicoderm CQ/ Nicabate  
Boost



200GbLL7u55DnWhi6/

Horlicks  
Maltova  
Aquafresh  
Astringosol  
Binaca  
Biotene  
Chlorhexamed  
Corega  
Corsodyl  
Dr. Best  
Macleans  
Odol  
Odol-med3  
Parodontax  
Polident  
Polident 5 minute  
Poligrip  
Poligrip Ultra  
Sensodyne  
Shumitect  
Super Poligrip  
Super Wernet's  
Synthol  
Breathe Right  
Commit Lozenge  
Flu  
Cetebe  
Medacalm  
Oscal



Rutinoscorbin  
Scott's Emulsion  
Viva  
alli

**Part 2**  
**Novartis Products**

4-Way	Comtrex
Alca C	Coramin Gluc
Ascriptin	Cruex
Aseptal	Cuticura
Balsamo	C-Vit Brause
Benefiber	Degoran
Benuron	Delsym
Bialcol	Denavir/Vectavir
Black Forest	Dermisone
Bradoral	Dermo H Infantil
Buckley	Desenex
Bufferin	Detensor
Calcium	Dlyanos
Calcium Sandoz	Doans
Calcium Vit. C	Do-Do
Calcium Vit. D3	Doederlein
Carreras/Zydermine	Doxiten
Cibalgina	Dycholium
Clearblue	Dynamisan Tonic



Dynamisan Vms	Lamisil Insoles
Euceta	Lamisil Once
Eurax	Lemocin
Excedrin	Lipactin
Ex-Lax	Locacorten Viofrom
Fenistil Systemic	Loratadine
Fenistil Topical	Lypsyl
Flamigel	Lyseen
Florvis	Maalox
Gas-X	Macalvit
Gaviscon	Magnesium
Glyvenol	Magnogene
Halibut	Mebucaine
Halset	Med-V
Hematriin	Merfen
Hemeran	Meteozym
Hermesetas	Mineral Ice
Hova	Moisturel
Idalprem	Myoflex
Importal	Neda
Iron	Neo-Citran / Theraflu
Kcl-Retard	Neo-Intestopan
Keri	Neotussan
Kpp	Neril
Lac-Hydrin	Nicotinell Gum (excluding the US)
Lamisil Base	Nicotinell Lozenge (excluding the US) (excluding the US)



Nicotinell Patch (excluding the US)	Prorhinel
Nitossil	Pulmex
Nodoz	Pursennid
Novafibra	Resoferon
Novapirin	Resyl
Nupercainal	Rhinomer
Omniflora	Sancos
Optalidon	Sandocal
Optaliphen	Savlon
Orofar	Selenix
Osteomix	Senokot
Otrivin	Sinecod
Pantoloc	Slow-Fe
Parsel	Spasmo Canulase
Pdolocyl	Spasmo Cibalgin
Perdiem	Strepsil
Peristaltin	Sweatosan
Pilka	Sympavagol
Prevacid	Tavegyl / Tavist
Private Label NRT Gum (excluding the US)	Termalgin
Private Label NRT Lozenge (excluding the US)	Tessacof
Private Label NRT Patch (excluding the US)	Tessalon
Privin	Tixylix
Procto-Glyvenol	Tonopan
Proflex	Torres Munoz
	Tossamin



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Tranquital	Verton / Venuton
Transderm Scop	Vibrocil
Triaminic	Vitaleyes
Trimedil	Voltaren Cataflam Systemic
Vagistat	Voltaren Cataflam Topical
Valverde	Zaditen
Varemoid	Zolben
Venatural	Zyma D2
Venoruton Systemic	Zymafluor
Venoruton Topical	

**Part 3  
Novartis Pipeline Products**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 10**  
**VAT**

**1 VAT: Records**

- 1.1** Each Seller may, on or before the date of Closing, obtain a direction from the relevant Tax Authority for the retention and preservation by it of any VAT records relating to its period of ownership of the relevant part of the Target Group and, where any such direction is obtained, that Seller shall:
- 1.1.1** preserve the records to which that direction relates in such a manner and for such period as may be required by the direction or by Applicable Law; and
  - 1.1.2** allow the Purchaser, upon the Purchaser giving reasonable notice, reasonable access to and copies of such records where reasonably required by the Purchaser for its Tax purposes.
- 1.2** If no such direction as is referred to in paragraph 1.1 above is obtained on or before the date of Closing and any documents in the possession or control of a member of a Seller's Group are required by law to be preserved by the Purchaser, that Seller shall, as soon as reasonably practicable after Closing, deliver such documents to the Purchaser.

**2 VAT: Going Concern - EU Member States**

- 2.1** The Sellers and the Purchaser shall use reasonable endeavours (including, for the avoidance of doubt, the making of an election or application in respect of VAT to any Tax Authority or entering into a written agreement) to secure that, to the extent reasonably possible, the sale of all or any part of the Target Group Businesses, so far as carried on in the European Union, is treated as neither a supply of goods nor a supply of services for the purposes of the laws governing VAT in each relevant member state.
- 2.2** Each Business Seller shall have the right to seek a ruling from the relevant Tax Authority as to whether the sale of all or part of the Target Group Businesses, so far as carried on in the relevant member state, should be treated as neither a supply of goods nor a supply of services for the purposes of the laws governing VAT in that member state and to account for VAT (and accordingly to seek an additional payment from the Purchaser under Clause 3.3.3) in accordance with that ruling. The relevant Seller shall not be obliged to challenge (or to procure that any relevant Business Seller challenges) that ruling unless required to do so by the Purchaser. If the Purchaser wishes to challenge, or to require the relevant Business Seller to challenge, any such ruling it may do so, provided that it bears the full cost of, and agrees to indemnify the relevant Business Seller in respect of any loss arising from or in connection with, that challenge and that such challenge shall not affect the date on which VAT must be paid to the relevant Seller under paragraph 4 below.
- 2.3** Insofar as no ruling has been obtained from a relevant Tax Authority prior to Closing, each Seller shall determine in good faith if (or the extent to which) VAT is payable in respect of the sale of the Target Group Businesses carried on by a member of that Seller's Group and shall be entitled to charge (or not to charge) VAT to the Purchaser in accordance with such determination.



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**3 VAT: Going Concern - non-EU Jurisdictions**

- 3.1** To the extent that any state outside the European Union provides for relief or exemption from VAT on the transfer of a business or a company or treats such a transaction as being non-taxable for VAT purposes, the Sellers and the Purchaser shall use reasonable endeavours (including, for the avoidance of doubt, the making of an election or application in respect of VAT to any Tax Authority or entering into a written agreement) to secure such relief, exemption or treatment, to the extent reasonably possible, as regards the sale of all or part of the Target Group Businesses (insofar as the business of the Target Group is carried on in the relevant state) under this Agreement.
- 3.2** The relevant Business Seller shall have the right to seek a ruling from the relevant Tax Authority as to whether the sale of all or part of the Target Group Businesses, so far as the business of the Target Group is carried on in the relevant state, is eligible for a relief or exemption or is otherwise eligible to be treated as non-taxable for the purposes of the laws governing VAT in that state and to account for VAT and accordingly seek an additional payment from the Purchaser under Clause 3.3.3) in accordance with that ruling. The relevant Seller shall not be obliged to challenge (or to procure then the relevant Business Seller challenges) that ruling unless required to do so by the Purchaser. If the Purchaser wishes to challenge, or to require the relevant Business Seller to challenge, any ruling it may do so, provided that it bears the full cost of, and agrees to indemnify the relevant Business Seller in respect of any loss arising from or in connection with, that challenge and that such challenge shall not affect the date on which VAT must be paid to the relevant Seller under paragraph 4 below. Insofar as no ruling has been obtained from a relevant Tax Authority prior to Closing, each Seller shall determine in good faith if (or the extent to which) VAT is payable in respect of the sale of the Target Group Businesses carried on by a member of that Seller's Group and shall be entitled to charge (or not to charge) VAT to the Purchaser in accordance with such determination.

**4 VAT: Time, Manner and Currency of Payment**

- 4.1** Any amounts which the Purchaser is obliged to pay to a Seller under this Agreement in respect of VAT shall be paid by the Purchaser, on its own account or on behalf of another member of the Purchaser's Group, to that Seller or to such member of that Seller's Group as that Seller may direct. Such amounts shall be paid in the currency in which the VAT in question must be accounted for to the relevant Tax Authority.
- 4.2** Subject to any provision or express agreement to the contrary, any amounts in respect of VAT payable in any jurisdiction in respect of the transfer at Closing of any of the Target Group Businesses or Shares shall be paid in accordance with paragraph 4.1 above at Closing against production of a valid VAT invoice (or equivalent, if any).
- 4.3** Notwithstanding any other provision of this Agreement, the Purchaser shall not be liable to account to a Seller or any member of a Seller's Group for or in respect of penalties or interest arising solely from the failure of that Seller or any other member of that Seller's Group to account promptly for VAT to the relevant Tax Authority following that Seller having been placed in the appropriate amount of funds for that purpose by the Purchaser.



**Schedule 11**  
**Closing Obligations**

**1 GENERAL OBLIGATIONS**

**1.1 The Sellers' Obligations**

On Closing, each Seller shall deliver or make available to the Purchaser the following:

- 1.1.1** the Tax Indemnity duly executed by that Seller;
- 1.1.2** the Ancillary Agreements (other than the France SAPA and the Netherlands SAPA, and any other Ancillary Agreements that have not been agreed and are subject to any of Clauses 8.11, 8.12, 8.13 and 8.14) duly executed by the relevant members of that Seller's Group;
- 1.1.3** evidence reasonably satisfactory to the Purchaser that that Seller, and each of its relevant Affiliates, is authorised to execute this Agreement, the Tax Indemnity, the Ancillary Agreements and the Local Transfer Documents (including, where relevant, any notarial deeds referred to in this Schedule 11), in each case, to the extent that they are parties thereto;
- 1.1.4** the Certificate duly executed by that Seller; and
- 1.1.5** the statutory books of the Target Group Companies (which shall be written up to but not including the Closing Date), the certificate of incorporation (and certificate of incorporation on change of name, if any) and common seal (if any) of each Target Group Company and share certificates (or other documents of title) in respect of all the issued share capital of each Target Group Company.

**1.2 Novartis's Obligations**

In addition, Novartis shall, on or before Closing:

- 1.2.1** if requested by the Purchaser by notice in writing not less than five Business Days prior to the Closing Date:
  - (i) procure the present auditors of each Novartis OTC Group Company to resign their office as such, such resignations to take effect as at the Closing Date;
  - (ii) procure board meetings of the relevant Novartis OTC Group Companies are held, or written resolutions of the board are passed, at or by which it shall be resolved that each of the transfers relating to the relevant Shares shall, so far as possible, be approved for registration;



(iii) procure any then present directors and officers (if any) of each Novartis OTC Group Company that are not Novartis Employees resign their offices to take effect at the Closing Date as such and to relinquish any rights which they may have under any contract of employment with any Novartis OTC Group Company or under any statutory provisions (including any right to damages or compensation for breach of contract, loss of office, redundancy or unfair dismissal or any other account whatsoever) and to confirm that no agreement or arrangement is outstanding under which any Novartis OTC Group Company has or could have any obligation to any of them including in respect of remuneration or expenses; and

**1.2.2** procure that the First Novartis Shareholder and the Second Novartis Shareholder (as defined in the Shareholders' Agreement) carry out the actions they are required to do under clause 2.1 of the Shareholders' Agreement prior to Closing.

**1.3 GlaxoSmithKline's Obligations**

In addition, GlaxoSmithKline shall, on or before Closing, procure that:

**1.3.1** a shareholder meeting of the Purchaser is held or a written resolution is passed at which it is resolved that:

- (i) the articles of association in the Agreed Terms are adopted; and
- (ii) the directors of the Purchaser are authorised to allot the Consideration A Shares and B Shares; and
- (iii) the name of the Purchaser is changed to GlaxoSmithKline Consumer Healthcare Holdings Limited;

**1.3.2** the First GlaxoSmithKline Shareholder and the Second GlaxoSmithKline Shareholder (as defined in the Shareholders' Agreement) carry out the actions they are required to do under clause 2.1 of the Shareholders' Agreement prior to Closing,

and, if requested by the Purchaser by notice in writing not less than five Business Days prior to the Closing Date (it being the case that the Purchaser cannot issue a request of this nature to Novartis without making an equivalent request to GlaxoSmithKline, unless there are valid reasons for treating them differently):

**1.3.3** procure board meetings of the relevant GlaxoSmithKline Consumer Group Companies are held, or written resolutions of the board are passed, at or by which it shall be resolved that each of the transfers relating to the relevant Shares shall, so far as possible, be approved for registration; and

**1.3.4** procure any then present directors and officers (if any) of each GlaxoSmithKline Consumer Group Company that are not GlaxoSmithKline Employees resign their offices to take effect at the Closing Date as such and to relinquish any rights which they may have under any contract of employment with any GlaxoSmithKline Consumer Group Company or under any statutory provisions



(including any right to damages or compensation for breach of contract, loss of office, redundancy or unfair dismissal or any other account whatsoever) and to confirm that no agreement or arrangement is outstanding under which any GlaxoSmithKline Consumer Group Company has or could have any obligation to any of them including in respect of remuneration or expenses.

#### 1.4 The Purchaser's Obligations

On Closing, the Purchaser shall deliver or make available to each Seller the following:

- 1.4.1 the Tax Indemnity duly executed by the Purchaser;
- 1.4.2 the Ancillary Agreements (other than the France SAPA and the Netherlands SAPA and, if they have not been agreed, the Transitional Services Agreements, the Manufacturing, Supply and Distribution Agreements and the Services Agreement) duly executed by the relevant members of the Purchaser's Group; and
- 1.4.3 evidence reasonably satisfactory to the Seller that the Purchaser, and each of its relevant Affiliates, are authorised to execute this Agreement, the Tax Indemnity, the Ancillary Agreements and the Local Transfer Documents (including, where relevant, any notarial deeds referred to in this Schedule 11), in each case, to the extent that they are parties thereto.

In addition, subject to GlaxoSmithKline and Novartis having done or procured to be done those things set out in paragraphs 1.1, 1.2 and 1.3, as relevant, at Closing the Purchaser shall:

- 1.4.4 allot and issue the A Shares to GlaxoSmithKline (or such other of GlaxoSmithKline's Wholly-Owned Subsidiaries as GlaxoSmithKline may direct by notice in writing to the Purchaser at least five Business Days prior to the Closing Date, provided that no more than two members of GlaxoSmithKline's Group shall be issued A Shares at Closing); and
- 1.4.5 allot the B Shares to Novartis (or such other of Novartis's Wholly-Owned Subsidiaries as Novartis may direct by notice in writing to the Purchaser at least five Business Days prior to the Closing Date, provided that no more than two members of Novartis's Group shall be issued B Shares at Closing).

## 2 TRANSFER OF THE SHARES AND TARGET GROUP BUSINESSES

### 2.1 General Transfer Obligations

On Closing or such other date as agreed between the parties, each Seller shall procure that its Share Sellers and its Business Sellers shall, and the Purchaser shall, execute and/or deliver and/or make available Local Transfer Documents and take such steps as are required to transfer the Shares and relevant Target Group Businesses in accordance with this Agreement.



**2.2 Specific Transfer Obligations**

For the purposes of compliance with paragraph 2.1, each Seller and the Purchaser shall, between the date of this Agreement and Closing, negotiate in good faith any and all Local Transfer Documents and other such steps as are required to transfer the Shares and Target Group Businesses in accordance with this Agreement.



**Schedule 12  
Post Closing Adjustments**

**Part 1  
Preparation of Closing Statement**

**1 PREPARATION**

- 1.1** No later than 60 days following Closing, each Seller shall deliver to the Purchaser a Draft Closing Statement. Prior to such delivery, each Seller shall so far as is practicable consult with the Purchaser with a view to reducing the potential areas of disagreement.
- 1.2** In order to enable each Seller to prepare its Draft Closing Statement, the Purchaser shall keep up-to-date and, subject to reasonable notice, make available to that Seller's representatives and to that Seller's accountants all books and records relating to that Seller's Target Group during normal office hours and co-operate with them with regard to the preparation, review and agreement or determination of that Draft Closing Statement. The Purchaser agrees to make available the services of the employees of that Seller's Target Group to assist that Seller in the preparation, review and agreement or determination of that Draft Closing Statement.
- 1.3** In order to allow the Purchaser to review the Draft Closing Statements, each Seller shall, subject to reasonable notice, make available to the Purchaser's representatives and to the Purchaser's accountants all books and records relating to the preparation of the relevant Draft Closing Statement during normal office hours and co-operate with them with regard to their review of that Draft Closing Statement. Each Seller agrees to make available the services of its employees and its Affiliates to assist the Purchaser in its review of that Draft Closing Statement.
- 1.4** If the Purchaser does not within 60 days of presentation to it of a Draft Closing Statement give notice to the Seller that produced it that it disagrees with that Draft Closing Statement or any item thereof, such notice stating the reasons for the disagreement in reasonable detail and specifying the adjustments which, in the Purchaser's opinion, should be made to that Draft Closing Statement (the "**Purchaser's Disagreement Notice**"), that Draft Closing Statement shall be final and binding on that Seller and the Purchaser for all purposes. If the Purchaser gives a valid Purchaser's Disagreement Notice within such 60 days, that Seller and the Purchaser shall attempt in good faith to reach agreement in respect of that Draft Closing Statement and, if they are unable to do so within 30 days of such notification, that Seller or the Purchaser may by notice to the other require that that Draft Closing Statement be referred to the Reporting Accountants (an "**Appointment Notice**").
- 1.5** Within 30 days of the giving of an Appointment Notice, the relevant Seller may by notice to the Purchaser indicate that, in the light of the fact that the Purchaser has not accepted the Draft Closing Statement in its entirety, it wishes the Reporting Accountants to consider matters relating to the Draft Closing Statement in addition to those specified in the Purchaser's Disagreement Notice, provided that such matters as are related to the matters specified in the Purchaser's Disagreement Notice and that the notice states in reasonable detail the reasons why and in what respects that Seller believes that the Draft Closing Statement should be altered in respect of such matters (the "**Seller's Disagreement Notice**").



- 1.6** The Reporting Accountants shall be engaged jointly by that Seller and the Purchaser on the terms set out in this paragraph 1 and otherwise on such terms as shall be agreed; provided that neither that Seller nor the Purchaser shall unreasonably (having regard, inter alia, to the provisions of this paragraph 1) refuse its agreement to terms proposed by the Reporting Accountants or by the other party. If the terms of engagement of the Reporting Accountants have not been settled within 45 days of their identity having been determined (or such longer period as that Seller and the Purchaser may agree) then, unless that Seller or the Purchaser is unreasonably refusing its agreement to those terms, those accountants shall be deemed never to have become the Reporting Accountants and new Reporting Accountants shall be selected in accordance with the provisions of this Agreement.
- 1.7** Except to the extent that the relevant Seller and the Purchaser agree otherwise, the Reporting Accountants shall determine their own procedure but:
- 1.7.1** apart from procedural matters and as otherwise set out in this Agreement shall determine only:
    - (i) whether any of the arguments for an alteration to the relevant Draft Closing Statement put forward in the Purchaser's Disagreement Notice or the Seller's Disagreement Notice is correct in whole or in part; and
    - (ii) if so, what alterations should be made to that Draft Closing Statement in order to correct the relevant inaccuracy in it;
  - 1.7.2** shall apply the accounting principles, policies, procedures, practices and estimation techniques as set out in Part 2 of this Schedule 12;
  - 1.7.3** shall make their determination pursuant to paragraph 1.7.1 as soon as is reasonably practicable; and
  - 1.7.4** the procedure of the Reporting Accountants shall:
    - (i) give that Seller and Purchaser a reasonable opportunity to make written and oral representations to them;
    - (ii) require that each party supply the other with a copy of any written representations at the same time as they are made to the Reporting Accountants;
    - (iii) permit that Seller and the Purchaser to be present while oral submissions are being made by the other party; and
    - (iv) for the avoidance of doubt, the Reporting Accountants shall not be entitled to determine the scope of their own jurisdiction.
- 1.8** The Reporting Accountants shall send that Seller and the Purchaser a copy of their determination pursuant to paragraph 1.7.1 within one month of their appointment. Such determination:



- 1.8.1** shall be made available to that Seller and the Purchaser in writing; and
- 1.8.2** unless otherwise agreed by that Seller and the Purchaser, shall include reasons for each relevant determination.
- 1.9** The Reporting Accountants shall act as experts and not as arbitrators and their determination of any matter falling within their jurisdiction shall be final and binding on that Seller and the Purchaser save in the event of manifest error (when the relevant part of their determination shall be void and the matter shall be remitted to the Reporting Accountants for correction). In particular, their determination shall be deemed to be incorporated into the relevant Draft Closing Statement.
- 1.10** The expenses (including amounts in respect of VAT) of the Reporting Accountants shall be borne as they shall direct at the time they make any determination under paragraph 1.7.1(i) or, failing such direction, equally between the Purchaser and that Seller.
- 1.11** That Seller and the Purchaser shall co-operate with the Reporting Accountants and comply with their reasonable requests made in connection with the carrying out of their duties under this Agreement. In particular, each other party shall keep up-to-date and, subject to reasonable notice, make available to that Seller's representatives, that Seller's accountants and the Reporting Accountants all books and records relating to the relevant Target Group during normal office hours as that Seller or the Reporting Accountants may reasonably request during the period from the appointment of the Reporting Accountants down to the making of the relevant determination.
- 1.12** Nothing in this Schedule 12 shall entitle a party or the Reporting Accountants access to any information or document which is protected by legal professional or litigation privilege, provided that neither the relevant Seller nor the Purchaser shall be entitled to refuse to supply such part or parts of documents as contain only the facts on which the relevant claim or argument is based.
- 1.13** Each party and the Reporting Accountants shall, and shall procure that its accountants and other advisers shall, keep all information and documents provided to them pursuant to this paragraph 1 confidential and shall not use the same for any purpose, except for disclosure or use in connection with the preparation of the Draft Closing Statement, the proceedings of the Reporting Accountants or another matter arising out of this Agreement.

## **Part 2**

### **Closing Statement Principles**

This Part 2 of Schedule 12 comprises the specific rules, principles, policies and practices, without limitation, for preparing each Closing Statement.

Each Closing Statement sets out the Working Capital, the Working Capital Adjustment, the Target Group Companies' Cash Balances, the Intra-Group Non-Trade Receivables, the Third Party Indebtedness, the Intra-Group Non-Trade Payables, the Employee Benefits Adjustment and the Tax Adjustment for the relevant Seller, in each case, as prepared in accordance with the specific rules, principles, policies and practices set forth in this Part 2 of Schedule 12. Each Closing Statement shall be prepared in the form of the Illustrative Closing Statement in Part A (in the case of GlaxoSmithKline) or Part B (in the case of Novartis) of Part 3 of this Schedule 12.



For the avoidance of doubt, each Closing Statement as referred to in this Part 2 of Schedule 12 shall inclusively apply to each of the Draft Closing Statement and the Closing Statement for each Seller.

**1 Closing Statement Rules**

**1.1** Each Closing Statement shall be prepared as follows:

- 1.1.1** in accordance with the specific accounting treatments set out in paragraph 2 of this Part 2 of Schedule 12; and, subject thereto
- 1.1.2** adopting the same accounting principles, methods, procedures and practices utilized in preparing the Statement of Net Assets, as detailed in the Statement of Net Asset Rules, applied on a consistent basis using consistent estimation methodologies and judgments and with consistent classifications as were used to prepare the Statement of Net Assets; and subject thereto
- 1.1.3** in accordance with IFRS.

**1.2** For the avoidance of doubt, paragraph 1.1.1 shall take precedence over paragraphs 1.1.2 and 1.1.3, and paragraph 1.1.2 shall take precedence over paragraph 1.1.3.

**2 Specific requirements**

**2.1 Cut-off**

Each Closing Statement (including each Draft Closing Statement) shall not take into account any additional events or any additional information that becomes available after the date that such Closing Statement is agreed or, if earlier, such time as the Purchaser serves a Purchaser's Disagreement Notice.

**2.2 Change of Ownership**

No Closing Statement shall be adjusted for any charges, provisions, reserves or write-offs in respect of any costs, liabilities or charges that may be incurred by the relevant Contributed Business prior to or after the Closing as a consequence of the change of ownership of the relevant Target Group or any changes in the management strategy, direction or priority or possible closure of any part of that Target Group by the Purchaser after Closing, whether or not resulting from the change in ownership.

**2.3 Deferred Tax**

The Closing Statement (including the Draft Closing Statement) shall not take into account or provide for deferred Tax.

**2.4 Other Taxes**

The Closing Statement (including the Draft Closing Statement) shall take account of or provide for all income taxes and sales taxes, to which, in the case of Novartis, lines BS14\_120 Taxes other than income taxes (Liability account) and BS13\_108 Value added tax receivable apply.



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**3 Supplementary Working Capital Rules**

- 3.1** This paragraph 3 comprises supplementary specific rules, principles, policies and practices applicable to the preparation of the Working Capital to be set forth in each Closing Statement. For the avoidance of doubt, each of the specific rules, principles, policies and practices set out in paragraph 1 and 2 shall be equally applicable to the Working Capital.
- 3.2** For each of the Sellers, the Working Capital of each of their Joint Venture Entities shall be included within the calculation of Working Capital only if such Joint Venture Entities are consolidated into the relevant Seller's Group accounts, and the amount of any such Joint Venture Entities Working Capital shall be calculated as if such Joint Venture Entity is wholly-owned by a member of that Seller's Group.
- 3.3** In relation to the France Business for each Seller and, in respect of GlaxoSmithKline only, the Netherlands Business, if one or, in respect of GlaxoSmithKline only, both business(es) is (are) not transferred to the Purchaser under the terms of this Agreement at Closing, the Working Capital relating to such business (or businesses) shall not be included in the determination of Working Capital at the Effective Time. If that France Business or, in respect of GlaxoSmithKline only, the Netherlands Business is (are) Transferred to the Purchaser after Closing, then a further adjustment shall be made to the Closing Statement on the assumption that the France Business and/or, in respect of GlaxoSmithKline only, the Netherlands Business were included in the Closing Statement taking the relevant items for the relevant business as of the date they transferred to the Purchaser. Any adjustment arising as a result of including the France Business or, in respect of GlaxoSmithKline only, the Netherlands Business in the Closing Statement after the date of Closing shall be agreed and paid on the same basis as the Closing Statement was agreed and payment in respect thereof made.
- 3.4** Part 3 of this Schedule 12 sets forth, for illustrative purposes only a computation of the Working Capital of Novartis's and GlaxoSmithKline's Working Capital as of the close of business on 31 December 2013.



**Part 3**  
**Illustrative Closing Statement**

**Part A - GlaxoSmithKline**

<b>Target Group Companies' Cash Balances</b> (Cash & cash equivalents)	[ ]
<b>Intra-Group Non-Trade Receivables</b> (Total financing and loans to subsidiaries / JV), comprising:	[ ]
[•]	[ ]
<b>Third Party Indebtedness</b> , comprising:	
Financial Debt – long term	[ ]
Financial Debt – short term	[ ]
<b>Intra-Group Non-Trade Payables</b>	[ ]
Financing from subsidiaries / JV:	[ ]
[•]	[ ]
Loans from subsidiaries / JV:	[ ]
[•]	[ ]
<b>Employee Benefit Indemnification Amount</b>	
<b>Tax Adjustment</b> , comprising	[ ]
Current income tax receivables	[ ]
Income taxes payable	[ ]
VAT	[ ]
<b>Intra-Group Trading Balances</b>	
Intra-group Trade Receivables	[ ]
Transferred Accounts Receivables <sup>1</sup>	[ ]

<sup>1</sup> That are payable by any member of GlaxoSmithKline's Group (other than a Target Group Company) by a Business Seller of GlaxoSmithKline's Group



Intra-group Trade Payables	[ ]
Transferred Accounts Payables <sup>2</sup>	[ ]
<b>Adjustment (if any)</b>	[ ]
<b>Net Working Capital (*)</b>	[ ]
Inventory	[ ]
Trade Receivables	[ ]
Trade Payables	[ ]
<b>Working Capital Adjustment</b>	[ ]
<b>Balancing payment required:</b>	

**Part B – Novartis**

<b>Target Group Companies' Cash Balances</b> (BS01_180 Cash & cash equivalents)	[ ]
<b>Intra-Group Non-Trade Receivables</b> (BS01_050 Total financing and loans to subsidiaries / JV), comprising:	[ ]
[***]	[ ]
<b>Third Party Indebtedness</b> , comprising:	[ ]
BS01_511 Financial Debt – long term	[ ]
BS01_651 Financial Debt – short term	[ ]
<b>Intra-Group Non-Trade Payables</b>	[ ]
BS01_516 Financing from subsidiaries / JV:	[ ]

<sup>2</sup> That are payable to any member of GlaxoSmithKline's Group (other than a Target Group Company) by a Business Seller of GlaxoSmithKline's Group

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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***	[ ]
BS01_518 Loans from subsidiaries / JV:	[ ]
***	[ ]

**Employee Benefit Indemnification Amount**

<b>Tax Adjustment</b> , comprising	[ ]
BS13_190 Current income tax receivables	[ ]
BS01_660 Income taxes payable	[ ]
BS14_120 Taxes other than income taxes	[ ]
BS13_108 Value added tax receivable apply	[ ]

**Intra-Group Trading Balances**

BS01_130 Receivables own BU – Corporate	[ ]
BS01_140 Receivables other BU’s	[ ]
BS01_620 Payables own BU – Corporate	[ ]
BS01_630 Payables other BU’s	[ ]
Transferred Accounts Receivables <sup>3</sup>	[ ]
Transferred Accounts Payables <sup>4</sup>	[ ]

**Adjustment (if any)** [ ]

<b>Net Working Capital (*)</b>	[ ]
BS01_110 Total inventories	[ ]
BS01_120 Trade receivables (3 <sup>rd</sup> parties and AC)	[ ]
BS01_610 Trade payables (3 <sup>rd</sup> parties and AC)	[ ]

<sup>3</sup> That are payable by any member of Novartis’s Group (other than a Target Group Company) by a Business Seller of Novartis’s Group

<sup>4</sup> That are payable to any member of Novartis’s Group (other than a Target Group Company) by a Business Seller of Novartis’s Group

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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<b>Net Working Capital</b>	[ ]
<b>Working Capital Adjustment</b>	[ ]
<b>Balancing payment required:</b>	[ ]



**Part 4  
Illustrative Working Capital Statement**

**Part A – Novartis**

*All amounts in US\$ thousands*

	<b>Illustrative Net Working Capital as per Dec 31, 2013</b>
BS01_110 Total inventories	[***]
BS01_120 Trade receivables (3 <sup>rd</sup> parties and AC)	[***]
BS01_610 Trade payables (3 <sup>rd</sup> parties and AC)	[***]
<b>Illustrative Net Working Capital</b>	

**Part B – GlaxoSmithKline**

*All amounts in GBP millions*

	<b>Illustrative Net Working Capital as per Dec 31, 2013</b>
Inventory	[***]
Third Party Trade Receivables	[***]
Third Party Trade Payables	[***]
<b>Illustrative Net Working Capital</b>	[***]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 13**  
**Warranties given under Clause 9.1**

**1 Authority and Capacity**

**1.1 Incorporation**

The Seller and each Share Seller and Business Seller is validly existing and is a company duly incorporated and registered under the law of its jurisdiction of incorporation.

**1.2 Authority to enter into Agreement**

1.2.1 The Seller and each Share Seller and Business Seller has the legal right and full power and authority to enter into and perform this Agreement, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Ancillary Agreement.

1.2.2 The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on the Seller and each Share Seller and Business Seller within that Seller's Group in accordance with their respective terms.

1.2.3 Except as referred to in this Agreement, the Seller:

- (i) is not required to make any announcement, consultation, notice, report or filing; and
- (ii) does not require any consent, approval, registration, authorisation or permit,

in each case in connection with the performance of this Agreement or any other document referred to in paragraph 1.2.1.

1.2.4 The execution and delivery of the documents referred to in paragraph 1.2.1 and the performance by the Seller, each Share Seller and each Business Seller within that Seller's Group of their respective obligations under them, will not:

- (i) result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional document of the relevant member of the Seller's Group; or
- (ii) result in a breach of, or constitute a default under, any instrument or contract to which the relevant member of the Seller's Group is party or by which the relevant member of the Seller's Group is bound where such breach is material to their ability to perform their obligations under such documents;
- (iii) result in a breach of any existing order, judgment or decree of any court or Governmental Entity by which the relevant member of the Seller's Group is bound and where such breach is material to their ability to perform their obligations under such documents.

**1.3 Authorisation**

The Seller and each Share Seller and Business Seller within its Group has taken, or will have taken by Closing, all corporate action required by it to authorise it to enter into and to perform this Agreement, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Ancillary Agreement.



**2 Target Group**

**2.1 Organisation and Standing of the Target Group Companies**

- 2.1.1 All of the equity interests in each of the Target Group Companies (other than the Joint Venture Entities) are held by the Seller or another member of the Seller's Group.
- 2.1.2 Each Target Group Company is duly incorporated, validly existing and in good standing, under the laws of its jurisdiction of organisation and has all necessary corporate power under its constitutional documents to conduct its portion of its Contributed Business as at the date of this Agreement.

**2.2 The Shares**

- 2.2.1 Either the Seller or one of its Affiliates is the legal and beneficial owner of the GlaxoSmithKline Shares or the Novartis Shares, as the case may be (the "**Relevant Shares**").
- 2.2.2 There is no option, right to acquire, mortgage, charge, pledge, lien or other form of security or Encumbrance or equity on, over or affecting the Relevant Shares or any of them and there is no agreement or commitment to give or create any.
- 2.2.3 All of the Relevant Shares have been duly authorised and validly issued and are fully paid and non-assessable. There are no options, warrants, rights, convertible, exercisable or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which any of the Target Group Companies is a party or by which it is bound obligating any of the Target Group Companies to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible into, or exercisable or exchangeable for, any capital stock of, or other equity interest in, such Target Group Company.
- 2.2.4 There are no outstanding Contracts to which any of the Target Group Companies is a party or is otherwise bound to repurchase, redeem or otherwise acquire any shares, capital stock or other equity interest of such Target Group Company.
- 2.2.5 None of the Relevant Shares is subject to and was not issued in violation of any purchase option, call option, right of first refusal, pre-emptive right, subscription right or similar right or any provision of Applicable Law or the constitutional documents of its Target Group Companies.

**2.3 2012 Accounts**

The 2012 Accounts of each Target Group Company:

- 2.3.1 were prepared in accordance with accounting practices generally accepted in the jurisdiction of incorporation of that Target Group Company at the time they were audited; and
- 2.3.2 show in accordance with applicable legal requirements:
  - (i) the assets and liabilities of that Target Group Company at the 2012 Accounts Date; and
  - (ii) the profits and losses of the relevant Target Group Company for the accounting period ended on the 2012 Accounts Date.



2.4 **Financial Information**

2.4.1 The annual consolidated financial statements of GlaxoSmithKline plc for the year ended 31 December 2013 fairly present the operating profit for its Consumer Healthcare Division (including, for this purpose, the Excluded Assets and the Ribena and Lucozade businesses that have been subsequently sold) in 2013, being £0.9 billion.

2.4.2 The 2013 Operating Income (defined below) fairly presents the operating income of the Novartis OTC Group (which, for this purpose, includes the Novartis US NRT Business, the benefit of the Endo Excluded Contract, and any manufacturing, distributing, marketing, selling, promoting or otherwise Commercialising of Prescription Products in the United States of America carried out by the Novartis OTC Group Companies) for the year ended 31 December 2013.

“2013 Operating Income” means the operating income for 2013 annexed to the Disclosure Letter at Annex B.

2.5 **The Assets**

Save in relation to the Transferred Intellectual Property Rights, either the Seller or another member of the Seller’s Group has good and valid title to the assets listed in Clause 2.3.1 free and clear of all Encumbrances other than Permitted Encumbrances.

2.6 **Changes Since 31 December 2013**

Except as a result of the execution and delivery of this Agreement from 31 December 2013 to the date of this Agreement:

2.6.1 the Seller’s Contributed Business has been conducted in all material respects in the ordinary and usual course;

2.6.2 the Seller’s Contributed Business has not entered into any material contract or commitment outside the ordinary course of business as conducted prior to 31 December 2013; and

2.6.3 to the Seller’s knowledge, there has been no event or circumstance arising which is reasonably likely to have had a Material Adverse Effect (as if reference in the definition of Material Adverse Effect to the date of this Agreement were to 31 December 2013).

3 **Third Party Indebtedness and Financial Instruments**

None of the Target Group Companies: (i) has any Third Party Indebtedness exceeding US\$1million; or (ii) is a party to any financial instruments (including any swaps or derivatives).

4 **Real Property**

4.1 **Company Properties**

4.1.1 The Company Properties are the only material freehold, leasehold or other immovable property in any part of the world owned, used or occupied by the Target Group Companies for the purpose of research and development, production or manufacturing facilities.

4.1.2 Each of the Company Properties is used and occupied for the purpose of the business of a Target Group Company.



- 4.1.3 A member of the Seller's Group is solely legally and beneficially entitled to such Company Property.
- 4.1.4 No person has or will have any right to possession, occupation or use of such Company Property in a manner that has or will have a material adverse effect on the use of, or operations at, such Company Property.
- 4.1.5 There are no mortgages or charges affecting any of the Company Properties other than those registered in the relevant Land Register.
- 4.1.6 There are no material outstanding disputes, actions, claims or demands in respect of any Company Property, nor has the Seller or any member of the Seller's Group received any notice threatening the same.
- 4.1.7 In respect of each Company Leased Property, all material covenants and conditions contained in the Company Lease have been observed and performed to date.

4.2 **Transferred Properties**

- 4.2.1 The Transferred Leased Properties and the Transferred Owned Properties are the only material freehold, leasehold or other immovable property in any part of the world owned or occupied by the Target Group Business for the purpose of research and development, production or manufacturing facilities.
- 4.2.2 Each of the Transferred Properties is used and occupied for the purposes of the Seller's Contributed Business.
- 4.2.3 A member of the Seller's Group is solely legally and beneficially entitled to such Transferred Property.
- 4.2.4 No person has or will have any right to possession, occupation or use of such Transferred Property in a manner that has or will have a material adverse effect on the use of, or operations at, such Transferred Property.
- 4.2.5 There are no mortgages or charges affecting any of the Transferred Properties other than those registered in the relevant Land Register.
- 4.2.6 There are no material outstanding disputes, actions, claims or demands in respect of any Transferred Property, nor has the Seller or any member of the Seller's Group received any notice threatening the same.
- 4.2.7 In respect of each Transferred Leased Property, all material covenants and conditions contained in the Lease have been observed and performed to date.

5 **Intellectual Property**

- 5.1 All renewal, application and other registry fees and steps required for the maintenance of the registrations of any of the Target Group Intellectual Property Rights that are Registered Intellectual Property Rights and relate to products that are material to the Seller's Contributed Business have been paid or taken.
- 5.2 Neither the Seller nor any of its Affiliates has given, or received, written notice to terminate any material Target Group Intellectual Property Contract, and neither the Seller nor any Affiliate of the Seller is in breach or default of any material Target Group Intellectual Property Contract, except for any such breach or default which would not be material to the Contributed Business. To the Seller's Knowledge, no third party is in breach or default under any Target Group Intellectual Property Contract, except for any such breach or default which would not be material to the Business.



- 5.3 The Seller and its Affiliates own all Registered Target Group Intellectual Property Rights free of all Encumbrances except Permitted Encumbrances. The Seller and its Affiliates have taken reasonable steps to protect the confidentiality of Proprietary Information.
- 5.4 To the Seller's Knowledge: (i) the conduct of its Contributed Business as currently conducted does not infringe or misappropriate the Intellectual Property Rights of any third party; and (ii) there is no material judicial, administrative or arbitral action, suit, hearing, inquiry, investigation or other proceeding (public or private) before any Governmental Entity pending against the Seller or any of its Affiliates in which it is alleged that the conduct of its Contributed Business as currently conducted by the Seller and its Affiliates infringes or misappropriates any Intellectual Property Rights of any third party.
- 5.5 To the Seller's Knowledge, no third party is infringing or misappropriating any Target Group Intellectual Property Rights or Proprietary Information.
- 5.6 To the Seller's Knowledge, the Target Group Intellectual Property Rights, the Intellectual Property Rights licensed under the Target Group Intellectual Property Contracts, and the Intellectual Property Rights licensed under the Purchaser Intellectual Property Licence Agreement constitute all the material Intellectual Property Rights used in the conduct of the Contributed Business as currently conducted by the Seller and its Affiliates; provided however, that the foregoing is not a representation of non-infringement, non-misappropriation, or any other non-violation of Intellectual Property Rights of any third party, which representation is solely set out in paragraph 5.4 above.
- 5.7 All Information Technology necessary for the Contributed Business to be conducted in all material respects as it is carried on at the date of this Agreement: (i) is Owned Information Technology; (ii) is Transferred Information Technology; or (iii) will be provided by the Seller and its Affiliates to the Purchaser and the Contributed Business under the Transitional Services Agreement.
- 5.8 The Seller's Contributed Business has not, in the 12 months prior to the date of this Agreement, experienced any material disruption in its operations as a result of any failure of its Information Technology.

**6 Contracts**

- 6.1 No Target Group Company or Business Seller is a party to or subject to any Contract, transaction, arrangement, understanding or obligation (other than in relation to any Property, lease, contract of employment, Information Technology or Intellectual Property Right) which is material to the Contributed Business and which:
  - 6.1.1 is not in the ordinary course of business;
  - 6.1.2 is not on an arm's length basis;
  - 6.1.3 has an unexpired term or likely duration of five years or more;
  - 6.1.4 restricts its freedom to carry on its business in any part of the world in such manner as it thinks fit;
  - 6.1.5 involves an aggregate outstanding expenditure by it of more than US\$50 million, exclusive of VAT;
  - 6.1.6 can be terminated in the event of a change of underlying ownership or control of a Target Group Company; or
  - 6.1.7 involves the supply of goods and services, the aggregate sales value of which (exclusive of VAT) will be more than five per cent of turnover of the Contributed Business (exclusive of VAT) for the preceding financial year.



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- 6.2 All material supply contracts of the Contributed Business relating to ingredients are either contracts to which a Target Group Company is a party or are Transferred Contracts.
- 6.3 Save in relation to any Target Group Intellectual Property Contract, no Target Group Company is in material default under any material Contract to which it is party and no third party is in material default under any material Contract to which a Target Group Company is party and, to the Seller's Knowledge, there are no circumstances in either case likely to give rise to such a material default.
- 6.4 Save in relation to any Target Group Intellectual Property Contract, no Business Seller is in material default under any material Contract to which it is a party and, to the Seller's knowledge, no third party is in material default under any material Contract to which a Business Seller is a party and, to the Seller's Knowledge, there are no circumstances in either case likely to give rise to such a material default.

## 7 Joint Ventures etc.

No Target Group Company or Business Seller is, or has agreed to become, a member of any joint venture, consortium, partnership or other unincorporated association (other than a recognised trade association in relation to which the Target Group Purchaser or Business Seller has no liability or obligation except for the payment of annual subscription or membership fees).

## 8 Agreements with Connected Parties

There are no existing contracts or arrangements material to the business of the Target Group between, on the one hand, any Business Seller or Target Group Company and, on the other hand, the Seller or any other member of the Seller's Group (other than any Business Seller or Target Group Company), other than on normal commercial terms in the ordinary course of business.

## 9 Sufficiency of Assets

- 9.1 Each of the assets listed in Clause 2.3.1 is owned both legally and beneficially by the Seller or its Affiliates and each of those assets capable of possession is, save where in the possession of third parties in the ordinary course of business, in the possession of the Seller or its Affiliates.
- 9.2 Save for Permitted Encumbrances, no option, right to acquire, mortgage, charge, pledge, lien or other form of security or Encumbrance (excluding licences of Intellectual Property or Know-How) or equity on, over or affecting the whole or any part of the assets listed in Clause 2.3.1 is outstanding and, save in relation to Permitted Encumbrances, there is no agreement or commitment entered into by any member of the Seller's Group to give or create any and no claim has been made against any member of the Seller's Group by any person entitled to any.
- 9.3 The Target Group Businesses and the assets of the Target Group Companies, when taken together with the rights and services under the Ancillary Agreements and for the respective terms thereof:
- (i) comprise all of the assets required to carry on the Contributed Business in substantially the same manner as it has been during the 12 months prior to the date of this Agreement and as it was reported in its December Presentation, save in relation to the Excluded Assets; and
  - (ii) are sufficient in all material respects to carry out the Contributed Business after the Closing in substantially the same manner as it has been conducted by the Seller and its Affiliates in the 12 months prior to the date of this Agreement and as it was reported in its December Presentation, save in relation to the Excluded Assets, provided however, that the foregoing is not a warranty of non-infringement, non-misappropriation or any other non-violation of Intellectual Property Rights of any third party, which warranty is solely set out in paragraph 5.5.



**10 Compliance with Laws, Permits and Anti-Bribery**

- 10.1 None of the Seller or its Affiliates is in breach of any Applicable Law where such breach is reasonably likely to be material to the Target Group.
- 10.2 Neither the Seller nor any of its Affiliates has received any written notice from any Governmental Entity that it is not in compliance (or any warning letter that it may not be in compliance) with any Applicable Law or is not in possession of any permits, licences, certificates or other authorisations or consents of a Governmental Entity in each case as is necessary for the conduct of the Contributed Business in all material respects as presently conducted (each a “**Permit**” and, collectively, the “**Permits**”), except where such non-compliance or non-possession does not remain outstanding or uncured as of Closing or would not reasonably be expected to have a material effect on the Business.
- 10.3 With respect to its Contributed Business, since 1 January 2009, neither the Seller nor any of its Affiliates, nor any of their respective directors, officers or employees and, to the Seller’s Knowledge, no Seller Partner has, directly or indirectly: (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity or to influence official action; (ii) made or offered to make any unlawful payment to any foreign or domestic government official or employee, or agent, political party or any official of such party, or political candidate from corporate funds; (iii) made or offered to make any bribe, rebate, payoff, influence payment, money laundering, kickback or other unlawful payment; or (iv) violated or is in violation of any provision of any applicable Anti-Bribery Law; and with respect to the Contributed Business, the Seller and its relevant Affiliates have instituted and maintain policies and procedures reasonably designed to ensure compliance with applicable Anti-Bribery Law.
- 10.4 With respect to its Contributed Business, neither the Seller nor any of its Affiliates, nor any of their respective directors, officers or employees and, to the Seller’s Knowledge, no Seller Partner: (i) is currently the subject of, nor has been since 1 January 2009 the subject of, any action alleging a violation, or possible violation, of any Anti-Bribery Law, nor has been, since 1 January 2009, the recipient of a subpoena, letter of investigation or other document alleging a violation, or possible violation, of any Anti-Bribery Law, or (ii) has, since 1 January 2009, improperly or inaccurately recorded in any books and records (A) any payments, cash, contributions, gifts, hospitalities or entertainment to a foreign or domestic government official, employee of an enterprise owned or controlled in whole or in part by any foreign government, official of a foreign or domestic political party or campaign, or a foreign or domestic candidate for political office; or (B) other expenses related to political activity or lobbying.
- 10.5 With respect to its Contributed Business, since 1 January 2009, neither the Seller nor any of its Affiliates, nor any of their respective directors or officers, and, to the Seller’s Knowledge, none of their respective employees has received notice that any such person is or has been alleged to be in violation of any sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or by the U.S. Department of State or equivalent measures of the United Kingdom, European Union, or the United Nations (the “**Sanctions Law**”). With respect to its Contributed Business, neither the Seller nor any of its Affiliates, nor any of their respective directors or officers, and, to the Seller’s Knowledge, none of their respective employees has conducted any of their business activities whatsoever with, or for the benefit of, a government, national or legal entity to the extent such actions would violate any Sanctions Law. None of the execution, delivery and performance of this Agreement and the direct or indirect use of proceeds from any transaction contemplated hereby or the fulfilment of the terms hereof will result in a violation by any person of any Sanctions Law.



10.6 Each member of the Seller's Group, in connection with any products of the relevant Seller's Contributed Business, the Product Approvals, the Product Applications, the Transferred Contracts and the Transferred Intellectual Property Contracts requires its Service Providers to act in accordance with the requirements of applicable Anti-Bribery Law and uses all reasonable endeavours to procure that they do so.

**11 Product Approvals**

- 11.1 The Seller or one of its Affiliates is the registered holder of each of the Product Approvals. All material Product Approvals held by Seller or its Affiliates are in full force and effect. No material deficiencies have been asserted by any applicable Government Entity with respect to any Product Approval or Product Filing, nor, to the Seller's knowledge, are there any facts or circumstances that would be likely to lead to such assertions being made.
- 11.2 Each Product was and is being researched, developed, manufactured, marketed or sold in all material respects in accordance with the specifications and standards contained in the relevant Product Approval and the related Marketing Authorisation Data and in accordance with Applicable Laws.
- 11.3 Neither the Seller or any of its Affiliates has received any written notice that any Governmental Entity with jurisdiction over the Products has commenced or will commence any action: (i) to withdraw the approval of any Product or otherwise revoke or materially amend any Product Approval or Marketing Authorisation Data; or (ii) enjoin production, marketing or sale of any Product and, to the Seller's Knowledge, no such action has been threatened.
- 11.4 All application and renewal fees due and payable with respect to all material Product Approvals have been paid.
- 11.5 All preclinical and clinical investigations with respect to the Products are being and have been conducted in compliance with Applicable Laws in all material respects. The Seller and its Affiliates have not, and to the Seller's Knowledge, none of its Product Partners or any other third party under any Licensed Intellectual Property Contract has received since 1 January 2009, any written notices or other correspondence from any Governmental Entity with respect to any on-going clinical or pre-clinical studies or tests of any Product requiring the termination, suspension or material modification of such studies or tests.
- 11.6 None of the Seller or its Affiliates or, to the Seller's Knowledge, any Product Partner or any other third parties pursuant to any Licensed Intellectual Property Contract, has any knowledge of any adverse event, arising since the date three years prior to the date of this Agreement, reportable with respect to the safety or efficacy of any Product, which is reasonably expected to be material.

**12 Product Liability**

The Products sold by the Contributed Business during the Relevant Period have complied in all material respects with all applicable product specifications and have been Manufactured in all material respects in accordance with applicable requirements of then current GMP and Applicable Laws, except for any such non-compliance that has not had, and would not reasonably be expected to have a materially adverse impact on any of the Seller's Products.

**13 Product Recall**

- 13.1 No Product (or any component thereof) has been recalled, suspended, withdrawn, seized, discontinued or the subject of a refusal to file, clinical hold, deficiency or similar action letter (including any correspondence questioning data integrity) as a result of any action by any Governmental Entity, by the Seller or any of its Affiliates; nor are any such actions pending or under consideration (or any facts, conditions, or circumstance known) by the Seller or any of its Affiliates, or, to the Seller's Knowledge, by any Governmental Entity. There is not, to the Seller's Knowledge, pending or threatened litigation anywhere in the world seeking the recall, withdrawal, suspension, seizure or discontinuance of any of the Products.



**14 Taxes**

- 14.1 Each Target Group Company and each Tax Group to which it belongs has, and every member of the Seller's Group with an interest in the Contributed Business has, in respect of the Contributed Business, duly, and within any appropriate time limits, filed all Tax Returns required to be filed and has maintained all records required to be maintained for Tax purposes in relation to the assets comprised in the Contributed Business; all such information was and remains complete and accurate in all material respects and all such Tax Returns were complete and accurate in all material respects and were made on the proper basis.
- 14.2 There are no Tax liens on any asset comprised in the Target Group Business (other than Permitted Encumbrances).
- 14.3 No Target Group Company and no Tax Group to which a Target Group Company belongs is currently under audit or examination by a Tax Authority that could result in the assessment of a material amount of Tax and neither the Seller nor any Target Group Company (nor any Tax Group to which a Target Group Company belongs) has received notice from a Tax Authority of any dispute or disagreement outstanding or contemplated at the date of this Agreement with any Tax Authority regarding liability or potential liability to any Tax recoverable from any Target Group Company or regarding the availability of any relief from Tax to any Target Group Company and, so far as the Seller is aware, there are no circumstances which make it likely that any such dispute or disagreement will commence.
- 14.5 No Target Group Company, and no Tax Group to which a Target Group Company belongs, has received or requested any extension of time to file a Tax Return that remains unfiled or has granted or requested a waiver or extension of a limitation on any period for audit and examination or assessment and collection of Tax for any taxable period as to which Tax could be assessed.
- 14.6 No member of the Seller's Group with an interest in the Contributed Business has received notice from a Tax Authority of, and so far as the Seller is aware, there is not any dispute or disagreement outstanding at the date of this Agreement with any Tax Authority regarding the proper method of computing the profits of the Contributed Business (or any part of it) for Tax purposes or the proper treatment for VAT purposes of any supplies of goods or services made (or treated as made) in the course of the Contributed Business and, so far as the Seller is aware, there are no circumstances which make it likely that any such dispute or disagreement will commence.
- 14.7 So far as the Seller is aware, no Target Group Company benefits from any preferential Tax regime, granted by law or by special authorisation issued by any Tax Authority or by any other authority, which would in whole or in part be withdrawn as a result of the signature of this Agreement.
- 14.8 So far as the Seller is aware, no Tax Authority has within the past three years operated or agreed to operate any special arrangement (being an arrangement which is not based on relevant legislation or any published practice) in relation to any assets comprised in the Contributed Business.
- 14.9 In respect of all documents which establish or are necessary to establish the title of the relevant member of the Seller's Group to each material asset comprised in the Contributed Business, or by virtue of which the relevant member of the Seller's Group has any right in respect of each such asset, all applicable stamp duties, transfer taxes, registration charges or similar duties or charges have been duly paid.



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14.10 So far as the Seller is aware, other than any payments which are of a nature or type (such as expenditure on business entertainment or marketing) which are not deductible for Tax purposes by reason of a general restriction on deductibility applicable to payments of that nature or type under the laws of the jurisdiction in which the relevant Target Group Company is resident for Tax purposes or carries on its business, no Target Group Company is under any obligation to make any future payment which will not be deductible for Tax purposes in an amount which, if the payment were deductible for Tax purposes, would reduce the Tax liability of the relevant Target Group Company by an amount exceeding US\$5 million.

**15 Environmental Matters**

15.1 To the Seller's Knowledge, each Business Seller (with respect to its conduct of the Contributed Business and any Transferred Property) and Target Group Company is in compliance in all material respects with all Environmental Laws.

15.2 To the Seller's Knowledge, each Target Group Company and each Business Seller (with respect to its conduct of the Contributed Business and any Transferred Property) possesses all material Permits required under applicable Environmental Laws necessary to conduct its portion of the Contributed Business.

15.3 To the Seller's Knowledge, no Target Group Company nor any Business Seller (with respect to its conduct of the Contributed Business and any Transferred Property) has received any written notice alleging a material violation of any Environmental Laws, other than matters that have been resolved in all material respects.

15.4 To the Seller's Knowledge, no Target Group Company nor any Business Seller (with respect to its conduct of the Contributed Business and any Transferred Property) has received any written notice or claim alleging that it is or may be liable to any person in any material respect under any applicable Environmental Law as a result of a release or threatened release of any Hazardous Substance at any Transferred Property, other than matters that have been resolved in all material respects.

15.5 To the Seller's Knowledge, no Target Group Company nor any Business Seller (with respect to its conduct of the Contributed Business and any Transferred Property) is a party to any pending proceedings relating to any Environmental Laws, other than proceedings that would not reasonably be expected to have a relevant Material Adverse Effect.

**16 Employees**

16.1 The Disclosure Letter contains a true, complete and correct list of the following information in respect of each Target Business Employee and each Target Company Employee as of 31 March 2014 (organised by country and, in relation to any Target Group Company, by legal employer): (A) employee identification details; (B) date of birth; (C) employment status (part-time or full-time); (D) employment start date; (E) base salary as at 1 January 2014; (F) target annual incentive for 2014 (and amounts and/or details of approach to the calculation of the 2013 bonus amounts); and (G) target long-term incentive for 2014 (and amounts and/or details of the approach to the calculations of the long-term incentive amounts for 2013).

16.2 In each of the Material Employee Jurisdictions except as would not be reasonably expected to have a Material Adverse Effect:  
16.2.1 as of the date of this Agreement there is not, and in the two years prior to the date of this Agreement there has not been, nor to the Seller's Knowledge is there pending or threatened, any labour strike, dispute, work stoppage or lockout by any group of either Target Business Employees or Target Company Employees;



- 16.2.2 no trade union or works council is recognised in any way for bargaining, information or consultation purposes in relation to any of the Target Business Employees or Target Company Employees and no collective bargaining negotiations, whether voluntary or mandatory, are currently taking place with respect to any of the Target Business Employees or Target Company Employees and, as of the date of this Agreement, no Target Group Company or Business Seller is a party to any agreement (whether legally binding or not) with any such trade union or works council affecting any Target Business Employee or Target Company Employee and there is no existing dispute with any such representative body (or, to the Seller's Knowledge, pending or threatened) in relation to the Target Group Business;
- 16.2.3 there is no material litigation, claim or other dispute existing, nor to the Seller's Knowledge, pending or threatened by or in respect of any Employees (or any former employees of the Target Group Companies) in respect of their employment or any matter arising from their employment; and
- 16.2.4 no Target Group Company or Business Seller has, within the two years prior to the date of this Agreement, closed any plant or facility, effectuated any layoffs of employees or implemented any early retirement, separation or similar programme in each case in violation of the WARN Act, nor has any Target Group Company or Business Seller announced any such action or programme for the future.

16.3 No Key Personnel has given notice terminating his or her contract of employment, nor is under notice of dismissal.

16.4 To the Seller's Knowledge, and subject to the next sentence, no Target Company Employee will, as a result of the entering into of this Agreement or Closing, be entitled to receive any payment or benefit which he would not otherwise be entitled to receive (including, without limitation, an enhanced severance package on a subsequent termination) or be entitled to treat either such event as amounting to a breach of his terms and conditions of employment or to treat himself as redundant or dismissed or released from any obligation. This warranty shall not apply to any retention arrangements (in the form of cash or shares) put in place by the Seller or any member of the Seller's Group to retain key employees in connection with the matters contemplated by this Agreement as described in paragraphs 9 and 10 of Schedule 7 or any arrangement relating to the share-based incentive schemes of the Seller's Group pursuant to paragraph 10 of Schedule 7.

16.5 Since the Statement of Net Assets Date, no material change has been made, announced or proposed to the emoluments or other terms of employment of any Employee, and no such change, and no negotiation or request for such a change, is due or expected within 12 months from the date of this Agreement, and the employing company is under no obligation to make such a change (with or without retrospective operation) other than any arrangement relating to the share-based incentive schemes of the Seller's Group pursuant to paragraph 10 of Schedule 7.

**17 Employee Benefits**

17.1 The Disclosure Letter contains a true, complete and correct list of all bonus, staff incentives (including any share-based incentive schemes), redundancy or other benefits payable on termination of employment (whether voluntary or involuntary but excluding arrangements required in accordance with Applicable Law), ill-health, Employee Benefits or other benefits which are the material benefits available to the Target Business Employees and the Target Company Employees in the Material Employee Jurisdictions. To the Seller's Knowledge, other than any arrangement relating to the share-based incentive schemes of the Seller's Group pursuant to paragraph 10 of Schedule 7, no Target Group Company or Business



Seller has made any promises or commitments to make available any additional benefits to the Target Business Employees and the Target Company Employees in the Material Employee Jurisdictions, or to modify or change in any material way any existing benefits in the Material Employee Jurisdictions, or to continue or maintain the level of any existing benefits generally for any period, which in each case could reasonably be expected to have a Material Adverse Effect.

17.2 The Disclosure Letter contains true and complete copies of all documents of any written benefit schemes, plans or arrangements referred to in paragraph 17.1 above applicable to either Target Business Employees or Target Company Employees in the Material Employee Jurisdictions containing material terms (including governing documents, and for benefit plans that are not share-based incentive schemes related trust agreements or other funding documents) and a true, complete and correct summary of the material terms of any unwritten benefit schemes, plans or arrangements referred to in paragraph 17.1 above.

17.3 **Benefit Plans**

17.3.1 In the Material Employee Jurisdictions all benefit and compensation schemes, plans, funds, contracts, policies, agreements or arrangements (other than the US Benefit Plans and any schemes, plans, funds, contracts, policies, agreements or arrangements operated by any Governmental Entity) (A) operated by or on behalf of a Target Group Company or Business Seller, with respect to Target Company Employees or Target Business Employees or current or former employees or directors of a Target Group Company, (B) in respect of which any Target Group Company or Business Seller, with respect to Target Company Employees or Target Business Employees, the Seller or any member of the Seller's Group contributes or has contributed or (C) in respect of which any Target Group Company or Business Seller, with respect to Target Company Employees or Target Business Employees, has any liability (whether actual or contingent), including, but not limited to, plans providing Employee Benefits or during periods of sickness or disablement, or any deferred or incentive compensation, welfare, healthcare, medical, stock or stock-related award plans, including individual pension commitments, "jubilee" pension benefits and retirement and termination indemnity arrangements and, in relation to Switzerland, all plans, funds, contracts, policies, agreements or arrangements providing pension or other benefits on retirement (such schemes, plans, funds, contracts, policies, agreements and arrangements hereinafter being referred to, for each Seller, as "**Non-US Benefit Plans**") and the US Benefit Plans have been administered in accordance with their terms and are in compliance with Applicable Law, except for any failures to so administer or be in compliance that, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect. All required filings for all Benefit Plans have been made on time and with the appropriate Governmental Entity, except for any failures to timely file that, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect. As of the date of this Agreement, there is no existing, pending or, to the Seller's Knowledge, threatened material litigation, claim or other dispute relating to the Benefit Plans.

17.3.2 The Target Group Companies or Business Sellers, with respect to Target Company Employees or Target Business Employees in each Material Employee Jurisdiction: (A) are in material compliance with all Applicable Law respecting employment, employment practices, terms and conditions of employment, occupational health, safety, wages and hours; (B) have withheld all amounts required by Applicable Law, collective bargaining agreements or the Benefit Plans to be withheld from the wages, salaries or other payments to the Target Company Employees or the Target Business Employees and former employees of the Target Group Companies; (C) in respect of the Target Company Employees or Target Business Employees or former employees of the Target Group Companies, are not liable under any applicable provisions of the



Benefit Plans and any Applicable Law for any arrears, wages, Taxes, other than payments not yet due, or any penalty for failure to comply with the foregoing; and (D) are not liable under any applicable provisions of the Benefit Plans and any Applicable Law for any payment to any trust or other fund or to any Governmental Entity with respect to unemployment compensation benefits, workers compensation, social security or other benefits for Target Company Employees or Target Business Employees or former employees of the Target Group Companies, other than payments not yet due, except, in each case, for any failures to comply, failures to withhold or liabilities that, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

- 17.3.3 All material contributions that the Target Group Companies or Business Sellers, with respect to Target Business Employees or the Target Company Employees in a Material Employee Jurisdiction and Switzerland, are required to make to any Benefit Plan in respect of the period on or before the date of this Agreement have been fully and timely paid when due.

**18 Litigation**

- 18.1 No Target Group Company or Business Seller is involved whether as claimant or defendant or other party in any claim or Proceeding (other than as claimant in the collection of debts arising in the ordinary course of its business none of which exceeds US\$5 million) which is material to the Business.
- 18.2 To the Seller's Knowledge, no such claim or Proceeding of material importance is pending or threatened by or against any Target Group Company or Business Seller.

**19 Insolvency**

- 19.1 No order has been made and no resolution has been passed for the winding up of the Seller, any Share Seller or any Business Seller, or for the appointment of any administrator, receiver (including administrative receiver) or liquidator (provisional or otherwise) over the whole or any part of the property, assets and/or undertaking of the Seller, any Share Seller or any Business Seller.
- 19.2 No petition has been presented or meeting convened for the purpose of considering a resolution or resolution circulated for the winding up of the Seller, any Share Seller or any Business Seller, or for the appointment of any administrator, receiver (including administrative receiver) or liquidator (provisional or otherwise) over the whole or any part of the property, assets and/or undertaking of the Seller, any Share Seller or any Business Seller.
- 19.3 Neither the Seller, nor any Share Seller nor any Business Seller has stopped payment or suspended payment of its debts generally, is insolvent or deemed unable to pay its debts as they fall due.

**20 Insurance**

All material insurance policies relating to the Contributed Business are in full force and effect and, to the Seller's Knowledge, no notice of cancellation, termination or default has been received with respect to any such insurance policy. All premiums due and payable on such policies covering periods up to Closing have been paid in full or accrued.

**21 Consents and Licences**

- 21.1 All governmental and quasi-governmental licences, consents, permissions, waivers, exceptions and approvals required for carrying on the Contributed Business, the absence of which, individually or in the aggregate, would be material to the Contributed Business, are in force and, to the Seller's Knowledge, no written notice has been received by the Seller or any member of the Seller's Group which indicates that any such licence, consent, permission, waiver, exception or approval is likely to be revoked or which may confer a right of revocation.



**22 Delinquent and Wrongful Acts**

- 22.1 To the Seller's Knowledge, no member of the Seller's Group has, during the Relevant Period, committed any criminal or illegal act which relates to the Target Group Companies or the Target Group Businesses.
- 22.2 No member of the Seller's Group has, during the Relevant Period, received notification that any investigation or inquiry is being or has been conducted by any supranational, national or local authority or governmental agency specifically related to the Contributed Business, which is material in respect of the Contributed Business.

**23 Compliance**

- 23.1 No member of the Seller's Group has received in the Relevant Period any written notification or written claim (in each case, which remains outstanding) that it has conducted the Contributed Business with respect to the research, development, manufacturing, distribution and sale of any products of the relevant Seller's Contributed Business in a manner which does not in any respect comply with all Applicable Law, or which in any respect is defective or dangerous, where the pursuit of any such notification or claim is, or would reasonably be expected to be, material in respect of the Contributed Business.
- 23.2 So far as the Seller is aware, the Contributed Business has, and has during the Relevant Period been, operated in all material respects in compliance with all Applicable Law or standards and to the Seller's Knowledge there are no circumstances that could involve or lead to a material violation of any material Applicable Law or standards.

**24 Pipeline Products**

- 24.1 The Seller or one of its Affiliates is the registered holder of each of the Pipeline Product Approvals, and the benefit of each Pipeline Product Approval can be transferred to the Purchaser (or another member of the Purchaser's Group) regardless as to whether such transfer occurs directly (whether by way of transfer, reissuance or any other equivalent mechanism under Applicable Law of the relevant jurisdiction) or indirectly (through the transfer of the Target Group Companies).
- 24.2 All development activities in relation to the Pipeline Products have been conducted in the ordinary course and in accordance with all Applicable Law and standards and to the Seller's Knowledge there are no circumstances relating to the development of the Pipeline Products that could involve or lead to a material violation of any material Applicable Law or standards.
- 24.3 No material regulatory, clinical or safety event has occurred in relation to the Pipeline Products and no member of the Seller's Group has received any notification or claim from any person of any such event (or the possibility of any such event).

**25 Manufacturing Licences and Manufacture**

- 25.1 All Manufacturing Licences which are material to the Contributed Business, are in effect and are validly held by a member of the Seller's Group and during the Relevant Period, to the Seller's Knowledge, no member of the Seller's Group has received any written notice of any suit, action or proceeding regarding the revocation or modification of any such Manufacturing Licence.



25.2 No directive, order or notice has been given to the Seller or any member of the Seller's Group by any relevant regulatory authority to update, modify, amend, vary, supplement or delete any process and/or methodology relevant to the manufacture at the Properties of any product currently manufactured at the Properties and, so far as the Seller is aware, no such directive, order or notice is pending.



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**Schedule 14**  
**Warranties given by the Purchaser under Clause 9.3**

**1 AUTHORITY AND CAPACITY**

**1.1 Incorporation**

The Purchaser is validly existing and is a Purchaser duly incorporated and registered under the law of its jurisdiction of incorporation.

**1.2 Authority to enter into Agreement**

- 1.2.1** The Purchaser has the legal right and full power and authority to enter into and perform this Agreement, any Local Transfer Document to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Local Transfer Document.
- 1.2.2** The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on the Purchaser in accordance with their respective terms.
- 1.2.3** Except as referred to in this Agreement, the Purchaser:
- (i) is not required to make any announcement, consultation, notice, report or filing; and
  - (ii) does not require any consent, approval, registration, authorisation or permit,
  - (iii) in each case in connection with the performance of this Agreement or any other document referred to in paragraph 1.2.1.
- 1.2.4** The execution and delivery of the documents referred to in paragraph 1.2.1 and the performance by the Purchaser and each member of the Purchaser's Group of their respective obligations under them, will not:
- (i) result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional document of the relevant member of the Purchaser's Group;
  - (ii) result in a breach of, or constitute a default under, any instrument or contract to which the relevant member of the Purchaser's Group is party or by which the relevant member of the Purchaser's Group is bound where such breach is material to their ability to perform their obligations under such documents;
  - (iii) result in a breach of any existing order, judgment or decree of any court, Governmental Entity by which the relevant member of the Purchaser's Group is bound and where such breach is material to their ability to perform their obligations under such documents.



**1.3 Authorisation**

The Purchaser has taken, or will have taken by Closing, all corporate action required by it to authorise it to enter into and to perform this Agreement, any Local Transfer Document to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Local Transfer Document.



**Schedule 15  
Pre-Closing Obligations**

**Part 1  
Seller Restrictions**

The actions for the purposes of Clause 5.1.2 are:

- 1.1 amend or otherwise modify the constitutional documents of any Target Group Company other than minor or administrative amendments or modifications which are not adverse to its Contributed Business, the other Seller, or to the Purchaser in respect of its rights and obligations under this Agreement and the Ancillary Agreements;
- 1.2 create, allot or issue, or grant an option or right to subscribe for or purchase, any share capital or other securities or loan capital of any Target Group Company;
- 1.3 repay, redeem or repurchase any share capital, or other securities of any Target Group Company;
- 1.4 make any acquisition or disposal which has a value in excess of US\$150 million, in the case of GlaxoSmithKline, or US\$85 million, in the case of Novartis, exclusive of VAT;
- 1.5 grant any guarantee or indemnity for the obligations of any person (other than any Target Group Company) which has a value in excess of US\$5 million (other than in the ordinary course of trading);
- 1.6 dispose of, or agree to dispose of, any material asset or material stock at below market value other than in the ordinary course of business;
- 1.7 acquire or agree to acquire any share, shares or other interest in any company, partnership or other venture, other than an investment of 5 per cent. or less of the total shares or interest in such company, partnership or venture;
- 1.8 enter into, extend, amend, give notice to terminate or vary in any material respect any lease of real property or change the existing use of such property which is material to its Contributed Business;
- 1.9 enter into any borrowing facility which constitutes Third Party Indebtedness which would not be repaid prior to Closing;
- 1.10 enter into any off-balance sheet finance arrangements;
- 1.11 sell, lease, license, transfer or dispose of, or create any Encumbrance over, any material assets of its Contributed Business other than (i) in the ordinary course of business (including any sale of inventory) or (ii) a Permitted Encumbrance;
- 1.12 amend, terminate or grant any waiver with respect to any Owned Intellectual Property Contract or Transferred Intellectual Property Contract other than in the ordinary course of business;



- 1.13 fail to comply in all material respects with all Applicable Laws, Product Approvals, Marketing Authorisations applicable to the operation of its Contributed Business;
- 1.14 assign, licence or abandon any Owned Intellectual Property Rights or Transferred Intellectual Property Rights or rights in Proprietary Information, or cease to prosecute or otherwise dispose of, fail to maintain, defend or pursue applications for any of its registered Owned Intellectual Property Rights or registered Transferred Intellectual Property Rights material to any Product or Pipeline Product in each case other than in the ordinary course of business;
- 1.15 save where requested in writing by the other Seller or required by any applicable Governmental Entity, amend (other than in the ordinary course of business), cancel or surrender any applications, submissions or filings with respect to its registered Owned Intellectual Property Rights or registered Transferred Intellectual Property Rights;
- 1.16 instigate, cease, compromise or settle any litigation or arbitration proceedings related to its Contributed Business in relation to a claim for which the potential liability attaching thereto is in excess of US\$150 million, in the case of GlaxoSmithKline, or US\$85 million, in the case of Novartis;
- 1.17 make any material amendment to any Marketing Authorisation, Manufacturing Licence or Environmental Permit, in each case except to the extent required by: (a) Applicable Law; (b) any Governmental Entity, or (c) the standards, policies and procedures of the Seller's Group as then in force;
- 1.18 enter into, terminate, grant any waiver in respect of or amend in any material respect any Transferred Contract, or incur any commitment which is not capable of being terminated without compensation at any time with twelve months' notice or less or which is not in the ordinary course of business, or which involves or may involve total annual expenditure in excess of US\$150 million, in the case of GlaxoSmithKline, or US\$85 million, in the case of Novartis, exclusive of VAT;
- 1.19 enter into any contract which would materially restrict the freedom of its Target Group to operate in any part of the world;
- 1.20 terminate (except for good cause) the employment of any Key Personnel;
- 1.21 take any steps to increase or reduce the proportion of time spent working in its Contributed Business by any employee of any member of its Group or to transfer the employment of any Employee to another member of its Group or to employ or offer to employ or engage any new persons in its Contributed Business other than in ordinary course of business consistent with past practice and subject to an aggregate increase of not more than 2.5 per cent. in total staff costs of its Contributed Business per annum, provided that this restriction shall not apply to the redeployment of any Target Group Company Employee who is not wholly or substantially engaged in its Contributed Business before the Closing Date to employment with another member of its Group;
- 1.22 make, or commit to make, any changes to the terms and conditions of employment (including pension fund commitments or any increase to remuneration) or to any employee benefit plan of any Employee, other than (a) those required by Applicable Law or (b) pursuant to normal annual pay reviews in the ordinary course of business consistent with past



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practice and subject to an aggregate increase of not more than 5 per cent. in total staff costs of the Contributed Business per annum or (c) retention arrangements (in the form of cash or shares) to retain key employees in connection with the matters contemplated by this Agreement as described in paragraphs 9 and 10 of Schedule 7 or (d) those changes to share-based incentive schemes made for the purpose of complying with paragraph 10 of Schedule 7;

- 1.23** make any promises or commitment to any Employees or employee representative body concerning the matters contemplated by this Agreement or offer or otherwise give any assurances to any Employees as to the possibility of continued employment with the Purchaser's Group after Closing;
- 1.24** make any change or commitment to make any change to the terms of any redundancy policy or practice applying to the Employees (including amounts payable on redundancy);
- 1.25** enter into (where there is no existing agreement) or materially amend any collective bargaining agreement or other contract with a labour organisation, works council or employee organisation to create new or additional obligations for any member of the Seller's Group, in each case in relation to the Contributed Business or any Target Group Company; and
- 1.26** undertake any recall or withdrawal of any Product (other than in the ordinary course of business or to comply with Applicable Law).

**Part 2**  
**Seller Obligations**

**1 Obligations to be Satisfied prior to the Closing**

- 1.1** At least five Business Days prior to the Closing Date, each Seller shall provide the other Seller with a list of any required actions that must be taken within three months after Closing with respect to the payment of any registration, maintenance, or renewal fees or the filing of any documents, applications or certificates in order to maintain any Transferred Intellectual Property Rights that are Registered Intellectual Property Rights in full force and effect. Upon the other Seller's reasonable request, the relevant Seller shall execute and deliver assignment agreements and other transfer documentation, including, where applicable, duly executed assignments of such Transferred Intellectual Property Rights for recording with the applicable Governmental Entity, and to take such further actions, in each case at the other Seller's reasonable cost and expense and as may be required, to give effect to the foregoing assignments.

**2 Obligations from the Date of the Agreement to the Closing**

The requirements for the purposes of Clause 5.1.3 are:

- 2.1** so far as permitted by Applicable Law, procure that each member of the Seller's Group informs the other Seller promptly if the Seller becomes aware of, or has reasonable grounds for suspecting any violation of Anti-Bribery Law which is reasonably likely to have an impact on the Target Group;



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- 2.2** carry out capital expenditure in relation to any site operated by the Target Group where Products are manufactured in a manner materially consistent (and within a variance of 10 per cent. in aggregate) with the Seller's capital expenditure programme as at the date of this Agreement;
- 2.3** maintain and keep any Transferred Intellectual Property Rights and ensure that all filings and notifications required to be made in respect of the same are made in accordance with past practice;
- 2.4** progress, in accordance with past practice any applications, submissions, filings or other correspondence relating to the grant of new Transferred Intellectual Property Rights;
- 2.5** progress, in accordance with past practice during the Relevant Period, any applications, submissions, filings or other correspondence initiated by such member of the Seller's Group relating to the grant of new Manufacturing Licences and Environmental Permits in respect of the Contributed Business;
- 2.6** continue to Commercialise products of the relevant Seller's Contributed Business in accordance with past practice during the Relevant Period and do not materially accelerate or increase the quantity of such products distributed to the relevant distributors and/or wholesalers, in each case except in respect of a bona fide increase in demand for the relevant Product by the relevant distributor and/or wholesaler which has not been stimulated in any way by discounts, rebates, claw-backs or the like outside of the ordinary course of business or the grant of preferred terms offered by the Seller's Group outside of the ordinary course;
- 2.7** not discontinue or cease to operate or materially reduce the resources applied to any part of the Contributed Business;
- 2.8** maintain the level of Manufacturing Stocks and Manufacturing Inventory held for use in its Contributed Business materially in accordance with the Seller's Group's operating policies as applied to its Contributed Business from time to time in force;
- 2.9** maintain the level of In-Market Inventory held for use in its Contributed Business materially in accordance with the Seller's Group's operating policies as applied to its Contributed Business from time to time in force;
- 2.10** use all reasonable efforts to ensure that the manufacture of all products of the relevant Seller's Contributed Business by the Seller's Group comply with Applicable Law;
- 2.11** use all reasonable efforts to ensure that the products sold by its Contributed Business comply with Applicable Law;
- 2.12** continue to conduct the Ongoing Clinical Trials in accordance with GCP and the Seller Group's policies and procedures;
- 2.13** notify the other Seller in writing of any actual safety or quality issue in respect of any Product or the manufacture of any Product (as soon as reasonably practicable after becoming aware of the same) which issue the relevant member of the Seller's Group, acting reasonably and in good faith, considers material in the context of the manufacture or commercialisation of such Product;



- 2.14** so far as permitted by Applicable Law, report periodically to the Purchaser concerning the status of the Contributed Business, including delivering to the Purchaser as soon as reasonably practicable each month:
- 2.14.1** an update on material commercial developments in relation to the Contributed Business during the previous month;
  - 2.14.2** the gross profit for each relevant Product in respect of the previous month; and
  - 2.14.3** a report on the month-end in-trade inventory in respect of each relevant Product for the previous month prepared in the ordinary course of business consistent with past practice, together with a comparison against the comparable period of trading for the prior year.



**Schedule 16  
Key Personnel**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



**Schedule 17**  
**Reorganisations**

- 1 Between signing of this Agreement and Closing, each Seller may carry out one or more Reorganisations, provided that:
  - 1.1 if a Seller proposes to carry out a Reorganisation, that Seller (the “**Notifier**”) shall notify the other Seller (the “**Recipient**”) no later than the end of 90 calendar days after the date of this Agreement (and at least three weeks in advance of the proposed Reorganisation being implemented) of its intention to carry out the proposed Reorganisation and the detailed steps proposed to be implemented to effect the Reorganisation and, in respect of each Target Group Company, the country of incorporation, the country or countries of residence for Tax purposes and the location of any permanent establishments of that Target Group Company;
  - 1.2 the Notifier shall provide the Recipient with copies of all relevant legal documentation required to implement the Reorganisation in draft a reasonable period prior to the Reorganisation being implemented and shall provide the Recipient with such other information as the Recipient may reasonably request regarding the implementation of the Reorganisation;
  - 1.3 the Notifier shall consult in good faith with, and take into account the views of, and any requests made by, the Recipient in relation to any Reorganisation steps; and
  - 1.4 without prejudice to Clause 15.9 of this Agreement, all fees, costs and expenses of implementing any Reorganisation (or any part thereof) are borne by GlaxoSmithKline’s Group in the case of a Reorganisation where GlaxoSmithKline is the Notifier of the Reorganisation.
- 2 GlaxoSmithKline undertakes to the Purchaser (for itself and as trustee for each GlaxoSmithKline Consumer Group Company) that, with effect from Closing, GlaxoSmithKline will indemnify on demand and hold harmless the relevant GlaxoSmithKline Consumer Group Company against and in respect of any and all Liabilities arising in connection with any Reorganisation (or part thereof) undertaken by GlaxoSmithKline, other than:
  - (A) any Liabilities of a GlaxoSmithKline Consumer Group Company in respect of Tax (which shall be dealt with under the Tax Indemnity); and
  - (B) any Liabilities in connection with any matter provided for or document entered into as provided by this Agreement (including the provisions of Clause 8.11, but excluding this Schedule 17) or any Ancillary Agreement.
- 3 Novartis undertakes to the Purchaser (for itself and as trustee for each Novartis OTC Group Company) that, with effect from Closing, Novartis will indemnify on demand and hold harmless the relevant Novartis OTC Group Company against and in respect of any and all Liabilities arising in connection with any Reorganisation (or part thereof) undertaken by Novartis, other than:



(A) any Liabilities of any Novartis OTC Group Company in respect of Tax (which shall be dealt with under the Tax Indemnity); and

(B) any Liabilities in connection with any matter provided for or document entered into as provided by this Agreement (including the provisions of Clause 8.11, but excluding this Schedule 17 ) or any Ancillary Agreement.

4 In this paragraph 4 and in paragraph 5 below:

(A) “**GlaxoSmithKline RoW Consumer Assets**” means the GlaxoSmithKline Consumer Group excluding the GlaxoSmithKline Consumer Group in the US and excluding the GlaxoSmithKline Transferring UK Companies; and

(B) “**GlaxoSmithKline Transferring UK Companies**” means the GlaxoSmithKline Consumer Group Companies incorporated in the UK which are held (directly or indirectly) by Glaxo Group Limited.

5 GlaxoSmithKline intends to carry out a Reorganisation (the “**GlaxoSmithKline Reorganisation**”) between signing of this Agreement and Closing involving the following high-level steps:

5.1 GlaxoSmithKline will procure that a Jersey incorporated but solely UK tax resident company is incorporated as a (direct or indirect) subsidiary of Glaxo Group Limited (the “**Intermediate Holdco**”);

*GlaxoSmithKline Consumer Group in the US*

5.2 the GlaxoSmithKline Consumer Group in the US is currently primarily held (directly or indirectly) underneath GlaxoSmithKline Holdings Americas Inc and Stiefel Laboratories Inc;

5.3 if GlaxoSmithKline concludes that the conditions of section 355 of the Code should be met in respect of the GlaxoSmithKline Reorganisation, the GlaxoSmithKline Consumer Group in the US will be distributed to GlaxoSmithKline Finance plc by way of a “qualifying spin-off” under section 355 of the Code prior to Closing. The GlaxoSmithKline Consumer Group in the US will then be transferred to the Intermediate Holdco prior to Closing;

5.4 in any other case, the GlaxoSmithKline Consumer Group in the US will be transferred to the Purchaser on Closing in return for an issue of a portion of the A Shares to the Second GlaxoSmithKline Shareholder (as defined in the Shareholders’ Agreement);

*GlaxoSmithKline Consumer Group outside the US*

5.5 the GlaxoSmithKline RoW Consumer Assets are primarily held (directly or indirectly) underneath Glaxo Group Limited, Stiefel Laboratories Inc and Setfirst Limited;

5.6 the GlaxoSmithKline RoW Consumer Assets will be transferred to the Intermediate Holdco (or a direct or indirect subsidiary of the Intermediate Holdco) prior to Closing; and

5.7 on Closing, the Intermediate Holdco and the GlaxoSmithKline Transferring UK Companies will be contributed to the Purchaser in return for an issue of A Shares to the First GlaxoSmithKline Shareholder (as defined in the Shareholders’ Agreement).



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- 6** For the avoidance of doubt, the information set out in paragraph 5 above shall not constitute notification by GlaxoSmithKline to Novartis of a Reorganisation in accordance with paragraph 1.1 above.
- 7** Novartis intends to achieve its contributions to the Purchaser through the following high-level steps:
- 7.1** shares in Novartis OTC Group Companies held from Switzerland would be contributed to the Purchaser in return for the issue shares;
- 7.2** an 80 per cent. shareholding in Novartis Consumer Health, Inc. will be contributed to the Purchaser for the issue of shares to Novartis Finance Corporation;
- 7.3** shares in Novartis OTC Group Companies held by non-Swiss holding companies will be transferred to the Purchaser for cash;
- 7.4** Intellectual Property Rights may be transferred to the Purchaser for cash, either by way of sale or by way of fully paid-up licence; and
- 7.5** cash required by the Purchaser as envisaged in paragraphs 7.3 and 7.4 above would be provided by Novartis AG, and possibly also Novartis Finance Corporation, subscribing cash for shares in the Purchaser.
- 8** For the avoidance of doubt, the information set out in paragraph 7 above shall not constitute notification by Novartis to GlaxoSmithKline of a Reorganisation in accordance with paragraph 1.1 above.
- 9** The parties agree that although a Reorganisation may result in a change in the ownership structure of the relevant Target Group, it shall not, under any circumstances, result in a change in scope of that Target Contributed Business as defined in this Agreement.
- 10** Between the date of this Agreement and Closing, the Purchaser shall be entitled to set up such wholly-owned (direct or indirect) subsidiary companies as it sees fit and, in accordance with Clauses 2.1, 2.2 and 2.3, may procure that such subsidiary companies purchase the relevant Shares and/or Target Group Businesses in accordance with such Clauses.



**Schedule 18  
Statement of Net Assets**

**Part 1  
Statement of Net Assets Rules – GlaxoSmithKline**

**1 Preparation of the GlaxoSmithKline Statement of Net Assets**

**1.1 Period**

The Statements of Net Assets is prepared as of the close of business on the final day of the relevant calendar month.

**1.2 Translation of Reporting Entity's Statements of Net Assets**

A reporting entity reports in local currency. All reports are translated into GBP by the Seller for reporting purposes. The GlaxoSmithKline Statement of Net Assets is translated at the period-end exchange rates which are the rates published on the Finance Community and are based on exchange rates published by Reuters and are published on the GlaxoSmithKline intranet.

**1.3 GlaxoSmithKline UNISON Reporting System and Materiality:**

- 1.3.1** Financial information has been obtained from GlaxoSmithKline's UNISON reporting system and prepared in accordance with GlaxoSmithKline's Finance Manual.
- 1.3.2** The GlaxoSmithKline Statement of Net Assets contains the business of GlaxoSmithKline Consumer division as included in GlaxoSmithKline's segment reporting (column A- "Per Annual Report"). Excluded assets and liabilities related to GlaxoSmithKline's business in India and Nigeria and related to Lucozade and Ribena (which products were sold on 31 December 2013) are shown in columns B and C ("Adjust out Nigeria and India" and Exclude Lucozade and Ribena"). A £5 million threshold was applied.
- 1.3.3** The GlaxoSmithKline Statement of Net Assets has been prepared as follows:
  - (i) in accordance with the specific accounting treatments set out below; and, subject thereto;
  - (ii) adopting the same accounting principles, methods, procedures and practices utilized in preparing the consolidated financial statements of GlaxoSmithKline plc as described in the GlaxoSmithKline Finance Manual applied on a consistent basis using consistent estimation methodologies and judgments and with consistent classifications and, subject thereto; and
  - (iii) in accordance with IFRS.



**1.3.4** For the avoidance of doubt, paragraph 1.3.3(i) shall take precedence over paragraphs 1.3.3(ii) and 1.3.3(iii), and paragraph 1.3.3(ii) shall take precedence over paragraph 1.3.3(iii).

**2 Specific Policies**

The adjustment for exclusion of Lucozade and Ribena in the illustrative statement Net Assets represents an estimate based on balances at 31 December 2012 inflated by 2.8% for sales growth of the divested products. Other one-off adjustments relating to the divestment have also been excluded from other payables and receivables.



**Part 2**  
**Statement of Net Assets Rules – Novartis**

Part 3 of this Schedule 18 sets forth, for illustrative purposes only, a computation of the statement of net assets as of the close of business on 31 December 2013 (the “**Novartis Statement of Net Assets**”).

**1 Preparation of the Novartis Statement of Net Assets**

**1.1 Period**

The Novartis Statement of Net Assets is prepared as of the close of business on the final day of the relevant calendar month.

**1.2 Translation of Reporting Entity’s Statements of Net Assets**

A reporting entity reports in local currency. All reports are translated into US Dollars by the Seller for reporting purposes. The Novartis Statement of Net Assets is translated with the period-end exchange rates which are the rates provided by Novartis Group Treasury and are based on Bloomberg’s mid-morning CET exchange rates and are published in the Group Treasury section of the Novartis intranet.

**1.3 Novartis Reporting System and Materiality:**

**1.3.1** Financial information is obtained from the Financial Consolidation & Reporting System of Novartis and the supporting general ledgers are prepared in accordance with Novartis’s Accounting Manual (the “**NAM**”). The Financial Consolidation & Reporting System is the system of record for Novartis external reporting. References in the Novartis Statement of Net Assets included as Part 2 of this Schedule 18 shown as “BS01 lines 010-671” relate to the groupings shown in Novartis’s monthly reporting form “BS01 – Balance sheet”.

**1.3.2** For the Seller’s reporting purposes, the financial reporting of a legal entity is separated into a divisional part, which includes operating items and a corporate part, which mainly captures the amounts related to taxes, post-employment benefit obligations and most of the financial assets and liabilities. The Novartis Statement of Net Assets contains the business of the OTC division as included in Novartis’s segment reporting (column A- “OTC Divisional Reported Statement of Net Assets”), and items of the corporate Statement of Net Assets for the Novartis Group Companies (Column B – “OTC Statement of Net Assets of the Corporate part of the Novartis Group Companies” as well as adjustments for certain items which are either excluded from or added to the transaction (columns C -“Excluded items”). A US\$10 million threshold was applied.

**1.3.3** The Novartis Statement of Net Assets has been prepared as follows:

(i) in accordance with the specific accounting treatments set out below; and, subject thereto;



- (ii) adopting the same accounting principles, methods, procedures and practices utilized in preparing the consolidated financial statements of Novartis AG as described in the Novartis Accounting Manual applied on a consistent basis using consistent estimation methodologies and judgments and with consistent classifications and, subject thereto; and
  - (iii) in accordance with IFRS.
- 1.3.4** For the avoidance of doubt, paragraph 1.3.3(i) shall take precedence over paragraphs 1.3.3(ii) and 1.3.3(iii), and paragraph 1.3.3(ii) shall take precedence over paragraph 1.3.3(iii).

## 2 Specific Policies

The following supplement the description in the NAM for certain items included in the Novartis Group Statement of Net Assets:

### 2.1 Non-Current assets

- 2.1.1** Property, plant and equipment (BS01\_010)  
An amount of US\$1.1m has been excluded as it relates to assets, which will be retained.
- 2.1.2** Financial assets &– subsidiaries/JV (BS01\_040)  
This line reflects equity investments that Novartis Group Companies hold in other Novartis Group Companies. These relationships have been eliminated in the Novartis Statement of Net Assets (as reflected in Column C). The equity investment in an entity which is not supposed to transfer in a share deal is maintained. Deferred tax assets (BS01\_042).
- 2.1.3** Deferred tax assets (BS01\_042)  
This line represents deferred tax assets included in the corporate part of Transferred Subsidiaries. In the US deferred taxes are recognized in a member of the Seller's Group US corporate entity and have therefore been added (as reflected in column C) in the Novartis Statement of Net Assets.

### 2.2 Current Assets:

- 2.2.1** Receivables own BU (BS01\_130)  
Column B of the Novartis Statement of Net Assets represents receivables against other entities within the Novartis division, which are offset by an equivalent amount in the line Payables own BU. These amounts have been eliminated in Column C of the Novartis Statement of Net Assets.
- 2.2.2** Prepaid share-based payments (BS01\_161)



An asset for prepaid share-based compensation is recognized to reflect Novartis's internal charge-out mechanism for its equity settled share-based compensation plans. For entities settling the charge for the shares at the beginning of the vesting period, it reflects the expense yet to be recognized for the unvested part of a share-based compensation plan. This asset has been excluded (as reflected in Column C) and is not reflected in the Novartis Statement of Net Assets.

**2.3 Long-term Liabilities:**

**2.3.1** Deferred tax assets (BS01\_535)

This line represents deferred tax liabilities included in the corporate part of Transferred Subsidiaries. In the US deferred taxes are recognized in a member of the Seller's Group US corporate entity and have therefore been added (as reflected in column C) in the Novartis Statement of Net Assets.

**2.3.2** Other non-current liabilities (BS01\_540)

Column C excludes net liabilities for post-employment benefits of US\$88 million included in the corporate part of the Novartis Group Companies as their treatment is addressed separately in Schedule 8.

**2.4 Current Liabilities:**

**2.4.1** Accrued share-based payments (BS01\_671)

A liability for share-based compensation is recognized to reflect Novartis's internal charge-out mechanism for its equity-settled share-based compensation plans. For entities settling the charge for the shares after the vesting period, it reflects the expense recognized for the vested part of a share based compensation plan. This liability has been excluded (as reflected in Column C) and is not reflected in the Novartis Statement of Net Assets.



**Part 3  
 GlaxoSmithKline Statement of Net Assets**

GBP M	Per Annual Report	Adjust Out Nigeria and India	Exclude Lucozade & Ribena	TOTAL
<b>Fixed Assets</b>	<b>2,964</b>	[***]	[***]	[***]
Goodwill	333	[***]	[***]	[***]
Computer Software	15	[***]	[***]	[***]
Other intangibles	1,669	[***]	[***]	[***]
Property, Plant and Equipment	947	[***]	[***]	[***]
<b>Inventory</b>	<b>441</b>	[***]	[***]	[***]
<b>Receivables</b>	<b>835</b>	[***]	[***]	[***]
Trade Receivables*	673	[***]	[***]	[***]
Other Receivables*	162	[***]	[***]	[***]
<b>Payables</b>	<b>(1,363)</b>	[***]	[***]	[***]
Trade Payables*	(556)	[***]	[***]	[***]
Other Payables*	(807)	[***]	[***]	[***]
<b>Provisions</b>	<b>(21)</b>	[***]	[***]	[***]
<b>Net Operating Assets</b>	<b>2,856</b>	[***]	[***]	[***]

\* Adjustment for Lucozade and Ribena sales represents an estimate based on 2012 inflated at 2.8% for sales growth of divested portfolio. Other one off adjustments relating to the divestment have also been excluded from other payables and receivables

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



**Part 4**  
**Novartis Statement of Net Assets**

All amounts in US\$ thousands

	OTC Divisional Reported Statement of Net Assets at Dec 31, 2013	OTC Statement of Net Assets including Corporate part of the OTC Group Companies	Excluded items	OTC Group Statement of Net Assets Dec 31, 2013
BS01_010 Property, plant and equipment	306,208	[***]	[***]	[***]
BS01_020 Intangible assets	585,066	[***]	[***]	[***]
BS01_035 Financial assets - 3rd parties and loans to AC	2,983	[***]	[***]	[***]
BS01_040 Financial assets & subsidiaries//JV		[***]	[***]	[***]
BS01_040 Financial assets & subsidiaries//JV		[***]	[***]	[***]
BS01_042 Deferred tax assets		[***]	[***]	[***]
BS01_044 Other non-current non-financial assets	15,128	[***]	[***]	[***]
BS01_050 Total financing and loans to subsidiaries / JV		[***]	[***]	[***]
BS01_110 Total inventories	343,177	[***]	[***]	[***]
BS01_120 Trade receivables (3rd parties and AC)	494,787	[***]	[***]	[***]
BS01_130 Receivables own BU	1	[***]	[***]	[***]
BS01_130 Receivables own BU – Corporate		[***]	[***]	[***]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



BS01_140 Receivables other BU's	13,319	***	***	***
BS01_160 Other current assets(3rd parties and AC)	81,327	***	***	***
BS01_161 Prepaid share-based payments	2,439	***	***	***
BS01_163 Marketable securities, Commodities and Derivative financial assets		***	***	***
BS01_180 Cash & cash equivalents		***	***	***
<b>Total Assets</b>	<b>1,844,435</b>	***	***	***
BS01_511 Financial debt – long-term		***	***	***
BS01_516 Financing from subsidiaries / JV		***	***	***
BS01_518 Loans from subsidiaries / JV		***	***	***
BS01_535 Deferred tax liabilities		***	***	***
BS01_540 Other non-current liabilities (3rd parties and AC)	30,675	***	***	***
BS01_610 Trade payables (3rd parties and AC)	322,063	***	***	***
BS01_620 Payables own BU		***	***	***
BS01_620 Payables own BU – Corporate		***	***	***
BS01_630 Payables other BU's	35,113	***	***	***
BS01_651 Financial debt – Short-term (3rd parties and AC)		***	***	***

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



BS01_660 Income taxes payable		***	***	***
BS01_670 Accrued and other current liabilities (3rd parties and AC)	302,075	***	***	***
BS01_671 Accrued share-based payments	25,814	***	***	***
<b>Total Liabilities</b>	<u>715,740</u>	***	***	***
<b>Net Assets</b>	<u>1,128,695</u>	***	***	***

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 19**  
**Novartis International Assignees**

<u>Unique No.</u>	<u>Assignment</u>	<u>Home Division</u>	<u>Host Division</u>	<u>Start Date</u>	<u>Estimated End Date</u>
[***]	[***]	[***]	[***]	[***]	[***]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 20  
Clearances, Approvals etc.**

**Regulatory Approvals**

The following table provides the additional jurisdictions and applicable antitrust, merger control, or foreign investment rules referenced in Clause 4.1.3 of the Agreement.

This list of jurisdictions and statutes is not meant to be indicative of a known filing or approval requirement in these jurisdictions. To the extent that clearances, approvals, waivers, no action letters or consents are not required to be obtained or not otherwise agreed by the parties to be appropriate and waiting periods are not required to have expired in these jurisdictions, prior to closing of the transactions contemplated by the Agreement, such clearances, approvals, waivers, no action letters, consents, and waiting period expirations will not be conditions precedent to closing of the transactions contemplated by the Agreement.

<u>Country</u>	<u>Statute Under Which Filing/Approval Is Required</u>
Australia	The Competition and Consumer Act of 2010
Austria	Part I, chapter 3 of the Austrian Cartel Act of 2005
Brazil	Law No. 12,529 of November 30, 2011
Canada	The Competition Act
China	The Chinese Anti-Monopoly Law
Germany	Chapter VII of the Act against Restraints of Competition of 1958
India	The Competition Act of 2002, as amended by The Competition (Amendment) Act of 2007
Israel	Restrictive Trade Practices Law, 5748-1988
Japan	The Act on Prohibition of Private Monopolisation and Maintenance of Fair Trade No. 54 of 1947
Mexico	The Federal Law on Economic Competition
New Zealand	The Commerce Act of 1986
Russia	Federal Law No. 135-FZ of July 16, 2006 on Protection of Competition
South Africa	The Competition Act 89 of 1998
South Korea	The Monopoly Regulation and Fair Trade Act
Taiwan	The Fair Trade Law of 1991



Turkey  
United Kingdom

The Law on Protection of Competition No. 4054 of 1994  
The Enterprise Act of 2002



**Schedule 21**  
**Seller Marks**

**Part 1**  
**GlaxoSmithKline Seller Marks**

GLAXOSMITHKLINE

GLAXO

GSK

SMITHKLINE

SMITHKLINE BEECHAM

SB

STERLING

STIEFEL

WELLCOME

GLAXO WELLCOME

GSK Logo

GLAXOSMITHKLINE Logo

STIEFEL Logo



Attachment 1

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of 32 pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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Attachment 2

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of 53 pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Schedule 2**

**Amended GSK Disclosure Letter**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of 204 pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



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**Schedule 3**

**Amended Novartis Disclosure Letter**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of 155 pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



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Exhibit 4.9

**CONFIDENTIAL TREATMENT REQUESTED**

EXECUTION VERSION

9 October 2014

NOVARTIS AG

and

GLAXOSMITHKLINE PLC

DEED OF AMENDMENT

relating to the

SHARE AND BUSINESS SALE AGREEMENT

relating to the Vaccines Group, dated 22 April 2014 as amended and restated on 29 May 2014

**Linklaters**

Linklaters LLP  
One Silk Street  
London EC2Y 8HQ

Telephone (+44) 20 7456 2000  
Facsimile (+44) 20 7456 2222

Ref L-220595



This Deed (the “Deed”) is made on 9 October 2014 **between:**

- (1) **NOVARTIS AG**, a corporation (*Aktiengesellschaft*) incorporated in Switzerland whose registered office is at Lichtstrasse 35, 4056 Basel, Switzerland (the “**Seller**”); and
- (2) **GLAXOSMITHKLINE PLC**, a public limited company incorporated in England and Wales whose registered office is at 980 Great West Road Brentford, Middlesex, TW8 9GS (the “**Purchaser**”),

each a “**party**” and together the “**parties**”.

**Whereas:**

- (A) The Seller and the Purchaser entered into the Original Agreement (as defined below) on 22 April 2014 (the “**Signing Date**”).
- (B) The Seller and the Purchaser entered into the Amended Agreement (as defined below) on 29 May 2014.
- (C) The Seller and the Purchaser now wish to amend and supplement the Amended Agreement on the terms set out herein.

**It is agreed** as follows:

## **1 Definitions and Interpretation**

In this Deed, unless the context otherwise requires, the provisions in this Clause 1 apply.

### **1.1 Incorporation of defined terms**

Unless otherwise stated, terms defined in the Amended Agreement shall have the same meaning in this Deed.

### **1.2 Definitions**

“**Amended Agreement**” means the Original Agreement, as amended and restated on 29 May 2014;

“**Original Agreement**” means the Share and Business Sale Agreement relating to the Vaccines Group, dated 22 April 2014; and

### **1.3 Interpretation clauses**

**1.3.1** The principles of interpretation set out in Clause 1 of the Amended Agreement shall have effect as if set out in this Deed, save that references to “this Agreement” shall be construed as references to “this Deed”.

**1.3.2** References to this Deed include the Schedule.

## **2 Amendment**

**2.1** In accordance with Clauses 16.4.3 and 16.5.1 of the Amended Agreement, the parties agree that the Amended Agreement shall be amended and supplemented as set out in the Schedule to this Deed.

**2.2** The amendment and supplementation of the Amended Agreement pursuant to clause 2.1 shall take effect from the Signing Date, as if this Deed had been entered into on the Signing Date. Therefore, upon this Deed being entered into, this Deed read together with the Amended Agreement shall supersede the Original Agreement in its entirety.



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**3**      **Miscellaneous**

- 3.1**      Each party represents and warrants that it has full power and authority to enter into this Deed and to perform its obligations under it.
  
- 3.2**      The provisions of Clauses 13, 16.2 to 16.5 and 16.11 to 16.15 of the Amended Agreement shall apply to this Deed as if set out in full in this Deed and as if references in those Clauses to “this Agreement” are references to this Deed and references to “party” or “parties” are references to parties to this Deed.



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**In witness whereof** this Deed has been delivered on the date first stated above.

Executed as a DEED by

} /s/ Marvelle Sullivan

Marvelle Sullivan and

} /s/ Jonathan Emery

Jonathan Emery on behalf of  
**NOVARTIS AG**



2006bLL7u4#2n&yg0

Executed as a DEED by  
**GLAXOSMITHKLINE PLC** acting by its  
duly appointed attorney

) /s/ Subesh Williams  
) (Signature of attorney)  
)  
)  
)

in the presence of:

Witness's signature:

/s/ Richard Hilton

Name (print):

Richard Hilton

Occupation:

Solicitor, Slaughter and May

Address:

One Bunhill Row, London, EC1Y8YY



## Schedule

### Amendments to the Amended Agreement

- 1** With effect from the Signing Date:
- 1.1** the definitions of Business and Influenza Business in clause 1.1 of the Amended Agreement are deleted in their entirety and replaced with the following:
- “**Business**” means the research, development, manufacture, sales, marketing and commercialisation of Vaccines for human use by the Seller’s Group as recorded and reported by the Seller’s Group from time to time under the “Vaccines and Diagnostics” segment as described in and consistent with the Novartis 2013 Annual Report and, with respect only to the Vaccines Institute for Global Health, through the Novartis Institutes for BioMedical Research, and including the fill-finish process undertaken at the Rosia Site and, to the extent relevant, the Siena Site, but excluding:
- (i) the Influenza Business;
  - (ii) the Diagnostics Business; and
  - (iii) any Non-strategic Assets if and to the extent disposed of or transferred otherwise than to the Purchaser or a member of the Purchaser’s Group in accordance with this Agreement;
- “**Influenza Business**” means the Cell-based Influenza Business, the Egg-based Influenza Business and the German Flu Operations, taken together;
- 1.2** the following definitions are added to clause 1.1 of the Amended Agreement:
- “**FCC Vaccines**” means bulk influenza Vaccines produced using cell-based technologies;
- “**German Flu Operations**” means the operations for the manufacture of FCC Vaccines and MF59<sup>®</sup> adjuvant located at the Marburg Site;
- 1.3** the words “subject to the following sub-clause (iv) of this Clause 2.3.6,” are added at the beginning of sub-clause (iii) of clause 2.3.6 of the Amended Agreement;
- 1.4** a new sub-clause (iv) is added to clause 2.3.6 of the Amended Agreement as follows:
- “all out-of-pocket fees, costs and expenses which (x) are incurred by either party, whether before or after Closing, (y) specifically relate to the separation of the German Flu Operations from the Vaccines Group, and (z) are incurred in respect of works council consultations (including court fees, notary fees and works council legal fees) or physical separation at the Marburg Site (including IT systems workarounds, costs of new access cards and construction works), but excluding the parties’ own legal fees, shall, to the extent that such fees, costs and expenses arise solely as a result of such works council consultations or physical separation, be split equally between the Seller and the Purchaser. For the avoidance of doubt, this Clause 2.3.6(iv) shall not affect the cost allocation of wider measures necessary to effect the separation of the Business from the Influenza Business.”
- 1.5** existing sub-clauses (i) and (ii) of clause 2.3.8 of the Amended Agreement are renumbered (ii) and (iii) respectively, and a new sub-clause (i) is added as follows:
- “such Liabilities where the allocation has been, or is, otherwise agreed between the parties;”



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- 1.6 the words “subject to Clause 8.6” in clause 5.6.1 of the Amended Agreement are deleted and replaced with “subject to Clauses 5.6.3 and 8.6”;
- 1.7 a new clause 5.6.3 is added to the Amended Agreement as follows:
  - “Any Affiliate Contract between or among Sandoz GmbH or Novartis Pharma Stein AG on the one hand, and any Vaccines Group Company on the other hand, and entered into after the date hereof with the written consent of the Purchaser, shall not terminate prior to Closing in accordance with Clause 5.6.1, and shall transfer to the Purchaser upon Closing pursuant to Clause 2.3.1(viii).”
- 1.8 paragraph 3.4 of part B of part 1 of schedule 3 of the Amended Agreement is deleted in its entirety and replaced with the following:
  - 3.4 Property Description: Behringwerke: Emil-von-Behring-Straße 76, 35041 Marburg, Germany  
Building M 481 (entire building)
  - Date and parties to Lease: 4/17 May 2004
    - (1) PharmaServ Marburg GmbH & Co. KG
    - (2) Novartis Vaccines and Diagnostics GmbH
- 1.9 paragraphs 3.7, 3.8 and 3.9 of part B of part 1 of schedule 3 of the Amended Agreement are deleted in their entirety and replaced with the following:
  - 3.7 Property Description: Behringwerke: Emil-von-Behring-Straße 76, 35041 Marburg, Germany  
Building H 043 (entire building)
  - Date and parties to Lease: 05 January 2012
    - (1) PharmaServ Marburg GmbH & Co. KG
    - (2) Novartis Vaccines and Diagnostics GmbH
  - 3.8 Property Description: Behringwerke: Emil-von-Behring-Straße 76, 35041 Marburg, Germany  
Building H 001 (partially)  
Building H 007 (partially)
  - Date and parties to Lease: 19 / 20 July 2010
    - (1) PharmaServ Marburg GmbH & Co. KG
    - (2) Novartis Vaccines and Diagnostics GmbH
  - 3.9 Property Description: Behringwerke: Emil-von-Behring-Straße 76, 35041 Marburg, Germany  
Building Z24 (partially)
  - Date and parties to Lease: 21 December 2011
    - (1) PharmaServ Marburg GmbH & Co. KG
    - (2) Novartis Vaccines and Diagnostics GmbH



- 1.10** the following definitions are added to paragraph 1.1 of part 3 of schedule 3:
- “**German Carve-out Leases**” means the leases of the Company Leased Real Properties referred to at paragraphs 3.2 and 3.3 of Part B of Part 1 of Schedule 3 and any other lease(s) of the Company Leased Real Properties at the Marburg Site where the premises demised by such lease(s) are occupied by both the Business and the German Flu Operations;
- “**German Flu Lease(s)**” has the meaning set out in paragraph 2.1 of this Part 3 of Schedule 3; and
- “**German Vaccines Lease(s)**” has the meaning set out in paragraph 2.1 of this Part 3 of Schedule 3.
- 1.11** the following paragraphs are added as paragraph 2 of part 3 of schedule 3:
- “2 Specific provisions relating to the Marburg Site**
- 2.1** The Seller agrees to procure that Novartis Vaccines and Diagnostics GmbH shall use reasonable efforts to procure the contemporaneous surrender of the German Carve-out Leases and the grant of replacement leases, certain of which shall relate to those parts of the premises demised by the German Carve-out Leases which are used by the Business (the “**German Vaccines Lease(s)**”), and certain other of which shall relate to the balance of the premises demised by the German Carve-out Leases (the “**German Flu Lease(s)**”).
- 2.2** If Novartis Vaccines and Diagnostics GmbH is able to procure the surrender of the German Carve-out Leases and the grant of the German Vaccines Lease(s) and the German Flu Lease(s) prior to Closing, it is acknowledged that:
- 2.2.1 the German Flu Lease(s) shall be entered into by, or assigned prior to Closing to, an entity in the Seller’s Group Retained Business;
- 2.2.2 the German Flu Lease(s) shall not constitute lease(s) of Company Leased Real Property; and
- 2.2.3 the demise of the relevant Company Leased Real Property set out in Part B of Part 1 of this Schedule 3 shall be deemed amended to exclude the premises demised by the German Carve-out Leases and the German Flu Lease(s) and to include reference to the premises demised by the German Vaccines Lease(s).
- 2.3** If Novartis Vaccines and Diagnostics GmbH is not able to procure the surrender of the German Carve-out Leases and the grant of the German Vaccines Lease(s) and the German Flu Lease(s) prior to Closing, the Seller and the Purchaser shall use reasonable efforts to give practical effect to the above-described separation following Closing, and shall consider (without limitation):



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- 2.3.1 continued negotiations with the relevant Company Landlords to achieve a separation of each German Carve-out Lease into a German Vaccines Lease and a German Flu Lease, the latter of which shall be entered into by, or immediately assigned to, an entity in the Seller’s Group Retained Business; or
- 2.3.2 if a separation pursuant to paragraph 2.3.1 of this Part 3 of Schedule 3 is not achievable, a sub-lease of those parts of the premises demised by the German Carve-out Leases which are used by the German Flu Operations to an entity in the Seller’s Group Retained Business.
- 2.4 The Seller agrees to procure that Novartis Vaccines and Diagnostics GmbH shall not agree to any terms of any German Vaccines Lease(s) which are not substantially similar to the equivalent terms of the relevant underlying German Carve-out Lease without the consent of the Purchaser (not to be unreasonably withheld or delayed), and shall not agree to any terms of any German Flu Lease(s) which are not substantially similar to the equivalent terms of the relevant underlying German Carve-out Lease without the consent of the Seller (not to be unreasonably withheld or delayed).
- 2.5 In connection with the implementation of the arrangements set out in this paragraph 2 of Part 3 of Schedule 3, the parties agree to work together prior to Closing (or, where paragraph 2.3 of this Part 3 of Schedule 3 applies, after Closing) to agree the provision of any site engineering services reasonably required by the other in order to operate those premises demised by the German Vaccines Lease(s) or the German Flu Lease(s), as applicable, in substantially the same manner as operated immediately prior to Closing. Such services may include, but are not limited to, supply of water, gas and electricity, the operation of clean utility systems (water for injection, clean steam, clean gases, etc.), facility services contract management and administration, preventive and corrective maintenance, and shutdown coordination.”
- 1.12 the words “, the Influenza Business Transitional Services Agreement” are deleted in their entirety from paragraphs 1.1.2 and 1.2.2 of schedule 15 of the Amended Agreement;
- 1.13 the Illustrative Working Capital Statement in part 4 of schedule 16 of the Amended Agreement is deleted and replaced in its entirety with the following:  
All amounts in USD thousands

	<b>Vaccines Group (excl. Flu business) Illustrative Net Working Capital as per December 31, 2013</b>
BS01_110 Total inventories	400,663
BS01_120 Trade receivables (3rd parties and AC)	335,387
BS01_130 Receivables own BU	22,683
BS01_140 Receivables other BU’s	20,419
BS01_610 Trade payables (3rd parties and AC)	(176,115)
BS01_620 Payables own BU	(18,295)
BS01_630 Payables other BU’s	(40,675)
<b>Illustrative Net Working Capital</b>	<b>544,067</b>



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1.14 the Statement of Net Assets in part 2 of schedule 23 of the Amended Agreement is deleted and replaced in its entirety with the following:

All amounts in \$ thousands

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>	<u>Column G</u>	<u>Column H</u>	<u>Column I</u>
	Vaccines Dataroom balance sheet Dec 31, 2013	Adjustments*	Vaccines Divisional Reported Statement of Net Assets at Dec 31, 2013	Vaccines Statement of Net Assets of the Corporate part of the Vaccines Group Companies	Statement of Net Assets of the part of Novartis Vaccines Institute for Global Health	Excluded items	Vaccines Group Statement of Net Assets Dec 31, 2013	Influenza business	Vaccines Group (excl. Influenza business) Statement of Net Assets Dec 31, 2013
BS01_010 Property, plant and equipment	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	729,492
BS01_020 Intangible assets	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	1,853,635
BS01_034 Financial assets_ associated companies	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	777
BS01_035 Financial assets - 3rd parties and loans to AC	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	17,981
BS01_040 Financial assets & subsidiaries//JV	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	0
BS01_042 Deferred tax assets	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	78,951
BS01_044 Other non- current non-financial assets	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	23,129
BS01_050 Total financing and loans to subsidiaries / JV	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	58,563
BS01_110 Total inventories	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	400,663

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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	Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
BS01_120 Trade receivables (3rd parties and AC)	***	***	***	***	***	***	***	***	335,387
BS01_130 Receivables own BU	***	***	***	***	***	***	***	***	21,818
BS01_130 Receivables own BU – Corporate and Institute for Global Health	***	***	***	***	***	***	***	***	865
BS01_140 Receivables other BU's	***	***	***	***	***	***	***	***	20,419
BS01_160 Other current assets (3rd parties and AC)	***	***	***	***	***	***	***	***	70,207
BS01_161 Prepaid share-based payments	***	***	***	***	***	***	***	***	0
BS01_180 Cash & cash equivalents	***	***	***	***	***	***	***	***	4,393
<b>Total Assets</b>	***	***	***	***	***	***	***	***	<b>3,616,280</b>
BS01_511 Financial debt – long-term	***	***	***	***	***	***	***	***	8
BS01_520 Total financing and loans from subsidiaries// JV	***	***	***	***	***	***	***	***	680,633
BS01_535 Deferred tax liabilities	***	***	***	***	***	***	***	***	92,072
BS01_540 Other non-current liabilities (3rd parties and AC)	***	***	***	***	***	***	***	***	54,071
BS01_610 Trade payables (3rd parties and AC)	***	***	***	***	***	***	***	***	176,115
BS01_620 Payables own BU	***	***	***	***	***	***	***	***	15,056
BS01_620 Payables own BU – Corporate	***	***	***	***	***	***	***	***	3,239

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



	Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
BS01_630 Payables other BU's	***	***	***	***	***	***	***	***	40,675
BS01_651 Financial debt – Short-term (3rd parties and AC)	***	***	***	***	***	***	***	***	1,395
BS01_660 Income taxes payable	***	***	***	***	***	***	***	***	55,060
BS01_670 Accrued and other current liabilities (3rd parties and AC)	***	***	***	***	***	***	***	***	238,671
BS01_671 Accrued share-based payments	***	***	***	***	***	***	***	***	0
<b>Total Liabilities</b>	***	***	***	***	***	***	***	***	<b>1,356,995</b>
<b>Net Assets</b>	***	***	***	***	***	***	***	***	<b>2,259,285</b>

\* The difference for BS01\_010 Property, plant and equipment relates to the plant built in Pernambuco Brazil, which had been excluded in the dataroom balance sheet.

The difference for BS01\_160 Other current assets is composed of other current assets related to the Diagnostics Business, but which have not been transferred to Grifols; these were excluded in the dataroom balance sheet.

Line BS01\_620 and Line BS01\_630 have been combined into the line Intercompany payable in the dataroom balance sheet and items related to Pernambuco have been excluded.

The difference for BS01\_670 Accrued and other current liabilities is composed of items related to the Diagnostics business, which have not been transferred to Grifols and were therefore excluded in the dataroom balance and items related to the Plant in Pernambuco, which have also been excluded in the dataroom balance sheet.

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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EXECUTION VERSION

29 May 2014

NOVARTIS AG

and

GLAXOSMITHKLINE PLC

DEED OF AMENDMENT AND RESTATEMENT

relating to the

SHARE AND BUSINESS SALE AGREEMENT

relating to the Vaccines Group, dated 22 April 2014

## Linklaters

Linklaters LLP  
One Silk Street  
London EC2Y 8HQ

Telephone (+44) 20 7456 2000  
Facsimile (+44) 20 7456 2222  
Ref L-220595



**This Deed** (the “**Deed**”) is made on 29 May 2014 **between:**

- (1) **NOVARTIS AG**, a corporation (*Aktiengesellschaft*) incorporated in Switzerland whose registered office is at Lichtstrasse 35, 4056 Basel, Switzerland (the “**Seller**”); and
- (2) **GLAXOSMITHKLINE PLC**, a public limited company incorporated in England and Wales whose registered office is at 980 Great West Road Brentford, Middlesex, TW8 9GS (the “**Purchaser**”),

each a “**party**” and together the “**parties**”.

**Whereas:**

- (A) The Seller and the Purchaser entered into the Original Agreement (as defined below) on 22 April 2014 (the “**Signing Date**”).
- (B) In connection with the Original Agreement, the Seller provided the Original Disclosure Letter (as defined below) to the Purchaser.
- (C) The Seller and the Purchaser now wish to amend and restate:
  - (i) the Original Agreement, in the form of the Amended Agreement (as defined below); and
  - (ii) the Original Disclosure Letter, in the form of the Amended Disclosure Letter (as defined below).

**It is agreed** as follows:

## **1 Definitions and Interpretation**

In this Deed, unless the context otherwise requires, the provisions in this Clause 1 apply.

### **1.1 Incorporation of defined terms**

Unless otherwise stated, terms defined in the Original Agreement shall have the same meaning in this Deed.

### **1.2 Definitions**

“**Amended Agreement**” means the Original Agreement, as amended and restated in the form set out in Schedule 1 to this Deed;

“**Amended Disclosure Letter**” means the Original Disclosure Letter, as amended and restated in the form set out in Schedule 2 to this Deed;

“**Original Agreement**” means the Share and Business Sale Agreement relating to the Vaccines Group, dated 22 April 2014; and

“**Original Disclosure Letter**” means the letter given on the Signing Date from the Seller to the Purchaser disclosing information constituting exceptions to the Seller’s Warranties.

### **1.3 Interpretation clauses**

**1.3.1** The principles of interpretation set out in Clause 1 of the Original Agreement shall have effect as if set out in this Deed, save that references to “this Agreement” shall be construed as references to “this Deed”.

**1.3.2** References to this Deed include the Schedules.



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**2 Amendment**

- 2.1** In accordance with Clauses 16.4.3 and 16.5.1 of the Original Agreement, the parties agree that the Original Agreement shall be amended and restated as set out in Schedule 1 to this Deed.
- 2.2** The parties agree that the Original Disclosure Letter shall be amended and restated as set out in Schedule 2 to this Deed.
- 2.3** The amendment and restatement of the Original Agreement pursuant to clause 2.1 and the amendment and restatement of the Original Disclosure Letter pursuant to clause 2.2 shall take effect from the Signing Date, as if the Amended Agreement and the Amended Disclosure Letter had been entered into on the Signing Date. Therefore, upon this Deed being entered into:
  - 2.3.1** the Amendment Agreement shall supersede the Original Agreement in its entirety; and
  - 2.3.2** the Amended Disclosure Letter shall supersede the Original Disclosure Letter in its entirety.

**3 Miscellaneous**

- 3.1** Each party represents and warrants that it has full power and authority to enter into this Deed and to perform its obligations under it.
- 3.2** The provisions of Clauses 13, 16.2 to 16.5 and 16.11 to 16.15 of the Amended Agreement shall apply to this Deed as if set out in full in this Deed and as if references in those Clauses to “this Agreement” are references to this Deed and references to “party” or “parties” are references to parties to this Deed.



**In witness whereof** this Deed has been delivered on the date first stated above.

Executed as a DEED by

/s/ Roy Papatheodorou

Roy Papatheodorou and

Jonathan Emery on behalf of  
**NOVARTIS AG**

}

/s/ Jonathan Emery



200GbLL7u4#3CRr6S

Executed as a DEED by  
**GLAXOSMITHKLINE PLC** acting by its  
duly appointed attorney

)  
)  
)  
)  
)

/s/ David Redfern  
(Signature of attorney)

in the presence of:

Witness's signature:

/s/ Claire Jackson

Name (print):

Claire Jackson

Occupation:

Solicitor

Address:

One Bunhill Row, London



2006bLL7u4#3FkJ6N

**Schedule 1**

**Amended Agreement**



200GbLL7u4#3H#p6N

**CONFORMED COPY**

Dated 22 April 2014

as amended and restated on 29 May 2014 and further  
amended on 9 October 2014

NOVARTIS AG

and

GLAXOSMITHKLINE PLC

SHARE AND BUSINESS SALE AGREEMENT

relating to the Vaccines Group

**Linklaters**

Linklaters LLP  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

Telephone (+44 20) 7456 2000  
Facsimile (+44 20) 7456 2222  
Ref L-220595



2006bLL7u5c79Z96K

### Share and Business Sale Agreement

This Agreement is made on 22 April 2014, amended and restated on 29 May 2014 and further amended on 9 October 2014.

between:

- (1) **NOVARTIS AG**, a corporation (*Aktiengesellschaft*) incorporated in Switzerland whose registered office is at Lichtstrasse 35, 4056 Basel, Switzerland (the “**Seller**”); and
- (2) **GLAXOSMITHKLINE PLC**, a public limited company incorporated in England and Wales whose registered office is at 980 Great West Road Brentford, Middlesex, TW8 9GS, United Kingdom (the “**Purchaser**”),

each a “**party**” and together the “**parties**”.

Whereas:

- (A) the Seller and certain of the Seller’s Affiliates, including the Vaccines Group Companies (as defined below), are engaged in the Business;
- (B) as of the date of this Agreement, the Seller and certain of the Seller’s Affiliates directly or indirectly own shares and other equity interests in the Vaccines Group Companies;
- (C) the Seller has agreed to sell (or procure the sale of) the Vaccines Group (as defined below) and to assume the obligations imposed on the Seller under this Agreement;
- (D) the Purchaser has agreed to purchase (or procure the purchase of) the Vaccines Group and to assume the obligations imposed on the Purchaser under this Agreement;
- (E) the Seller and certain of the Seller’s Affiliates are also engaged in the Influenza Business, and shall retain the Influenza Business following the date hereof (such Influenza Business not to be the subject of the transactions between the Seller and the Purchaser contemplated by this Agreement). The Seller may carry out a Re-organisation (as defined below) on or prior to Closing to facilitate separation of the business from the Influenza Business; and
- (F) in connection with the transactions contemplated by this Agreement, the Purchaser and the Seller, or certain of their respective Affiliates, have or will enter into the Ancillary Agreements.

It is agreed as follows:

#### 1 Interpretation

In this Agreement, unless the context otherwise requires, the provisions in this Clause 1 apply:

##### 1.1 Definitions

“**2013 DCOGS**” means the highlighted sections of the COGS analysis in the Agreed Terms;

“**2013 Gross Profit**” means US\$274 million (being the difference between net sales (excluding other revenue) of US\$935 million and cost of goods sold of US\$661 million);

“**2013 Income Statement**” means the 2013 income statement of the Vaccines Group and the Influenza Business in the Agreed Terms;



“**Accounts**” means, for each Vaccines Group Company, the audited financial statements of that Vaccines Group Company, prepared in accordance with legislation as in force and applicable to that Vaccines Group Company for the accounting reference period ended on the Accounts Date, comprising the balance sheet, the profit and loss account and the notes to the accounts;

“**Accounts Date**” means, in respect of:

- (vi) Chiron Behring Vaccines Private Limited, 31 March 2013; and
- (vii) each other Vaccines Group Company, 31 December 2012;

“**Action**” means the taking of any steps by any Governmental Entity to seek a Judgment which would have the effect of preventing the consummation of the transactions contemplated by this Agreement by the Purchaser;

“**Affiliate**” means:

- (viii) with respect to any person (other than a party to this Agreement), any other person that Controls, is Controlled by or is under common Control with such person; or
- (ix) with respect to a party to this Agreement, any other person that is Controlled by such party,

and “**Affiliates**” shall be interpreted accordingly;

“**Affiliate Contract**” means a Contract between or among any member of the Seller’s Group (other than the Vaccines Group Companies) on the one hand, and any Vaccines Group Company on the other hand, but excluding any Ancillary Agreement;

“**Agreed Terms**” means, in relation to a document, such document in the terms agreed between the Seller and the Purchaser and signed for identification purposes by the Seller’s Lawyers and the Purchaser’s Lawyers, with such alterations as may be agreed in writing between the Seller and the Purchaser from time to time;

“**Agreement**” means this share and business sale agreement;

“**Allocation**” has the meaning given to it in paragraph 1 of Schedule 13;

“**Allowance**” means any amount payable or repayable to customers in respect of a contractual allowance or discount due on the sales of products;

“**Ancillary Agreements**” means the Implementation Agreement, the Local Transfer Documents, the Disclosure Letter, the Tax Indemnity, the France Offer Letter, the France SPA, the Netherlands Offer Letter, the Netherlands APA, the Transitional Services Agreement, the Manufacturing, Supply and Distribution Agreement, the Influenza Business Manufacturing and Supply Agreement, the Purchaser Intellectual Property Licence Agreement, the Intellectual Property Assignment Agreements and the Pharmacovigilance Agreement;

“**Anti-Bribery Law**” means any Applicable Law that relates to bribery or corruption, including the US Foreign Corrupt Practices Act of 1977 and the UK Bribery Act 2010, in each case as amended, re-enacted or replaced from time to time;

“**Applicable Law**” means any supra-national, federal, national, state, municipal or local statute, law, ordinance, regulation, rule, code, order (whether executive, legislative, judicial or otherwise), judgment, injunction, notice, decree or other requirement or rule of law or legal process (including common law), or any other order of, or agreement issued, promulgated or entered into by, any Governmental Entity or any rule or requirement of any national securities exchange, including all Healthcare Laws, and GCP, GLP, and GMP, each as may be amended from time to time;



“**Appointment Notice**” has the meaning given to it in paragraph 1.3 of Schedule 16;

“**Associated Person**” means, in relation to the Seller’s Group, a person (including any director, officer, employee, agent or other intermediary) who performs services for or on behalf of any member of the Seller’s Group or who holds shares of capital stock, partnership interests, limited liability company membership interests and units, shares, interest and other participations in any member of the Seller’s Group (in each case when performing such services or acting in such capacity);

“**Assumed Liabilities**” means all Liabilities relating to the Vaccines Group Businesses other than: (i) the Excluded Liabilities; (ii) any Relevant Pension and Employment Liability; and (iii) any Liabilities in respect of Tax (other than Tax which has been provided for or reflected in the Closing Statement and Tax which has been assumed by the Purchaser’s group under an express provision of this Agreement);

“**Base Working Capital**” means, in respect of the Vaccines Group Companies and Vaccines Group Businesses, the amount shown in paragraph 4 of Part 2 of Schedule 16;

“**Benefit Plans**” means the US Benefit Plans and the Non-US Benefit Plans;

“**Beta Interferon Patent Rights**” means the Patents listed in Part 3 of Schedule 4 (the “**Beta Interferon Patents**”) together with the rights of Novartis Vaccines and Diagnostics, Inc. under the Merck 2012 Licence;

“**Business**” means the research, development, manufacture, sales, marketing and commercialisation of Vaccines for human use by the Seller’s Group as recorded and reported by the Seller’s Group from time to time under the “Vaccines and Diagnostics” segment as described in and consistent with the Novartis 2013 Annual Report and, with respect only to the Vaccines Institute for Global Health, through the Novartis Institutes for BioMedical Research, and including the fill-finish process undertaken at the Rosia Site and, to the extent relevant, the Siena Site, but excluding:

- (x) the Influenza Business;
- (xi) the Diagnostics Business; and
- (xii) any Non-strategic Assets if and to the extent disposed of or transferred otherwise than to the Purchaser or a member of the Purchaser’s Group in accordance with this Agreement;

“**Business Day**” means a day which is not a Saturday, a Sunday or a public holiday in the canton of Basel-Stadt (Switzerland) or London;

“**Business Information**” means: (i) Commercial Information; (ii) Medical Information; and (iii) any other information Predominantly Related to the Business;

“**Business Sellers**” means the members of the Seller’s Group (other than the Vaccines Group Companies) that own assets of or otherwise conduct any of the Vaccines Group Business;



“**Call for New Tender**” means any calls for a tender (including any tender for a basket of products), whether a new tender or the renewal of an existing tender, which includes the Products and which is published after Closing of which the Seller and/or any of the Seller’s Affiliates become aware and which relates in whole or in part to the sale of Products;

“**Cash Balances**” means cash in hand or credited to any account with a financial institution and securities which are readily convertible into cash;

“**Cash Pooling Arrangements**” means the cash pooling arrangements of members of the Seller’s Group in which the Vaccines Group Companies participate;

“**Cell-based Influenza Business**” means:

- (xiii) the business conducted by the Seller’s Group from time to time of research, development, manufacture, sales, distribution, marketing and commercialisation of:
  - (a) influenza Vaccines using cell-based technologies, including such business conducted at the Holly Springs Site;
  - (b) adjuvants conducted at the Holly Springs Site; and
  - (c) other Vaccines products to the extent that such business is conducted or contemplated to be conducted by the Seller’s Group at the Holly Springs Site in accordance with its obligations to, or as requested by, the US government or regulatory authorities; and
- (xiv) technical development, manufacturing and supply of Enoxaparin, Copaxone or any other pharmaceutical or biological products (other than Vaccines) at the Holly Springs Site, including, but not limited to, pursuant to agreements or arrangements with Sandoz Inc. or its Affiliates;

“**Certificate**” means a certificate signed by a director, officer or an authorised signatory of the Seller in the form set out in Schedule 9, to be provided to the Purchaser immediately prior to Closing;

“**CFIUS**” means the Committee on Foreign Investment in the United States;

“**CFIUS Approval**” means written notice from CFIUS that any review or investigation of the Transaction under Section 721 of the Defense Production Act of 1950, as amended (50 U.S.C. App. Section 2170), has been concluded and there are no unresolved national security concerns with respect to the Transaction or the President shall have determined not to take action with respect to the Transaction;

“**Clinical Trials/Data Liability**” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the conduct of, or reporting or data in relation to, clinical studies or trials (including post-approval studies) in relation to the Vaccines Group;

“**Closing**” means the completion of the sale of the Shares and the Vaccines Group Businesses pursuant to this Agreement and any Ancillary Agreement;

“**Closing Date**” means the date on which Closing takes place;

“**Closing Statement**” means the statement setting out the Working Capital, the Working Capital Adjustment, the Vaccines Group Companies’ Cash Balances, the Intra-Group Non-Trade Receivables, the Third Party Indebtedness, the Intra-Group Non-Trade Payables and the Tax Adjustment, to be prepared by the Seller and agreed or determined in accordance with Clause 7 and Schedule 16;



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“**COBRA**” means the Consolidated Omnibus Budget Reconciliation Act of 1985 of the United States, as amended, section 4980B of the Code, Title I Part 6 of ERISA, and any similar US state group health plan continuation law, together with its implementing regulations;

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended, together with its implementing regulations;

“**Commercial Information**” means information that is, as of the Closing Date, owned by the Seller and/or its Affiliates and relates predominantly to the Commercialisation of any Products;

“**Commercial Practices Liability**” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the Commercialisation of products;

“**Commercialise**” means to promote, market, distribute and/or sell a Product and “**Commercialising**” and “**Commercialisation**” shall be construed accordingly;

“**Companies**” means the companies, details of which are set out in paragraph 2 of Schedule 2, and “**Company**” means any one of them;

“**Company Lease**” has the meaning given to it in paragraph 1.1 of Part 3 of Schedule 3;

“**Company Leased Real Properties**” has the meaning given to it in paragraph 1.1 of Part 3 of Schedule 3;

“**Company Owned Real Properties**” has the meaning given to it in paragraph 1.1 of Part 3 of Schedule 3;

“**Company Real Properties**” means the Company Owned Real Properties and the Company Leased Real Properties, and “**Company Real Property**” means any one of them;

“**Consumer Contribution Agreement**” means the contribution agreement dated the date of this Agreement between Leo Constellation Limited, the Purchaser and the Seller, relating to the establishment of a joint venture between the Purchaser and the Seller;

“**Contract**” means any binding contract, agreement, instrument, lease, licence or commitment, excluding: (i) any lease or other related or similar agreements, undertakings and arrangements with respect to the leasing or ownership of the Properties (to which the provisions set out in Schedule 3 shall apply); and (ii) any contract with any Employee;

“**Contracts Liabilities**” means Liabilities relating to the: (i) Transferred Contracts; (ii) Transferred Intellectual Property Contracts; and (iii) all other contracts or parts thereof transferred, assigned, novated or assumed by the Purchaser pursuant to this Agreement or to which a Vaccines Group Company is or was a party or under which a Vaccines Group Company has any Liability, and a “**Contracts Liability**” shall mean any one of them;

“**Control**” means the power to direct the management and policies of a person (directly or indirectly), whether through ownership of voting securities, by Contract or otherwise (and the term “**Controlled**” shall be interpreted accordingly);

“**Co-Owned Vaccines Group Intellectual Property Right**” means any Vaccines Group Intellectual Property Right that is owned in part by a third party;



“**Copyright**” means any works of authorship, copyrights, database rights, mask work rights and registrations and applications therefor;

[\*\*\*]

“**Decision**” means the issuing of any decision by a competition, antitrust, foreign investment, national, local, supranational or supervisory or other government, governmental, quasi-governmental, trade, or regulatory body, agency, branch, subdivision, department, commission, official or authority, including any Tax Authority and any governmental department and any court or other tribunal, that would have the effect of prohibiting the acquisition of the Vaccines Group by the Purchaser;

“**Deferred Employee**” means any person to whom the Seller, any Vaccines Group Company or any other member of the Seller’s Group has made an offer of employment for a role in the Business (as carried on by the Vaccines Group) in compliance with Clause 5 and whose employment in the Business (as carried on by the Vaccines Group) will take effect on a date following the Closing Date, save that no person shall become a Deferred Employee unless and until the Seller has provided to the Purchaser a copy of the offer letter setting out the agreed principal terms of employment and/or employment agreement (if executed) applicable to such person;

“**Diagnostics Business**” means the human blood and blood products diagnostics business (and certain related activities) sold by Novartis Vaccines and Diagnostics Inc. and its affiliates to G-C Diagnostics Corp. pursuant to a share and asset purchase agreement dated 10 November 2013;

“**Diagnostics GESA**” means the Global Employee Services Agreement and Amendment No. 3 to Share and Asset Purchase Agreement dated as of 9 January 2014 by and between Novartis Vaccines and Diagnostics, Inc., Novartis Corporation, G-C Diagnostics Corp., and Grifols, S.A.;

“**Diagnostics TSA Liabilities**” means any Liability arising out of, relating to or resulting from the Diagnostics TSA;

“**Diagnostics TSA**” means the Transition Services Agreement dated as of 9 January 2014 between Novartis Vaccines and Diagnostics, Inc. and G-C Diagnostics Corp.;

“**Disclosure Letter**” means the letter dated on the same date as this Agreement from the Seller to the Purchaser disclosing information constituting exceptions to the Seller’s Warranties;

“**Draft Closing Statement**” has the meaning given to it in Clause 7.1;

“**Effective Time**” means 11.59 p.m. (local time in the relevant location) on the Closing Date or, if the Closing Date is not the last day of a month but the first Business Day of a month, 11.59 p.m. on the last day of the immediately preceding month;

“**Egg-based Influenza Business**” means the business conducted by the Seller’s Group from time to time of research, development, manufacture, sales, distribution, marketing and commercialisation of influenza Vaccines and other products using egg-based technologies and related adjuvant technologies;

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\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



“**Employee Benefit Indemnification Amount**” has the meaning given to it in Schedule 12;

“**Employee Benefits**” has the meaning given to it in Schedule 12;

“**Employees**” means the Vaccines Business Employees and the Vaccines Group Company Employees, and “**Employee**” means any one of them;

“**Encumbrance**” means any claim, charge, mortgage, lien, option, equitable right, power of sale, pledge, hypothecation, usufruct, retention of title, right of pre-emption, right of first refusal or other security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing, and for the avoidance of doubt, shall exclude any licences of or claims of infringement relating to, Intellectual Property Rights;

“**Environmental Laws**” means any and all Applicable Law regulating or imposing Liability or standards of conduct concerning pollution or protection of the environment (including surface water, groundwater or soil);

“**Environmental Liabilities**” means any Liability arising out of, relating to or resulting from any Environmental Law or environmental, health or safety matter or condition, including natural resources, but excluding any Product Liability;

“**Environmental Permit**” means any permit, licence, consent or authorisation required by Environmental Laws issued by any relevant competent authority and used in relation to the operation or conduct of Manufacturing at each Property, and “**Environmental Permit**” shall be construed accordingly;

“**ERISA**” means the Employee Retirement Income Security Act of 1974 of the United States, as amended, together with its implementing regulations;

“**Estimated Employee Benefit Adjustment**” means the Seller’s reasonable estimate (in so far as practicable), made in good faith after consulting with the Purchaser, of 95 per cent. of the anticipated aggregate of the Employee Benefit Indemnification Amounts, to be notified by the Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Intra-Group Non-Trade Payables**” means the Seller’s reasonable estimate of the Intra-Group Non-Trade Payables, to be notified by the Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Intra-Group Non-Trade Receivables**” means the Seller’s reasonable estimate of the Intra-Group Non-Trade Receivables, to be notified by the Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Tax Adjustment**” means the Seller’s reasonable estimate of the Tax Adjustment, to be notified by the Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Third Party Indebtedness**” means the Seller’s reasonable estimate of the Third Party Indebtedness, to be notified by the Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Vaccines Group Companies’ Cash Balances**” means the Seller’s reasonable estimate of the aggregate of the Vaccines Group Companies’ Cash Balances, to be notified by the Seller to the Purchaser pursuant to Clause 6.4;

“**Estimated Working Capital**” means the Seller’s reasonable estimate of the Working Capital, to be notified by the Seller to the Purchaser pursuant to Clause 6.4;



“**Estimated Working Capital Adjustment**” means the amount by which the Estimated Working Capital is greater or less than the Base Working Capital, any such excess amount being treated as a positive number and any shortfall being treated as a negative number;

“**Excluded Assets**” means the property, rights and assets referred to in Clause 2.3.2 or Schedule 5;

“**Excluded Contracts**” means, collectively, each Contract which is not Predominantly Related to the Business;

“**Excluded Employees**” means the employees of any member of the Seller’s Group (including the Vaccines Group Companies) who are listed in Schedule 5, any Vaccines Group Company Employees who do not work wholly or substantially in the Business (as carried on by the Vaccines Group), and such other employees as may be agreed in writing between the Seller and the Purchaser after the date of this Agreement but before the Closing Date;

“**Excluded Liabilities**” means:

- (xv) all Liabilities:
  - (a) relating to the Vaccines Group Businesses other than to the extent taken into account in the Closing Statement;
  - (b) of the Vaccines Group Companies (other than Liabilities in respect of Tax),  
in either case, to the extent that they have arisen or arise (whether before or after Closing) as a result of, or otherwise relate to, an act, omission, fact, matter, circumstance or event undertaken, occurring, in existence or arising before Closing, other than any Relevant Pension and Employment Liability and any Liabilities in respect of Tax provided for or reflected in the Closing Statement; and
- (xvi) all Liabilities relating to the Seller’s Group Retained Business and the Excluded Assets; and
- (xvii) any Seller Allowance Rebate and Royalty Amount;

“**Exclusively Related to the Business**” means exclusively related to, or exclusively used or held for use exclusively, in connection with the Business;

“**FCA**” means the Financial Conduct Authority;

“**FCC Vaccines**” means bulk influenza Vaccines produced using cell-based technologies;

“**FDA**” means the United States Food and Drug Administration (or its successor);

“**Final Allocation Schedule**” has the meaning given to it in paragraph 8 of Schedule 13;

“**Final Payment Date**” means five Business Days after the date on which the process described in Part 1 of Schedule 16 for the preparation of the Closing Statement is complete;

“**France Assumed Liabilities**” means the Assumed Liabilities to the extent they relate to the France Business;

“**France Business**” means that part of the Vaccines Group, comprising:

- (xviii) Novartis Vaccines and Diagnostics S.A.S. and the part of the Business conducted by Novartis Vaccines and Diagnostics S.A.S.;



- (xix) the France Assumed Liabilities;
- (xx) the France Employees; and
- (xxi) any other assets that are exclusively related to the France Business;

“**France Closing**” has the meaning given to it in the France SPA;

“**France Employees**” means the Employees employed by Novartis Vaccines and Diagnostics S.A.S.;

“**France Offer Letter**” means the letter from the Purchaser to the Seller in respect of the binding offer from the Purchaser to acquire the France Business dated on or around the date hereof;

“**France Put Option Exercise**” has the meaning given to it in the France Offer Letter;

“**France SPA**” has the meaning given to it in the France Offer Letter;

“**FSAs**” has the meaning given to it in paragraph 7 of Schedule 11;

“**FSMA**” means the Financial Services and Markets Act 2000;

“**Full Title Guarantee**” means on the basis that the covenants implied under Part 1 of the Law of Property (Miscellaneous Provisions) Act 1994 where a disposition is expressed to be made with full title guarantee are deemed to be given by the Seller (on behalf of the relevant Share Seller or Business Seller) on Closing;

“**German Flu Operations**” means the operations for the manufacture of FCC Vaccines and MF59<sup>®</sup> adjuvant located at the Marburg Site;

“**Good Clinical Practices**” or “**GCP**” means the then-current standards, practices and procedures promulgated or endorsed by (i) the ICH Harmonised Tripartite Guidelines for Good Clinical Practice (CPMP/ICH/135/95) and any other guidelines for good clinical practices for trials on medicinal products in the European Union; (ii) the FDA as set forth in the guidelines entitled “Guidance for Industry E6 Good Clinical Practice: Consolidated Guidance,” including related regulatory requirements imposed by the FDA; and (iii) the equivalent Applicable Law in any relevant country;

“**Good Laboratory Practices**” or “**GLP**” means the then-current standards, practices and procedures promulgated or endorsed by: (i) the European Commission Directive 2004/10/EC relating to the application of the principles of good laboratory practices as well as “The rules governing medicinal products in the European Union,” Volume 3, Scientific guidelines for medicinal products for human use (ex—OECD principles of GLP); (ii) the then-current standards, practices and procedures promulgated or endorsed by the FDA as defined in 21 C.F.R. Part 58; and (iii) the equivalent Applicable Law in any relevant country;

“**Good Manufacturing Practices**” or “**GMP**” means the then-current standards, practices and procedures promulgated or endorsed by: (i) the European Commission Directive 91/356/EEC, as amended by Directive 2003/94/EC and 91/412/EEC respectively, as well as “The rules governing medicinal products in the European Union,” Volume 4, Guidelines for good manufacturing practices for medicinal products for human and veterinary use; (ii) the FDA and the provisions of 21 C.F.R. Parts 210 and 211; (iii) the principles detailed in the ICH Q7A guidelines; and (iv) all Applicable Law with respect to each of (i) through (iii);

“**Governmental Entity**” means any supra-national, federal, national, state, county, local, municipal or other governmental, regulatory or administrative authority, agency, commission or other instrumentality, any court, tribunal or arbitral body with competent jurisdiction, or any national securities exchange or automated quotation service including, any governmental regulatory authority or agency responsible for the grant approval, clearance, qualification, licensing or permitting of any aspect of the research, development, manufacture, marketing distribution or sale of the Products including the FDA, the European Medicines Agency, or any successor agency thereto;



“**Governmental Liability**” means any Liability arising out of, relating to or resulting from any claim, demand, action, suit, proceedings or investigation by a Governmental Entity (other than a Tax Authority) brought or undertaken in connection with products sold or developed by, or operations or practices of, the Vaccines Group prior to Closing;

“**GSK Break Fee**” has the meaning given to it in the Implementation Agreement;

“**Hazardous Substance**” means any gasoline or petroleum products, polychlorinated biphenyls, urea-formaldehyde insulation, hazardous wastes, toxic substances, asbestos, pollutants, or contaminants defined as such in or regulated under any applicable Environmental Law;

“**Headline Price**” has the meaning given to it in Clause 3.1.1(i);

“**Healthcare Laws**” means the federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)); the Anti-Inducement Law (42 U.S.C. § 1320a-7a (a)(5)); the civil False Claims Act (31 U.S.C. §§ 3729 et seq.); the administrative False Claims Law (42 U.S.C. § 1320a-7b(a)); the Exclusion Laws (42 U.S.C. § 1320a-7); the Medicare statute (Title XVIII of the Social Security Act), including Social Security Act §§ 1860D-1 to 1860D-43 (relating to Medicare Part D and the Medicare Part D Coverage Gap Program); the Medicaid statute (Title XIX of the Social Security Act); the Physician Payment Sunshine Act (42 U.S.C. § 1320a-7h) and any analogous state laws; the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. § 1320d et seq.), as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and any other similar law, including the price reporting requirements and the requirements relating to the processing of any applicable rebate, chargeback or adjustment, under applicable rules and regulations relating to the Medicaid Drug Rebate Program (42 U.S.C. § 1396r-8), any state supplemental rebate program, Medicare average sales price reporting (42 U.S.C. § 1395w-3a), the Public Health Service Act (42 U.S.C. § 256b), the Veterans Health Care Act (38 U.S.C. § 8126), regulatory requirements applicable to sales on the Federal Supply Schedule or under any state pharmaceutical assistance program or United States Department of Veterans Affairs agreement, all legal requirements relating to the billing or submission of claims, collection of accounts receivable, underwriting the cost of, or provision of management or administrative services in connection with, any and all of the foregoing, by the Seller’s Group and any successor government programs, and all foreign equivalents of the foregoing;

“**Holly Springs Site**” means properties located in Holly Springs, North Carolina, United States of America at which the Influenza Business undertakes Manufacturing activities;

“**HSR Act**” means the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, together with its implementing regulations;

“**IFRS**” means International Financial Reporting Standards, comprising the accounting standards and interpretations issued, adopted and/or approved by the International Accounting Standards Board;



“**Illustrative Working Capital Statement**” has the meaning given to it in Part 2 of Schedule 16;

“**Implementation Agreement**” means the implementation agreement dated the date of this Agreement between the Seller and the Purchaser relating to, amongst other things, the implementation of the Transaction;

“**In-Market Inventory**” means all inventory of Products for Commercialisation that, at any particular time: (i) is beneficially owned by a member of the Seller’s Group; and (ii) is in finished packed form and released for Commercialisation; and (iii) is located: (a) in (or in transit to) the relevant Market; or (b) in (or in transit to) a multi-market warehouse owned or operated by a member of the Seller’s Group or by a third party; or (c) at a Property pending despatch following release by the relevant qualified person to the relevant market or multi-market warehouse;

“**Indebtedness**” means all loans and other financing liabilities and obligations in the nature of borrowed moneys and overdrafts and moneys borrowed, but excluding trade debt and liabilities arising in the ordinary course of business;

“**Influenza Business**” means the Cell-based Influenza Business, the Egg-based Influenza Business and the German Flu Operations, taken together;

“**Influenza Business Manufacturing and Supply Agreement**” means the manufacturing and supply agreement expected to be entered into between the Seller or a member of the Seller’s Group and the Purchaser or a member of the Purchaser’s Group on Closing on terms consistent with the heads of terms in the Agreed Terms, pursuant to which the Purchaser will manufacture and supply certain products to the Influenza Business;

“**Information Technology**” means computer, hardware, software and network;

“**Intellectual Property Assignment Agreements**” means the assignments between the Seller and/or one or more of its Affiliates and the Purchaser and/or one or more of its Affiliates on terms consistent with the Agreed Terms, to be entered into at Closing, in respect of the transfer of certain Intellectual Property Rights in each of the relevant jurisdictions;

“**Intellectual Property Rights**” means all: (i) Patents; (ii) Know-How; (iii) Trademarks; (iv) internet domain names; (v) Copyrights; (vi) rights in designs; (vii) database rights; and (viii) all rights or forms of protection, anywhere in the world, having equivalent or similar effect to the rights referred to in paragraphs (i) to (vii) above, in each case whether registered or unregistered and including applications for registration of any such thing;

“**International Assignees**” means the employees of any member of the Seller’s Group (including the Vaccines Group Companies) who are listed in Schedule 6 (as updated after the date of this Agreement as noted in Schedule 6 to exclude any international assignees working in the Influenza Business), and such other employees as may be agreed in writing between the Seller and the Purchaser after the date of this Agreement but before the Closing Date;

“**Intra-Group Non-Trade Payables**” means all outstanding loans or other financing liabilities or obligations (including, for the avoidance of doubt, interest accrued, dividends declared or payable but not paid) owed by a Vaccines Group Company to a member of the Seller’s Group (other than a Vaccines Group Company) as at the Effective Time as derived from the Closing Statement, but excluding: (i) Intra-Group Trading Balances; and (ii) any item which falls to be included in calculating the Vaccines Group Companies’ Cash Balances or the Third Party Indebtedness;



“**Intra-Group Non-Trade Receivables**” means all outstanding loans or other financing liabilities or obligations (including, for the avoidance of doubt, interest accrued, dividends declared or payable but not paid) owed by a member of the Seller’s Group (other than a Vaccines Group Company) to a Vaccines Group Company as at the Effective Time as derived from the Closing Statement, but excluding: (i) Intra-Group Trading Balances; and (ii) any item which falls to be included in calculating the Vaccines Group Companies’ Cash Balances or the Third Party Indebtedness;

“**Intra-Group Trading Balances**” means all trade accounts and notes receivable or payable arising in the ordinary course between any two members of the Seller’s Group, in each case to the extent related to the Vaccines Group, to which lines “BS01\_630 Payables Other BU’s”, “BS01\_140 Receivables Other BU’s”, “BS01\_620 Payables Own BU” and “BS01\_130 Receivables Own BU” of the Statement of Net Assets apply, together with any unpaid financing charges accrued thereon;

“**IP Liability**” means any Liability arising out of, relating to or resulting from any actual or alleged infringement, misappropriation or other violation of Intellectual Property Rights of third parties;

“**Judgment**” means any order, writ, judgment, injunction, decree, stipulation, determination, decision or award entered by or with any Governmental Entity of competent jurisdiction;

“**Key Personnel**” means the Employees listed in Schedule 21;

“**Key Sites**” means the Marburg Site, the Rosia Site and the Siena Site;

“**Know-How**” means all existing and available technical information, know-how and data, including inventions (whether patentable or not), discoveries, trade secrets, specifications, instructions, processes and formulae, including all biological, chemical, pharmacological, biochemical, toxicological, pharmaceutical, physical, safety, quality control, preclinical and clinical data;

“**Lease**” has the meaning given to it in paragraph 1.1 of Part 4 of Schedule 3;

“**Liabilities**” means all liabilities, claims, damages, proceedings, demands, orders, suits, costs, losses and expenses of every description, whether deriving from contract, common law, statute or otherwise, whether present or future, actual or contingent, ascertained or unascertained or disputed and whether owed or incurred severally or jointly or as principal or surety;

“**LIBOR**” means the London interbank offered rate, being the interest rate offered in the London inter-bank market for three month US dollar deposits as displayed on pages LIBOR01 or LIBOR02 of the Reuters screen at 11 a.m. (London) on the second Business Day prior to the Closing Date;

“**Licensed Intellectual Property Contract**” means any Vaccines Group Intellectual Property Contract constituting or containing a licence of Intellectual Property Rights in respect of the Business or Products;

“**Listing Rules**” means the listing rules made by the FCA under section 73A of FSMA;

“**Local Transfer Document**” has the meaning given to it in Clause 2.6.1;



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“**Long Stop Date**” has the meaning given to it in Clause 4.3;

“**Losses**” means all losses, liabilities, costs (including legal costs and experts’ and consultants’ fees), charges, expenses, actions, proceedings, claims and demands;

“**MA Costs**” has the meaning given to it in paragraph 4 of Part 2 of Schedule 8;

“**MA Documentation**” has the meaning given to it in paragraph 1.4 of Part 2 of Schedule 8;

“**Manufacture**”, “**Manufacturing**” or “**Manufactured**” means the planning, purchasing of materials for, production, processing, compounding, storage, filling, packaging, labelling, leafleting, warehousing, quality control testing, waste disposal, quality release, sample retention and stability testing of products;

“**Manufacturing Inventory**” means any packed inventory of Products and/or products for Commercialisation that is: (i) in finished form (save for any secondary packaging undertaken outside of a Property); (ii) beneficially owned by any member of the Seller’s Group; (iii) held at a Property; and (iv) not yet released by the qualified person at a Property; and excluding in each case, for the avoidance of doubt, any In-Market Inventory and Manufacturing Stocks;

“**Manufacturing Liability**” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the manufacturing of products;

“**Manufacturing Licences**” means any certificates, permits, licences, consents and approvals issued by any Governmental Entity, used in the operation or conduct of Manufacturing at each Property, and “**Manufacturing Licence**” shall be construed accordingly;

“**Manufacturing Stocks**” means, as at Closing, all stocks of raw materials, active pharmaceutical ingredients, ingredients, adjuvants, drug substances, intermediates, packaging materials, components, devices and other production and pre-production consumables and work-in-progress that are beneficially owned by any member of the Seller’s Group for use in the Manufacture of Products or Pipeline Products and held at a Property;

“**Manufacturing, Supply and Distribution Agreement**” means the manufacturing, supply and distribution agreement to be entered into between the Seller and the Purchaser at Closing on terms consistent with the heads of terms in the Agreed Terms;

“**Marburg Site**” means the Properties located in Marburg (Germany) at which the Vaccines Group undertakes Manufacturing activities;

“**Marketing Authorisation Data**” means the existing and available dossiers containing the relevant Know-How used by the Seller and/or its Affiliates to obtain and maintain the Marketing Authorisations;

“**Marketing Authorisation Holder**” means the holder of the relevant Marketing Authorisation;

“**Marketing Authorisation Re-registration**” has the meaning given to it in paragraph 1.1.2 of Part 2 of Schedule 8;

“**Marketing Authorisation Re-Registration Date**” means the date on which the relevant Governmental Entity approves, or is deemed to approve, the relevant Marketing Authorisation Re-registration;



“**Marketing Authorisation Transfer Date**” means the date on which the relevant Governmental Entity approves, or is deemed to approve, the relevant Marketing Authorisation Transfer;

“**Marketing Authorisation Transfer**” has the meaning given to it in paragraph 1.1.1 of Part 2 of Schedule 8;

“**Marketing Authorisation Transferee**” means the member of the Purchaser’s Group or, where no member of the Purchaser’s Group satisfies the requirements under Applicable Law to be transferred the relevant Marketing Authorisation, such Third Party as is nominated by the Purchaser, in either case to whom the relevant Marketing Authorisation is to be transferred;

“**Marketing Authorisations**” means the marketing authorisations issued or applications for Marketing Authorisations with respect to the Products and all supplements, amendments and revisions thereto;

“**Markets**” means the markets in which the Products are marketed and sold under the relevant Marketing Authorisation, and “**Market**” shall be construed accordingly;

“**Material Adverse Effect**” means any matter, change, event or circumstance arising or discovered on or after the date of this Agreement and prior to Closing (including a breach of the Seller’s obligations under Clause 5 or Clause 9.1) (a “**Relevant Matter**”) that, individually or in the aggregate with other Relevant Matters, if known to the Purchaser prior to the date of this Agreement, could reasonably have expected to have resulted in the Purchaser offering to acquire the Vaccines Group on the terms of this Agreement at a discount to the Headline Price of 30 per cent. or more and, in determining such reduction, regard shall be had to the actual basis on which the Purchaser determined the Headline Price. A Relevant Matter shall not constitute or count towards a “Material Adverse Effect” to the extent resulting or arising from:

- (xxii) any change that is generally applicable to, or generally affects, the industries or markets in which the Vaccines Group operates (including changes arising as a result of usual seasonal variations) or arises from or relates to changes in Applicable Law or accounting rules or changes in any authoritative interpretation of any Applicable Law by any Governmental Entity;
- (xxiii) any change in financial, securities or currency markets or general economic or political conditions or changes in prevailing interest rates or exchange rates;
- (xxiv) the execution of this Agreement, the public announcement thereof or the pendency or consummation of the transactions contemplated hereby (including any cancellations of or delays in customer orders or other decreases in customer demand, any reduction in revenues and any disruption in supplier, distributor, customer or similar relationships); or
- (xxv) the taking of any action expressly required by this Agreement or by any Ancillary Agreement or otherwise taken with the advance written consent of the Purchaser,

except, in relation to either paragraph (i) or paragraph (ii) above, if that change adversely affects the Vaccines Group in a disproportionate manner relative to other comparable businesses operating in the same industry and geographic markets as the Vaccines Group (in which case it may constitute or count towards a “Material Adverse Effect”);



“**Material Employee Jurisdictions**” means China, Germany, India, Italy, the United Kingdom and the United States of America;

“**Medical Information**” means information relating to clinical and technical matters, such as therapeutic uses for the approved indications, drug-disease information, and other product characteristics Predominantly Related to the Business which is available to or used by the Seller and/or its Affiliates as of the Closing Date;

“**Merck 2012 Licence**” means the Settlement and Licence Agreement between Novartis Vaccines and Diagnostics Inc. and Merck KGaA and Ares Trading SA dated 14 November 2012;

“**Milestone Payments**” has the meaning given to it in paragraph 10 of Schedule 17;

“**Minority Interest Entities**” means the entities, details of which are set out in paragraph 3 of Schedule 2, and “**Minority Interest Entity**” means any one of them;

“**Netherlands APA**” has the meaning given to it in the Netherlands Offer Letter;

“**Netherlands Assumed Liabilities**” means the Assumed Liabilities to the extent they relate to the Netherlands Business;

“**Netherlands Business**” means that part of the Vaccines Group, comprising:

- (xxvi) the Vaccines Group Businesses that relate predominantly to the part of the Business conducted in the Netherlands;
- (xxvii) the Netherlands Assumed Liabilities;
- (xxviii) the Netherlands Employees; and
- (xxix) any other assets that are exclusively related to the Netherlands Business;

“**Netherlands Closing**” has the meaning given to it in the Netherlands APA;

“**Netherlands Employees**” means the Employees employed in the Netherlands;

“**Netherlands Offer Letter**” means the letter from the Purchaser to the Seller in respect of the binding offer from the Purchaser to acquire the Netherlands Business dated on or around the date hereof;

“**Netherlands Put Option Exercise**” has the meaning given to it in the Netherlands Offer Letter;

“**Non-strategic Assets**” means the assets of the Vaccines Group exclusively related to the Products Encepur and Ixiaro and any Liabilities relating to those Products;

“**Non-US Benefit Plans**” has the meaning given to it in paragraph 16.3.1 of Schedule 18;

“**Notice**” has the meaning given to it in Clause 16.11.1;

“**Novartis 2013 Annual Report**” means the 2013 annual report of Novartis AG, including the consolidated financial statements of the Seller’s Group for the financial year ending on 31 December 2013;

“**Novartis Break Fee**” has the meaning given in the Implementation Agreement;

“**Ongoing Clinical Trials**” means the ongoing clinical studies sponsored or supported by the Seller’s Group (including post-approval studies) or otherwise recommended by a Governmental Entity, and regulatory commitments in respect of the Products and the Pipeline Products, listed in Schedule 22 and “Ongoing Clinical Trial” shall mean any one of them;



“**Out-Licensing Programme**” means the out-licensing and enforcement of Intellectual Property Rights that are not used in or developed for the Business and generally relate to base technology useful in drug discovery and/or manufacturing processes, including any contracts or Intellectual Property Rights related thereto but excluding the Beta Interferon Patent Rights;

“**Out-Licensing Programme Intellectual Property Rights**” means the Intellectual Property Rights used in relation to the Out-Licensing Programme;

“**Out of Scope Patent**” means any Patent of the Seller’s Group at the date of Closing, but excluding (i) the Transferred Intellectual Property Rights; (ii) any Patents licensed under the Purchaser Intellectual Property Licence Agreement; (iii) Out-Licensing Programme Intellectual Property Rights; and (iii) any Patents in any Non-strategic Assets;

“**Owned Information Technology**” means all Information Technology of any Vaccines Group Company to the extent Exclusively Related to the Business;

“**Owned Intellectual Property Contracts**” means the Contracts Exclusively Related to the Business which relate to Intellectual Property Rights and that are held by the Vaccines Group Companies, including any such Contracts set out in Part 2 of Schedule 4;

“**Owned Intellectual Property Rights**” means the Intellectual Property Rights of any Vaccines Group Company to the extent Exclusively Related to the Business, including the Intellectual Property Rights of any Vaccines Group Company set out in Part 1 of Schedule 4;

“**Patent Term Extensions**” means any and all extensions of a term of a Patent granted under the Patent laws or regulations of any country, the European Union, or any other Governmental Entity;

“**Patents**” means patents, design patents, patent applications, and any reissues, re-examinations, divisionals, continuations, continuations-in-part, provisionals, and extensions thereof or any counterparts to any of the foregoing (including rights resulting from any post-grant proceedings relating to any of the foregoing);

“**PA Transfer Date**” means, in relation to a Product or Product Application, the date upon which the relevant Governmental Entity approves and notifies the Product Approval or Product Application (as applicable) naming the Purchaser or the relevant Affiliate of the Purchaser (or designee thereof) as the holder of such Product Approval or Product Application in the relevant country or territory covered by that Product Approval or Product Application;

“**Payment**” has the meaning given to it in Clause 1.9;

“**Permit**” has the meaning given to it in paragraph 9.2 of Schedule 18;

“**Permitted Encumbrance**” means:

- (xxx) Encumbrances imposed by Applicable Law;
- (xxxi) Encumbrances imposed in the ordinary course of business which are not yet due and payable or which are being contested in good faith;
- (xxxii) Encumbrances which are listed in Schedule 7;



- (xxxiii) pledges or deposits to secure obligations under Applicable Law relating to workers' compensation, unemployment insurance or to secure public or statutory obligations; and
- (xxxiv) liens, title retention arrangements or deposits to secure the performance of bids, trade contracts (other than for borrowed money), conditional sales contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of the Business;

**"Personal Property"** means all tangible personal property legally and beneficially owned by the Seller's Group which is Predominantly Related to the Business and is located at a Property at Closing;

**"Pharmacovigilance Agreement"** means the agreement between the Seller and the Purchaser, to be entered into at Closing, in respect of pharmacovigilance and regulatory matters relating to the Products;

**"Pipeline Product"** means:

- (xxxv) each product in development by the Business set out under the heading "Pipeline Products" in Part 3 of Schedule 8; and
- (xxxvi) any other product in development Exclusively Related to the Business;

**"Pipeline Product Approvals"** means the approvals in relation to the Pipeline Products;

**"Predominantly Related to the Business"** means exclusively or predominantly related to, or used or held for use exclusively or predominantly, in connection with the Business;

**"Proceedings"** means any legal actions, proceedings, suits, litigations, prosecutions, investigations, enquiries, mediations or arbitrations;

**"Product Applications"** means all applications for Product Approval filed with respect to Products Under Registration, with each individual application being a **"Product Application"**;

**"Product Approvals"** means all permits, licences, certificates, clearances, registrations or other authorisations or consents issued by any Governmental Entity to the Seller or one of its Affiliates with respect to the Products or the use, research, development, marketing, distribution or sale thereof, including the Marketing Authorisations;

**"Product Filings"** means all filings, written representations, declarations, listings, registrations, reports or submissions with or to any Governmental Entity, including adverse event reports and all submitted data relating to each Product;

**"Product Liabilities"** means any Liability arising out of, relating to or resulting from actual or alleged harm, injury, damage or death to persons in connection with the use of any product (including in any clinical trial or study);

**"Product Partners"** means any third parties which pursuant to a Contract with Seller or any Affiliate of Seller co-develop, co-promote, co-market, or otherwise have a licence or other right to research, develop, manufacture, promote, distribute, market, or sell any Product, including all manufacturers and suppliers of any such Product;

**"Products"** means:

- (xxxvii) the products set out under the heading "Products" in Part 3 of Schedule 8; and



(xxxviii) any other products Exclusively Related to the Business;

**“Products Under Registration”** means:

(xxxix) the products set out under the heading “Products Under Registration” in Part 3 of Schedule 8, which are pending Product Approval as of the date hereof; and

(xl) any other products under registration Exclusively Related to the Business;

**“Properties”** means the Company Real Properties and the Transferred Real Properties and **“Property”** means any one of them;

**“Proprietary Information”** means all confidential and proprietary information of the Seller or its Affiliates that is Predominantly Related to the Business, including confidential Medical Information, confidential Know How and confidential Commercial Information;

**“Purchase Price”** has the meaning given to it in Clause 3.1.1;

**“Purchase Price Bank Account”** means the account notified by the Seller to the Purchaser no later than two Business Days prior to the Closing Date;

**“Purchaser Articles of Association”** means the articles of association of the Purchaser in force and effect from time to time;

**“Purchaser Intellectual Property Licence Agreement”** means the agreement between the Seller and/or one or more of its Affiliates and the Purchaser and/or one or more of its Affiliates on terms consistent with the Agreed Terms, to be entered into at Closing, in respect of the grant of licences from the Seller to the Purchaser of certain Intellectual Property Rights;

**“Purchaser’s Disagreement Notice”** has the meaning given to it in paragraph 1.3 of Schedule 16;

**“Purchaser’s Group”** means the Purchaser and its Affiliates from time to time;

**“Purchaser’s Lawyers”** means Slaughter and May of One Bunhill Row, London EC1Y 8YY, United Kingdom;

**“Purchaser Shareholder Meeting”** has the meaning given to it in Clause 4.1.6;

**“Purchaser Shareholder Resolution”** has the meaning given to it in Clause 4.1.6;

**“Purchaser Shareholders”** means the holders of ordinary shares in the capital of the Purchaser from time to time;

**“Rebate”** means any amount payable or repayable to customers or Governmental Entities in respect of a contractual rebate or other rebate including under applicable Healthcare Laws (or under similar laws or regulations) due on sales of products;

**“Registered Intellectual Property Rights”** means Intellectual Property Rights that are registered, issued, filed, or applied for under the authority of any Governmental Entity;

**“Registered Vaccines Group Intellectual Property Rights”** means all Vaccines Group Intellectual Property Rights that are Registered Intellectual Property Rights;

**“Regulation”** has the meaning given to it in Clause 4.1.1;



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“**Relevant Employees**” means the Relevant Vaccines Business Employees and the Relevant Vaccines Group Company Employees and “**Relevant Employee**” means any one of them;

“**Relevant Employers**” means the Business Sellers and such other members of the Seller’s Group who employ the Relevant Vaccines Business Employees;

“**Relevant Employer’s FSAs**” has the meaning given to it in paragraph 7 of Schedule 11;

“**Relevant Matter**” has the meaning given to it in the definition of Material Adverse Effect;

“**Relevant Part**” means the relevant part of the Shared Business Contracts which relates exclusively to the Business (or the relevant part of the Business that is transferred to the Purchaser at Closing);

“**Relevant Parties**” has the meaning given to it in paragraph 1.1.1 of Schedule 17;

“**Relevant Pension and Employment Liability**” means (i) any Liabilities assumed by the Purchaser or a member of the Purchaser’s Group as contemplated by Schedule 11; and (ii) any Transferred Employee Benefit Liabilities (as defined in Schedule 12) which the Purchaser agrees to assume in accordance with Schedule 12;

“**Relevant Period**” means the period of two years prior to the date of this Agreement;

“**Relevant Persons**” has the meaning given to it in Clause 8.2.2;

“**Relevant Vaccines Business Employees**” means the Vaccines Business Employees immediately prior to the Closing Date and “**Relevant Vaccines Business Employee**” means any one of them;

“**Relevant Vaccines Group Company Employees**” means the Vaccines Group Company Employees immediately prior to the Closing Date (excluding any who do not work wholly or substantially in the Business (as carried on by the Vaccines Group)) and “**Relevant Vaccines Group Company Employee**” means any one of them;

“**Reorganisation**” has the meaning given to it in Clause 2.3.5;

“**Reporting Accountants**” means the London office of Ernst & Young or, if that firm is unable or unwilling to act in any matter referred to them under this Agreement, the London office of Deloitte or, if that firm is also unable or unwilling to act in any matter referred to them under this Agreement, an internationally recognised and independent firm of accountants who does not act as auditor to the Seller or the Purchaser, to be agreed by the Seller and the Purchaser within seven days of a notice by one to the other requiring such agreement or, failing such agreement, to be nominated on the application of either of them by or on behalf of the Institute of Chartered Accountants of England and Wales;

“**Required Item**” has the meaning given to it in paragraph 2 of Schedule 13;

“**Required Notifications**” has the meaning given to it in Clause 4.2.1;

“**Rosia Site**” means the Properties located in Rosia (Italy) at which the Vaccines Group undertakes Manufacturing activities;

“**Royalty**” means any royalty payable in respect of sales of the products;

“**Royalty Payments**” has the meaning given to it in paragraph 10 of Schedule 17;

“**Sanctions Laws**” has the meaning given to it in paragraph 9.5 of Schedule 18;



“**Seller Allowance Rebate and Royalty Amount**” means any Allowance, Rebate or Royalty payable after Closing by the Purchaser or any member of the Purchaser’s Group, to the extent it relates to the sales of any products made prior to Closing;

“**Seller Marks**” means any of the marks (including in either or both logo and local script form) “Novartis”, “Sandoz”, “Alcon” and “Ciba Vision” used alone or in combination with other words or marks;

“**Seller Restricted Marks**” means any of the marks (including in either or both logo and local script form) “Novartis”, “Sandoz”, “Alcon” and “Ciba Vision”;

“**Seller Partner**” means any counterparty to a development, contract research, commercialisation, manufacturing, distribution, sales, marketing, supply, consulting or other collaboration Contract with the Seller or any Affiliate of the Seller;

“**Seller’s Disagreement Notice**” has the meaning given to it in paragraph 1.4 of Schedule 16;

“**Seller’s Group**” means the Seller and its Affiliates from time to time;

“**Seller’s Group Insurance Policies**” means all insurance policies (whether under policies maintained with third party insurers or any member of the Seller’s Group), other than Vaccines Group Insurance Policies, maintained by the Seller or any member of the Seller’s Group in relation to the Vaccines Group or under which, immediately prior to Closing, any Vaccines Group Company or the Seller or member of the Seller’s Group in relation to the Vaccines Group Businesses is entitled to any benefit, and “**Seller’s Group Insurance Policy**” means any one of them;

“**Seller’s Group Retained Business**” means, from time to time, all businesses of the Seller’s Group, including, the Influenza Business, but excluding the Business;

“**Seller’s Knowledge**” has the meaning given to it in Clause 9.1.4;

“**Seller’s Lawyers**” means Linklaters LLP of One Silk Street, London EC2Y 8HQ, United Kingdom;

“**Seller’s Warranties**” means the warranties given by the Seller pursuant to Clause 9 and Schedule 18, and “**Seller’s Warranty**” means any one of them;

“**Service Provider**” means an Associated Person who is a legal person;

“**Share Seller**” means, in relation to each of the Companies and Minority Interest Entities referred to in column (2) of Schedule 1, the company whose name is set out opposite that Company or Minority Interest Entity in column (1);

“**Shared Business Contracts**” means any Contract which relates both:

- (xli) to the Business or any part of the Business to be transferred to the Purchaser at Closing; and
- (xlii) to any part of the Seller’s Group Retained Business, any product other than the Products, or any Excluded Asset,

and to which a member of the Seller’s Group is a party or in respect of which a member of the Seller’s Group has any liability or obligation at Closing, and “**Shared Business Contract**” shall mean any of them;



“**Shared Employees**” means employees of any member of the Seller’s Group who work wholly or substantially in the Business (as carried on by the Vaccines Group) pursuant to service level agreements with the Vaccines Group Companies and other members of the Seller’s Group but excluding, for the avoidance of any doubt, any Vaccines Group Company Employee and any employees included on the list of employees provided pursuant to paragraph 15.2 of Schedule 18;

“**Shares**” means the shares in the capital of the Companies and the Minority Interest Entities specified in Schedule 1;

“**Siena Site**” means the Properties located in Siena (Italy) at which the Vaccines Group undertakes Manufacturing activities;

“**Statement of Net Assets**” means the statement of net assets as at the Statement of Net Assets Date, as set out in Part 2 of Schedule 23;

“**Statement of Net Assets Date**” means 31 December 2013;

“**Statement of Net Assets Rules**” means the rules in accordance with which the Statement of Net Assets was prepared, as set out in Part 2 of Schedule 23;

“**Subsidiaries**” means the companies listed in paragraph 3 of Schedule 2 and “**Subsidiary**” means any one of them;

“**Target Asset Agreements**” has the meaning given to it in the Implementation Agreement;

“**Taxation**” or “**Tax**” means all supra-national, federal, state, county, local, municipal, foreign and other taxes, assessments, duties or similar charges of any kind whatsoever (other than deferred tax), including all corporate franchise, income, gross receipts, sales, use, ad valorem, receipts, value added, profits, licence, withholding, payroll, employment, excise, premium, property, net worth, capital gains, transfer, stamp, documentary, social security, alternative minimum, occupation, recapture and other taxes regardless as to whether any such taxes, assessments, duties or similar charges are chargeable directly or primarily against or attributable directly or primarily to a Vaccines Group Company or any other person, and including all interest, penalties and additions imposed with respect to such amounts by any Tax Authority or with respect to any failure to file any Tax Return;

“**Tax Adjustment**” means the amount by which:

- (a) the aggregate amount of the income taxes and sales taxes payable by the Vaccines Group Companies, as at the Effective Time and as derived from the Closing Statement;

exceeds or is less than

- (b) the aggregate amount of the current income tax and sales tax receivables of the Vaccines Group Companies as at the Effective Time as derived from the Closing Statement,

and any such excess amount shall be treated as a positive number and any shortfall shall be treated as a negative amount;

“**Tax Authority**” has the meaning ascribed to it in the Tax Indemnity;

“**Tax Consolidation**” has the meaning ascribed to it in the Tax Indemnity;

“**Tax Group**” has the meaning ascribed to it in the Tax Indemnity;



“**Tax Indemnity**” means the deed of covenant against taxation, in the Agreed Terms, to be entered into on the Closing Date between the Seller and the Purchaser;

“**Tax Return**” has the meaning ascribed to it in the Tax Indemnity;

“**Tax Warranties**” means the Seller’s Warranties set out in paragraph 13 of Schedule 18;

“**Third Party**” has the meaning given to it in Clause 16.4.2;

“**Third Party Claim**” has the meaning given to it in Clause 11.4;

“**Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from third parties for the assignment or transfer to the Purchaser of any of the Transferred Contracts, Transferred Intellectual Property Contracts or Shared Business Contracts or Co-Owned Vaccines Group Intellectual Property Rights or Transferred Plant and Equipment, and “**Third Party Consent**” means any one of them;

“**Third Party Indebtedness**” means the aggregate amount as at the Effective Time of all outstanding Indebtedness owed by the Vaccines Group Companies to any third party less any Indebtedness owed by any third party to any Vaccines Group Company as derived from the Closing Statement (but excluding any item included in respect of any Vaccines Group Companies’ Cash Balances or Intra-Group Non-Trade Payables), and, for the purposes of this definition, third party shall exclude any member of the Seller’s Group;

“**Threshold Amount**” means, in the case of Ixiaro, US\$ 50 million, and in the case of Encepur, US\$ 200 million;

“**Time-Limited Excluded Liability**” means an Excluded Liability which is:

- (xliii) a Contracts Liability;
- (xliv) an Environmental Liability;
- (xlv) a Manufacturing Liability; or
- (xlvi) a Commercial Practices Liability;

“**Trademarks**” means trademarks, service marks, trade names, certification marks, service names, industrial designs, brand names, brand marks, trade dress rights, identifying symbols, logos, emblems, and signs or insignia and all goodwill of the business in relation to which any of the foregoing are used (but no other or greater goodwill);

“**Transaction**” has the meaning given to it in Clause 4.1.1;

“**Transfer Regulations**” means the relevant national measure by which the employment of a Relevant Vaccines Business Employee automatically transfers to the Purchaser or a relevant member of the Purchaser’s Group;

“**Transferred Accounts Payable**” means all trade accounts and notes payable arising in the ordinary course of the Seller’s Group (other than any Vaccines Group Company) to the extent related to the Business, and outstanding at the Effective Time, together with any unpaid financing charges accrued thereon;

“**Transferred Accounts Receivable**” means all trade accounts and notes receivable arising in the ordinary course of the Seller’s Group (other than any Vaccines Group Company) to the extent related to the Business, and outstanding at the Effective Time, together with any unpaid financing charges accrued thereon;



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“**Transferred Books and Records**” means all books, ledgers, files, reports, plans, records, manuals and other materials (in any form or medium) to the extent of, or maintained predominantly for, the Business by the Seller’s Group (excluding the Vaccines Group Companies) (other than emails), but excluding:

- (xlvii) any such items to the extent that: (A) they are related to any Excluded Assets or Excluded Liabilities, (B) they are related to any corporate, Tax, human resources or stockholder matters of the Seller or its Affiliates (other than the Vaccines Group Companies), (C) any Applicable Law prohibits their transfer or (D) any transfer thereof otherwise would subject the Seller or any of its Affiliates to any material liability; and
- (xlviii) any laboratory notebooks to the extent containing research and development information unrelated to the Business;

“**Transferred Contracts**” means:

- (xlix) the Contracts, other than Transferred Intellectual Property Contracts, that are Predominantly Related to the Business between a member of the Seller’s Group (excluding the Vaccines Group Companies), on the one hand, and any third party, on the other hand (other than this Agreement and any Ancillary Agreement), but excluding any Excluded Contract;
- (l) subject to paragraph 1 of Schedule 10 the Relevant Part of the Shared Business Contracts; and
- (li) the Diagnostics TSA;

“**Transferred Employees**” means (i) the Vaccines Business Employees to whom the Purchaser (or a member of the Purchaser’s Group) offers employment and who accept such employment and become employed by the Purchaser (or a member of the Purchaser’s Group) in accordance with Schedule 11; (ii) any Relevant Vaccines Business Employees who transfer to the Purchaser (or a member of the Purchaser’s Group) by operation of the Transfer Regulations and do not object to such transfer (to the extent permitted by the Transfer Regulations) in accordance with Schedule 11; and (iii) the Relevant Vaccines Group Company Employees, and “**Transferred Vaccines Business Employees**” means the employees in (i) and (ii), “**Transferred Vaccines Group Company Employees**” means the employees in (iii) and “**Transferred Employee**”, “**Transferred Vaccines Business Employee**” and “**Transferred Vaccines Group Company Employee**” respectively means any one of them;

“**Transferred Information Technology**” means all Information Technology of any member of the Seller’s Group (other than a Vaccines Group Company) to the extent Exclusively Related to the Business;

“**Transferred Intellectual Property Contracts**” means Contracts Exclusively Related to the Business which relate to Intellectual Property Rights (but excluding the rights under any such Contracts that are held by the Vaccines Group Companies), including any such Contracts set out in Part 2 of Schedule 4 and the Merck 2012 Licence;

“**Transferred Intellectual Property Rights**” means the Intellectual Property Rights of any member of the Seller’s Group (other than a Vaccines Group Company) Exclusively Related to the Business, including the Intellectual Property Rights of any member of the Seller’s Group (other than a Vaccines Group Company) set out in Parts 1 and 3 of Schedule 4;



“**Transferred Inventory**” means all inventories (including Manufacturing Inventory and Manufacturing Stocks and In-Market Inventory), wherever located, including all raw materials, work in progress, finished Products and packaging and labelling material in respect of the Products and otherwise Predominantly Related to the Business (but excluding any such items held by the Vaccines Group Companies) whether held at any location or facility of a member of the Seller’s Group or in transit to a member of the Seller’s Group, in each case as of the Effective Time;

“**Transferred Leased Real Properties**” has the meaning given to it in paragraph 1.1 of Part 4 of Schedule 3;

“**Transferred Owned Real Properties**” has the meaning given to it in paragraph 1.1 of Part 4 of Schedule 3;

“**Transferred Plant and Equipment**” means:

- (lii) the Transferred Information Technology; and
- (liii) all plant, furniture, furnishings, vehicles, equipment, tools and other tangible Personal Property (other than Transferred Inventory or Transferred Information Technology) of the Seller’s Group that are Predominantly Related to the Business (but excluding any such items owned by the Vaccines Group Companies);

“**Transferred Real Properties**” means:

- (liv) the Transferred Owned Real Properties;
- (lv) the Transferred Leased Real Properties; and
- (lvi) all other freehold, leasehold or other immovable property Predominantly Related to the Business, other than any freehold, leasehold or other immovable property within the definition of “Excluded Assets”,

and “**Transferred Real Property**” means any one of them;

“**Transitional Services Agreement**” means the transitional services agreement to be entered into between the Seller and the Purchaser at Closing on terms consistent with the heads of terms in the Agreed Terms, pursuant to which: (i) the Seller will provide or procure the provision of certain transitional services to the Purchaser; and (ii) the Purchaser will provide or procure the provision of certain transitional services to the Influenza Business;

“**US Benefit Plans**” means all United States “employee benefit plans” (within the meaning of section 3(3) of ERISA), severance, change in control or employment, vacation, incentive, bonus, stock option, stock purchase, or restricted stock plans, programmes, agreements or policies benefiting the Vaccines Business Employees;

“**US Transferred Employees**” has the meaning given to it in paragraph 7.1 of Schedule 11;

“**Vaccines**” means a preparation comprising (i) an antigen, (ii) an epitope of an antigen, or (iii) a polynucleotide encoding an antigen derived directly or indirectly from, or mimicking, an agent (including, but not limited to, a compound, a toxin, a microbe including a pathogen or component thereof), wherein such preparation may further comprise a composition capable of modulating an immune response, including preparations intended to improve a human’s immune response to a microbe that has been linked to cancer, wherein said preparation is intended for purposes of inducing an immune response in a human, including, but not limited to, a functional immune response or immunological memory to the particular or related antigen or agent, thereby causing or improving an immune response to a challenge by the particular or related agent. “Vaccines” shall not include preparations intended to improve a human’s immune response to or to treat other non-infectious conditions, whether or not related to pathogens, such as certain autoimmune diseases, Alzheimer’s disease and certain cancers, or non-antigen preparations comprising immune system components intended to function analogous to corresponding native components within the patient, such as antibodies or white blood cells (both unmodified or modified to better treat disease);



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“**Vaccines Business Employees**” means the employees of any member of the Seller’s Group who work wholly or substantially in the Business (as carried on by the Vaccines Group) from time to time including, for the avoidance of any doubt, the International Assignees other than the Vaccines Group Company Employees, the Excluded Employees and the Shared Employees and provided that, in relation to the Seller’s Warranties only, the words “from time to time” shall be deemed to be replaced by “at the date of this Agreement” and “**Vaccines Business Employee**” means any one of them;

“**Vaccines Group**” means the Vaccines Group Companies and the Vaccines Group Businesses, taken as a whole;

“**Vaccines Group Businesses**” means the businesses of the Business (but excluding the businesses of the Business carried on by the Vaccines Group Companies) as set out in Clause 2.3.1, but subject always to Clause 2.3.2, and “**Vaccines Group Business**” means any one of them;

“**Vaccines Group Companies**” means the Companies and the Subsidiaries, and “**Vaccines Group Company**” means any one of them;

“**Vaccines Group Companies’ Cash Balances**” means the aggregate amount of the Cash Balances held by or on behalf of the Vaccines Group Companies (excluding 50 per cent. of the Cash Balances held by Chiron Behring Vaccines Private Limited and Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd.) at the Effective Time;

“**Vaccines Group Company Employees**” means the employees from time to time of any of the Vaccines Group Companies other than the Excluded Employees, and provided that, in relation to the Seller’s Warranties only, the words “from time to time” shall be deemed to be replaced by “at the date of this Agreement”, and “**Vaccines Group Company Employee**” means any one of them;

“**Vaccines Group Goodwill**” means all goodwill of the Vaccines Group Businesses, but excluding any Trademark goodwill;

“**Vaccines Group Information Technology**” means the Transferred Information Technology and the Owned Information Technology;

“**Vaccines Group Insurance Policies**” means all insurance policies held exclusively by and for the benefit of the Vaccines Group Companies and “**Vaccines Group Insurance Policy**” means any one of them;

“**Vaccines Group Intellectual Property Contracts**” means the Transferred Intellectual Property Contracts and the Owned Intellectual Property Contracts;

“**Vaccines Group Intellectual Property Rights**” means the Transferred Intellectual Property Rights and the Owned Intellectual Property Rights;



“**Vaccines Patent**” means any Vaccines Group Intellectual Property Right which is a Patent;

“**VAT**” means within the European Union such Taxation as may be levied in accordance with (but subject to derogations from) Council Directive 2006/112/EC and outside the European Union any Taxation levied by reference to added value or sales;

“**WARN Act**” means the Worker Adjustment and Retraining Notification Act of 1988 of the United States;

“**Working Capital**” means the aggregate amount of the working capital of the Vaccines Group Companies and Vaccines Group Businesses set out in the Closing Statement (which shall not include any amount in respect of Tax), at the Effective Time, as derived from the Closing Statement; and

“**Working Capital Adjustment**” means the amount by which the Working Capital exceeds or is less than the Base Working Capital, any such excess being treated as a positive amount and any such shortfall being treated as a negative amount.

**1.2** Shares

References to shares shall include, where relevant, quotas.

**1.3** Singular, plural, gender

References to one gender include all genders and references to the singular include the plural and vice versa.

**1.4** References to persons and companies

References to:

**1.4.1** a person include any individual, company, partnership or unincorporated association (whether or not having separate legal personality); and

**1.4.2** a company include any company, corporation or any body corporate, wherever incorporated.

**1.5** Schedules etc.

References to this Agreement shall include any Recitals and Schedules to it and references to Clauses and Schedules are to Clauses of, and Schedules to, this Agreement. References to paragraphs and Parts are to paragraphs and Parts of the Schedules.

**1.6** Reference to documents

References to any document (including this Agreement), or to a provision in a document, shall be construed as a reference to such document or provision as amended, supplemented, modified, restated or novated from time to time.

**1.7** References to enactments

Except as otherwise expressly provided in this Agreement, any express reference to an enactment (which includes any legislation in any jurisdiction) includes references (i) to that enactment as amended, consolidated or re-enacted by or under any other enactment before or after the date of this Agreement; (ii) any enactment which that enactment re-enacts (with or without modification); and (iii) any subordinate legislation (including regulations) made before or after the date of this Agreement under that enactment as amended, consolidated or re-enacted as described in paragraph (i) or (ii) above, except to the extent that any of the matters referred to in paragraphs (i) to (iii) above occurs after the date of this Agreement and increases or alters the liability of the Seller or Purchaser under this Agreement.



1.8 Information

References to books, records or other information mean books, records or other information in any form including paper, electronically stored data, magnetic media, film and microfilm.

1.9 References to “indemnify”

Unless specified to the contrary, references to “indemnify” and “indemnifying” any person against any circumstance include indemnifying and holding that person harmless on an after-Tax basis and:

- 1.9.1 references to the Purchaser indemnifying each member of the Seller’s Group shall constitute undertakings by the Purchaser to the Seller for itself and on behalf of each other member of the Seller’s Group;
- 1.9.2 references to the Seller indemnifying each member of the Purchaser’s Group shall constitute undertakings by the Seller to the Purchaser for itself and on behalf of each other member of the Purchaser’s Group;
- 1.9.3 to the extent that the obligation to indemnify relates to any Shares (including any Vaccines Group Companies) or other assets or liabilities transferred by a Share Seller or Business Seller (as the case may be) to a member of the Purchaser’s Group pursuant to this Agreement, references to the Seller indemnifying the Purchaser and references to the Seller indemnifying the Purchaser or any member of the Purchaser’s Group shall constitute undertakings by the Seller, to indemnify or procure the indemnification of the relevant purchaser of the Shares transferred by that Share Seller or the relevant purchaser of the assets or liabilities transferred by that Business Seller (as the case may be), and references to the Purchaser indemnifying the Seller and references to the Purchaser indemnifying the Seller and each member of the Seller’s Group shall constitute undertakings by the Purchaser to indemnify or procure the indemnification of the relevant member of the Seller’s Group; and
- 1.9.4 where under the terms of this Agreement one party is liable to indemnify or reimburse another party in respect of any costs, charges or expenses, the payment shall include an amount equal to any VAT thereon not otherwise recoverable by the other party or any member of any group or consolidation of which it forms part for VAT purposes, subject to that party using reasonable endeavours to recover or to procure recovery of such amount of VAT as may be practicable.

For the purposes of this Clause 1.9, indemnifying and holding harmless a person on an “after-Tax basis” means that the amount payable pursuant to the indemnity (the “**Payment**”) shall be calculated in such a manner as will ensure that, after taking into account:



- (i) any Tax required to be deducted or withheld from the Payment and any additional amounts required to be paid by the payer of the Payment in consequence of such withholding;
- (ii) the amount and timing of any additional Tax which becomes (or would, but for the use of any credit or other relief which would otherwise have been available to reduce the Tax liabilities of any member of the Seller’s Group, have become) payable by the recipient of the Payment (or a member of the Seller’s Group or the Purchaser’s Group, as the case may be) as a result of the Payments being subject to Tax in the hands of that person; and
- (iii) the amount and timing of any Tax benefit which is obtained by the recipient of the Payment (or a member of the Seller’s Group or the Purchaser’s Group, as the case may be) to the extent that such Tax benefit is attributable to the matter giving rise to the indemnity payment or to the receipt of the Payment,

which amount and timing is to be determined by the auditors of the recipient at the shared expense of both relevant parties and is to be certified as such to the party making the Payment, the recipient of the Payment is in no better and no worse after Tax position as that in which it would have been if the matter giving rise to the indemnity payment had not occurred, provided that if either party to this Agreement shall have assigned or novated the benefit of this Agreement in whole or in part or shall, after the date of this Agreement, have changed its Tax residence or the permanent establishment to which the rights under this Agreement are allocated then no Payment to that party shall be increased by reason of the operation of paragraphs (i) to (iii) above to any greater extent than would have been the case had no such assignment, novation or change taken place.

**1.10** References to wholly or substantially in the Business (as carried on by the Vaccines Group)

References to “wholly or substantially in the Business (as carried on by the Vaccines Group)” in relation to any employee employed by a member of the Seller’s Group means that such employee spends more than 70 per cent. of their time working in the Business (as carried on by the Vaccines Group) at the relevant time.

**1.11** Legal terms

References to any English legal term shall, in respect of any jurisdiction other than England and Wales, be construed as references to the term or concept which most nearly corresponds to it in that jurisdiction.

**1.12** Non-limiting effect of words

The words “including”, “include”, “in particular” and words of similar effect shall not be deemed to limit the general effect of the words that precede them.

**1.13** Currency conversion

**1.13.1** Subject to Clause 1.13.2, any amount to be converted from one currency into another currency for the purposes of this Agreement shall be converted into an equivalent amount at the Conversion Rate prevailing at the Relevant Date. For the purposes of this Clause 1.13:



“**Conversion Rate**” means the spot reference rate for a transaction between the two currencies in question as quoted by the European Central Bank on the Business Day immediately preceding the Relevant Date or, if no such rate is quoted on that date, on the preceding date on which such rates are quoted;

“**Relevant Date**” means, save as otherwise provided in this Agreement, the date on which a payment or an assessment is to be made, save that, for the following purposes, the date shall mean:

- (i) for the purposes of Clause 5, the date of this Agreement;
- (ii) for the purposes of Clause 7 and Schedules 16 and 23, the Closing Date; or
- (iii) for the purposes of Clause 10, the date of this Agreement; and
- (iv) for the purposes of the monetary amounts set out in Schedule 18, the date of this Agreement.

**1.13.2** The conversion of an amount from one currency into another as may be required in connection with the matters contemplated in Schedule 17 shall be carried out in accordance with the accounting policies and practices of the Purchaser’s Group in operation from time to time.

**2 Sale and Purchase of the Vaccines Group**

**2.1 Sale and Purchase of the Vaccines Group**

On and subject to the terms of this Agreement and the Local Transfer Documents:

**2.1.1** the Seller shall procure that the Share Sellers and Business Sellers shall sell, and

**2.1.2** the Purchaser shall purchase or shall procure the purchase by one or more other members of the Purchaser’s Group of,

the Vaccines Group as a going concern.

**2.2 Sale of the Shares**

**2.2.1** The Seller shall procure that the Share Sellers shall sell the Shares, which shall be sold with Full Title Guarantee free from Encumbrances and together with all rights and advantages attaching to them as at Closing (including the right to receive all dividends or distributions declared, made or paid on or after Closing).

**2.2.2** The Seller shall procure that, on or prior to Closing, any and all rights of pre-emption over the Shares and the Shares or equity interests in any subsidiaries are waived irrevocably by the persons entitled thereto.

**2.3 Sale of the Vaccines Group Businesses**

**2.3.1** The Seller shall sell, or shall procure that the Business Sellers shall sell, the assets comprising the Vaccines Group Businesses, under this Agreement or, where relevant, the Local Transfer Documents with Full Title Guarantee (save in respect of the Transferred Intellectual Property Rights which are not Registered Intellectual Property Rights) and free from Encumbrances other than Permitted Encumbrances (save for the Transferred Real Properties, which shall be sold free from Encumbrances other than as provided in paragraph 1.9 of Schedule 3), such assets being:



- (i) the Transferred Real Properties;
- (ii) the Transferred Plant and Equipment;
- (iii) the Transferred Inventory;
- (iv) the Transferred Accounts Receivable;
- (v) the Transferred Books and Records;
- (vi) subject to and in accordance with Schedule 10, the Transferred Intellectual Property Rights;
- (vii) subject to and in accordance with Schedule 10, the Transferred Intellectual Property Contracts;
- (viii) subject to and in accordance with Schedule 10, the Transferred Contracts;
- (ix) subject to and in accordance with Schedule 8, all Product Approvals and all Product Applications and all other permits, licences, certificates, registrations, marketing or other authorisations or consents issued by a Governmental Entity Predominantly Related to the Business and not held by the Vaccines Group Companies;
- (x) subject to and in accordance with Schedule 8, all Marketing Authorisation Data not held by the Vaccines Group Companies;
- (xi) all Business Information not held at Closing by the Vaccines Group Companies;
- (xii) all rights of the Purchaser, its Affiliates and the Vaccines Group Companies as contemplated by Schedule 11 and Schedule 12;
- (xiii) the Vaccines Group Goodwill; and
- (xiv) all other property, rights and assets owned or held by the Seller's Group (other than the Vaccines Group Companies) and Predominantly Related to the Business at Closing (other than any property, rights and assets of the Vaccines Group expressly excluded from the sale under this Agreement).

**2.3.2** There shall be excluded from the sale of the Vaccines Group under this Agreement and the Local Transfer Documents the following:

- (i) the Seller's Group Retained Business, including the Influenza Business;
- (ii) the Non-strategic Assets to the extent not transferred to the Purchaser or a member of the Purchaser's Group at Closing;
- (iii) the Out-Licensing Programme;
- (iv) any Intellectual Property Right that is not a Vaccines Group Intellectual Property Right (subject to the Purchaser Intellectual Property Licence Agreement and any Contract relating to Intellectual Property Rights that is not a Vaccines Group Intellectual Property Contract or the Relevant Part of a Shared Business Contract);



- (v) any Information Technology other than Vaccines Group Information Technology;
- (vi) the Seller Marks;
- (vii) any product and any permits, licences, certificates, registrations, marketing or other authorisations or consents issued by any Governmental Entity in respect of any products, or any applications therefor, other than (a) the Products, Product Approvals, Products Under Registration and Pipeline Product Approvals; and (b) Permits Predominantly Related to the Business;
- (viii) all cash, marketable securities and negotiable instruments, and all other cash equivalents, of the Seller's Group (other than the Vaccines Group Companies);
- (ix) all real property and any leases therefor and interests therein, other than the Properties;
- (x) the land and buildings of the Seller's Group at 4560 Horton Street, Emeryville CA, United States of America;
- (xi) the land and buildings of the Seller's Group at Jaboatão dos Guararapes, State of Pernambuco (Brazil), together with all buildings, fixtures, and improvements erected thereon, and any other assets, rights and Contracts related thereto;
- (xii) the company seal, minute books, charter documents, stock or equity record books and such other books and records pertaining to the Seller or its Affiliates (other than the Vaccines Group Companies and the Transferred Books and Records), as well as any other records or material relating to the Seller or its Affiliates (other than Vaccines Group Companies) generally and not involving or related to the Vaccines Group;
- (xiii) any right of the Seller or its Affiliates to be indemnified in respect of Assumed Liabilities;
- (xiv) all Tax assets (including Tax refunds and prepayments), other than Tax Assets of any Vaccines Group Company);
- (xv) all Tax Returns of the Seller's Group (other than the Vaccines Group Companies) and all Tax Returns relating to Tax Groups of which persons other than Vaccines Group Companies are members and, in each case, all books and records (including working papers) related thereto;
- (xvi) any rights in respect of any insurance policies of the Seller's Group as provided in Clause 14;
- (xvii) all artwork, paintings, drawings, sculptures, prints, photographs, lithographs and other artistic works of the Seller's Group that are not embodiments of Vaccines Group Intellectual Property Rights;
- (xviii) any rights of the Seller's Group (other than the Vaccines Group Companies) under any Intra-Group Non-Trade Payables or Intra-Group Non-Trade Receivables (excluding Transferred Accounts Receivable);



- (xix) any rights of the Seller or its Affiliates (other than the Vaccines Group Companies) contemplated by Schedule 11 and Schedule 12;
- (xx) any equity interest in any person other than a Vaccines Group Company or a Minority Interest Entity;
- (xxi) the Excluded Contracts;
- (xxii) all rights of the Seller’s Group under this Agreement and the Ancillary Agreements;
- (xxiii) the Purchase Price Bank Account;
- (xxiv) the Manufacturing, production and research activity carried on by the Seller’s Group at the Holly Springs Site; and
- (xxv) the Diagnostics GESA.

**2.3.3** The Seller agrees to procure the transfer (to the extent it is able so to do) and the Purchaser agrees to accept (or procure the acceptance by another member of the Purchaser’s Group of) the transfer of, and to assume, pay, satisfy, discharge, perform or fulfil (or procure that another member of the Purchaser’s Group will assume, pay, satisfy, discharge, perform or fulfil) the Assumed Liabilities with effect from Closing.

**2.3.4** Clause 2.3.3 shall not apply to, and the Purchaser shall not be obliged to accept (or procure the acceptance by another member of the Purchaser’s Group of), the transfer of or to assume, pay, satisfy, discharge, perform or fulfil, or procure that another member of the Purchaser’s Group will assume, pay, satisfy, discharge, perform or fulfil:

- (i) any Excluded Liability; or
- (ii) any Liability to the extent it relates to an Excluded Asset.

**2.3.5** With prejudice to Clauses 2.1, 2.2, 2.3.1 to 2.3.4, 2.4 and 2.5 on or prior to Closing, the Seller may:

- (i) assign or otherwise transfer assets, liabilities and (only where in compliance with Clause 5 (other than Clause 5.2.2)) employees between members of the Seller’s Group as may be reasonably required to facilitate separation of the Business from the Influenza Business; and
- (ii) otherwise, carry out or procure one or more reorganisations of the Seller’s Group (including assigning or otherwise transferring assets and liabilities between members of the Seller’s Group but excluding assigning or otherwise transferring assets or liabilities to Vaccines Group Companies) as may reasonably be required to facilitate the Transaction,

each, a “**Reorganisation**”.

**2.3.6** In respect of any Reorganisation:

- (i) the Seller shall notify the Purchaser of any proposed Reorganisation, the steps proposed to be implemented and such other information as the Purchaser may reasonably request regarding the proposed Reorganisation in advance of it being implemented;



- (ii) the Seller shall, in good faith, consult with, and take into account the reasonable views of, and any reasonable requests made by, the Purchaser in relation to any Reorganisation before it is implemented, including any proposals to reduce or avoid Liability or cost being suffered or incurred by any member of the Purchaser's Group or any Vaccines Group Company;
- (iii) subject to the following sub-clause 0 of this Clause 2.3.6, all fees, costs and expenses of implementing any Reorganisation (or any part thereof) shall be borne by the Seller's Group; and
- (iv) all out-of-pocket fees, costs and expenses which (x) are incurred by either party, whether before or after Closing, (y) specifically relate to the separation of the German Flu Operations from the Vaccines Group, and (z) are incurred in respect of works council consultations (including court fees, notary fees and works council legal fees) or physical separation at the Marburg Site (including IT systems workarounds, costs of new access cards and construction works), but excluding the parties' own legal fees, shall, to the extent that such fees, costs and expenses arise solely as a result of such works council consultations or physical separation, be split equally between the Seller and the Purchaser. For the avoidance of doubt, this Clause 2.3.60 shall not affect the cost allocation of wider measures necessary to effect the separation of the Business from the Influenza Business.

**2.3.7** In respect of the separation of the Influenza Business from the Vaccines Group, the parties shall work together in good faith to facilitate such separation.

**2.3.8** The Seller undertakes to the Purchaser (for itself and as trustee for each other member of the Purchaser's Group and each Vaccines Group Company) that, with effect from Closing, the Seller will indemnify on demand and hold harmless the relevant member of the Purchaser's Group (including each Vaccines Group Company) against and in respect of any and all Liabilities arising in connection with any Reorganisation (or part thereof) undertaken by the Seller, other than:

- (i) such Liabilities where the allocation has been, or is, otherwise agreed between the parties;
- (ii) any Liabilities of any Vaccines Group Company in respect of Tax (which shall be dealt with under the Tax Indemnity); and
- (iii) any Liabilities in connection with this Agreement or any document entered into as provided by this Agreement (including the provisions of Clause 8.12) or any Ancillary Agreement.

**2.4** Employees and Employee Benefits

**2.4.1** The provisions of Schedule 11 shall apply in respect of the Employees.

**2.4.2** The provisions of Schedule 12 shall apply in respect of Employee Benefits.

**2.5** Properties

The provisions of Schedule 3 shall apply in respect of the Properties.



2.6 Local Transfer Documents

- 2.6.1** On Closing or at such other time as agreed between the parties, the Seller shall procure that the Share Sellers and Business Sellers execute, and the Purchaser shall execute (or procure the execution by one or more other members of the Purchaser's Group of), such agreements, transfers, conveyances and other documents, as may be required pursuant to the relevant local law and otherwise as may be agreed between the Seller and the Purchaser to implement the transfer of (i) the Shares and (ii) the Vaccines Group Businesses, in each case on Closing (the "**Local Transfer Documents**" and each, a "**Local Transfer Document**"). The parties do not intend this Agreement to transfer title to any of the Shares. Title shall be transferred by the applicable Local Transfer Document.
- 2.6.2** To the extent that the provisions of a Local Transfer Document are inconsistent with or (except to the extent they implement a transfer in accordance with this Agreement) additional to the provisions of this Agreement:
- (i) the provisions of this Agreement shall prevail; and
  - (ii) so far as permissible under the laws of the relevant jurisdiction, the Seller and the Purchaser shall procure that the provisions of the relevant Local Transfer Document are adjusted, to the extent necessary to give effect to the provisions of this Agreement or, to the extent this is not permissible, the Seller shall indemnify the Purchaser against all Liabilities suffered by the Purchaser or its Affiliates or, as the case may be, the Purchaser shall indemnify the Seller against all Liabilities suffered by the Seller or its Affiliates, in either case through or arising from the inconsistency between the Local Transfer Document and this Agreement or the additional provisions (except to the extent they implement a transfer in accordance with this Agreement).
- 2.6.3** If there is an adjustment to the Purchase Price under Clause 7.3 which relates to a part of the Vaccines Group which is the subject of a Local Transfer Document, then, if required to implement the adjustment and so far as permissible under Applicable Law, the Purchaser shall (or shall procure that the relevant member of the Purchaser's Group will), and the Seller shall procure that its relevant Affiliate shall, enter into a supplemental agreement reflecting such adjustment and the allocation of such adjustment.
- 2.6.4** The Seller shall not, and shall procure that none of its Affiliates shall bring any claim against the Purchaser or any member of the Purchaser's Group in respect of or based upon the Local Transfer Documents save to the extent necessary to implement any transfer of the Shares or Vaccines Group Businesses as contemplated by this Agreement. To the extent that the Seller or a member of the Seller's Group does bring a claim in breach of this Clause, the Seller shall indemnify the Purchaser and each member of the Purchaser's Group against all Liabilities which the Purchaser or that member of the Purchaser's Group may suffer through or arising from the bringing of such a claim.
- 2.6.5** The Purchaser shall not, and shall procure that none of its Affiliates shall, bring any claim against the Seller or any member of the Seller's Group in respect of or based upon the Local Transfer Documents save to the extent necessary to implement any transfer of the Shares or Vaccines Group Businesses as contemplated by this Agreement. To the extent that the Purchaser or a member of the Purchaser's Group does bring a claim in breach of this Clause, the Purchaser shall indemnify the Seller and each member of the Seller's Group against all Liabilities which the Seller or any member of the Seller's Group may suffer through or arising from the bringing of such a claim.



**3 Consideration**

**3.1 Amount**

3.1.1 The aggregate consideration for the purchase of the Vaccines Group under this Agreement and the Local Transfer Documents (the “**Purchase Price**”) shall be an amount in US dollars equal to the sum of:

- (i) US\$5,255,000,000 (the “**Headline Price**”);  
plus
- (ii) the Vaccines Group Companies’ Cash Balances and the Intra-Group Non-Trade Receivables;  
minus
- (iii) the Third Party Indebtedness;  
minus
- (iv) the Intra-Group Non-Trade Payables;  
minus
- (v) any Employee Benefit Indemnification Amount paid in accordance with Schedule 12;  
minus
- (vi) the Tax Adjustment;  
plus
- (vii) the Working Capital Adjustment; and  
plus
- (viii) the Milestone Payments and the Royalty Payments.

**3.2 Payment of Purchase Price**

The Purchase Price shall be paid by the Purchaser (for itself and on behalf of each relevant member of the Purchaser’s Group):

- (lvii) other than in the case of the Milestone Payments and the Royalty Payments, by way of cash payments to the Purchase Price Bank Account pursuant to Clauses 6.3 and 7.6; and
- (lviii) in the case of the Milestone Payments and the Royalty Payments, pursuant to and in accordance with Schedule 17.



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**3.3** Allocation of Purchase Price

The Purchase Price shall be allocated in accordance with Schedule 13.

**3.4** VAT

**3.4.1** The provisions of Schedule 14 shall apply in respect of VAT.

**3.4.2** The Seller and the Purchaser agree that the consideration given under this Agreement in respect of the sale of the Vaccines Group Businesses and the Shares is exclusive of any VAT. To the extent that VAT is chargeable in respect of that sale or any part thereof, the Purchaser shall, against delivery of a valid VAT invoice (or equivalent, if any), in addition to any other amount expressed in this Agreement to be payable by the Purchaser, pay or procure the payment to the Seller (on behalf of the relevant Business Seller or Share Seller as applicable) any amount of any VAT so chargeable for which the Seller (or the relevant Share Seller or Business Seller, as the case may be) is liable to account, in accordance with Schedule 14.

**3.5** Treatment of Payments

**3.5.1** If any payment is made or procured (i) by the Seller to the Purchaser or relevant member of the Purchaser's Group, or (ii) by a Purchaser to the Seller or a member of the Seller's Group, in either case in respect of any claim under or for any breach of this Agreement or pursuant to an indemnity (or equivalent covenant to pay) under this Agreement, the payment shall be treated, so far as possible, as an adjustment of the consideration paid by the relevant member of the Purchaser's Group for the Shares or the particular part of the Vaccines Group to which the payment and/or claim relates under this Agreement and the consideration shall be deemed to be increased or reduced (as applicable) by the amount of such payment, provided that this Clause 3.5.1 shall not require any amount to be treated as an amount in respect of the Purchase Price for the purposes of Clause 16.10 if it would not otherwise have been so treated

**3.5.2** If:

- (i) the payment and/or claim relates to the shares in more than one Vaccines Group Company or to more than one category of Vaccines Group Business, it shall be allocated in a manner which reflects the impact of the matter to which the payment and/or claim relates, failing which it shall be allocated rateably to the shares in the Vaccines Group Companies or Vaccines Group Businesses concerned by reference to the proportions in which the consideration is allocated in accordance with Schedule 13; or
- (ii) the payment and/or claim relates to no particular shares in any Vaccines Group Company or no particular category of Vaccines Group Business, it shall be allocated rateably to all the Shares and all the Vaccines Group Businesses by reference to the proportions in which the consideration is allocated in accordance with Schedule 13,

and in each case the consideration shall be deemed to have been reduced by the amount of such payment.



3.6 Non-strategic Assets

- 3.6.1 If, prior to Closing, any member of the Seller’s Group completes the disposal of a Non-strategic Asset to a third party in accordance with clause 5.2.1, the Seller shall pay to the Purchaser at Closing the greater of:
- (i) the relevant Threshold Amount; or
  - (ii) an amount equal to the consideration (less any Taxes, costs and expenses incurred by any member of the Seller’s Group in connection with such disposal) received for the relevant Non-strategic Asset.

Any payment obligation of the Seller arising pursuant to this clause 3.6.1 shall be set-off against the Purchaser’s payment obligation pursuant to clause 6.3.1.

- 3.6.2 If, following Closing, any member of the Seller’s Group receives consideration for the disposal of a Non-strategic Asset, the Seller shall pay to the Purchaser, within five Business Days of the date of receipt of the consideration, the greater of:
- (i) the Threshold Amount; or
  - (ii) an amount equal to the consideration (less any Taxes, costs and expenses incurred by any member of the Seller’s Group in connection with such disposal) received for the relevant Non-strategic Asset.

4 Conditions

4.1 Conditions Precedent

The sale and purchase of the Vaccines Group is conditional upon satisfaction or, where applicable, waiver of the following conditions, or their satisfaction subject only to Closing:

- 4.1.1 to the extent that the proposed acquisition of all or any of the Shares or Vaccines Group Businesses (the “**Transaction**”) either constitutes (or is deemed to constitute under Article 4(5) or Article 5(2)) a concentration with a Community dimension within the meaning of Council Regulation (EC) 139/2004 (as amended) (the “**Regulation**”) or is to be examined by the European Commission as a result of a decision under Article 22(3) of the Regulation:
- (i) the European Commission taking a decision (or being deemed to have taken a decision) under Article 6(1)(b) or, if the Commission has initiated proceedings pursuant to Article 6(1)(c), under Article 8(1) or 8(2) of the Regulation declaring the Transaction compatible with the common market; or
  - (ii) the European Commission taking a decision (or being deemed to have taken a decision) to refer the whole or part of the Transaction to the competent authorities of one or more Member States under Articles 4(4) or 9(3) of the Regulation; and
    - (a) each such authority taking a decision with equivalent effect to Clause 4.1.1(i) with respect to those parts of the Transaction referred to it; and
    - (b) the European Commission taking any of the decisions under Clause 4.1.1(i) with respect to any part of the Transaction retained by it.



- 4.1.2 any waiting period (and any extension thereof) under the HSR Act applicable to the Transaction having expired;
- 4.1.3 to the extent required or otherwise agreed between the parties as appropriate to permit the parties to consummate the Transaction in the jurisdictions listed in Schedule 24, any additional clearances, approvals, waivers, no-action letters and consents having been obtained and any additional waiting periods having expired under applicable antitrust, merger control or foreign investment rules set forth in Schedule 24;
- 4.1.4 receipt of CFIUS Approval if CFIUS has initiated a review of the transactions contemplated by this Agreement, whether pursuant to Clause 4.2.3 or otherwise;
- 4.1.5 no Governmental Entity having enacted, issued, promulgated, enforced or entered any Applicable Law or Judgment (whether temporary, preliminary or permanent) that is in effect at the Closing Date and that has the effect of making the transactions contemplated by this Agreement illegal or otherwise restraining or prohibiting the consummation of such transactions;
- 4.1.6 the passing at a duly convened and held general meeting of the Purchaser Shareholders of an ordinary resolution validly approving the Target Asset Agreements (as defined in the Implementation Agreement) and any sale and purchase under the Put Option Agreement (as defined in the Implementation Agreement) in accordance with the Purchaser Articles of Association, the Listing Rules and all other Applicable Law (such resolution being the "**Purchaser Shareholder Resolution**" and such meeting being the "**Purchaser Shareholder Meeting**");
- 4.1.7 the Seller not delivering a Novartis AG Board Certificate (as defined in the Implementation Agreement), in accordance with clause 3 of the Implementation Agreement, prior to the conclusion of the vote on the Purchaser Shareholder Resolution at the Purchaser Shareholder Meeting;
- 4.1.8 none of the Key Sites (each taken as a whole) being, or being reasonably likely to be, from or after Closing:
  - (i) incapable of operation in whole or part by the Purchaser's Group without a member of the Purchaser's Group being in breach of any Applicable Law or any other material duty or obligation; or
  - (ii) otherwise incapable of operation in whole or part by virtue of some other event, matter, or circumstance,
 but only where the circumstances giving rise to the inability of the Purchaser's Group to operate a Key Site would, or would be reasonably likely to (whether alone or together with any other such circumstances), result in:
  - (a) a Key Site being prohibited from, or otherwise being substantially incapable of, operation for a period of at least three consecutive or non-consecutive months in the 12 month period immediately following the Closing Date; and
  - (b) the manufacturing output of that Key Site in the 12 month period following the Closing Date falling by 30 per cent. or more as compared to the manufacturing output at that Key Site in the 12 month period ending on the corresponding date in the immediately preceding year; and



4.1.9 the obtaining in form and substance satisfactory to the Purchaser of any consent, amendment, waiver or approval that the Purchaser, acting reasonably and in good faith, notifies to the Seller prior to 21 May 2014 that it wishes to obtain or be obtained for its benefit prior to Closing in relation to the [\*\*\*]; and

4.1.10 each of the other Target Asset Agreements having become unconditional in accordance with its terms (save for any condition in those agreements relating to this Agreement or the other of those agreements having become unconditional).

4.2 Responsibility for Satisfaction

4.2.1 The Purchaser and the Seller shall prepare and file the notifications necessary for the fulfilment of the conditions in Clauses 4.1.1 to 4.1.3 (the “**Required Notifications**”) as soon as reasonably practicable (with notifications under the HSR Act to be filed by 29 May 2014). Notwithstanding anything to the contrary contained in this Agreement, the Purchaser shall have primary responsibility for obtaining all consents, approvals or actions of any Governmental Entity which are required in connection with the Required Notifications.

4.2.2 The Purchaser shall be responsible for payment of all filing and other fees and expenses in connection with the Required Notifications and the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3.

4.2.3 CFIUS:

- (i) The Seller and the Purchaser shall consult, cooperate and keep each other reasonably informed regarding communications with, and requests for additional information from, CFIUS with respect to the Transaction. The Seller and the Purchaser shall use their respective reasonable best efforts to provide promptly all information that is pursuant to a request by CFIUS.
- (ii) Within 60 calendar days after the execution of this Agreement, any party wishing to submit a formal joint voluntary notice to CFIUS pursuant to 31 C.F.R. Section 800.401, et. seq. (“**CFIUS Filing**”) shall provide the other party with written notice of its intent to make a CFIUS Filing (“**Election Date**”). Prior to making its election to submit a CFIUS Filing, the party wishing to make a CFIUS Filing shall consult in good faith with senior executives of the other party. If neither the Seller nor the Purchaser provides notice to submit a formal joint voluntary notice to CFIUS, a CFIUS Filing will not be made unless requested by CFIUS.
- (iii) If either the Seller or the Purchaser elects to make a CFIUS Filing following the procedures and consultations in Clause 4.2.3(i) or if CFIUS requires a filing, then:
  - (a) the Seller and the Purchaser shall use their respective reasonable best efforts to submit a draft CFIUS Filing no later than 15 Business Days following the Election Date, and a final CFIUS Filing the earlier of (1) five business days after submitting the draft CFIUS filing or (2) five calendar days after the receipt of any comments from CFIUS staff regarding the draft CFIUS Filing;

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



- (b) the Seller and the Purchaser will provide each other with the reasonable opportunity to review and comment on any information provided to CFIUS to the extent permitted by Applicable Law, with the exception of personal identifier information required under Section 800.402(c)(6)(vi)(B) of the CFIUS regulations, 31 C.F.R.. Competitively sensitive information, or information not related to the transactions contemplated by this Agreement, may be restricted to each party's external counsel to the extent reasonably considered necessary or advisable by the providing party;
- (c) the Seller and the Purchaser shall each have an opportunity to approve and mutually agree on the joint contents of the CFIUS Filing and shall be jointly responsible for the accuracy of such contents. The Seller and the Purchaser respectively, shall each be responsible for the accuracy of contents of the CFIUS Filing that exclusively relate to itself, its business, and any subsidiaries, parents or other related parties; and
- (d) The Seller and the Purchaser shall use their respective reasonable best efforts to obtain CFIUS Approval as promptly as practicable and shall consult with each other on strategic matters related to obtaining such CFIUS Approval, provided that the Purchaser shall have no obligation to agree to any mitigation or other restrictive provision that could reasonably be considered to have a substantial impact on either the Business or the Purchaser.

**4.2.4** The party responsible for satisfaction of each condition pursuant to this Clause 4.2 shall give notice to the other party of the satisfaction of the relevant condition within one Business Day of becoming aware of the same.

**4.2.5** The parties shall cooperate with each other in connection with the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3. The parties will consult and cooperate reasonably with one another, consider in good faith the views of one another, and provide to the other party in advance any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals they or their agents make or submit to a Governmental Entity. Without limiting the foregoing, the parties agree to: (a) give each other reasonable advance notice of all meetings with any Governmental Entity; (b) give each other an opportunity to participate in each of such meetings; (c) to the extent practicable, give each other reasonable advance notice of all substantive oral communications with any Governmental Entity; (d) if any Governmental Entity initiates a substantive oral communication, promptly notify the other party of the substance of such communication; (e) provide each other with a reasonable advance opportunity to review and comment upon all written communications (including any analyses, presentations, memoranda, briefs, arguments, opinions and proposals) with a Governmental Entity; (f) provide each other with copies of all written communications to or from any Governmental Entity; and (g) not advance arguments in connection with any regulatory review or litigation proceeding related to this Agreement (other than litigation between the parties) over the objection of the other party that would reasonably be likely to have a significant adverse impact on that other party, provided however, that neither party shall be required to comply with paragraph (b) above to the extent that the Governmental Entity objects to the participation of a party, or with paragraph (e) or (f) above to the extent that such disclosure may raise regulatory concerns (in which case, the disclosure may be made on an outside counsel basis).



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- 4.2.6** The Purchaser shall, and shall cause its Affiliates to use reasonable endeavours to procure the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3 as soon as reasonably possible (and, in any event, not later than the Longstop Date). Notwithstanding any other provision of this Agreement to the contrary, the Purchaser shall and, shall cause its Affiliates to use best endeavours to propose, negotiate, offer to commit and effect (and if such offer is accepted, commit to and effect), by consent decree, undertaking, hold separate order, or otherwise, the sale, divestiture, licence or disposition of its Nimenrix and Mencevax products on a global basis (excluding existing manufacturing capabilities) as may be required or desirable in order to procure the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3 as soon as reasonably possible (and, in any event, not later than the Longstop Date) and to avoid the commencement of any Action or the issuing of any Decision to prohibit the acquisition or any other transaction contemplated by this Agreement or, if such Action is already commenced, to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order in any Action so as to enable the Closing to occur as soon as reasonably possible (and, in any event, not later than the Longstop Date):
- 4.2.7** The Seller shall, and shall cause the Vaccines Group to use reasonable endeavours to cooperate with the Purchaser in connection with procuring the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3 as soon as reasonably possible (and, in any event, not later than the Longstop Date), including providing to the Purchaser such information with respect to the Vaccines Group as the Purchaser may reasonably require in connection with satisfaction of its obligations under this Clause.
- 4.2.8** The Purchaser and Seller shall cooperate to confirm, within 21 Business Days from signing of this Agreement, any additional merger notification requirements reasonably required or advisable in respect of the Transaction in jurisdictions beyond those listed in Schedule 24, and shall cooperate with each other, within the meaning of Clause 4.2.6, in achieving any additional clearances, approvals and consents or waiting period expirations in such jurisdictions. For the avoidance of doubt, Closing shall not be conditional upon such additional clearances, approvals and consents or waiting period expirations.
- 4.2.9** The Purchaser and Seller shall cooperate, in the manner contemplated in Clause 4.2.6, and use reasonable endeavours to ensure that no Governmental Entity shall enact, issue, promulgate, enforce or enter any Applicable Law or Judgment as contemplated under Clause 4.1.5. In the event that any Governmental Entity enacts, issues, promulgates, enforces or enters any Applicable Law or Judgment as contemplated under Clause 4.1.5, the Seller and the Purchaser shall cooperate and use reasonable endeavours to put in place arrangements that would allow the Transaction to complete to the greatest possible extent in compliance with the relevant Applicable Law or Judgment.



**4.2.10** Without prejudice to the provisions of Schedule 3, each of the Seller and the Purchaser shall, and shall procure that each of its respective Affiliates shall, cooperate with each other in relation to the satisfaction of the condition set out in Clause 4.1.8, and shall use its reasonable endeavours to ensure that the condition set out in Clause 4.1.8 is satisfied at Closing.

**4.2.11** The Seller shall use best efforts to obtain the consents, amendments, waivers and approvals referred to in Clause 4.1.9 prior to the Closing Date. The cost of obtaining such consents, amendments, waivers and approvals shall be borne by the Seller, including any payment or other incentive that may (whether required to be offered or not) be offered to [\*\*\*] and/or [\*\*\*] or any of their respective Affiliates in order to obtain such consents, amendments, waivers and approvals. The Purchaser shall, and shall cause its Affiliates to cooperate with the Seller in connection with obtaining the consents, amendments, waivers and approvals referred to in Clause 4.1.9 and use its reasonable endeavours to ensure that such conditions are satisfied at Closing, including providing to the Seller such information as the Seller may reasonably require in connection with the satisfaction of its obligations under this Clause 4.2.11.

**4.3** Non-Satisfaction by the Long Stop Date

**4.3.1** The Purchaser may at any time waive in whole or in part (and conditionally or unconditionally) the conditions set out in Clause 4.1.8 or 4.1.9 by notice in writing to the Seller.

**4.3.2** If the conditions in Clause 4.1 are not satisfied (or waived in accordance with Clause 4.3.1) as of 22 October 2015 (the “**Long Stop Date**”), the Purchaser or the Seller may, in its sole discretion, terminate this Agreement (other than Clauses 1, 13 and 16.2 to 16.14) and no party shall have any claim against the other under it, save for any claim arising from breach of any obligation contained in such Clauses or Clause 4.2. Neither the Seller nor the Purchaser may terminate this Agreement after satisfaction or waiver of the conditions in Clause 4.1, except in accordance with this Agreement.

**4.4** Termination

**4.4.1** This Agreement may be terminated at any time prior to Closing:

- (i) by written consent of the Seller and the Purchaser;
- (ii) by either the Seller or the Purchaser by notice to the other party in the event that any Judgment restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement shall have become final and non-appealable, provided that the party seeking to terminate this Agreement pursuant to this Clause 4.4 has complied with the terms of the Implementation Agreement and this Agreement in connection with having such Judgment vacated or denied; or
- (iii) by the Purchaser by notice to the Seller if:

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



- (a) a Material Adverse Effect occurs prior to Closing (which shall include any breach or breaches of Clause 9.1 which alone or together constitute a Material Adverse Effect); or
- (b) the Seller fails to provide a Certificate immediately prior to Closing; or
- (iv) in accordance with the terms of the Implementation Agreement.

**4.4.2** This Agreement shall terminate automatically at any time prior to Closing in the event that:

- (i) any other Target Asset Agreement terminates or is terminated in accordance with its terms; or
- (ii) the Novartis Break Fee and/or the GSK Break Fee becomes payable under clause 5.1 or clause 5.8 of the Implementation Agreement, respectively.

**4.4.3** Save as provided in this Clause 4, neither party shall be entitled to terminate or rescind this Agreement (whether before or after Closing). If this Agreement is terminated pursuant to this Clause 4.4, this Agreement shall be of no further force and effect and there shall be no further liability under this Agreement or any of the Ancillary Agreements on the part of any party, except that Clauses 1, 13 and 16.2 to 16.14, in each case, to the extent applicable, shall survive any termination.

**4.4.4** Nothing in this Clause 4.4 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement prior to termination of this Agreement.

## 5 Pre-Closing

### 5.1 The Seller's Obligations in Relation to the Business

- 5.1.1** The Seller undertakes to procure that between the date of this Agreement and Closing, it and the relevant members of the Seller's Group shall, so far as permitted by Applicable Law, carry on the Business as carried on by the Vaccines Group as a going concern in the ordinary course as carried on immediately prior to the date of this Agreement save in so far as agreed in writing by the Purchaser (such consent not to be unreasonably withheld or delayed).
- 5.1.2** Without prejudice to the generality of Clause 5.1.1 and subject to Clause 5.2, the Seller undertakes to procure that, with respect to the Business as carried on by the Vaccines Group, between the date of this Agreement and Closing, no member of the Seller's Group shall, except as may be required to comply with this Agreement, without the prior written consent of the Purchaser (such consent not to be unreasonably withheld or delayed), take any of the actions listed in Part 1 of Schedule 20.
- 5.1.3** Without prejudice to the generality of Clause 5.1.1, the Seller shall, in each case with respect to the Business as carried on by the Vaccines Group only: (i) undertake to procure the satisfaction of its obligations listed in paragraph 1, Part 2 of Schedule 20; and (ii) procure that the Vaccines Group shall, between the date of this Agreement and Closing, comply with the requirements of paragraph 2, Part 2 of Schedule 20.



**5.2** Exceptions to Seller's Obligations in Relation to the Conduct of Business

Clause 5.1 shall not operate so as to prevent or restrict:

- 5.2.1** the disposal or transfer by one or more members of the Seller's Group of any or all of the Non-strategic Assets;
- 5.2.2** any matter undertaken by any member of the Seller's Group to facilitate or implement a Reorganisation in accordance with Clause 2.3.5;
- 5.2.3** any matter undertaken by any member of the Vaccines Group that is set out in Part 3 of Schedule 20;
- 5.2.4** any action to the extent it is required to be undertaken to comply with Applicable Law; or
- 5.2.5** any matter reasonably undertaken by any member of the Seller's Group in an emergency or disaster situation with the intention of minimising any adverse effect of such situation in relation to the Vaccines Group and where any delay arising by virtue of having to give notice to the Purchaser and await consent would materially prejudice the Vaccines Group,

provided that the Seller shall notify the Purchaser as soon as reasonably practicable of any action taken or proposed to be taken as described in Clause 5.2.4, shall provide to the Purchaser all such information as the Purchaser may reasonably request and shall use reasonable endeavours to consult with the Purchaser in respect of any such action.

**5.3** The Seller's obligations in relation to insurance

Without prejudice to the generality of this Clause 5, between the date of this Agreement and Closing, the Seller shall or shall procure that the relevant members of the Seller's Group shall maintain in force all Vaccines Group Insurance Policies and all Seller's Group Insurance Policies for the benefit of the Vaccines Group Businesses and Vaccines Group Companies.

**5.4** The Seller's obligations in relation to cash, Intra-Group Non-Trade Payables and Receivables and Third Party Indebtedness  
Prior to Closing, the Seller shall seek to minimise the amounts which would, but for this Clause 5.4, otherwise fall to be treated as:

- (lix) Intra-Group Non-Trade Payables;
- (lx) Intra-Group Non-Trade Receivables;
- (lxi) Vaccines Group Companies Cash Balances; and
- (lxii) Third Party Indebtedness,

in each case to the extent reasonably possible, taking into account the consequences of any such reduction for the Seller's Group.

**5.5** Other Seller's Obligations Prior to Closing

Without prejudice to the generality of this Clause 5, prior to Closing the Seller shall, and shall procure that the relevant Vaccines Group Companies, the Seller and the Seller's Affiliates shall allow the Purchaser and its respective agents, upon reasonable notice, reasonable access to, and to take copies of, the books, records and documents of or relating in whole or in part to the Vaccines Group, provided that the obligations of the Seller under this Clause shall not extend to allowing access to information which is (i) reasonably regarded as confidential to the activities of the Seller and the Seller's Group otherwise than in relation to the Vaccines Group or (ii) commercially sensitive; or (iii) other information of the Vaccines Group if such information cannot be shared with the Purchaser prior to Closing in compliance with Applicable Law (though the Seller shall seek to share such information with the Purchaser to the extent and in such a manner as would comply with Applicable Law).

**5.6** Affiliate Contracts

**5.6.1** Other than as provided in the Ancillary Agreements and subject to Clauses 0 and 8.6, the Seller and the Purchaser shall procure that:

- (i) the Cash Pooling Arrangements; and
- (ii) each Affiliate Contract in force immediately prior to Closing,

shall terminate prior to Closing and each counterparty thereto shall, effective as of Closing, settle all outstanding financial obligations arising out of such Affiliate Contracts and unconditionally release and irrevocably discharge each other party thereto from (i) any and all further obligations to perform or any further performance of the various covenants, undertakings, warranties and other obligations contained in such Affiliate Contract and (ii) any and all claims and Liabilities whatsoever arising out of, in any way connected with, as a result of or in respect of such Affiliate Contract.

**5.6.2** As soon as practicable following the date of this Agreement, and in any event within one month of the date of this Agreement, the Seller shall provide a copy of each Affiliate Contract that is material to the Vaccines Group and is in writing to the Purchaser. Within two months of the date of this Agreement, the Purchaser shall notify the Seller of the services provided under the Affiliate Contracts from the Seller's Group which the Purchaser reasonably requires in order to operate the business of the Vaccines Group as it is carried on at the date of this Agreement to continue to receive on the same terms as contained in the relevant Affiliate Contract for a maximum period of 6 months following Closing provided that such services are not addressed by the Ancillary Agreements.

**5.6.3** Any Affiliate Contract between or among Sandoz GmbH or Novartis Pharma Stein AG on the one hand, and any Vaccines Group Company on the other hand, and entered into after the date hereof with the written consent of the Purchaser, shall not terminate prior to Closing in accordance with Clause 5.6.1, and shall transfer to the Purchaser upon Closing pursuant to Clause 2.3.1(viii).

**5.7** Tax Groups

**5.7.1** The Seller shall take all reasonable steps to procure that any Tax Consolidation existing between any member of the Seller's Group Company and any Vaccines Group Company be terminated on or before Closing, so far as permitted by the applicable law, or otherwise on the earliest date on which such termination is permitted under applicable law, and the Seller and the Purchaser shall take such action as is necessary to procure or effect this, including timely submitting any necessary Tax documents.



- 5.7.2 Pending the taking effect of the action referred to in Clause 5.7.1, and for so long thereafter as may be necessary, the Purchaser shall (subject to the provisions of the Tax Indemnity) procure that such information is provided to the Seller as may reasonably be required to enable any relevant member of the Seller's Group to make all Tax Returns and other filings required of it in respect of the Tax Consolidation.
- 5.7.3 The Seller and the Purchaser shall cooperate in good faith to take, and procure that each member of the Seller's Group and the Purchaser's Group takes, all reasonable procedural or administrative steps (including the making of elections and filings with relevant Tax Authorities) which are reasonably necessary to procure the minimisation of the extent to which Tax liabilities of members of the Seller's Group (other than Vaccines Group Companies) can be assessed on members of the Purchaser's Group or on Vaccines Group Companies.
- 5.7.4 The Seller shall take all reasonable steps to procure that Chiron Panacea Vaccines Limited is finally liquidated and ceases to exist before Closing.

## 6 Closing

### 6.1 Date and Place

Closing shall take place simultaneously with closing under the other Target Asset Agreements at 11.59 p.m. (Central European Time) at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS (other than in respect of any Local Transfer Documents agreed between the parties to be executed in another jurisdiction) on the last Business Day of the month in which fulfilment or waiver of the last of the condition(s) set out in Clause 4.1 to be fulfilled or waived takes place, except that:

- 6.1.1 where the last day of such month is not a Business Day, Closing shall instead take place on the first Business Day of the following month; and
- 6.1.2 where less than five Business Days remain between such fulfilment or waiver and the last Business Day of the month, Closing shall take place:
  - (i) on the last Business Day of the following month;
  - (ii) where the last day of such month is not a Business Day, Closing shall instead take place on the first Business Day of the month following the month referred to in Clause 6.1.2(i); or
  - (iii) at such other location, time or date as may be agreed between the Purchaser and the Seller in writing.

provided that:

- (a) Closing shall not take place and shall not be effective in any circumstances unless closing also takes place under and in accordance with the terms of the other Target Asset Agreements at the same time; and
- (b) in determining the date on which the last of the conditions set out in Clause 4.1 is fulfilled or waived, the date shall be the date on which the last of the conditions set out in Clauses 4.1.1, 4.1.2, 4.1.3, 4.1.4, 4.1.6, 4.1.7 and 4.1.9 is fulfilled or waived unless any of the conditions set out in Clauses 4.1.5 and 4.1.8 is not fulfilled or waived on that date, in which case the date shall then be the first following date on which all of the conditions set out in Clauses 4.1.5 and 4.1.8 are fulfilled or waived.



**6.2** Closing Events

- 6.2.1** On Closing, the parties shall comply with their respective obligations specified in Schedule 15. The Seller may waive some or all of the obligations of the Purchaser as set out in Schedule 15 and the Purchaser may waive some or all of the obligations of the Seller as set out in Schedule 15.
- 6.2.2** The parties acknowledge that the transfer of Product Approvals and Product Applications to the Purchaser or other members of the Purchaser's Group may be subject to the approval of applicable Governmental Entities, and that, notwithstanding anything in this Agreement to the contrary, each Product Approval and Product Application shall continue to be held by the relevant member of the Seller's Group from the Closing Date until the relevant PA Transfer Date.
- 6.2.3** The parties shall perform their respective obligations with respect to:
  - (i) the transfer of the Product Approvals, Product Applications and Pipeline Product Approvals as set out in Schedule 8;
  - (ii) the transfer of Contracts (other than Product Approvals, Product Applications and Pipeline Product Approvals) and the Transferred Intellectual Property Contracts as set out in Schedule 10 and the treatment of Shared Business Contracts; and
  - (iii) to the extent the Purchaser has elected to have the Relevant Part of a Shared Business Contract transferred to it, the separation of each Shared Business Contract as set out in Schedule 10.

**6.3** Payment on Closing

- 6.3.1** On Closing the Purchaser shall pay (for itself and on behalf of each relevant member of the Purchaser's Group in accordance with Clause 16.6) an amount in cleared funds, to the Seller to the Purchase Price Bank Account, which is equal to the sum of:
  - (i) the Headline Price;plus
  - (ii) the Estimated Vaccines Group Companies' Cash Balances and the Estimated Intra-Group Non-Trade Receivables;minus
  - (iii) the Estimated Third Party Indebtednessminus
  - (iv) the Estimated Intra-Group Non-Trade Payables;minus
  - (v) any Estimated Employee Benefit Adjustment;minus



- (vi) the Estimated Tax Adjustment
- plus
- (vii) the Estimated Working Capital Adjustment.

#### 6.4 Notifications to determine payments on Closing

##### 6.4.1 Five Business Days prior to Closing, the Seller shall notify the Purchaser of:

- (i) the Estimated Vaccines Group Companies' Cash Balances;
- (ii) the Estimated Third Party Indebtedness;
- (iii) the Estimated Intra-Group Non-Trade Receivables;
- (iv) the Estimated Intra-Group Non-Trade Payables;
- (v) any Estimated Employee Benefit Adjustment;
- (vi) the Estimated Tax Adjustment;
- (vii) the Estimated Working Capital; and
- (viii) the Estimated Working Capital Adjustment,

and shall at the same time provide to the Purchaser reasonable supporting calculations and information to enable the Purchaser to review the basis on which the estimates have been prepared.

##### 6.4.2 The Seller's notification pursuant to Clause 6.4.1 shall specify the relevant debtor and creditor for each Estimated Intra-Group Payable and Estimated Intra-Group Receivable.

##### 6.4.3 Immediately following Closing:

- (i) the Purchaser shall procure that each Vaccines Group Company repays to the relevant member of the Seller's Group the amount of any Estimated Intra-Group Non-Trade Payables and shall acknowledge on behalf of each Group Company the payment of the Estimated Intra-Group Non-Trade Receivables in accordance with Clause 6.4.3(i); and
- (ii) the Seller shall procure that each relevant member of the Seller's Group repays to the relevant Vaccines Group Company the amount of any Estimated Intra-Group Non-Trade Receivables and shall acknowledge on behalf of each relevant member of the Seller's Group the payment of the Estimated Intra-Group Non-Trade Payables in accordance with Clause 6.4.3(i).

##### 6.4.4 The repayments made pursuant to Clause 6.4.3 shall be adjusted in accordance with Clauses 7.3 and 7.4 when the Closing Statement becomes final and binding in accordance with Clause 7.2.1.

#### 6.5 Breach of Closing Obligations

If any party fails to comply with any material obligation in Clauses 6.2, 6.3 or 6.4, or Schedule 15 in relation to Closing, the Purchaser, in the case of non-compliance by the Seller, or the Seller, in the case of non-compliance by the Purchaser, shall be entitled (in addition to and without prejudice to all other rights or remedies available) by written notice to the Seller or the Purchaser fix a new date for Closing which, except as agreed by the parties, shall be the last day of the month next ending or, if that day is not a Business Day, the first Business Day falling after that day, in which case the provisions of Schedule 15 shall apply to Closing as so deferred, but provided such deferral may only occur once.



In all circumstances Closing shall only occur simultaneously with closing under the other Target Asset Agreements.

**7 Post-Closing Adjustments**

**7.1 Closing Statements**

- 7.1.1** The Seller shall procure that as soon as practicable following Closing there shall be drawn up a draft of the Closing Statement (the “**Draft Closing Statement**”) in accordance with Schedule 16 in relation to the Vaccines Group Companies and Vaccines Group Businesses, on a combined basis.
- 7.1.2** The Closing Statement shall be drawn up as at the Effective Time.

**7.2 Determination of Closing Statement**

- 7.2.1** The Draft Closing Statement as agreed or determined pursuant to paragraph 1 of Part 1 of Schedule 16:
  - (i) shall constitute the Closing Statement for the purposes of this Agreement; and
  - (ii) shall be final and binding on the parties.
- 7.2.2** The Working Capital, the Vaccines Group Companies’ Cash Balances, the Third Party Indebtedness, the Intra-Group Non-Trade Receivables, the Intra-Group Non-Trade Payables and the Tax Adjustment shall be derived from the Closing Statement.

**7.3 Adjustments to Purchase Price**

- 7.3.1** Vaccines Group Companies’ Cash Balances:
  - (i) if the Vaccines Group Companies’ Cash Balances are less than the Estimated Vaccines Group Companies’ Cash Balances, the Seller shall repay to the Purchaser an amount equal to the deficiency; or
  - (ii) if the Vaccines Group Companies’ Cash Balances are greater than the Estimated Vaccines Group Companies’ Cash Balances, the Purchaser shall pay to the Seller an additional amount equal to the excess.
- 7.3.2** Intra-Group Non-Trade Receivables:
  - (i) if the Intra-Group Non-Trade Receivables are less than the Estimated Intra-Group Non-Trade Receivables, the Seller shall repay to the Purchaser an amount equal to the deficiency; or
  - (ii) if the Intra-Group Non-Trade Receivables are greater than the Estimated Intra-Group Non-Trade Receivables, the Purchaser shall pay to the Seller an additional amount equal to the excess.



**7.3.3** Third Party Indebtedness:

- (i) if the Third Party Indebtedness is greater in magnitude than the Estimated Third Party Indebtedness, the Seller shall repay to the Purchaser an amount equal to the excess; or
- (ii) if the Third Party Indebtedness is less in magnitude than the Estimated Third Party Indebtedness, the Purchaser shall pay to the Seller an additional amount equal to the deficiency.

**7.3.4** Intra-Group Non-Trade Payables:

- (i) if the Intra-Group Non-Trade Payables are greater in magnitude than the Estimated Intra-Group Non-Trade Payables, the Seller shall repay to the Purchaser an amount equal to the excess; or
- (ii) if the Intra-Group Non-Trade Payables are less in magnitude than the Estimated Intra-Group Non-Trade Payables, the Purchaser shall pay to the Seller an additional amount equal to the deficiency.

**7.3.5** Tax Adjustment

- (i) if the Tax Adjustment is greater than the Estimated Tax Adjustment, the Seller shall repay to the Purchaser an amount equal to the difference; or
- (ii) if the Tax Adjustment is less than the Estimated Tax Adjustment, the Purchaser shall pay to the Seller an additional amount equal to the difference.

**7.3.6** Working Capital:

- (i) if the Working Capital Adjustment is less than the Estimated Working Capital Adjustment, the Seller shall repay to the Purchaser an amount equal to the deficiency; or
- (ii) if the Working Capital Adjustment exceeds the Estimated Working Capital Adjustment, the Purchaser shall pay to the Seller an additional amount equal to the excess.

**7.4** Adjustments to repayment of Intra-Group Non-Trade Payables and Intra-Group Non-Trade Receivables

Following the determination of the Closing Statement pursuant to Clause 7.2 and paragraph 1 of Part 1 of Schedule 16, if the amount of any Intra-Group Non-Trade Payable and/or any Intra-Group Non-Trade Receivable contained in the Closing Statement is greater or less than the amount of the corresponding Estimated Intra-Group Non-Trade Payable or Estimated Intra-Group Non-Trade Receivable, then the Seller and the Purchaser shall procure that such adjustments to the repayments pursuant to Clause 6.4.3 are made as are necessary to ensure that (taking into account such adjustments) the actual amount of each Intra-Group Non-Trade Payable and each Intra-Group Non-Trade Receivable has been repaid by each Group Company to the relevant member of the Seller's Group or by the relevant member of the Seller's Group to the relevant Group Company, as the case may be.

**7.5** Interest

Any payment to be made in accordance with Clause 7.3 shall include interest thereon calculated from the Closing Date to the date of payment at a rate per annum of LIBOR.



**7.6** Payment

- 7.6.1** Any payments pursuant to Clause 7.3 or 7.4, and any interest payable pursuant to Clause 7.5, shall be made on or before the Final Payment Date.
- 7.6.2** Where any payment is required to be made pursuant to Clause 7.3 or Clause 7.5 (in relation to a payment pursuant to Clause 7.3) the payment made on account of the Purchase Price shall be reduced or increased accordingly.
- 7.6.3** Where any payment is required to be made pursuant to Schedule 12, the payment made shall be deemed to be a reduction to the Purchase Price.

**8** Post-Closing Obligations

**8.1** Indemnities

**8.1.1** Indemnity by the Purchaser against Assumed Liabilities

The Purchaser hereby undertakes to the Seller (for itself and on behalf of each other member of the Seller’s Group and their respective directors, officers, employees and agents) that, with effect from Closing, the Purchaser will indemnify on demand and hold harmless each member of the Seller’s Group and their respective directors, officers, employees and agents against and in respect of any and all Assumed Liabilities.

**8.1.2** Indemnities by Seller

Subject to Clause 8.1.3, the Seller hereby undertakes to the Purchaser (for itself and on behalf of each other member of the Purchaser’s Group and their respective directors, officers, employees and agents) that, with effect from Closing, the Seller will indemnify on demand and hold harmless each member of the Purchaser’s Group and their respective directors, officers, employees and agents against and in respect of any and all:

- (i) Excluded Liabilities; and
- (ii) Liabilities, including legal fees, to the extent they have arisen or arise (whether before or after Closing) as a result of or otherwise relate to any act, omission, fact, matter, circumstance or event undertaken, occurring or in existence or arising before Closing so far as related to: (A) any breach of any anti-bribery warranty, including without limitation those set forth in paragraphs 9.1 through 9.6 of Schedule 18, not being true and correct when made; (B) any government inquiries or investigations involving the Seller or its Affiliates or associated persons; (C) save to the extent in existence as at the date of this Agreement, any limitation, restriction or other reduction in drug registrations, licenses, listings or marketing approvals, government pricing or reimbursement rates relating to the Products including specifically the value of lost future profits as a result of any such limitation, restriction or reduction; or (D) any other claim, litigation, investigation or proceeding to the extent related to any of the foregoing (A) to (C), including but not limited to costs of investigation and defense and legal fees.



**8.1.3 Limitations on Indemnities**

Subject to Clause 8.1.4, the Seller shall not be liable under Clause 8.1.2 in respect of:

- (i) any Time-Limited Excluded Liability unless a notice of claim in respect of the matter giving rise to such Liability is given by the Purchaser to the Seller within ten years of Closing, provided that this sub-Clause (i) shall not apply in respect of any claim by the Purchaser which relates to:
  - (a) a Product Liability;
  - (b) a Governmental Liability;
  - (c) a Clinical Trials/Data Liability;
  - (d) an IP Liability; or
  - (e) an Excluded Asset;
- (ii) any claim if and to the extent that the relevant Liability is included in the Closing Statement; or
- (iii) any individual claim (or a series of claims arising from similar or identical facts or circumstances) where the Liability (disregarding the provisions of this Clause 8.1.3(iii)) in respect of any such claim or series of claims does not exceed US\$10 million, provided that, for the avoidance of doubt, where the Liability in respect of any such claim or series of claims exceeds US\$10 million, the Liability of the Seller shall be for the whole amount of such claim(s) and not just the excess.

**8.1.4 Disapplication of limitations**

None of the limitations contained in Clause 8.1.3 shall apply to any claim to the extent that such claim which arises or is increased, or to the extent to which it arises or is increased, as the consequence of, or which is delayed as a result of, fraud by any member of the Seller's Group or any director, officer or employee of any member of the Seller's Group.

**8.2 Conduct of Claims**

**8.2.1 Assumed Liabilities**

- (i) If the Seller becomes aware after Closing of any claim by a third party which constitutes or may constitute an Assumed Liability, the Seller shall as soon as reasonably practicable:
  - (a) give written notice thereof to the Purchaser, setting out such information as is available to the Seller as is reasonably necessary to enable the Purchaser to assess the merits of the potential claim;
  - (b) take all appropriate actions to preserve evidence; and
  - (c) provide the Purchaser with periodic updates on the status of the claim upon request and shall not admit, compromise, settle, discharge or otherwise deal with such claim without the prior written agreement of the Purchaser (such agreement not to be unreasonably withheld or delayed).



- (ii) The Seller shall, and shall procure that each Share Seller and Business Seller shall, take such action as the Purchaser may reasonably request to avoid, dispute, resist, appeal, compromise, defend or mitigate any claim which constitutes or may constitute an Assumed Liability subject to the Seller and each Share Seller and Business Seller being indemnified and secured to their reasonable satisfaction by the Purchaser against all Liabilities which may thereby be incurred. In connection therewith, the Seller shall make or procure to be made available to the Purchaser or their duly authorised agents on reasonable notice during normal business hours all relevant books of account, records and correspondence relating to the Vaccines Group Businesses which have been retained by the Seller's Group (and shall permit the Purchaser to take copies thereof at its expense) for the purposes of enabling the Purchaser to ascertain or extract any information relevant to the claim.

### 8.2.2 Excluded Liabilities

- (i) If the Purchaser becomes aware after Closing of any claim by a third party which constitutes or may constitute an Excluded Liability or relates to an Excluded Liability or any investigations related thereto, regardless of whether the Purchaser believes that such claim would be made against a member of the Purchaser's Group or a member of the Seller's Group, the Purchaser shall as soon as reasonably practicable:
- (a) give written notice thereof to the Seller, setting out such information as is available to the Purchaser as is reasonably necessary to enable the Seller to assess the merits of the potential claim;
  - (b) take all appropriate actions to preserve evidence; and
  - (c) provide the Seller with periodic updates on the status upon request and shall not admit, compromise, settle, discharge or otherwise deal with such claim without the prior written agreement of the Seller (such agreement not to be unreasonably withheld or delayed).
- (ii) The Purchaser shall take such action as the Seller may reasonably request to avoid, dispute, resist, appeal, compromise, defend or mitigate any claim which constitutes or may constitute an Excluded Liability subject to the Purchaser being indemnified and secured to its reasonable satisfaction by the Seller against all Liabilities which may thereby be incurred.
- (iii) In addition, where any such claim or investigation involves a Governmental Entity, the Purchaser shall, subject to Applicable Law, the requirements of the Relevant Governmental Entity and the Seller providing an appropriate confidentiality undertaking in favour of the Purchaser's Group, provide to the Seller, at least five Business Days in advance (or, where not possible, as soon as reasonably possible), any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals they or their agents make or submit to a Governmental Entity. Without limiting the foregoing, the parties agree, subject to the Applicable Law, and the requirements of the relevant Governmental Entity, and the Seller providing an appropriate confidentiality undertaking in favour of the Purchaser's Group, to:



- (a) give the Seller reasonable advance notice of all meetings with any Governmental Entity;
  - (b) give the Seller an opportunity to participate in each of such meetings;
  - (c) to the extent practicable, give the Seller reasonable advance notice of all substantive oral communications with any Governmental Entity;
  - (d) if any Governmental Entity initiates a substantive oral communication, promptly notify the Seller of the substance of such communication;
  - (e) provide the Seller with a reasonable advance opportunity to review and comment upon all substantive written communications (including any substantive correspondence, analyses, presentations, memoranda, briefs, arguments, opinions and proposals) that the Purchaser or its agents intend to make or submit to a Governmental Entity in connection with such claim;
  - (f) provide the Seller with copies of all substantive written communications to or from any Governmental Entity; and
  - (g) not advance arguments with the Governmental Entity without prior agreement of the Seller that would reasonably be likely to have a significant adverse impact on the Seller, provided however, that the Purchaser shall not be required to comply with paragraph (b) above to the extent that the Governmental Entity objects to the participation of a party, or with paragraph (e) or (f) above to the extent that such disclosure may raise regulatory concerns (in which case, the disclosure may be made on an outside counsel basis).
- (iv) Other than in respect of any claim to the extent it relates to an IP Liability, a Commercial Practices Liability or a Governmental Liability (other than in respect of any Liability arising solely by virtue of a breach of any Contract with any Governmental Entity which breach does not also constitute a breach of Applicable Law), the Seller shall be entitled at its own expense and in its absolute discretion, by notice in writing to the Purchaser, to take such action as it shall deem necessary to avoid, dispute, deny, defend, resist, appeal, compromise or contest any such claim (including making counterclaims or other claims against third parties) in the name of and on behalf of the Purchaser or other member of the Purchaser's Group concerned and to have the conduct of any related proceedings, negotiations or appeals. In taking action on behalf of any member of the Purchaser's Group as permitted by this Clause 8.2, the Seller shall, in good faith, take into account and have due regard to any reputational matters or issues arising out of the claim for any member of the Purchaser's Group or any of their respective directors, officers, employees or agents which are brought to its attention by the Purchaser or a member of the Purchaser's Group.
- (v) Without limitation to the Seller's rights pursuant to Clause 8.10, the Purchaser shall make or procure to be made available to the Seller or its duly authorised agents on reasonable notice during normal business hours full and free access to all relevant books of account, records and correspondence relating to the Vaccines Group which are in the possession of the Purchaser or any member of the Purchaser's Group (and shall permit the Seller to take copies thereof) for the purposes of enabling the Seller to ascertain or extract any information relevant to the claim.



- (vi) The Purchaser shall, and shall procure that each other member of the Purchaser's Group shall, on reasonable notice from the Seller, give such assistance to the Seller as it may reasonably require in relation to the claim including providing the Seller or any member of the Seller's Group and its representative and advisers with access to and assistance from directors, officers, managers, employees, advisers, agents or consultants of the Purchaser and/or of each other member of the Purchaser's Group (collectively, the "**Relevant Persons**") and the Purchaser will use its reasonable endeavours to procure that such Relevant Persons comply with any reasonable requests from the Seller and generally co-operates with and assists the Seller and other members of the Seller's Group.
- (vii) When seeking assistance under Clauses 8.2.2(v) and (vi), the Seller, or any other relevant member of the Seller's Group, shall use reasonable endeavours to minimise interference with the Purchaser and the Purchaser's Group's conduct of the relevant business or the performance by the Relevant Persons of their employment duties.

### 8.3 Release of Guarantees

- 8.3.1 The Purchaser shall use reasonable endeavours to procure as soon as reasonably practicable after Closing, the release of the Seller or any member of the Seller's Group from any securities, guarantees or indemnities given by or binding upon the Seller or any member of the Seller's Group in respect of the Assumed Liabilities or in connection with a liability of any of the Vaccines Group Companies (other than an Excluded Liability). Pending such release, the Purchaser shall indemnify the Seller and any member of the Seller's Group against all amounts paid by any of them (acting reasonably) pursuant to any such securities, guarantees or indemnities in respect of such Assumed Liabilities or such liability of the Vaccines Group Companies (other than an Excluded Liability).
- 8.3.2 The Seller shall use reasonable endeavours to procure by Closing or, to the extent not done by Closing, as soon as reasonably practicable after Closing, the release of the Vaccines Group Companies from any securities, guarantees or indemnities given by or binding upon the Vaccines Group Companies in respect of any liability of the Seller or any member of the Seller's Group. Pending such release, the Seller shall indemnify the Vaccines Group Companies against all amounts paid by any of them (acting reasonably) pursuant to any such securities, guarantees or indemnities in respect of such liability of the Seller which arises after Closing.

### 8.4 Transferred Accounts Payable

If at any time after Closing, the Seller or any of its Affiliates pays any monies in respect of any Transferred Accounts Payable, then the Purchaser shall pay or procure payment to the Seller (for the relevant Business Seller), as soon as reasonably practicable the amount paid, plus any Taxation suffered or incurred by the Seller's Group which would not have arisen but for the payment and receipt of such monies.



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**8.5** Transferred Accounts Receivable

If at any time after Closing, a Business Seller receives any monies in respect of any Transferred Accounts Receivable, then the Business Seller shall pay or procure payment to the Purchaser, as soon as reasonably practicable the amount recovered, less any Taxation suffered or incurred by the Seller's Group which would not have arisen but for the receipt and payment of such monies.

**8.6** Intra-Group Trading Balances

Any Intra-Group Trading Balances shall be settled after Closing in the ordinary course of business and, in any event, within 60 days of Closing.

**8.7** Transfer of Marketing Authorisations

**8.7.1** The transfer of the Marketing Authorisations following Closing shall take place in accordance with Part 2 of Schedule 8 and the terms of the Manufacturing, Supply and Distribution Agreement.

**8.7.2** Between the Closing Date and the Marketing Authorisation Transfer Date, the Seller agrees to assist the Purchaser in accordance with Part 4 of Schedule 8 in respect of any tenders relating to the Products.

**8.8** Wrong Pockets Obligations

**8.8.1** Except as provided in Schedules 3, 8, 10, 11 and 12, if any property, right or asset forming part of the Vaccines Group (other than any property, right or asset expressly excluded from the sale under this Agreement) has not been transferred to the Purchaser or to another member of the Purchaser's Group and should have transferred pursuant to the terms of this Agreement, the Seller shall procure that such property, right or asset (and any related liability which is an Assumed Liability) is transferred to the Purchaser, or to such other member of the Purchaser's Group as the Purchaser may nominate reasonably acceptable to the Seller, as soon as practicable and at no cost to the Purchaser.

**8.8.2** If, following Closing, any property, right or asset not forming part of the Vaccines Group (other than any property, right or asset expressly included in the sale under this Agreement) is found to have been transferred to the Purchaser or to another member of the Purchaser's Group and should not have transferred pursuant to the terms of this Agreement, the Purchaser shall procure that such property, right or asset is transferred to the transferor or another member of the Seller's Group nominated by the Seller reasonably acceptable to the Purchaser as soon as practicable and at no cost to the Seller.

**8.9** Covenant not to sue

**8.9.1** The Seller hereby undertakes not to enforce, at any time after Closing, any Out of Scope Patent against the Purchaser's Group in relation to the Purchaser's Group carrying on the Business as at the date of Closing.



**8.9.2** The Purchaser hereby undertakes not to enforce, at any time after Closing, any Vaccines Patent against the Seller's Group in relation to the Seller's Group carrying on the Seller's Group Retained Business as at the date of Closing.

**8.10** The Purchaser's Continuing Obligations

**8.10.1** The Purchaser shall procure that as soon as practicable after Closing, each of the Vaccines Group Companies shall change its name so that it does not contain any of the Seller Restricted Marks or any name which is likely to be confused with the same and shall provide the Seller with appropriate evidence of such change of name.

**8.10.2** Except as provided in the Ancillary Agreements, the Purchaser shall not, and shall procure that no member of the Purchaser's Group shall, after Closing, use the Seller Restricted Marks or any confusingly similar name or mark, any extensions thereof or developments thereto in any business which competes with the Seller's business, or any other business of the Seller or any member of the Seller's Group in which the Seller Restricted Marks are used for a minimum period of five (5) years following Closing and thereafter for so long as any member of the Seller's Group continues to retain an interest in the relevant Seller Restricted Marks.

**8.10.3** The Purchaser shall, and shall procure that the relevant Vaccines Group Companies shall, retain for a period of 10 years from Closing (and, upon notice from the Seller between 9 and 10 years from Closing, for a further period of 5 years), and not dispose of or destroy, the books, records and documents of the Vaccines Group to the extent they relate to the period prior to Closing and shall, and shall procure that the relevant Vaccines Group Companies shall, if reasonably requested by the Seller, allow the Seller reasonable access to such books, records and documents (including the right to take copies at the Seller's expense) and to the employees of the Vaccines Group or former employees of the Vaccines Group who are employees of any member of the Purchaser's Group.

**8.10.4** During the 90 days following the Closing Date, the Purchaser shall provide and cause to be provided to the Seller the information reasonably required to enable the Seller to prepare and audit the standard monthly reporting forms of the Seller's Group, to the extent that such financial reporting relates to the Vaccines Group, in respect of the period prior to the Closing and in respect of the calendar month in which the Closing occurs. The Purchaser shall provide such financial reporting in respect of the calendar month in which Closing occurs to the Seller within six Business Days of the last day of the relevant month.

**8.11** The Seller's Continuing Obligations

For a period of 10 years from Closing (and, upon notice from the Purchaser between 9 and 10 years from Closing, for a further period of 5 years), the Seller shall make or procure to be made available to the Purchaser or their duly authorised agents on reasonable notice during normal business hours:

**8.11.1** all relevant books, accounts, other records and correspondence relating to the Vaccines Group which have been retained by the Seller's Group (and shall permit the Purchaser to take copies thereof); and



**8.11.2** reasonable access to employees of the Seller’s Group who have knowledge relating to any of the Products (including any inventor of the Products) for the purposes of the defence, prosecution or enforcement of any Vaccines Group Intellectual Property Rights, or as required by law or a Governmental Entity, provided that the Purchaser shall promptly reimburse the Seller for expenses reasonably incurred by the Seller in relation to providing such access if it exceeds 25 man hours in aggregate per annum.

**8.12** Influenza Business

**8.12.1** General

- (i) Without prejudice to Clauses 2.1, 2.2, 2.3.1 to 2.3.4, 3 and 4, the parties shall, acting reasonably and as soon as practicable, enter into such arrangements as are required to enable the Influenza Business (or parts thereof) retained by the Seller, purchased by the Purchaser, or purchased by one or more third party purchasers (as applicable) to continue to operate the Influenza Business (or parts thereof) on substantially the same basis as it was operated by the Seller immediately prior to the date of this Agreement. Such arrangements may include:
  - (a) a transitional services agreement which, if required, will be on the same terms as the heads of terms relating to the Transitional Services Agreement in the Agreed Terms (with any necessary amendments) until such time as the full form Transitional Services Agreement is agreed, in which case, the terms that will apply will be that full form agreement (with any necessary amendments);
  - (b) a manufacturing, supply and distribution agreement which, if required, will be on the same terms as the heads of terms relating to the Manufacturing, Supply and Distribution Agreement in the Agreed Terms (with any necessary amendments) until such time as the full form Manufacturing, Supply and Distribution Agreement is agreed, in which case, the terms that will apply will be that full form agreement (with any necessary amendments); and
  - (c) a manufacturing and supply agreement which, if required, will be on the same terms as the heads of terms relating to the Influenza Business Manufacturing and Supply Agreement in the Agreed Terms (with any necessary amendments) until such time as the full form Influenza Business Manufacturing and Supply Agreement is agreed, in which case, the terms that will apply will be that full form agreement (with any necessary amendments).
- (ii) Each party shall take all reasonable steps to cooperate with the other party to ensure that each relevant technology transfer takes place as soon as practicable.
- (iii) The Purchaser acknowledges that the Seller shall, at its option, be entitled to:
  - (a) assign or novate the burden and benefit of the Influenza Business Manufacturing and Supply Agreement and any of the arrangements referred to in Clause 8.12.1(i) to any purchaser(s) of the Influenza Business (or parts thereof) without the consent of the Purchaser; or



- (b) require the Purchaser to enter into separate agreements with any purchaser(s) of the Influenza Business (or parts thereof) on the same terms as the Influenza Business Manufacturing and Supply Agreement and any of the arrangements referred to in Clause 8.12.1(i).

### 8.12.2 Influenza Business Manufacturing and Supply Agreement

If the Influenza Business Manufacturing and Supply Agreement has not been entered into on the earlier of: (i) Closing; or (ii) the closing of any sale to the purchaser(s) of the Influenza Business (or parts thereof), the provisions of the heads of terms in relation to the Influenza Business Manufacturing and Supply Agreement in the Agreed Terms shall be binding on the Seller and Purchaser until the earlier of: (i) the date on which the Manufacturing and Supply Agreement is entered into; and (ii) the date specified in the heads of terms.

### 8.12.3 Confidential information

In connection with the services to be provided pursuant to this Clause 8.12, where required by Applicable Law, the Seller and the Purchaser shall establish appropriate safe guards to maintain, and protect from improper disclosure, confidential information arising from the provision of such services.

### 8.13 Diagnostics TSA Liabilities

The Seller hereby undertakes to the Purchaser (for itself and as trustee for each other member of the Purchaser's Group) that, with effect from Closing, the Seller will indemnify on demand and hold harmless each member of the Purchaser's Group, and any of their respective directors, officers and employees, against and in respect of any and all Diagnostics TSA Liabilities (but excluding any Diagnostics TSA Liabilities which arise from the fraud, wilful default or negligence of the Purchaser, any member of the Purchaser's Group, and any of their respective directors, officers and employees, or where the Purchaser has not used commercially reasonable endeavours to procure that the Vaccines Group complies with its obligations under the Diagnostics TSA).

### 8.14 Seller's Licence under the Out-Licensing Programme

The Seller grants (and shall procure the grant) to the Purchaser of a non-exclusive, irrevocable, royalty-free, non-assignable, sub-licensable licence of the Out-Licensing Programme Intellectual Property Rights solely for use in relation to the Business which shall be sub-licensable by the Purchaser solely (i) to members of the Purchaser's Group and (ii) to third parties working with it on the development of the Products.

## 9 Warranties

### 9.1 The Seller's Warranties

**9.1.1** Subject to Clause 9.2, the Seller warrants (on behalf of the relevant Business Sellers or Share Sellers as applicable) to the Purchaser and each member of the Purchaser's Group to which Shares or other assets are transferred pursuant to this Agreement or any Local Transfer Document, that the statements set out in Schedule 18 are true and accurate as of the date of this Agreement.



- 9.1.2 Each of the Seller's Warranties shall be separate and independent and shall not be limited by reference to any other paragraph of Schedule 18 or by anything in this Agreement or any Local Transfer Document or in the Tax Indemnity.
- 9.1.3 The Seller does not give or make any warranty as to the accuracy of the forecasts, estimates, projections, statements of intent or statements of opinion provided to the Purchaser or any of its directors, officers, employees, agents or advisers on or prior to the date of this Agreement.
- 9.1.4 Any Seller's Warranty qualified by the expression "so far as the Seller is aware" or to the "Seller's Knowledge" or any similar expression shall, unless otherwise stated, be deemed to refer to the knowledge of the following persons: [\*\*\*], such persons having made due and reasonable enquiry.
- 9.1.5 The Seller's Warranties shall be deemed to be repeated immediately before Closing by reference to the facts, circumstances and knowledge then existing as if references in the Seller's Warranties to the date of this Agreement were references to the Closing Date. Without prejudice to the provisions of Clause 10, the Seller shall have no liability for any breach of any Seller's Warranty where such Seller's Warranty was true as at the date of this Agreement unless the fact, event or circumstances giving rise to the breach constitutes a Material Adverse Effect. The Seller shall have no liability under this Clause 9.1.4 if the Purchaser has exercised its termination right in accordance with Clause 4.4.1(iv).
- 9.1.6 Save insofar as they are specifically referred to in paragraphs 4.4 and 4.5 of Schedule 18, none of the Seller's Warranties shall apply to any of the Beta Interferon Patent Rights.

9.2 Seller's Disclosures

- 9.2.1 The Seller's Warranties are subject to all matters which are fairly disclosed in this Agreement or in the Disclosure Letter.
- 9.2.2 References in the Disclosure Letter to paragraph numbers shall be to the paragraphs in Schedule 18 to which the disclosure is most likely to relate. Such references are given for convenience only and, shall not limit the effect of any of the disclosures, all of which are made against the Seller's Warranties as a whole.

9.3 The Purchaser's Warranties

The Purchaser warrants to the Seller that the statements set out in Schedule 19 are true and accurate as of the date of this Agreement.

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**10 Limitation of Liability**

**10.1 Application**

- 10.1.1** In respect of the Tax Indemnity, the provisions of this Clause 10 shall operate to limit the liability of the Seller only in so far as any provision in this Clause 10 is expressed to be applicable to the Tax Indemnity, and the provisions of the Tax Indemnity shall further operate to limit the liability of the Seller in respect of any claims thereunder.
- 10.1.2** References to the Seller's Warranties in Clauses 10.2 to 10.5 and 10.7 to 10.9 shall not include the Tax Warranties and the provisions of clause 3 of the Tax Indemnity shall operate to limit the liability of the Seller and to govern the claims procedure in respect of any claim under the Tax Warranties in respect of a liability for Tax as if such claim had been a claim in respect of a Tax Liability (as defined in the Tax Indemnity) under the Tax Indemnity.

**10.2 Time Limitation for Claims**

The Seller shall not be liable under this Agreement or any Local Transfer Document for breach of any Seller's Warranty or under the Tax Indemnity in respect of any claim unless a notice of the claim is given by the Purchaser to the Seller specifying the matters set out in Clause 11.2:

- 10.2.1** in the case of a claim under paragraph 1, 2.1, 2.2.1, 2.2.3 or 2.3 of Schedule 18, within the applicable statutory limitation period;
- 10.2.2** in the case of any claim under paragraphs 4.1 to 4.10 of Schedule 18, within 6 years of Closing;
- 10.2.3** in respect of claims under the Tax Warranties or the Tax Indemnity, before the date falling six months after the expiry of the period specified by statute during which an assessment of the relevant liability to Tax may be issued by the relevant Tax Authority; and
- 10.2.4** in the case of any other claim, within two years of Closing.

**10.3 Minimum Claims**

**10.3.1** The Seller shall not be liable under:

- (i) this Agreement or any Local Transfer Document for breach of any Seller's Warranty in respect of any individual claim (or a series of claims arising from similar or identical facts or circumstances) where the liability agreed or determined (disregarding the provisions of this Clause 10.3) in respect of any such claim or series of claims does not exceed 0.1 per cent. of the Headline Price; or
- (ii) this Agreement for breach of any Tax Warranty or under the Tax Indemnity in respect of any individual claim (or series of claims arising from similar or identical facts or circumstances) where the liability agreed or determined (disregarding the provisions of this Clause 10.3) in respect of any such claim or series of claims does not exceed US\$1 million;

**10.3.2** Where the liability agreed or determined in respect of any such claim or series of claims exceeds (in the case of claims falling within Clause 10.3.1(i)) 0.1 per cent. of the Headline Price or, in the case of claims falling within Clause 10.3.1(ii)) US\$1 million, the liability of the Seller shall be for the whole amount of such claim(s) and not just the excess.



**10.4** Aggregate Minimum Claims

- 10.4.1** The Seller shall not be liable under this Agreement or any Local Transfer Document for breach of any Seller's Warranty in respect of any claim unless the aggregate amount of all claims for which the Seller would otherwise be liable under this Agreement or any Local Transfer Document for breach of any Seller's Warranty (disregarding the provisions of this Clause 10.4) exceeds one per cent. of the Headline Price.
- 10.4.2** Where the liability agreed or determined in respect of all claims exceeds one per cent. of the Headline Price, the Seller shall be liable for the aggregate amount of all claims as agreed or determined and not just the excess.
- 10.4.3** For the avoidance of doubt, the Purchaser may give notice of any single claim in accordance with and for the purposes of Clause 10.2, irrespective of whether, at the time the notice is given, the amount set out in Clause 10.4.2 has been exceeded.

**10.5** Maximum Liability

The aggregate liability of the Seller in respect of:

- 10.5.1** any breaches of the Seller's Warranties (other than the Seller's Warranties contained in paragraphs 1, 2.1, 2.2.1, 2.2.3, 2.3 or 4.1 to 4.10 of Schedule 18) shall not exceed an amount equal to 30 per cent. of the Headline Price;
- 10.5.2** any breaches of the Seller's Warranties contained in paragraphs 4.1 to 4.10 of Schedule 18 shall not exceed an amount equal to 60 per cent. of the Headline Price; and
- 10.5.3** any breaches of the Seller's Warranties contained in paragraphs 1, 2.1, 2.2.1, 2.2.3, or 2.3 of Schedule 18 shall not exceed the Headline Price.

**10.6** Contingent Liabilities

The Seller shall not be liable under this Agreement or any Local Transfer Document for breach of any Seller's Warranties in respect of which the liability is contingent, unless and until such contingent liability becomes an actual liability and is due and payable (but the Purchaser has the right under Clause 11.1 to give notice of such claim before such time). For the avoidance of doubt, the fact that the liability may not have become an actual liability by the relevant date provided in Clause 10.2 shall not exonerate the Seller in respect of any claim properly notified before that date.

**10.7** Provisions

The Seller shall not be liable under this Agreement or any Local Transfer Document, in either case, in respect of any claim for breach of any Seller's Warranty, if and to the extent that any allowance, provision or reserve has been properly made in the Closing Statement or Statement of Net Assets for the matter giving rise to the claim and the Seller can demonstrate that the allowance, provision or reserve so made was in respect of such matter.



**10.8** Matters Arising Subsequent to this Agreement

Subject to Clause 8.1.2, the Seller shall not be liable under this Agreement or any Local Transfer Document in either case in respect of any claim for breach of any Seller’s Warranty in respect of any matter, act, omission or circumstance (or any combination thereof), to the extent that the same would not have occurred but for:

**10.8.1** Agreed matters

any matter or thing done or omitted to be done by the Seller or any member of the Seller’s Group before Closing pursuant to and in compliance with this Agreement or any Local Transfer Document or otherwise at the request in writing of the Purchaser; or

**10.8.2** Changes in legislation

the passing of, or any change in, after the Closing Date, any Applicable Law or administrative practice of any government, governmental department, agency or regulatory body having the force of the law including (without prejudice to the generality of the foregoing) any increase in the rates of Taxation or any imposition of Taxation or any withdrawal of relief from Taxation not in force at the Closing Date.

**10.9** Insurance

Without prejudice to Clause 14, the Seller’s Liability under this Agreement for breach of any Seller’s Warranty shall be reduced by an amount equal to any loss or damage to which such claim related which has actually been recovered under a policy of insurance held by the Purchaser or a Vaccines Group Company (after deducting any reasonable costs incurred in making such recovery including the amount of any excess or deductible).

**10.10** Purchaser’s Right to Recover

If the Seller has paid an amount in discharge of any claim under this Agreement for breach of any Seller’s Warranty and subsequently the Purchaser recovers (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Purchaser (in whole or in part) in respect of the loss or liability which is the subject matter of the claim, the Purchaser shall pay to the Seller as soon as practicable after receipt an amount equal to (i) the sum recovered from the third party less any costs and expenses incurred in obtaining such recovery and any Tax on any amounts recovered (or Tax that would have been payable on such amounts but for the availability of any Tax relief), or if less (ii) the amount previously paid by the Seller to the Purchaser. Any payment made by the Purchaser to the Seller under this Clause shall be made or procured by way of further adjustment of the consideration paid by the Purchaser and the provisions of Clause 3.3 shall apply *mutatis mutandis*.

**10.11** No Double Recovery and no Double Counting

A party shall be entitled to make more than one claim under this Agreement arising out of the same subject matter, fact, event or circumstance but shall not be entitled to recover under this Agreement or any Local Transfer Document or the Tax Indemnity or otherwise more than once in respect of the same Losses suffered or amount for which the party is otherwise entitled to claim (or part of such Losses or amount), regardless of whether more than one claim arises in respect of it. No amount (including any relief) (or part of any amount) shall be taken into account, set off or credited more than once under this Agreement or any Local Transfer Document or the Tax Indemnity or otherwise, with the intent that there will be no double counting under this Agreement or any Local Transfer Document and the Tax Indemnity or otherwise.



**10.12** Fraud

None of the limitations contained in this Clause 10 shall apply to any claim to the extent that such claim which arises or is increased, or to the extent to which it arises or is increased, as the consequence of, or which is delayed as a result of, fraud by any director or officer of any member of the Seller's Group.

**11** Claims

**11.1** Notification of Potential Claims

Without prejudice to the obligations of the Purchaser under Clause 11.2, if the Purchaser becomes aware of any fact, matter or circumstance that may give rise to a claim against the Seller under this Agreement or any Local Transfer Document for breach of any Seller's Warranty other than a Tax Warranty (ignoring for these purposes the application of Clause 11.2 or 11.3), the Purchaser shall as soon as reasonably practicable give a notice in writing to the Seller of such facts, matters or circumstances as are then available regarding the potential claim. Failure to give notice within such period shall not affect the rights of the Purchaser to make a relevant claim under this Agreement or any Local Transfer Document for breach of any Seller's Warranty, except that the failure shall be taken into account in determining the liability of the Seller for such claim to the extent the Seller establishes that the amount of it is increased, or is not reduced, as a result of such failure.

**11.2** Notification of Claims under this Agreement

Notices of claims under this Agreement or any Local Transfer Document for breach of any Seller's Warranty (other than a Tax Warranty) shall be given by the Purchaser to the Seller within the time limits specified in Clause 10.2 and shall specify information (giving reasonable detail) in relation to the basis of the claim and setting out the Purchaser's estimate of the amount of Losses which are, or are to be, the subject of the claim.

**11.3** Commencement of Proceedings

Any claim notified pursuant to Clause 11.2 shall (if it has not been previously satisfied, settled or withdrawn) be deemed to be irrevocably withdrawn 9 months after the relevant time limit set out in Clause 10.2 unless, at the relevant time, legal proceedings in respect of the relevant claim have been commenced by being both issued and served except:

- 11.3.1** where the claim relates to a contingent liability, in which case it shall be deemed to have been withdrawn unless legal proceedings in respect of it have been commenced by being both issued and served with 9 months of it having become an actual liability; or
- 11.3.2** where the claim is a claim for breach of a Seller's Warranty of which notice is given for the purposes of Clause 10.2 at a time when the amount set out in Clause 10.4.2 has not been exceeded, in which case it shall be deemed to have been withdrawn unless legal proceedings in respect of it have been commenced by being both issued and served within 9 months of the date of any subsequent notification to the Seller pursuant to Clause 11.1 of one or more claims which result(s) in the total amount claimed in all claims notified to the Seller pursuant to Clause 10.2 exceeding the amount set out in Clause 10.4.2 for the first time.



**11.4** Conduct of Third Party Claims

If the matter or circumstance that may give rise to a claim against the Seller under this Agreement or any Local Transfer Document for breach of any Seller’s Warranty (other than a Tax Warranty) is a result of or in connection with a claim by a third party (a “Third Party Claim”) then:

- 11.4.1** the Purchaser shall as soon as reasonably practicable give written notice thereof to the Seller and thereafter shall provide the Seller with periodic updates upon reasonable request and shall consult with the Seller so far as reasonably practicable in relation to the conduct of the Third Party Claim and shall take reasonable account of the views of the Seller in relation to the Third Party Claim;
- 11.4.2** the Third Party Claim shall not be admitted, compromised, disposed of or settled without the written consent of the Seller (such consent not to be unreasonably withheld or delayed); and
- 11.4.3** subject to the Seller indemnifying the Purchaser or other member of the Purchaser’s Group concerned against all reasonable costs and expenses (including legal and professional costs and expenses) that may be incurred thereby, the Purchaser shall, or the Purchaser shall procure that any other members of the Purchaser’s Group shall, take such action as the Seller may reasonably request to avoid, dispute, deny, defend, resist, appeal, compromise or contest the Third Party Claim, provided that this Clause 11.4.3 shall not apply where the claim by the third party relates to matters or circumstances referred to in paragraph 4 or 9 of Schedule 18 and the Purchaser shall then have the right to conduct the claim at its discretion (subject to Clauses 11.4.1 and 11.4.2),

provided that failure to give notice in accordance with Clause 11.4.1 shall not affect the rights of the Purchaser to make a relevant claim under this Agreement for breach of any Seller’s Warranty, except that the failure shall be taken into account in determining the liability of the Seller for such claim to the extent the Seller establishes that the amount of it is increased, or is not reduced, as a result of such failure.

**12** Restrictive Covenants

**12.1** Non-compete

The Seller will not, and undertakes to procure that each member of the Seller’s Group will not, for the period from Closing until three years after the Closing Date:

- 12.1.1** be engaged (directly or indirectly) in any business which competes with the Business as it is carried on at the Closing Date (the “Restricted Business”), provided that commercial transactions outside the Restricted Business with a client, customer, supplier, licensor or distributor that is not a member of the Seller’s Group shall not be deemed to indirectly violate this Clause 12.1.1 by reason of such person being engaged in the Restricted Business or taking any other action prohibited hereunder; or



**12.1.2** solicit the custom of any person to whom goods or services have been sold by any member of the Vaccines Group in the course of its business during the two years before the Closing Date, in each case only to the extent that such solicitation is in competition with the Business of the Vaccines Group as it is carried on at the Closing Date.

**12.2** Exceptions to the non-compete

**12.2.1** The restrictions in Clause 12.1 shall not apply to:

- (i) the Specified Excluded Businesses;
- (ii) the Influenza Business;
- (iii) any activities of any nature undertaken or developed by the Seller’s Group (other than the Vaccines Group) in relation to oncology;
- (iv) any activities of any nature (or any assets related thereto) contributed by the Seller’s Group pursuant to the Consumer Contribution Agreement;
- (v) any supply agreements between the Seller’s Group (other than the Vaccines Group) and the Business, the Influenza Business or Leo Constellation Limited (or its Affiliates);
- (vi) any person at such time as it is no longer a member of the Seller’s Group, and any person that purchases assets, operations, subsidiaries or businesses from the Seller’s Group if such Person is not a member of the Seller’s Group after such transaction is consummated;
- (vii) any Affiliate of Seller in which a person who is not a member of the Seller’s Group holds equity interests and with respect to whom a member of the Seller’s Group has existing contractual or legal obligations limiting its discretion to impose non-competition obligations;
- (viii) the holding of shares in a company or other entity for investment purposes provided the Seller does not exercise, directly or indirectly, Control over that company or entity;
- (ix) any business activity that would otherwise violate Clause 12.1 that is acquired in connection with an acquisition so long as the relevant member of the Seller’s Group divests all or substantially all of the business activity that would otherwise violate Clause 12.1 or otherwise terminates or disposes of such business activity, product line or assets of such acquired business that would otherwise violate Clause 12.1 within nine months after the consummation of the relevant acquisition, or such longer period as may reasonably be necessary to comply with Applicable Law (provided that in those circumstances the Seller shall procure that the Restricted Business is disposed of as soon as reasonably practicable);
- (x) passive investments by a pension or employee benefit plan or trust for present or former employees;
- (xi) financial investments by the Novartis Venture Funds;



- (xii) investments by the Novartis Foundation for Sustainable Development, or a similar non-profit-based organization;
- (xiii) performance of any obligation of the Seller's Group under the Transaction Documents, as amended from time to time in accordance with its their terms; or
- (xiv) provision of data or other content to or in connection with business conducted by any person, in each case as required by Applicable Law.

**12.3** Non-solicit

The Seller will not, and undertakes to procure that each member of the Seller's Group will not, for a period of two years after the Closing Date, solicit or induce any Restricted Vaccines Group Employee to become employed or engaged whether as employee, consultant or otherwise by any member of the Seller's Group.

**12.4** Exceptions to the non-solicit

The restrictions in Clause 12.3 shall not apply to the solicitation, inducement or recruitment of any person:

- 12.4.1 through the placing of advertisements of posts available to the public generally;
- 12.4.2 through an employment agency, provided that no member of the Seller's Group encourages or advises such agency to approach any such person; or
- 12.4.3 who is no longer employed by the Purchaser's Group.

**12.5** Reasonableness of Restrictions

Each undertaking contained in this Clause 12 shall be construed as a separate undertaking and if one or more of the undertakings is held to be against the public interest or unlawful or in any way an unreasonable restraint of trade, the remaining undertakings shall continue to bind the Seller.

**12.6** Definitions

For the purposes of this Clause:

**"Restricted Vaccines Group Employee"** means any Transferred Employee who has access to trade secrets or other confidential information of the Vaccines Group with an annual basic salary in excess of US\$150,000; and

**"Specified Excluded Businesses"** means the businesses and activities of: (i) Roche Holding AG and (ii) Novartis Institutes for BioMedical Research (and other activities of a similar type to those currently conducted by Novartis Institutes for BioMedical Research).

**13** Confidentiality

**13.1** Announcements

No announcement, communication or circular concerning the existence or the subject matter of this Agreement shall be made or issued by or on behalf of any member of the Seller's Group or the Purchaser's Group without the prior written approval of the Seller and the Purchaser (such consent not to be unreasonably withheld or delayed). This shall not affect any announcement, communication or circular required by law or any governmental or regulatory body or the rules of any stock exchange on which the shares of any party (or its holding company) are listed but the party with an obligation to make an announcement or communication or issue a circular (or whose holding company has such an obligation) shall consult with the other parties (or shall procure that its holding company consults with the other parties) insofar as is reasonably practicable before complying with such an obligation.

**13.2** Confidentiality

**13.2.1** Subject to Clause 13.1 and Clause 13.2.2, each of the parties shall treat as strictly confidential and not disclose or use any information received or obtained as a result of entering into this Agreement, the Ancillary Agreements or any agreement entered into pursuant to this Agreement which relates to:

- (i) the existence and provisions of this Agreement, the Ancillary Agreements and of any other agreement entered into pursuant to this Agreement; or
- (ii) the negotiations relating to this Agreement, the Ancillary Agreements and any such other agreement.
- (iii) (in the case of the Seller) any information relating to the Vaccines Group Companies and Vaccines Group Businesses following Closing and any other information relating to the business, financial or other affairs (including future plans and targets) of the Purchaser's Group.
- (iv) (in the case of the Purchaser) any information relating to the business, financial or other affairs (including future plans and targets) of the Seller's Group including, prior to Closing, the Vaccines Group Companies and Vaccines Group Businesses.

**13.2.2** Clause 13.2.1 shall not prohibit disclosure or use of any information if and to the extent:

- (i) the disclosure or use is required by law, any governmental or regulatory body or any stock exchange on which the shares of any party (or its holding company) are listed;
- (ii) the disclosure or use is required to vest the full benefit of this Agreement or the Ancillary Agreements in any party;
- (iii) the disclosure or use is required for the purpose of any arbitral or judicial proceedings arising out of this Agreement, the Ancillary Agreements or any other agreement entered into under or pursuant to this Agreement or to enable a determination to be made by the Reporting Accountants under this Agreement;
- (iv) the disclosure is made to a Tax Authority in connection with the Tax affairs of the disclosing party;
- (v) the disclosure is made to a ratings agency on a confidential basis in connection with the affairs of the disclosing party;
- (vi) the disclosure is made to professional advisers of any party on a need to know basis and on terms that such professional advisers undertake to comply with the provisions of Clause 13.2.1 in respect of such information as if they were a party to this Agreement;



- (vii) the information was lawfully in the possession of that party without any obligation of secrecy prior to its being received or held, in either case as evidenced by written records;
- (viii) the information is or becomes publicly available (other than by breach of this Agreement);
- (ix) the other party has given prior written approval to the disclosure or use; or
- (x) the information is independently developed,

provided that prior to disclosure or use of any information pursuant to Clause 13.2.2(i), (ii) or (iii), the party concerned shall, where not prohibited by law, promptly notify the other parties of such requirement with a view to providing the other parties with the opportunity to contest such disclosure or use or otherwise to agree the timing and content of such disclosure or use.

**14 Insurance**

**14.1 No cover under Seller's Group Insurance Policies from Closing**

The Purchaser acknowledges and agrees that following Closing:

- 14.1.1** neither the Purchaser nor any Vaccines Group Company shall have or be entitled to the benefit of any Seller's Group Insurance Policy in respect of any event, act or omission that takes place after Closing and it shall be the sole responsibility of the Purchaser to ensure that adequate insurances are put in place for those Vaccines Group Companies and Vaccines Group Businesses with effect from Closing;
- 14.1.2** neither the Seller nor any member of the Seller's Group shall be required to maintain any Seller's Group Insurance Policy for the benefit of the Vaccines Group;
- 14.1.3** no Vaccines Group Company shall make or shall be entitled to make or notify a claim under any Seller's Group Insurance Policy in respect of any event, act or omission that occurred prior to the Closing Date.

**14.2 Existing claims under Seller's Group Insurance Policies**

With respect to any claim made before the Closing Date under any Seller's Group Insurance Policy by or on behalf of any Vaccines Group Company or in relation to any Vaccines Group Business, to the extent that:

- 14.2.1** neither the Purchaser nor the Vaccines Group Companies have been indemnified by the Seller prior to the Closing Date in respect of the matter in respect of which the claim was made; or
- 14.2.2** the Liability in respect of which the claim was made has not been properly provided for in the Closing Statement and reduced the Working Capital accordingly,

the Seller shall use reasonable endeavours after Closing to recover all monies due from insurers and shall pay any monies received (after taking into account any deductible under the Seller's Group Insurance Policies and less any Taxation suffered on the proceeds and any reasonable out of pocket expenses suffered or incurred by the Seller or any member of the Seller's Group in connection with the claim) to the Purchaser or, at the Purchaser's written direction, the relevant Vaccines Group Company as soon as practicable after receipt.



**15 France Business and Netherlands Business**

**15.1 France Business**

Notwithstanding any other provision of this Agreement, this Agreement shall not constitute a binding agreement to sell or purchase the France Business, provided that:

- 15.1.1** in the event that the France Put Option Exercise occurs before Closing, this Clause 15.1 (other than this Clause 15.1.1) shall terminate and shall cease to have effect, and the sale of the France Business shall be subject to the provisions of this Agreement as if it were part of the Business to be sold as and from the date of this Agreement;
- 15.1.2** in the event that the France Put Option Exercise does not occur before Closing:
- (i) the provisions of Clauses 2 and 6 (the “**Disapplied Provisions**”) shall not apply to the France Business;
  - (ii) prior to the France Closing, the provisions of Clause 12 and Schedules 11 and 12 (the “**Suspended Provisions**”) shall not apply to the France Business; and
  - (iii) in respect of the Disapplied Provisions and, prior to the France Closing, the Suspended Provisions only:
    - (a) the term “Business” shall be deemed to exclude the France Business;
    - (b) the term “Companies” shall be deemed to exclude Novartis Vaccines and Diagnostics S.A.S.;
    - (c) the term “Assumed Liabilities” shall be deemed to exclude the France Assumed Liabilities; and
    - (d) the term “Employees” shall be deemed to exclude the France Employees;
- 15.1.3** with effect from the France Closing, the Suspended Provisions shall apply to the France Business *mutatis mutandis* save that in respect of the Suspended Provisions only (A) the term “Closing” shall be deemed to refer to the France Closing and (B) the term “Closing Date” shall be deemed to refer to the date of the France Closing; and
- 15.1.4** the parties shall negotiate in good faith to agree any amendments to this Agreement and any of the Ancillary Agreements as are required in order to give effect to the principles set forth in this Clause 15.1 for the purposes of complying with the information and consultation requirements in respect of the Comité d’entreprise de Novartis Vaccines and Diagnostics SAS (being the relevant works council in respect of the France Business); and
- 15.1.5** the provisions of Clause 10 shall apply to the France Business as if the remaining provisions of this Clause 15.1 did not have any force or effect.



**15.2** Netherlands Business

Notwithstanding any other provision of this Agreement, this Agreement shall not constitute a binding agreement to sell or purchase the Netherlands Business, provided that:

**15.2.1** in the event that the Netherlands Put Option Exercise occurs before Closing, this Clause 15.2 (other than this Clause 15.2.1) shall terminate and shall cease to have effect, and the sale of the Netherlands Business shall be subject to the provisions of this Agreement as if it were part of the Business to be sold as and from the date of this Agreement;

**15.2.2** in the event that the Netherlands Put Option Exercise does not occur before Closing:

- (i) the Disapplied Provisions shall not apply to the Netherlands Business;
- (ii) prior to the Netherlands Closing, the Suspended Provisions shall not apply to the Netherlands Business; and
- (iii) in respect of the Disapplied Provisions and, prior to the Netherlands Closing, the Suspended Provisions only:
  - (a) the term "Business" shall be deemed to exclude the Netherlands Business;
  - (b) the term "Vaccines Group Businesses" shall be deemed to exclude the Netherlands Business;
  - (c) the term "Assumed Liabilities" shall be deemed to exclude the Netherlands Assumed Liabilities; and
  - (d) the term "Employees" shall be deemed to exclude the Netherlands Employees;

**15.2.3** with effect from the Netherlands Closing, the Suspended Provisions shall apply to the Netherlands Business *mutatis mutandis* save that in respect of the Suspended Provisions only (A) the term "Closing" shall be deemed to refer to the Netherlands Closing and (B) the term "Closing Date" shall be deemed to refer to the date of the Netherlands Closing; and

**15.2.4** the parties shall negotiate in good faith to agree any amendments to the Transaction Documents as are required in order to give effect to the principles set forth in this Clause 15.2 for the purposes of complying with the information and consultation requirements in respect of Onderdeelcommissie NV (being the relevant works council in respect of the Netherlands Business); and

**15.2.5** the provisions of Clause 10 shall apply to the Netherlands Business as if the remaining provisions of this Clause 15.2 did not have any force or effect.

**16** Other Provisions

**16.1** Further Assurances

**16.1.1** Without prejudice to any restriction or limitation on the extent of any party's obligations under this Agreement, each of the parties shall from time to time, so far as each is reasonably able, do or procure the doing of all such acts and/or execute or procure the execution of all such documents in a form reasonably satisfactory to the party concerned as they may reasonably consider necessary to transfer the Vaccines Group to the Purchaser or otherwise to give the other party the full benefit of this Agreement.



**16.1.2** The parties shall negotiate in good faith to agree definitive and legally binding documentation in respect of each of the Ancillary Agreements for which heads of terms are in the Agreed Terms on the date of this Agreement, and shall duly execute and deliver such definitive and legally binding documentation in respect of the Ancillary Agreements at Closing.

**16.2** Whole Agreement

**16.2.1** This Agreement and the Ancillary Agreements contain the whole agreement between the parties relating to the subject matter of this Agreement at the date hereof to the exclusion of any terms implied by law which may be excluded by contract and supersedes any previous written or oral agreement between the parties in relation to the matters dealt with in this Agreement.

**16.2.2** The Purchaser acknowledges that, in entering into this Agreement, it is not relying on any representation, warranty or undertaking not expressly incorporated into it.

**16.2.3** Each of the parties agrees and acknowledges that its only right and remedy in relation to any representation, warranty or undertaking made or given in connection with this Agreement shall be for breach of the terms of this Agreement and each of the parties waives all other rights and remedies (including those in tort or arising under statute) in relation to any such representation, warranty or undertaking.

**16.2.4** In Clauses 16.2.1 to 16.2.3, “this Agreement” includes the Ancillary Agreements and all other documents entered into pursuant to this Agreement.

**16.2.5** Nothing in this Clause 16.2 excludes or limits any liability for fraud.

**16.3** No Assignment

No party may without the prior written consent of the other parties, assign, grant any security interest over, hold on trust or otherwise transfer the benefit of the whole or any part of this Agreement.

**16.4** Third Party Rights

**16.4.1** Subject to Clause 16.4.2, the parties to this Agreement do not intend that any term of this Agreement should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Agreement.

**16.4.2** Certain provisions of this Agreement confer benefits on the Affiliates of the Purchaser and the Affiliates of the Seller (each such Affiliate being, for the purposes of this Clause 16.4, a “**Third Party**”) and, subject to Clause 16.4.3, are intended to be enforceable by each Third Party by virtue of the Contracts (Rights of Third Parties) Act 1999.

**16.4.3** Notwithstanding Clause 16.4.2, this Agreement may be varied in any way and at any time without the consent of any Third Party.



**16.5** Variation or waiver

**16.5.1** No variation of this Agreement shall be effective unless in writing and signed by or on behalf of each of the parties.

**16.5.2** No failure or delay by a party in exercising any right or remedy provided by Applicable Law or under this Agreement or any Ancillary Agreement shall impair such right or remedy or operate or be construed as a waiver or variation of it or preclude its exercise at any subsequent time and no single or partial exercise of any such right or remedy shall preclude any further exercise of it or the exercise of any other remedy.

**16.6** Method of Payment and set off

**16.6.1** Except as set out in Clause 16.6.2, payments (including payments pursuant to an indemnity, compensation or reimbursement provision) made or expressed to be made by the Purchaser and the Seller pursuant to this Agreement or any claim for breach of this Agreement shall, insofar as the payment or claim relates to or affects any Shares (including the underlying Vaccines Group Companies transferred (directly or indirectly) by reason of the transfer of those Shares), assets or liabilities, transferred pursuant to this Agreement and the Local Transfer Documents, be made or received (as the case may be) by:

- (i) the Seller, for itself or as agent on behalf of the relevant Share Seller or the Business Seller (each in respect of the Shares and/or assets and liabilities to be transferred by it pursuant to this Agreement and the Local Transfer Documents); and
- (ii) the Purchaser, for itself or as agent on behalf of the relevant members of the Purchaser's Group (each in respect of Shares and/or the assets and liabilities to be transferred by it pursuant to this Agreement and the Local Transfer Documents).

**16.6.2** The repayment of the Estimated Intra-Group Non-Trade Receivables and the Estimated Intra-Group Non-Trade Payables pursuant to Clause 6.4.3 and any adjustments to such repayment pursuant to Clause 7.4 shall be settled by payments between the Seller, on behalf of the relevant members of the Seller's Group, and the Purchaser, on behalf of the relevant Group Companies.

**16.6.3** Any payments pursuant to this Agreement shall be made in full, without any set-off, counterclaim, restriction or condition and without any deduction or withholding (save as may be required by law or as otherwise agreed), except that payments due between the Seller and the Purchaser:

- (i) in relation to repayments of the Estimated Intra-Group Non-Trade Payables and Estimated Intra-Group Non-Trade Receivables pursuant to Clause 6.4.3; or
- (ii) in relation to adjustments to those repayments pursuant to Clause 7.4,

respectively, shall be discharged to the fullest extent possible by way of set-off against each other.

**16.6.4** Any payments pursuant to this Agreement shall be effected by crediting for same day value the account specified by the Seller or the Purchaser (as the case may be) on behalf of the party entitled to the payment (reasonably in advance and in sufficient detail to enable payment by telegraphic or other electronic means to be effected) on or before the due date for payment.



**16.6.5** Payment of a sum in accordance with this Clause 16.6 shall constitute a payment in full of the sum payable and shall be a good discharge to the payer (and those on whose behalf such payment is made) of the payer's obligation to make such payment and the payer (and those on whose behalf such payment is made) shall not be obliged to see to the application of the payment as between those on whose behalf the payment is received.

**16.7** Costs

**16.7.1** Subject to Clause 16.8, the Seller shall bear all costs incurred by it and its Affiliates in connection with the preparation and negotiation of, and the entry into, this Agreement, the Local Transfer Documents, the Tax Indemnity and the sale of the Vaccines Group.

**16.7.2** The Purchaser shall bear all such costs incurred by it and its Affiliates in connection with the preparation and negotiation of, and the entry into, this Agreement, the Local Transfer Documents, the Tax Indemnity and the purchase of the Vaccines Group.

**16.8** Notarial Fees, Registration, Stamp and Transfer Taxes and Duties

**16.8.1** Subject to Clauses 2.3.5, 2.3.6 and 16.8.2, the Purchaser or the relevant member of the Purchaser's Group:

- (i) shall bear the cost half of all notarial fees and all registration, stamp and transfer taxes and duties or their equivalents in all jurisdictions where such fees, taxes and duties are payable as a result of the transactions contemplated by this Agreement the other half of such cost to be borne by the Seller;
- (ii) shall be responsible for arranging the payment of all such fees, taxes and duties, including fulfilling any administrative or reporting obligation imposed by the jurisdiction in question in connection with such payment; and
- (iii) shall indemnify the Sellers or any other member of the Seller's Group against any Losses suffered by that Seller or member of the Seller's Group as a result of the Purchaser failing to comply with its obligations under this Clause 16.8.

**16.8.2** The Purchaser and the Seller shall make or procure the making of such payments to each other (and to each other's Affiliates) as are necessary to ensure the sharing of cost provided for under Clause 16.8.1.

**16.9** Interest

If any party defaults in the payment when due of any sum payable under this Agreement, the Local Transfer Documents or the Tax Indemnity the liability of that party shall be increased to include interest on such sum from the date when such payment is due until the date of actual payment (as well after as before judgment) at a rate per annum of two per cent. above LIBOR. Such interest shall accrue from day to day.

**16.10** Grossing-up

- 16.10.1** All sums payable under this Agreement, the Local Transfer Documents and the Tax Indemnity shall be paid free and clear of all deductions, withholdings, set-offs or counterclaims whatsoever save only as may be permitted by Clause 16.6.3 or required by law. Subject to Clauses 16.10.3 to 16.10.7 if any deductions or withholdings are required by law the party making the payment shall (except in the case of (i) any interest payable under Clause 7.5 or 16.9 (ii) or any amount payable under Schedule 17 which would not have been the subject of a deduction or withholding had it been paid to a company resident in Switzerland for the purposes of the double taxation treaty between Belgium and Switzerland which was beneficially entitled to the payments and was not party to a conduit arrangement in respect of them) be obliged to pay to the other party such sum as will after such deduction or withholding has been made leave the other party with the same amount as it would have been entitled to receive in the absence of any such requirement to make a deduction or withholding, provided that if either party to this Agreement shall have assigned or novated the benefit in whole or in part of this Agreement or shall, after the date of this Agreement, have changed its tax residence or the permanent establishment to which the rights under this Agreement are allocated then the liability of the other party under this Clause 16.10.1 shall be limited to that (if any) which it would have been had no such assignment, novation or change taken place.
- 16.10.2** If either party is or becomes aware of any facts making it reasonably likely that the Purchaser, or any relevant member of the Purchaser's Group, will be required to deduct or withhold any amount in respect of the Purchase Price (excluding any amount payable under Schedule 17) (a "**Relevant Tax Deduction**"), then that party shall, as soon as reasonably practicable, give notice to the other party (including details of the relevant facts and, so far as possible, details of the rate and basis of such withholding) provided that for purposes of this Clause 16.10.2, the Seller may assume that the Purchase Price will be paid by (and for) a company resident for Tax purposes only in Belgium.
- 16.10.3** The Seller and the Purchaser shall, and shall procure that the members of their respective groups shall (at the Seller's cost), co-operate with each other in good faith and use all reasonable efforts to reduce or mitigate any Relevant Tax Deduction (or its amount) and/or to enable the Seller or the relevant Share Seller or Business Seller to obtain any available credit or refund in respect of such Relevant Tax Deduction, including, without limitation, making any available claim under an applicable double taxation treaty.
- 16.10.4** Without prejudice to the generality of Clause 16.10.3, the Seller and the Purchaser shall co-operate in good faith to establish or agree the amount or basis of calculation of any Relevant Tax Deduction prior to Closing (and in this regard the Purchaser shall consider reasonably any relevant information or evidence provided or obtained by the Seller) including, if requested by the Seller and at the Seller's expense, by seeking to obtain a ruling or confirmation from a relevant Tax Authority, or obtaining an opinion from reputable local tax counsel or a firm of accountants of international standing satisfactory to the Purchaser (acting reasonably) and instructed jointly by the Seller and the Purchaser.



- 16.10.5** The Purchaser shall, or shall procure that the relevant member of the Purchaser's Group shall, make any Relevant Tax Deduction in the minimum amount required by Applicable Law, provided that:
- (i) if a double taxation treaty between the jurisdiction under the laws of which the Relevant Tax Deduction is required and the jurisdiction of residence of the Seller or the relevant Share Seller or Business Seller is in force, the Purchaser shall (and shall procure that any relevant member of the Purchaser's Group shall) make any Relevant Tax Deduction in an amount not exceeding the rate specified in such double taxation treaty (which may be nil), provided that the Seller has provided the Purchaser with such evidence as is required under Applicable Law to establish the entitlement of the Seller (or relevant Share Seller or Business Seller) to the benefit of the applicable treaty; and
  - (ii) if an opinion from reputable local counsel or a firm of accountants of international standing has been obtained at the request of the Seller as envisaged by Clause 16.10.4, the Purchaser shall (and shall procure that any relevant member of the Purchaser Group shall) make such Relevant Tax Deduction in an amount or on a basis which is consistent with that opinion (which may result in no withholding or deduction), provided that the Seller has indemnified the Purchaser and any relevant member of the Purchaser's Group, to the Purchaser's reasonable satisfaction, against any Liabilities arising (including any interest and penalties) should such opinion be wholly or partly incorrect.
- 16.10.6** The Purchaser shall promptly provide the Seller with evidence reasonably satisfactory to the Seller that a Relevant Tax Deduction has been made and an appropriate amount paid to the relevant Tax Authority.
- 16.10.7** If any Relevant Tax Deduction is required an additional sum shall be payable in accordance with Clause 16.10.1 only if and to the extent that such deduction or withholding would not have been required had the Purchaser and each member of the Purchaser's Group making such payment or to which such payment relates been resident for Tax purposes only in Belgium.

**16.11** Notices

- 16.11.1** Any notice or other communication in connection with this Agreement (each, a "**Notice**") shall be:
- (i) in writing in English; and
  - (ii) delivered by hand, fax, or by courier using an internationally recognised courier company.
- 16.11.2** A Notice to the Seller shall be sent to such party at the following address, or such other person or address as the Seller may notify to the Purchaser from time to time:
- Novartis AG  
Postfach  
CH-4002 Basel  
Switzerland



Fax: +41 613244300

Attention: Head of M&A Legal

with a copy to the Seller's Lawyers, marked for the urgent attention of James Inglis (delivery of such copy shall not in itself constitute valid notice).

- 16.11.3** A Notice to the Purchaser shall be sent to such party at the following address, or such other person or address as the Purchaser may notify to the Seller from time to time:

GlaxoSmithKline plc

980 Great West Road  
Brentford  
Middlesex TW8 9GS  
United Kingdom

Fax: +44 (0)208 0476904

Attention: The Company Secretary

with a copy to the Purchaser's Lawyers, marked for the urgent attention of Simon Nicholls (delivery of such copy shall not in itself constitute valid notice).

- 16.11.4** A Notice shall be effective upon receipt and shall be deemed to have been received:

- (i) at the time of delivery, if delivered by hand or courier;
- (ii) at the time of transmission in legible form, if delivered by fax.

**16.12** Invalidation or Conflict

- 16.12.1** If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, the provision shall apply with whatever deletion or modification is necessary so that the provision is legal, valid and enforceable and gives effect to the commercial intention of the parties.
- 16.12.2** To the extent it is not possible to delete or modify the provision, in whole or in part, under Clause 16.12.1, then such provision or part of it shall, to the extent that it is illegal, invalid or unenforceable, be deemed not to form part of this Agreement and the legality, validity and enforceability of the remainder of this Agreement shall, subject to any deletion or modification made under Clause 16.12.1, not be affected.
- 16.12.3** If there is any conflict between the terms of this Agreement and any of the Ancillary Agreements this Agreement shall prevail (as between the parties between this Agreement and as between any member of the Seller Group and any member of the Purchaser Group) unless (i) such Ancillary Agreement expressly states that it overrides this Agreement in the relevant respect and (ii) the Seller and the Purchaser are either also parties to that Ancillary Agreement or otherwise expressly agree in writing that such Ancillary Agreement shall override this Agreement in that respect.



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**16.13** Counterparts

This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. Any party may enter into this Agreement by executing any such counterpart. Delivery of a counterpart of this Agreement by email attachment shall be an effective mode of delivery.

**16.14** Governing Law and Submission to Jurisdiction

**16.14.1** This Agreement and the documents to be entered into pursuant to it, save as expressly referred to therein, and any non-contractual obligations arising out of or in connection with the Agreement and such documents shall be governed by and construed in accordance with English law.

**16.14.2** Each of the parties irrevocably agrees that the courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Agreement and the documents to be entered into pursuant to it, save as expressly referred to therein, and that accordingly any proceedings arising out of or in connection with this Agreement and the documents to be entered into pursuant to it shall be brought in such courts. Each of the parties irrevocably submits to the jurisdiction of such courts and waives any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

**16.15** Appointment of Process Agent

**16.15.1** The Seller hereby irrevocably appoints Hackwood Secretaries Limited of One Silk Street, London EC2Y 8HQ as its agent to accept service of process in England and Wales in any legal action or proceedings arising out of this Agreement, service upon whom shall be deemed completed whether or not forwarded to or received by the Seller.

**16.15.2** The Seller agrees to inform the Purchaser in writing of any change of address of such process agent within 28 days of such change.

**16.15.3** If such process agent ceases to be able to act as such or to have an address in England and Wales, the Seller irrevocably agrees to appoint a new process agent in England and Wales and to deliver to the Purchaser within 14 days a copy of a written acceptance of appointment by the process agent.

**16.15.4** Nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

This Agreement has been entered into on the date stated at the beginning.



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SIGNED by

}

AND

for and on behalf of  
**NOVARTIS AG:**

SIGNED by

for and on behalf of  
**GLAXOSMITHKLINE PLC:**



**Schedule 1**  
**Details of the Share Sellers, Shares etc.**  
**(Clause 2.1)**

(1) Name of Share Seller	(2) Name of Company/Minority Interest Entity	(3) Shares
Novartis Deutschland GmbH	Novartis Vaccines and Diagnostics GmbH	2 shares (100%)
Novartis Pharma AG	Novartis Vaccines and Diagnostics S.A.S	93,750 shares (100%)
Novartis Farmaceutica S.A	Novartis Vaccines and Diagnostics S.L	150,100 shares (100%)
Novartis Pharma AG	Novartis Vaccines and Diagnostics AG	1,600 shares (100%)
Novartis Pharma AG	Novartis Vaccines and Diagnostics S.r.l.	1 quota of entire share capital (as defined under Italian law) (100%)
Novartis Pharma AG	Novartis Vaccines and Diagnostics Pty Ltd	1,024,921 shares (100%)
(A) Novartis Pharma AG		(A) 4,900,000 shares (49%)
(B) Novartis Vaccines and Diagnostics Inc.		(B) 5,100,000 shares (51%)
	Chiron Behring Vaccines Private Limited	<b>TOTAL: 10,000,000 shares</b>
Novartis Overseas Investments AG	Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd	85%
Novartis Pharma AG	Novartis Vaccines Institute for Global Health S.r.l.	1 quota of entire share capital (as defined under Italian law) (100%)
(A) Novartis Pharma AG	Valneva SE	(A) 3,788,048 (6.63%)
(B) Novartis Vaccines and Diagnostics Inc.		(B) 1,560,000 (2.73%)



**Schedule 2  
Companies, Subsidiaries and Minority Interest Entities**

**2 Particulars of the Companies**

<b>Name of Company:</b>	<b>Novartis Vaccines and Diagnostics GmbH</b>
Registered Number:	HRB 5629
Registered Office:	Emil-von-Behring-Str. 76, 35041 Marburg, Germany
Date and place of incorporation:	
Issued share capital:	EUR 5,000,000.00 divided into 2 shares of 1 EUR and EUR 4,999,999 each
Shareholders and shares held:	Novartis Deutschland GmbH 2 (100%)
<b>Name of Company:</b>	<b>Novartis Vaccines and Diagnostics SAS</b>
Registered Number:	423 697 168
Registered Office:	10, rue Chevreur, 92150 Suresnes, France
Date and place of incorporation:	22 July 1999, Nanterre
Issued share capital:	EUR 1,500,000 divided into 93,750 shares of EUR 16 each
Shareholders and shares held:	Novartis Pharma AG 93,750 (100%)
<b>Name of Company:</b>	<b>Novartis Vaccines and Diagnostics S.L.</b>
Registered Number:	B58564808
Registered Office:	Gran Vía de les Corts Catalanes, 764. 08013 Barcelona, Spain
Date and place of incorporation:	19 September 1988, Barcelona
Issued share capital:	EUR 675,450 divided into 150,100 shares of EUR 4.50 each
Shareholders and shares held:	Novartis Farmaceutica S.A 150,100 (100%)



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**Name of Company:** Novartis Vaccines and Diagnostics AG  
Registered Number: CHE-103.264.079  
Registered Office: Basel, Switzerland  
Date and place of incorporation: 28 September 1953, Avenches  
Issued share capital: CHF 800,000.00 divided into 1,600 shares of CHF 500 each  
Shareholders and shares held: Novartis Pharma AG 1,600 shares (100%)

**Name of Company:** Novartis Vaccines and Diagnostics S.r.l.  
Registered Number: 01392770465  
Registered Office: Via Fiorentina 1, 53100, Siena, Italy  
Date and place of incorporation: 18 September 1990, Barga (LU)  
Issued share capital: EUR 41,610,809.00 comprising 1 quota of entire share capital  
Shareholders and shares held: Novartis Pharma AG 1 (100%)

**Name of Company:** Novartis Vaccines and Diagnostics Pty Limited  
ABN / ACN: ABN 60 089 509 544; ACN 089 509 544  
Registered Office: 54 Waterloo Road, North Ryde NSW 2113, Australia  
Date and place of incorporation: 10 September 1999, Victoria  
Issued share capital: ASD 1,024,921 divided into 1,024,921 shares of ASD 1 each  
Shareholders and shares held: Novartis Pharma AG 1,024,921 (100%)

**Name of Company:** Chiron Behring Vaccines Private Limited  
Registered Number: U24230MH1997PTC111122  
Registered Office: 501 Shree Amba Shanti Chambers, Kurla Road, Andheri, Mumbai 400059, India  
Date and place of incorporation: 7 October 1997, Mumbai



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**Name of Company:** Chiron Behring Vaccines Private Limited

Issued share capital: INR 100,000,000 divided into 10,000,000 shares of INR 10 each

Shareholders and shares held:

Novartis Pharma AG	4,900,000 (49%)
Novartis Vaccines and Diagnostics Inc.	5,100,000 (51%)

**Name of Company:** Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd.  
(浙江天元生物药业有限公司)

Registered Number: 330000000015616

Registered/Principal Office: No.56 Tian He Road, Yuhang Economic Development Zone, Hangzhou, Zhejiang Province, PRC.

Date and place of incorporation:

Registered capital: RMB 46,800,000

Paid-in capital: RMB 46,800,000

Total investment amount: RMB 117,000,000

Shareholder and shares held:

Novartis Overseas Investments AG	85%
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**Name of Company:** Novartis Vaccines Institute for Global Health S.r.l.

Registered Number: 01204770521

Registered/Principal Office: Via Fiorentina 1, 53100, Siena, Italy

Date and place of incorporation: 2 February 2007, Siena, Italy

Issued share capital: EUR 500,000.00 comprising 1 quota of entire share capital

Shareholder and shares held:

Novartis Pharma AG	1 (100%)
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### 3 Particulars of the Subsidiaries

**Name of Subsidiary:** Novartis Vaccines Vertriebs GmbH

Registered Number: HRB 193621



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**Name of Company:** Novartis Vaccines Vertriebs GmbH  
**Registered Office:** Rudolf-Diesel-Ring 27, 83607 Holzkirchen, Germany  
**Date and place of incorporation:**  
**Issued share capital:** EUR 26,000.00 divided into 2 shares of EUR 25,600 and EUR 400 each  
**Shareholders and shares held:** Novartis Vaccines and Diagnostics GmbH 2 (100%)

**4 Particulars of the Minority Interest Entities**

**Name of Company:** Valneva SE  
**Registered Number:** 422 497 560 RCS Lyon  
**Registered Office:** 70 Rue Saint Jean de Dieu, 69007 Lyon, France  
**Date and place of incorporation:** Initially incorporated on 26 January 2011, Commercial Court (*greffe du Tribunal de Commerce*) of Roussay, France  
 Incorporated with the Commercial Court (*greffe du Tribunal de Commerce*) of Lyon, France since change of registered office on 28 May 2013.  
**Issued share capital:** €8,390,317.14, divided into 54,746,333 ordinary shares of €0.15 each and 17,836,719 preferred shares with a nominal value of €0.01 each  
**Shareholders and shares held:** Novartis Vaccines & Diagnostics Inc. 1,560,000  
 Novartis Pharma AG 3,788,048

**Name of Company:** Chiron Panacea Vaccines Private Limited  
**Registered Number:** U24230MH2004PTC147790  
**Registered Office:** 7th Floor, A Wing, Sagar Tech Plaza  
 Sakinaka, Mumbai 400072, Maharashtra, India  
**Date and place of incorporation:** 13 July 2004, Mumbai, India



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**Name of Company:**

**Chiron Panacea Vaccines Private Limited**

Issued share capital:

INR 45,918,200 (4,591,820 shares of INR 10 each)

Shareholders and shares held:

Novartis Vaccines & Diagnostic S.r.l. 2,295,910  
(50%)



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**Schedule 3**  
**The Properties**  
**Part 1**  
**(Company Real Property)**

**Part A**

**Company Owned Real Property**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of five pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Part B**

**Company Leased Real Property**

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\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of six pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 3  
The Properties  
Part 2  
(Transferred Real Property)**

**Part A**

**Transferred Owned Real Property**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Part B**  
**Transferred Leased Real Property**

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\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of three pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 3**  
**The Properties**  
**Part 3**  
**Terms relating to the Company Real Property**

**1 General Provisions relating to the Company Real Property**

**1.1 Interpretation**

The following further definitions apply in this Part 3 of Schedule 3:

“**Company Landlord**” means the person for the time being entitled to the reversion immediately expectant on the termination of the term granted by a Company Lease;

“**Company Leased Real Properties**” means the leasehold properties identified in Part B of Part 1 of this Schedule 3, and “**Company Leased Real Property**” means any one of them;

“**Company Leases**” means the leases, licence documents or tenancy agreements under which the Company Leased Real Properties are held, including all documents supplemental to them, and “**Company Lease**” means any one of them;

“**Company Owned Real Properties**” means the owned properties as identified in Part A of Part 1 of this Schedule 3 together with all buildings, structures, fixed plant, fixed machinery and fixed equipment thereon (except as excluded in Clause 2.3.2), and “**Company Owned Real Property**” means any one of them;

“**Company Real Property Longstop Date**” means the date on which a court of competent jurisdiction finally determines that a Company Third Party Consent has been lawfully refused or cannot be obtained and/or that the Purchaser may not acquire (directly or indirectly, acting through a subsidiary) the relevant Company Real Property;

“**Company Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from any Company Landlord, superior landlord and/or other third party, including any consents, licences, approvals, permits, authorisations or waivers required by any legislation or regulation or by any statutory, governmental, state, provincial or municipal bodies or authorities which are required under a Company Lease or otherwise in relation to any change of control, shareholders or directors of the Vaccines Group Companies, and “**Company Third Party Consent**” means any one of them;

“**German Carve-out Leases**” means the leases of the Company Leased Real Properties referred to at paragraphs 3.2 and 3.3 of Part B of Part 1 of Schedule 3 and any other lease(s) of the Company Leased Real Properties at the Marburg Site where the premises demised by such lease(s) are occupied by both the Business and the German Flu Operations;

“**German Flu Lease(s)**” has the meaning set out in paragraph 2.1 of this Part 3 of Schedule 3; and

“**German Vaccines Lease(s)**” has the meaning set out in paragraph 2.1 of this Part 3 of Schedule 3.

**1.2 Company Third Party Consents**

**1.2.1** This paragraph 1.2.1 of Part 3 of Schedule 3 applies to those Company Real Properties in relation to which a Company Third Party Consent is required and if such Company Third Party Consent remains to be obtained as at the Closing Date this paragraph 1.2.1 of Part 3 of Schedule 3 shall continue to apply until the relevant Company Third Party Consent shall have been obtained or until the Company Real Property Longstop Date. If any Company Third Party Consents are required:

- (i) the Seller shall make an application for, and shall use all reasonable endeavours to obtain each Company Third Party Consent as soon as reasonably practicable following the date of this Agreement and shall at all times keep the Purchaser informed of progress in obtaining such Company Third Party Consents;
- (ii) the Purchaser shall supply such information and references as may reasonably be required by a Company Landlord, any superior landlord or other relevant third party in connection with a Company Third Party Consent;
- (iii) the Purchaser shall be responsible for and undertake to pay, or procure the giving of undertakings to pay the professional and other fees of any Company Landlord, any superior landlord or other relevant person (including any Tax or disbursements in respect of such fees but excluding any Tax on the actual net income, profit or gains of the Company Landlord, any superior landlord or any other relevant person) properly incurred in connection with any application for Company Third Party Consents, whether or not such Company Third Party Consents are given; and
- (iv) in respect of the period after Closing only, the Purchaser shall enter into such covenants for the payment of the rent under the Company Lease and for the observance and performance of the covenants and conditions contained in the Company Lease as may reasonably be required by the Company Landlord, any superior landlord or other relevant third party.

**1.2.2** Each party shall give written notice to the other party as soon as reasonably practicable after obtaining any Company Third Party Consents which shall be accompanied by a copy of such consent.

**1.2.3** Save as set out in paragraph 1.2.1(iii) of this Part 3 of Schedule 3, the Seller shall pay any moneys or provide or procure the giving of any guarantees or other security, in each case as may be lawfully required by a Company Landlord, superior landlord or other relevant third party in connection with the obtaining of the Company Third Party Consents, provided that the Purchaser shall indemnify and keep indemnified the Seller in an amount equal to:

- (i) any moneys required to be paid by the Seller pursuant to this paragraph; and
- (ii) any Liabilities under any guarantees or other security given or procured by the Seller pursuant to this paragraph and arising out of, or in connection with, an act or omission on the part of the Purchaser or (following Closing) the relevant Vaccines Group Company, and where the Company Landlord, superior landlord or other relevant third party lawfully requires any guarantees or other security to be given by the person who is acquiring a membership interest in respect of the relevant Vaccines Group Company, the Purchaser shall provide or procure the giving of any such guarantees or security.



**Company Third Party Consent not obtained**

- 1.2.4** If a Company Third Party Consent has been refused or otherwise not obtained within twelve months following the Closing Date, the Seller and the Purchaser may (acting reasonably) agree that an application is to be made to a court of competent jurisdiction that the relevant Company Third Party Consent has been unreasonably withheld or delayed.
- 1.2.5** If an application is to be made to a court of competent jurisdiction pursuant to paragraph 1.2.4 of this Part 3 of Schedule 3:
  - (i) the proceedings shall be brought by, and prosecuted at the expense of, the Purchaser;
  - (ii) the Seller shall provide all such assistance in connection with such proceedings as the Purchaser (acting reasonably) may require in the interests of obtaining the Company Third Party Consent; and
  - (iii) provided that the Seller has complied with its obligation under paragraph 1.2.1(i) of this Part 3 of Schedule 3, the Purchaser shall indemnify and keep indemnified the Seller for any costs and expenses properly incurred in connection with any such assistance provided by the Seller.
- 1.2.6** If a Company Third Party Consent has not been obtained by the Company Real Property Longstop Date then the Seller and the Purchaser shall each bear fifty per cent. of any Losses of the Seller and the Purchaser arising out of or in connection with the failure to obtain such Company Third Party Consent.

**2 Specific provisions relating to the Marburg Site**

- 2.1** The Seller agrees to procure that Novartis Vaccines and Diagnostics GmbH shall use reasonable efforts to procure the contemporaneous surrender of the German Carve-out Leases and the grant of replacement leases, certain of which shall relate to those parts of the premises demised by the German Carve-out Leases which are used by the Business (the "German Vaccines Lease(s)"), and certain other of which shall relate to the balance of the premises demised by the German Carve-out Leases (the "German Flu Lease(s)").
- 2.2** If Novartis Vaccines and Diagnostics GmbH is able to procure the surrender of the German Carve-out Leases and the grant of the German Vaccines Lease(s) and the German Flu Lease(s) prior to Closing, it is acknowledged that:
  - 2.2.1** the German Flu Lease(s) shall be entered into by, or assigned prior to Closing to, an entity in the Seller's Group Retained Business;
  - 2.2.2** the German Flu Lease(s) shall not constitute lease(s) of Company Leased Real Property; and
  - 2.2.3** the demise of the relevant Company Leased Real Property set out in Part B of Part 1 of this Schedule 3 shall be deemed amended to exclude the premises demised by the German Carve-out Leases and the German Flu Lease(s) and to include reference to the premises demised by the German Vaccines Lease(s).



- 2.3** If Novartis Vaccines and Diagnostics GmbH is not able to procure the surrender of the German Carve-out Leases and the grant of the German Vaccines Lease(s) and the German Flu Lease(s) prior to Closing, the Seller and the Purchaser shall use reasonable efforts to give practical effect to the above-described separation following Closing, and shall consider (without limitation):
- 2.3.1** continued negotiations with the relevant Company Landlords to achieve a separation of each German Carve-out Lease into a German Vaccines Lease and a German Flu Lease, the latter of which shall be entered into by, or immediately assigned to, an entity in the Seller's Group Retained Business; or
  - 2.3.2** if a separation pursuant to paragraph 2.3.1 of this Part 3 of Schedule 3 is not achievable, a sub-lease of those parts of the premises demised by the German Carve-out Leases which are used by the German Flu Operations to an entity in the Seller's Group Retained Business.
- 2.4** The Seller agrees to procure that Novartis Vaccines and Diagnostics GmbH shall not agree to any terms of any German Vaccines Lease(s) which are not substantially similar to the equivalent terms of the relevant underlying German Carve-out Lease without the consent of the Purchaser (not to be unreasonably withheld or delayed), and shall not agree to any terms of any German Flu Lease(s) which are not substantially similar to the equivalent terms of the relevant underlying German Carve-out Lease without the consent of the Seller (not to be unreasonably withheld or delayed).
- 2.5** In connection with the implementation of the arrangements set out in this paragraph 2 of Part 3 of Schedule 3, the parties agree to work together prior to Closing (or, where paragraph 2.3 of this Part 3 of Schedule 3 applies, after Closing) to agree the provision of any site engineering services reasonably required by the other in order to operate those premises demised by the German Vaccines Lease(s) or the German Flu Lease(s), as applicable, in substantially the same manner as operated immediately prior to Closing. Such services may include, but are not limited to, supply of water, gas and electricity, the operation of clean utility systems (water for injection, clean steam, clean gases, etc.), facility services contract management and administration, preventive and corrective maintenance, and shutdown coordination.



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**Schedule 3**  
**The Properties**  
**Part 4**  
**Terms relating to the Transferred Real Property**

**1 General Provisions Relating to the Transferred Real Property**

**1.1 Interpretation**

The following further definitions apply in this Part 4 of Schedule 3:

“**Landlord**” means the person for the time being entitled to the reversion immediately expectant on the termination of the term granted by a Lease;

“**Leases**” means the leases, licences or tenancy agreements under which the Transferred Leased Real Properties are held by the relevant member of the Seller’s Group, including all documents supplemental to them, and “**Lease**” means any one of them;

“**Letting Document**” means any lease, licence or tenancy agreement to which a Transferred Real Property is subject;

“**Licence**” means a right in favour of the Purchaser and all persons authorised by it to occupy the Licensed Premises during the Licence Period pursuant to this Part 4 of Schedule 3;

“**Licence Fee**” means the payments to be made by the Purchaser to the Seller’s Group pursuant to paragraph 1.4.4 of this Part 4 of Schedule 3;

“**Licence Period**” means a period, which may be different for each of the Licensed Premises, commencing on the Closing Date and ending on the earliest of the following dates:

- (lxiii) the date on which this Agreement is terminated by whatever means whether in whole or in relation to the relevant Licensed Premises;
- (lxiv) the date immediately preceding the date on which the term of the relevant Lease ends by whatever means;
- (lxv) the date of Property Transfer Completion in relation to the relevant Transferred Real Property; and
- (lxvi) the Property Longstop Date;

“**Licensed Premises**” means any of the Transferred Real Properties for which all relevant Property Third Party Consents have not been obtained prior to, or at, the Closing Date;

“**Property Agreed Terms**” means a transfer in the terms agreed between the relevant Business Seller, the Purchaser and any relevant third party or determined pursuant to paragraph 1.3.2 of this Part 4 of Schedule 3 and signed for identification by or on behalf of the Business Sellers and by or on behalf of the Purchaser from time to time before or after the date of this Agreement, with such alterations as may be agreed from time to time in writing between the relevant Business Seller, the Purchaser and any relevant third party;

“**Property Longstop Date**” means the date on which a court of competent jurisdiction finally determines that a Property Third Party Consent has been lawfully refused;



“**Property Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from any Landlord, superior landlord and/or other third party, including any consents, licences, approvals, permits, authorisations or waivers required by any legislation or regulation or by any statutory, governmental, state, provincial or municipal bodies or authorities for or in connection with the transfer of a Transferred Real Property by the Business Sellers to the Purchaser and includes (where the context so admits) Sublease Consents;

“**Property Transfer Completion**” means the completion of the transfer of a Transferred Real Property under this Agreement, where such completion does not take place on the Closing Date because any relevant Property Third Party Consents have not been obtained on or prior to such date;

“**Property Transfer Completion Date**” means the date of Property Transfer Completion in accordance with paragraph 1.7 of this Part 4 of Schedule 3;

“**Registered Title**” means the registered title relating to a Transferred Real Property;

“**Sublease Consent**” has the meaning given to it in paragraph 1.11.2 of this Part 4 of Schedule 3;

“**transfer**”, for the purposes of this Part 4 of Schedule 3 only, means in respect of a Transferred Leased Real Property, the transfer or assignment of the relevant Lease or Leases, and in the case of a Transferred Owned Real Property the transfer thereof, and “**a transfer**” means and includes any instruments, deeds or agreements effecting such transfer;

“**Transferred Leased Real Properties**” means the leasehold properties held by a Business Seller and identified in Part B of Part 2 of this Schedule 3 and “**Transferred Leased Real Property**” means any one of them; and

“**Transferred Owned Real Properties**” means the owned properties identified in Part A of Part 2 of this Schedule 3 together with all buildings, structures, fixed plant, fixed machinery and fixed equipment thereon (except as excluded in Clause 2.3.2), and “**Transferred Owned Real Property**” means any one of them.

**1.2** Each of the Transferred Real Properties and/or the Leases thereof shall be transferred subject to the terms set out in this Part 4 of Schedule 3 and all other applicable terms of this Agreement.

**1.3 Pre-Closing**

**1.3.1** Prior to Closing, the Business Sellers and the Purchaser shall agree (acting reasonably) the form of all documents on Property Agreed Terms necessary for the transfer of each of the Transferred Real Properties pursuant to the terms set out in this Part 4 of Schedule 3 and all other applicable terms of this Agreement.

**1.3.2** Any dispute arising out of or connected with paragraph 1.3.1 of this Part 4 of Schedule 3 which is not resolved by agreement between the parties within nine months of such dispute arising shall be referred for and resolved by expert determination as follows:

- (i) either the relevant Business Seller or the Purchaser may initiate an expert reference under this provision by proposing to the other party the appointment of an expert (the “**Expert**”);



- (ii) the Expert shall either be the nearest equivalent to a chartered surveyor in the relevant jurisdiction or (in relation to legal issues) a single QC (or equivalent), in each case with no less than 15 years' post-qualification experience in commercial real estate in the relevant jurisdiction chosen by agreement between the relevant Business Seller and the Purchaser or, failing agreement within 14 days of the initiation of the reference, by the President for the time being of the relevant professional body to which the Expert belongs (the "President") on the application of either the relevant Business Seller or the Purchaser;
- (iii) the relevant Business Seller and the Purchaser shall request that the Expert determines the referred dispute within 10 days of receiving the reference;
- (iv) if the Expert has been appointed but is unable or unwilling to complete the reference, another Expert shall be appointed by agreement between the relevant Business Seller and the Purchaser or, failing agreement within 7 days of the parties being notified that the Expert is unable or unwilling to complete the reference, by the President on the application of either party;
- (v) the Expert shall act as an expert and not as an arbitrator;
- (vi) the relevant Business Seller and the Purchaser shall have the right to make representations and submissions to the Expert, but there will be no formal hearing;
- (vii) the relevant Business Seller and the Purchaser shall make all relevant documents and information within their control available to the Expert;
- (viii) the costs of the Expert shall be borne equally by the relevant Business Seller and the Purchaser; and
- (ix) the decision of the Expert shall, in the absence of fraud or manifest error, be final and binding on the parties.

**1.3.3**

This paragraph 1.3.3 of Part 4 of Schedule 3 applies to those Transferred Real Properties in relation to which a Property Third Party Consent is required and if such Property Third Party Consent remains to be obtained as at the Closing Date this paragraph 1.3.3 of Part 4 of Schedule 3 shall continue to apply until the relevant Property Third Party Consent shall have been obtained or until the Property Longstop Date. If any Property Third Party Consents are required:

- (i) the Seller or relevant Business Seller shall make an application for, and shall use all reasonable endeavours to obtain each Property Third Party Consent as soon as reasonably practicable following the date of this Agreement for the transfer of the Transferred Real Property and shall, at all times, keep the Purchaser informed of progress in obtaining such Property Third Party Consents;
- (ii) the Purchaser shall:
  - (a) supply such information and references as may reasonably be required by a Landlord, any superior landlord or other relevant third party in connection with a Property Third Party Consent;



- (b) in respect of the period after Closing only, enter into such covenants for the payment of the rent in respect of the Transferred Leased Real Properties and for the observance and performance of the covenants and conditions on the part of the lessee contained in any Lease as may reasonably be required by the Landlord, any superior landlord or other relevant third party;
- (c) if reasonably required by the Landlord, any superior landlord or other relevant third party, provide a rent deposit or procure that a surety acceptable to such person guarantees the Purchaser's obligations under the Lease following the transfer of the relevant Transferred Leased Real Property; and
- (d) be responsible for and undertake to pay, or procure the giving of undertakings to pay the professional and other fees of any Landlord, any superior landlord or other relevant person (including any Tax or disbursements in respect of such fees but excluding any Tax on the actual net income, profit or gains of the Landlord, any superior landlord or any other relevant person) properly in connection with any application for Property Third Party Consents, whether or not such Property Third Party Consents are given.

**1.3.4** Each party shall give written notice to the other party as soon as reasonably practicable after obtaining any Property Third Party Consents which shall be accompanied by a copy of such consent.

**1.3.5** Subject to the Purchaser complying with its obligations under paragraphs 1.3.3(ii)(b) to (d) of this Part 4 of Schedule 3, the Seller shall pay, or shall procure that a member of the Seller's Group pays, any moneys or provide or procure the giving of any guarantees or other security, in each case as may be lawfully required by a Landlord, superior landlord or other relevant third party in connection with the obtaining of the Property Third Party Consents, provided that the Purchaser shall indemnify and keep indemnified the Seller in an amount equal to:

- (i) any moneys required to be paid or procured to be paid by the Seller pursuant to this paragraph; and
- (ii) any Liabilities under any guarantees or other security given or procured by the Seller pursuant to this paragraph and arising out of, or in connection with, an act or omission on the part of the Purchaser.

**1.4 Licence**

**1.4.1** In the event that any Property Third Party Consents are not obtained on or before the Closing Date, notwithstanding the terms of the Leases, the Seller shall procure that the relevant Business Seller allows the Purchaser to occupy the Licensed Premises for the Licence Period relating to the relevant Licensed Premises on the terms set out in this paragraph 1.4 of Part 4 of Schedule 3.

**1.4.2** The Purchaser acknowledges that the grant of each Licence may amount to a breach of the terms of the relevant Lease.

**1.4.3** The Licence of each Licensed Premises is granted:



- (i) subject to all of the matters to which the relevant Leases relating to the Transferred Leased Real Property are subject;
- (ii) subject to the matters referred to in the Registered Title and the Letting Documents;
- (iii) out of whatever right, title and interest that the relevant Business Seller has in the Licensed Premises and/or under the Leases;
- (iv) in such state of repair and condition as the Licensed Premises may be in as at the date on which the relevant Licence is granted; and
- (v) without making any statement or representation that the relevant Business Seller is entitled to grant it.

**1.4.4** From Closing and pending Property Transfer Completion, the Purchaser shall pay to the relevant Business Seller a “**Licence Fee**” equivalent to:

- (i) all rents and other charges (including VAT due thereon under the relevant Lease where payable at the date of this Agreement by the relevant Business Seller) payable in respect of the Licensed Premises; and
- (ii) all outgoings (including VAT due thereon under the relevant Lease) (including, but not limited to, rates, service charges, management charges, levies, air-conditioning charges, insurance, heating, electricity, gas, telecommunications and other services and the cost of complying with fire and other statutory regulations) payable by the relevant Business Seller in respect of the Licensed Premises or charged upon the owner or occupier of the Licensed Premises,

such payments to be made not less than 10 Business Days before any such sum falls due subject to the relevant Business Seller giving the Purchaser not less than 10 Business Days’ prior written notice to that effect. To the extent that there has been a prepayment at the Closing Date of the amounts in paragraphs 1.4.4(i) and (ii) of this Part 4 of Schedule 3 by the Seller’s Group which is not otherwise accounted for in the Closing Statement, the Purchaser shall pay to the relevant member of the Seller’s Group within 10 Business Days of written demand an amount equal to the amount of such prepayment in respect of any period after the Closing Date.

**1.4.5** Throughout the Licence Period, the Purchaser shall, in respect of the Licensed Premises only:

- (i) keep the Licensed Premises in no worse a state of repair than they are in at the Closing Date, fair wear and tear excepted;
- (ii) observe and perform the covenants and conditions on the part of the lessee in the relevant Lease under which the relevant Business Seller holds the Licensed Premises (other than in relation to the payment of rent and other charges paid to the relevant Business Seller as part of the Licence Fee and subject to paragraph 1.4.5(i) of this Part 4 of Schedule 3); and
- (iii) use the Licensed Premises only in accordance with the terms of the Lease of the relevant Licensed Premises and in compliance with the law and regulations where the relevant Licensed Premises is located (save for any



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such law or regulation that prohibits the use of the Licensed Premises without a Property Third Party Consent having been obtained).

**1.4.6** The Purchaser and each Business Seller agree that:

- (i) the Licence is personal to the Purchaser and may only be exercised by the Purchaser and those authorised by it;
- (ii) (subject to paragraph 1.4.5 of this Part 4 of Schedule 3) the Purchaser and all persons authorised by it are permitted to have the unrestricted use and occupation of the Licensed Premises; and
- (iii) no relationship of landlord and tenant is created as a result of the Licence.

**1.4.7** If a Landlord or any other relevant third party commences proceedings, raises any lawful objection or takes any other action in connection with the Purchaser's occupation or use of any of the Licensed Premises pending the obtaining of the relevant Property Third Party Consents, the Purchaser and the relevant Business Seller shall meet and negotiate in good faith in order to determine which steps should be taken in respect of the relevant Transferred Real Property.

**1.4.8** Throughout the Licence Period, the Purchaser shall, in respect of the Licensed Premises only, indemnify and keep indemnified each member of the Seller's Group from and against any Licence Fee and any Losses arising from the Licence and/or as a result of the occupation of the Licensed Premises by the Purchaser.

**1.4.9** The Purchaser and the Business Sellers shall each inform the other forthwith of any notice received by it in relation to any of the Licensed Premises from the Landlord or any other third party.

**1.5 Determination of Licence**

**1.5.1** The Licence in relation to any one or more of the Licensed Premises shall determine:

- (i) immediately if the Property Longstop Date occurs; or
- (ii) by the relevant Business Seller giving at least three months' prior written notice to the Purchaser if the Purchaser fails to make the payment of the Licence Fee for a period of one month or is otherwise in material breach of the provisions of the Licence for a continuous period of one month following written notification by the relevant Business Seller to the Purchaser of the same, and in either case the Purchaser has failed to remedy the relevant failure to pay or to remedy the breach prior to the expiry of the three month notice period (or, if the breach is not capable of remedy within such three month period, the Purchaser has failed to commence to remedy the breach within that period and thereafter failed diligently to continue with such remedy); or
- (iii) if the relevant Landlord in relation to a Transferred Leased Real Property prosecutes forfeiture proceedings (or the nearest local law equivalent) as a result of the occupation by the Purchaser of the Licensed Premises then the parties shall either:
  - (a) agree that the Licence shall determine on a date to be agreed between the parties (acting reasonably); or



- (b) in the absence of such agreement, either party may require a QC (or equivalent) with no less than 15 years' post-qualification experience in commercial real estate in the relevant jurisdiction to be appointed (such appointment to be by agreement between the Seller and the Purchaser or, failing agreement, within 14 days, by the President (as defined in paragraph 1.3.2(ii) of this Part 4 of Schedule 3)). Should the QC determine that there is more than a 50% chance of the proceedings in question resulting in the Lease in question being forfeited (or equivalent), then the Licence shall determine on a date to be agreed between the parties (acting reasonably) in order to afford the Seller the opportunity to apply for relief from forfeiture or otherwise challenge the proceedings in question on the basis that any breach resulting from the grant of the Licence has been cured,

provided that this paragraph 1.5.1(iii) shall at all times operate without prejudice to paragraphs 1.4.7, 1.5.1(i) and 1.12.

**1.5.2** If, for whatever reason, the Licence Period comes to an end in relation to any of the Licensed Premises then:

- (i) the Licence insofar as it relates to the relevant Licensed Premises shall be severable from the remainder of this Agreement and this Agreement shall otherwise remain in full force and effect;
- (ii) the Purchaser shall not be entitled to any refund, abatement or reduction of the Purchase Price but shall be entitled to a refund in respect of any Licence Fee prior to the termination of the Licence for the Licensed Premises and which relates to the period following termination of the Licence;
- (iii) it shall not prejudice or affect any claim by any relevant Business Seller in respect of any prior breach of this Agreement by the Purchaser in respect of that Licensed Premises; and
- (iv) unless the Licence Period comes to an end due to Property Transfer Completion in respect of the relevant Licensed Premises taking place, the Purchaser shall:
  - (a) vacate the Licensed Premises forthwith;
  - (b) remove from the Licensed Premises all items belonging to it;
  - (c) leave the Licensed Premises in a clean and tidy condition; and
  - (d) at the request of the relevant Business Seller, reinstate the Licensed Premises or any part or parts thereof to at least as good a state of repair or condition as at Closing, fair wear and tear excepted.

## **1.6 Closing**

- 1.6.1** The transfer of the Transferred Real Property shall only take place on Closing to the extent that all necessary Property Third Party Consents in respect of the relevant transfer have been obtained prior to the Closing Date.
- 1.6.2** Without prejudice to Clause 4.1.8, the Purchase Price shall be paid on the Closing Date in accordance with this Agreement even if any necessary Property Third Party Consents have not then been obtained and not all the Transferred Real Property is transferred on the Closing Date.



**1.6.3** Completion of the transfer of the Transferred Real Property shall take place at such place (or places) as the parties may agree.

**1.7 Property Transfer Completion**

Property Transfer Completion in respect of a Transferred Real Property shall take place on the date falling 15 Business Days following the grant of all relevant Property Third Party Consents for such Transferred Real Property or on such other date as the parties shall agree acting reasonably (but not before the Closing Date).

**1.8 General Transfer Provisions**

**1.8.1** The Seller shall procure that the relevant members of the Seller’s Group shall transfer the Transferred Real Property to the Purchaser subject to the terms set out in this Part 4 of Schedule 3 and all other applicable terms of this Agreement on the Closing Date or (if later) Property Transfer Completion.

**1.8.2** The Transferred Real Property is sold subject to the Letting Documents (if any) but otherwise with vacant possession together with all buildings, structures, fixed plant, fixed machinery and fixed equipment thereon except as excluded in Clause 2.3.2.

**1.8.3** The transfer of each Transferred Real Property shall contain covenants with the relevant Business Seller by the Purchaser to comply with:

- (i) the obligations arising from the matters mentioned in the Registered Title; and
- (ii) obligations on the part of the landlord arising under the Letting Documents (if any),

insofar as the relevant Business Seller may remain liable directly or indirectly for them after the Closing Date or Property Transfer Completion (as the case may be) and to indemnify the relevant member of the Seller’s Group against any non-compliance and a further covenant by the Purchaser to indemnify the relevant Business Seller against any liability arising under an authorised guarantee agreement (or equivalent) entered into by the relevant member of the Seller’s Group.

**1.8.4** The transfer of each Transferred Real Property shall be on the nearest equivalent terms that exist under local (national) law to a transfer of real property in England and Wales made with full title guarantee save that where it is a Transferred Leased Real Property the covenant set out in Section 4(2)(b) of the Law of Property (Miscellaneous Provisions) Act 1994 shall not extend to the imposition on the transferor of liability for any subsisting breach of obligation relating to the physical state of the Transferred Leased Real Property.

**1.8.5** On the Closing Date or Property Transfer Completion (as the case may be) in respect of each of the Transferred Real Properties:

- (i) the Seller shall procure that the relevant Business Seller delivers to the Purchaser a duly executed transfer in respect of the relevant Transferred Real Property on Property Agreed Terms; and



- (ii) the Purchaser shall deliver to the Seller a duly executed transfer in respect of the relevant Transferred Real Property on Property Agreed Terms.

**1.8.6** The Purchaser shall, at its own cost and expense, procure that all transfers are duly stamped, filed or registered at the relevant registries on a timely basis and within the statutory period (if any) and the relevant Business Seller shall promptly assist the Purchaser with any requisitions or enquiries raised in relation thereto.

## 1.9 Subjections

Notwithstanding anything contained in this Agreement:

**1.9.1** Each of the Transferred Real Properties is transferred subject to and (where appropriate) with the benefit of the following matters (to the extent applicable under the laws of the relevant jurisdiction):

- (i) any unregistered interest which overrides first registration under Schedule 1 of the Land Registration Act 2002 (the “2002 Act”) and any interest which fall within Section 11(4)(c) of the 2002 Act and any unregistered interests which override registered dispositions under Schedule 3 of the 2002 Act or their local jurisdiction equivalent (if any);
- (ii) such unregistered interests as may affect that Transferred Real Property to the extent and for so long as they are preserved by the transitional provisions of Schedule 12 of the 2002 Act or its local jurisdiction equivalent (if any);
- (iii) all matters contained or referred to in the Letting Documents;
- (iv) all matters contained or referred to in the Property, Proprietorship and Charges registers (or equivalent entries and registers) of the Registered Title relating to that Transferred Real Property (except fixed and floating charges securing money or liabilities);
- (v) all exceptions, reservations, rights, easements, quasi-easements, wayleaves, rent charges, covenants, conditions, declarations, leases, tenancies (including statutory tenancies), licences and agreements affecting the same;
- (vi) (in the case of a leasehold property) the rents, covenants and conditions reserved by or contained in the Lease under which the same is respectively held;
- (vii) all local land charges (whether or not registered before the date of this Agreement) and all matters capable of registration as local land charges (whether or not actually registered) or their local jurisdiction equivalent (if any);
- (viii) all notices served and orders, demands, proposals, or requirements made by any local or other public or competent authority;
- (ix) all actual or proposed orders, directions, plans, notices, instruments, charges, restrictions, conditions, agreements or other matters arising under any statute relating to town and country planning and any laws and regulations intended to control or regulate the construction, demolition, alteration or change of use of land or buildings or to preserve or protect the environment; and



(x) matters which are fairly disclosed by the Disclosure Letter.

- 1.9.2 The Purchaser is deemed to acquire with full knowledge of the matters referred to in paragraph 1.9.1 of this Part 4 of Schedule 3.
- 1.9.3 The Business Sellers shall procure that any and all financial charges affecting the Transferred Real Properties will be discharged on or before the date on which such Transferred Real Property is to be transferred to the Purchaser, and shall provide to the Purchaser such evidence as the Purchaser may reasonably require in order to satisfy itself that such discharge has been effected and to remove any notices or entries in respect of such charges from any relevant register.
- 1.9.4 The Business Sellers do not give any warranty as to the use or area of any of the Transferred Real Properties and shall not be required to define the boundaries of any of the Transferred Real Properties. The transfer of the Transferred Real Properties shall not be annulled, nor shall any compensation be allowed or payable, in respect of any error in respect of any such matters.
- 1.9.5 On the date on which the transfer of each Transferred Real Property is completed, the Seller shall deliver, to the Purchaser (or such other third party as the Purchaser may reasonably direct) all of the original documents in the possession of the Business Sellers or relevant member of the Seller's Group in respect of each of the Transferred Real Properties.
- 1.9.6 The Purchaser shall not raise any requisition on matters arising after the date of this Agreement, except where the subject matter of the requisition is registered at the Land Registry (or equivalent local registry) after the date of this Agreement and does not relate to any matter referred to in paragraph 1.9.1 of this Part 4 of Schedule 3.
- 1.9.7 To the extent that deposit guarantees have been given by the Seller's Group in respect of any Transferred Real Property and/or insofar as the Seller's Group retains any residual or ongoing liabilities or obligations (including performance guarantees) in connection with the Transferred Real Property, the Purchaser shall use all reasonable endeavours procure that the Seller's Group is released from all deposit guarantees and all other residual or ongoing liabilities or obligations and, insofar as the counterparties thereto shall properly and lawfully refuse to give any such release, the Purchaser shall indemnify and keep indemnified the Seller (or the relevant member of the Seller's Group) in an amount equal to any Liabilities under any such residual or ongoing liabilities or obligations arising out of, or in connection with, an act or omission on the part of the Purchaser.

**1.10 Insurance**

The Business Sellers shall maintain their existing insurance (if any) on the Transferred Real Properties and shall cancel such insurance with effect from the Closing Date or, if later, the date of Property Transfer Completion (as the case may be) unless agreed otherwise with the Purchaser.



**1.11 Grant of Sublease**

If a Business Seller is unable to obtain a Property Third Party Consent from a Landlord for the transfer of a Transferred Leased Real Property the provisions of this paragraph 1.11 of Part 4 of Schedule 3 shall apply:

**1.11.1** where a Lease permits a sublease to be granted without the requirement for any Property Third Party Consent from the Landlord, the relevant Business Seller shall grant to the Purchaser a sublease of the Transferred Leased Real Property on the same rent and other terms and conditions as the Lease of the Transferred Leased Real Property with such changes as are appropriate and agreed between the relevant Business Seller and the Purchaser acting reasonably and the term of the sublease shall be the term of such Lease less one day; and

**1.11.2** where the Transferred Leased Real Property is held by the relevant Business Seller from a Landlord on terms which require the consent of the Landlord to:

- (i) the grant of a sublease; or
- (ii) the terms on which a sublease is granted,

the Seller or the relevant Business Seller shall use all reasonable endeavours to obtain such consent (“**Sublease Consent**”) from such Landlord. Where the relevant Business Seller is able to obtain the appropriate Sublease Consent (or, where applicable, the court of competent jurisdiction referred to in paragraph 1.12.1 of this Part 4 of Schedule 3 declares that the Sublease Consent has been unreasonably withheld or delayed), the relevant Business Seller shall grant to the Purchaser a sublease of the Transferred Leased Real Property on the same rent and other terms and conditions as the Lease of the Transferred Leased Real Property with such changes as are appropriate and agreed between the relevant Business Seller and the Purchaser acting reasonably and the term of the sublease shall be the term of such Lease less one day.

**1.12 Property Third Party Consent not obtained**

**1.12.1** If a Property Third Party Consent (and, where applicable, a Sublease Consent) has been refused or otherwise not obtained within twelve months following the Closing Date, the Seller and the Purchaser may (acting reasonably) agree that an application is to be made to a court of competent jurisdiction that the relevant Property Third Party Consent has been unreasonably withheld or delayed.

**1.12.2** If an application is to be made to a court of competent jurisdiction pursuant to paragraph 1.12.1 of this Part 4 of Schedule 3:

- (i) the proceedings shall be brought and prosecuted by the Seller; and
- (ii) the Purchaser shall provide all such assistance in connection with such proceedings as the Seller (acting reasonably) may require in the interests of obtaining the Property Third Party Consent; and
- (iii) provided that the Seller has complied with its obligations under paragraphs 1.3.3(i) and 1.11.2 of this Part 4 of Schedule 3, the Purchaser shall indemnify and keep indemnified the Seller for any costs and expenses properly incurred by the Seller in bringing and prosecuting proceedings under this paragraph.



**1.12.3** If a Property Third Party Consent has not been obtained by the Property Longstop Date then the Seller and the Purchaser shall each bear fifty per cent. of any Losses of the Seller and the Purchaser arising out of or in connection with the failure to obtain such Property Third Party Consent.

**1.13 Obligations on the Business Sellers**

In this Part 4 of Schedule 3, any reference to an obligation on the part of the Business Sellers (or any of them, as the case may be) shall be read as if it were an obligation on the part of the Seller to procure performance of such obligation by the Business Seller or Business Sellers in question.

**1.14 Amsterdam Lease**

**1.14.1** The Seller shall keep the Purchaser fully informed of any discussions or negotiations with the Landlord in respect of the lease of premises at Hullenbergweg 81-135 (1011 CL), Amsterdam, The Netherlands (the "Amsterdam Lease"), or any notices received by the Seller (or any member of the Seller's Group) from the Landlord in respect of the Amsterdam Lease relating to the determination thereof or the yielding up of the premises demised thereunder.

**1.14.2** The Seller shall not, and shall procure that no member of the Seller's Group shall, act independently of the Purchaser in relation to any discussions or negotiations relating to the extension or renewal of the Amsterdam Lease, and shall not enter into any document or deed extending or renewing the term of the Amsterdam Lease without the prior written approval of the Purchaser (not to be unreasonably delayed).

**1.14.3** The Seller shall, and shall procure that any relevant member of the Seller's Group shall, take such action as the Purchaser may reasonably request in connection with the Amsterdam Lease, including taking steps to extend or renew the same.

**1.14.4** The Purchaser shall indemnify and keep indemnified the Seller against all costs properly incurred by the Seller (or any member of the Seller's Group) arising out of or in connection with paragraph 1.14.3 of this Part 4 of Schedule 3.

**1.14.5** If the Amsterdam Lease is extended or renewed, the leasehold property as extended or renewed shall be a "Transferred Real Property" for the purposes of this Agreement and the provisions of this Part 4 of Schedule 3 shall apply to such lease as extended or renewed.



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**Schedule 4**  
**Vaccines Group Intellectual Property Rights and Vaccines Group Intellectual Property Contracts**  
**(Clause 2.3)**

**Part 1**

**Vaccines Group Intellectual Property Rights**

**Part 2**

**Vaccines Group Intellectual Property Contracts**

**Part 3**

**Beta Interferon Patents**



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**Schedule 5**  
**Excluded Employees**  
**(Clause 1.1)**

[\*\*\*]

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\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 6  
International Assignees  
(Clause 1.1)**

[\*\*\*]

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\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of two pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Schedule 7**  
**Permitted Encumbrances**  
**(Clause 1.1)**

1. Co-owned Vaccines Group Intellectual Property Rights.



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**Schedule 8  
Product Approvals and Product Applications  
Part 1**

**Terms relating to the Product Approvals and Product Applications**

**1 General Provisions**

- 1.1 The Purchaser shall do all things necessary to effect the transfer of each Product Approval and Product Application, including complying with requirements and requests of Governmental Entities with respect to the transfer of each Product Approval and Product Application.
- 1.2 The Marketing Authorisations shall be transferred in accordance with Part 2 of this Schedule 8.

**2 Product Applications**

- 2.1 The Purchaser shall file or cause to be filed applications for the transfer of each Product Application in each country or territory in which such transfer is required to be submitted as soon as possible after the Closing Date.
- 2.2 Pending the transfer of each Product Application each Seller shall, and shall cause the relevant members of its Group to:
  - 2.2.1 upon reasonable request from the Purchaser and at the Purchaser's expense, reasonably cooperate and coordinate with the Purchaser in relation to the transfer of the Product Applications, including by providing the Purchaser with regulatory documentation concerning the Products owned or controlled by that Seller or any of its Affiliates;
  - 2.2.2 perform such acts and services as may be requested by the Purchaser that are reasonably necessary or required by any Governmental Entity to maintain or renew any Product Application or are reasonably necessary for the Purchaser to pursue the regulatory approval for any Product Application, including conducting any studies, including clinical and stability studies, concerning the Products; and
  - 2.2.3 notify the Purchaser as soon as is reasonably practicable of any written communication received by such Seller or any member of its Group with respect to any Product Application and shall consult with the Purchaser with respect to such communication and take into account the Purchaser's views as to the form and content of any communication with any Governmental Entity concerning such Product Application.

**3 Fees and expenses**

From and after the Closing Date, the Purchaser shall promptly reimburse the relevant members of the Seller's Group for all maintenance and renewal fees and similar fees paid, and all out of pocket expenses reasonably incurred in connection with the satisfaction of any commitments or obligations by such member of the Seller's Group with respect to each Product Approval and each Product Application.

**4 Notification**

As soon as a Seller or the Purchaser or any of their respective Affiliates receives notification, if any, of impending approval or approval of the transfer of a Product Application from a Governmental Entity, the notified party or the party whose Affiliate was notified shall inform the other party of the expected date of appointment or transfer and actual date of appointment or transfer of that Product Application.



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**5 Responsibility for transfer**

Notwithstanding any other provision of this Agreement, no Seller nor any of its Affiliates shall have any Liability to the Purchaser in the event that the transfer of any Product Application alone results in any further obligations, commitments or Liabilities in relation to such Product Application.



**Schedule 8**  
**Product Approvals and Product Applications**  
**Part 2**  
**Transfer of Marketing Authorisations**

**1 Marketing Authorisation Transfer and Marketing Authorisation Re-registration**

- 1.1** The Seller and the Purchaser hereby agree they will each use, and will procure that their respective Affiliates will use, all reasonable endeavours to ensure that, as soon as reasonably practicable after the Closing Date:
- 1.1.1** subject to paragraph 1.1.2, each Marketing Authorisation shall be transferred in accordance with Applicable Law by the Marketing Authorisation Holder to the Marketing Authorisation Transferee (“**Marketing Authorisation Transfer**”); and
- 1.1.2** where Applicable Law does not permit Marketing Authorisation Transfer, a new marketing authorisation shall be registered in the name of the Marketing Authorisation Transferee to replace the existing Marketing Authorisation (“**Marketing Authorisation Re-registration**”) and the Seller shall procure that the relevant Marketing Authorisation Holder takes all necessary steps to withdraw, abandon, cancel or allow to lapse the superseded Marketing Authorisation as soon as practicable after the Marketing Authorisation Re-registration Date.
- 1.2** Any Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable) shall each be effected on a Market-by-Market basis (such that there shall not be any staggered Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as the case may be) on a Product-by-Product basis in any Market), unless otherwise agreed between the Seller and the Purchaser.
- 1.3** With effect from the Closing Date until the Marketing Authorisation Transfer Date or the Marketing Authorisation Re-registration Date (as applicable), the Seller shall procure that each Marketing Authorisation Holder shall hold the Marketing Authorisation(s) in its name but for the account, risk and benefit of the relevant Marketing Authorisation Transferee.

*Submission of MA Documentation*

- 1.4** Without prejudice to paragraph 1.5, the Purchaser shall be responsible for preparing and submitting, or for procuring that there is prepared and submitted (in any such case at the Purchaser’s cost and expense), all notices, applications, submissions, reports and any other instruments, documents, correspondence or filings necessary to complete Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable) (the “**MA Documentation**”). The MA Documentation shall be prepared in accordance with Applicable Law as soon as reasonably practicable.
- 1.5** At the Seller’s election, the Purchaser shall procure that advanced drafts of the MA Documentation are submitted to the Seller so as to allow the Seller and/or the Marketing Authorisation Holder a reasonable opportunity to provide comments on such MA Documentation before it is submitted to the relevant Governmental Entity. The Purchaser shall incorporate all comments on such drafts as may reasonably be made by the Seller and/or the Marketing Authorisation Holder PROVIDED THAT the Purchaser shall not be obliged to incorporate any comments if the Purchaser considers, acting reasonably that to do so would materially delay Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable).



- 1.6** Where under Applicable Law the MA Documentation is required to be submitted to the relevant Governmental Entity:
- 1.6.1** by the Marketing Authorisation Holder, the Purchaser shall procure that the finalised MA Documentation is provided to the Seller after such MA Documentation is finalised in accordance with paragraph 1.5 above and the Seller shall, in turn, procure that the Marketing Authorisation Holder submits such MA Documentation to the relevant Governmental Entity (the timing and date of such submission to be agreed with the Purchaser) and the Seller shall promptly thereafter advise the Purchaser of such submission and provide a copy of the relevant MA Documentation (in the form submitted) to the Purchaser; and
- 1.6.2** by the Marketing Authorisation Transferee, the Purchaser shall procure that the relevant Marketing Authorisation Transferee submits the finalised MA Documentation to the relevant Governmental Entity as soon as reasonably after such MA Documentation is finalised in accordance with paragraph 1.5 above and the Purchaser shall promptly thereafter advise the Seller of such submission and provide a copy of the relevant MA Documentation (in the form submitted) to the Seller.
- 1.7** From the Closing Date, the Seller shall procure that the relevant Marketing Authorisation Holder shall, as soon as reasonably practicable, sign any notices, applications, submissions, reports and other instruments, documents, correspondence or filings presented to it by the Purchaser or the relevant Marketing Authorisation Transferee that are necessary to effect Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable). The Marketing Authorisation Holder shall:
- 1.7.1** provide notice of its consent to a Marketing Authorisation Transfer or Marketing Authorisation Re-registration if required by any Governmental Entity; and
- 1.7.2** provide to the Purchaser or the relevant Marketing Authorisation Transferee any information or other data or technical or other information in its possession that relates to the relevant Marketing Authorisation and that is required by a relevant Governmental Entity or otherwise reasonably required by the Purchaser or the relevant Marketing Authorisation Transferee to assist the Purchaser or the relevant Marketing Authorisation Transferee to effect the relevant Marketing Authorisation Transfer or Marketing Authorisation Re-registration;
- 1.7.3** in the event of any request for information or any query from any relevant Governmental Entity in respect of Marketing Authorisation Transfer or the Marketing Authorisation Re-registration (as applicable), the relevant party receiving such request or query shall provide copies of any such request or query to the Seller or, as the case may be, to the Purchaser. The Purchaser shall be responsible for preparing, or shall be responsible for procuring that there is prepared, (at the Purchaser's cost and expense) any response to such a request or query with the intention that such request or query shall be dealt with as promptly and efficiently as possible. In advance of finalising any such response, the Purchaser shall procure that the relevant response is submitted to the Seller so as to allow the Seller and/or the relevant Marketing Authorisation Holder a reasonable opportunity to provide comments on such response before it is submitted to the Governmental Entity. The Purchaser shall procure that relevant Marketing Authorisation Transferee (i) shall submit the response to the relevant Governmental Entity as soon as reasonably practicable after the same has been finalised in accordance with this paragraph 1.7.3 and (ii) shall provide a copy of the relevant response (in the form submitted) to the Seller.

**2 Obligations Pending Marketing Authorisation Transfer or Marketing Authorisation Re-Registration**

**2.1** Unless otherwise required by Applicable Law or a relevant Governmental Entity (or unless otherwise agreed in writing by the Seller and the Purchaser), from the Closing Date until the applicable Marketing Authorisation Transfer Date or Marketing Authorisation Re-registration Date:

**2.1.1** the Seller shall:

- (i) maintain in force (or procure that there is maintained in force) each Marketing Authorisation, and shall not voluntarily amend, cancel or surrender any Marketing Authorisation unless requested to do so in writing by the Purchaser or required to do so by any Applicable Law or any Governmental Entity;
- (ii) with the Purchaser's consent (not to be unreasonably withheld or delayed) progress (or procure that there is progressed) any registrations, variations or renewals to Marketing Authorisations initiated by the Seller (or any other member of the Seller's Group) prior to the Closing Date or withdraw them upon the request of the Purchaser;
- (iii) procure that each Marketing Authorisation Holder shall comply with the terms of any Marketing Authorisation and shall notify the Purchaser as soon as reasonably practicable of the details of any variations or renewals initiated following the Closing Date;
- (iv) inform the Purchaser of any impending renewals of Marketing Authorisations as at the Closing Date and the parties shall discuss in good faith to what extent any such renewal will be pursued or withdrawn (it being agreed that the Purchaser shall have the final decision in any such matter);
- (v) not without the consent of the Purchaser, initiate any additional variations or amendments to the Marketing Authorisations, except to the extent required by any Governmental Entity or where failure to do so would breach Applicable Law; and
- (vi) consider in good faith any request by the Purchaser to apply for a new marketing authorisation in respect of a Product PROVIDED THAT if the Seller agrees to submit such application, any costs or expenses incurred by the Seller in making such application shall be for the Purchaser's account and shall constitute MA Costs;

**2.1.2** without prejudice to the generality of the foregoing paragraph 2.1.1(iii), the Purchaser acknowledges and agrees that each Marketing Authorisation Holder shall be entitled to do (or to procure that there is done) any or all of the following (and the Purchaser acknowledges that, where the relevant Marketing Authorisation Holder so chooses and unless otherwise agreed, responsibility for each of the following activities shall rest with the relevant Marketing Authorisation Holder):

- (i) pharmacovigilance activities related to the Marketing Authorisations, which activities shall be conducted in accordance with Applicable Law, the Pharmacovigilance Agreement, and the standards, policies and procedures of the Seller's Group from time to time in force; and



- (ii) conducting any and all communications with a Governmental Entity in respect of a Marketing Authorisation (including, without limitation to the generality of the foregoing, attending any meetings with relevant Governmental Entities and filing and submitting all reports and other documents which it reasonably considers necessary to be submitted in order to comply with Applicable Law or its obligations under this Agreement), PROVIDED THAT responsibility for (a) the costs of preparation of any such documents, reports and/or filings shall be borne by the Purchaser (or the relevant Marketing Authorisation Transferee) to the extent such costs are reasonably necessary, and (b) the submission of MA Documentation shall be the responsibility of the Purchaser in accordance with paragraph 1.4 above, PROVIDED THAT the Seller shall ensure that the Purchaser is kept fully and promptly informed of any such communications or submissions in advance, to the extent reasonably practicable; and
- 2.1.3** the Seller shall procure that each Marketing Authorisation Holder shall act in accordance with the reasonable instructions of the Purchaser or the Marketing Authorisation Transferee in respect of each Marketing Authorisation in respect of which such Marketing Authorisation Holder is the holder, PROVIDED THAT no Marketing Authorisation Holder shall be obliged to comply with such instructions to the extent the same: (i) infringe the terms of the relevant Marketing Authorisation(s); or (iii) are otherwise inconsistent with the provisions of the Pharmacovigilance Agreement relating to the Seller;
- 2.1.4** the Purchaser shall only request artwork changes to the extent such changes are required in order to comply with Applicable Law;
- 2.1.5** the Purchaser shall submit to the Seller (or shall procure that there is submitted) written details (in such form and with such supporting materials as the Seller may reasonably request) of any new, amended or proposed advertising and promotional activity or training materials in respect of any Product Commercialised pursuant to any Marketing Authorisation (including (without limitation) any material reasonably requested by the Seller in order to validate new and/or amended promotional or training materials), and the Purchaser acknowledges and agrees that no such advertising, promotional or training activity shall be implemented, undertaken or otherwise commenced without the prior written consent of the Seller (for itself and on behalf of the relevant Marketing Authorisation Holder), such consent not to be unreasonably withheld. The Purchaser further agrees and acknowledges that, if it so chooses, the Seller shall be entitled to assume responsibility for obtaining (or procuring that there is obtained) the consent(s) and approval(s) of any relevant Governmental Entity required for such new, amended or proposed advertising and promotional activity or training activity; and



- 2.1.6 to the extent permitted by the terms of the relevant Marketing Authorisation, the Purchaser or any other member of the Purchaser's Group shall Commercialise the Product(s) which are the subject of such Marketing Authorisation (notwithstanding that such Marketing Authorisation is held in the name of the relevant Marketing Authorisation Holder and, for the avoidance of doubt, the proceeds of any such Commercialisation shall be for the benefit of the Purchaser's Group) and the Purchaser shall:
- (i) indemnify each member of the Seller's Group against any and all actions, claims, demands, investigations, judgments, proceedings, liabilities, loss, damages, payments, costs and expenses arising in relation to the Commercialisation of the Products by the Purchaser or any other member of the Purchaser's Group under this paragraph (i); and
  - (ii) procure that such Product(s) are Commercialised in compliance with the terms of the relevant Marketing Authorisation and/or the requirements of the relevant Governmental Entity.

### 3 New and Pending Marketing Authorisations in Respect of the Products

- 3.1 If, at any time prior to Closing, any member of the Seller's Group is granted or otherwise comes to hold any marketing authorisation which relates exclusively to one or more Products (a "**New Marketing Authorisation**") then:
- 3.1.1 the Seller undertakes to the Purchaser to notify the Purchaser as soon as reasonably practicable following the date on which the relevant member of the Seller's Group is granted, or becomes entitled to, the New Marketing Authorisation; and
  - 3.1.2 the provisions of paragraphs 1 and 2 above shall apply to that new Marketing Authorisation.
- 3.2 Where a member of the Seller's Group has submitted to any Governmental Entity any application relating to the grant of a new marketing authorisation in respect of the Vaccines Group which is pending or in process as at the date of this Agreement (a "**Pending Marketing Authorisation**"):
- 3.2.1 the Seller shall continue to be responsible for preparation and submission of all documents required to register such Pending Marketing Authorisation but, following Closing, it shall do so at the Purchaser's cost and shall pass responsibility for such Pending Marketing Authorisation to the Purchaser (or such member of the Purchaser's Group as the Purchaser may nominate) as soon reasonably possible after Closing, subject to Applicable Law;
  - 3.2.2 from the Closing Date, the provisions of paragraph 1 shall apply *mutatis mutandis* to any registration process for any Pending Marketing Approval.

### 4 MA Costs

From the Closing Date, the Purchaser shall be responsible for all necessary costs of preparation and submission of MA Documentation and, save as expressly provided in this Agreement, any other necessary costs incurred by the Seller or a member of the Seller's Group in connection with the maintenance and any variations, amendments and renewals of the Marketing Authorisations relating to the Products or for any matter requested by the Purchaser pursuant to this Part 2 of Schedule 8 and for all fees and costs reasonably incurred by the relevant member of the Seller's Group in complying with its obligations in respect of a Marketing Authorisation Transfer or Marketing Authorisation Re-registration ("**MA Costs**").



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**5 Obligations following Marketing Authorisation Transfer or Marketing Authorisation Re-Registration**

- 5.1** On and from the relevant Marketing Authorisation Transfer Date or Marketing Authorisation Re-registration Date (as applicable), the Purchaser shall procure that each Marketing Authorisation Transferee shall assume and be solely responsible for:
- 5.1.1** all obligations as the holder of such Marketing Authorisation including (subject to the terms of the Pharmacovigilance Agreement) pharmacovigilance activities related to such Marketing Authorisation;
  - 5.1.2** all activities and actions required by Applicable Law in connection with such Marketing Authorisation; and
  - 5.1.3** any and all outstanding commitments and obligations to the relevant Governmental Entities with respect to the relevant Marketing Authorisation, save for any such commitments or obligations arising from a breach of this Agreement by the Seller.
- 5.2** In the event that, following Marketing Authorisation Transfer or Marketing Authorisation Re-registration in respect of any Product, the Seller wishes to apply for a marketing authorisation in respect of a retained product, the Purchaser shall (and shall procure that the relevant Marketing Authorisation Transferee shall) co-operate with and provide all reasonable assistance to the Seller (or the relevant member of the Seller's Group) at the Seller's costs as may be reasonably required for the purposes of applying for such new marketing authorisation, including (without limitation) providing the Seller (or the relevant member of the Seller's Group) and/or any Governmental Entity with such access to Marketing Authorisation Data or such other data or technical or other information as is reasonably requested by the relevant Governmental Entity or is otherwise reasonably required by the Seller or the relevant member of the Seller's Group.



**Schedule 8**  
**Product Approvals and Product Applications**  
**Part 3**  
**List of Products, Products Under Registration and Pipeline Products**

**PRODUCTS**

1. Adsorbed Diphtheria Vaccine Behring for Adults
2. ANATETALL
3. Bexsero
4. Bivalent OPV
5. Botulism Antitoxin Behring
6. CRm-Hib bulk conc.
7. Dif-Tet-All Adults
8. DT Concentrate (preservative free)
9. Encepur<sup>®</sup> adults
10. Encepur<sup>®</sup> children
11. MENJUGATE
12. MENJUGATE KIT
13. Menveo
14. MONO OPV1
15. MONO OPV3
16. POLIORAL
17. Poliovax-in
18. QUATTVAXEM
19. RabAvert<sup>®</sup>
20. Rabipur<sup>®</sup> ex India
21. Rabipur<sup>®</sup> ex Marburg
22. Td-pur<sup>®</sup>
23. Td-Virelon
24. Tetanol pur
25. TT Concentrate
26. Vaxem Hib
27. Vaxem Hib (Bulk)



### PRODUCTS UNDER REGISTRATION

1. Bexsero – in Argentina, Brazil, Chile, Colombia and Uruguay
2. Menjugate Liquid – in Finland
3. Menveo – in Egypt, South Africa, Thailand and Venezuela
4. Rabipur® ex India – in Kazakhstan, Malaysia, Morocco and Zimbabwe
5. Rabipur® ex Marburg – in India
6. Tetanol pur – in Venezuela
7. Vaxem Hib – in Vietnam

### PIPELINE PRODUCTS

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Schedule 8**  
**Product Approvals and Product Applications**  
**Part 4**  
**Tenders**

From Closing until the Marketing Authorisation Transfer Date in any Market, the Seller shall, and shall procure that each member of the Seller's Group and the relevant Marketing Authorisation Holder shall, to the extent permitted by Applicable Law:

- (a) inform the Purchaser in writing of any Call for New Tender as soon as reasonably practicable following receipt; and
- (b) co-operate with and provide reasonable assistance to the Purchaser (or the relevant member of the Purchaser's Group) for the purposes of responding to the Call for New Tender or otherwise applying for a new tender; and
- (c) where Applicable Law requires such responses or applications to be made by the Marketing Authorisation Holder, the Seller shall procure that the Marketing Authorisation Holder submits such responses or applications on behalf of the Purchaser PROVIDED THAT the Purchaser shall indemnify the Seller and/or the relevant Marketing Authorisation Holder (as the case may be) for any and all costs, expenses and liabilities suffered or reasonably incurred by the Seller and/or the Marketing Authorisation Holder in complying with or as a result of the provisions of this paragraph.



**Schedule 9  
Certificate  
(Clause 1.1)**

To: GlaxoSmithKline plc

[Date]

**Certificate**

This Certificate is issued in accordance with clause 4.4.1(iii)(b) and paragraph 1.1.4 of Schedule 15 of the sale and purchase agreement between Novartis AG and GlaxoSmithKline plc dated 22 April 2014 (the “**Agreement**”). Unless otherwise defined, capitalised words used in this Certificate shall have the meanings given to them in the Agreement.

We confirm that:

1. no Material Adverse Effect has occurred between the date of the Agreement and the date of this Certificate;
2. having made due and careful enquiry, we are not aware of any breach or breaches of Clause 9.1 which alone or together give rise to a Material Adverse Effect; and

[either]

3. having made due and careful enquiry, we are not aware of any breach or breaches of the Seller’s Warranties that would have occurred and that would, alone or together, have given rise to a Material Adverse Effect had the Seller’s Warranties been repeated immediately before Closing by reference to the facts, circumstances and knowledge then existing as if references in the Seller’s Warranties to the date of this Agreement were references to the Closing Date.

[or]

3. having made due and careful enquiry, we are aware of the following material breaches of the Seller’s Warranties that would, alone or together, be material and have occurred had the Seller’s Warranties been repeated immediately before Closing by reference to the facts, circumstances and knowledge then existing as if references in the Seller’s Warranties to the date of this Agreement were references to the Closing Date.

[description of material breaches.]

For an on behalf of Novartis AG



**Schedule 10**  
**Transferred Contracts**  
**(Clause 2.3)**

**1 Separation of Shared Business Contracts**

- 1.1 Prior to Closing, the Seller and the Purchaser shall discuss and agree in good faith a process to identify all material Shared Business Contracts
- 1.2 The Seller shall use all reasonable efforts to maintain relationships under the Shared Business Contracts and continue to operate the Shared Business Contracts, including without limitation fulfilling all its obligations under the Shared Business Contracts, in the same manner as it has for the twelve months prior to this Agreement.
- 1.3 The Purchaser may, by notice to the Seller at any time prior to the Marketing Authorisation Transfer Date in respect of the relevant Product in the relevant territory, elect to take the rights and obligation of the Relevant Part of any Shared Business Contract.
- 1.4 If the Purchaser makes an election under paragraph 1.3 above, the Seller and the Purchaser shall use all reasonable endeavours to procure that an arrangement is entered into with the relevant counterparty to each Shared Business Contract, the effect of which shall be that, with effect from whichever is the later of Marketing Authorisation Transfer Date and the date of the relevant arrangement, the benefit and burden of the Relevant Part is severed from such Shared Business Contract and an agreement or arrangement equivalent to such Shared Business Contract is entered into between the relevant counterparty and a member of the Purchaser's Group (or the Relevant Part of the Shared Business Contract is sub-licensed to such Purchaser) (a "**Separation**"). For the avoidance of doubt, no part of any such Shared Business Contract shall be severed and transferred to any Purchaser in so far as it relates to the Seller's Retained Business, any product other than the Products or any Excluded Asset.

**2 Obligation to obtain Third Party Consents**

- 2.1 In relation to any Transferred Contract (excluding, for the purposes of this Schedule 10, any Product Approval or Product Application) or Transferred Intellectual Property Contract or Co-Owned Vaccines Group Intellectual Property Right or Transferred Plant and Equipment which is not assignable or sub-licensable without a Third Party Consent or a Separation of a Shared Business Contract which is not separable without a Third Party Consent, this Agreement shall not be construed as an assignment, an attempted assignment, a sub-licensing or an attempted sub-licensing and the Seller and the Purchaser shall each use reasonable endeavours both before and after Closing to obtain all necessary Third Party Consents as soon as possible and shall keep the other informed of progress in obtaining such Third Party Consents. The Seller shall deliver to the Purchaser, on Closing or, if later, as soon as possible after receipt, any Third Party Consent.
- 2.2 In connection with the obtaining of any Third Party Consent referred to in paragraph 2.1, the Purchaser shall supply to the Seller such information as may be reasonably requested by the Seller or any relevant third party.
- 2.3 Save as otherwise provided in this Agreement, the cost of any fee demanded by the third party as consideration for giving the Third Party Consent shall be borne by the Purchaser, provided that:
  - 2.3.1 the cost is agreed in advance by the Purchaser (such agreement not to be unreasonably withheld or delayed); and



2.3.2 no party shall be required to bear any internal or administrative costs of the other party in relation to any Third Party Consent.

**3 Obligations until Third Party Consents are obtained/where Third Party Consents are refused**

3.1 Subject to paragraph 3.2, the Purchaser shall assume, carry out, perform and discharge the Seller's and the Business Seller's obligations arising under the Transferred Contracts, Transferred Intellectual Property Contracts, Co-Owned Vaccines Group Intellectual Property Rights, Transferred Plant and Equipment, and the Relevant Part of the Shared Business Contracts as from Closing.

3.2 In respect of any Transferred Contract, Transferred Intellectual Property Contract, Transferred Plant and Equipment, Relevant Part of Shared Business Contract or Co-Owned Vaccines Group Intellectual Property Right, from Closing until the relevant Third Party Consent has been obtained as contemplated by paragraph 2.1 or where the Third Party Consent has been refused:

3.2.1 the relevant Business Seller shall hold on trust to the extent it is lawfully able to do so or, where it is not lawfully able to do so or where holding on trust is not possible under local law or otherwise impracticable, the relevant Business Seller and the Purchaser shall make such other arrangements between themselves to provide to the Purchaser the benefits of the Contract (other than amounts corresponding to any Tax Liability by the relevant Business Seller in respect of amounts due under or in respect of the Transferred Contract, Transferred Intellectual Property Contract, Relevant Part of Shared Business Contract, Transferred Plant and Equipment or Co-Owned Vaccines Group Intellectual Property Right including the enforcement at the cost and for the account of the Purchaser of all rights of the relevant Business Seller against any other party thereto;

3.2.2 to the extent that the relevant Business Purchaser is lawfully able to do so, the Purchaser shall perform the relevant Business Seller's obligations under the Contract as agent or sub-contractor and shall indemnify the Seller and the relevant Business Seller if the Purchaser fails to do so. To the extent that the Purchaser is not lawfully able to perform such obligations, the Seller shall procure that relevant Business Seller shall, (subject to being indemnified by the Purchaser for any Losses the Seller or the relevant Business Seller may incur in connection therewith) do all such things as the Purchaser may reasonably require to enable due performance of the Transferred Contract, Transferred Intellectual Property Contract, Transferred Plant and Equipment or Relevant Part of the Shared Business Contract and the Purchaser shall indemnify the relevant Business Seller in respect thereof.

**4 Failure to Obtain Third Party Consents**

4.1 If a Third Party Consent is refused or otherwise not obtained on terms reasonably acceptable to the Purchaser within 18 months of Closing, or in the case of a Separation, 18 months of the Marketing Authorisation Transfer Date:

4.1.1 the Seller shall be entitled to procure the termination of the Transferred Contract, Transferred Plant and Equipment, Transferred Intellectual Property Contract or Relevant Part of the Shared Business Contract and the obligations of the parties under this Agreement in relation to such Transferred Contract, Transferred Intellectual Property Contract or Relevant Part of the Shared Business Contract shall cease forthwith;



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- 4.1.2** references in this Agreement to the Transferred Contracts, Transferred Intellectual Property Contracts, Transferred Plant and Equipment or Relevant Part of the Shared Business Contract and the Vaccines Group Businesses (other than in this paragraph 4) shall be construed as excluding such Transferred Contract, Transferred Intellectual Property Contract, Transferred Plant and Equipment or Relevant Part of the Shared Business Contract; and
- 4.1.3** the Seller and the Purchaser shall use all reasonable efforts to put in place alternative arrangements so as to give the Purchaser equivalent benefits or rights as would have been enjoyed under the terminated Transferred Contract, Transferred Intellectual Property Contract, Relevant Part of the Shared Business Contract or Co-Owned Vaccines Group Intellectual Property Right.



**Schedule 11  
Employees  
(Clause 2.4.1)**

**1 Information and consultation**

**1.1** At such time as the parties agree to be appropriate following the public announcement of the matters contemplated by this Agreement, the Seller and the Purchaser or the relevant member of the Purchaser's Group shall jointly communicate to the Employees an agreed notice which shall, other than to the extent the parties agree otherwise:

**1.1.1** inform the Employees that following Closing those Employees who continue to be employed in the Business (as carried on by the Vaccines Group) would be employed by the Purchaser or relevant member of the Purchaser's Group; and

**1.1.2** comply with the requirements of any applicable national law.

For the avoidance of doubt the parties may agree to issue such notice to different Employees or categories of Employees at different times and in different forms.

**1.2** Notwithstanding the operation of paragraph 1.1 above, the Seller and the Purchaser agree to comply with any more onerous notice requirements imposed by local laws.

**1.3** The Purchaser (on its own behalf and on behalf of any relevant member of the Purchaser's Group) shall provide the Seller (for itself and any relevant member of the Seller's Group) with such information and assistance at such times as the Seller may reasonably request or as may be reasonably necessary for the Seller or any other member of the Seller's Group to comply with any formal or informal requirement to inform or consult with the Employees, a relevant trade union, a relevant works council, or any other employee representatives in connection with the matters contemplated by this Agreement (which formal or informal requirements the Seller hereby undertakes to comply or procure compliance with). Where reasonably necessary to ensure compliance with any formal or informal requirements or obligations to inform or consult with Employees, a relevant trade union, a relevant works council or any other employee representatives in connection with the matters contemplated by this Agreement, the Seller (for itself and for each member of the Seller's Group) and the Purchaser (for itself and for each member of the Purchaser's Group) agree that the Purchaser or relevant member of the Purchaser's Group shall cooperate with and participate in any information, negotiation and/or consultation process as reasonably required by the Seller.

**1.4** As soon as practicable following the date of this Agreement, the Purchaser agrees to provide on a timely basis such information, in writing, in respect of its existing terms and conditions of employment as may reasonably be required by the Seller so as to facilitate the Seller's information and consultation exercise with its Employees in respect of the matters set out in this Agreement.

**2 Vaccines Business Employees**

**2.1 General**

**2.1.1** The Purchaser shall (or shall procure that the relevant member of the Purchaser's Group shall) fulfil all its duties and obligations under Applicable Law in relation to the Vaccines Business Employees. Where the provisions of local law do not provide for an automatic transfer of the employment of the Vaccines Business Employees to the Purchaser or a relevant member of the Purchaser's Group with effect from (and including) the Closing Date, then paragraph 2.2 below shall apply. Where the provisions of local law do provide for an automatic transfer of employment of the Relevant Vaccines Business Employees to the Purchaser or the relevant member of the Purchaser's Group with effect from (and including) the Closing Date, then paragraph 2.3 below shall apply.



2.1.2 The parties acknowledge and agree that:

- (i) any Deferred Employee shall be treated for all purposes under this Agreement as if such Deferred Employee were a Vaccines Business Employee or a Vaccines Group Company Employee (as appropriate); and
- (ii) the Purchaser's obligations under this Schedule 11 shall apply in respect of each Deferred Employee in the same way as they do to each Vaccines Business Employee or Vaccines Group Company Employee (as appropriate); and
- (iii) if any Deferred Employee accepts an offer of employment made by the Purchaser under paragraph 2.2.1 below or becomes an employee of a Vaccines Group Company after the Closing Date, such Deferred Employee shall further be treated for all purposes under this Agreement as a Transferred Employee.

2.1.3 For the avoidance of doubt, this paragraph 2 shall not apply to any Excluded Employee, who will remain employed by the Seller or the relevant member of the Seller's Group.

**2.2 Where no automatic transfer of employment**

2.2.1 In such timescale as the parties may agree, but in any event at least 30 Business Days prior to the Closing Date, the Purchaser or relevant member of the Purchaser's Group shall make an offer to each Vaccines Business Employee employed by the Seller or a member of the Seller's Group to employ him or her under a new contract of employment to commence with effect from (and including) the Closing Date provided that such employee continues to be a Vaccines Business Employee until the Closing Date. Save as otherwise agreed with the Seller (such agreement not to be unreasonably withheld), the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that Vaccines Business Employee immediately prior to the Closing Date. The Purchaser shall keep the Seller updated throughout the offer process on when offers are made and accepted or rejected.

2.2.2 If the Vaccines Business Employee wishes to accept the offer of employment from the Purchaser or the relevant member of the Purchaser's Group, then the Seller shall (or shall procure that the relevant member of Seller's Group shall), insofar as it is permitted by Applicable Law, waive the requirement on the Vaccines Business Employee concerned to give any period of notice of termination of his or her employment under the terms of his or her employment so as to allow the Vaccines Business Employee to commence employment with the Purchaser or relevant member of the Purchaser's Group with effect from (and including) the Closing Date.



**2.3 Where automatic transfer of employment**

If the Transfer Regulations do not or are found not to or are alleged not to apply to any person who is a Relevant Vaccines Business Employee and to whom paragraph 2.2 does not apply, the Purchaser agrees that following Closing:

- 2.3.1** in consultation with the Seller, the Purchaser or relevant member of the Purchaser's Group shall within 10 Business Days of being so requested by the Seller (as long as the request is made no later than 3 months after Closing) (or if the Purchaser so chooses), make such Relevant Vaccines Business Employee an offer in writing to employ him or her under a new contract of employment subject to, and to take effect upon, a date agreed between the parties and such employee; and
- 2.3.2** save as otherwise agreed with the Seller (such agreement not to be unreasonably withheld) the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that Relevant Vaccines Business Employee immediately prior to the Closing Date.

**3 Wrong-pocket arrangements for persons other than Relevant Employees**

**3.1** If the contract of employment of any person other than a Relevant Employee is found or alleged to have effect upon Closing as if originally made with the Purchaser or another member of the Purchaser's Group (including any Vaccines Group Company) as a consequence of this Agreement, or if any Vaccines Group Company employs any person who does not work wholly or substantially in the Business (as carried on by the Vaccines Group), the Seller agrees that following Closing:

- 3.1.1** in consultation with the Purchaser, the Seller or relevant member of the Seller's Group may within 10 Business Days of being so requested by the Purchaser (as long as the request is made no later than 3 months after Closing) (or if the Seller so chooses), make to that person an offer in writing to employ him or her under a new contract of employment subject to, and to take effect upon, the termination referred to below; and
- 3.1.2** the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that person immediately prior to the Closing Date.

**3.2** After the expiry of the 10 Business Days referred to at paragraph 3.1 above, and provided that the relevant member of the Purchaser's Group takes such steps as are legally possible to terminate the employment of the person concerned as soon as reasonably practicable after becoming aware of the finding or allegation referred to at paragraph 3.1 above (either by giving notice or transferring the person by agreement to be concluded between the relevant member of the Purchaser's Group, the person concerned and the relevant member of the Seller's Group), the Seller shall be responsible for and shall indemnify and keep indemnified the Purchaser (for itself and as trustee for any relevant member of the Purchaser's Group) against all Losses from time to time made, suffered or incurred by the Purchaser (or any other member of the Purchaser's Group) as a result of:

- 3.2.1** the actual or alleged transfer to a member of the Purchaser's Group and (regardless of whether there has been such a transfer) any employment liabilities relating to such person;
- 3.2.2** employing such person on and from the Closing Date until such termination (up to the time reasonably expected to have achieved such termination in accordance with the terms of the contract of employment and Applicable Law) but subject to a maximum period of 6 months unless prevented by the terms of the contract of employment or Applicable Law; and



3.2.3 such termination.

3.3 The parties agree to co-operate in good faith to minimise the Losses which are subject to the indemnity referred to in paragraph 3.2 above.

**4 Employment liabilities**

4.1 All wages, salaries, employer's liabilities in respect of associated Taxes and other periodic outgoings in respect of the Transferred Employees which relate to a period:

4.1.1 after the Closing Date shall be borne or discharged by the Purchaser or relevant member of the Purchaser's Group; and

4.1.2 on or before the Closing Date shall be borne or discharged by the Seller or relevant member of the Seller's Group.

4.2 The Seller shall (for itself and for each member of the Seller's Group) indemnify and keep indemnified the Purchaser (for itself and as trustee for each other member of the Purchaser's Group) against all Losses (ignoring any amount in respect of Employee Benefits, as to which see Schedule 12) in respect of:

4.2.1 the employment of any Employee at any time prior to the Closing Date (excluding any Transferred Employee Benefit Liabilities (as defined in Schedule 12) which the Purchaser agrees to assume in accordance with Schedule 12);

4.2.2 any termination of the employment of any Employees prior to the Closing Date including, but not limited to, all claims relating to severance, termination pay, pay in lieu of notice of termination and similar obligations (excluding any liability arising directly as a result of any breach of the commitments set out in paragraph 5 or 6 below by the Purchaser or a member of the Purchaser's Group and any act or omission by the Purchaser or any member of the Purchaser's Group in relation to any Employee before Closing as a result of which that Employee treats his employment as having been terminated prior to the Closing Date);

4.2.3 any amount which becomes payable to any Employee or benefit to which any Employee becomes entitled by reason of this Agreement or the matters it contemplates, including any change of control or other payment or benefit (and including any enhancement of severance terms on a subsequent termination of employment but excluding any Losses relating to any share-based incentive schemes, as to which see paragraph 11 below);

4.2.4 any failure by the Seller or any other member of the Seller's Group to comply with any obligation to inform or consult with employee representatives in connection with the matters contemplated by this Agreement (other than as a result of any failure set out in paragraph 4.3.3 below); and

4.2.5 any breach by the Seller or any other member of the Seller's Group of paragraph 4.1.2 above or paragraph 4.4, 4.5 or 10 below.



- 4.3** The Purchaser shall (for itself and for each member of the Purchaser's Group) indemnify and keep indemnified the Seller (for itself and as trustee for each other member of the Seller's Group) against all Losses (ignoring any amount in respect of Employee Benefits, as to which see Schedule 12) in respect of:
- 4.3.1** the employment of any of the Transferred Employees on and after the Closing Date (including, without limitation, any changes to terms and conditions of employment by the Purchaser or any other member of the Purchaser's Group);
  - 4.3.2** any termination of the employment of any Transferred Employees on and after the Closing Date including, but not limited to, all claims relating to severance, termination pay, pay in lieu of notice of termination and similar obligations except as contemplated under paragraph 3.2 above;
  - 4.3.3** any failure by the Purchaser or any other member of the Purchaser's Group to provide information and reasonable assistance to the Seller to enable the Seller or any other member of the Seller's Group to comply with any obligation to inform or consult with employee representatives in connection with the matters contemplated by this Agreement;
  - 4.3.4** any breach by the Purchaser or any other member of the Purchaser's Group of paragraph 4.1.1 above or paragraph 4.4 or 4.5 below; and
  - 4.3.5** any act or omission by the Purchaser or any member of the Purchaser's Group in relation to any Employee before Closing as a result of which that Employee treats his employment as having been terminated prior to the Closing Date.
- 4.4** Any amount payable to or in respect of any Transferred Employee after Closing (including without limitation amounts paid under paragraph 4.5 below) which (ignoring vesting conditions and any amount payable in respect of Employee Benefits or otherwise in accordance with Schedule 12) is referable to the period prior to Closing is payable by the Seller (for itself or on behalf of the relevant Share Seller or Business Seller). Responsibility for amounts payable which are only partly referable to the period prior to Closing (again ignoring vesting conditions) is to be shared between the Seller (for itself or on behalf of the relevant Share Seller or Business Seller) and the Purchaser (for itself or on behalf of the relevant member of the Purchaser's Group) such that the Seller bears S per cent. of the cost and the Purchaser bears P per cent., where S is the percentage of the period by reference to which the amount was earned which fell on or before the Closing Date and P is the percentage of that period which falls after the Closing Date. The Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, pay such amounts when due to the relevant Transferred Employees on or after Closing and shall deduct and/or pay and account for any Tax payable or accountable for by the employer in respect of such amounts. The Seller covenants to reimburse the Purchaser in respect of any such amount (or S per cent. of it where relevant), including any Tax payable or accountable for by the employer in respect of such amount, within 30 days of receiving notification that it has been paid to the extent such amounts are not reflected in the Closing Statement. The Seller will provide the Purchaser with all information and documentation reasonably necessary to allow such payments to be made.
- 4.5** Following the Closing Date:
- 4.5.1** the Purchaser shall, or shall procure that a member of the Purchaser's Group shall, pay a pro-rated cash bonus of an amount advised by the Seller to the Purchaser to each Transferred Employee who participated in an annual cash bonus plan immediately before the Closing Date in their first payroll payment after the Closing Date; and



- 4.5.2 where the Seller is able to determine performance, any such bonus payment made to such eligible employees by the Purchaser or a member of the Purchaser’s Group will be based on the Seller’s determination of performance to the Closing Date and pro-rated to the Closing Date; or
- 4.5.3 where the Seller is unable to determine performance (either business or individual), for example, because the Closing Date occurs near the start of the bonus year, the Seller shall calculate any such bonus payment based on a deemed achievement of performance conditions at target level pro-rated to the Closing Date; and
- 4.5.4 as soon as reasonably practicable after the Closing Date, the Purchaser shall, or shall procure that such other member of the Purchaser’s Group shall, provide such information as the Seller requires in order for the Seller to calculate the Tax payable or accountable for by the employer in respect of such bonus payments; and
- 4.5.5 the Purchaser shall, or shall procure that such other member of the Purchaser’s Group shall, deduct and/or account for any Tax payable or accountable for by the employer in respect of such bonus payments; and
- 4.5.6 the Seller shall reimburse the Purchaser for the aggregate bonuses advised by the Seller to the Purchaser which are paid pursuant to this paragraph 4.5 along with the employer’s social security contributions due in respect of such payments to the extent such amounts are not reflected in the Closing Statement.

**5 Protection of terms and conditions and termination rights post-Closing**

**5.1** Without prejudice to paragraph 5.4 below, the Purchaser shall procure that for a period of 24 months following the Closing Date:

- 5.1.1 each Transferred Employee will (for so long as such Transferred Employee continues in the same role with any member of the Purchaser’s Group save that the Purchaser shall not seek to demote any Transferred Employee to avoid the application of this provision) continue to receive at least the same basic salary; and
- 5.1.2 each Transferred Employee will continue to receive contractual benefits (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans) which the Purchaser reasonably considers to be substantially comparable, taken as a whole, to the contractual benefits (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans) of such Transferred Employee immediately prior to the Closing Date; and
- 5.1.3 no Transferred Employee will suffer a change to his overall employment terms (whether contractual or otherwise) and including, without limitation, any related to length of service (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans), which, when taken as a whole viewed in the round (including to the extent relevant alongside any other changes being made at the same time to that Transferred Employee’s employment terms), would in the Purchaser’s reasonable opinion acting in good faith, be regarded as materially detrimental.



- 5.2** The Purchaser confirms that, following the Closing Date and for so long as the Transferred Employees continue in the employment of any member of the Purchaser's Group, the Transferred Employees will be eligible to participate in those share-based incentive schemes or other long-term incentive plans that are operated by the Purchaser or relevant members of the Purchaser's Group from time to time for employees of equivalent status, subject always to the rules of such share-based incentive schemes or long-term incentive plans and any qualifying conditions.
- 5.3** The Seller shall provide or shall cause to be provided to any member of the Purchaser's Group such information reasonably requested in writing by any member of the Purchaser's Group to enable the Purchaser to comply with its obligations in paragraph 5.1 above.
- 5.4** If the employment of any Transferred Employee is terminated by reason of redundancy within 24 months following the Closing Date, the Purchaser shall procure that there shall be provided to such Transferred Employee benefits which are equivalent to those provided under such redundancy and severance policies and benefits (whether contractual or otherwise and giving due credit to the Transferred Employees for any additional service or earnings from the Closing Date onwards) (but excluding Employee Benefits) as were applicable in respect of the particular Transferred Employee immediately prior to the Closing Date, to the extent that such policies and benefits are notified in writing to the Purchaser prior to the Closing Date. If, at any time during the 24 month period immediately following the Closing Date, the Purchaser places any Transferred Employee into a redundancy selection process, the Purchaser undertakes that, in determining such selection, it will or will procure that the relevant member of the Purchaser's Group will take no account of the costs of dismissal of any person within the relevant selection pool (including such Transferred Employee).
- 5.5** For the avoidance of doubt, the provisions of this paragraph 5 are without prejudice to the operation of any rule of law in relation to the terms and conditions of employment of the Transferred Employees.

**6 Benefits arrangements/service continuity**

- 6.1** Each Transferred Employee shall have their service with the Seller's Group and their respective predecessors recognised under any employee benefit plans or arrangements of the Purchaser's Group for all purposes of eligibility, vesting and accrual of benefits to the extent past service was recognised for such Transferred Employee under a comparable plan or arrangement immediately prior to the Closing Date. Notwithstanding the foregoing, nothing in this paragraph 6.1 shall be construed to require recognition of service for the purposes of calculation of Employee Benefits or that would result in:
- 6.1.1** any additional liability being assumed by the Purchaser's Group in respect of Employee Benefits other than subject to and in accordance with the provisions of Schedule 12;
  - 6.1.2** duplication of benefit;
  - 6.1.3** recognition of service for any purposes under any plan or arrangement for which participation, service and/or benefits accrual is frozen or any post-retirement medical plan; or
  - 6.1.4** recognition of service under a newly established plan or arrangement for which prior service is not taken into account for employees of the Purchaser's Group generally.



- 6.2 Without limiting the foregoing, with respect to the Transferred Employees, the Purchaser shall, or shall cause such other member of the Purchaser’s Group to, be responsible for all paid time off benefits, including vacation pay, sick pay, banked leave, flexitime and other payments for time off of normal work hours accrued by the Transferred Employees up to the Closing Date, provided that, if the value of such matters (excluding normal accrued but untaken annual leave for the year current as at Closing) would exceed US\$7.5 million if accrued for in a balance sheet in accordance with IFRS, then the Seller shall compensate the Purchaser for such matters (again excluding normal accrued but untaken annual leave for the year current as at Closing) by paying the Purchaser an amount equal to that value, less any amount actually accrued and transferred to the Purchaser for such matters.
- 6.3 With respect to any welfare plan maintained by the Purchaser or any other member of the Purchaser’s Group in which Transferred Employees are eligible to participate after the Closing Date, the Purchaser shall:
  - 6.3.1 waive all limitations as to pre-existing conditions, exclusions, evidence of insurability provisions, waiting periods with respect to such participation and coverage requirements or similar provisions under a Purchaser’s benefit plans that are welfare plans (as defined in section 3(1) of ERISA or any equivalent Applicable Law) applicable to such employees to the extent such conditions, exclusions and waiting periods or other provisions were satisfied or did not apply to such employees under welfare plans maintained by the Seller or other members of the Seller’s Group prior to the Closing Date; and
  - 6.3.2 provide each Transferred Employee with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any analogous deductible or out-of-pocket requirements to the extent applicable under any such plan in the year in which Closing occurs, to the extent credited under the welfare plans maintained by the Seller or other members of the Seller’s Group prior to the Closing Date.

7 US Transferred Employees

7.1 To the extent the Purchaser or any other member of the Purchaser’s Group maintains a health care and dependent care flexible spending account arrangement pursuant to section 125 or 129 of the Code (collectively, “FSAs”), the Purchaser will use commercially reasonable efforts to honour the elections of all Transferred Employees who are employed in the United States and/or covered by US Benefit Plans (“US Transferred Employees”) under the FSAs of any relevant member of the Seller’s Group (“Relevant Employer’s FSAs”), as in effect immediately prior to the Closing Date, and the Purchaser will use commercially reasonable efforts to assume responsibility for administering all reimbursement claims of US Transferred Employees with respect to the calendar year in which the Closing Date occurs that are submitted for payment on or after the Closing Date, whether arising before, on or after the Closing Date, under the Purchaser’s FSAs. As soon as practicable but no more than 45 days following the Closing Date, the Seller will cause to be transferred to the Purchaser an amount in cash equal to (i) the sum of all contributions to the Relevant Employer’s FSAs with respect to the calendar year in which the Closing Date occurs by or on behalf of the US Transferred Employees prior to the Closing Date, reduced by (ii) the sum of all claims incurred in the calendar year in which the Closing Date occurs that are submitted to the Relevant Employer for payment prior to the Closing Date and paid by the Relevant Employer’s FSAs with respect to such US Transferred Employees prior to the date of such cash transfer to the Purchaser; provided, however, if this calculation results in a negative number, then the Purchaser will pay to the Seller (on behalf of the Relevant Employer) as soon as practicable following the end of the calendar year in which the Closing Date occurs, the amount by which (ii) exceeds (i).



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**7.2** With effect on and from the Closing Date, the Purchaser shall, or shall procure that such other members of the Purchaser's Group shall, assume the responsibility and obligation to provide COBRA continuation coverage to all US Transferred Employees whose employment is terminated after the Closing Date and their eligible dependents.

**8 Shared Employees**

After the date of this Agreement, the Seller shall identify any Shared Employees who work wholly or substantially in the Business (as carried on by the Vaccines Group) but who are not Vaccines Group Company Employees or Vaccines Business Employees. In consultation with the Purchaser, the Seller will procure that a Vaccines Group Company will offer employment to any such employee before the Closing Date, to take effect from immediately before the Closing Date (provided that such employee continues to work wholly or substantially in the Business (as carried on by the Vaccines Group) until the Closing Date) or, where that is not reasonably practicable or there is no Vaccines Group Company in the country in which the employee works, the Purchaser shall treat such employee as if he or she were a Vaccines Business Employee (provided that such employee continues to work wholly or substantially in the Business (as carried on by the Vaccines Group) until the Closing Date) and the provisions of this Schedule 11 will apply to him or her and further provided, however, that these arrangements will apply to no more than 10 full time equivalent employees.

**9 International Assignees**

Where Applicable Law does not provide for the automatic transfer of employment of any International Assignee and/or the other terms governing their international assignment, the Purchaser shall assume and agree to be bound by the individual contract of employment and such other terms governing their international assignment including any tax equalisation agreement entered into between an International Assignee and a member of the Seller's Group provided that such employee becomes a Transferred Employee and the Seller has disclosed to the Purchaser the template international assignment terms of the Seller's Group prior to the Closing Date.

**10 Liability for retention arrangements**

The Seller or any other member of the Seller's Group has or will put in place certain retention arrangements (in the form of cash) to retain key employees in connection with the matters contemplated by this Agreement. To the extent that details of such retention arrangements are disclosed to the Purchaser prior to the Closing Date, and in respect of arrangements put in place after the date of this Agreement, with the agreement of the Purchaser, the Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, make the cash retention payments when due to the relevant Transferred Employees on or after Closing and shall deduct and/or pay and account for any Tax payable or accountable for by the employer in respect of such cash payments. The Seller covenants to reimburse the Purchaser in respect of any cash retention payments, whether or not disclosed (including any Tax payable or accountable for by the employer in respect of such payments), which are put in place prior to the Closing Date. The Seller acknowledges that the Purchaser may ask the Seller to put in place more generous retention arrangements than those proposed by the Seller (including, where practicable, putting in place retention arrangements which last for a period of at least six months following Closing) and will not unreasonably withhold consent to such arrangements provided that any incremental cost of such arrangements over and above the cost of the Seller's own proposals will be for the Purchaser's account. The Seller will provide the Purchaser with all information and documentation reasonably necessary to allow such payments to be made.



**11 Share-based incentive schemes**

**11.1** This paragraph 11 applies notwithstanding any other provision of this Agreement.

**11.2** Subject to paragraph 11.11, the Seller undertakes to use its best endeavours to ensure that share-based awards held by Transferred Employees pursuant to a share-based incentive scheme operated by the Seller or another member of the Seller's Group ("**Relevant Awards**") shall be treated in a manner consistent with the "good leaver treatment" in the share-based incentive schemes operated by the Purchaser, to the extent possible under the relevant plan rules and any Applicable Law. Where Relevant Awards are subject to performance (or other) conditions and it is not possible to determine whether or not such conditions have been met at the applicable early vesting date (or within a reasonable period thereafter), the Seller and Purchaser agree that performance shall be deemed "on target".

For the avoidance of doubt:

- (a) where necessary and subject to (b), the Seller shall rely on the exercise of existing discretions in the relevant plan rules and (provided the approval of the Seller's shareholders is not required) shall be expected to amend the relevant plan rules to achieve the "good leaver treatment";
- (b) the Seller (or relevant member of the Seller's Group) shall not take any action which would require shareholder approval or which could trigger any significant legal, Tax or operational issues for the relevant Transferred Employee (including the loss of any Tax-favourable treatment), the Seller's Group or the Purchaser's Group.

For the purposes of this paragraph 11.2, the "good leaver treatment" shall be that:

- (c) Relevant Awards shall not lapse or be forfeited as a result of Closing except to the extent that they do not vest in accordance with (D) and/or (E) below;
- (d) Relevant Awards shall vest early as a result of Closing and shall be time pro-rated to take account of the reduced period of time, as a proportion of the original vesting period, that the relevant Transferred Employee worked within the Seller's Group (calculated on the basis of the number of years of service as at the Closing Date, where part years of service are rounded up); and
- (e) Relevant Awards that vest after the Closing Date shall remain subject to any relevant performance (or other) conditions, adjusted as necessary to take account of Closing and measured up to the applicable early vesting date.

For the purposes of this paragraph 11.2, "on target" performance shall not be construed as permitting share-based awards to vest in full.



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- 11.3** The Seller agrees to indemnify the Purchaser (or relevant member of the Purchaser's Group) for any Liabilities borne by the Purchaser's Group in connection with the Relevant Awards, including any Tax. The Purchaser agrees to use its best endeavours to seek any applicable Tax relief in respect of the Relevant Awards and to indemnify the Seller in respect of any Tax relief obtained, provided always that the Seller provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner.
- 11.4** Subject to paragraph 11.5, the Seller undertakes to inform the Purchaser of the vesting or exercise (as applicable) of the Relevant Awards and to provide, in a timely manner, details of the Relevant Awards that so vest or are exercised so that the Purchaser's Group can make any applicable withholdings for Tax and pay any Tax for which the Purchaser's Group is liable in respect of the Relevant Awards to the relevant Tax Authority within any applicable timescale.
- 11.5** To the extent permitted under the relevant plan rules and any Applicable Law, the Seller undertakes to sell such number of the shares underlying the Relevant Awards as may be necessary for the sale proceeds to satisfy any applicable Tax withholdings and to pay such amounts to the Purchaser in sufficient time for the Purchaser to pay such Tax to the relevant Tax Authority within any applicable timescale, provided always that the Purchaser provides the Seller with any information that the Seller may reasonably request in this respect in a timely manner.
- 11.6** The Seller undertakes to procure that each relevant member of the Seller's Group will pay any Tax for which such member is liable in respect of the Relevant Awards to the relevant Tax Authority within any applicable timescale.
- 11.7** The Seller undertakes to procure the completion of any relevant Tax Return in respect of the Relevant Awards and to procure the submission of any such Tax Return to the relevant Tax Authority within any applicable timescale.
- 11.8** This paragraph shall apply where Relevant Awards lapse or are forfeited (or will lapse or be forfeited) either in whole or in part as a result of Closing. As soon as practicable following Closing (and, in any event, by the later of 30 days from the Closing Date and 30 days from the first date after the Closing Date when the granting of share-based awards is not prevented by dealing restrictions, subject in both cases to the relevant plan rules and any Applicable Law), the Purchaser (or member of the Purchaser's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of the Purchaser substantially equal in value (valued as at the date of grant) to the value of the portion of their Relevant Awards which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing (valued as at the Closing Date), where relevant, disregarding any loss (or expected loss) of Tax-favourable treatment (each a "**Compensation Award**"). To the extent that (i) it could reasonably have been expected that any related matching share award and/or free share award would have been granted to a Transferred Employee following Closing in connection with any Relevant Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing (each a "**Relevant Matching Award**"), and (ii) such Relevant Matching Award has not been granted (or will not be granted) as a result of Closing, on or around the date on which such Relevant Matching Award would, in the ordinary course of business, have been made by the Seller (or member of the Seller's Group), the Purchaser (or member of the Purchaser's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of the Purchaser substantially equal in value (valued as at the date of grant) to the value of such Relevant Matching Award (valued as at the date of grant of the related Matching Award, defined below), where relevant, disregarding any loss (or expected loss) of Tax-favourable treatment (each a "**Matching Award**"), subject to the relevant plan rules and any Applicable Law.



Such Compensation Awards and Matching Awards shall be granted pursuant to the rules of whichever share-based incentive plan operated by the Purchaser's Group at the time of grant the Purchaser considers most closely aligned to the share-based incentive plan operated by the Seller's Group pursuant to which the related Relevant Award had been granted (or related Relevant Matching Award would have been granted) but will vest according to a vesting schedule substantially similar to the vesting schedule that would have otherwise applied to the related Relevant Award or related Relevant Matching Award if Closing had not occurred. In such cases:

- (a) the Purchaser undertakes to seek any applicable Tax relief in respect of the Compensation Awards and Matching Awards and to indemnify the Seller in respect of 50 per cent of any Tax relief obtained, provided always that the Seller provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner;
- (b) where a Compensation Award or Matching Award is granted in the form of a restricted share award, the Purchaser undertakes to obtain a valid election pursuant to section 431 of the Income Tax (Earnings and Pensions) Act 2003 (or, as applicable, any similar Tax election that is available pursuant to any Applicable Law in another jurisdiction), provided that, if either party makes representations to the other party to waive this obligation in respect of certain Compensation Awards or certain Matching Awards and the other party consents to such waiver (such consent not to be unreasonably withheld), this paragraph (B) shall not apply in respect of such Compensation Awards or Matching Awards; and
- (c) the Seller agrees to indemnify the Purchaser (or relevant member of the Purchaser's Group) for any Liabilities borne by the Purchaser's Group in connection with such Compensation Awards and Matching Awards, including any Tax, provided that:
  - (i) the Seller shall not indemnify the Purchaser (or relevant member of the Purchaser's Group) to the extent that the Purchaser (or member of the Purchaser's Group) compensates Transferred Employees for any loss (or expected loss) of Tax-favourable treatment in respect of Relevant Awards or for any Liabilities to Tax as contemplated in paragraph 11.9 below;
  - (ii) the Seller only agrees to indemnify the Purchaser (or member of the Purchaser's Group) to a maximum of 50 per cent of the total of (i) the value of the portion of such Relevant Awards that lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing, (ii) the value of the Relevant Matching Awards, and (iii) any related Liabilities, including any Tax; and
  - (iii) for the avoidance of doubt, the Seller shall not indemnify the Purchaser (or member of the Purchaser's Group) for any lapse or forfeiture (or expected lapse or forfeiture) due to a failure to meet any applicable performance (or other) conditions.



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For these purposes, the compensation in respect of the portion of a Relevant Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing shall not exceed the difference between (i) the value of the Relevant Award which could reasonably have been expected to vest on the normal vesting date but for Closing (subject, where applicable, to performance (or other) conditions), and (ii) the value of the Relevant Award which actually vested (or will vest) as a result of Closing.

For the purposes of this paragraph 11.8:

- (a) the portion of a Relevant Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing shall be valued on the basis of the average price of an ordinary share in the capital of the Seller over the five trading days immediately prior to Closing;
- (b) the value of a Compensation Award to be granted shall be valued on the basis of the average price of an ordinary share in the capital of the Purchaser over the five trading days immediately prior to the date of grant;
- (c) the value of a Relevant Matching Award shall be valued on the basis of the average price of an ordinary share in the capital of the Seller over the five trading days immediately prior to the date of grant of the related Matching Award;
- (d) the value of a Matching Award to be granted shall be valued on the basis of the average price of an ordinary share in the capital of the Purchaser over the five trading days immediately prior to the date of grant; and
- (e) any currency conversion shall be made in accordance with Clause 1.13.1 of this Agreement.

**11.9** To the extent that any payment to a Transferred Employee (whether by the Seller's Group or by the Purchaser's Group) would trigger Liabilities to Tax under section 280G of the United States Internal Revenue Code ("**Section 280G**"), the relevant Transferred Employee shall be allowed to choose whether to accept the full payment (and pay any relevant Section 280G Tax) or to receive such lower payment as may be necessary in order to fall below the Section 280G threshold for Tax. To the extent that any similar Tax would arise pursuant to any Applicable Law in another jurisdiction, this paragraph 11.9 shall apply mutatis mutandis.

**11.10** This paragraph shall apply where: (i) a Transferred Employee would, in the ordinary course of business, have been granted a share-based award pursuant to a share-based incentive scheme operated by the Seller or another member of the Seller's Group on the basis of performance criteria linked to the Seller's Group's 2014 financial year (which may, for the avoidance of doubt, be business and/or individual performance criteria and assessment) (each a "**2014 Performance Award**"), and (ii) Closing occurs prior to the grant of such 2014 Performance Award. As soon as practicable following Closing (and, in any event, by the later of 30 days from the Closing Date and 30 days from the date when the value of each 2014 Performance Award has been determined), the Seller shall notify the Purchaser in writing of the value of each 2014 Performance Award and under which share-based incentive plan operated by the Seller's Group the related 2014 Performance Award would have been granted. As soon as practicable following the receipt of such notice (and, in any event, by the later of 30 days from the receipt of such notice and 30 days from the first date following the receipt of such notice when the granting of share-based awards is not prevented by dealing restrictions, subject in both cases to the relevant plan rules and any Applicable Law), the Purchaser (or member of the Purchaser's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of the Purchaser substantially equal in value (valued as at the date of grant) to the value of the 2014 Performance Award which would have been granted but for the occurrence of Closing. Such 2014 Performance Awards shall be granted pursuant to the rules of whichever share-based incentive plan operated by the Purchaser's Group at the time of grant the Purchaser considers most closely aligned to the share-based incentive plan operated by the Seller's Group pursuant to which the related 2014 Performance Award would have been granted. In such cases:

- (a) the Purchaser undertakes to seek any applicable Tax relief in respect of the 2014 Performance Awards and to indemnify the Seller in respect of any Tax relief obtained, provided always that the Seller provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner;



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- (b) where a 2014 Performance Award is granted in the form of a restricted share award, the Purchaser undertakes to obtain a valid election pursuant to section 431 of the Income Tax (Earnings and Pensions) Act 2003 (or, as applicable, any similar Tax election that is available pursuant to any Applicable Law in another jurisdiction), provided that, if either party makes representations to the other party to waive this obligation in respect of certain 2014 Performance Awards and the other party consents to such waiver (such consent not to be unreasonably withheld), this paragraph (b) shall not apply in respect of such 2014 Performance Awards; and
- (c) the Seller agrees to indemnify the Purchaser (or relevant member of the Purchaser's Group) for any Liabilities borne by the Purchaser's Group in connection with such 2014 Performance Awards, including any Tax.

The grant of a 2014 Performance Award to a Transferred Employee shall be taken into account by the Purchaser when determining the extent to which that Transferred Employee shall participate in incentive arrangements (other than any Compensation Award or Matching Award) operated by the Purchaser's Group following Closing.

For the purposes of this paragraph 11.10:

- (d) the value of a 2014 Performance Award to be granted shall: (i) be determined by the Seller acting reasonably and in good faith, (ii) be consistent with past practice and with the level of similar awards granted to employees remaining in service within the Seller's Group, (iii) take into account the relevant business and/or individual performance criteria linked to the Seller's Group's 2014 financial year, and (iv) if Closing occurs before 31 December 2014, be time pro-rated to take account of the reduced period of time, as a proportion of the Seller's Group's 2014 financial year, that the relevant Transferred Employee worked within the Seller's Group (calculated on the basis of the number of complete months of service as at the Closing Date);
- (e) the number of shares to be placed under a 2014 Performance Award shall be valued on the basis of the average price of an ordinary share in the capital of the Purchaser over the five trading days immediately prior to the date of grant; and



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(f) any currency conversion shall be made in accordance with Clause 1.13.1 of this Agreement.

**11.11** This paragraph shall apply if any member of the Seller's Group's corporate executive team (or similar body) is a Transferred Employee (each a "**CET Member**"). The treatment of share-based awards held by CET members shall be determined by the remuneration committee of the board of directors of the Seller (acting reasonably and in good faith and following informal consultation with the Purchaser), subject to the rules of any relevant share-based incentive scheme and any Applicable Law, and the provisions of paragraphs 11.8 and 11.10 shall apply.



**Schedule 12**  
**Employee Benefits**  
**(Clause 2.4.2)**

In this Schedule 12:

“**Employee Benefits**” means benefits to or in respect of any current or former employee, including without limitation, any pension, early retirement, disability, death benefit, long service awards, termination indemnity (such as Italian TFR) or post-retirement medical benefits or deferred compensation linked to retirement, disability or death benefits or old age part-time benefits (such as German ATZ) and jubilee payments;

“**Employee Benefit Liabilities**” means liabilities and obligations (whether funded or unfunded) in respect of any employee benefit promise, scheme, plan, fund, program, policy, practice or other individual or collective arrangement providing Employee Benefits;

“**Partial Liquidation Longstop Date**” means, in relation to each of Novartis Pensionskasse 1, Novartis Pensionskasse 2, and Kaderkasse Novartis, the earlier of (i) the date after Closing on which the plan undergoes partial liquidation, and (ii) 12 months after Closing;

“**Purchaser Funding Assumptions**” means, in relation to any Transferred Employee Benefits, where a member of the Purchaser’s Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc), and there is a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund those similar or comparable benefits to a funding target which is determined by reference to a method and assumptions other than IFRS (such as would, for example, be the case in relation to UK HMRC-registered defined benefit pension obligations), then that method and those assumptions as in force in relation to those similar or comparable benefits immediately prior to the date of this Agreement (so, taking the example of UK defined benefit obligations, this would be the method and assumptions used to determine the relevant plan’s technical provisions as at the date of this Agreement – regardless of whether the plan is in fact fully funded on that basis at any relevant time);

“**Purchaser IFRS Assumptions**” means, in relation to any Transferred Employee Benefits, where a member of the Purchaser’s Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc), the method and assumptions used most recently prior to the date of this Agreement to value those similar or comparable benefits by the Purchaser’s Group (or any relevant member thereof) for IFRS accounting purposes;

“**Seller Funding Assumptions**” means, in relation to any Transferred Employee Benefits, if there is a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund those Transferred Employee Benefits to a funding target which is determined by reference to a method and assumptions other than IFRS (such as would, for example, be the case in relation to UK HMRC-registered defined benefit pension obligations), then that method and those assumptions as in force in relation to those Transferred Employee Benefits immediately prior to the date of this Agreement (so, taking the example of UK defined benefit obligations, this would be the method and assumptions used to determine the relevant plan’s technical provisions as at the date of this Agreement – regardless of whether the plan is in fact fully funded on that basis at any relevant time);



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“**Seller IFRS Assumptions**” means, in relation to any Transferred Employee Benefits, the method and assumptions used by the Seller’s Group (or the most relevant member thereof) most recently prior to the date of this Agreement to value those Transferred Employee Benefits for IFRS accounting purposes;

“**Swiss Actuary**” means an actuary: (a) who can reasonably be viewed: (i) as independent of both the Purchaser and the Seller; and (ii) as familiar with Swiss pension issues; and (b) whom the Purchaser and Seller have agreed should be jointly appointed by them for the purposes of determining the Swiss Assumptions or who in default of such agreement has been appointed by the Swiss Association of Actuaries or other industry body of actuaries in Switzerland as agreed by the Seller and the Purchaser; and

“**Swiss Assumptions**” means, in relation to any Transferred Employee Benefits in Switzerland, the Seller IFRS Assumptions adjusted:

- (a) by replacing any assumed “cash balance” annuity conversion rate in the Seller IFRS Assumptions with a conversion rate which the Swiss Actuary certifies to the Purchaser and the Seller as representing a reasonable estimate of the likely effective overall blended conversion rate which will apply in relation to the Transferred Employee Benefits in question, having regard to the changes to the rate which can (having regard to longevity projections, legal and governance constraints around Swiss pension structures and such other matters as the Swiss Actuary considers relevant) in the Swiss Actuary’s opinion reasonably be expected to occur during the expected service lives of the Transferred Employees to whom the Transferred Employee Benefits relate, and weighting the impact of those changes by reference to the ages of the relevant employees (and so the extent to which the changes will in fact operate to reduce the effective liability on the Purchaser); and
- (b) by removing any reserve for death or disability benefits to the extent that the Swiss Actuary certifies to the Purchaser and the Seller that it constitutes a reserve for liabilities to and in respect of the relevant Transferred Employees which could reasonably be externally insured by the Purchaser without introducing a new ongoing cost on the Purchaser which was not reflected in the Accounts.

For the purposes of each of the Purchaser Funding Assumptions, the Purchaser IFRS Assumptions, the Seller Funding Assumptions, the Seller IFRS Assumptions and the Swiss Assumptions, any economic and financial assumptions which are based (whether expressly or implicitly) on yields, rates or indices shall be updated for the purposes of such definitions to take account of those yields, rates or indices as at Closing (or the latest practicable time prior to Closing).

- 1 Except to the extent otherwise requested by the Seller and expressly agreed by the Purchaser before Closing (such Purchaser agreement not to be unreasonably withheld to the extent that it is not reasonably possible for the Seller or its Affiliates to retain the relevant Employee Benefit Liabilities – for example, where a Vaccines Group Company operates its own standalone arrangement, liability for which cannot lawfully be assumed by another member of the Seller’s Group, or where liability unavoidably transfers by operation of law under European Council Directive 2001/23/EC or its local implementing legislation), any Employee Benefit Liabilities in respect of service in the Vaccines Group or with any member of the Seller’s Group (including any Vaccines Group Company) or in any plan or arrangement in which any member of the Seller’s Group (including any Vaccines Group Company) participates or has participated:



- (a) (in the case of a Transferred Employee) prior to Closing; or
- (b) (in the case of any other person) at any time,

(together, “**Pre-Closing EB Liabilities**”) will stay with or be assumed by the Seller or its Affiliates (excluding any Vaccines Group Company) and the Seller shall fully indemnify the Purchaser and its Affiliates (which for the avoidance of doubt in the period from Closing includes any Vaccines Group Company) against any such Employee Benefit Liabilities and against any liabilities and obligations to or in respect of any plan or arrangement for the provision of Employee Benefits in which any member of the Seller’s Group (including any Vaccines Group Company) participates or participated prior to Closing. For the avoidance of doubt, the Purchaser’s agreement under this paragraph 1 may, if the Purchaser so determines, relate only to certain specified categories or tranches of Pre-Closing EB Liabilities under a particular benefit programme (in other words, it does not need to be “all or nothing”), in which case it is only those specified Pre-Closing EB Liabilities which are excluded from the scope of the Purchaser’s indemnity entitlement hereunder.

2 Where and to the extent that the Purchaser agrees under paragraph 1 that any Pre-Closing EB Liabilities may transfer to or remain with the Purchaser and/or its Affiliates (which for the avoidance of doubt in the period from Closing includes any Vaccines Group Company) (such Pre-Closing EB Liabilities being the “**Transferred Employee Benefit Liabilities**” and the benefits to which they relate being the “**Transferred Employee Benefits**”), the Purchaser will be compensated in respect of such Transferred Employee Benefit Liabilities as set out in the rest of this Schedule 12. Subject to being so compensated but without prejudice to paragraphs 9 and 11, the Purchaser shall, or shall procure that its relevant Affiliate shall, assume, with a full discharge for the Seller and its Affiliates, the Transferred Employee Benefit Liabilities. Without limiting the Purchaser’s obligation not unreasonably to withhold consent under paragraph 1 above, the parties hereby acknowledge that it would not be reasonably possible for the Seller or its Affiliates to retain those Pre-Closing EB Liabilities which attach to Vaccines Group Companies in Germany or Switzerland. So subject to appropriate identification during the period before Closing of such liabilities and to the operation of the compensation mechanism set out in this Schedule 12, they will become Transferred Employee Benefit Liabilities. The Purchaser also acknowledges its agreement to the principle that the post-retirement medical healthcare plan to which it admits US Transferred Employees who immediately before Closing were members of such a plan will take account of periods of employment with the Seller’s Group to the extent previously recognised under the equivalent Seller’s Group plan for the purposes of determining eligibility, contributions, and vesting; again, therefore, subject to appropriate identification during the period before Closing of such liabilities and to the operation of the compensation mechanism set out in this Schedule 12, they will become Transferred Employee Benefit Liabilities.

**United Kingdom**

For the avoidance of doubt, it is also agreed that no UK defined benefit pension liabilities are to be Transferred Employee Benefit Liabilities.

- 3 The value of the Transferred Employee Benefit Liabilities shall be determined on employee census data and plan provision as at Closing on:
  - 3.1 in relation to any Transferred Employee Benefits in Switzerland, the Swiss Assumptions; and



- 3.2** in relation to any other Transferred Employee Benefits, the Seller IFRS Assumptions, PROVIDED that if any of the following values is available and is greater than the value derived using the Seller IFRS Assumptions then that value will be used instead (and if more than one of these values is available then the one which would place the greatest value on the relevant Transferred Employee Benefit Liabilities will be used):
- 3.2.1** if a member of the Purchaser's Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc), the value which is midway between the value based on the Seller IFRS Assumptions and the Purchaser IFRS Assumptions;
- 3.2.2** if there is a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund the Transferred Employee Benefits to a funding target which is determined by reference to a method and assumptions other than IFRS, the value derived using the Seller Funding Assumptions; and
- 3.2.3** if there is both: (i) a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund the Transferred Employee Benefits to a funding target which is determined by reference to a method and assumptions other than IFRS; and (ii) a member of the Purchaser's Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc), the value which is midway between the value based on the Seller Funding Assumptions and the Purchaser Funding Assumptions.

The market value as at Closing of any underlying assets related to the Transferred Employee Benefit Liabilities which are or are to be transferred as per paragraph 8 below will be deducted from the value of the Transferred Employee Benefit Liabilities to the extent such assets are or will be available to the Purchaser or its Affiliates to meet such liabilities and the remaining value of the Transferred Employee Benefit Liabilities (if any) is the "Employee Benefit Indemnification Amount". Such determination shall be carried out on a country-by-country basis and, where necessary, on a plan-by-plan basis. For the avoidance of doubt, in relation to Switzerland, the calculation shall, if partial liquidation occurs in relation to any of the Transferred Employee Benefit Liabilities by the Partial Liquidation Longstop Date, make allowance for the assets thereby transferred assuming that they will be available to meet such liabilities. If any Employee Benefit Indemnification Amount is greater than the estimate of such amount determined for the purposes of the Estimated Employee Benefit Adjustment (or, where no such estimate was made, greater than zero), the Seller shall pay or procure payment, by way of a reduction in the Purchase Price attributable to the relevant Shares or the particular part of the Vaccines Group to which the payment relates, an amount equal to the difference (or, where no such estimate was made, such amount) to the Purchaser, or at the request of the Purchaser to an Affiliate of the Purchaser, as compensation for the Transferred Employee Benefit Liabilities. If any Employee Benefit Indemnification Amount is less than the estimate of such amount determined for the purposes of the Estimated Employee Benefit Adjustment (if any), the Purchaser shall pay an amount equal to the difference to the Seller.



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- 4** The Seller and its Affiliates shall, within 45 days after Closing (or, in the case of Switzerland, 45 days after the Partial Liquidation Longstop Date), provide its actuary, the Swiss Actuary and the actuary chosen by the Purchaser with all relevant plan, asset, assumptions and employee census information needed to calculate the Employee Benefit Indemnification Amounts in respect of any Transferred Vaccines Business Employees. The actuary chosen by the Seller shall provide the actuary chosen by the Purchaser with its calculation of the Employee Benefit Indemnification Amounts (including, but not limited to, any supporting documentation on which it relied as well as the methodologies it employed in calculating the Employee Benefit Indemnification Amounts), on a plan-by-plan basis, within 90 days following Closing (or, in the case of Switzerland, 90 days after the Partial Liquidation Longstop Date). The actuary chosen by the Purchaser shall review the calculation of the Employee Benefit Indemnification Amounts of the Seller's actuary within 120 days following Closing (or, in the case of Switzerland, 120 days after the Partial Liquidation Longstop Date). The Employee Benefit Indemnification Amounts shall be determined, on a plan-by-plan basis, by mutual agreement between the parties within 180 days following the Closing Date (or, in the case of Switzerland, 180 days after the Partial Liquidation Longstop Date).
- 5** If the parties cannot agree on any Employee Benefit Indemnification Amount within the 180-day period referred to in paragraph 4, the parties shall appoint within 5 days an independent actuary acceptable to both parties, or such actuary shall be selected by the President of the Institute and Faculty of Actuaries in the UK if they cannot agree, and the independent actuary thus appointed shall review their calculations and, within 75 days after appointment, render a final and binding decision on the amount of that Employee Benefit Indemnification Amount, and, in making such decision, shall be limited to adopting the position taken by either one of the parties. The cost of any independent actuary shall be borne jointly by the parties.
- 6** In connection with the procedures referred to in this Schedule 12, the parties shall provide each other and the actuaries referred to in this Schedule 12 with access to the relevant business records and other relevant documents and information as may reasonably be requested. All documents, records and information provided for the purposes of this Schedule 12 must be accurate and complete in all material respects.
- 7** Each Employee Benefit Indemnification Amount shall be paid by the Seller (by way of a reduction in the Purchase Price attributable to the relevant Shares or the particular part of the Vaccines Group to which the payment relates) within 14 days following its final determination. The Seller may make an accelerated or advance payment at its own discretion (which, for the avoidance of doubt, includes in relation to each Employee Benefit Indemnification Amount so much (if any) of the Estimated Employee Benefit Adjustment as the Seller notified pursuant to Clause 6.4 was intended to relate to that Employee Benefit Indemnification Amount). Each Employee Benefit Indemnification Amount shall include interest calculated from (and including) the Closing Date to (and including) the date of payment at a rate per annum of LIBOR (but where amounts are prepaid or paid in stages or treated as paid via inclusion in the Estimated Employee Benefit Adjustment then the interest will cease to accrue on so much of the Employee Benefit Indemnification Amount as has been paid). Such interest shall accrue from day to day. Any such payment shall be made in US dollars (and any underlying values shall be expressed in US dollars) and any currency other than US dollars shall be converted into US dollars at the exchange rates determined in accordance with Clause 1.13 of this Agreement on the Closing Date.
- 8** To the extent (if any) that there are any Transferred Employee Benefit Liabilities which prior to Closing were externally funded by assets held in a trust or other vehicle established for the purposes of meeting such Transferred Employee Benefit Liabilities, the Purchaser will, if requested by the Seller before Closing and unless it is not reasonably practicable to do so, establish or nominate a trust or other vehicle which is capable of receiving a transfer of assets from the pre-Closing trust or other vehicle to the extent that such assets relate to the Transferred Employee Benefit Liabilities.



- 9 If, within one year of Closing, the Seller or the Purchaser notifies the other that the membership or other benefit data (the “**Data**”) used for calculating any Employee Benefit Indemnification Amount may be inaccurate, then a “**Data Dispute**” has arisen and the following provisions shall apply:
- 9.1 On such notification, the Seller shall procure that its actuary and the Purchaser shall procure that its actuary consult each other with a view to agreeing whether the Data is inaccurate and if so, what the accurate Data should be. If the Seller’s actuary and the Purchaser’s actuary agree that the Data is inaccurate, they will jointly certify this to be the case and advise on what the accurate Data should be. The notification is deemed to have occurred on the date of the certification.
- 9.2 If the Seller’s actuary and the Purchaser’s actuary fail to agree whether the Data is inaccurate within 60 days of the notification by one party to the other that the Data may be inaccurate, paragraph 5 shall apply mutatis mutandis. The notification is deemed to have occurred when the independent actuary advises that the Data is inaccurate and what the accurate Data should be.
- 9.3 On the occurrence of the Data Dispute, the Seller and the Purchaser shall respectively procure that a valuation of the relevant Employee Benefit Indemnification Amount is carried out in accordance with paragraphs 3 and 4 (mutatis mutandis) but on the basis of the accurate Data as agreed under paragraph 9.1 or determined under paragraph 9.2.
- 9.4 If as a consequence of paragraph 9.3, the Seller has paid to the Purchaser an amount which on the basis of the further valuation is not payable, such amount (the “**Overpayment**”) shall be repaid within 21 days of the amount of the Overpayment being agreed or determined. Any such payment shall bear interest calculated from (and including) the date the Overpayment was made to (and including) the date the payment is made in full in accordance with this paragraph 9.4 at a rate per annum of LIBOR. Such interest shall accrue from day to day.
- 9.5 If as a consequence of paragraph 9.3, the Seller has not paid to the Purchaser an amount which on the basis of the further valuation is payable, such amount (the “**Outstanding Amount**”) shall be paid within 21 days of the amount of the Outstanding Amount being agreed or determined. Any such payment shall bear interest calculated from (and including) the Closing Date to (and including) the date the payment is made in full in accordance with this paragraph 9.5 at a rate per annum of LIBOR. Such interest shall accrue from day to day.
- 10 Except as otherwise agreed by the Seller, the Purchaser shall where a trust or other vehicle has been established under paragraph 8, procure that all of the assets transferred as envisaged by paragraph 8 are paid into such trust or other vehicle. If, after such payment or transfer, or after payment of an Employee Benefit Indemnification Amount or after making an Estimated Employee Benefit Adjustment, the Purchaser and/or its Affiliates achieves a reduction in its liability to any Tax in respect of or in connection with the payment or transfer, the Purchaser shall pay to Seller (for itself or on behalf of the relevant Share Seller or Business Seller as applicable), within 30 days after the Purchaser would otherwise have been liable to pay the saved Tax, a sum equal to the amount of that Tax reduction by way of an increase in the Purchase Price in respect of the relevant Shares or the particular part of the Vaccines Group. This paragraph 10 applies for a period of four years following the later of the date on which a transfer of assets is made, or payment of any Employee Benefit Indemnification Amount or Estimated Employee Benefit Adjustment is made to the Purchaser.



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- 11** The Seller covenants with the Purchaser to pay to the Purchaser an amount equal to any cost, claim or liability incurred by any member of the Purchaser's Group which it is or becomes liable to make on or at any time after Closing by reason of any change or purported change made to the terms of any Transferred Employee Benefits prior to Closing proving to be or have been legally ineffective or by reason of such terms and/or benefits failing to comply with any mandatory legal requirements (excluding any obligation to equalise guaranteed minimum pensions in the United Kingdom). The Seller shall not be liable under this paragraph 11 in respect of any individual claim (or a series of claims arising from similar or identical facts or circumstances) unless the liability in respect of such claim or series of claims exceeds US\$100,000. If the Purchaser becomes aware of any fact, matter or circumstance that may give rise to a claim against the Seller under this paragraph 11, the Purchaser shall as soon as reasonably practicable give notice in writing to the Seller of such facts, matters or circumstances as are then available regarding the potential claim. Failure to give such notice within such period shall not affect the rights of the Purchaser to make a relevant claim under this paragraph 11, except that the Seller shall not be liable for any increase in the amount of such claim arising from such failure. The latest date on which the Purchaser may give notice of a claim under this paragraph 11 is the fourth anniversary of the Closing Date.
- 12** Notwithstanding any general provision to the contrary in Schedule 11 and subject to being compensated in accordance with this Schedule 12, the Purchaser shall admit Transferred Employees in the United States who participated in a post-retirement medical plan immediately prior to Closing to its own post-retirement medical plan. Subject to being compensated in accordance with this Schedule 12, periods of employment with the Seller's Group (including, without limitation, any current or former Affiliate of the Seller, to the extent previously recognised under the applicable benefit plan arrangement provided by the Seller's Group), shall be taken into account for the purposes of determining, as applicable, the eligibility for participation, contributions, and vesting for any employee under such post-retirement medical plan.
- 13** Notwithstanding any general provision to the contrary in Schedule 11, the US Transferred Employees shall, as of the Closing Date, become eligible to participate in a US tax-qualified defined contribution plan to the extent such plan is sponsored by the Purchaser or a relevant member of the Purchaser's Group. The Purchaser agrees that it will use commercially reasonable efforts to cause such plan to accept rollovers of the account balances of the US Transferred Employees (including participant loan promissory notes) from the relevant employer's tax-qualified retirement plans; provided that (i) the Purchaser will not be required to accept any such rollovers that might result in material liability to the Purchaser or may otherwise cause the relevant plan to cease to qualify under Section 401(a) of the Code and (ii) the Purchaser will not be required to amend any plan to permit participant loans.
- 14** The parties agree that where any Transferred Employee has accrued defined contribution benefits prior to Closing in a Seller's Group arrangement then:
- 14.1** the Seller shall use commercially reasonable efforts to procure the vesting of those benefits (if they would otherwise lapse as a result of Closing);



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- 14.2 the parties shall, provided this will not impose unreasonable administrative burdens on the Purchaser's Group, co-operate in good faith to procure a transfer of the account balances of such Transferred Employee from the Seller's Group arrangement to a Purchaser's Group arrangement; and
- 14.3 for the avoidance of doubt, the Purchaser will comply with the provisions of paragraph 6.1 of Schedule 11.



**Schedule 13**  
**Allocation of Purchase Price**  
**(Clauses 3.3 and 7.6)**

- 1** The Seller and the Purchaser agree that the Purchase Price (and any adjustments thereto) and the Assumed Liabilities shall be allocated for Tax purposes among the Shares and the Vaccines Group Businesses in accordance with Applicable Law (the “**Allocation**”).
- 2** Prior to the Closing Date and subject always to paragraph 1, the Seller and the Purchaser shall negotiate in good faith to reach an agreement as to the Allocation of the Purchase Price and the Assumed Liabilities including by ascribing a value to that part of the Vaccines Group comprising the Products Encepur and Ixiaro (which, if disposed of by the Seller’s Group prior to the Closing Date shall be the amount payable by the Seller to the Purchaser pursuant to Clause 3.6.1) to the Shares, and to any Vaccines Group Businesses that are subject to transfer Taxes or VAT, or where a valuation of a particular Vaccines Group Business prior to Closing is otherwise required by Applicable Law (each a “**Required Item**”).
- 3** Failing agreement between the parties on the Allocation in respect of any Required Item in accordance with this Schedule 13, the Allocation shall be determined by the Reporting Accountants on the application of the Seller or the Purchaser. Paragraphs 1.6 to 1.12 of Part 1 of Schedule 16 shall apply *mutatis mutandis* to the engagement and determination of the Reporting Accountants pursuant to this paragraph 3.
- 4** The Seller and the Purchaser shall negotiate in good faith to further allocate the Purchase Price and Assumed Liabilities among the Vaccines Group Businesses for which an allocation was not agreed prior to Closing within 90 calendar days after the Closing Date. If the Seller and the Purchaser reach written agreement within such 90 day period, the Allocation, as so amended, shall become binding upon the Seller and the Purchaser as the “**Final Allocation Schedule**”.
- 5** The Seller and the Purchaser shall, and shall procure that each of their Affiliates will, file all Tax Returns in a manner consistent with the Final Allocation Schedule, unless otherwise required by Applicable Law, and shall take no position inconsistent with the Final Allocation Schedule in any proceedings before any Governmental Entity or otherwise.
- 6** If the Seller and the Purchaser are unable to agree to an Allocation pursuant to paragraph 4, the matter shall be determined by the Reporting Accountants on the application of the Seller or the Purchaser. Paragraphs 1.6 to 1.12 of Part 1 of Schedule 16 shall apply *mutatis mutandis* to the engagement and determination of the Reporting Accountants pursuant to this paragraph 5.



**Schedule 14**  
**VAT**  
**(Clause 3.4)**

**1 VAT: Records**

- 1.1** The Seller may, on or before the date of Closing, obtain a direction from the relevant Tax Authority for the retention and preservation by it of any VAT records relating to its period of ownership of the relevant part of the Vaccines Group and, where any such direction is obtained, the Seller shall:
- 1.1.1** preserve the records to which that direction relates in such a manner and for such period as may be required by the direction or by Applicable Law; and
  - 1.1.2** allow the Purchaser, upon the Purchaser giving reasonable notice, reasonable access to and copies of such records where reasonably required by the Purchaser for its Tax purposes.
- 1.2** If no such direction as is referred to in paragraph 1.1 above is obtained or before the date of Closing and any documents in the possession or control of a member of the Seller's Group are required by law to be preserved by the Purchaser, the Seller shall, as soon as reasonably practicable after Closing, deliver such documents to the Purchaser.

**2 VAT: Going Concern - EU Member States**

- 2.1** The Seller and the Purchaser shall use reasonable endeavours (including, for the avoidance of doubt, the making of an election or application in respect of VAT to any Tax Authority or entering into a written agreement) to secure that, to the extent reasonably possible, the sale of all or any part of the Vaccines Group Businesses, so far as carried on in the European Union, is treated as neither a supply of goods nor a supply of services for the purposes of the laws governing VAT in each relevant member state.
- 2.2** Each Business Seller shall have the right to seek a ruling from the relevant Tax Authority as to whether the sale of all or part of the Vaccines Group Businesses, so far as carried on in the relevant member state, should be treated as neither a supply of goods nor a supply of services for the purposes of the laws governing VAT in that member state and to account for VAT (and accordingly to seek an additional payment from the Purchaser under Clause 3.4.2) in accordance with that ruling. The Seller shall not be obliged to challenge (or to procure that any relevant Business Seller challenges) that ruling unless required to do so by the Purchaser. If the Purchaser wishes to challenge, or to require the relevant Business Seller to challenge, any such ruling it may do so, provided that it bears the full cost of, and agrees to indemnify the relevant Business Seller in respect of any loss arising from or in connection with, that challenge and that such challenge shall not affect the date on which VAT must be paid to the Seller under paragraph 4 below.
- 2.3** Insofar as no ruling has been obtained from a relevant Tax Authority prior to Closing, the Seller shall determine in good faith if (or the extent to which) VAT is payable in respect of the sale of the Vaccines Group Businesses and shall be entitled to charge (or not to charge) VAT to the Purchaser in accordance with such determination.

**3 VAT: Going Concern - non-EU Jurisdictions**

- 3.1** To the extent that any state outside the European Union provides for relief or exemption from VAT on the transfer of a business or a company or treats such a transaction as being non-taxable for VAT purposes, the Seller and the Purchaser shall, use reasonable endeavours (including, for the avoidance of doubt, the making of an election or application in respect of VAT to any Tax Authority or entering into a written agreement) to secure such relief, exemption or treatment, to the extent reasonably possible, as regards the sale of all or part of the Vaccines Group Businesses (insofar as the business of the Vaccines Group is carried on in the relevant state) under this Agreement.
- 3.2** The relevant Business Seller shall have the right to seek a ruling from the relevant Tax Authority as to whether the sale of all or part of the Vaccines Group Businesses, so far as the business of the Vaccines Group is carried on in the relevant state, is eligible for a relief or exemption or is otherwise eligible to be treated as non-taxable for the purposes of the laws governing VAT in that state and to account for VAT and accordingly seek an additional payment from the Purchaser under Clause 3.4.2) in accordance with that ruling. The Seller shall not be obliged to challenge (or to procure then the relevant Business Seller challenges) that ruling unless required to do so by the Purchaser. If the Purchaser wishes to challenge, or to require the relevant Business Purchaser to challenge, any ruling it may do so, provided that it bears the full cost of, and agrees to indemnify the relevant Business Seller in respect of any loss arising from or in connection with, that challenge and that such challenge shall not affect the date on which VAT must be paid to the Seller under paragraph 4 below. Insofar as no ruling has been obtained from a relevant Tax Authority prior to Closing, the Seller shall determine in good faith if (or the extent to which) VAT is payable in respect of the sale of the Vaccines Group Businesses and shall be entitled to charge (or not to charge) VAT to the Purchaser in accordance with such determination.

**4 VAT: Time, Manner and Currency of Payment**

- 4.1** Any amounts which the Purchaser is obliged to pay to the Seller under this Agreement in respect of VAT shall be paid by the Purchaser, on its own account or on behalf of another member of the Purchaser's Group, to the Seller or to such member of the Seller's Group as the Seller may direct. Such amounts shall be paid in the currency in which the VAT in question must be accounted for to the relevant Tax Authority.
- 4.2** Subject to any provision or express agreement to the contrary, any amounts in respect of VAT payable in any jurisdiction in respect of the transfer at Closing of any of the Vaccines Group Businesses or Shares shall be paid in accordance with paragraph 4.2 above at Closing against production of a valid VAT invoice (or equivalent, if any).
- 4.3** Notwithstanding any other provision of this Agreement, the Purchaser shall not be liable to account to the Seller or any member of the Seller's Group for or in respect of penalties or interest arising solely from the failure of the Seller or any other member of the Seller's Group to account promptly for VAT to the relevant Tax Authority following the Seller having been placed in the appropriate amount of funds for that purpose by the Purchaser.



**Schedule 15**  
**Closing Obligations**  
**(Clause 6)**

**1 General Obligations**

**1.1 The Seller's Obligations**

On Closing, the Seller shall deliver or make available to the Purchaser the following:

- 1.1.1** the Tax Indemnity duly executed by the Seller;
- 1.1.2** the Ancillary Agreements (other than the France SPA and the Netherlands APA and, if they have not been agreed, the Transitional Services Agreement, the Manufacturing, Supply and Distribution Agreement and the Influenza Business Manufacturing and Supply Agreement) duly executed by the relevant members of the Seller's Group;
- 1.1.3** a valid power of attorney or such other evidence reasonably satisfactory to the Purchaser that the Seller, and each of its relevant Affiliates, are authorised to execute this Agreement, the Tax Indemnity, the Ancillary Agreements and the Local Transfer Documents (including, where relevant, any notarial deeds referred to in this Schedule 15), in each case to the extent that they are parties thereto;
- 1.1.4** the Certificate duly executed by the Seller;
- 1.1.5** the statutory books of the Vaccines Group Companies (which shall be written up to but not including the Closing Date), the certificate of incorporation (and certificate of incorporation on change of name) and common seal (if any) of each Vaccines Group Company and share certificates (or other documents of title) in respect of all the issued share capital of each Vaccines Group Company;
- 1.1.6** In addition, the Seller shall, if requested by the Purchaser by notice in writing not less than five Business Days prior to the Closing Date:
  - (i) procure any then present directors and officers (if any) of each Vaccines Group Company resign their offices to take effect at the Closing Date as such and to relinquish any rights which they may have under any contract of employment with any Vaccines Group Company or under any statutory provisions (including any right to damages or compensation for breach of contract, loss of office, redundancy or unfair dismissal or on any other account whatsoever) and to confirm that no agreement or arrangement is outstanding under which any Vaccines Group Company has or could have any obligation to any of them including in respect of remuneration or expenses;
  - (ii) procure the present auditors of each Vaccines Group Company to resign their office as such, such resignations to take effect as at the Closing Date; and
  - (iii) procure board meetings of the relevant Vaccines Group Companies are held, or written resolutions of the board are passed, at or by which:
    - (a) it shall be resolved that each of the transfers relating to the Shares shall, so far as possible, be approved for registration and



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- (b) any person nominated by the Purchaser shall be appointed director, such appointments to take effect on the Closing Date.

## 1.2 The Purchaser's Obligations

On Closing, the Purchaser shall deliver or make available to the Seller the following:

- 1.2.1** the Tax Indemnity duly executed by the Purchaser;
- 1.2.2** the Ancillary Agreements (other than the France SPA and the Netherlands APA and, if they have not been agreed, the Transitional Services Agreement, the Manufacturing, Supply and Distribution Agreement and the Influenza Business Manufacturing and Supply Agreement) duly executed by the relevant members of the Purchaser's Group;
- 1.2.3** evidence reasonably satisfactory to the Seller that the Purchaser, and each of its relevant Affiliates, are authorised to execute this Agreement, the Tax Indemnity, the Ancillary Agreements and the Local Transfer Documents (including, where relevant, any notarial deeds referred to in this Schedule 15), in each case to the extent that they are parties thereto.

## 2 Transfer of the Shares and Vaccines Group Businesses

### 2.1 General Transfer Obligations

On Closing or such other date as agreed between the parties, the Seller shall procure that the Share Sellers and Business Sellers shall, and the Purchaser shall, execute and/or deliver and/or make available Local Transfer Documents and take such steps as are required to transfer the Shares and Vaccines Group Businesses in accordance with this Agreement.

### 2.2 Specific Transfer Obligations

For the purposes of compliance with paragraph 2.1, the Seller and the Purchaser shall, between the date of this Agreement and Closing, negotiate in good faith any and all Local Transfer Documents and other such steps as are required to transfer the Shares and Vaccines Group Businesses in accordance with this Agreement.



**Schedule 16**  
**Post Closing Adjustments**  
**(Clause 7)**

**Part 1**  
**Preparation of Closing Statement**

**1 Preparation**

- 1.1** No later than 60 days following Closing, the Seller shall deliver to the Purchaser the Draft Closing Statement. Prior to such delivery, the Seller shall so far as is practicable consult with the Purchaser with a view to reducing the potential areas of disagreement.
- 1.2** In order to enable the Seller to prepare the Draft Closing Statement, the Purchaser shall keep up-to-date and, subject to reasonable notice, make available to the Seller's representatives and to the Seller's accountants all books and records relating to the Vaccines Group during normal office hours and co-operate with them with regard to the preparation, review and agreement or determination of the Draft Closing Statement. The Purchaser agrees to make available the services of the employees of the Vaccines Group to assist the Seller in the preparation, review and agreement or determination of the Draft Closing Statement.
- In order to allow the Purchaser to review the Draft Closing Statement, the Seller shall, subject to reasonable notice, make available to the Purchaser's representatives and to the Purchaser's accountants all books and records relating to the Vaccines Group during normal office hours and co-operate with them with regard to their review of the Draft Closing Statement. The Seller agrees to make available the services of the employees of the Seller and its Affiliates to assist the Purchaser in its review of the Draft Closing Statement.
- 1.3** If the Purchaser does not within 60 days of presentation to it of the Draft Closing Statement give notice to the Seller that it disagrees with the Draft Closing Statement or any item thereof, such notice stating the reasons for the disagreement in reasonable detail and specifying the adjustments which, in the Purchaser's opinion should be made to the Draft Closing Statement (the "**Purchaser's Disagreement Notice**"), the Draft Closing Statement shall be final and binding on the parties for all purposes. If the Purchaser gives a valid Purchaser's Disagreement Notice within such 60 days, the Seller and the Purchaser shall attempt in good faith to reach agreement in respect of the Draft Closing Statement and, if they are unable to do so within 30 days of such notification, the Seller or the Purchaser may by notice to the other require that the Draft Closing Statement be referred to the Reporting Accountants (an "**Appointment Notice**").
- 1.4** Within 30 days of the giving of an Appointment Notice, the Seller may by notice to the Purchaser indicate that, in the light of the fact that the Purchaser has not accepted the Draft Closing Statement in its entirety, it wishes the Reporting Accountants to consider matters relating to the Draft Closing Statement in addition to those specified in the Purchaser's Disagreement Notice, provided that such matters as are related to the matters specified in the Purchaser's Disagreement Notice and that the notice states in reasonable detail the reasons why and in what respects the Seller believes that the Draft Closing Statement should be altered in respect of such matters (the "**Seller's Disagreement Notice**").



- 1.5** The Reporting Accountants shall be engaged jointly by the Seller and the Purchaser on the terms set out in this paragraph 1 and otherwise on such terms as shall be agreed; provided that neither the Seller nor the Purchaser shall unreasonably (having regard, inter alia, to the provisions of this paragraph 1) refuse its agreement to terms proposed by the Reporting Accountants or by the other party. If the terms of engagement of the Reporting Accountants have not been settled within 45 days of their identity having been determined (or such longer period as the Seller and the Purchaser may agree) then, unless the Seller or the Purchaser is unreasonably refusing its agreement to those terms, those accountants shall be deemed never to have become the Reporting Accountants and new Reporting Accountants shall be selected in accordance with the provisions of this Agreement.
- 1.6** Except to the extent that the Seller and the Purchaser agree otherwise, the Reporting Accountants shall determine their own procedure but:
- 1.6.1** apart from procedural matters and as otherwise set out in this Agreement shall determine only:
- (i) whether any of the arguments for an alteration to the Draft Closing Statement put forward in the Purchaser's Disagreement Notice or the Seller's Disagreement Notice is correct in whole or in part; and
  - (ii) if so, what alterations should be made to the Draft Closing Statement in order to correct the relevant inaccuracy in it;
- 1.6.2** shall apply the accounting principles, policies, procedures, practices and estimation techniques as set out in Part 2 of this Schedule;
- 1.6.3** shall make their determination pursuant to paragraph 1.6.1 as soon as is reasonably practicable;
- 1.6.4** the procedure of the Reporting Accountants shall:
- (i) give the Seller and Purchaser a reasonable opportunity to make written and oral representations to them;
  - (ii) require that each party supply the other with a copy of any written representations at the same time as they are made to the Reporting Accountants;
  - (iii) permit each party to be present while oral submissions are being made by the other party; and
  - (iv) for the avoidance of doubt, the Reporting Accountants shall not be entitled to determine the scope of their own jurisdiction.
- 1.7** The Reporting Accountants shall send the Seller and the Purchaser a copy of their determination pursuant to paragraph 1.6.1 within one month of their appointment. Such determination:
- 1.7.1** shall be made available to the Seller and the Purchaser in writing; and
- 1.7.2** unless otherwise agreed by the Seller and the Purchaser, shall include reasons for each relevant determination.
- 1.8** The Reporting Accountants shall act as experts and not as arbitrators and their determination of any matter falling within their jurisdiction shall be final and binding on the Seller and the Purchaser save in the event of manifest error (when the relevant part of their determination shall be void and the matter shall be remitted to the Reporting Accountants for correction). In particular, their determination shall be deemed to be incorporated into the Draft Closing Statement.



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- 1.9** The expenses (including amounts in respect of VAT) of the Reporting Accountants shall be borne as they shall direct at the time they make any determination under paragraph 1.6.1(i) or, failing such direction, equally between the Purchaser and the Seller.
- 1.10** The Seller and the Purchaser shall co-operate with the Reporting Accountants and comply with their reasonable requests made in connection with the carrying out of their duties under this Agreement. In particular, the Purchaser shall keep up-to-date and, subject to reasonable notice, make available to the Seller's representatives, the Seller's accountants and the Reporting Accountants all books and records relating to the Vaccines Group during normal office hours as the Seller or the Reporting Accountants may reasonably request during the period from the appointment of the Reporting Accountants down to the making of the relevant determination.
- 1.11** Nothing in this Schedule 16 shall entitle a party or the Reporting Accountants access to any information or document which is protected by legal professional or litigation privilege, provided that neither the Seller nor the Purchaser shall be entitled to refuse to supply such part or parts of documents as contain only the facts on which the relevant claim or argument is based.
- 1.12** Each party and the Reporting Accountants shall, and shall procure that its accountants and other advisers shall, keep all information and documents provided to them pursuant to this paragraph 1 confidential and shall not use the same for any purpose, except for disclosure or use in connection with the preparation of the Draft Closing Statement, the proceedings of the Reporting Accountants or another matter arising out of this Agreement.



## Part 2

### Closing Statement Principles

This Part 2 of Schedule 16 comprises the specific rules, principles, policies and practices, without limitation, for preparing the Closing Statement.

The Closing Statement sets out the Working Capital, the Working Capital Adjustment, the Vaccines Group Companies' Cash Balances, the Intra-Group Non-Trade Receivables, the Third Party Indebtedness, the Intra-Group Non-Trade Payables and the Tax Adjustment, in each case as prepared in accordance with the specific rules, principles, policies and practices set forth in this Part 2 of Schedule 16. The Closing Statement shall be prepared in the form of the Illustrative Closing Statement in Part 3 of this Schedule 16 which also sets forth, for illustrative purposes only, a computation of each of the components of the Closing Statement as of the close of business on 31 December 2013.

For the avoidance of doubt, the Closing Statement as referred to in this Part 2 of Schedule 16 shall inclusively apply to each of the Draft Closing Statement and the Closing Statement.

#### 1 Closing Statement Rules

1.1 The Closing Statement shall be prepared as follows:

- 1.1.1 in accordance with the specific accounting treatments set out in paragraph 2 of this Part 2 of Schedule 16; and, subject thereto
- 1.1.2 adopting the same accounting principles, methods, procedures and practices utilized in preparing the Statement of Net Assets, as detailed in the Statement of Net Asset Rules, applied on a consistent basis using consistent estimation methodologies and judgments and with consistent classifications as were used to prepare the Statement of Net Assets; and subject thereto
- 1.1.3 in accordance with IFRS.

1.2 For the avoidance of doubt, paragraph 1.1.1 shall take precedence over paragraphs 1.1.2 and 1.1.3, and paragraph 1.1.2 shall take precedence over paragraph 1.1.3.

#### 2 Specific requirements

2.1 Cut-off

The Closing Statement (including the Draft Closing Statement) shall not take into account any additional events and any additional information that becomes available after the Statement time up to the date that such Closing Statement is prepared.

2.2 Change of Ownership

The Closing Statement shall not be adjusted for any charges, provisions, reserves or write-offs in respect of any costs, liabilities or charges that may be incurred by the Vaccines Group prior to or after the Closing as a consequence of the change of ownership of the Vaccines Group or any changes in the management strategy, direction or priority or possible closure of any part of the Vaccines Group by the Purchaser after Closing, whether or not resulting from the change in ownership.



**2.3** Deferred Tax

The Closing Statement (including the Draft Closing Statement) shall not take into account or provide for deferred Tax.

**2.4** Other Taxes

The Closing Statement (including the Draft Closing Statement) shall take account of or provide for all income taxes and sales taxes, to which lines BS14\_120 Taxes other than income taxes (Liability account) and BS13\_108 Value added tax receivable apply.

**3** **Illustrative Working Capital Statement**

**3.1** Part 4 of this Schedule 16 sets forth, for illustrative purposes only a computation of the Working Capital as of the close of business on 31 December 2013 (the "Illustrative Working Capital Statement").

**4** **Base Working Capital**

**4.1** Base Working Capital is US\$575 million to US\$700 million and references in this Agreement to amounts being in excess of, greater than or less than Base Working Capital shall mean less than US\$575 million and greater than or in excess of US\$700 million.

**4.2** In relation to the France Business and the Netherlands Business, if one or both businesses is not transferred to the Purchaser under the terms of this Agreement at Closing, the Working Capital relating to such business (or businesses) shall not be included in the determination of the Working Capital at the Effective Time. If one or both of the France Business or the Netherlands Business are transferred to the Purchaser after Closing, then a further adjustment shall be made to the Closing Statement on the assumption that the France Business and/or the Netherlands Business were included in the Closing Statement taking the relevant items for the relevant business as of the date they are transferred to the Purchaser. Any adjustment arising as a result of including the France Business or the Netherlands Business in the Closing Statement after the date of this Agreement shall be agreed and paid on the same basis as the Closing Statement was agreed and paid in respect thereof made.



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**Part 3**  
**Illustrative Closing Statement**

All amounts in USD thousands

	Vaccines Group (excl. Flu business) Illustrative Closing Statement Dec 31, 2013
BS01_035 Financial Assets (Loans included in this line)	[***]
BS01_511 Financial Debt – long term	[***]
BS01_651 Financial Debt – short term	[***]
<b>Third Party Indebtedness</b>	[***]
BS01_180 Cash & cash equivalents	[***]
<b>Vaccines Group Companies' Cash Balances</b>	[***]
[***]	[***]
BS01_520 Total financing and loans from subsidiaries / JV	[***]
<b>Intra-Group Non-Trade Payables</b>	[***]
[***]	[***]
BS01_050 Total financing and loans to subsidiaries / JV	[***]
<b>Intra-Group Non-Trade Receivables</b>	[***]
BS13_190 Current income tax receivables	[***]
BS01_660 Income taxes payable	[***]
<b>Tax Adjustment</b>	[***]
<b>Illustrative Net Working Capital (*)</b>	[***]

(\*) The Illustrative Closing Date Net Working Capital is calculated in accordance with paragraph 4 of this Schedule 16.

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Part 4**  
**Illustrative Working Capital Statement**

	<b>Vaccines Group (excl. Flu business)</b> <b>Illustrative Net Working Capital as</b> <b>per December 31, 2013</b>
BS01_110 Total inventories	400,663
BS01_120 Trade receivables (3rd parties and AC)	335,387
BS01_130 Receivables own BU	22,683
BS01_140 Receivables other BU's	20,419
BS01_610 Trade payables (3rd parties and AC)	(176,115)
BS01_620 Payables own BU	(18,295)
BS01_630 Payables other BU's	(40,675)
<b>Illustrative Net Working Capital</b>	<b>544,067</b>



**Schedule 17**  
**Milestone and Royalty Payments**

**1 Milestone Payments**

**1.1 MenABCWY Single Milestone Payment**

- 1.1.1** The Purchaser shall promptly pay, or cause to be paid, to the Seller (or one of its Affiliates as designated by the Seller) a milestone payment in cash of US\$450 million (the “**MenABCWY Milestone Payment**”) upon issuance to the Purchaser or any of its Affiliates or their respective authorised sub-licensees or assignees (the “**Relevant Parties**”) on or before 31 December 2018 of a letter of approval of a Biologics License Application or supplemental Biologics License Application (a “BLA”) issued by the FDA for any meningococcal vaccine (groups A, B, C, W-135 and Y) whether adjuvanted, combined or otherwise (the “**MenABCWY Product**”) for use in, at a minimum, Adolescents.
- 1.1.2** The Purchaser shall not be obliged to make the MenABCWY Milestone Payment more than once under this paragraph 1.1 and its maximum aggregate liability under this paragraph 1.1 shall not exceed the amount of the MenABCWY Milestone Payment.

**1.2 Bexsero Single Milestone Payment**

The Purchaser shall promptly pay, or cause to be paid, to the Seller (or one of its Affiliates as designated by the Seller) a milestone payment in cash of US\$450 million (the “**Bexsero Milestone Payment**”) following the first Calendar Year during which Net Sales of excluding the US in excess of [\*\*\*] are achieved.

- 1.2.1** The Purchaser shall not be obliged to make the Bexsero Milestone Payment more than once under this paragraph 1.2 and its maximum aggregate liability under this paragraph 1.2 shall not exceed the amount of the Bexsero Milestone Payment.

**1.3 ACIP Category A Single Milestone Payment**

- 1.3.1** The Purchaser shall promptly pay, or cause to be paid, to the Seller (or one of its Affiliates as designated by the Seller) a milestone payment in cash of US\$450 million (the “**ACIP Category A Milestone Payment**”) upon any positive Category A recommendation by the Advisory Committee on Immunization Practices to the U.S. Centers for Disease Control and Prevention (or its successor) (“**ACIP**”), before 31 December 2019, regardless of the population, sub-population, age group or risk-factor-based group to which the recommendation pertains, with respect to either (i) the MenABCWY Product; or (ii) Bexsero (whichever is earlier, and provided such milestone is paid only once).
- 1.3.2** The Purchaser shall not be obliged to make the ACIP Category A Milestone Payment more than once under this paragraph 1.3 and its maximum aggregate liability under this paragraph 1.3 shall not exceed the amount of the ACIP Category A Milestone Payment.

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**1.4 GBS Single Milestone Payment**

**1.4.1** The Purchaser shall promptly pay, or cause to be paid, to the Seller (or one of its Affiliates as designated by the Seller) a milestone payment in cash of US\$450 million (the “**GBS Milestone Payment**”) upon any positive Category A or Category B recommendation by ACIP, regardless of the population, sub-population, age group or riskfactor-based group to which the recommendation pertains, with respect to any Group B streptococcus vaccine, whether adjuvanted, combined or otherwise (the “**GBS Product**”).

**1.4.2** The Purchaser shall not be obliged to make the GBS Milestone Payment more than once under this paragraph 1.4 and its maximum aggregate liability under this paragraph 1.4 shall not exceed the amount of the GBS Milestone Payment.

**2 Notification and Settlement of Milestone Payments**

**2.1** As promptly as practicable, but in any event within five days, the Purchaser shall notify the Seller in writing of any Milestone Payment becoming due.

**2.2** The Purchaser shall pay each Milestone Payment within 30 days of achievement of the relevant Milestone.

**2.3** All Milestone Payments due from the Purchaser to the Seller shall be made to the Seller or to an entity designated by the Seller by wire transfer of immediately available funds in US dollars to the credit of such bank account or accounts as may be designated by the Seller from time to time.

**3 Royalty Payments**

**3.1 GBS Worldwide Royalty Payments**

Subject to paragraph 3.5, the Purchaser shall pay, or cause to be paid, royalty payments to the Seller (or one of its Affiliates as designated by the Seller) on the aggregate Net Sales of the GBS Product and any adjuvanted or combined versions thereof, in the world in each Calendar Year, at the rate of 10% of such Net Sales in the world (the “**GBS Royalty Payments**”).

**3.2 MenABCWY US Royalty Payments**

Subject to paragraph 3.5, the Purchaser shall pay, or cause to be paid, royalty payments to the Seller (or one of its Affiliates as designated by the Seller) on the aggregate Net Sales of the MenABCWY Product and any adjuvanted or combined versions thereof, in the US in each Calendar Year, at the rate of 10% of such Net Sales in the US (the “**MenABCWY US Royalty Payments**”).

**3.3 US Royalty Payments**

Subject to paragraph 3.5, the Purchaser shall pay, or cause to be paid, royalty payments to the Seller (or one of its Affiliates as designated by the Seller) on the aggregate Net Sales of Bexsero and any adjuvanted or combined versions (excluding, for the avoidance of doubt, MenABCWY) thereof, in the US in each Calendar Year, at the rate of 10% of such Net Sales in the US (the “**Bexsero US Royalty Payments**”).



**3.4 Bexsero Ex-US Royalty Payments**

Subject to paragraph 3.5, the Purchaser shall pay, or cause to be paid, royalty payments to the Seller (or one of its Affiliates as designated by the Seller) on the aggregate Net Sales of Bexsero and any adjuvanted or combined versions (excluding, for the avoidance of doubt, MenABCWY) thereof, in the world (excluding the US) in each Calendar Year, at the rate of 10% of such Net Sales in the world (excluding the US) in excess of [\*\*\*] in such Calendar Year (the “**Bexsero Ex-US Royalty Payments**”).

**3.5 Combinations**

If the GBS Product, the MenABCWY Product or Bexsero is sold as part of the combination (each a “**Combination Product**”) then, for the purposes of paragraph 3.1, 3.2, 3.3 or 3.4 (as applicable), the figure of Net Sales of the relevant Combination Product shall be calculated by multiplying the total amount of Net Sales of that Combination product by the fraction A/(A+B), where A is the invoice price of the GBS Product, the MenABCWY Product or Bexsero (as applicable) sold separately and B is the invoice price of the other active ingredients and/or active antigens and/or adjuvants in the Combination Product.

**4 Settlement of Royalty Payments**

**4.1** Each Royalty Payment shall be an independent obligation of the Purchaser (not linked to any Royalty Payment in respect of another Applicable Product or Calendar Year) and shall continue to be due and payable indefinitely in accordance with the terms of this Agreement.

**4.2** Each Royalty Payment shall be payable on a Calendar Quarter basis in accordance with paragraph 5.

**4.3** In respect of any period between the Closing Date and the start of the next Calendar Quarter (the “**Stub Period**”), the amount of any Royalty Payments due in respect of the Stub Period shall be adjusted on a pro rata basis to reflect the number of days in the Stub Period as a proportion of the number of days in the Calendar Quarter in which Closing occurs.

**5 Reporting of Royalty Payments**

**5.1** Within 10 Business Days of the end of:

**5.1.1** each Calendar Quarter, the Purchaser shall provide to the Seller a Sales & Royalties Report; and

**5.1.2** each Calendar Year, the Purchaser shall provide to the Seller an Annual Reconciliation Report.

**5.2** The Seller shall submit an invoice to the Purchaser in a form agreed by the Seller and the Purchaser from time to time with respect to any Royalty Payment and/or Estimated Quarterly Bexsero Ex-US Royalty Payment shown as due in a Sales & Royalties Report.

**5.3** The Purchaser shall pay each Royalty Payment and/or Estimated Quarterly Bexsero Ex-US Royalty Payment due within 30 days of receipt of an invoice in respect of the same pursuant to paragraph 5.2.

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



5.4 All Royalty Payments due from the Purchaser to the Seller shall be made to the Seller or to an entity designated by the Seller by wire transfer of immediately available funds in US dollars to the credit of such bank account or accounts as may be designated by the Seller from time to time.

## 6 Reconciliation of Bexsero Ex-US Royalty Payments

6.1 Following agreement or determination of the amount of the Bexsero Ex-US Royalty Payment due in respect of each Calendar Year (a “**Final Bexsero Ex-US Royalty Payment**”) either as set out in any Annual Reconciliation Report or as subsequently agreed or determined in accordance with paragraphs 7 and 8:

6.1.1 if the Paid Bexsero Ex-US Royalty Payment is greater than the Final Bexsero Ex-US Royalty Payment, the Seller shall repay to the Purchaser an amount equal to the excess; or

6.1.2 if the Paid Bexsero Ex-US Royalty Payment is less than the Final Bexsero Ex-US Royalty Payment, the Purchaser shall pay to the Seller an additional amount equal to the deficiency.

6.2 The Seller or the Purchaser (as applicable) shall pay any amount due under paragraph 6.1 within 30 days of the agreement or determination of the Final Bexsero Ex-US Royalty Payment due in respect of such Calendar Year.

6.3 Any payment to be made in accordance with paragraph 6.2 shall include interest thereon calculated from the date on which the amount would have been due for payment (had the Estimated Bexsero Ex-US Royalty Payments for the Calendar Year been equal to the Bexsero Ex-US Royalty Payment for such Calendar Year) to the date of payment at a rate per annum of two per cent. above LIBOR. Such interest shall accrue from day to day.

## 7 Records and Audit

7.1 The Purchaser shall, and, so far as it is able to do so, shall cause the Relevant Parties to, keep in all material respects complete, true and accurate books and records in accordance with its Accounting Standards in relation to this Agreement including in relation to Net Sales and Royalty Payments. The Purchaser shall, and, so far as it is able to do so, shall cause the Relevant Parties to, keep such books and records for at least five years following the Calendar Year to which they pertain.

7.2 The Seller shall have the right, for a period of five years after receiving each Report, to audit such Report, whether by itself or through its Affiliates and/or to appoint an internationally-recognised independent accounting firm to audit (whether the Seller, its Affiliates, or the accounting firm, the “**Auditor**”) such Report, and to inspect the relevant records of the Relevant Parties to verify such Report and the underlying statements, records or books of accounts, as applicable. Where the Auditor is not the Seller, the Auditor shall have the right to disclose to the Seller and/or other Affiliates its conclusions regarding any payments owed hereunder to the Seller.

7.3 The Purchaser shall, and shall cause the other Relevant Parties to, make their records available for inspection by the Auditor during regular business hours at such place or places where such records are customarily kept upon receipt of reasonable advance notice from the Auditor to verify the accuracy of each Report and compliance with this Schedule 17.



7.4 The Seller shall bear the cost of any audit pursuant to this paragraph 7, as well as its own costs, fees and expenses associated with enforcing its rights with respect to any payments hereunder, except that, if it is determined by the Auditor that the amounts set out in the Sales & Royalties Report for any Calendar Quarter are more than three per cent. below the amounts actually due pursuant to this Schedule 17, the reasonable costs, fees and expenses charged or incurred by the Auditor shall be paid or reimbursed by the Purchaser.

7.5 In the event that the final result of the inspection reveals an undisputed underpayment or overpayment by the Purchaser, the underpaid or overpaid amount, as applicable, shall be settled promptly by the Seller or the Purchaser (as applicable).

## 8 Disputes

In the event of any dispute between the parties in respect of whether a Milestone Payment or a Royalty Payment is due, or the amount of any such payment due, in accordance with this Schedule 17, the dispute shall be determined by the Reporting Accountants on the application of the Seller or the Purchaser. Paragraphs 1.6 to 1.12 of Part 1 of Schedule 16 shall apply *mutatis mutandis* to the engagement and determination of the Reporting Accountants pursuant to this paragraph 8.

## 9 Covenants

9.1 The Purchaser agrees to procure that, following Closing, the Purchaser's Group uses its commercially reasonable endeavours to satisfy each of the Milestones.

9.2 The Purchaser agrees that it will not, and it shall procure that no member of the Purchaser's Group will, take any action or omit to take any action, in either case which is intended to frustrate the achievement of any of the Milestones, or which is intended to reduce the amount of any Milestone Payment or Royalty Payment due pursuant to this Schedule 17.

## 10 Definitions

The following further definitions apply in this Schedule 17:

“**Accounting Standards**” means, with respect to a Relevant Party, IFRS as generally and consistently applied by the Relevant Party's Group. The Purchaser shall promptly notify the Seller in writing in the event that it or its Group changes the Accounting Standards pursuant to which its records are maintained, it being understood that the Purchaser and its Group may only use internationally recognised accounting principles;

“**Adolescents**” means individuals aged anywhere between 11 and 18 years old;

“**Annual Reconciliation Report**” means a written report or reports in a form to be agreed by the Seller and the Purchaser from time to time showing a reconciliation of the amount of the Estimated Bexsero Ex-US Royalty Payment to the amount of the Bexsero Ex-US Royalty Payment due in respect of such Calendar Year;

“**Applicable Product(s)**” means the GBS Product, the MenABCWY Product and Bexsero;

“**Calendar Quarter**” means each of the four periods of 3 consecutive calendar months, starting on 1 January, 1 April, 1 July and 1 October;



“**Calendar Year**” means each period of 12 consecutive calendar months starting on 1 January and ending on 31 December;

“**Estimated Bexsero Ex-US Royalty Payment**” means the Purchaser’s reasonable estimate of the Bexsero Ex-US Royalty Payment that will be payable pursuant to paragraph 3.4 in respect of the current Calendar Year;

“**Estimated Quarterly Bexsero Ex-US Royalty Payment**” means one quarter of the Estimated Bexsero Ex-US Royalty Payment;

“**Milestone Payments**” means the MenABCWY Milestone Payment, the Net Sales Milestone Payment, the ACIP Category A Milestone Payment and the GBS Milestone Payment, and “**Milestone Payment**” means any one of them;

“**Milestones**” means the facts, matters and circumstances giving rise to the requirement for the Purchaser to make the Milestone Payments;

“**Net Sales**” means, in respect of an Applicable Product, the net sales by the Relevant Parties for the Applicable Product(s) sold to Third Parties other than sublicensees or assignees, as determined in accordance with Accounting Standards consistently applied by the Purchaser. The deductions booked by the Relevant Parties to calculate the recorded net sales from gross sales shall include the following:

- (lxvii) normal trade, quantity and cash discounts;
- (lxviii) sales taxes, value added taxes and other taxes directly linked to the sale of Products to the extent included in the gross amount invoiced;
- (lxix) amounts repaid or credited by reasons of defects, rejections, recalls or returns;
- (lxx) rebates, commissions and chargebacks to customers and Third Parties;
- (lxxi) any amounts recorded in gross revenue associated with goods provided to customers for free, with the exception of samples;
- (lxxii) amounts provided or credited to customers through coupons, other discount programs and co-pay assistance programs;
- (lxxiii) delayed ship order credits, discounts or payments related to the impact of price increases between purchase and shipping dates; and
- (lxxiv) fees for service payments to customers for any non-separate services (including compensation for maintaining agreed inventory levels and providing information),

and with respect to the calculation of Net Sales:

- (a) Net Sales only include the value charged or invoiced on the first sale to a Third Party and sales between or among Respective Parties shall be disregarded for purposes of calculating Net Sales;
- (b) if a Product is delivered to the Third Party before being invoiced (or is not invoiced), Net Sales will be calculated at the time all the revenue recognition criteria under Accounting Standards are met; and
- (c) distributors shall not be considered as sublicensees/assignees;

“**Paid Bexsero Ex-US Royalty Payment**” means the aggregate of all Estimated Quarterly Bexsero Ex-US Royalty Payments paid by the Purchaser in each Calendar Year;



“**Report**” means any Annual Reconciliation Report or Sales & Royalties Report;

“**Royalty Payments**” means the GBS Royalty Payments, the MenABCWY US Royalty Payments, the Bexsero US Royalty Payments and the Bexsero Ex-US Royalty Payments, and “**Royalty Payment**” means any one of them;

“**Sales & Royalties Report**” means a written report or reports in a form to be agreed by the Seller and the Purchaser from time to time showing, on an Applicable Product-by-Applicable Product basis:

- (lxxv) each of (a) gross sales; (b) Net Sales; and (c) Royalty Payments (other than the Bexsero Ex-US Royalty Payments) payable, for each such Applicable Product in respect of the relevant Calendar Quarter;
- (lxxvi) the Purchaser’s reasonable estimate of gross sales and Net Sales of the Bexsero Product in the world (excluding the US) in the current Calendar Year;
- (lxxvii) the Estimated Quarterly Bexsero Ex-US Royalty Payment; and
- (lxxviii) the information in paragraphs (i) to (iii) for (a) the equivalent Calendar Quarter in the prior Calendar Year; and (b) the cumulative totals for the current Calendar Year;

“**Third Party**” means any person other than a party or an Affiliate of a party; and

“**US**” means the United States of America, its territories and possessions, any state of the United States and the District of Columbia; and “possessions” include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.



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**Schedule 18**  
**Warranties given under Clause 9.1**

**1 Authority and Capacity**

**1.1 Incorporation**

The Seller and each Share Seller and Business Seller is validly existing and is a company duly incorporated and registered under the law of its jurisdiction of incorporation.

**1.2 Authority to enter into Agreement**

**1.2.1** The Seller and each Share Seller and Business Seller has the legal right and full power and authority to enter into and perform this Agreement, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Ancillary Agreement.

**1.2.2** The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on the Seller and each Share Seller and Business Seller in accordance with their respective terms.

**1.2.3** Except as referred to in this Agreement, the Seller:

- (i) is not required to make any announcement, consultation, notice, report or filing; and
- (ii) does not require any consent, approval, registration, authorisation or permit,

in each case in connection with the performance of this Agreement or any other document referred to in paragraph 1.2.1.

**1.2.4** The execution and delivery of the documents referred to in paragraph 1.2.1 and the performance by the Seller, each Share Seller and each Business Seller of their respective obligations under them, will not:

- (i) result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional document of the relevant member of the Seller's Group;
- (ii) result in a breach of, or constitute a default under, any instrument or contract to which the relevant member of the Seller's Group is party or by which the relevant member of the Seller's Group is bound where such breach is material to their ability to perform their obligations under such documents;
- (iii) result in a breach of any existing order, judgment or decree of any court, Governmental Entity by which the relevant member of the Seller's Group is bound and where such breach is material to their ability to perform their obligations under such documents.

**1.3 Authorisation**

The Seller and each Share Seller and Business Seller has taken, or will have taken by Closing, all corporate action required by it to authorise it to enter into and to perform this Agreement, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Ancillary Agreement.



## 2 Vaccines Group

### 2.1 Organisation and Standing of the Vaccines Group Companies

- 2.1.1** Schedule 2 sets out a complete and accurate list of each of the Vaccines Group Companies, together with its jurisdiction of organisation, its authorised and outstanding capital stock or other equity interests, all of which equity interests are held by the Seller or an Affiliate of the Seller unless otherwise stated in Schedule 2.
- 2.1.2** Each Vaccines Group Company is duly incorporated, validly existing and in good standing, under the laws of its jurisdiction of organisation and has all necessary corporate power under its constitutional documents to conduct its portion of the Business as at the date of this Agreement.

### 2.2 The Shares

- 2.2.1** Either the Seller or one of its Affiliates is the legal and beneficial owner of the Shares.
- 2.2.2** There is no option, right to acquire, mortgage, charge, pledge, lien or other form of security or Encumbrance or equity on, over or affecting the Shares or the shares, capital stock or other equity interests in the Subsidiaries or any of them and there is no agreement or commitment to give or create any.
- 2.2.3** All of the Shares and all of the shares, capital stock or other equity interests in the Subsidiaries have been duly authorised and validly issued and are fully paid and non-assessable. There are no options, warrants, rights, convertible, exercisable or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which any of the Vaccines Group Companies is a party or by which it is bound obligating any of the Vaccines Group Companies to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible into, or exercisable or exchangeable for, any capital stock of, or other equity interest in, such Vaccines Group Company.
- 2.2.4** There are no outstanding Contracts to which any of the Vaccines Group Companies is a party or is otherwise bound to repurchase, redeem or otherwise acquire any shares, capital stock or other equity interest of such Vaccines Group Company.
- 2.2.5** None of the Shares, and the shares, capital stock and other equity interests in the Subsidiaries and Minority Interest Entities is subject to and was not issued in violation of any purchase option, call option, right of first refusal, pre-emptive right, subscription right or similar right or any provision of Applicable Law or the constitutional documents of the Vaccines Group Companies.

### 2.3 The Assets

Save in relation to the Transferred Intellectual Property Rights, either the Seller or another member of the Seller's Group has good and valid title to the assets listed in Clause 2.3.1 free and clear of all Encumbrances other than Permitted Encumbrances.



## 2.4 Accounts

The Accounts of each Vaccines Group Company:

- 2.4.1** were prepared in accordance with accounting practices generally accepted in the jurisdiction of incorporation of the relevant Vaccines Group Company at the time they were audited; and
- 2.4.2** show in accordance with applicable legal requirements:
- (i) the assets and liabilities of the relevant Vaccines Group Company at the Accounts Date; and
  - (ii) of the profits or losses of the relevant Vaccines Group Company for the accounting period ended on the Accounts Date.

## 2.5 Income Statements

**2.5.1** The 2013 Income Statement:

- (i) is based on information properly extracted from the Seller's Group accounting records without adjustment; and
- (ii) presents fairly in all material respects the results of operations of the Vaccines and Diagnostics division of the Seller's Group as reported in the "Vaccines and Diagnostics" segment in the Novartis 2013 Annual Report for the period from and including 1 January 2013 up to and including 31 December 2013 excluding the Diagnostics Business but including the Influenza Business and the Out-Licensing Programme.

## 2.6 Statement of Net Assets

**2.6.1** Schedule 23 sets out the Statement of Net Assets.

**2.6.2** The Statement of Net Assets was prepared, in all material respects, in accordance with the Statement of Net Assets Rules, and on that basis fairly presents, in all material respects, the financial position of the Vaccines Group as of the date thereof, subject to year-end audit adjustments and the absence of footnote discussions and similar presentation items therein.

## 2.7 Changes Since 31 December 2013

Except as a result of the execution and delivery of this Agreement and, other than as contemplated by Clause 2.3.5 or Clause 5, from 31 December 2013 to the date of this Agreement:

- 2.7.1** the Business of the Vaccines Group has been conducted in all material respects in the ordinary and usual course;
- 2.7.2** the Vaccines Group has not entered into any material contract or commitment outside the ordinary course of business as conducted prior to 31 December 2013; and
- 2.7.3** to the Seller's knowledge, there has been no event or circumstance arising which is reasonably likely to have had a Material Adverse Effect (as if reference in the definition of "Material Adverse Effect" to the date of this Agreement were to 31 December 2013).



**2.8 Third Party Indebtedness and financial instruments**

None of the Vaccines Group Companies: (i) has any Third Party Indebtedness exceeding \$1 million (other than short-term bank borrowings in the ordinary course of business) or (ii) is a party to any financial instruments (including any swaps or derivatives)

**2.9 Gross Profit and DCOGS**

**2.9.1** So far as the Seller is aware, based on management allocations and adjustments, and having regard to the purpose for which it was prepared, the 2013 Gross Profit does not materially misstate the gross profit of the Vaccines Group for the period from and including 1 January 2013 up to and including 31 December 2013.

**2.9.2** So far as the Seller is aware, the 2013 DCOGS:

- (i) is derived from information extracted from the Seller’s Group reporting systems with reasonable care and attention; and
- (ii) having regard to the purpose for which the 2013 DCOGS was prepared, does not materially misstate the direct cost of goods of each of the Products identified in the 2013 DCOGS for the period from and including 1 January 2013 up to and including 31 December 2013.

**3 Real Property and Key Sites**

**3.1 Company Real Properties**

**3.1.1** The Company Real Properties are the only material freehold, leasehold or other immovable property in any part of the world owned, used or occupied by the Vaccines Group Companies or in respect of which any Vaccines Group Company has any estate, or any material interest, right or liability.

**3.1.2** Each of the Company Real Properties is used and occupied for the purpose of the business of a member of a Vaccines Group Company.

**3.1.3** A member of the Seller’s Group is solely legally and beneficially entitled to such Company Real Property.

**3.1.4** No person has or will have any right to possession, occupation or use of such Company Real Property in a manner that has or will have a material adverse effect on the use of, or operations at, such Company Real Property.

**3.1.5** There are no mortgages or charges affecting any of the Company Real Properties other than those registered in the relevant Land Register.

**3.1.6** There are no material outstanding disputes, actions, claims or demands in respect of any Company Real Property, nor has the Seller or any member of the Seller’s Group received any notice threatening the same.

**3.1.7** In respect of each Company Leased Real Property, all material covenants and conditions contained in the Company Lease have been observed and performed to date.

**3.2 Transferred Real Properties**

**3.2.1** The Transferred Real Properties are the only material freehold, leasehold or other immovable property in any part of the world owned or occupied by the Vaccines Group Businesses or in respect of which any Vaccines Group Business has any estate, or any material interest, right or liability.



- 3.2.2 Each of the Transferred Real Properties is used and occupied for the purpose of the business of the Vaccines Group Business.
- 3.2.3 A member of the Seller's Group is solely legally and beneficially entitled to such Transferred Real Property.
- 3.2.4 No person has or will have any right to possession, occupation or use of such Transferred Real Property in a manner that has or will have a material adverse effect on the use of, or operations at, such Transferred Real Property.
- 3.2.5 There are no mortgages or charges affecting any of the Transferred Real Properties other than those registered in the relevant Land Register.
- 3.2.6 There are no material outstanding disputes, actions, claims or demands in respect of any Transferred Real Property, nor has the Seller or any member of the Seller's Group received any notice threatening the same.
- 3.2.7 In respect of each Transferred Leased Real Property, all material covenants and conditions contained in the Lease have been observed and performed to date.

**3.3 Key Sites**

- 3.3.1 The Key Sites are the only properties used or occupied by the Seller's Group for the purpose of Manufacturing in respect of the Business.
- 3.3.2 No consents, licences, approvals, permits, authorisations or waivers are required from any Landlord, superior landlord or other third party to transfer any Key Site to the Purchaser (or any other member of the Purchaser's Group) indirectly (through the transfer of the Vaccines Group Companies).
- 3.3.3 There is no circumstance which would entitle any third party to exercise a right of power of entry or to take possession which would materially adversely restrict the continued possession, enjoyment or existing use of each Key Site and there are no material restrictive conditions of servitude or public easements attaching to each Key Site.
- 3.3.4 No member of the Seller's Group has had any notice from any competent authority to make any alteration, repair or addition to any Key Site, including with regards to the disposal of effluent or the state of buildings or the number of legally required parking spaces which is presently outstanding.

**4 Intellectual Property and Information Technology**

- 4.1 Schedule 4 sets out, as of the date of this Agreement, complete and accurate details of Registered Vaccines Group Intellectual Property Rights, including for each such item, as applicable, (i) the identity of the record owner, (ii) the registration or application number, and (iii) the jurisdiction of issuance or registration.
- 4.2 In relation to Products or Pipeline Products which are material to the Business, all documents and instruments necessary to maintain and preserve any extension of patent terms including Patent Term Extensions and patent term adjustments in relation to: the (i) Registered Vaccines Group Intellectual Property Rights; and (ii) any Registered Intellectual Property Rights licensed under any Vaccines Group Intellectual Property Contracts for which the Seller controls the prosecution and maintenance; and in each case, where such applications have a reasonable prospect of success, have been validly executed, delivered and filed in a timely manner with the appropriate Governmental Entity.



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- 4.3** Each of the Patents: (i) included within the Registered Vaccines Group Intellectual Property Rights for the Products or Pipeline Products which are material to the Business; and (ii) to the Seller's Knowledge, included within the Registered Intellectual Property Rights licensed under the Vaccines Group Intellectual Property Contracts for Products or Pipeline Products material to the Business, in each case, correctly identifies by name each inventor thereof as determined in accordance with the Applicable Law of each jurisdiction in which such Patent issued and/or is pending.
- 4.4** To the Seller's Knowledge, the Patents forming part of (i) the Registered Vaccines Group Intellectual Property Rights, and (ii) the Registered Intellectual Property Rights licensed under the Vaccines Group Intellectual Property Contracts in each case for the Products or Pipeline Products which are material to the Business are subsisting, valid and enforceable and have not lapsed or been abandoned.
- 4.5** All renewal, application and other registry fees required for the maintenance, prosecution and enforcement of the Registered Vaccines Group Intellectual Property Rights relating to Products or Pipeline Products that are material to the Business have been paid.
- 4.6** Schedule 4 sets out, a complete and accurate list of each material Vaccines Group Intellectual Property Contract. Neither the Seller nor any of its Affiliates has given, or received, written notice to terminate any material Vaccines Group Intellectual Property Contract or the Merck 2012 Licence, and neither the Seller nor any Affiliate of the Seller is in default of any material Vaccines Group Intellectual Property Contract or the Merck 2012 Licence. To the Seller's Knowledge, no third party is in default under any material Vaccines Group Intellectual Property Contract or the Merck 2012 Licence.
- 4.7** The Seller and its Affiliates between them own all Registered Vaccines Group Intellectual Property Rights and the Beta Interferon Patent Rights free of all Encumbrances except Permitted Encumbrances. The Seller and its Affiliates have taken reasonable steps to protect the confidentiality of Proprietary Information and Know-How relating to the Products.
- 4.8** To the Seller's Knowledge: (i) the conduct of the Business as currently conducted does not infringe or misappropriate the Intellectual Property Rights of any third party; and (ii) there is no material judicial, administrative or arbitral action, suit, hearing, inquiry, investigation or other proceeding (public or private) before any Governmental Entity pending against the Seller or any of its Affiliates in which it is alleged that the conduct of the Business as currently conducted by the Seller and its Affiliates infringes or misappropriates any Intellectual Property Rights of any third party. Neither the Seller nor any of its Affiliates has received any written notice of such infringement or misappropriation.
- 4.9** To the Seller's Knowledge, no third party is infringing or misappropriating any Vaccines Group Intellectual Property Rights or Proprietary Information and neither the Seller nor its Affiliates have made any such claims against any such persons, nor, to the Seller's knowledge is there any basis for such a claim.
- 4.10** The Vaccines Group Intellectual Property Rights, the Intellectual Property Rights licensed under the Vaccines Group Intellectual Property Contracts, and the Intellectual Property Rights licensed under the Purchaser Intellectual Property Licence Agreement constitute all the material Intellectual Property Rights used in the conduct of the Business as currently conducted by the Seller and its Affiliates on a worldwide basis; provided however, that the foregoing is not a representation of non-infringement, non-misappropriation, or any other non-violation of Intellectual Property Rights of any third party, which representation is solely set out in paragraph 4.8 above.



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- 4.11 All Information Technology necessary for the Business to be conducted in all material respects as it is carried on at the date of this Agreement is: (i) Owned Information Technology; (ii) is Transferred Information Technology; or (iii) will be provided by the Seller and its Affiliates to the Purchaser and the Business under the Transitional Services Agreement.
- 4.12 The Business has not, in the 12 months prior to the date of this Agreement, experienced any material disruption in its operations as a result of any failure of its Information Technology.

**5 Contracts**

- 5.1 No Vaccines Group Company or Business Seller is a party to or subject to any Contract, transaction, arrangement, understanding or obligation (other than in relation to any Property, lease or contract of employment, Information Technology or Intellectual Property Right) which is material to the business of the Vaccines Group and which:
  - 5.1.1 is not in the ordinary course of business or is unduly onerous;
  - 5.1.2 is not on an arm's length basis;
  - 5.1.3 has an unexpired term or likely duration of 10 years or more;
  - 5.1.4 restricts its freedom to carry on its business in any part of the world in such manner as it thinks fit;
  - 5.1.5 involves an aggregate outstanding expenditure by it of more than US\$50 million, exclusive of VAT;
  - 5.1.6 can be terminated in the event of a change of underlying ownership or control of a Vaccines Group Company; or
  - 5.1.7 involves the supply of goods and services, the aggregate sales value of which (exclusive of VAT) will be more than 5 per cent of turnover of the Vaccines Group (exclusive of VAT) for the preceding financial year.
- 5.2 Save in relation to any Vaccines Group Intellectual Property Contract, no Vaccines Group Company is in material default under any material Contract to which it is party and no third party is in material default under any material Contract to which a Vaccines Group Company is party and, to the Seller's knowledge, there are no circumstances in either case likely to give rise to such a material default.
- 5.3 Save in relation to any Vaccines Group Intellectual Property Contract, no Business Seller is in material default under any material Contract to which it is party and no third party is in material default under any material Contract to which a Business Seller is party and, to the Seller's knowledge, there are no circumstances in either case likely to give rise to such a material default.



**6 Joint Ventures etc.**

No Vaccines Group Company or Business Seller is, or has agreed to become, a member of any joint venture, consortium, partnership or other unincorporated association (other than a recognised trade association in relation to which the Vaccines Group Company or Business Seller has no liability or obligation except for the payment of annual subscription or membership fees).

**7 Agreements with Connected Parties**

- 7.1** There are no existing contracts or arrangements material to the business of the Vaccines Group between, on the one hand, any Business Seller or Vaccines Group Company and, on the other hand, the Seller, any Relevant Seller other than on normal commercial terms in the ordinary course of business.
- 7.2** No Affiliate Contract is required to run the Business and the termination of any Affiliate Contract will not, when taken together with the rights and services under the Ancillary Agreements and for the respective terms thereof, have a material effect on the Business.
- 7.3** The Vaccines Group Companies do not currently carry on any Seller's Group Retained Business (other than the Influenza Business).

**8 Sufficiency of Vaccines Group**

- 8.1** Each of the assets listed in Clause 2.3.1 is owned both legally and beneficially by the Seller or its Affiliates and each of those assets capable of possession is, save where in the possession of third parties in the ordinary course of business, in the possession of the Seller or its Affiliates.
- 8.2** Save for Permitted Encumbrances, no option, right to acquire, mortgage, charge, pledge, line or other form of security or Encumbrance (excluding licences of Intellectual Property or Know-How) or equity on, over or affecting the whole or any part of the assets listed in Clause 2.3.1 is outstanding and, save in relation to Permitted Encumbrances, there is no agreement or commitment entered into by any member of the Seller's Group to give or create any and no claim has been made against any member of the Seller's Group by any person entitled to any.
- 8.3** The Vaccines Group Businesses, assets of the Vaccines Group Companies and the assets of the Minority Interest Entities, when taken together with the rights and services under the Ancillary Agreements and for the respective terms thereof:
  - (lxxix) comprise all of the assets required to carry out the Business of the Vaccines Group in substantially the same manner as it has been during the twelve months prior to the date of this Agreement; and
  - (lxxx) are sufficient in all material respects to carry out the Business of the Vaccines Group after the Closing substantially as conducted by the Seller and its Affiliates as of the date of this Agreement,
 provided however, that the foregoing is not a warranty of non-infringement, non-misappropriation or any other non-violation of Intellectual Property Rights of any third party, which warranty is solely set out in paragraph 4.8.

**9 Compliance with Laws, Permits and Anti-Bribery**

- 9.1** None of the Seller or its Affiliates is in breach of any Applicable Law where such breach is reasonably likely to be material to the Vaccines Group.
- 9.2** Neither the Seller nor any of its Affiliates has received any written notice from any Governmental Entity that it is not in compliance (or any warning letter that it may not be in compliance) with any Applicable Law or is not in possession of any permits, licences, certificates or other authorisations or consents of a Governmental Entity in each case as is necessary for the conduct of the Business of the Vaccines Group in all material respects as presently conducted (each a “**Permit**” and, collectively, the “**Permits**”), except where such non-compliance or non-possession does not remain outstanding or uncured as of Closing or would not reasonably be expected to have a material effect on the Business.
- 9.3** With respect to the Vaccines Group, since 1 January 2009, neither the Seller nor any of its Affiliates, nor any of their respective directors, officers or employees and, to the Seller’s Knowledge, no Seller Partner has, directly or indirectly: (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity or to influence official action; (ii) made or offered to make any unlawful payment to any foreign or domestic government official or employee, or agent, political party or any official of such party, or political candidate from corporate funds; (iii) made or offered to make any bribe, rebate, payoff, influence payment, money laundering, kickback or other unlawful payment; or (iv) violated or is in violation of any provision of any applicable Anti-Bribery Law; and with respect to the Vaccines Group, the Seller and its relevant Affiliates have instituted and maintain policies and procedures reasonably designed to ensure compliance with applicable Anti-Bribery Law.
- 9.4** With respect to the Vaccines Group, neither the Seller nor any of its Affiliates, nor any of their respective directors, officers or employees and, to the Seller’s Knowledge, no Seller Partner: (i) is currently the subject of, nor has it been since 1 January 2009, the subject of, any action alleging a violation, or possible violation, of any Anti-Bribery Law, or been since 1 January 2009, the recipient of a subpoena, letter of investigation or other document alleging a violation, or possible violation, of any Anti-Bribery Law, or (ii) has, since 1 January 2009, improperly or inaccurately recorded in any books and records (A) any payments, cash, contributions, gifts, hospitalities or entertainment to a foreign or domestic government official, employee of an enterprise owned or controlled in whole or in part by any foreign government, official of a foreign or domestic political party or campaign, or a foreign or domestic candidate for political office; or (B) other expenses related to political activity or lobbying.
- 9.5** With respect to the Vaccines Group, since 1 January 2009, neither the Seller nor any of its Affiliates, nor any of their respective directors or officers, and, to the Seller’s Knowledge, none of their respective employees has received notice that any such person is or has been alleged to be in violation of any sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or by the U.S. Department of State or equivalent measures of the United Kingdom, European Union, or the United Nations (the “**Sanctions Law**”). With respect to the Vaccines Group, neither the Seller nor any of its Affiliates, nor any of their respective directors or officers, and, to the Seller’s Knowledge, none of their respective employees has conducted any of their business activities whatsoever with, or for the benefit of, a government, national or legal entity to the extent such actions would violate any Sanctions Law. None of the execution, delivery and performance of this Agreement and the direct or indirect use of proceeds from any transaction contemplated hereby or the fulfilment of the terms hereof will result in a violation by any person of any Sanctions Law.



**9.6** Each member of the Seller's Group, in connection with the Products, the Product Approvals, the Product Applications, the Transferred Contracts and the Transferred Intellectual Property Contracts requires its Service Providers to act in accordance with the requirements of applicable Anti-Bribery Law and uses all reasonable endeavours to procure that they do so. Each such Service Provider has in place policies, systems, controls and procedures designed to prevent, and which are reasonably expected to continue to prevent, it and its Associated Persons from violating applicable Anti-Bribery Law.

**10 Product Approvals**

**10.1** The Seller or one of its Affiliates is the registered holder of each of the Product Approvals. All material Product Approvals held by Seller or its Affiliates are in full force and effect. No material deficiencies have been asserted by any applicable Government Entity with respect to any Product Approval or Product Filing, nor, to the Seller's knowledge, are there any facts or circumstances that would be likely to lead to such assertions being made.

**10.2** Each Product was and is being researched, developed, manufactured, marketed or sold in all material respects in accordance with the specifications and standards contained in the relevant Product Approval and the related Marketing Authorisation Data and in accordance with Applicable Law.

**10.3** Neither the Seller or any of its Affiliates has received any written notice that any Governmental Entity with jurisdiction over the Products has commenced or will commence any action: (i) to withdraw the approval of any Product or otherwise revoke or materially amend any Product Approval or Marketing Authorisation Data; or (ii) enjoin production, marketing or sale of any Product and, to the Seller's knowledge, no such action has been threatened.

**10.4** All application and renewal fees due and payable with respect to all material Product Approvals have been paid.

**10.5** All preclinical and clinical investigations with respect to the Products are being and have been conducted in compliance with Applicable Law in all material respects. The Seller and its Affiliates have not, and to the Seller's Knowledge, none of its Product Partners or any other third party under any Licensed Intellectual Property Contract has received since 1 January 2009, any written notices or other correspondence from any Governmental Entity with respect to any on-going clinical or pre-clinical studies or tests of any Product requiring the termination, suspension or material modification of such studies or tests.

**10.6** None of the Seller or its Affiliates or, to the Seller's Knowledge, any Product Partner or any other third parties pursuant to any Licensed Intellectual Property Contract, has any knowledge of any adverse event, arising since the date three years prior to the date of this Agreement, reportable with respect to the safety or efficacy of any Product which is expected to be material.

**11 Product Recall**

**11.1** No Product (or any component thereof) has been recalled, suspended, withdrawn, seized, discontinued or the subject of a refusal to file, clinical hold, deficiency or similar action letter (including any correspondence questioning data integrity) as a result of any action by any Governmental Entity, by the Seller or any of its Affiliates; nor are any such actions pending or under consideration (or any facts, conditions, or circumstance known) by the Seller or any of its Affiliates, or, to the Seller's Knowledge, by any Governmental Entity. There is not, to the Seller's Knowledge, pending or threatened litigation anywhere in the world seeking the recall, withdrawal, suspension, seizure or discontinuance of any of the Products.



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**12 Product Liability**

The Products sold by the Business during the Relevant Period have complied in all material respects with all applicable product specifications and have been Manufactured in all material respects in accordance with applicable requirements of then current GMP and any Applicable Law, except for any such non-compliance that has not had, and would not reasonably be expected to have, a materially adverse impact on the relevant Product.

**13 Taxes**

- 13.1** Each Vaccines Group Company and each Tax Group to which it belongs has, and every member of the Seller's Group with an interest in the Vaccines Group has in respect of the Vaccines Group, duly, and within any appropriate time limits, filed all Tax Returns required to be filed and has maintained all records required to be maintained for tax purposes in relation to the assets comprised in the Vaccines Group; all such information was and remains complete and accurate in all material respects and all such Tax Returns were complete and accurate in all material respects and were made on the proper basis.
- 13.2** There are no Tax liens on any asset comprised in the Vaccines Group Businesses (other than Permitted Encumbrances).
- 13.3** No Vaccines Group Company and no Tax Group to which a Vaccines Group Company belongs is currently under audit or examination by a Tax Authority that could result in the assessment of a material amount of Tax and neither the Seller nor any Vaccines Group Company (nor any Tax Group to which a Vaccines Group Company belongs) has received notice from a Tax Authority of any dispute or disagreement outstanding or contemplated at the date of this Agreement with any Tax Authority regarding liability or potential liability to any Tax recoverable from any Vaccines Group Company or regarding the availability of any relief from Tax to any Vaccines Group Company and, so far as the Seller is aware, there are no circumstances which make it likely that any such dispute or disagreement will commence.
- 13.4** The Disclosure Letter lists every written agreement that a Vaccines Group Company has entered into, in each case, which is currently in force, to have its Tax affairs dealt with on a consolidated basis and for any Tax sharing arrangement (including without limitation any arrangement under which Tax losses or Tax reliefs are surrendered or agreed to be surrendered or claimed) in respect of the profits, gains or losses of that Vaccines Group Company with any company not being another Vaccines Group Company.
- 13.5** No Vaccines Group Company, and no Tax Group to which a Vaccines Group Company belongs, has received or requested any extension of time to file a Tax Return that remains unfiled or has granted or requested a waiver or extension of a limitation on any period for audit and examination or assessment and collection of Tax for any taxable period as to which Tax could be assessed.
- 13.6** No member of the Seller's Group with an interest in the Vaccines Group has received notice from a Tax Authority of, and so far as the Seller is aware, there is not any dispute or disagreement outstanding at the date of this Agreement with any Tax Authority regarding the proper method of computing the profits of the Vaccines Group (or any part of it) for Tax purposes or the proper treatment for VAT purposes of any supplies of goods or services made (or treated as made) in the course of the Vaccines Group and, so far as the Seller is aware, there are no circumstances which make it likely that any such dispute or disagreement will commence.



- 13.7** So far as the Seller is aware, no Vaccines Group Company benefits from any preferential Tax regime, granted by law or by special authorisation issued by any Tax Authority or by any other authority, which would in whole or in part be withdrawn as a result of the signature of this Agreement.
- 13.8** So far as the Seller is aware, no Tax Authority has within the past three years operated or agreed to operate any special arrangement (being an arrangement which is not based on relevant legislation or any published practice) in relation to any assets comprised in the Vaccines Group.
- 13.9** In respect of all documents which establish or are necessary to establish the title of the relevant member of the Seller's Group to each material asset comprised in the Vaccines Group, or by virtue of which the relevant member of the Seller's Group has any right in respect of each such asset, all applicable stamp duties, transfer taxes, registration charges or similar duties or charges have been duly paid.
- 13.10** So far as the Seller is aware, other than any payments which are of a nature or type (such as expenditure on business entertainment or marketing) which are not deductible for Tax purposes by reason of a general restriction on deductibility applicable to payments of that nature or type under the laws of the jurisdiction in which the relevant Vaccines Group Company is resident for Tax purposes or carries on its business, no Vaccines Group Company is under any obligation to make any future payment which will not be deductible for Tax purposes in an amount which, if the payment were deductible for Tax purposes, would reduce the Tax liability of the relevant Vaccines Group Company by an amount exceeding US\$5 million.
- 13.11** The country of incorporation which is given in Schedule 2 for each Vaccines Group Company is also the Tax residence of each Vaccines Group Company, and is the only country whose Tax Authorities seek to charge Tax on the worldwide profits or gains of that Vaccines Group Company and no Vaccines Group Company has, within the past three years, carried on the Business of the Vaccines Group through a permanent establishment in any other country.
- 14 Environmental Matters**
- 14.1** To the Seller's Knowledge, each Business Seller (with respect to its conduct of the Business and any Transferred Real Property) and Vaccines Group Company is in compliance in all material respects with all Environmental Laws.
- 14.2** To the Seller's Knowledge, each Vaccines Group Company and each Business Seller (with respect to its conduct of the Business and any Transferred Real Property) possesses all material Permits required under applicable Environmental Laws necessary to conduct its portion of the Business.
- 14.3** To the Seller's Knowledge, no Vaccines Group Company nor any Business Seller (with respect to its conduct of the Business and any Transferred Real Property) has received any written notice alleging a material violation of any Environmental Laws, other than matters that have been resolved in all material respects.



**14.4** To the Seller’s Knowledge, no Vaccines Group Company nor any Business Seller (with respect to its conduct of the Business and any Transferred Real Property) has received any written notice or claim alleging that it is or may be liable to any person in any material respect under any applicable Environmental Law as a result of a release or threatened release of any Hazardous Substance at any Transferred Real Property, other than matters that have been resolved in all material respects.

**14.5** To the Seller’s Knowledge, no Vaccines Group Company nor any Business Seller (with respect to its conduct of the Business and any Transferred Real Property) is a party to any pending proceedings relating to any Environmental Laws, other than proceedings that would not reasonably be expected to have a Material Adverse Effect.

**15 Employees**

**15.1** The Employees are all employed by a Vaccines Group Company or a Business Seller and work wholly or substantially in the Business (as carried on by the Vaccines Group).

**15.2** The Disclosure Letter contains a true, complete and correct list of the following information in respect of each Vaccines Business Employee and each Vaccines Group Company Employee as of 17 April 2014 (organised by country and, in relation to any Vaccines Group Company, by legal employer): (A) employee identification details; (B) date of birth; (C) employment status (part-time or full-time); (D) employment start date; (E) base salary; (F) target annual incentive for 2014 (and actual bonus for 2013); and (G) target long-term incentive for 2014 (and actual long-term incentive for 2013).

**15.3** In each of the Material Employee Jurisdictions except as would not be reasonably expected to have a Material Adverse Effect:

**15.3.1** as of the date of this Agreement there is not, and in the two years prior to the date of this Agreement there has not been, nor to the Seller’s Knowledge is there pending or threatened, any labour strike, dispute, work stoppage or lockout by any group of either Vaccines Business Employees or Vaccines Group Company Employees;

**15.3.2** no trade union or works council is recognised in any way for bargaining, information or consultation purposes in relation to any of the Vaccines Business Employees or Vaccines Group Company Employees and no collective bargaining negotiations, whether voluntary or mandatory, are currently taking place with respect to any of the Vaccines Business Employees or Vaccines Group Company Employees and, as of the date of this Agreement, no Vaccines Group Company or Business Seller is a party to any agreement (whether legally binding or not) with any trade union or works council affecting any Vaccines Business Employee or Vaccines Group Company Employee and there is no existing dispute with any such representative body (or, to the Seller’s Knowledge, pending or threatened) in relation to the Business (as carried on by the Vaccines Group);

**15.3.3** there is no material litigation, claim or other dispute existing, nor to the Seller’s Knowledge, pending or threatened by or in respect of any Employees (or any former employees of the Vaccines Group Companies) in respect of their employment or any matter arising from their employment; and



**15.3.4** no Vaccines Group Company or Business Seller has, within the 2 years prior to the date of this Agreement, closed any plant or facility, effectuated any layoffs of employees or implemented any early retirement, separation or similar programme in each case in violation of the WARN Act, nor has any Vaccines Group Company or Business Seller announced any such action or programme for the future.

**15.4** No Key Personnel has given notice terminating his or her contract of employment, nor is under notice of dismissal.

**15.5** To the Seller's Knowledge, and subject to the next sentence, no Vaccines Group Company Employee will, as a result of the entering into of this Agreement or Closing, be entitled to receive any payment or benefit which he would not otherwise be entitled to receive (including, without limitation, an enhanced severance package on a subsequent termination) or be entitled to treat either such event as amounting to a breach of his terms and conditions of employment or to treat himself as redundant or dismissed or released from any obligation. This warranty shall not apply to any retention arrangements (in the form of cash or shares) put in place by the Seller or any member of the Seller's Group to retain key employees in connection with the matters contemplated by this Agreement as described in paragraphs 10 and 11 of Schedule 11, or any arrangement relating to the share-based incentive schemes of the Seller's Group pursuant to paragraph 11 of Schedule 11.

**15.6** Since the Statement of Net Assets Date, no material change has been made, announced or proposed to the emoluments or other terms of employment of any Employee, and no such change, and no negotiation or request for such a change, is due or expected within 12 months from the date of this Agreement, and the employing company is under no obligation to make such a change (with or without retrospective operation) other than any arrangement relating to the share-based incentive schemes of the Seller's Group pursuant to paragraph 11 of Schedule 11.

**15.7** All the employees needed to carry on the Business (as carried on by the Vaccines Group) at the date of this Agreement at the Key Sites are employed by a Vaccines Group Company and, to the Seller's Knowledge (other than insofar as would not reasonably be expected to have a Material Adverse Effect) have not resigned and are not expected to resign their employment as a result of this Agreement or the transactions it contemplates.

**16 Employee Benefits**

**16.1** The Disclosure Letter contains a true, complete and correct list of all bonus, staff incentives (including any share-based incentive schemes), redundancy or other benefits payable on termination of employment (whether voluntary or involuntary but excluding arrangements required in accordance with Applicable Law), ill-health, Employee Benefits or other benefits which are the material benefits available to the Vaccines Business Employees and the Vaccines Group Company Employees in the Material Employee Jurisdictions. To the Seller's Knowledge, other than any arrangement relating to the share-based incentive schemes of the Seller's Group pursuant to paragraph 11 of Schedule 11, no Vaccines Group Company or Business Seller has made any promises or commitments to make available any additional benefits to the Vaccines Business Employees and the Vaccines Group Company Employees in the Material Employee Jurisdictions, or to modify or change in any material way any existing benefits in the Material Employee Jurisdictions, or to continue or maintain the level of any existing benefits generally for any period, which in each case could reasonably be expected to have a Material Adverse Effect.



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**16.2** The Disclosure Letter contains true and complete copies of all documents of any written benefit schemes, plans or arrangements referred to in paragraph 16.1 above applicable to either Vaccines Business Employees or Vaccines Group Company Employees in the Material Employee Jurisdictions containing material terms (including governing documents, and for benefit plans that are not share-based incentive schemes, related trust agreements or other funding documents) and a true, complete and correct summary of the material terms of any unwritten benefit schemes, plans or arrangements referred to in paragraph 16.1 above.

**16.3 Benefit Plans**

**16.3.1** In the Material Employee Jurisdictions all benefit and compensation schemes, plans, funds, contracts, policies, agreements or arrangements (other than the US Benefit Plans and any schemes, plans, funds, contracts, policies, agreements or arrangements operated by any Governmental Entity) (A) operated by or on behalf of a Vaccines Group Company or Business Seller, with respect to Vaccines Group Company Employees or Vaccines Business Employees or current or former employees or directors of a Vaccines Group Company, (B) in respect of which any Vaccines Group Company or Business Seller, with respect to Vaccines Group Company Employees or Vaccines Business Employees, the Seller or any member of the Seller’s Group contributes or has contributed or (C) in respect of which any Vaccines Group Company or Business Seller, with respect to Vaccines Group Company Employees or Vaccines Business Employees, has any liability (whether actual or contingent), including, but not limited to, plans providing Employee Benefits or during periods of sickness or disablement, or any deferred or incentive compensation, welfare, healthcare, medical, stock or stock-related award plans, including individual pension commitments, “jubilee” pension benefits and retirement and termination indemnity arrangements, and in relation to Switzerland, all plans, funds, contracts, policies, agreements or arrangements providing pension or other benefits on retirement (such schemes, plans, funds, contracts, policies, agreements and arrangements hereinafter being referred to as “Non-US Benefit Plans”) and the US Benefit Plans have been administered in accordance with their terms and are in compliance with Applicable Law, except for any failures to so administer or be in compliance that, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect. All required filings for all Benefit Plans have been made on time and with the appropriate Governmental Entity, except for any failures to timely file that, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect. As of the date of this Agreement, there is no existing, pending or, to the Seller’s Knowledge, threatened material litigation, claim or other dispute relating to Benefit Plans.

**16.3.2** The Vaccines Group Companies or Business Sellers, with respect to Vaccines Group Company Employees or Vaccines Business Employees in each Material Employee Jurisdiction, (A) are in material compliance with all Applicable Law respecting employment, employment practices, terms and conditions of employment, occupational health, safety, wages and hours, (B) have withheld all amounts required by Applicable Law, collective bargaining agreements or the Benefit Plans to be withheld from the wages, salaries or other payments to the Vaccines Group Company Employees or the Vaccines Business Employees and former employees of the Vaccines Group Companies, (C) in respect of the Vaccines Group Company Employees or Vaccines Business Employees or former employees of the Vaccines Group Companies, are not liable under any applicable provisions of the Benefit Plans and any Applicable Law for any arrears, wages, Taxes, other than payments not yet due, or any penalty for failure to comply with the foregoing and (D) are not liable under any applicable provisions of the Benefit Plans and any Applicable Law for any payment to any trust or other fund or to any Governmental Entity with respect to unemployment compensation benefits, workers compensation, social security or other benefits for Vaccines Group Company Employees or Vaccines Business Employees or former employees of the Vaccines Group Companies, other than payments not yet due, except, in each case, for any failures to comply, failures to withhold or liabilities that, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect.



**16.3.3** All material contributions that the Vaccines Group Companies or Business Sellers, with respect to Vaccines Business Employees or the Vaccines Group Company Employees in a Material Employee Jurisdiction and Switzerland, are required to make to any Benefit Plan in respect of the period on or before the date of this Agreement have been fully and timely paid when due.

**17** **Litigation**

**17.1** No Vaccines Group Company or Business Seller is involved whether as claimant or defendant or other party in any claim or Proceeding (other than as claimant in the collection of debts arising in the ordinary course of its business none of which exceeds US\$5 million) which is material to the Business.

**17.2** To the Seller's Knowledge, no such claim or Proceeding of material importance is pending or threatened by or against any Vaccines Group Company or Business Seller.

**18** **Insolvency**

**18.1** No order has been made and no resolution has been passed for the winding up of any Share Seller or any Business Seller, or for the appointment of any administrator, receiver (including administrative receiver) or liquidator (provisional or otherwise) over the whole or any part of the property, assets and/or undertaking of any Share Seller or any Business Seller.

**18.2** No petition has been presented or meeting convened for the purpose of considering a resolution or resolution circulated for the winding up of any Share Seller or any Business Seller, or for the appointment of any administrator, receiver (including administrative receiver) or liquidator (provisional or otherwise) over the whole or any part of the property, assets and/or undertaking of any Share Seller or any Business Seller.

**18.3** Neither any Share Seller nor any Business Seller has stopped payment or suspended payment of its debts generally, is insolvent or deemed unable to pay its debts as they fall due.

**19** **Insurance**

All material insurance policies relating to the Vaccines Group are in full force and effect and, to the Seller's Knowledge, no notice of cancellation, termination or default has been received with respect to any such insurance policy. All premiums due and payable on such policies covering periods up to Closing have been paid in full or accrued.



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**20 Consents and Licences**

**20.1** All governmental and quasi-governmental licences, consents, permissions, waivers, exceptions and approvals required for carrying on the Business of the Vaccines Group, the absence of which, individually or in the aggregate, would be material to the Vaccines Group, are in force and, to the Seller's Knowledge, no written notice has been received by the Seller or any member of the Seller's Group which indicates that any such licence, consent, permission, waiver, exception or approval is likely to be revoked or which may confer a right of revocation.

**21 Delinquent and Wrongful Acts**

**21.1** To the Seller's Knowledge, no member of the Seller's Group has, during the Relevant Period, committed any criminal or illegal act which relates to the Vaccines Group Companies or the Vaccines Group Businesses.

**21.2** No member of the Seller's Group has, during the Relevant Period, received notification that any investigation or inquiry is being or has been conducted by any supranational, national or local authority or governmental agency specifically related to the Vaccines Group, which is material in respect of the Vaccines Group.

**22 Compliance**

**22.1** No member of the Seller's Group has received in the Relevant Period any written notification or written claim (in each case, which remains outstanding) that it has conducted the Business of the Vaccines Group with respect to the research, development, manufacturing, distribution and sale of the Products in a manner which does not in any respect comply with all Applicable Law, or which in any respect is defective or dangerous, where the pursuit of any such notification or claim is, or would reasonably be expected to be, material in respect of the Vaccines Group.

**22.2** So far as the Seller is aware, the Vaccines Group has, and has during the Relevant Period been, operated in all material respects in compliance with all Applicable Law or standards and to the Seller's Knowledge there are no circumstances that could involve or lead to a material violation of any material Applicable Law or standards.

**23 Pipeline Products**

**23.1** The Seller or one of its Affiliates is the registered holder of each of the Pipeline Product Approvals, and the benefit of each Pipeline Product Approval can be transferred to the Purchaser (or another member of the Purchaser's Group) regardless as to whether such transfer occurs directly (whether by way of transfer, reissuance or any other equivalent mechanism under Applicable Law of the relevant jurisdiction) or indirectly (through the transfer of the Vaccines Group Companies).

**23.2** All development activities in relation to the Pipeline Products have been conducted in the ordinary course and in accordance with all Applicable Law and standards and to the Seller's Knowledge there are no circumstances relating to the development of the Pipeline Products that could involve or lead to a material violation of any material Applicable Law or standards.

**23.3** No material regulatory, clinical or safety event has occurred in relation to the Pipeline Products and no member of the Seller's Group has received any notification or claim from any person of any such event (or the possibility of any such event).



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**24 Manufacturing Licences and Manufacture**

**24.1** All Manufacturing Licences which are material to the Vaccines Group, are in effect and are validly held by a member of the Seller's Group and during the Relevant Period, to the Seller's Knowledge, no member of the Seller's Group has received any written notice of any suit, action or proceeding regarding the revocation or modification of any such Manufacturing Licence.

**24.2** No directive, order or notice has been given to the Seller or any member of the Seller's Group by any relevant regulatory authority to update, modify, amend, vary, supplement or delete any process and/or methodology relevant to the manufacture at the Sites of any Product currently manufactured at the Sites and, so far as the Seller is aware, no such directive, order or notice is pending.

**25 No Industrial Action**

To the Seller's Knowledge, there is no industrial action currently taking place, threatened or expected which is, or is expected to be, material to the Business.

**26 Ongoing Clinical Trials**

Schedule 22 contains a complete list of all Ongoing Clinical Trials.



**Schedule 19**  
**Warranties given by the Purchaser under Clause 9.3**

**1 Authority and Capacity**

**1.1 Incorporation**

The Purchaser is validly existing and is a company duly incorporated and registered under the law of its jurisdiction of incorporation.

**1.2 Authority to enter into Agreement**

**1.2.1** The Purchaser and each member of its Group has the legal right and full power and authority to enter into and perform this Agreement, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Ancillary Agreement.

**1.2.2** The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on the Purchaser and each member of its Group in accordance with their respective terms.

**1.2.3** Except as referred to in this Agreement, the Purchaser:

- (i) is not required to make any announcement, consultation, notice, report or filing; and
- (ii) does not require any consent, approval, registration, authorisation or permit,

in each case in connection with the performance of this Agreement or any other document referred to in paragraph 1.2.1.

**1.2.4** The execution and delivery of the documents referred to in paragraph 1.2.1 and the performance by the Purchaser and each member of its Group of their respective obligations under them, will not:

- (i) result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional document of the relevant member of the Purchaser's Group;
- (ii) result in a breach of, or constitute a default under, any instrument or contract to which the relevant member of the Purchaser's Group is party or by which the relevant member of the Purchaser's Group is bound where such breach is material to their ability to perform their obligations under such documents;
- (iii) result in a breach of any existing order, judgment or decree of any court, Governmental Entity by which the relevant member of the Purchaser's Group is bound and where such breach is material to their ability to perform their obligations under such documents.



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**1.3 Authorisation**

The Purchaser has taken, or will have taken by Closing, all corporate action required by it to authorise it to enter into and to perform this Agreement, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Ancillary Agreement.



**Schedule 20**  
**Pre-Closing Obligations**  
**(Clause 5.2)**

**Part 1**  
**Seller Restrictions**

The actions for the purposes of Clause 5.1.2 are:

- 1** amend or otherwise modify the constitutional documents of any Vaccines Group Company other than minor or administrative amendments or modifications which are not adverse to the Business or to the Purchaser of any member of the Purchaser's Group;
- 2** create, allot or issue, or grant an option or right to subscribe for or purchase, any share capital or other securities or loan capital of any Vaccines Group Company;
- 3** repay, redeem or repurchase any share capital, or other securities of any Vaccines Group Company;
- 4** make any acquisition or disposal which has a value in excess of US\$10 million, exclusive of VAT;
- 5** grant any guarantee or indemnity for the obligations of any person which has a value in excess of US\$5 million (other than in the ordinary course of trading);
- 6** dispose of, or agree to dispose of, any material asset or material stock at below market value other than in the ordinary course of business;
- 7** acquire or agree to acquire any share, shares or other interest in any company, partnership or other venture, other than an investment of 5 per cent or less of the total shares or interest in such company, partnership or venture and provided the investment is not more than US\$5 million;
- 8** enter into, extend, amend, give notice to terminate or vary in any material respect any lease of real property or change the existing use of such property which is material to the Vaccines Group;
- 9** cease, compromise or settle any dispute including litigation, arbitration or administrative proceedings in relation to (or otherwise compromise or settle) any claim by Pfizer which relates to any form of meningococcal vaccine (Group B) whether adjuvanted, combined or otherwise (or any similar product) of Pfizer or enter into any licensing arrangements with Pfizer in relation to such products or Intellectual Property Rights relevant to them;
- 10** enter into any borrowing facility which has a value in excess of US\$10 million;
- 11** enter into any off-balance sheet finance arrangements;
- 12** sell, lease, license, transfer or dispose of, or create any Encumbrance over, any material assets of the Vaccines Group other than (i) in the ordinary course of business (including any sale of inventory); or (ii) any Permitted Encumbrance;
- 13** (a) terminate, materially amend (or amend in any respect in relation to a Product or Pipeline Product which is material to the Business) or grant any material waiver under (or any waiver in relation to a Product or Pipeline Product which is material to the Business) any Vaccines Group Intellectual Property Contract or the Merck 2012 Licence or (b) terminate any Transferred Contract other than in the ordinary course of business or terminate any Contract held by the Vaccines Group Companies other than in the ordinary course of business;



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- 14** fail to comply in all material respects with all Applicable Law, Product Approvals, Pipeline Product Approvals and Marketing Authorisations applicable to the operation of the Business;
- 15** assign, dispose of, license (save in respect of non-exclusive licences relating to the Seller's research, development or Commercialisation of the Products) abandon any material Vaccines Group Intellectual Property Rights (or any Vaccines Group Intellectual Property Rights in respect of a Product or Pipeline Product which is material to the Business), or cease to prosecute or otherwise dispose of, fail to maintain, defend or pursue applications for any material Registered Vaccines Group Intellectual Property Rights (or any Registered Vaccines Group Intellectual Property Rights in respect of a Product or Pipeline Product which is material to the Business);
- 16** save where requested in writing by the Purchaser or required by any applicable Governmental Entity, cancel, surrender or materially amend (or amend in any respect in relation to a Product or Pipeline Product which is material to the Business) any applications, submissions or filings with respect to Registered Vaccines Group Intellectual Property Rights;
- 17** instigate, cease, compromise or settle any litigation or arbitration proceedings related to the Vaccines Group in relation to a claim for which the potential liability attaching thereto is in excess of US\$5 million;
- 18** make any material amendment to any Marketing Authorisation, Manufacturing Licence or Environmental Permit, in each case except to the extent required by: (a) Applicable Law; (b) any Governmental Entity, or (c) the standards, policies and procedures of the Seller's Group as then in force;
- 19** enter into or amend in any material respect any Transferred Contract, or incur any commitment, which is not capable of being terminated without compensation at any time with twelve months' notice or less or which is not in the ordinary course of business, or which involves or may involve total annual expenditure in excess of US\$10 million, exclusive of VAT;
- 20** enter into any contract which would materially restrict the freedom of the Vaccines Group to operate in any part of the world;
- 21** terminate (except for good cause) the employment of any Key Personnel;
- 22** take any steps to increase or reduce the proportion of time spent working in the Business (as carried on by the Vaccines Group) by any employee of any member of the Seller's Group or to transfer the employment of any Employee to another member of the Seller's Group or to employ or offer to employ or engage any new persons in the Business (as carried on by the Vaccines Group) other than in the ordinary course of business consistent with past practice and subject to an aggregate increase of not more than 2.5 per cent. in total staff costs of the Business (as carried on by the Vaccines Group) per annum, provided that this restriction shall not apply to the redeployment of any Vaccines Group Company Employee who is not wholly or substantially engaged in the Business (as carried on by the Vaccines Group) before the Closing Date to employment with another member of the Seller's Group;



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- 23 make, or commit to make, any changes to the terms and conditions of employment (including pension fund commitments or any increase to remuneration) or to any employee benefit plan of any Employee, other than (a) those required by Applicable Law or (b) pursuant to normal annual pay reviews in the ordinary course of business consistent with past practice and subject to an aggregate increase of not more than five per cent. in total staff costs of the Business (as carried on by the Vaccines Group) per annum or (c) retention arrangements in the form of cash or shares to retain key employees in connection with the matters contemplated by this Agreement as described in paragraphs 10 and 11 of Schedule 11, or (d) those changes to the share-based incentive schemes made for the purpose of complying with paragraph 11 of Schedule 11;
- 24 make any promises or commitment to any Employees or employee representative body concerning the matters contemplated by this Agreement or offer or otherwise give any assurances to any Employees as to the possibility of continued employment with the Purchaser's Group after Closing;
- 25 make any change or commitment to make any change to the terms of any redundancy policy or practice applying to the Employees (including amounts payable on redundancy);
- 26 enter into (where there is no existing agreement) or materially amend any collective bargaining agreement or other contract with a labour organisation, works council or employee organisation to create new or additional obligations for any member of the Seller's Group, in each case in relation to the Business (as carried on by the Vaccines Group); and
- 27 undertake any recall or withdrawal of any Product (other than in the ordinary course of business or to comply with Applicable Law).



## Part 2 Seller Obligations

### 1 Obligations Prior to be Satisfied prior to the Closing

At least five Business Days prior to the Closing Date, the Seller shall provide the Purchaser with a list of any required actions that must be taken within three (3) months after Closing with respect to the payment of any registration, maintenance, or renewal fees or the filing of any documents, applications or certificates in order to maintain any Registered Vaccines Group Intellectual Property Rights in full force and effect. Upon the Purchaser's reasonable request, the Seller shall execute and deliver assignment agreements and other transfer documentation, including, where applicable, duly executed assignments of such Registered Vaccines Group Intellectual Property Rights for recording with the applicable Governmental Entity, and to take such further actions, in each case at the Purchaser's reasonable cost and expense and as may be required, to give effect to the foregoing assignments.

### 2 Obligations from the Date of the Agreement to the Closing

The requirements for the purposes of Clause 5.1.3 are:

- 2.1 so far as permitted by Applicable Law, the Seller shall procure that each member of the Seller's Group informs the Purchaser promptly if the Seller becomes aware of, or has reasonable grounds for suspecting any violation of Anti-Bribery Law which is reasonably likely to have an impact on the Vaccines Group, and
- 2.2 carry out capital expenditure in relation to any site operated by the Vaccines Group where the Products are manufactured in a manner materially consistent (and within a variance of 10 per cent. in aggregate) with the Seller's capital expenditure programme for the Business as at the date of this Agreement;
- 2.3 maintain and keep any Registered Vaccines Group Intellectual Property Rights and ensure that all filings and notifications required to be made in respect of the same are made in accordance with past practice;
- 2.4 progress, in accordance with past practice any applications, submissions, filings or other correspondence relating to the grant of new Registered Vaccines Group Intellectual Property Rights;
- 2.5 progress, in accordance with past practice during the Relevant Period, any applications, submissions, filings or other correspondence initiated by such member of the Seller's Group relating to the grant of new Manufacturing Licences and Environmental Permits in respect of the Vaccines Group;
- 2.6 continue to promote, market and Commercialise the Products in accordance with past practice during the Relevant Period and do not materially accelerate or increase the quantity of Products distributed to the relevant distributors and/or wholesalers, in each case except in respect of a bona fide increase in demand for the relevant Product by the relevant distributor and/or wholesaler which has not been stimulated in any way by discounts, rebates, claw-backs or the like outside of the ordinary course of business or the grant of preferred terms offered by the Seller's Group outside of the ordinary course;



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- 2.7** not discontinue or cease to operate or materially reduce the resources applied to any part of the Business;
- 2.8** maintain the level of Manufacturing Stocks and Manufacturing Inventory held for use in the Business materially in accordance with the Seller's Group's operating policies as applied to the Vaccines Group from time to time in force;
- 2.9** maintain the level of In-Market Inventory held for use in the Business materially in accordance with the Seller's Group's operating policies as applied to the Vaccines Group from time to time in force;
- 2.10** use all reasonable endeavours to ensure that the manufacture of the Products by the Seller's Group comply with Applicable Law;
- 2.11** use all reasonable endeavours to ensure that the Products sold by the Business comply with Applicable Law;
- 2.12** continue to conduct the Ongoing Clinical Trials in accordance with GCP and the Seller Group's policies and procedures; and
- 2.13** notify the Purchaser in writing of any actual safety or quality issue in respect of any Product or the manufacture of any Product (as soon as reasonably practicable after becoming aware of the same) which issue the relevant member of the Seller's Group, acting reasonably and in good faith, considers material in the context of the manufacture or commercialisation of such Product.
- 2.14** so far as permitted by Applicable Law, report periodically to the Purchaser concerning the status of the Business, including delivering to the Purchaser as soon as reasonably practicable each month:
- 2.14.1** an update on material commercial developments in relation to the Business and the Products during the previous month;
- 2.14.2** the gross profit for each Product in respect of the previous month; and
- 2.15** a report on the month-end in-trade inventory in respect of each Product for the previous month prepared in the ordinary course of business consistent with past practice, together with a comparison against the comparable period of trading for the prior year;
- 2.16** use all reasonable endeavours to obtain a waiver in relation to the Transaction from the joint venture partner in Zhejiang Tianyuan Bio-Pharmaceutical Co. Ltd in respect of the joint venture partner's rights of first refusal; and
- 2.17** shall or shall procure that each member of the Seller's Group continues to respond to any Calls For Tender in accordance with past practices in the relevant market.



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**Part 3**  
**Exceptions**

Clause 5.1 shall not operate so as to prevent or restrict the declaration, making or payment of any dividend or other distribution to shareholders.



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**Schedule 21**  
**Key Employees**  
**(Clause 1.1)**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Schedule 22**  
**Ongoing Clinical Trials**  
**(Clause 1.1)**

**3 Ongoing interventional trials**

[\*\*\*]

**4 Ongoing observational Trials**

[\*\*\*]

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\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 23**  
**Statement of Net Assets**  
**(Clause 1.1)**

**Part 1**  
**Statement of Net Assets Rules**

Part 1 of Schedule 23 comprises the Statement of Net Assets Rules.

Part 2 of Schedule 23 sets forth, for illustrative purposes only, a computation of the Statement of Net Assets as of the close of business on 31 December 2013 (the “**Statement of Net Assets**”).

**1 Preparation of the Statement of Net Assets**

**1.1 Period**

The Statements of Net Assets is prepared as of the close of business on the final day of the relevant calendar month.

**1.2 Translation of Reporting Entity’s Statements of Net Assets**

A reporting entity reports in local currency. All reports are translated into US dollars by the Seller for reporting purposes. The Statement of Net Assets is translated with the period-end exchange rates which are the rates provided by Novartis Group Treasury and are based on Bloomberg’s mid-morning CET exchange rates and are published in the Group Treasury section of the Novartis intranet.

**1.3 Novartis Reporting System and Materiality:**

**1.3.1** Financial information is obtained from the Financial Consolidation & Reporting System of Novartis and the supporting general ledgers are prepared in accordance with Novartis’ Accounting Manual (the “**NAM**”). The Financial Consolidation & Reporting System is the system of record for Novartis external reporting. References in the Statement of Net Assets included as part 2 of this Schedule 23 shown as “**BS01 lines 010-671**” relate to the groupings shown in Novartis’ monthly reporting form “**BS01 – Balance sheet**”.

**1.3.2** For the Seller’s reporting purposes, the financial reporting of a legal entity is separated into a divisional part, which includes operating items and a corporate part, which mainly captures the amounts related to taxes, post-employment benefit obligations and most of the financial assets and liabilities. The Statement of Net Assets contains the business of the Vaccines division (including the Influenza Business) as included in Novartis’ segment reporting (column C - “**Vaccines Divisional Reported Statement of Net Assets**”), and items of the corporate Statement of Net Assets for the Vaccines Group Companies (Column D – “**Vaccines Statement of Net Assets of the Corporate part of the Vaccines Group Companies**” and items related to the Statement of Net Assets for the Novartis Vaccines Institute for Global Health (column E – “**Statement of Net Assets of the part of Novartis Vaccines Institute for Global Health**”) as well as adjustments for certain items which are either excluded from or added to the transaction (columns F - “**Excluded items**”). A US\$10 million threshold was applied. Column H shows the impact of the Influenza Business which is excluded from the transaction. For the purpose of the carve out of the Influenza Business allocations have been made based on management’s best estimate of the contribution of the Influenza Business. For Receivables own BU (BS01\_130) and Payables own BU (BS01\_620) items related to the entity in Liverpool, which will not transfer have been added back into the statement of net assets. For other entities amounts related to the Influenza Business have not been added back in as they are offsetting each other. Payables and Receivables to Other BU’s related to the Influenza Business have been left in the statement of net assets as they are not expected to be material on a net basis. A materiality threshold of US\$ 50million applies to the Influenza Business.



1.3.3 The Statement of Net Assets has been prepared as follows:

- (i) in accordance with the specific accounting treatments set out below; and, subject thereto,
- (ii) adopting the same accounting principles, methods, procedures and practices utilized in preparing the consolidated financial statements of Novartis AG as described in the Novartis Accounting Manual applied on a consistent basis using consistent estimation methodologies and judgments and with consistent classifications and, subject thereto,
- (iii) in accordance with IFRS.

1.3.4 For the avoidance of doubt, paragraph 1.3.3(i) shall take precedence over paragraphs 1.3.3(ii) and 1.3.3(iii), and paragraph 1.3.3(ii) shall take precedence over paragraph 1.3.3(iii).

2 **Specific Policies**

The following supplement the description in the NAM for certain items included in the Vaccines Group Statement of Net Assets:

2.1 **Non-Current assets**

2.1.1 **Property, plant and equipment (BS01\_010)**

For the purpose of the Vaccines Divisional Statement of Net Assets an amount of US\$122 million is included for assets which are not dedicated to the Vaccines Group and will not transfer to the Purchaser (as reflected in Column F). These assets comprise all property, plant and equipment located in Emeryville, California and in Pernambuco, Brazil.

2.1.2 **Financial assets &- subsidiaries/JV (BS01\_040)**

This line reflects equity investments that Vaccines Group Companies hold in other Vaccines Group Companies. These relationships have been eliminated in the Statement of Net Assets (as reflected in Column F).

2.1.3 **Total financing and loans to subsidiaries/JV (BS01\_050)**

This line represents financing owed by any member of the Seller's Group to a Transferred Subsidiary. For the purpose of the Statement of Net Assets balances within the Vaccines Group have been excluded (as reflected in Column F).

**2.2 Current Assets:****2.2.1 Trade receivables (BS01\_120)**

An amount of US\$51 million of trade receivables is excluded from this Statement of Net Assets (as reflected in Column F) as it relates to non-Vaccines business activity such as licence fee receivables related to HCV and HIV patents.

**2.2.2 Receivables own BU (BS01\_130)**

Column C of the Statement of Net Assets represents receivables against other entities within the Vaccines division, which are offset by an equivalent amount in the line Payables own BU. These amounts have been eliminated in Column F of the Statement of Net Assets.

**2.2.3 Receivables own BU – Corporate and Institute for Global Health (BS01\_130)**

Columns D and E of the Statement of Net Assets represent receivables against other members of the Seller's Group as well as other Vaccines Group Companies. The receivables against other Vaccines Group Companies have been eliminated in Column F of the Statement of Net Assets.

**2.2.4 Receivables other BU's (BS01\_140)**

Receivables recognized on this line are due from members of the Seller's Group operating in the Pharmaceuticals and Sandoz segments which are selling vaccines in markets where the Vaccines Group is not represented. The receivable of the Vaccines Institute for Global Health relates to a Transferred Subsidiary and has therefore been eliminated.

**2.2.5 Other current assets (BS01\_160)**

An amount of US\$5 million is related to current assets of the divested Diagnostics business, which did not transfer to the purchaser of the Diagnostics business. They are excluded from the Statement of Net Assets as they do not relate to the activities of the Vaccines Group (as reflected in Column F). Furthermore, an amount of US\$1 million is related to assets of the plant in Pernambuco, Brazil which will not be transferred and has therefore been excluded (as reflected in Column F) from the Statement of Net Assets.

**2.2.6 Prepaid share-based payments (BS01\_161)**

An asset for prepaid share-based compensation is recognized to reflect Novartis' internal charge-out mechanism for its equity settled share-based compensation plans. For entities settling the charge for the shares at the beginning of the vesting period, it reflects the expense yet to be recognized for the unvested part of a share-based compensation plan. This asset has been excluded (as reflected in Column F) and is not reflected in the Statement of Net Assets.

**2.3 Long-term Liabilities:****2.3.1 Total financing and loans from subsidiaries/JV (BS01\_520)**

This line represents financing received from any member of the Seller's Group. For the purpose of the Statement of Net Assets, balances within the Vaccines Group have been excluded (as reflected in Column F).

**2.3.2 Other non-current liabilities (BS01\_540)**

Column F excludes net liabilities for post-employment benefits of US\$90 million included in the corporate part of the Vaccines Group Companies as their treatment is addressed separately in Schedule 12.

**2.4 Current Liabilities:****2.4.1 Trade payables (BS01\_610)**

An amount of US\$11 million included in this line relates to the construction of the plant in Pernambuco, Brazil which will not be transferred and has therefore been excluded (as reflected in Column F) from the Statement of Net Assets.

**2.4.2 Payables own BU (BS01\_620)**

Column C of the Statement of Net Assets represents payables against other entities within the Vaccines division, which are offset by an equivalent amount in the line Receivables own BU. These amounts have been eliminated in the Statement of Net Assets.

**2.4.3 Payables own BU – Corporate (BS01\_620)**

Column D of the Statement of Net Assets represents payables against other Vaccines Group Companies as well as payables against other members of the Seller's Group. The corporate payables against Vaccines Group Companies have been eliminated in Column F of the Statement of Net Assets.

**2.4.4 Payables other BU's (BS01\_630)**

Payables recognized on this line are due to members of the Sellers' Group, except for a payable recognized by the Vaccines Institute for Global Health, which is owed to a Vaccines Group Company and has therefore been eliminated.

**2.4.5 Accrued and other current liabilities (BS01\_670)**

An amount of US\$35 million is related to short term liabilities of the divested Diagnostics business, which did not transfer to the purchaser of this Diagnostics business. They are excluded from the Statement of Net Assets (as reflected in Column F) as they do not relate to the activities of the Vaccines Group. Furthermore, an amount of US\$3 million relates to the construction of the plant in Pernambuco, Brazil, which will not be transferred and has therefore also been excluded (as reflected in Column F) from the Statement of Net Assets. An amount of US\$1 million relates to legal fees for litigation not related to the Vaccines Group.

**2.4.6 Accrued share-based payments (BS01\_671)**

A liability for share-based compensation is recognized to reflect Novartis' internal charge-out mechanism for its equity-settled share-based compensation plans. For entities settling the charge for the shares after the vesting period, it reflects the expense recognized for the vested part of a share based compensation plan. This liability has been excluded (as reflected in Column F) and is not reflected in the Statement of Net Assets.



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**Part 2**  
**Statement of Net Assets**

All amounts in \$ thousands

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>	<u>Column G</u>	<u>Column H</u>	<u>Column I</u>
	Vaccines Dataroom balance sheet Dec 31, 2013	Adjustments*	Vaccines Divisional Reported Statement of Net Assets at Dec 31, 2013	Vaccines Statement of Net Assets of the Corporate part of the Vaccines Group Companies	Statement of Net Assets of the part of Novartis Vaccines Institute for Global Health	Excluded items	Vaccines Group Statement of Net Assets Dec 31, 2013	Influenza business	Vaccines Group (excl. Influenza business) Statement of Net Assets Dec 31, 2013
BS01_010 Property, plant and equipment	***	***	***	***	***	***	***	***	729,492
BS01_020 Intangible assets	***	***	***	***	***	***	***	***	1,853,635
BS01_034 Financial assets_ associated companies	***	***	***	***	***	***	***	***	777
BS01_035 Financial assets - 3rd parties and loans to AC	***	***	***	***	***	***	***	***	17,981
BS01_040 Financial assets & subsidiaries//JV	***	***	***	***	***	***	***	***	0
BS01_042 Deferred tax assets	***	***	***	***	***	***	***	***	78,951
BS01_044 Other non- current non-financial assets	***	***	***	***	***	***	***	***	23,129
BS01_050 Total financing and loans to subsidiaries / JV	***	***	***	***	***	***	***	***	58,563
BS01_110 Total inventories	***	***	***	***	***	***	***	***	400,663
BS01_120 Trade receivables (3rd parties and AC)	***	***	***	***	***	***	***	***	335,387
BS01_130 Receivables own BU	***	***	***	***	***	***	***	***	21,818

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



	Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
BS01_130 Receivables own BU – Corporate and Institute for Global Health	***	***	***	***	***	***	***	***	865
BS01_140 Receivables other BU's	***	***	***	***	***	***	***	***	20,419
BS01_160 Other current assets (3rd parties and AC)	***	***	***	***	***	***	***	***	70,207
BS01_161 Prepaid share- based payments	***	***	***		***	***	***	***	0
BS01_180 Cash & cash equivalents	***	***	***	***	***	***	***	***	4,393
<b>Total Assets</b>	***	***	***	***	***	***	***	***	<b>3,616,280</b>
Bs01_511 Financial debt – long-term	***	***	***	***	***	***	***	***	8
BS01_520 Total financing and loans from subsidiaries// JV	***	***	***	***	***	***	***	***	680,633
BS01_535 Deferred tax liabilities	***	***	***	***	***	***	***	***	92,072
BS01_540 Other non- current liabilities (3rd parties and AC)	***	***	***	***	***	***	***	***	54,071
BS01_610 Trade payables (3rd parties and AC)	***	***	***	***	***	***	***	***	176,115
BS01_620 Payables own BU	***	***	***	***	***	***	***	***	15,056
BS01_620 Payables own BU – Corporate	***	***	***	***	***	***	***	***	3,239
BS01_630 Payables other BU's	***	***	***	***	***	***	***	***	40,675
BS01_651 Financial debt – Short-term (3rd parties and AC)	***	***	***	***	***	***	***	***	1,395

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



	Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
BS01_660 Income taxes payable	***	***	***	***	***	***	***	***	55,060
BS01_670 Accrued and other current liabilities (3rd parties and AC)	***	***	***	***	***	***	***	***	238,671
BS01_671 Accrued share-based payments	***	***	***	***	***	***	***	***	0
<b>Total Liabilities</b>	***	***	***	***	***	***	***	***	<b>1,356,995</b>
<b>Net Assets</b>	***	***	***	***	***	***	***	***	<b>2,259,285</b>

\* The difference for BS01\_010 Property, plant and equipment relates to the plant built in Pernambuco Brazil, which had been excluded in the dataroom balance sheet.

The difference for BS01\_160 Other current assets is composed of other current assets related to the Diagnostics Business, but which have not been transferred to Grifols; these were excluded in the dataroom balance sheet.

Line BS01\_620 and Line BS01\_630 have been combined into the line Intercompany payable in the dataroom balance sheet and items related to Pernambuco have been excluded.

The difference for BS01\_670 Accrued and other current liabilities is composed of items related to the Diagnostics business, which have not been transferred to Grifols and were therefore excluded in the dataroom balance and items related to the Plant in Pernambuco, which have also been excluded in the dataroom balance sheet.

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 24**  
**Regulatory Approvals**

The following table provides the additional jurisdictions and applicable antitrust, merger control, or foreign investment rules referenced in Clause 4.1.3.

This list of jurisdictions and statutes is not meant to be indicative of a known filing or approval requirement in these jurisdictions. To the extent that clearances, approvals, waivers, no action letters or consents are not required to be obtained or not otherwise agreed by the parties to be appropriate, and waiting periods are not required to have expired in these jurisdictions, prior to Closing, such clearances, approvals, waivers, no action letters, consents, and waiting period expirations will not be conditions precedent to Closing

<b>Country</b>	<b>Statute Under Which Filing/Approval is Required</b>
Australia	The Competition and Consumer Act of 2010
Brazil	Law No. 12,529 of November 30, 2011
Canada	The Competition Act
China	The Chinese Anti-Monopoly Law
India	The Competition Act of 2002, as amended by The Competition (Amendment) Act of 2007
Israel	The Restrictive Trade Practices Law, 5748-1988
Japan	The Act on Prohibition of Private Monopolisation and Maintenance of Fair Trade No. 54 of 1947
Mexico	The Federal Law on Economic Competition
New Zealand	The Commerce Act of 1986
Russia	Federal Law No. 135-FZ of July 16, 2006 on Protection of Competition
South Africa	The Competition Act 89 of 1998
South Korea	The Monopoly Regulation and Fair Trade Act
Taiwan	The Fair Trade Law of 1991
Turkey	The Law on Protection of Competition No. 4054 of 1994



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**Schedule 2**

**Amended Disclosure Letter**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of 91 pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



Exhibit 4.10

**CONFIDENTIAL TREATMENT REQUESTED**

**21 November 2014**

GLAXOSMITHKLINE PLC

and

NOVARTIS AG

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**DEED OF AMENDMENT AND RESTATEMENT**

**relating to the**

**SALE AND PURCHASE AGREEMENT**

**dated 22 April 2014, as amended and restated on 29 May 2014**

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**Freshfields Bruckhaus Deringer**

Freshfields, Bruckhaus Deringer LLP  
65 Fleet Street  
London EC4Y 1HS



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### Deed of Amendment and Restatement

This Deed (the “Deed”) is made on 21 November 2014 between:

- (1) **GLAXOSMITHKLINE PLC**, a public limited company incorporated in England and Wales whose registered office is at 980 Great West Road, Brentford, Middlesex, TW8 9GS (the “**Seller**”); and
- (2) **NOVARTIS AG**, a corporation (*Aktiengesellschaft*) incorporated in Switzerland whose registered office is at Lichtstrasse 35, 4056 Basel, Switzerland (the “**Purchaser**”),

each a “**party**” and together the “**parties**”.

**Whereas:**

- (A) The Seller and the Purchaser entered into the Original Agreement (as defined below) on 22 April 2014 (the “**Signing Date**”).
- (B) The parties now wish to further amend and restate the Original Agreement, in the form of the Amended Agreement (as defined below).

**It is agreed** as follows:

**1. Definitions and Interpretation**

In this Deed, unless the context otherwise requires, the provisions in this clause 1 apply.

**1.1 Incorporation of defined terms**

Unless otherwise stated, terms defined in the Original Agreement shall have the same meaning in this Deed.

**1.2 Definitions**

“**Amended Agreement**” means the Original Agreement, as amended and restated in the form set out in Schedule 1 to this Deed; and

“**Original Agreement**” means the Sale and Purchase Agreement relating to the Seller’s oncology business, dated 22 April 2014 as amended and restated on 29 May 2014.

**1.3 Interpretation Clauses**

- 1.3.1 The principles of interpretation set out in Clause 1 of the Original Agreement shall have effect as if set out in this Deed, save that references to “this Agreement” shall be construed as references to “this Deed”.
- 1.3.2 References to this Deed include the Schedule.

**2. Amendment**

- 2.1** In accordance with Clauses 16.4.3 and 16.5.1 of the Original Agreement, the parties agree that the Original Agreement shall be amended and restated as set out in Schedule 1 to this Deed.



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**2.2** The amendment and restatement of the Original Agreement pursuant to clause 2.1 shall take effect from the Signing Date, as if the Amended Agreement had been entered into on the Signing Date. Therefore, upon this Deed being entered into, the Amendment Agreement shall supersede the Original Agreement in its entirety.

**3. Miscellaneous**

**3.1** Each party represents and warrants that it has full power and authority to enter into this Deed and to perform its obligations under it.

**3.2** The provisions of Clauses 13, 16.2 to 16.5 and 16.11 to 16.15 of the Amended Agreement shall apply to this Deed as if set out in full in this Deed and as if references in that clause to “this Agreement” are references to this Deed and references to “party” or “parties” are references to parties to this Deed.



**In witness whereof** this Deed has been delivered on the date first stated above.

Executed as a DEED by )  
**GLAXOSMITHKLINE PLC** acting by its )  
 duly appointed attorney )  
 )  
 in the presence of: )

/s/ Subesh Williams  
 (Signature of attorney)

Witness's signature:

/s/ Emma Lloyd-Jones

Name (print):

Emma Lloyd-Jones

Occupation:

Trainee Solicitor

Address:

980 Great West Road  
 Brentford, TW8 9GS



Executed as a DEED by

Roland Altwegg and

Jonathan Emery  
on behalf of **NOVARTIS AG**

}

/s/ Roland Altwegg

/s/ Jonathan Emery



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**SCHEDULE 1**

**Amended Agreement**



Freshfields. Bruckhaus Deringer LLP  
65 Fleet Street  
London EC4Y 1HS



**Dated 22 April 2014**

**as amended and restated on 29 May 2014, and as further amended and restated  
on  
21 November 2014**

GLAXOSMITHKLINE PLC

and

NOVARTIS AG

---

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**SALE AND PURCHASE AGREEMENT**

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### Sale and Purchase Agreement

This Agreement is made on 22 April 2014, as amended and restated on 29 May 2014, and as further amended and restated on 21 November 2014

**Between:**

- (1) **GLAXOSMITHKLINE PLC**, a public limited company incorporated in England and Wales whose registered office is at 980 Great West Road, Brentford TW8 9GS, United Kingdom (the “**Seller**”); and
- (2) **NOVARTIS AG**, a corporation (*Aktiengesellschaft*) incorporated in Switzerland whose registered office is at Lichtstrasse 35, 4056 Basel, Switzerland (the “**Purchaser**”),

each a “**party**” and together the “**parties**”.

**Whereas:**

- (A) As of the date of this Agreement, the Seller and certain of the Seller’s Affiliates own or license certain assets and other rights relating to the Products and are engaged in the Business;
- (B) The Seller has agreed, *inter alia*, to procure the sale of the Share and to sell or license (or cause the sale or licence of) certain assets and other rights relating to the Products together with the Assumed Liabilities comprising the Business, and to assume the obligations imposed on the Seller under this Agreement;
- (C) The Purchaser has agreed, *inter alia*, to purchase or procure the purchase of the Share and to purchase or license certain assets and other rights relating to the Products, together with the Assumed Liabilities comprising the Business, and to assume the obligations imposed on the Purchaser under this Agreement;
- (D) In connection with the transactions contemplated by this Agreement, the Purchaser and the Seller, or certain of their respective Affiliates, will enter into the Ancillary Agreements; and
- (E) The Seller has notified the Purchaser of its intention to carry out the Pre-Closing Product Reorganisation and accordingly this Agreement has been amended to give effect to it.

**It is agreed** as follows:

**1. Interpretation**

In this Agreement, unless the context otherwise requires, the provisions in this Clause 1 apply:



1.1 Definitions

“**Action**” means the taking of any steps by any Governmental Entity to seek a Judgment which would have the effect of preventing the consummation of the transactions contemplated by this Agreement by the Purchaser;

“**Affiliate**” means:

- (i) with respect to any person (other than a party to this Agreement), any other person that Controls, is Controlled by or is under common Control with such person; or
- (ii) with respect to a party to this Agreement, any other person that is Controlled by such party,

and “**Affiliates**” shall be interpreted accordingly;

“**Agreed Terms**” means, in relation to a document, such document in the terms agreed between the Seller and the Purchaser and signed for identification purposes by the Seller’s Lawyers and the Purchaser’s Lawyers, with such alterations as may be agreed in writing between the Seller and the Purchaser from time to time;

“**Agreed UK Restructuring Arrangement**” means the pension augmentation (or cash in lieu of augmentation) policy applying on redundancy to UK employees of the Seller’s Group who joined service prior to 1 April 2005 as disclosed to the Purchaser prior to the date of this Agreement via a document which was signed on 22 April 2014 by Eleanor Hart of Slaughter and May and Andrew Murphy of Freshfields Bruckhaus Deringer LLP for identification purposes;

“**Agreement**” means this business sale and purchase agreement;

“**Allocation Statement**” means a statement prepared in accordance with Schedule 10 allocating whole number percentages to each of the Products so that the aggregate of those percentages equals 100 per cent.;

“**Allowance**” means any amount payable or repayable to customers in respect of a contractual allowance or discount due on the sales of products;

“**Ancillary Agreements**” means the Implementation Agreement, the Company Tax Indemnity, the Disclosure Letter, the Manufacturing and Supply Agreement, the Transitional Distribution Services Agreement, the France Offer Letter, the France SPA, the Netherlands Offer Letter, the Netherlands APA, the Purchaser Tax Indemnity, the Transitional Services Agreement, the Ofatumumab Intellectual Property Licence Agreement, the Oncology Intellectual Property Licence Agreement, the Intellectual Property Assignment, the Claims Management Agreement, the Quality Agreement, and the Pharmacovigilance Agreement;

“**Anti-Bribery Law**” means any Applicable Law that relates to bribery or corruption, including the US Foreign Corrupt Practices Act of 1977 and the UK Bribery Act 2010, in each case as amended, re-enacted or replaced from time to time;

“**Applicable Law**” means any supra-national, federal, national, state, municipal or local statute, law, ordinance, regulation, rule, code, order (whether executive, legislative, judicial or otherwise), judgment, injunction, notice, decree or other requirement or rule of law or legal process (including common law), or any other order of, or agreement issued, promulgated or entered into by, any Governmental Entity or any rule or requirement of any national securities exchange, including all Healthcare Laws, and GCP, GLP, and GMP, each as may be amended from time to time;



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“**Aspen Agreements**” means: (i) the Amended and Restated Sale and Purchase Agreement dated 14 August 2012 and amended and restated on 30 November 2012, between Glaxo Group Limited and Aspen Global Incorporated; and (ii) the Principal Manufacturing and Supply Agreement dated 14 August 2002, between GlaxoSmithKline Trading Services Limited and Aspen Global Incorporated;

“**Assets**” means the property, rights and assets referred to in Clause 2.3.1, in each case excluding the Excluded Assets;

“**Associated Person**” means, in relation to the Seller’s Group, a person (including any director, officer, employee, agent or other intermediary) who performs services for or on behalf of any member of the Seller’s Group or who holds shares of capital stock, partnership interests, limited liability company membership interests and units, shares, interest and other participations in any member of the Seller’s Group (in each case when performing such services or acting in such capacity);

“**Assumed Liabilities**” means the Liabilities of the Business other than: (i) the Excluded Liabilities; (ii) any Relevant Pension and Employment Liability; and (iii) any Liabilities in respect of Tax;

“**Benefit Plans**” means the US Benefit Plans and the Non-US Benefit Plans;

“**Business**” means the business of the Seller’s Group (including the Company) of research and development (including any studies or trials (whether or not undertaken with third parties)) relating to the Products and the Commercialisation of the Products but excluding (i) the Manufacturing of the Products and (ii) the Seller Pipeline;

“**Business Consideration**” has the meaning set forth in Clause 3.1.1;

“**Business Day**” means a day which is not a Saturday, a Sunday or a public holiday in the canton of Basel-Stadt (Switzerland) or London;

“**Business Goodwill**” means the goodwill of the Business;

“**Business Product Intellectual Property Rights**” means the Owned Product Intellectual Property Rights and the Transferred Product Intellectual Property Rights;

“**Business Sellers**” means the members of the Seller’s Group that own assets of or otherwise conduct any of the Business immediately prior to Closing, or for the purposes of the Seller’s Warranties, at the date of this Agreement;

“**Cabilly Agreement**” means the licence and settlement agreement dated 26 March 2012 between:

- (i) Genentech Inc.;
- (ii) City of Hope;



- (iii) Glaxo Group Limited;
- (iv) Lonza Biologics Inc.; and
- (v) Lonza Biologics plc;

“**Call for New Tender**” means any calls for a tender (including any tender for a basket of products), whether a new tender or the renewal of an existing tender, which includes the Products and which is published after Closing of which the Seller and/or any of the Seller’s Affiliates become aware and which relates in whole or in part to the sale of Products;

“**Certificate**” means a certificate signed by a director, officer or an authorised signatory of the Seller in the form set out in Schedule 16, to be provided to the Purchaser immediately prior to Closing;

“**CFIUS**” means the Committee on Foreign Investment in the United States;

“**CFIUS Approval**” means written notice from CFIUS that any review or investigation of the Transaction under Section 721 of the Defense Production Act of 1950, as amended (50 U.S.C. App. Section 2170), has been concluded and there are no unresolved national security concerns with respect to the Transaction or the President of CFIUS shall have determined not to take action with respect to the Transaction;

“**CFIUS Filing**” has the meaning set forth in Clause 4.2.3;

“**Claims Management Agreement**” means the agreement between the Seller and the Purchaser, to be negotiated in good faith between the parties and entered into at Closing, in respect of the management of claims or investigations by or against third parties (including by any Governmental Entity) which constitute or may constitute an Assumed Liability or an Excluded Liability;

“**Clinical Trials/Data Liability**” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the conduct of, or reporting or data in relation to, clinical studies or trials (including post-approval studies) in relation to the Products or the Business;

“**Closing**” means the completion of the sale of the Share and the Business pursuant to this Agreement;

“**Closing Date**” means the date on which Closing takes place;

“**COBRA**” means the Consolidated Omnibus Budget Reconciliation Act of 1985 of the United States, as amended, section 4980B of the Code, Title I Part 6 of ERISA, and any similar US state group health plan continuation law, together with its implementing regulations;

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended, together with its implementing regulations;

“**Commercial Information**” means information that is, as of the Closing Date, owned by the Seller and/or its Affiliates and relates exclusively to the Commercialisation of any Product;



“**Commercial Practices Liability**” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the Commercialisation of products;

“**Commercialise**” means to promote, market, distribute and/or sell a Product and “**Commercialising**” and “**Commercialisation**” shall be construed accordingly;

“**Company**” has the meaning given to it in Schedule 18;

“**Company Intra-Group Debt**” means all sums owed by the Company to GlaxoSmithKline Finance plc at the Closing Date (immediately prior to Closing) as shall be notified by the Seller to the Purchaser in accordance with Clause 6.3.2;

“**Company Tax Indemnity**” has the meaning given to it in Schedule 18;

“**Competing Product**” has the meaning given to it in Clause 12.1;

“**Contract**” means any binding contract, agreement, instrument, lease, licence or commitment, excluding any contract with any Employee;

“**Contracts Liabilities**” means Liabilities relating to the: (i) Transferred Contracts; (ii) Transferred Intellectual Property Contracts; and (iii) all other contracts or parts thereof transferred, assigned, novated or assumed by the Purchaser pursuant to this Agreement, and a “**Contracts Liability**” shall mean any one of them;

“**Control**” means the power to direct the management and policies of a person (directly or indirectly), whether through ownership of voting securities, by Contract or otherwise (and the term “**Controlled**” shall be interpreted accordingly);

“**Co-Owned Business Product Intellectual Property Right**” means any Business Product Intellectual Property Right that is owned in part by a third party;

“**Co-Owned Transferred Product Intellectual Property Right**” means any Transferred Product Intellectual Property Right that is owned in part by a third party;

“**Copyright**” means any works of authorship, copyrights, database rights, mask work rights and registrations and applications therefor;

“**Cork FDA Matter**” means the deficiencies in GMP noted in the observations made by the FDA in a Form FDA 483 following an inspection of the Cork Site between 18 and 23 October 2013 which are the subject of the Warning Letter dated 18 March 2014 issued by the FDA to a member of the Seller’s Group;

“**Data Room**” means the electronic data room containing documents and information relating to the Business made available by Intralinks on behalf of the Seller, the contents of which are listed in the Disclosure Letter;

“**Decision**” means the issuing of any decision by a competition, antitrust, foreign investment, national, local, supranational or supervisory or other government, governmental, quasi-governmental, trade, or regulatory body, agency, branch, subdivision, department, commission, official or authority, including any Tax Authority and any governmental department and any court or other tribunal, that would have the effect of prohibiting the acquisition of the Business by the Purchaser;



“**Deferred Employee**” means any person to whom the Seller or any other member of the Seller’s Group has made an offer of employment for a role within the Business in compliance with Clause 5 and whose employment in the Business will take effect on a date following the Closing Date, save that no person shall become a Deferred Employee unless and until the Seller has provided to the Purchaser a copy of the offer letter setting out the agreed principal terms of employment and/or employment agreement (if executed) applicable to such person;

“**Development Plan**” means the development plans and study protocols, including the target product profile, development designs, timelines and costs of the studies and trials being undertaken by the Seller’s Group (whether or not approved by any Governmental Entity) in respect of each Product Expansion as at the date of this Agreement, including the Key Study Plans;

“**Disclosure Letter**” means the letter dated on the same date as this Agreement from the Seller to the Purchaser disclosing information constituting exceptions to the Seller’s Warranties;

“**Divested Zofran Product**” means Zofran (Ondansetron) in Australia, following the divestment by the Seller or its Affiliates of its rights to Commercialise it in Australia only to Aspen Global Incorporated;

“**Election Date**” has the meaning set forth in Clause 4.2.3;

“**Employee Benefit Indemnification Amount**” has the meaning given to it in Schedule 9;

“**Employee Benefits**” has the meaning given to it in Schedule 9;

“**Employees**” means, other than Excluded Employees, the employees of any member of the Seller’s Group who work wholly or substantially in the Business from time to time including the International Assignees and provided that, in relation to the Seller’s Warranties only, the words “from time to time” shall be deemed to be replaced by “at the date of this Agreement”, and “**Employee**” means any one of them;

“**Encumbrance**” means any claim, charge, mortgage, lien, option, equitable right, power of sale, pledge, hypothecation, usufruct, retention of title, right of pre-emption, right of first refusal or other security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing, and for the avoidance of doubt, shall exclude any licences of, or claims of infringement relating to, Intellectual Property Rights;

“**ERISA**” means the Employee Retirement Income Security Act of 1974 of the United States, as amended, together with its implementing regulations;

“**Estimated Employee Benefit Adjustment**” means the Seller’s reasonable estimate (in so far as practicable), made in good faith after consulting with the Purchaser, of 95 per cent. of the anticipated aggregate of the Employee Benefit Indemnification Amounts, to be notified by the Seller to the Purchaser pursuant to Clause 6.3.9;

“**Excluded Assets**” means the property, rights and assets referred to in Clause 2.3.2;



“**Excluded Contracts**” means, collectively, each Contract: (i) which is not Exclusively Related to the Business; or (ii) which is listed in Part 2 of Schedule 3;

“**Excluded Employees**” means the employees of any member of the Seller’s Group who work in the Discovery organisation as operated by the Seller’s Group, together with such other employees of any member of the Seller’s Group as may be agreed in writing between the Seller and the Purchaser after the date of this Agreement but before the Closing Date;

“**Excluded Liabilities**” means all Liabilities relating to:

- (i) the Business to the extent they have arisen or arise (whether before or after Closing) as a result of, or otherwise relate to, an act, omission, fact, matter, circumstance or event undertaken, occurring, in existence or arising before Closing, other than any Relevant Pension and Employment Liability;
- (ii) the Seller Group Retained Business; and
- (iii) any Seller Allowance, Rebate and Royalty Amount;

“**Exclusively Related to the Business**” means exclusively related to, or exclusively used or held for use exclusively in connection with, the Business;

“**Exploitation Arrangements**” has the meaning given to it in Schedule 18;

“**FCA**” means the Financial Conduct Authority;

“**FDA**” means the United States Food and Drug Administration (or its successor);

“**France Assumed Liabilities**” means the Assumed Liabilities to the extent they relate to the France Business;

“**France Business**” means that part of the Business, comprising the activities of the France Employees;

“**France Closing**” has the meaning given to it in the France SPA;

“**France Employees**” means those of the Employees who are employed in France;

“**France Offer Letter**” means the letter from the Purchaser to the Seller in respect of the binding offer from the Purchaser to acquire the France Business dated on or around the date hereof;

“**France Put Option Exercise**” has the meaning given to it in the France Offer Letter;

“**France SPA**” OR “**France APA**” has the meaning given to it in the France Offer Letter;

“**FSMA**” means the Financial Services and Markets Act 2000;

“**Full Disclosure**” means disclosure by the Seller to the Purchaser of the material terms, including financial terms, of a Relevant Part of a Shared Business Contract;

“**Full Title Guarantee**” means on the basis that the covenants implied under Part 1 of the Law of Property (Miscellaneous Provisions) Act 1994 where a disposition is expressed to be made with full title guarantee are deemed to be given by the Seller (on behalf of the relevant Share Seller or Business Seller) on Closing;



“**Genmab**” means Genmab A/S, a Danish corporation having its principal office at Toldbodgade 33, DK-1253 Copenhagen K, Denmark;

“**Genmab Agreement**” means the co-development and collaboration agreement between Genmab and Glaxo Group Limited dated 19 December 2006 (as amended from time to time) relating to the development, manufacturing and commercialisation of pharmaceutical products containing Ofatumumab;

“**Good Clinical Practices**” or “**GCP**” means the then-current standards, practices and procedures promulgated or endorsed by (i) the ICH Harmonised Tripartite Guidelines for Good Clinical Practice (CPMP/ICH/135/95) and any other guidelines for good clinical practices for trials on medicinal products in the European Union; (ii) the FDA as set forth in the guidelines entitled “Guidance for Industry E6 Good Clinical Practice: Consolidated Guidance,” including related regulatory requirements imposed by the FDA; and (iii) the equivalent Applicable Law in any relevant country;

“**Good Laboratory Practices**” or “**GLP**” means the then-current standards, practices and procedures promulgated or endorsed by: (i) the European Commission Directive 2004/10/EC relating to the application of the principles of good laboratory practices as well as “The rules governing medicinal products in the European Union,” Volume 3, Scientific guidelines for medicinal products for human use (ex-OECD principles of GLP); (ii) the then-current standards, practices and procedures promulgated or endorsed by the FDA as defined in 21 C.F.R. Part 58; and (iii) the equivalent Applicable Law in any relevant country;

“**Good Manufacturing Practices**” or “**GMP**” means the then-current standards, practices and procedures promulgated or endorsed by: (i) the European Commission Directive 91/356/EEC, as amended by Directive 2003/94/EC and 91/412/EEC respectively, as well as “The rules governing medicinal products in the European Union,” Volume 4, Guidelines for good manufacturing practices for medicinal products for human and veterinary use; (ii) the FDA and the provisions of 21 C.F.R. Parts 210 and 211; (iii) the principles detailed in the ICH Q7A guidelines; and (iv) all Applicable Law with respect to each of (i) through (iii);

“**Governmental Entity**” means any supra-national, federal, national, state, county, local, municipal or other governmental, regulatory or administrative authority, agency, commission or other instrumentality, any court, tribunal or arbitral body with competent jurisdiction, or any national securities exchange or automated quotation service including, any governmental regulatory authority or agency responsible for the grant approval, clearance, qualification, licensing or permitting of any aspect of the research, development, manufacture, marketing, distribution or sale of the Products including the FDA, the European Medicines Agency, or any successor agency thereto;

“**Governmental Liability**” means any Liability arising out of, relating to or resulting from any claim, demand, action, suit, proceedings or investigation by a Governmental Entity (other than a Tax Authority) brought or undertaken in connection with products sold or developed by, or operations or practices of, the Seller’s Group prior to Closing;



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“**GSK Break Fee**” has the meaning given to it in the Implementation Agreement;

“**Headline Amount**” has the meaning given to it in Clause 3.1.1;

“**Healthcare Laws**” means the federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)); the Anti-Inducement Law (42 U.S.C. § 1320a-7a (a)(5)); the civil False Claims Act (31 U.S.C. §§ 3729 et seq.); the administrative False Claims Law (42 U.S.C. § 1320a-7b(a)); the Exclusion Laws (42 U.S.C. § 1320a-7); the Medicare statute (Title XVIII of the Social Security Act), including Social Security Act §§ 1860D-1 to 1860D-43 (relating to Medicare Part D and the Medicare Part D Coverage Gap Program); the Medicaid statute (Title XIX of the Social Security Act); the Physician Payment Sunshine Act (42 U.S.C. § 1320a-7h) and any analogous state laws; the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. § 1320d et seq.), as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and any other similar Law, including the price reporting requirements and the requirements relating to the processing of any applicable rebate, chargeback or adjustment, under applicable rules and regulations relating to the Medicaid Drug Rebate Program (42 U.S.C. § 1396r-8), any state supplemental rebate program, Medicare average sales price reporting (42 U.S.C. § 1395w-3a), the Public Health Service Act (42 U.S.C. § 256b), the Veterans Health Care Act (38 U.S.C. § 8126), regulatory requirements applicable to sales on the Federal Supply Schedule or under any state pharmaceutical assistance program or United States Department of Veterans Affairs agreement, all legal requirements relating to the billing or submission of claims, collection of accounts receivable, underwriting the cost of, or provision of management or administrative services in connection with, any and all of the foregoing, by the Seller’s Group and any successor government programs, and all foreign equivalents of the foregoing;

“**HSR Act**” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, together with its implementing regulations;

“**Implementation Agreement**” means the implementation agreement dated the date of this Agreement between the Seller, and the Purchaser relating to, amongst other things, the implementation of the Transaction;

“**In-Market Inventory**” means all inventory of Products for Commercialisation that, at any particular time: (i) is beneficially owned by a member of the Seller’s Group; and (ii) is in finished packed form and released for Commercialisation; and (iii) is located: (a) in (or in transit to) the relevant Market; or (b) in (or in transit to) a multi-market warehouse owned or operated by a member of the Seller’s Group or by a third party; or (c) at a primary or secondary manufacturing site pending despatch following release by the relevant qualified person to the relevant market or multi-market warehouse;

“**Information Technology**” means computer, hardware, software and network;



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“**Intellectual Property Assignment**” means, collectively, the intellectual property assignment agreements that may be entered into between the Seller, the Purchaser or their respective Affiliates at Closing on terms consistent with the Agreed Terms;

“**Intellectual Property Rights**” means all: (i) Patents; (ii) Know-How; (iii) Trademarks; (iv) internet domain names; (v) Copyrights; (vi) rights in designs; (vii) database rights; and (viii) all rights or forms of protection, anywhere in the world, having equivalent or similar effect to the rights referred to in paragraphs (i) to (vii) above, in each case whether registered or unregistered and including applications for registration of any such thing;

“**International Assignees**” means the employees of any member of the Seller’s Group as may be agreed in writing between the Seller and the Purchaser after the date of this Agreement but before the Closing Date;

“**IP Liability**” means any Liability arising out of, relating to or resulting from any actual or alleged infringement, misappropriation or other violation of Intellectual Property Rights of third parties;

“**JTI**” means Japan Tobacco Inc., a Japanese corporation having its principal office at 2-1Toranomon, 2-chome, Minato-ku, Tokyo 105-8422, Japan;

“**JTI Agreement**” means the licence agreement between JTI and SmithKline Beecham Corporation (doing business as GSK) dated 18 April 2006 (as amended from time to time);

“**Judgment**” means any order, writ, judgment, injunction, decree, stipulation, determination, decision or award entered by or with any Governmental Entity of competent jurisdiction;

“**Key Financial Information**” means: (i) the gross profit (being net sales less standard costs, less third party royalties) for each of the Key Products in respect of the financial year ended 31 December 2013; and (ii) the net sales for the Key Products in respect of the financial years ended 31 December 2012 and 31 December 2011, as set out in an annex to the Disclosure Letter;

“**Key Personnel**” means the Employees listed in Schedule 20;

“**Key Products**” means Tykerb, Promacta, Votrient, Arzerra, Tafinlar and Mekinist;

“**Key Study Plans**” means the plans relating to certain combination studies involving the Products appended to this Agreement at Schedule 17;

“**Know-How**” means all existing and available technical information, know-how and data, including inventions (whether patentable or not), discoveries, trade secrets, specifications, instructions, processes and formulae, including all biological, chemical, pharmacological, biochemical, toxicological, pharmaceutical, physical, safety, quality control, preclinical and clinical data;

“**Liabilities**” means all liabilities, claims, damages, proceedings, demands, orders, suits, costs, losses and expenses of every description, whether deriving from contract, common law, statute or otherwise, whether present or future, actual or contingent, ascertained or unascertained or disputed and whether owed or incurred severally or jointly or as principal or surety;



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“**LIBOR**” means the London interbank offered rate, being the interest rate offered in the London inter-bank market for three month US dollar deposits as displayed on pages LIBOR01 or LIBOR02 of the Reuters screen at 11 a.m. (London) on the second Business Day prior to the Closing Date;

“**Licensed Intellectual Property Contract**” means any Contract under which Product Intellectual Property Rights have been licensed by a third party to the Seller or any Affiliate thereof or to a third party by the Seller or any Affiliate thereof;

“**Licensed Product Intellectual Property Rights**” means all Intellectual Property Rights licensed to the Seller or its Affiliates under any Transferred Intellectual Property Contract;

“**Listing Rules**” means the listing rules made by the FCA under section 73A of FSMA;

“**Local Transfer Document**” has the meaning given to it in Clause 2.5;

“**Long Stop Date**” has the meaning given to it in Clause 4.3;

“**Losses**” means all losses, liabilities, costs (including legal costs and experts’ and consultants’ fees), charges, expenses, actions, proceedings, claims and demands;

“**MA Costs**” has the meaning given to it in paragraph 4.1 of Part 2 of Schedule 6;

“**MA Documentation**” has the meaning given to it in paragraph 1.5 of Part 2 of Schedule 6;

“**Manufacture**” or “**Manufacturing**” or “**Manufactured**” means planning, purchasing of materials for, production, processing, compounding, storage, filling, packaging, labelling, leafleting, warehousing, quality control testing, waste disposal, quality release, sample retention and stability testing of products;

“**Manufacturing and Supply Agreement**” means the manufacturing and supply agreement to be entered into between the Seller and the Purchaser at Closing on terms consistent with the heads of terms in the Agreed Terms;

“**Manufacturing Licences**” means any certificates, permits, licences, consents and approvals issued by any Governmental Entity, used in the operation or conduct of Manufacturing any Product, and “**Manufacturing Licence**” shall be construed accordingly;

“**Marketing Authorisation Data**” means the existing and available dossiers containing the relevant Know-How used by the Seller and/or its Affiliates to obtain and maintain the Marketing Authorisations including with respect to any Product Expansion Application;

“**Marketing Authorisation Holder**” means the holder of the relevant Marketing Authorisation;



“**Marketing Authorisation Re-registration**” has the meaning given to it in paragraph 1.1.2 of Part 2 of Schedule 6;

“**Marketing Authorisation Re-Registration Date**” means the date on which the relevant Governmental Entity approves, or is deemed to approve, the relevant Marketing Authorisation Re-registration;

“**Marketing Authorisation Transfer**” has the meaning given to it in paragraph 1.1.1 of Part 2 of Schedule 6;

“**Marketing Authorisation Transfer Date**” means the date on which the relevant Governmental Entity approves, or is deemed to approve, the relevant Marketing Authorisation Transfer;

“**Marketing Authorisation Transferee**” means the member of the Purchaser’s Group or, where no member of the Purchaser’s Group satisfies the requirements under Applicable Law to be transferred the relevant Marketing Authorisation, such Third Party as is nominated by the Purchaser, in either case to whom the relevant Marketing Authorisation is to be transferred;

“**Marketing Authorisations**” means the marketing authorisations issued or applications for Marketing Authorisations with respect to the Products and all supplements, amendments and revisions thereto including any pending Product Expansion Application;

“**Markets**” means the markets in which the Products are marketed and sold under the relevant Marketing Authorisation, and “**Market**” shall be construed accordingly;

“**Material Adverse Effect**” means any matter, change, event or circumstance arising or discovered on or after the date of this Agreement and prior to Closing (including a breach of the Seller’s obligations under Clause 5 or Clause 9.1) (a

“**Relevant Matter**”) that, individually or in the aggregate with other Relevant Matters, if known to the Purchaser prior to the date of this Agreement, could reasonably have expected to have resulted in the Purchaser offering to acquire the Business on the terms of this Agreement at a discount to the Headline Amount of 30 per cent. or more, and, in determining such reduction, regard shall be had to the actual basis on which the Purchaser determined the Headline Amount. A Relevant Matter shall not constitute or count towards a “Material Adverse Effect” to the extent resulting or arising from:

- (i) any change that is generally applicable to, or generally affects, the industries or markets in which the Business operates (including changes arising as a result of usual seasonal variations) or arises from or relates to changes in Applicable Law or accounting rules or changes in any authoritative interpretation of any Applicable Law by any Governmental Entity;
- (ii) any change in financial, securities or currency markets or general economic or political conditions or changes in prevailing interest rates or exchange rates;
- (iii) the execution of this Agreement, the public announcement thereof or the pendency or consummation of the transactions contemplated hereby (including any cancellations of or delays in customer orders or other decreases in customer demand, any reduction in revenues and any disruption in supplier, distributor, customer or similar relationships); or



(iv) the taking of any action expressly required by this Agreement or by any Ancillary Agreement or otherwise taken with the advance written consent of the Purchaser,

except, in relation to either paragraph (i) or paragraph (ii) above, if that change adversely affects the Business in a disproportionate manner relative to other comparable businesses operating in the same industry and geographic markets as the Business (in which case it may constitute or count towards a “Material Adverse Effect”);

“**Material Employee Jurisdictions**” means France, Germany, Japan, the United Kingdom and the United States of America;

“**Medical Information**” means information relating to clinical and technical matters, such as therapeutic uses for the approved indications, drug-disease information, and other product characteristics Exclusively Related to the Business which is available to or used by the Seller and/or its Affiliates;

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“**Netherlands APA**” has the meaning given to it in the Netherlands Offer Letter;

“**Netherlands Assumed Liabilities**” means the Assumed Liabilities to the extent they relate to the Netherlands Business;

“**Netherlands Business**” means that part of the Business, comprising the activities of Netherlands Employees;

“**Netherlands Closing**” has the meaning given to it in the Netherlands APA;

“**Netherlands Employees**” means those of the Employees who are employed in the Netherlands;

“**Netherlands Offer Letter**” means the letter from the Purchaser to the Seller in respect of the binding offer from the Purchaser to acquire the Netherlands Business dated on or around the date hereof;

“**Netherlands Put Option Exercise**” has the meaning given to it in the Netherlands Offer Letter;

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



“**New Marketing Authorisation**” has the meaning given to it in paragraph 3.1 of Part 2 of Schedule 6;

“**Non-US Benefit Plans**” has the meaning given to it in paragraph 13.3.1 of Schedule 14;

“**Notice**” has the meaning given to it in Clause 16.11.1;

“**Novartis Break Fee**” has the meaning given in the Implementation Agreement;

“**OIG**” has the meaning given to it in Clause 4.1.12;

“**Ofatumumab Agreements**” means the Transferred Contracts and the Transferred Intellectual Property Contracts that relate to the Ofatumumab Compound, including but not limited to (i) the Genmab Agreement, (ii) the side letter to the Genmab Agreement dated 8 June 2012, and (iii) the Cabilly Agreement;

“**Ofatumumab Compound**” means the compound Ofatumumab;

“**Ofatumumab Indications**” means: (i) multiple sclerosis; (ii) rheumatoid arthritis; (iii) pemphigus; and (iv) neuromyelitis optica;

“**Ofatumumab Indications Data**” means any data or other information owned by any member of the Seller’s Group as at the date of Closing relating exclusively to the use of the Ofatumumab Compound for the Ofatumumab Indications;

“**Ofatumumab Intellectual Property Licence Agreement**” means the intellectual property licence agreement to be entered into between the Seller and the Purchaser or their respective Affiliates at Closing on terms consistent with the heads of terms in the Agreed Terms in respect of the grant of a licence from the Purchaser to the Seller of certain Intellectual Property Rights related to the Ofatumumab Compound;

“**Oncology Intellectual Property Licence Agreement**” means the intellectual property licence agreement to be entered into between the Seller and the Purchaser or their respective Affiliates at Closing on terms consistent with the heads of terms in the Agreed Terms, in respect of the grant of licences from the Seller to the Purchaser of certain Intellectual Property Rights;

“**Ongoing Clinical Trials**” means the ongoing clinical studies sponsored or supported by the Seller Group (including post-approval studies) or otherwise recommended by a Governmental Entity, and regulatory commitments in respect of the Products, and “**Ongoing Clinical Trial**” shall mean any one of them;

“**Out of Scope Patent**” means any Patent of the Seller’s Group at the date of Closing, but excluding: (i) the Business Product Intellectual Property Rights; and (ii) any Patents licensed under the Oncology Intellectual Property Licence Agreement;

“**Owned Product Intellectual Property Rights**” means the Intellectual Property Rights listed at Part 1 of Schedule 2 and all other Intellectual Property Rights Exclusively Related to the Business that, in each case, are owned by the Company, including the Registered Owned Product Intellectual Property Rights and, for the avoidance of doubt, excluding any Intellectual Property Rights in Seller Combination Compounds;



“**PA Transfer Date**” means, in relation to a Product, the date upon which the relevant Governmental Entity approves and notifies the Product Approval (as applicable) naming the Purchaser or the relevant Affiliate of the Purchaser (or designee thereof) as the holder of such Product Approval in the relevant country or territory covered by that Product Approval;

“**Patents**” means, patents, design patents, patent applications, and any reissues, re-examinations, divisionals, continuations, continuations-in-part, provisionals, and extensions thereof or any counterparts to any of the foregoing (including rights resulting from any post-grant proceedings relating to any of the foregoing);

“**Patent Term Extensions**” means any and all extension of the term of a Patent granted under the Patent laws or regulations of any country, the European Union, or any other Governmental Entity;

“**Pending Marketing Authorisation**” has the meaning given to it in paragraph 3.2 of Part 2 of Schedule 6;

“**Permitted Cash Receivable**” means a debt owed to the Company by a member of the Seller’s Group other than GlaxoSmithKline Finance plc, payable on demand to the Company or as the Company directs, not exceeding £5 million multiplied by the number of months from and including 29 September 2014 to Closing;

“**Permitted Encumbrance**” means:

- (i) Encumbrances imposed by Applicable Law otherwise than in respect of Tax;
- (ii) Encumbrances imposed in the ordinary course of business which are not yet due and payable or which are being contested in good faith;
- (iii) Encumbrances which are listed in Schedule 5; and
- (iv) liens, title retention arrangements or deposits to secure the performance of bids, trade contracts (other than for borrowed money), conditional sales contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of the Business;

“**Pharmacovigilance Agreement**” means the agreement between the Seller and the Purchaser, to be entered into at Closing, in respect of pharmacovigilance and regulatory matters relating to the Products;

“**Pre-Closing Product Reorganisation**” means the steps described in Part 1 of Schedule 18 as may be amended from time to time in accordance with Part 3 of Schedule 18;

“**Pre-Closing Receivables**” means all outstanding payments due to the Seller or any of its Affiliates as at Closing related to the period prior to Closing for goods or services supplied or rights licensed by it or on its behalf in the ordinary and usual course of carrying on the Business other than any Permitted Cash Receivable;

“**Proceedings**” means any legal actions, proceedings, suits, litigations, prosecutions, investigations, enquiries, mediations or arbitrations;



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“**Product Approvals**” means all permits, licences, certificates, clearances, registrations or other authorisations or consents issued by any Governmental Entity to the Seller or one of its Affiliates with respect to the Products or the Product Expansions, or the manufacture, use, research, development, marketing, distribution or sale thereof, including the Marketing Authorisations;

“**Product Expansion Applications**” means all of the applications or planned applications for Product Expansions set out in Schedule 1 including those listed in the column “Product Expansion Applications” in Part 1 of Schedule 1, with each individual application being a “**Product Expansion Application**”;

“**Product Expansion**” means in relation to any Product:

- (i) the expansion of the indications or formulations for such Product for use as monotherapy; and
- (ii) the expansion of the indications or formulations for such Product for use in combination with any other compound including without limitation those set out in Part 2 of Schedule 1 but excluding any Seller Combination Compounds;

“**Product Filings**” means all filings, written representations, declarations, listings, registrations, reports or submissions with or to any Governmental Entity, including adverse event reports and all submitted data relating to each Product;

“**Product Liabilities**” means any Liability arising out of, relating to or resulting from actual or alleged harm, injury, damage or death to persons in connection with the use of any product (including in any clinical trial or study);

“**Product Partners**” means any third parties which pursuant to a Contract with Seller or any Affiliate of Seller co-develop, co-promote, co-market, or otherwise have a licence or other right to research, develop, manufacture, promote, distribute, market, or sell any Product, including all manufacturers and suppliers of any such Product;

“**Products**” means the products set out under the heading “Products” in Part 1 of Schedule 1 (but excluding the Divested Zofran Product);

“**Proprietary Information**” means all confidential and proprietary information of the Seller or its Affiliates that is Exclusively Related to the Business, including confidential Medical Information confidential Know-How and confidential Commercial Information;

“**Product Intellectual Property Rights**” means all Intellectual Property Rights related to, or used, or held for use in connection with the Products or the manufacture, use, research, development, marketing, distribution or sale thereof;

“**Purchaser’s Group**” means the Purchaser and its Affiliates from time to time, and includes the Company with effect from Closing;

“**Purchaser’s Lawyers**” means Freshfields Bruckhaus Deringer LLP of 65 Fleet Street, London EC4Y 1HS, United Kingdom;

“**Purchaser Tax Indemnity**” has the meaning given to it in Schedule 18;



“**Quality Agreement**” means the agreement between the Seller and the Purchaser, to be entered into at Closing, in respect of regulatory compliance and product safety and quality with respect to the manufacture of the Products;

“**Rebate**” means any amount payable or repayable to customers or Governmental Entities in respect of a contractual rebate or other rebate including under applicable Healthcare Laws (or under similar laws or regulations) due on sales of the Products;

“**Reduction Amount**” has the meaning given to it in Clause 6.3;

“**Registered Business Product Intellectual Property Rights**” means all Business Product Intellectual Property Rights that are Registered Intellectual Property Rights, including those set out at Part 1 of Schedule 2;

“**Registered Intellectual Property Product Rights**” means all Registered Business Product Intellectual Property Rights, Registered Licensed Product Intellectual Property Rights and Registered Shared Product Intellectual Property Rights;

“**Registered Intellectual Property Rights**” means Intellectual Property Rights that are registered, issued, filed, or applied for under the authority of any Governmental Entity;

“**Registered Licensed Product Intellectual Property Rights**” means all Licensed Product Intellectual Property Rights that are Registered Intellectual Property Rights;

“**Registered Owned Product Intellectual Property Rights**” means all Owned Product Intellectual Property Rights that are Registered Intellectual Property Rights, including those set out at 1 of Schedule 2;

“**Registered Shared Product Intellectual Property Rights**” means all Shared Product Intellectual Property Rights that are Registered Intellectual Property Rights;

“**Registered Transferred Product Intellectual Property Rights**” means all Transferred Product Intellectual Property Rights that are Registered Intellectual Property Rights, including those set out at Part 1 0 of Schedule 2;

“**Regulation**” has the meaning given to it in Clause 4.1.1;

“**Relevant Development Product**” has the meaning given to it in Clause 8.12;

“**Relevant Employees**” means the Employees immediately prior to the Closing Date and “**Relevant Employee**” means any one of them;

“**Relevant Employers**” means the Sellers and such other members of the Seller’s Group who employ the Relevant Employees;

“**Relevant Employer’s FSAs**” has the meaning given to it in paragraph 7.1 of Schedule 8;

“**Relevant Part**” means the relevant part of the Shared Business Contracts which relates exclusively to the Business (or the relevant part of the Business that is transferred to the Purchaser at Closing);



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“**Relevant Pension and Employment Liability**” means (i) any Liabilities assumed by the Purchaser or a member of the Purchaser’s Group as contemplated by Schedule 8; and (ii) any Transferred Employee Benefit Liabilities (as defined in Schedule 9) which the Purchaser agrees to assume in accordance with Schedule 9;

“**Relevant Period**” means the period of two years prior to the date of this Agreement;

“**Relevant Purchaser Business**” has the meaning given to it in Clause 4.1.12;

“**Reporting Accountants**” means the London office of Ernst & Young or, if that firm is unable or unwilling to act in any matter referred to them under this Agreement, the London office of Deloitte or, if that firm is also unable or unwilling to act in any matter referred to them under this Agreement, an internationally recognised and independent firm of accountants who does not act as auditor to the Seller or the Purchaser, to be agreed by the Seller and the Purchaser within seven days of a notice by one to the other requiring such agreement or, failing such agreement, to be nominated on the application of either of them by or on behalf of the Institute of Chartered Accountants of England and Wales;

“**Representatives**” means, in relation to any party, any of its and/or any other member of the Purchaser’s Group’s or Seller’s Group’s directors, officers, employees, agents, representatives, bankers, auditors, accountants, financial advisers, legal advisers and any other professional advisers;

“**Required Notifications**” has the meaning given to it in Clause 4.2.1;

“**Restricted Group Employee**” means any Transferred Employee who has access to trade secrets or other confidential information relating to the Business with an annual basic salary in excess of US\$150,000;

“**Royalty**” means any royalty payable in respect of sales of the Products;

“**SA Distribution Agreement**” has the meaning given to it in paragraph 1.1 of Part 2 of Schedule 19;

“**Sanctions Law**” has the meaning given to it in paragraph 7 of Schedule 14;

“**Seller Allowance, Rebate and Royalty Amount**” means any Allowance, Rebate or Royalty payable after Closing by the Purchaser or any member of the Purchaser’s Group, to the extent it relates to the sales of any Products made prior to Closing;

“**Seller Articles of Association**” means the articles of association of the Seller in force and effect from time to time;

“**Seller Combination Compounds**” means any compounds owned by the Seller or a member of the Seller’s Group (other than a Product) which are used in combination with the Products;

“**Seller Marks**” means any Trademark of the Seller containing the marks listed in Schedule 23;



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“**Seller Pipeline**” means:

- (i) any research and development activities relating to any compound (other than the Products) at any stage of development by or on behalf of the Seller that is not yet approved for marketing for use in humans and all assets, rights and contracts relating to those activities (except where those assets, rights and contracts relate to the Products, save in relation to (ii) below); and
- (ii) subject to Clause 8.5.3, assets, rights and contracts relating to pre-clinical research which do not relate exclusively to the Products;

“**Seller Partner**” shall mean any counterparty to a development, contract research, commercialisation, manufacturing, distribution, sales, marketing, supply, consulting or other collaboration Contract with the Seller or any Affiliate of the Seller;

“**Seller Shareholder Meeting**” has the meaning given to it in Clause 4.1.8;

“**Seller Shareholder Resolution**” has the meaning given to it in Clause 4.1.8;

“**Seller Shareholders**” means the holders of ordinary shares in the capital of the Seller from time to time;

“**Seller’s Group**” means the Seller and its Affiliates from time to time but excluding from Closing, the Company;

“**Seller’s Group Insurance Policies**” means all insurance policies (whether under policies maintained with third party insurers or any member of the Seller’s Group) maintained by the Seller or any member of the Seller’s Group in relation to the Business or under which, immediately prior to Closing, the Seller or any member of the Seller’s Group in relation to the Business is entitled to any benefit, and “**Seller’s Group Insurance Policy**” means any one of them;

“**Seller’s Group Retained Business**” means all businesses of the Seller’s Group, including the manufacture and/or supply of the Divested Zofran Product pursuant to the Aspen Agreements, but excluding the Business;

“**Seller’s Indian Business**” means that part of the Business conducted by any member of the Seller’s Group in the Republic of India;

“**Seller’s Knowledge**” has the meaning given to it in Clause 9.1.4;

“**Seller’s Lawyers**” means Slaughter and May of One Bunhill Row, London EC1Y 8YY;

“**Seller’s Warranties**” means the warranties given by the Seller pursuant to Clause 9.1 and Schedule 14, and “**Seller’s Warranty**” means any one of them;

“**Separation**” has the meaning given to it in paragraph 1.4 of Schedule 7;

“**Service Provider**” means an Associated Person who is a legal person;

“**Share**” means the entire issued share capital of the Company;



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“Share Consideration” means, subject to Clause 6.3.3, an amount equal to the product of:

- (x) the Headline Amount less the aggregate of the Business Consideration, the amount of the Company Intra-Group Debt, any Employee Benefit Indemnification Amount and any amount to be deducted pursuant to Clause 6.3.6; and
- (y) 100 divided by 100.5;

“Share Seller” means Glaxo Group Limited, a company incorporated in England and Wales with registered number 00305979;

“Shared Business Contracts” means any Contract which relates both:

- (i) to the Business or any part of the Business to be transferred to the Purchaser at Closing; and
- (ii) to any part of the Seller’s Group Retained Business, any product other than the Products, or any Excluded Asset,

and to which a member of the Seller’s Group is a party or in respect of which a member of the Seller’s Group has any liability or obligation at Closing (including, for the avoidance of doubt, the Zofran Trade Mark and Domain Name Licence) and “Shared Business Contract” shall mean any of them;

“Shared Product Intellectual Property Rights” means all Intellectual Property Rights which shall be licensed to the Purchaser pursuant to the Oncology Intellectual Property Licence Agreement;

“Six-Month LIBOR” means the London interbank offered rate, being the interest rate offered in the London inter-bank market for six month US dollar deposits as displayed on page LIBOR01 of the Reuters screen at 11 a.m. (London) on the second Business Day prior to the date on which the Reduction Amount becomes payable;

“SSA Collaboration Agreement” has the meaning given to it in paragraph 1.1 of Part 2 of Schedule 19;

“Stamp Duty Amount” means an amount equal to 0.5% of the Share Consideration;

“Target Asset Agreements” has the meaning given to it in the Implementation Agreement;

“Taxation” or “Tax” has the meaning given to it in the Company Tax Indemnity;

“Tax Authority” means any taxing or other authority competent to impose any liability in respect of Taxation or responsible for the administration and/or collection of Taxation or enforcement of any law in relation to Taxation;

“Tax Group” has the meaning given to it in the Company Tax Indemnity;



“**Tax Return**” has the meaning given to it in the Company Tax Indemnity;

“**Tax Warranties**” means the Seller’s Warranties set out in paragraph 11 of Schedule 14;

“**Third Party Claim**” has the meaning given to it in Clause 11.4;

“**Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from third parties:

- (i) in connection with any step of the Pre-Closing Products Reorganisation; and
- (ii) for the assignment or transfer to the Purchaser or any member of the Purchaser’s Group of any of the Transferred Contracts, Transferred Intellectual Property Contracts, Co-Owned Transferred Product Intellectual Property Rights, or Shared Business Contracts,

and “**Third Party Consent**” means any one of them;

“**Time-Limited Excluded Liability**” means an Excluded Liability which is:

- (i) a Contracts Liability; or
- (ii) a Commercial Practices Liability;

“**Trademarks**” means trademarks, service marks, trade names, certification marks, service names, industrial designs, brand names, brand marks, trade dress rights, identifying symbols, logos, emblems, and signs or insignia;

“**Transaction**” has the meaning given to it in Clause 4.1.1;

“**Transfer Regulations**” means the relevant national measure by which the employment of a Relevant Employee automatically transfers to the Purchaser or a relevant member of the Purchaser’s Group;

“**Transferred Books and Records**” means all books, ledgers, files, reports, plans, records, manuals and other materials (in any form or medium) to the extent of, or maintained predominantly for, the Business by the Seller’s Group (other than emails), including (without limitation) all books, records and other materials relating to the research, development and pre-clinical trials for each of the Products and the Product Expansions but excluding:

- (i) any such items to the extent that: (A) they are related to any Excluded Assets or Excluded Liabilities, (B) they are related to any corporate, Tax, human resources or stockholder matters of the Seller or its Affiliates, (C) any Applicable Law prohibits their transfer or (D) any transfer thereof otherwise would subject the Seller or any of its Affiliates to any material liability;
- (ii) any laboratory notebooks to the extent containing research and development information unrelated to the Business; and
- (iii) in relation to Products other than the Key Products, any books and records that are more than 5 years old containing, in whole or in part, research and development information (other than any laboratory notebooks, books or records described in this paragraph (iii) that are maintained for the Business by the Seller’s Group);



“**Transferred Contracts**” means Contracts (other than the Transferred Intellectual Property Contracts) that (i) are listed in Part 2 of Schedule 2 or (ii) are between the Seller or a member of the Seller’s Group on the one hand and any third party on the other hand and are Exclusively Related to the Business, but excluding the Excluded Contracts, this Agreement and any Ancillary Agreement;

“**Transferred Employees**” means (i) the Relevant Employees to whom the Purchaser (or a member of the Purchaser’s Group) offers employment and who accept such employment and become employed by the Purchaser (or a member of the Purchaser’s Group) in accordance with Schedule 8; and (ii) any Relevant Employees who transfer to the Purchaser (or a member of the Purchaser’s Group) by operation of the Transfer Regulations and do not object to such transfer (to the extent permitted by the Transfer Regulations) in accordance with Schedule 8; and “**Transferred Employee**” means any one of them;

“**Transferred Intellectual Property Contracts**” means Contracts relating to Intellectual Property Rights Exclusively Related to the Business that are between the Seller or a member of the Seller’s Group on the one hand and any third party on the other hand including any such Contracts set out in Part 2 of Schedule 2;

“**Transferred Product Intellectual Property Rights**” means the Intellectual Property Rights listed at Part 1 of Schedule 2 (except where such Intellectual Property Rights are Owned Product Intellectual Property Rights) and all other Intellectual Property Rights Exclusively Related to the Business and owned by any member of the Seller’s Group (other than the Company), including the Registered Transferred Product Intellectual Property Rights and, for the avoidance of doubt, excluding any Intellectual Property Rights in Seller Combination Compounds;

“**Transitional Services Agreement**” means the transitional services agreement to be entered into between the Seller and the Purchaser at Closing on terms consistent with the heads of terms in the Agreed Terms;

“**Transitional Distribution and Supply Agreement**” means the transitional distribution and supply agreement to be entered into between the Seller and the Purchaser at Closing on terms consistent with the heads of terms in the Agreed Terms;

“**US Benefit Plans**” means all United States “employee benefit plans” (within the meaning of section 3(3) of ERISA), severance, change in control or employment, vacation, incentive, bonus, stock option, stock purchase, or restricted stock plans, programmes, agreements or policies benefiting the Employees;

“**US Transferred Employees**” has the meaning given to it in paragraph 7.1 of Schedule 8;



“**Vaccines Sale and Purchase Agreement**” means the sale and purchase agreement dated the date of this agreement between the Purchaser and the Seller relating to the sale and purchase of the Purchaser’s vaccines business;

“**VAT**” means within the European Union such Taxation as may be levied in accordance with (but subject to derogations from) Council Directive 2006/112/EC and outside the European Union any Taxation levied by reference to added value or sales;

“**WARN Act**” means the Worker Adjustment and Retraining Notification Act of 1988 of the United States; and

“**Zofran Trade Mark and Domain Name Licence**” means the trade mark and domain name licence agreement dated 30 November 2012 between (i) Glaxo Group Limited; (ii) SmithKline Beecham (Australia) Pty Limited; (iii) GlaxoSmithKline Australia Pty Limited (together, as licensors); and (iv) Aspen Global Incorporated (as licensee), relating to the licensing of certain Intellectual Property Rights in Australia.

**1.2 Singular, plural, gender**

References to one gender include all genders and references to the singular include the plural and vice versa.

**1.3 References to persons and companies**

References to:

**1.3.1** a person include any individual, company, partnership or unincorporated association (whether or not having separate legal personality); and

**1.3.2** a company include any company, corporation or any body corporate, wherever incorporated.

**1.4 Schedules etc.**

References to this Agreement shall include any Recitals and Schedules to it and references to Clauses and Schedules are to Clauses of, and Schedules to, this Agreement. References to paragraphs and Parts are to paragraphs and Parts of the Schedules.

**1.5 Reference to documents**

References to any document (including this Agreement), or to a provision in a document, shall be construed as a reference to such document or provision as amended, supplemented, modified, restated or novated from time to time.

**1.6 References to enactments**

Except as otherwise expressly provided in this Agreement, any express reference to an enactment (which includes any legislation in any jurisdiction) includes references (i) to that enactment as amended, consolidated or re-enacted by or under any other enactment before or after the date of this Agreement; (ii) any enactment which that enactment re-enacts (with or without modification); and (iii) any subordinate legislation (including regulations) made before or after the date of this Agreement under that enactment as amended, consolidated or re-enacted as described in paragraph (i) or (ii) above, except to the extent that any of the matters referred to in paragraphs (i) to (iii) occurs after the date of this Agreement and increases or alters the liability of the Seller or Purchaser under this Agreement.



**1.7 Information**

References to books, records or other information mean books, records or other information in any form including paper, electronically stored data, magnetic media, film and microfilm.

**1.8 References to “indemnify”**

Unless specified to the contrary, references to “indemnify” and “indemnifying” any person against any circumstance include indemnifying and holding that person harmless on an after-Tax basis and:

**1.8.1** references to the Purchaser indemnifying each member of the Seller’s Group shall constitute undertakings by the Purchaser to the Seller for itself and on behalf of each other member of the Seller’s Group;

**1.8.2** references to the Seller indemnifying each member of the Purchaser’s Group shall constitute undertakings by the Seller to the Purchaser for itself and on behalf of each other member of the Purchaser’s Group;

**1.8.3** to the extent that the obligation to indemnify relates to the Share, the Company or any assets or liabilities transferred by a Business Seller or the Share Seller (as the case may be) to a member of the Purchaser’s Group pursuant to this Agreement, references to the Seller indemnifying the Purchaser and references to the Seller indemnifying the Purchaser or any member of the Purchaser’s Group shall constitute undertakings by the Seller to indemnify or procure indemnification of the relevant purchaser of the assets or liabilities or the Share transferred by that Business Seller or the Share Seller or the Company, and references to the Purchaser indemnifying the Seller and references to the Purchaser indemnifying the Seller and each member of the Seller’s Group shall constitute undertakings by the Purchaser to indemnify or procure the indemnification of the relevant member of the Seller’s Group; and

**1.8.4** where under the terms of this Agreement one party is liable to indemnify or reimburse another party in respect of any costs, charges or expenses, the payment shall include an amount equal to any VAT thereon not otherwise recoverable by the other party or any member of any group or consolidation of which it forms part for VAT purposes, subject to that party using reasonable endeavours to recover or procure recovery of such amount of VAT as may be practicable.

For the purposes of this Clause, indemnifying and holding harmless a person on an “after-Tax basis” means that the amount payable pursuant to the indemnity (the “Payment”) shall be calculated in such a manner as will ensure that, after taking into account:



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- (i) any Tax required to be deducted or withheld from the Payment and any additional amounts required to be paid by the payer of the Payment in consequence of such withholding;
- (ii) the amount and timing of any additional Tax which becomes (or would, but for the use of any credit or other relief which would otherwise have been available to reduce the Tax liabilities of any member of the Seller's Group (or a member of the Purchaser's Group, as the case may be), have become) payable by the recipient of the Payment (or a member of the Seller's Group or the Purchaser's Group, as the case may be) as a result of the Payments being subject to Tax in the hands of that person; and
- (iii) the amount and timing of any Tax benefit which is obtained by the recipient of the Payment (or a member of the Seller's Group or the Purchaser's Group, as the case may be) to the extent that such Tax benefit is attributable to the matter giving rise to the indemnity payment or to the receipt of the Payment,

which amount and timing is to be determined by the auditors of the recipient at the shared expense of both relevant parties and is to be certified as such to the party making the Payment, the recipient of the Payment is in no better and no worse after Tax position as that in which it would have been if the matter giving rise to the indemnity payment had not occurred, provided that if either party to this Agreement shall have assigned or novated the benefit of this Agreement in whole or in part or shall, after the date of this Agreement, have changed its Tax residence or the permanent establishment to which the rights under this Agreement are allocated then no Payment to that party shall be increased by reason of the operation of paragraphs (i) to (iii) above to any greater extent than would have been the case had no such assignment, novation or change taken place.

**1.9 References to wholly or substantially in the Business**

References to "wholly or substantially in the Business" in relation to any employee employed by a member of the Seller's Group means that such employee spends more than 70 per cent. of their time working in the Business at the relevant time.

**1.10 Legal terms**

References to any English legal term shall, in respect of any jurisdiction other than England and Wales, be construed as references to the term or concept which most nearly corresponds to it in that jurisdiction.

**1.11 Non-limiting effect of words**

The words "including", "include", "in particular" and words of similar effect shall not be deemed to limit the general effect of the words that precede them.



**1.12 Currency conversion**

Other than in relation to conversion of the Company Intra-Group Debt, where the provisions of Clause 1.13 shall apply, any amount to be converted from one currency into another currency for the purposes of this Agreement shall be converted into an equivalent amount at the Conversion Rate prevailing at the Relevant Date. For the purposes of this Clause:

“**Conversion Rate**” means the spot reference rate for a transaction between the two currencies in question as quoted by the European Central Bank on the Business Day immediately preceding the Relevant Date or, if no such rate is quoted on that date, on the preceding date on which such rates are quoted;

“**Relevant Date**” means, save as otherwise provided in this Agreement, the date on which a payment or an assessment is to be made, save that, for the following purposes, the date shall mean:

- (i) for the purposes of Clause 5, the date of this Agreement;
- (ii) for the purposes of Clause 10, the date of this Agreement; and
- (iii) for the purposes of the monetary amounts set out in Schedule 14, the date of this Agreement.

**1.13 US\$ Spot Rate**

For the purposes of Clause 6.3.2, the amount of the Company Intra-Group Debt shall be converted from sterling to US\$ at the spot rate of exchange for sterling into US\$ on the Closing Date available at 8:00 am GMT on the Bloomberg screen (the Intraday Chart) or where no such US\$ rate is available for such date, at the rate quoted by Barclays Bank on such date.

**2. Sale and Purchase of the Business**

**2.1 Sale and Purchase of the Business**

On and subject to the terms of this Agreement:

- 2.1.1** the Seller shall procure that the Business Sellers shall sell and assign that part of the Business which is not carried on by the Company immediately before Closing; and
- 2.1.2** the Seller shall procure that the Share Seller shall sell the Share in accordance with Clause 2.2;
- 2.1.3** the Purchaser shall purchase and accept, or procure the purchase and acceptance by one or more other members of the Purchaser’s Group of that part of the Business which is not carried on by the Company immediately before Closing; and
- 2.1.4** the Purchaser shall purchase and accept, or procure the purchase and acceptance by another member of the Purchaser’s Group of, the Share,



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such that the Seller shall directly or indirectly relinquish and the Purchaser shall directly or indirectly acquire the Business as a going concern.

## 2.2 Sale of the Share

2.2.1 The Seller shall procure that:

- (i) the Share Seller shall sell the Share with Full Title Guarantee free from Encumbrances and together with all rights and advantages attaching to it as at Closing (including the right to receive all dividends or distributions declared, made or paid on or after Closing); and
- (ii) on or prior to Closing, any and all rights of pre-emption over the Share and the equity interests in any subsidiaries are waived irrevocably by the person entitled thereto.

2.2.2 If the Seller notifies the Purchaser under paragraph 4, Part 1 of Schedule 18 that it no longer wishes to proceed with the Pre-Closing Product Reorganisation, then:

- (i) the provisions of sub-Clauses 2.1.2, 2.1.4 and 2.2.1 shall cease to have effect; and
- (ii) the parties acknowledge that amendments to this Agreement will be required to give effect to that notice such that, subject to any other amendments that may be agreed by the parties that are not required to implement the Pre-Closing Product Reorganisation, the provisions of this Agreement will be the same as they were after it was amended and restated on 29 May 2014.

## 2.3 The Business, the Excluded Assets, the Assumed Liabilities and the Excluded Liabilities

2.3.1 The Assets to be sold under this Agreement, which shall be sold with Full Title Guarantee (save in respect of the Transferred Product Intellectual Property Rights) and free from Encumbrances other than Permitted Encumbrances shall be:

- (i) the Transferred Books and Records;
- (ii) the Transferred Product Intellectual Property Rights;
- (iii) subject to and in accordance with Schedule 7, the Transferred Contracts, the Transferred Intellectual Property Contracts, Co-Owned Transferred Product Intellectual Property Rights and if elected by the Purchaser in accordance with paragraph 1 of Schedule 7, the Relevant Parts of any Shared Business Contracts;
- (iv) subject to and in accordance with Schedule 6, all Product Approvals (other than those relating to manufacturing), Product Expansions and all other permits, licences, certificates, registrations, marketing or other authorisations or consents issued by a Governmental Entity Exclusively Related to the Business;



- (v) subject to and in accordance with Schedule 6, all Marketing Authorisation Data;
- (vi) all Commercial Information;
- (vii) all Medical Information;
- (viii) all rights of the Purchaser or a member of the Purchaser's Group as contemplated by Schedule 8 and Schedule 9;
- (ix) the Business Goodwill; and
- (x) all other property, rights and assets owned by any member of the Seller's Group and Exclusively Related to the Business at Closing (other than any property, rights and assets of the Business Sellers or the Company expressly excluded from the sale under this Agreement).

**2.3.2** There shall be excluded from the sale of the Business under this Agreement the following:

- (i) the Seller's Group Retained Business, including the Seller Pipeline, any Manufacturing, and any equipment, machinery, spare parts, tools and other tangible property used by the Seller's Group for Manufacturing products or in connection with the research and development of the Products or the Product Expansions and any rights or property related to the Seller Combination Compounds;
- (ii) any Intellectual Property Right that is not a Business Product Intellectual Property Right, and any Contract relating to Intellectual Property Rights that is not a Transferred Intellectual Property Contract or the Relevant Part of a Shared Business Contract;
- (iii) the Seller Marks;
- (iv) any product and any permits, licences, certificates, registrations, marketing or other authorisations or consents issued by any Governmental Entity in respect of any products, or any applications therefor, other than the Products, Product Approvals and Product Expansion Applications;
- (v) the In-Market Inventory;
- (vi) any Information Technology;
- (vii) all cash, marketable securities and negotiable instruments, and all other cash equivalents, of the Seller and its Affiliates, other than the Share and any Permitted Cash Receivable;



- (viii) all real property and any leases therefor and interests therein, together with all buildings, fixtures, and improvements erected thereon;
  - (ix) the company seal, minute books, charter documents, stock or equity record books and such other books and records pertaining to the Seller or its Affiliates other than the Company, as well as any other records or material relating to the Seller or its Affiliates generally and not involving or related to the Business;
  - (x) any right of the Seller or its Affiliates to be indemnified in respect of Assumed Liabilities;
  - (xi) all Tax assets (including Tax refunds and prepayments) other than those of the Company;
  - (xii) all Tax Returns of the Seller's Group other than the Company and all books and records (including working papers) related thereto;
  - (xiii) any rights in respect of any insurance policies of the Seller's Group as provided in Clause 14;
  - (xiv) any rights in respect of Pre-Closing Receivables;
  - (xv) any equity interest in any person other than the Company;
  - (xvi) the Excluded Contracts; and
  - (xvii) all rights of the Seller's Group under this Agreement and the Ancillary Agreements.
- 2.3.3** The Seller agrees to procure the transfer (to the extent it is able so to do) and the Purchaser agrees to accept (or procure the acceptance by another member of the Purchaser's Group of) the transfer of, and to assume, duly and punctually pay, satisfy, discharge, perform or fulfil (or procure that another member of the Purchaser's Group will assume, duly and punctually pay, satisfy, discharge, perform or fulfil) the Assumed Liabilities with effect from Closing.
- 2.3.4** Clause 2.3.3 shall not apply to, and the Purchaser shall not be obliged to accept or procure the acceptance by another member of the Purchaser's Group of the transfer of or to assume, pay, satisfy, discharge, perform or fulfil, or procure that another member of the Purchaser's Group will assume, duly and punctually pay, satisfy, discharge, perform or fulfil:
- (i) any Excluded Liability; or
  - (ii) any Liability to the extent it relates to an Excluded Asset.
- 2.3.5** The parties acknowledge that the Seller has notified the Purchaser of its intention to carry out the Pre-Closing Product Reorganisation and that the Seller may, at its discretion, carry out the Pre-Closing Product Reorganisation provided that:



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- (i) the Seller shall, in good faith, consult with, and take into account the reasonable views of, and any reasonable requests made by the Purchaser in relation to the Pre-Closing Product Reorganisation steps and documents, including any proposals to reduce or avoid Liability or cost being suffered or incurred by any member of the Purchaser's Group;
- (ii) all fees, costs and expenses of implementing the Pre-Closing Product Reorganisation (or any part thereof) shall be borne by the Seller's Group (other than the Company); and
- (iii) any modification or amendment of the steps set out in Part 1 of Schedule 18 shall require the prior written consent of the Purchaser, not to be unreasonably withheld or delayed. Without prejudice to any other exercise of a discretion whether or not to give consent, the Purchaser shall not be acting unreasonably if it withholds or delays its consent because it believes in good faith that the modification or amendment would result in exposure of any member of the Purchaser's Group to any additional cost, loss of benefit or Liability; and
- (iv) for the avoidance of doubt, nothing done or agreed to by the Purchaser to comply with the provisions of this Clause 2.3.5, Clause 2.3.6 and Schedule 18 shall in any respect reduce or restrict any rights the Purchaser or any member of the Purchaser's Group may have to make a claim against the Seller under Clause 2.3.6, the Company Tax Indemnity or the Purchaser Tax Indemnity.

**2.3.6** The Seller undertakes to the Purchaser (for itself and as trustee for each other member of the Purchaser's Group) that, with effect from Closing, the Seller will indemnify on demand and hold harmless each member of the Purchaser's Group against and in respect of the loss of any benefit (other than benefits in respect of Tax) and any and all Liabilities (other than Liabilities in respect of Tax), including any and all Liabilities (other than Liabilities in respect of Tax) of any company whose shares are transferred to the Purchaser or a member of the Purchaser's Group in connection with the Pre-Closing Product Reorganisation, arising in connection with any Pre-Closing Product Reorganisation (or part thereof) including any such loss or Liability that would not have been suffered or incurred had such Pre-Closing Product Reorganisation (or part thereof) not been undertaken.

**2.4 Employees and Employee Benefits**

**2.4.1** The provisions of Schedule 8 shall apply in respect of the Employees.

**2.4.2** The provisions of Schedule 9 shall apply in respect of Employee Benefits.

**2.5 Local Transfer Documents**

**2.5.1** On Closing or at such other time as agreed between the parties, the Seller shall procure that the Business Sellers or the Share Seller execute, and the Purchaser shall execute (or procure the execution by one or more



other members of the Purchaser's Group of), such agreements, transfers, conveyances and other documents, as may be required pursuant to the relevant local law and otherwise as may be agreed between the Seller and the Purchaser to implement the transfer of the Business or the Share on Closing (the "**Local Transfer Documents**") and each, a "**Local Transfer Document**"). Title shall be transferred by the applicable Local Transfer Document.

- 2.5.2** To the extent that the provisions of a Local Transfer Document are inconsistent with or (except to the extent they implement a transfer in accordance with this Agreement) additional to the provisions of this Agreement:
- (i) the provisions of this Agreement shall prevail; and
  - (ii) so far as permissible under the laws of the relevant jurisdiction, the Seller and the Purchaser shall procure that the provisions of the relevant Local Transfer Document are adjusted, to the extent necessary to give effect to the provisions of this Agreement or, to the extent this is not permissible, the Seller shall indemnify the Purchaser against all Liabilities suffered by the Purchaser or its Affiliates or, as the case may be, the Purchaser shall indemnify the Seller against all Liabilities suffered by the Seller or its Affiliates, in either case through or arising from the inconsistency between the Local Transfer Document and this Agreement or the additional provisions (except to the extent they implement a transfer in accordance with this Agreement).
- 2.5.3** The Seller shall not, and shall procure that none of its Affiliates shall bring any claim against the Purchaser or any member of the Purchaser's Group in respect of or based upon the Local Transfer Documents save to the extent necessary to implement any transfer of the Business as contemplated by this Agreement. To the extent that the Seller or a member of the Seller's Group does bring a claim in breach of this Clause, the Seller shall indemnify the Purchaser and each member of the Purchaser's Group against all Liabilities which the Purchaser or that member of the Purchaser's Group may suffer through or arising from the bringing of such a claim.
- 2.5.4** The Purchaser shall not, and shall procure that none of its Affiliates shall, bring any claim against the Seller or any member of the Seller's Group in respect of or based upon the Local Transfer Documents save to the extent necessary to implement any transfer of the Business as contemplated by this Agreement. To the extent that the Purchaser or a member of the Purchaser's Group does bring a claim in breach of this Clause, the Purchaser shall indemnify the Seller and each member of the Seller's Group against all Liabilities which the Seller or any member of the Seller's Group may suffer through or arising from the bringing of such a claim.



### 3. Amounts Payable

#### 3.1 Consideration

3.1.1 Subject to Clause 3.4.1, the consideration for the purchase of the Business (including the Share) under this Agreement shall be an amount equal to US\$16,000,000,000 (the “**Headline Amount**”) less the Stamp Duty Amount and, if applicable, any Employee Benefit Indemnification Amount paid in accordance with Schedule 9 and any Reduction Amount, and shall include:

- (i) the consideration for the purchase of the Share under this Agreement, being the Share Consideration;
- (ii) the “**Business Consideration**”, being the consideration for the purchase of that part of the Business not owned directly by the Company as at the Closing Date, as notified by the Seller to the Purchaser 5 Business Days prior to the Closing Date, and for the undertaking given by the Seller in Clause 12.1; and
- (iii) the amount of the Company Intra-Group Debt.

#### 3.2 Allocation

The provisions of Schedule 10 shall apply.

#### 3.3 VAT

3.3.1 The provisions of Schedule 11 shall apply.

3.3.2 The Seller and the Purchaser agree that the amount payable in respect of the sales and purchases described in Clause 2.1 above is exclusive of any VAT.

3.3.3 To the extent that VAT is chargeable in respect of those sales and purchases or any part thereof, the Purchaser shall, against delivery of a valid VAT invoice (or equivalent, if any), in addition to any other amount expressed in the Agreement to be payable by the Purchaser, pay or procure the payment to the Seller (on behalf of the relevant Business Seller or the Share Seller as applicable) any amount of any VAT so chargeable for which the Seller (or the relevant member of the Seller’s Group, as the case may be) is liable to account, in accordance with Schedule 11.

3.3.4 The Seller shall indemnify each member of the Purchaser’s Group against any VAT chargeable in connection with the transfer of the Share under this Agreement.

#### 3.4 Treatment of Payments

3.4.1 If any payment is made by a member of the Seller’s Group to a member of the Purchaser’s Group or by a member of the Purchaser’s Group to a member of the Seller’s Group, in either case in respect of any claim under, or for any breach of this Agreement or pursuant to an indemnity (or equivalent covenant to pay) under this Agreement, the payment shall be treated, so far as possible, as an adjustment of the consideration paid by the Purchaser for the Share, the Owned Product Intellectual Property Rights or the Assets to which the payment and/or claim relates under this Agreement and the consideration shall be deemed to be increased or reduced (as applicable) by the amount of such payment.



PROVIDED THAT this Clause 3.4.1 shall not require any amount to be treated as an amount in respect of the Share Consideration or the Business Consideration for the purposes of Clause 16.10 if it would not otherwise have been so treated.

3.4.2 If:

- (i) the payment and/or claim relates to more than one Asset, Owned Product Intellectual Property Rights or to the Share and one or more Assets or Owned Product Intellectual Property Rights, it shall be allocated in a manner which reflects the impact of the matter to which the payment and/or claim relates, failing which it shall be allocated rateably to the Products concerned by reference to the percentages in which amounts are to be allocated between the Products in accordance with Schedule 10; or
- (ii) the payment and/or claim relates to neither the Share nor any particular Assets, it shall be allocated rateably to the Products by reference to the percentages in which amounts are to be allocated between the Products in accordance with Schedule 10,

and in each case the consideration shall be deemed to have been reduced by the amount of such payment.

4. Conditions

4.1 Conditions Precedent

The sale and purchase of the Business, including the sale and purchase of the Share, is conditional upon satisfaction or, where applicable, waiver of the following conditions, or their satisfaction subject only to Closing:

4.1.1 to the extent that the proposed acquisition of all or any of the Business (the “**Transaction**”) either constitutes (or is deemed to constitute under Article 4(5) or Article 5(2)) a concentration with a Community dimension within the meaning of Council Regulation (EC) 139/2004 (as amended) (the “**Regulation**”) or is to be examined by the European Commission as a result of a decision under Article 22(3) of the Regulation:

- (i) the European Commission taking a decision (or being deemed to have taken a decision) under Article 6(1)(b) or, if the Commission has initiated proceedings pursuant to Article 6(1)(c), under Article 8(1) or 8(2) of the Regulation declaring the Transaction compatible with the common market; or



- (ii) the European Commission taking a decision (or being deemed to have taken a decision) to refer the whole or part of the Transaction to the competent authorities of one or more Member States under Articles 4(4) or 9(3) of the Regulation; and
  - (a) each such authority taking a decision with equivalent effect to Clause 4.1.1(i) with respect to those parts of the Transaction referred to it; and
  - (b) the European Commission taking any of the decisions under Clause 4.1.1(i) with respect to any part of the Transaction retained by it;
- 4.1.2 any waiting period (and any extension thereof) under the HSR Act applicable to the Transaction having expired;
- 4.1.3 to the extent required or otherwise agreed between the parties as appropriate to permit the parties to consummate the Transaction in the jurisdictions listed in Schedule 21, any additional clearances, approvals, waivers, no-action letters and consents having been obtained and any additional waiting periods having expired under applicable antitrust, merger control or foreign investment rules set forth in Schedule 21;
- 4.1.4 receipt of CFIUS Approval if CFIUS has initiated a review of the transactions contemplated by this Agreement, whether pursuant to Clause 4.2.3 or otherwise;
- 4.1.5 the unconditional consent of JTI to the assignment to the Purchaser of the rights and obligations of the relevant member of the Seller's Group under the JTI Agreement having been obtained;
- 4.1.6 the unconditional consent of Genmab to:
  - (i) the assignment to the Purchaser of the rights and obligations of the relevant member of the Seller's Group under the Genmab Agreement having been obtained; and
  - (ii) a waiver of all non-compete provisions in the Genmab Agreement that would otherwise prevent the Purchaser and any member of the Purchaser's Group from [\*\*\*] having been obtained;
- 4.1.7 no Governmental Entity having enacted, issued, promulgated, enforced or entered any Applicable Law or Judgment (whether temporary, preliminary or permanent) that is in effect at the Closing Date and that has the effect of making the transactions contemplated by this Agreement illegal or otherwise restraining or prohibiting the consummation of such transactions;

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



- 4.1.8 the passing at a duly convened and held general meeting of the Seller Shareholders of an ordinary resolution validly approving the Target Asset Agreements (as defined in the Implementation Agreement) and any sale and purchase under the Put Option Agreement (as defined in the Implementation Agreement) in accordance with the Seller Articles of Association, the Listing Rules and all other Applicable Law (such resolution being the “**Seller Shareholder Resolution**” and such meeting being the “**Seller Shareholder Meeting**”);
- 4.1.9 the Purchaser not delivering a Novartis AG Board Certificate (as defined in the Implementation Agreement), in accordance with clause 3 of the Implementation Agreement, prior to the conclusion of the vote on the Seller Shareholder Resolution at the Seller Shareholder Meeting;
- 4.1.10 there having been no disruption in the Seller Group’s supply chain, for any reason, which has caused a stock out at any of the Seller Group’s relevant distribution centres in a manner which had, or would be reasonably likely to have, a Material Adverse Effect;
- 4.1.11 each of the other Target Asset Agreements having become unconditional in accordance with its terms (save for any condition in those agreements relating to this Agreement or the other of those agreements having become unconditional); and
- 4.1.12 the Office of Inspector General of the U.S. Department of Health and Human Services (“**OIG**”) not requiring that:
  - (i) the full terms and conditions of the Corporate Integrity Agreement between OIG and GlaxoSmithKline LLC dated on or around 28 June 2012 (the “**GSK CIA**”); or
  - (ii) significant provisions of the GSK CIA which (a) are terms that are not currently applicable to the Relevant Purchaser Business under Novartis Pharmaceutical Corporation’s own Corporate Integrity Agreement with the OIG, and (b) when applied to the Relevant Purchaser Business, would, in the aggregate, reasonably be expected to have an adverse effect on it,

shall, by reason of the sale under this Agreement, bind or apply in respect of the Relevant Purchaser Business.

In this Clause 4.1.12, the “**Relevant Purchaser Business**” means the entire (NPC) business and operations in the United States of the pharmaceuticals division of the Purchaser.

**4.2 Responsibility for Satisfaction**

- 4.2.1 The Purchaser and the Seller shall prepare and file the notifications necessary for the fulfilment of the conditions in Clauses 4.1.1 to 4.1.3 (the “**Required Notifications**”) as soon as reasonably practicable (with notifications under the HSR Act to be filed by 29 May 2014). Notwithstanding anything to the contrary contained in this Agreement, the Purchaser shall have primary responsibility for obtaining all consents, approvals or actions of any Governmental Entity which are required in connection with the Required Notifications.



- 4.2.2** The Purchaser shall be responsible for payment of all filing and other fees and expenses in connection with the Required Notifications and the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3.
- 4.2.3 CFIUS**
- (i) The Seller and the Purchaser shall consult, cooperate and keep each other reasonably informed regarding communications with, and requests for additional information from, CFIUS with respect to the Transaction. The Seller and the Purchaser shall use their respective reasonable best efforts to provide promptly all information that is pursuant to a request by CFIUS.
- (ii) Within 30 calendar days after the execution of this Agreement, any party wishing to submit a formal joint voluntary notice to CFIUS pursuant to 31 C.F.R. Section 800.401, et. seq. (“**CFIUS Filing**”) shall provide the other party with written notice of its intent to make a CFIUS Filing (“**Election Date**”). Prior to making its election to submit a CFIUS Filing, the party wishing to make a CFIUS Filing shall consult in good faith with senior executives of the other party. If neither the Seller nor the Purchaser provides notice to submit a formal joint voluntary notice to CFIUS, a CFIUS Filing will not be made unless requested by CFIUS.
- (iii) If either the Seller or the Purchaser elects to make a CFIUS Filing following the procedures and consultations in Clause 4.2.3(ii) or if CFIUS requires a filing, then:
- (a) the Seller and the Purchaser shall use their respective reasonable best efforts to submit a draft CFIUS Filing no later than 15 Business Days following the Election Date, and a final CFIUS Filing the earlier of (1) five business days after submitting the draft CFIUS filing or (2) five calendar days after the receipt of any comments from CFIUS staff regarding the draft CFIUS Filing.
- (b) the Seller and the Purchaser will provide each other with the reasonable opportunity to review and comment on any information provided to CFIUS to the extent permitted by Applicable Law, with the exception of personal identifier information required under Section 800.402(c)(6)(vi)(B) of the CFIUS regulations, 31 C.F.R.. Competitively sensitive information, or information not related to the transactions contemplated by this Agreement, may be restricted to each party’s external counsel to the extent reasonably considered necessary or advisable by the providing party;



- (c) the Seller and the Purchaser shall each have an opportunity to approve and mutually agree on the joint contents of the CFIUS Filing and shall be jointly responsible for the accuracy of such contents. The Seller and the Purchaser respectively, shall each be responsible for the accuracy of contents of the CFIUS Filing that exclusively relate to itself, its business, and any subsidiaries, parents or other related parties; and
- (d) the Seller and the Purchaser shall use their respective reasonable best efforts to obtain CFIUS Approval as promptly as practicable and shall consult with each other on strategic matters related to obtaining such CFIUS Approval, provided that the Purchaser shall have no obligation to agree to any mitigation or other restrictive provision that could reasonably be considered to have a substantial impact on either the Business or the Purchaser.

**4.2.4** The party responsible for satisfaction of each condition pursuant to this Clause 4.2 shall give notice to the other party of the satisfaction of the relevant condition within one Business Day of becoming aware of the same.

**4.2.5** The parties shall cooperate with each other in connection with the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3. The parties will consult and cooperate reasonably with one another, consider in good faith the views of one another, and provide to the other party in advance any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals they or their agents make or submit to a Governmental Entity. Without limiting the foregoing, the parties agree to (a) give each other reasonable advance notice of all meetings with any Governmental Entity, (b) give each other an opportunity to participate in each of such meetings, (c) to the extent practicable, give each other reasonable advance notice of all substantive oral communications with any Governmental Entity, (d) if any Governmental Entity initiates a substantive oral communication promptly notify the other party of the substance of such communication, (e) provide each other with a reasonable advance opportunity to review and comment upon all written communications (including any analyses, presentations, memoranda, briefs, arguments, opinions and proposals) with a Governmental Entity, (f) provide each other with copies of all written communications to or from any Governmental Entity, and (g) not advance arguments in connection with any regulatory review or litigation proceeding related to this Agreement (other than litigation between the parties) over the objection of the other party that would reasonably be likely to have a significant adverse impact on that other party, provided however, that neither party shall be required to comply with subsection (b) to the extent that the Governmental Entity objects to the participation of a party, or with subsections (e) or (f) to the extent that such disclosure may raise regulatory concerns (in which case, the disclosure may be made on an outside counsel basis).

**4.2.6** Subject to sub-Clause 4.2.7 and Applicable Law:



- (i) the parties shall cooperate with each other in connection with the satisfaction of the condition in Clause 4.1.12;
- (ii) the parties will consult and cooperate reasonably with one another, consider in good faith the views of one another, and provide to the other party in advance any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals they or their agents make or submit to the OIG; and
- (iii) without limiting paragraphs (i) and (ii) of this Clause 4.2.6, the parties agree to (a) give each other reasonable advance notice of all meetings with the OIG, (b) consult to determine if it is in the parties' mutual interest for both parties give each other an opportunity to participate in each of such meetings, (c) to the extent practicable, give each other reasonable advance notice of all substantive oral communications with the OIG, (d) if the OIG initiates a substantive oral communication promptly notify the other party of the substance of such communication, (e) provide each other with a reasonable advance opportunity to review and comment upon all written communications (including any analyses, presentations, memoranda, briefs, arguments, opinions and proposals) with the OIG, (f) provide each other with copies of all written communications to or from the OIG, (g) not advance arguments in connection with any regulatory review or litigation proceeding related to this Agreement (other than litigation between the parties) over the objection of the other party that would reasonably be likely to have a significant adverse impact on that other party, and (h) provide each other with such information, documents and data as may be reasonably requested in preparation for any communications (including any analyses, presentations, memoranda, briefs, arguments, opinions and proposals) with the OIG, provided however, that neither party shall be required to permit the participation of the other party in a meeting with the OIG following the consultation required to comply with subsection (b) to the extent that the parties fail to agree to such mutual participation or the OIG objects to the participation of a party, to comply with subsections (e), (f) or (g) to the extent that such disclosure may raise regulatory concerns (in which case, the disclosure may be made on an outside counsel basis), or permit the disclosure or use of information, documents and data provided under subsection (h) in any communications with the OIG if the providing party reasonably determines that the information is confidential or proprietary and disclosure or use would be reasonably likely to have a significant adverse impact on that party.

**4.2.7** The Seller shall not, and shall procure that no member of the Seller's Group (including but not limited to GlaxoSmithKline LLC) or their directors, officers, employees, agents or advisors shall, make any material or substantive communication or notification to the OIG regarding the Transaction without consulting and taking into account the views of the Purchaser.



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- 4.2.8** The Purchaser shall and, shall cause its Affiliates to, use its reasonable endeavours to procure the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3 as soon as reasonably possible (and, in any event, not later than the Long Stop Date). Notwithstanding any other provision of this Agreement to the contrary, the Purchaser shall and, shall cause its Affiliates to use best endeavours to propose, negotiate, offer to commit and effect (and if such offer is accepted, commit to and effect), by consent decree, undertaking, hold separate order, or otherwise, the sale, divestiture, licence or disposition of its LGX818 and MEK162 products in development on a global basis (excluding existing manufacturing capabilities) as may be required or desirable in order to procure the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3 as soon as reasonably possible (and, in any event, not later than the Long Stop Date) and to avoid the commencement of any Action or the issuing of any Decision to prohibit the acquisition or any other transaction contemplated by this Agreement or, if such Action is already commenced, to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order in any Action so as to enable the Closing to occur as soon as reasonably possible (and, in any event, not later than the Long Stop Date). Nothing in this Clause shall require the Purchaser to divest any currently marketed product indicated for use in renal cell carcinoma or any currently marketed Product indicated for use in melanoma, including but not limited to Mekinist, Tafinlar, Votrient and/or Afinitor.
- 4.2.9** The Seller shall, and shall cause the Seller's Group, to use its reasonable endeavours to cooperate with the Purchaser in connection with procuring the satisfaction of the conditions in Clauses 4.1.1 to 4.1.3 as soon as reasonably possible (and, in any event, not later than the Long Stop Date), including providing to the Purchaser such information with respect to the Business and the Products as the Purchaser may reasonably require in connection with satisfaction of its obligations under this Clause.
- 4.2.10** The Purchaser and Seller shall cooperate to confirm, within 21 Business Days from signing of this Agreement, any additional merger notification requirements reasonably required or advisable in respect of the Transaction in jurisdictions beyond those listed in Schedule 21, and shall cooperate with each other, within the meaning of Clause 4.2.5, in achieving any additional clearances, approvals, consents, waivers, no-action letters or waiting period expirations in such jurisdictions. For the avoidance of doubt, Closing shall not be conditional upon such additional clearances, approvals and consents or waiting period expirations.
- 4.2.11** The Purchaser and Seller shall cooperate, within the meaning of Clause 4.2.5, and use reasonable endeavours to ensure that no Governmental Entity shall enact, issue, promulgate, enforce or enter any Applicable Law or Judgment as contemplated under Clause 4.1.7. In the event that any Governmental Entity enacts, issues, promulgates, enforces or enters any Applicable Law or Judgment as contemplated under Clause 4.1.7, the Seller and the Purchaser shall cooperate and use reasonable endeavours to put in place arrangements that would allow the Transaction to complete to the greatest possible extent in compliance with the relevant Applicable Law or Judgment.



**4.2.12** The Seller shall use best efforts to obtain the consents referred to in Clauses 4.1.5 and 4.1.6 prior to the Closing Date. The cost of obtaining such consents shall be borne by the Seller, including any payment or other incentive that may (whether required to be offered or not) be offered to JTI and/or Genmab or any of their respective Affiliates in order to obtain such consents. The Purchaser shall, and shall cause its Affiliates to cooperate with the Seller in connection with obtaining the consents, referred to in Clauses 4.1.5 and 4.1.6 and use its reasonable endeavours to ensure that such conditions are satisfied at Closing, including providing to the Seller such information as the Seller may reasonably require in connection with the satisfaction of its obligations under this Clause 4.2.12.

**4.2.13** The Purchaser may at any time waive in whole or in part (and conditionally or unconditionally) the conditions set out in Clauses 4.1.5, 4.1.6, 4.1.10 and 4.1.12 by notice in writing to the Seller.

**4.3 Non-Satisfaction by the Long Stop Date**

If the conditions in Clause 4.1 are not satisfied (or waived in accordance with Clause 4.2.13) as of 22 October 2015 (the “**Long Stop Date**”), the Purchaser or the Seller may, in its sole discretion, terminate this Agreement (other than Clauses 1, 13, and 16.2 to 16.15) and no party shall have any claim against the other under it, save for any claim arising from breach of any obligation contained in such Clauses or Clause 4.2. Neither the Seller nor the Purchaser may terminate this Agreement after satisfaction or waiver of the conditions in Clause 4.1, except in accordance with this Agreement.

**4.4 Termination**

**4.4.1** This Agreement may be terminated at any time prior to Closing:

- (i) by written consent of the Seller and the Purchaser;
- (ii) by either the Seller or the Purchaser by notice to the other party in the event that any Judgment restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement shall have become final and non-appealable, provided that the party seeking to terminate this Agreement pursuant to this Clause 4.4 has complied with the terms of the Implementation Agreement and this Agreement in connection with having such Judgment vacated or denied; or
- (iii) by the Purchaser by notice to the Seller if:
  - (a) a Material Adverse Effect occurs prior to Closing (which shall include any breach or breaches of Clause 9.1 which alone or together constitute a Material Adverse Effect); or



- (b) the Seller fails to provide a Certificate immediately prior to Closing; or
  - (iv) in accordance with the terms of the Implementation Agreement.
- 4.4.2** This Agreement shall terminate automatically at any time prior to Closing in the event that:
- (i) any other Target Asset Agreement terminates or is terminated in accordance with its terms; or
  - (ii) the Novartis Break Fee and/or the GSK Break Fee becomes payable under clause 5.1 or clause 5.8 of the Implementation Agreement, respectively.
- 4.4.3** Save as provided in this Clause 4, neither party shall be entitled to terminate or rescind this Agreement (whether before or after Closing). If this Agreement is terminated pursuant to this Clause 4.4, this Agreement shall be of no further force and effect and there shall be no further liability under this Agreement or any of the Ancillary Agreements on the part of any party, except that Clauses 1, 13, and 16.2 to 16.15, in each case, to the extent applicable, shall survive any termination.
- 4.4.4** Nothing in this Clause 4.4 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement prior to termination of this Agreement.

**5. Pre-Closing**

**5.1 The Seller's Obligations in Relation to the Business**

- 5.1.1** The Seller undertakes to procure that between the date of this Agreement and Closing, the relevant members of the Seller's Group shall, so far as permitted by Applicable Law, carry on the Business as carried on by the Seller Group as a going concern in the ordinary course as carried on immediately prior to the date of this Agreement save in so far as agreed in writing by the Purchaser (such consent not to be unreasonably withheld or delayed).
- 5.1.2** Without prejudice to the generality of Clause 5.1.1 and subject to Clause 5.2, the Seller shall not, in each case with respect to the Business only, between the date of this Agreement and Closing, and shall procure that each member of the Seller's Group shall not, except as may be required to comply with this Agreement, without the prior written consent of the Purchaser (such consent not to be unreasonably withheld or delayed), take any of the actions listed in Part 1 of Schedule 19.
- 5.1.3** Without prejudice to the generality of Clause 5.1.1, the Seller shall, in each case with respect to the Business only: (i) undertake to procure the satisfaction of its obligations listed in paragraph 1, Part 2 of Schedule 19; and (ii) shall, and shall procure that each member of the Seller's Group shall, between the date of this Agreement and Closing, comply with the requirements of paragraph 2, Part 2 of Schedule 19.



**5.2 Exceptions to Seller's Obligations in Relation to the Conduct of Business**

Clause 5.1 shall not operate so as to prevent or restrict:

- 5.2.1** any matter undertaken by any member of the Seller's Group to implement any Pre-Closing Product Reorganisation in accordance with Clauses 2.3.5 and 2.3.6;
- 5.2.2** any action to the extent it is required to be undertaken to comply with Applicable Law; or
- 5.2.3** any matter reasonably undertaken by any member of the Seller's Group in an emergency or disaster situation with the intention of minimising any adverse effect of such situation in relation to the Business and where any delay arising by virtue of having to give notice to the Purchaser and await consent would materially prejudice the Business,

provided that the Seller shall notify the Purchaser as soon as reasonably practicable of any action taken or proposed to be taken as described in Clause 5.2.3, shall provide to the Purchaser all such information as the Purchaser may reasonably request and shall use reasonable endeavours to consult with the Purchaser in respect of any such action.

**5.3 Seller and Purchaser's Rights and Obligations**

- 5.3.1** Subject to Clause 5.3.2, the parties shall negotiate in good faith to agree definitive and legally binding documentation in respect of each of the Ancillary Agreements for which the heads of terms are in the Agreed Terms, including the Manufacturing and Supply Agreement, on the date of this Agreement, and shall duly execute and deliver such definitive and legally binding documentation in respect of the Ancillary Agreements at Closing.
- 5.3.2** In the event that the parties are unable to agree definitive and legally binding documentation in respect of an Ancillary Agreement referred to in Clause 5.3.1 by Closing, the parties shall be subject to and shall adhere to the heads of terms in the Agreed Terms for that Ancillary Agreement, which terms shall be legally binding on the parties.
- 5.3.3** If required by the Seller, the Purchaser shall co-operate with the Seller and the relevant counterparty to procure the grant of a sub-licence or partial assignment of certain rights under the Ofatumumab Agreements to the Seller for use in relation to the Ofatumumab Compound in the Ofatumumab Indications and in the field of autoimmune diseases under the Ofatumumab Intellectual Property Licence or another agreement between the parties, effective from Closing.
- 5.3.4** If, at any time prior to Closing, the [\*\*\*] determines that the terms and conditions of the [\*\*\*] shall not bind or apply (in full or with respect to significant provisions thereof) to the Relevant Purchaser Business, but does determine that they shall bind or apply in any respect to either all or part of the Business or the Employees, then, at any time prior to the date falling 5 Business Days prior to the Closing Date, notwithstanding any provision in this Agreement to the contrary, the Purchaser shall be entitled not to make an offer of employment to any Employee who:

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission



- (i) is not expected to transfer by operation of law to the Purchaser or any member of the Purchaser's Group on Closing; and
- (ii) is or would reasonably be expected to be a "Covered Person" (as defined in the [\*\*\*]) or is otherwise subject to or bound by any material obligation or term of the [\*\*\*] as applied to the Purchaser or any member of the Purchaser's Group following Closing,

and, where no offer of employment with the Purchaser or any member of the Purchaser's Group is made in accordance with this Clause 5.3.4, such Employee shall remain employed by the Seller or the relevant member of the Seller's Group on and following Closing.

**5.3.5** At any time prior to the date falling 18 months after the Closing Date, each relevant member of the Purchaser's Group shall be entitled to terminate the employment of any Employee:

- (i) whose employment has transferred to the Purchaser or any member of the Purchaser's Group either by operation of law or by way of offer and acceptance; and
- (ii) who is or would reasonably be expected to be a "Covered Person" (as defined in the [\*\*\*], as applied to the Purchaser's Group) or is otherwise subject to or bound by any material obligation or term of the [\*\*\*] as applied to the Purchaser or any member of the Purchaser's Group following Closing,

if the [\*\*\*] has determined or determines that the terms and conditions of the [\*\*\*] shall apply or be binding (in whole or in part) to the Relevant Purchaser Business. The relevant member of the Purchaser's Group may effect such termination either by giving notice or transferring the Employee to a member of the Seller's Group by agreement to be concluded between the relevant member of the Purchaser's Group, the Employee concerned and the relevant member of the Seller's Group. The Seller shall be responsible for and shall indemnify and keep indemnified the Purchaser (for itself and as trustee for any relevant member of the Purchaser's Group) against all Liabilities from time to time made, suffered or incurred by the Purchaser (or any other member of the Purchaser's Group) as a result of:

- (iii) the transfer of employment of such Employee to the Purchaser or any member of the Purchaser's Group and the employment of such Employee from the Closing Date until the termination of employment of such Employee as referred to in this Clause 5.3.5(iii) (or any other employment liabilities relating to such person); and

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(iv) the termination of such Employee's employment.

**5.3.6** Prior to Closing, the Seller shall be entitled to take and retain a full set of copies of the Ofatumumab Indications Data for use in accordance with the Ofatumumab Intellectual Property Licence Agreement. For the avoidance of doubt, the Ofatumumab Indications Data constitutes part of the Arzerra Auto-Immune IP Rights for the purposes of the Ofatumumab Intellectual Property Licence Agreement (as such term is defined in the Agreed Terms for the Ofatumumab Intellectual Property Licence Agreement).

**6. Closing**

**6.1 Date and Place**

Subject to paragraph 4.3 of Schedule 25, Closing shall take place simultaneously with closing under the other Target Asset Agreements at 11.59 p.m. (Central European Time) at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS (other than in respect of any Local Transfer Documents agreed between the parties to be executed in another jurisdiction) on the last Business Day of the month in which fulfilment or waiver of the last of the condition(s) set out in Clause 4.1 to be fulfilled or waived takes place, except that:

**6.1.1** where the last day of such month is not a Business Day, Closing shall instead take place on the first Business Day of the following month; and

**6.1.2** where less than five Business Days remain between such fulfilment or waiver and the last Business Day of the month, Closing shall take place:

- (i) on the last Business Day of the following month;
- (ii) where the last day of such month is not a Business Day, Closing shall instead take place on the first Business Day of the month following the month referred to in Clause 6.1.2(i); or
- (iii) at such other location, time or date as may be agreed between the Purchaser and the Seller in writing,

provided that:

- (a) Closing shall not take place and shall not be effective in any circumstances unless closing also takes place under and in accordance with the terms of the other Target Asset Agreements at the same time; and
- (b) in determining the date on which the last of the conditions set out in Clause 4.1 is fulfilled or waived, the date shall be the date on which the last of the conditions set out in Clauses 4.1.1, 4.1.2, 4.1.3, 4.1.4, 4.1.5, 4.1.6, 4.1.8, 4.1.9 and 4.1.11 is fulfilled or waived unless any of the conditions set out in Clauses 4.1.7, 4.1.10 and 4.1.12 is not fulfilled or waived on that date, in which case the date shall then be the first following date on which all of the conditions set out in Clauses 4.1.7, 4.1.10 and 4.1.12 are fulfilled or waived.



**6.2 Closing Events**

- 6.2.1** On Closing, but subject to paragraph 4.3 of Schedule 25, the parties shall comply with their respective obligations specified in Schedule 12. The Seller may waive some or all of the obligations of the Purchaser as set out in Schedule 12 and the Purchaser may waive some or all of the obligations of the Seller as set out in Schedule 12.
- 6.2.2** The parties acknowledge that the transfer of Product Approvals to the Purchaser or other members of the Purchaser's Group may be subject to the approval of applicable Governmental Entities, and that, notwithstanding anything in this Agreement to the contrary, each Product Approval shall continue to be held by the relevant member of the Seller's Group from the Closing Date until the relevant PA Transfer Date.
- 6.2.3** The parties shall perform their respective obligations with respect to:
- (i) the transfer of the Product Approvals as set out in Schedule 6;
  - (ii) the transfer of Contracts (other than Product Approvals) and the Transferred Intellectual Property Contracts as set out in Schedule 7;
  - (iii) to the extent the Purchaser has elected to have the Relevant Part of a Shared Business Contract transferred to it, the separation of each Shared Business Contract as set out in Schedule 7; and
  - (iv) the Seller's Indian Business as set out in Schedule 25.

**6.3 Payment on Closing and the Reduction Amount**

- 6.3.1** Subject to the remainder of this Clause 6.3, on Closing the Purchaser shall pay (for itself and on behalf of each relevant member of the Purchaser's Group, and in accordance with Clause 16.6):
- (i) an amount in cleared funds to the Seller which is equal to the Headline Amount less the sum of:
    - (a) the amount of the Company Intra-Group Debt; and
    - (b) any Estimated Employee Benefit Adjustment; and
    - (c) any amount to be deducted pursuant to Clause 6.3.6; and
    - (d) the amount that would be the Stamp Duty Amount assuming, for this purpose only, that:
      - (A) the Employee Benefit Indemnification Amount is equal to the Estimated Employee Benefit Adjustment, if any; and



- (B) the Reduction Amount is equal to the amount referred to in limb (c), if any; and
- (ii) a further amount in cleared funds to the Seller which is equal to the amount of the Company Intra-Group Debt and which shall be applied as provided in paragraph 1.4 of Schedule 12, such that the total amount to be paid to the Seller and other members of the Seller's Group on Closing shall be the Headline Amount less the sum of the Stamp Duty Amount and, if applicable, any Estimated Employee Benefit Adjustment and, if applicable, any amount to be deducted under Clause 6.3.6.
- 6.3.2** On the Closing Date but immediately prior to Closing, the Seller shall deliver a written statement to the Purchaser in the form of Schedule 24 setting out the amount of the Company Intra-Group Debt determined using the US\$ Spot Rate, provided that such amount shall be no greater than the Headline Amount less the aggregate of the Business Consideration, the Stamp Duty Amount and if applicable, any Reduction Amount and, if applicable, any Employee Benefit Indemnification Amount (the "**Maximum Company Intra-Group Debt Amount**"). If, after Closing, it is determined that the amount paid by the Purchaser pursuant to Clause 6.3.1(ii) exceeded the Maximum Company Intra-Group Debt Amount, the Seller shall pay the Purchaser an amount equal to the difference on demand.
- 6.3.3** The amount of the Share Consideration shall be subject to the following:
- (i) in the event that, by the CombiD Outcome Longstop Date, neither the Category A Outcome nor the Category B Outcome is achieved, the Share Consideration shall be reduced by \$1.5 billion; and
- (ii) in the event that, by the CombiD Outcome Longstop Date, the Category A Outcome is not achieved but the Category B Outcome is achieved, the Share Consideration shall be reduced by \$1.0 billion,
- the amount of any such applicable reduction being the "**Reduction Amount**". Clauses 6.3.5 and 6.3.6 below shall apply in respect of any Reduction Amount.
- 6.3.4** For the avoidance of doubt, in the event that, by the CombiD Outcome Longstop Date, the Category A Outcome is achieved, then (whether or not the Category B Outcome is also achieved) no reduction or adjustment shall be made to the Share Consideration.
- 6.3.5** In the event that a reduction to the Share Consideration applies under Clause 6.3.3 above and the cause of such reduction occurs at or following Closing, the Seller shall (against the Purchaser having paid the full amount of the Share Consideration at Closing) repay to the Purchaser:
- (i) an amount equal to the applicable Reduction Amount; and



- (ii) interest on the Reduction Amount at the rate of Six-Month LIBOR, such interest accruing on a daily basis from the Closing Date to (and including) the date of payment of the Reduction Amount by the Seller to the Purchaser.

Any repayment to be made pursuant to this Clause 6.3.5 shall be made within 5 Business Days of the CombiD Outcome Longstop Date, provided that, in circumstances where Conclusion of the CombiD Study has occurred and either or both of (a) the condition in Clause 6.3.7(i)(a) of the Category A Outcome, and (b) the condition in Clause 6.3.7(ii)(a)(A) of the Category B Outcome are no longer capable of satisfaction, any resulting applicable reduction to the Share Consideration shall apply and take effect at (and any payment in respect thereof made within the 5 Business Days following) the time at which the relevant condition or conditions are no longer capable of satisfaction.

**6.3.6** In the event that a reduction applies under Clause 6.3.3 above and the cause of such reduction occurs prior to Closing, the Purchaser shall be entitled to deduct an amount equal to the applicable Reduction Amount from the Share Consideration otherwise payable to the Seller at Closing.

**6.3.7** The following terms used in this Clause 6.3 shall have the meaning ascribed below:

- (i) **“Category A Outcome”** means, in relation to the CombiD Study, all of the following:
  - (a) that Statistical Significance is achieved for the Overall Survival Endpoint;
  - (b) that the FDA accepts or agrees that Statistical Significance has been achieved for the Overall Survival Endpoint; and
  - (c) the absence of a New Material Safety Signal;
- (ii) **“Category B Outcome”** means both of the following:
  - (a) in relation to the CombiD Study, both:
    - (A) achievement of a point estimate for the Hazard Ratio (HR) on the Overall Survival Endpoint that is [\*\*\*] or better (that is, lower than [\*\*\*]); and
    - (B) the absence of a New Material Safety Signal; and
  - (b) the FDA not disallowing, within 12 months of Conclusion of the CombiD Study, continued use in the product insert of the claim that the Combination is more efficacious than the constituent mono-therapies;

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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- (iii) **“CombiD Outcome Longstop Date”** means the later of (i) the date that is 12 months after Conclusion of the CombiD Study, and (ii) 31 December 2015;
- (iv) **“CombiD Study”** means the Phase III, randomized, double-blinded study comparing the combination of the BRAF inhibitor, dabrafenib and the MEK inhibitor, trametinib to dabrafenib and placebo as first-line therapy in subjects with unresectable (Stage IIIC) or metastatic (Stage IV) BRAF V600E/K mutation-positive cutaneous melanoma (the **“Combination”**);
- (v) **“Conclusion”** means when the Overall Survival Endpoint is analysed and the CombiD Study is closed;
- (vi) **“New Material Safety Signal”** means a Safety Signal:
  - (a) which is identified in the results of the CombiD Study;
  - (b) which was not described in the approval of the Combination by the FDA or the respective approvals of the BRAF and MEK components of the Combination; and
  - (c) in respect of which, within 12 months of the Conclusion of the CombiD Study, the FDA requires inclusion of a “black box” on the product insert for the Combination, the BRAF inhibitor and the MEK inhibitor;
- (vii) **“Overall Survival Endpoint”** means, as defined in the study protocol for the CombiD Study and the statistical analysis plan agreed with the FDA in respect thereof, the time from randomization until death due to any cause, where:
  - (a) all-cause mortality is used and censoring is performed using the date of the last known contact for those who were alive at the time of analysis; and
  - (b) overall survival is summarized using the Kaplan-Meier method and treatment comparisons are made using a stratified log rank test (stratified by LDH status and mutation status);
- (viii) **“Safety Signal”** means information that arises from one or multiple sources that suggests a new, potentially causal association, or a new aspect of a known association, between an intervention and event or set of related events, which is adverse; and



(ix) **“Statistical Significance”** means a one-sided p-value less than [\*\*\*].

**6.3.8** Notwithstanding any other provision in this Agreement or any Ancillary Agreement, the parties agree that the CombiD Study shall remain under the control of the Seller until its Conclusion.

**6.3.9** Five Business Days prior to Closing, the Seller shall notify the Purchaser of any Estimated Employee Benefit Adjustment and at the same time provide to the Purchaser reasonable supporting calculations and information to enable the Purchaser to review the basis on which the estimate has been prepared.

**6.4 Breach of Closing Obligations**

If any party fails to comply with any material obligation in Clause 6.2 or 6.3 or Schedule 12 in relation to Closing, the Purchaser, in the case of non-compliance by the Seller, or the Seller, in the case of non-compliance by the Purchaser, shall be entitled (in addition to and without prejudice to all other rights or remedies available) by written notice to the Seller or the Purchaser to fix a new date for Closing which, except as agreed by the parties, shall be the last day of the month next ending or, if that day is not a Business Day, the first Business Day falling after that day, in which case the provisions of Schedule 12 shall apply to Closing as so deferred, but provided such deferral may only occur once. In all circumstances Closing shall only occur simultaneously with closing under the other Target Asset Agreements.

**7. Development Plans**

**7.1** As at the date of this Agreement, the Seller or the relevant member of the Seller’s Group intends to implement the studies of the Products set out in the Key Study Plans in accordance with the Key Study Plans. Prior to Closing, the Seller (or the relevant member(s) of the Seller Group) shall continue to implement the Development Plans in the same manner and to the same standards as it has done so prior to the date of this Agreement.

**7.2** The Seller shall (and shall ensure that the relevant member(s) of the Seller Group), maintain and preserve the laboratory notebooks and other records detailing the experiments and studies (including of any clinical trials) conducted pursuant to the Development Plans (the **“Development Plan Records”**) and shall require any sub-contractors to similarly maintain and preserve Development Plan Records of their respective activities.

**7.3** So far as permitted by Applicable Law and at the Purchaser’s risk:

**7.3.1** the Seller shall provide the Purchaser with such information about the progress of the Development Plans as the Purchaser may reasonably request and shall provide the Purchaser with copies of substantive correspondence with any Governmental Entity with respect to any Product Expansion Application.

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



- 7.3.2 the Seller shall provide to the Purchaser monthly an update in relation to each Product Expansion with sufficient detail for the Purchaser to be able to assess the progress of each Product Expansion against the relevant Development Plan and highlighting any areas, whether scientific, clinical or regulatory, which may have a material impact on the future development of the Product Expansion. The form of update shall be agreed by the Seller and the Purchaser acting reasonably and in good faith. The Seller shall discuss matters relevant to the Product Expansion with representatives of the Purchaser and consult the Purchaser on the progress of the Product Expansion and any material proposed amendments to the relevant Development Plan with respect to the particular Product Expansion; and
- 7.3.3 the Seller shall promptly inform the Purchaser of any material unforeseen results, problems or difficulties with regards to any Product Expansion including with respect to any communication from any Governmental Entity which indicates that the Development Plan in relation to such Product Expansion requires material amendment in order for the Product Expansion to be approved. The Seller shall consult with the Purchaser with respect to any such matters and shall take account of the views of the Purchaser for resolving any such unforeseen results, problems or difficulties.

**8. Post-Closing Obligations**

**8.1 Indemnities**

**8.1.1 Indemnity by the Purchaser against Assumed Liabilities**

The Purchaser hereby undertakes to the Seller (for itself and on behalf of each other member of the Seller's Group, and their respective directors, officers, employees and agents) that with effect from Closing, the Purchaser will indemnify on demand and hold harmless each member of the Seller's Group and their respective directors, officers, employees and agents against and in respect of any and all Assumed Liabilities.

**8.1.2 Indemnities by the Seller**

- (i) Subject to Clause 8.1.3, the Seller hereby undertakes to the Purchaser (for itself and on behalf of each other member of the Purchaser's Group and their respective directors, officers, employees and agents) that, with effect from Closing, the Seller will indemnify on demand and hold harmless each member of the Purchaser's Group and their respective directors, officers, employees and agents against and in respect of any and all:
  - (a) Excluded Liabilities; and
  - (b) Liabilities, including legal fees, to the extent they have arisen or arise (whether before or after Closing) as a result of or otherwise relate to any act, omission, fact, matter,



circumstance or event undertaken, occurring or in existence or arising before Closing so far as related to: (A) any anti-bribery warranty, including without limitation those set forth in paragraphs 7.1 through 7.6 of Schedule 14, not being true and correct when made; (B) any government inquiries or investigations involving the Seller, its Affiliates or their respective Associated Persons; (C) save to the extent in existence as at the date of this Agreement, any limitation, restriction or other reduction in drug registrations, licenses, listings or marketing approvals, government pricing or reimbursement rates relating to the Products including specifically the value of lost future profits as a result of any such limitation, restriction or reduction; or (D) any other claim, litigation, investigation or proceeding to the extent related to any of the foregoing (A) to (C), including but not limited to costs of investigation and defense and legal fees.

- (ii) The Seller hereby undertakes to the Purchaser (for itself and on behalf of each other member of the Purchaser's Group and their respective directors, officers, employees and agents) that, with effect from Closing, the Seller will indemnify on demand and hold harmless each member of the Purchaser's Group and their respective directors, officers, employees and agents against and in respect of any and all Liabilities, including lost profits, arising from or in connection with any failure by the Seller or its Affiliates to Manufacture and supply Products in accordance with the terms of the Manufacturing and Supply Agreement or Transitional Distribution Services Agreement, as applicable, to the extent such failure results from the Cork FDA Matter.

**8.1.3** Limitations on Indemnities

Subject to Clause 8.1.4, the Seller shall not be liable under Clause 8.1.2(i) in respect of:

- (i) any Time-Limited Excluded Liability unless a notice of claim in respect of the matter giving rise to such Liability is given by the Purchaser to the Seller within ten years of Closing, provided that this sub-Clause (i) shall not apply in respect of any claim by the Purchaser which relates to:
  - (a) a Product Liability;
  - (b) a Governmental Liability;
  - (c) a Clinical Trials/Data Liability;
  - (d) an Excluded Asset; or
  - (e) an IP Liability; and



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- (ii) any individual claim (or a series of claims arising from similar or identical facts or circumstances) where the Liability (disregarding the provisions of this Clause 8.1.3(ii)) in respect of any such claim or series of claims does not exceed US\$10 million, provided that, for the avoidance of doubt, where the Liability in respect of any such claim or series of claims exceeds US\$10 million, the Liability of the Seller shall be for the whole amount of such claim(s) and not just the excess.

**8.1.4** Disapplication of limitations

None of the limitations contained in Clause 8.1.3 shall apply to any claim to the extent that such claim which arises or is increased, or to the extent to which it arises or is increased, as the consequence of, or which is delayed as a result of, fraud by any member of the Seller's Group or any director, officer or employee of any member of the Seller's Group.

**8.2** **Conduct of Claims**

**8.2.1** Assumed Liabilities

- (i) If the Seller becomes aware after Closing of any claim by a third party which constitutes or may constitute an Assumed Liability, the Seller shall as soon as reasonably practicable:
  - (a) give written notice thereof to the Purchaser setting out such information as is available to the Seller as is reasonably necessary to enable the Purchaser to assess the merits of the potential claim;
  - (b) take all appropriate actions to preserve evidence; and
  - (c) provide the Purchaser with periodic updates on the status of the claim upon request and shall not admit, compromise, settle, discharge or otherwise deal with such claim without the prior written agreement of the Purchaser (such agreement not to be unreasonably withheld or delayed).
- (ii) The Seller shall, and shall procure that each Business Seller and the Share Seller shall, take such action as the Purchaser may reasonably request to avoid, dispute, resist, appeal, compromise, defend or mitigate any claim which constitutes or may constitute an Assumed Liability subject to the Seller, the Share Seller and each Business Seller being indemnified and secured to their reasonable satisfaction by the Purchaser against all Liabilities which may thereby be incurred. In connection therewith, the Seller shall make or procure to be made available to the Purchaser or their duly authorised agents on reasonable notice during normal business hours all relevant books of account, records and correspondence relating to the Business which have been retained by the Seller's Group (and shall permit the Purchaser to take copies thereof at its expense) for the purposes of enabling the Purchaser to ascertain or extract any information relevant to the claim.



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**8.2.2** Liabilities Indemnified by the Seller

- (i) If the Purchaser becomes aware after Closing of any claim by a third party which constitutes or may constitute a Liability covered by Clause 8.1.2 or relates to a Liability or any investigations related thereto, regardless of whether the Purchaser believes that such claim would be made against a member of the Purchaser's Group or a member of the Seller's Group, the Purchaser shall as soon as reasonably practicable:
  - (a) give written notice thereof to the Seller, setting out such information as is available to the Purchaser as is reasonably necessary to enable the Seller to assess the merits of the potential claim;
  - (b) take all appropriate actions to preserve evidence; and
  - (c) provide the Seller with periodic updates on the status upon request and shall not admit, compromise, settle, discharge or otherwise deal with such claim without the prior written agreement of the Seller (such agreement not to be unreasonably withheld or delayed).
- (ii) The Purchaser shall take such action as the Seller may reasonably request to avoid, dispute, resist, appeal, compromise, defend or mitigate any claim which constitutes or may constitute a Liability covered by Clause 8.1.2 subject to the Purchaser being indemnified and secured to its reasonable satisfaction by the Seller against all Liabilities which may thereby be incurred.
- (iii) In addition, where any such claim or investigation involves a Governmental Entity, the Purchaser shall, subject to Applicable Law, the requirements of the relevant Governmental Entity and the Seller providing an appropriate confidentiality undertaking in favour of the Purchaser's Group, provide to the Seller, at least five Business Days in advance (or, where not possible, as soon as reasonably possible), any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals they or their agents make or submit to a Governmental Entity. Without limiting the foregoing, the parties agree, subject to the Applicable Law and the requirements of the relevant Governmental Entity and the Seller providing an appropriate confidentiality undertaking in favour of the Purchaser's Group to:
  - (a) give the Seller reasonable advance notice of all meetings with any Governmental Entity;



- (b) give the Seller an opportunity to participate in each of such meetings;
  - (c) to the extent practicable, give the Seller reasonable advance notice of all substantive oral communications with any Governmental Entity;
  - (d) if any Governmental Entity initiates a substantive oral communication, promptly notify the Seller of the substance of such communication;
  - (e) provide the Seller with a reasonable advance opportunity to review and comment upon all substantive written communications (including any substantive correspondence, analyses, presentations, memoranda, briefs, arguments, opinions and proposals) that the Purchaser or its agents intend to make or submit to a Governmental Entity in connection with such claim;
  - (f) provide the Seller with copies of all substantive written communications to or from any Governmental Entity; and
  - (g) not advance arguments with the Governmental Entity without prior agreement of the Seller that would reasonably be likely to have a significant adverse impact on the Seller, provided however, that the Purchaser shall not be required to comply with paragraph (b) above to the extent that the Governmental Entity objects to the participation of a party, or with paragraph (e) or (f) above to the extent that such disclosure may raise regulatory concerns (in which case, the disclosure may be made on an outside counsel basis).
- (iv) Other than in respect of any claim to the extent it relates to an IP Liability, a Commercial Practices Liability or a Governmental Liability (other than in respect of any Liability arising solely by virtue of a breach of any Contract with any Governmental Entity which breach does not also constitute a breach of Applicable Law), the Seller shall be entitled at its own expense and in its absolute discretion, by notice in writing to the Purchaser, to take such action as it shall deem necessary to avoid, dispute, deny, defend, resist, appeal, compromise or contest any such claim (including making counterclaims or other claims against third parties) in the name of and on behalf of the Purchaser or other member of the Purchaser's Group concerned and to have the conduct of any related proceedings, negotiations or appeals. In taking action on behalf of any member of the Purchaser's Group as permitted by this Clause 8.2, the Seller shall, in good faith, take into account and have due regard to any reputational matter or issue arising out of the claim for any member of the Purchaser's Group or any of their respective directors, officers, employees or agents which are brought to its attention by the Purchaser or a member of the Purchaser's Group.



- (v) Without limitation to the Seller's rights pursuant to Clause 8.7.2, the Purchaser shall make or procure to be made available to the Seller or its duly authorised agents on reasonable notice during normal business hours full and free access to all relevant books of account, records and correspondence relating to the Business which are in the possession or control of the Purchaser or any member of the Purchaser's Group (and shall permit the Seller to take copies thereof) for the purposes of enabling the Seller to ascertain or extract any information relevant to the claim.
- (vi) The Purchaser shall, and shall procure that each other member of the Purchaser's Group shall, on reasonable notice from the Seller, give such assistance to the Seller as it may reasonably require in relation to the claim including providing the Seller or any member of the Seller's Group and its representative and advisers with access to and assistance from directors, officers, managers, employees, advisers, agents or consultants of the Purchaser and/or of each other member of the Purchaser's Group (collectively, the "**Relevant Persons**") and the Purchaser will use its reasonable endeavours to procure that such Relevant Persons comply with any reasonable requests from the Seller and generally co-operates with and assists the Seller and other members of the Seller's Group.
- (vii) When seeking assistance under Clauses 8.2.2(v) and (vi), the Seller, or any other relevant member of the Seller's Group, shall use reasonable endeavours to minimise interference with the Purchaser and the Purchaser's Group's conduct of the relevant business or the performance by the Relevant Persons of their employment duties.

### 8.3 Release of Guarantees

- 8.3.1 The Purchaser shall use reasonable endeavours to procure as soon as reasonably practicable after Closing, the release of the Sellers or any member of the Seller's Group from any securities, guarantees or indemnities given by or binding upon the Seller or any member of the Seller's Group in respect of the Assumed Liabilities. Pending such release the Purchaser shall indemnify the Seller and any member of the Seller's Group against all amounts paid by any of them (acting reasonably) pursuant to any such securities, guarantees or indemnities in respect of such Assumed Liabilities.
- 8.3.2 The Seller shall use reasonable endeavours to procure by Closing or, to the extent not done by Closing, as soon as reasonably practicable after Closing, the release of the Assets, the Owned Product Intellectual Property Rights and the Company from any securities, guaranties or indemnities given by or binding upon the Assets, the Owned Product Intellectual Property Rights and the Company in respect of any liability of the Seller or any member of the Seller's Group. Pending such release, the Seller shall indemnify the Purchaser and any member of the Purchaser's Group against all amounts paid by any of them (acting reasonably) pursuant to any such securities, guarantees and indemnities in respect of such liability of the Seller which arises after Closing.

**8.4 Pre-Closing Receivables**

**8.4.1** The Purchaser shall not acquire the Pre-Closing Receivables, and accordingly the Seller or, as the case may be, the other relevant members of the Seller's Group (as applicable) shall remain entitled to the Pre-Closing Receivables in accordance with the terms of Clauses 8.4.2 and 8.4.3.

**8.4.2** The Purchaser agrees that the Seller (or such other member(s) of the Seller's Group as the Seller may nominate) (each, a "**Collecting Seller**") shall be responsible for the collection of any of the Pre-Closing Receivables and that:

- (i) each Collecting Seller shall be entitled to take such steps as it may think fit (having regard for maintaining good relationships with third parties from whom Pre-Closing Receivables are being collected) to recover any Pre-Closing Receivables;
- (ii) the Purchaser shall not take, and shall procure that no other member of the Purchaser's Group takes, any step to collect any of the Pre-Closing Receivables (unless agreed in writing with the Seller or relevant Collecting Seller), and shall not do anything to hinder their collection by any Collecting Seller; and
- (iii) if the Purchaser or any other member of the Purchaser's Group should receive any written communication or payment in respect of any Pre-Closing Receivable, the Purchaser shall use reasonable efforts to give, or procure that there are given, written details of any such written communication or payment to the Seller as soon as reasonably practicable following receipt thereof.

**8.4.3** In the event that, notwithstanding Clauses 8.4.1 and 8.4.2 above, a member of the Purchaser's Group receives any monies in respect of any Pre-Closing Receivables, then the Purchaser shall procure that those monies are paid by the recipient to the Seller or, as directed, its Affiliate, as soon as reasonably practicable after the amount is received.

**8.5 Wrong Pockets Obligations and Pre-Clinical Research Licence**

**8.5.1** Except as provided in Schedule 6, Schedule 7, Schedule 8 and Schedule 9, if any property, right or asset forming part of the Business (other than any property, right or asset expressly excluded from the sale under this Agreement) has not been transferred to the Purchaser, or to another member of the Purchaser's Group and should have transferred pursuant to the terms of this Agreement, the Seller shall procure that such property, right or asset (and any related liability which is an Assumed Liability) is transferred to the Purchaser, or to such other member of the Purchaser's Group as the Purchaser may nominate reasonably acceptable to the Seller, as soon as practicable and at no cost to the Purchaser.



**8.5.2** If, following Closing, any property, right or asset not forming part of the Business (other than any property, right or asset expressly included in the sale under this Agreement and any Permitted Cash Receivable) is found to have been transferred to the Purchaser or to another member of the Purchaser's Group and should not have transferred pursuant to the terms of this Agreement, the Purchaser shall procure that such property, right or asset is transferred to the transferor or another member of the Seller's Group nominated by the Seller reasonably acceptable to the Purchaser as soon as practicable and at no cost to the Seller (save that if such property, right or asset is or has been owned by the Company, the cost of transferring such property, right or asset to a member of the Seller's Group shall be borne by the Seller, provided that the consideration paid for any such transfer shall, unless otherwise required by Applicable Law, be of a nominal amount).

**8.5.3** The Seller shall, with effect from Closing, grant (and shall procure the grant by members of the Seller's Group) to the extent it has the right to grant or procure the grant to the Purchaser of a non-exclusive, irrevocable, royalty-free licence for use solely in relation to the Products of all Intellectual Property Rights (excluding for the avoidance of doubt any Intellectual Property Rights to the extent relating to new chemical entities owned by or licensed to the Seller which are not Products) owned by or licensed to the Seller's Group as at Closing relating to pre-clinical research which relate to (but do not exclusively relate to) the Products and which are necessary or reasonably useful to research, develop, manufacture or Commercialise the Products, which licence shall be (a) sub-licensable by the Purchaser (i) to members of its Group and (ii) to third parties working with it on the development of the Products; and (b) sub-licensable and assignable to other third parties solely in connection with the license, sub-license or assignment of all of the rights of the Purchaser in the relevant Product.

**8.6 Covenant not to sue**

**8.6.1** The Seller hereby undertakes not to enforce, at any time after Closing, any Out of Scope Patent against the Purchaser's Group in relation to the Purchaser's Group carrying on the Business as at the date of Closing.

**8.6.2** The Purchaser hereby undertakes not to enforce, at any time after Closing, any Patents constituting Business Product Intellectual Property Rights against the Seller's Group in relation to the Seller's Group carrying on the Seller's Group Retained Business as at the date of Closing.

**8.7 The Purchaser's Continuing Obligations**

**8.7.1** Except as provided in the Ancillary Agreements, the Purchaser shall not, and shall procure that no member of the Purchaser's Group shall, after Closing, use any of the Seller Marks or any confusingly similar name or mark, any extensions thereof or developments thereto in any business which competes with the Seller's business or any other business of the Seller or any member of the Seller's Group in which the Seller Marks are used for (i) a minimum period of five years following Closing; and (ii) thereafter for so long as any member of the Seller's Group continues to retain an interest in the name.



**8.7.2** The Purchaser shall retain for a period of 10 years from Closing (and, upon notice from the Seller between 9 and 10 years from Closing, for a further period of 5 years), and not dispose of or destroy, the books, records and documents of the Business to the extent they relate to the period prior to Closing and shall, if reasonably requested by the Seller, allow the Seller reasonable access to such books, records and documents (including the right to take copies at the Seller's expense) and to the employees of the Business.

**8.8 The Seller's Continuing Obligations**

**8.8.1** For a period of 10 years from Closing (and, upon notice from the Purchaser between 9 and 10 years from Closing, for a further period of 5 years), the Seller shall make or procure to be made available to the Purchaser or their duly authorised agents on reasonable notice during normal business hours:

- (i) all relevant books, accounts, other records and correspondence Exclusively Relating to the Business which have been retained by the Seller's Group (and shall permit the Purchaser to take copies thereof); and
- (ii) reasonable access to employees of the Seller's Group who have knowledge relating to any of the Products (including any inventor of the Products) for the purposes of the defence, prosecution or enforcement of any Business Product Intellectual Property Rights or Licensed Product Intellectual Property Rights) or as required by law or a Governmental Entity, provided that the Purchaser shall promptly reimburse the Seller for expenses reasonably incurred by the Seller in relation to providing such access if it exceeds 25 man hours in aggregate per annum.

**8.9 Transfer of Marketing Authorisations and Tenders**

**8.9.1** The transfer of the Marketing Authorisations following Closing shall take place in accordance with Part 2 of Schedule 6 and the terms of the Transitional Distribution and Supply Agreement.

**8.9.2** Between the Closing Date and the Marketing Authorisation Transfer Date, the Seller agrees to assist the Purchaser in accordance with Part 3 of Schedule 6 in respect of any tenders relating to the Products.

**8.10 Joint tax election**

If, following Closing, the Seller so requests in writing to the Purchaser, the Purchaser and the Seller shall, each acting reasonably and in good faith, discuss the making of a joint election under subsection 56.4(7) of the Income Tax Act (Canada) and the corresponding provisions of any applicable Canadian provincial statute. Any such election shall be made using the applicable prescribed form, if any, or otherwise filed in a manner acceptable to the Canada Revenue Agency or the applicable Canadian provincial Tax Authorities, as the case may be.



**8.11 Clinical Trials and Safety Database**

Arrangements in relation to the Clinical Trials and the safety database shall take place in accordance with the terms of the Transitional Services Agreement.

**8.12 Ongoing collaboration**

**8.12.1** The Seller hereby grants to the Purchaser, as its preferred partner, with effect from Closing, the rights set out in Schedule 22 in relation to the co-development and commercialisation of Relevant Development Products.

“**Relevant Development Products**” means products in development for the treatment, palliation, diagnosis or prevention of any and all cancers, including without limitation immunology, epigenetics and treatment of solid or hematologic tumours (but excluding in all cases vaccines).

**8.12.2** In the event that the Seller elects to assign or sub-license the Ofatumumab Intellectual Property Licence Agreement in a transaction of the type described in paragraph 1.1.1 of Schedule 22, then the provisions of Schedule 22 will apply to such assignment or sub-license (except where such assignment or sub-license is to a member of the Seller’s Group). For the avoidance of doubt, the Seller shall be free at all times to pursue the co-development and commercialisation of the Ofatumumab Compound for use in relation to autoimmune diseases (including the Ofatumumab Indications), on its own or with third parties provided that if such co-development or commercialisation falls within the activities described in paragraph 1.1.1 of Schedule 22, that schedule shall apply.

**9. Warranties**

**9.1 The Seller’s Warranties**

**9.1.1** Subject to Clause 9.2, the Seller warrants (on behalf of the relevant Business Sellers or the Share Seller as applicable) to the Purchaser and each member of the Purchaser’s Group to which Assets, the Owned Product Intellectual Property Rights or the Share are transferred pursuant to this Agreement (whether directly or indirectly) that the statements set out in Schedule 14 are true and accurate as of the date of this Agreement.

**9.1.2** Each of the Seller’s Warranties shall be separate and independent and shall not be limited by reference to any other paragraph of Schedule 14 or by anything in this Agreement.

**9.1.3** The Seller does not give or make any warranty as to the accuracy of the forecasts, estimates, projections, statements of intent or statements of opinion provided to the Purchaser or any of its directors, officers, employees, agents or advisers on or prior to the date of this Agreement.



**9.1.4** Any Seller's Warranty qualified by the expression "so far as the Seller is aware" or to the "Seller's Knowledge" or any similar expression shall, unless otherwise stated, be deemed to refer to the knowledge of the following persons: [\*\*\*], such persons having made due and reasonable enquiry.

**9.1.5** The Seller's Warranties shall be deemed to be repeated immediately before Closing by reference to the facts, circumstances and knowledge then existing as if references in the Seller's Warranties to the date of this Agreement were references to the Closing Date. Without prejudice to the provisions of Clause 10, the Seller shall have no liability for any breach of any Seller's Warranty where the Seller's Warranty was true as at the date of this Agreement unless the fact, event or circumstances giving rise to the breach constitutes a Material Adverse Effect. The Seller shall have no liability under this Clause 9.1.5 if the Purchaser has exercised its termination right in accordance with Clause 4.4.1(iii).

**9.2 Seller's Disclosures**

**9.2.1** The Seller's Warranties are subject to all matters which are fairly disclosed in this Agreement or in the Disclosure Letter.

**9.2.2** References in the Disclosure Letter to paragraph numbers shall be to the paragraphs in Schedule 14 to which the disclosure is most likely to relate. Such references are given for convenience only and, shall not limit the effect of any of the disclosures, all of which are made against the Seller's Warranties as a whole.

**9.3 The Purchaser's Warranties**

The Purchaser warrants to the Seller that the statements set out in Schedule 15 are true and accurate as of the date of this Agreement.

**10. Limitation of Liability**

**10.1 Time Limitation for Claims**

The Seller shall not be liable under this Agreement for breach of any Seller's Warranty in respect of any claim unless a notice of the claim is given by the Purchaser to the Seller specifying the matters set out in Clause 11.2:

**10.1.1** in the case of a claim under paragraphs 1 and 2.2 of Schedule 14, within the applicable statutory limitations period;

**10.1.2** in the case of a claim under paragraph 3 of Schedule 14, within 6 years of the Closing Date;

**10.1.3** in respect of claims under the Tax Warranties, before the date falling six months after the expiry of the period specified by statute during which an assessment of the relevant liability to Tax may be issued by the relevant Tax Authority; and

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



10.1.4 in the case of any other claim, within two years of the Closing Date.

**10.2 Minimum Claims**

10.2.1 The Seller shall not be liable under this Agreement for breach of any Seller's Warranty in respect of any individual claim (or a series of claims arising from similar or identical facts or circumstances) where the liability agreed or determined (disregarding the provisions of this Clause 10.2) in respect of any such claim or series of claims does not exceed 0.1 per cent of the Headline Amount.

10.2.2 Where the liability agreed or determined in respect of any such claim or series of claims exceeds 0.1 per cent of the Headline Amount, the liability of the Seller shall be for the whole amount of such claim(s) and not just the excess.

**10.3 Aggregate Minimum Claims**

10.3.1 The Seller shall not be liable under this Agreement for breach of any Seller's Warranty (other than any Tax Warranty) in respect of any claim unless the aggregate amount of all claims for which the Seller would otherwise be liable under this Agreement for breach of any Seller's Warranty (disregarding the provisions of this Clause 10.3) exceeds 1 per cent of the Headline Amount.

10.3.2 Where the liability agreed or determined in respect of all claims exceeds 1 per cent of the Headline Amount, the Seller shall be liable for the aggregate amount of all claims as agreed or determined and not just the excess.

10.3.3 For the avoidance of doubt, the Purchaser may give notice of any single claim in accordance with and for the purposes of Clause 10.1 above, irrespective of whether, at the time the notice is given, the amount set out in Clause 10.3.1 has been exceeded.

**10.4 Maximum Liability**

The aggregate liability of the Seller in respect of any breaches:

10.4.1 of the Seller's Warranties (other than Tax Warranties and the Seller's Warranties contained in paragraphs 1, 2.2 or 3 of Schedule 14) shall not exceed an amount equal to 30 per cent. of the Headline Amount;

10.4.2 of the Seller's Warranties contained in paragraph 3 of Schedule 14 shall not exceed an amount equal to 60 per cent. of the Headline Amount; and

10.4.3 of the Seller's Warranties contained in paragraphs 1 or 2.2 of Schedule 14 shall not exceed the Headline Amount.



**10.5 Contingent Liabilities**

The Seller shall not be liable under this Agreement for breach of any Seller's Warranties in respect of which the liability is contingent, unless and until such contingent liability becomes an actual liability and is due and payable (but the Purchaser has the right under Clause 11.1 to give notice of such claim before such time). For the avoidance of doubt, the fact that the liability may not have become an actual liability by the relevant date provided in Clause 10.1 shall not exonerate the Seller in respect of any claim properly notified before that date.

**10.6 Matters Arising Subsequent to this Agreement**

The Seller shall not be liable under this Agreement for breach of any Seller's Warranty in respect of any matter, act, omission or circumstance (or any combination thereof) to the extent that the same would not have occurred but for:

**10.6.1 Agreed matters**

any matter or thing done or omitted to be done by the Seller or any member of the Seller's Group before Closing pursuant to and in compliance with this Agreement or otherwise at the request in writing of the Purchaser; or

**10.6.2 Changes in legislation**

the passing of, or any change in, after the Closing Date, any Applicable Law or administrative practice of any government, governmental department, agency or regulatory body having the force of the law including (without prejudice to the generality of the foregoing) any increase in the rates of Taxation or any imposition of Taxation or any withdrawal of relief from Taxation not in force at the Closing Date.

**10.7 Insurance**

Without prejudice to Clause 14, the Seller's Liability under this Agreement for breach of any Seller's Warranty shall be reduced by an amount equal to any loss or damage to which such claim related which has actually been recovered under a policy of insurance held by the Purchaser (after deducting any reasonable costs incurred in making such recovery including the amount of any excess or deductible).

**10.8 Purchaser's Right to Recover**

If the Seller has paid an amount in discharge of any claim under this Agreement for breach of any Seller's Warranty and subsequently the Purchaser recovers (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Purchaser (in whole or in part) in respect of the loss or liability which is the subject matter of the claim, the Purchaser shall pay to the Seller as soon as practicable after receipt an amount equal to (i) the sum recovered from the third party less any costs and expenses incurred in obtaining such recovery and any Tax on any amounts recovered (or Tax that would have been payable on such amounts but for the availability of any Tax relief), or if less (ii) the amount previously paid by the Seller to the Purchaser. Any payment made by the Purchaser to the Seller under this Clause shall be made or procured by way of further adjustment of the consideration paid by the Purchaser and the provisions of Clause 3.3 to 3.4 shall apply mutatis mutandis.



**10.9 No Double Recovery and no Double Counting**

A party shall be entitled to make more than one claim under this Agreement arising out of the same subject matter, fact, event or circumstance but shall not be entitled to recover under this Agreement or otherwise more than once in respect of the same Losses suffered or amount for which the party is otherwise entitled to claim (or part of such Losses or amount), regardless of whether more than one claim arises in respect of it. No amount (including any relief) (or part of any amount) shall be taken into account, set off or credited more than once under this Agreement or otherwise, with the intent that there will be no double counting under this Agreement or otherwise.

**10.10 Fraud**

None of the limitations contained in this Clause 10 shall apply to any claim to the extent that such claim which arises or is increased, or to the extent to which it arises or is increased, as the consequence of, or which is delayed as a result of, fraud by any director or officer of any member of the Seller's Group.

**11. Claims**

**11.1 Notification of Potential Claims**

Without prejudice to the obligations of the Purchaser under Clause 11.2, if the Purchaser becomes aware of any fact, matter or circumstance that may give rise to a claim against the Seller under this Agreement for breach of any Seller's Warranty (ignoring for these purposes the application of Clauses 11.2 or 11.3), the Purchaser shall as soon as reasonably practicable give a notice in writing to the Seller of such facts, matters or circumstances as are then available regarding the potential claim. Failure to give notice within such period shall not affect the rights of the Purchaser to make a relevant claim under this Agreement for breach of any Seller's Warranty, except that the failure shall be taken into account in determining the liability of the Seller for such claim to the extent the Seller establishes that the amount of it is increased, or is not reduced as a result of such failure.

**11.2 Notification of Claims under this Agreement**

Notices of claims under this Agreement for breach of Seller's Warranty shall be given by the Purchaser to the Seller within the time limits specified in Clause 10.1 and shall specify information (giving reasonable detail) in relation to the basis of the claim and setting out the Purchaser's estimate of the amount of Losses which are, or are to be, the subject of the claim.

**11.3 Commencement of Proceedings**

Any claim notified pursuant to Clause 11.2 shall (if it has not been previously satisfied, settled or withdrawn) be deemed to be irrevocably withdrawn 9 months after the relevant time limit set out in Clause 10.1 unless, at the relevant time, legal proceedings in respect of the relevant claim have been commenced by being both issued and served except:



- 11.3.1 where the claim relates to a contingent liability, in which case it shall be deemed to have been withdrawn unless legal proceedings in respect of it have been commenced by being both issued and served with 9 months of it having become an actual liability; or
- 11.3.2 where the claim is a claim for breach of a Seller's Warranty of which notice is given for the purposes of Clause 10.1 at a time when the amount set out in Clause 10.3.1 has not been exceeded, in which case it shall be deemed to have been withdrawn unless legal proceedings in respect of it have been commenced by being both issued and served within 9 months of the date of any subsequent notification to the Seller pursuant to Clause 11.1 above of one or more claims which result(s) in the total amount claimed in all claims notified to the Seller pursuant to Clause 10.1 exceeding the amount set out in Clause 10.3.1 for the first time.

**11.4 Conduct of Third Party Claims**

11.4.1 If the matter or circumstance that may give rise to a claim against the Seller under this Agreement for breach of any Seller's Warranty is a result of or in connection with a claim by a third party (a "Third Party Claim") then:

- (i) the Purchaser shall as soon as reasonably practicable give written notice thereof to the Seller and thereafter shall provide the Seller with periodic updates upon reasonable request and shall consult with the Seller so far as reasonably practicable in relation to the conduct of the Third Party Claim and shall take reasonable account of the views of the Seller in relation to the Third Party Claim;
- (ii) the Third Party Claim shall not be admitted, compromised, disposed of or settled without the written consent of the Seller (such consent not to be unreasonably withheld or delayed); and
- (iii) subject to the Seller indemnifying the Purchaser or other member of the Purchaser's Group concerned against all reasonable costs and expenses (including legal and professional costs and expenses) that may be incurred thereby, the Purchaser shall, or the Purchaser shall procure that any other members of the Purchaser's Group shall, take such action as the Seller may reasonably request to avoid, dispute, deny, defend, resist, appeal, compromise or contest the Third Party Claim, provided that this Clause 11.4.1(iii) shall not apply where the claim by the third party relates to matters or circumstances referred to in paragraphs 3 or 7 of Schedule 14 and the Purchaser shall then have the right to conduct the claim at its discretion (subject to Clauses 11.4.1(i) and (ii)),

provided that failure to give notice in accordance with Clause 11.4.1(i) shall not affect the rights of the Purchaser to make a relevant claim under this Agreement for breach of any Seller's Warranty, except that the failure shall be taken into account in determining the liability of the Seller for such claim to the extent the Seller establishes that the amount of it is increased, or is not reduced as a result of such failure.



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**11.4.2** Notwithstanding the provisions of Clause 11.4.1, if a Third Party Claim may also give rise to an indemnity claim under Clause 8.1.2, the provisions of Clause 8.2.2 shall apply instead of the provisions of Clause 11.4.1.

**12. Restrictive Covenants**

**12.1 Non-Compete**

In consideration of the payment by the Purchaser of \$1,600,000,000, the Seller will not, and undertakes to procure that each member of the Seller’s Group will not, do any of the following things:

**12.1.1** for three years from the Closing Date, manufacture, sell, commercialise, market or licence (whether as a result of M&A activity or otherwise) any oncology product which has or is proposed to have (i) the same mechanism of action as any Product; and/or (ii) the same indication as any Product or any Product Expansion (a “**Competing Product**”); or

**12.1.2** for three years from the Closing Date, solicit the custom of any person to whom goods or services have been sold by any Business Seller in the course of the Business during the two years before the Closing Date, in each case only to the extent that such solicitation is in respect of products referred to in Clause 12.1.1.

**12.2 Exceptions to the non-compete**

The restrictions in Clause 12.1 shall not apply to:

**12.2.1** any activities of any nature undertaken or developed by the Seller’s Group in relation to vaccines;

**12.2.2** any Affiliate of Seller in which a person who is not a member of the Seller’s Group holds equity interests and with respect to whom a member of the Seller’s Group has existing contractual or legal obligations limiting its discretion to impose non-competition obligations;

**12.2.3** the holding of shares in a company or other entity for investment purposes provided the Seller does not exercise, directly or indirectly, Control over that company or entity;

**12.2.4** any business activity that would otherwise violate Clause 12.1 that is acquired in connection with an acquisition so long as the relevant member of the Seller’s Group divests all or substantially all of the business activity that would otherwise violate Clause 12.1 or otherwise terminates or disposes of such business activity, product line or assets of such acquired business that would otherwise violate Clause 12.1 within nine months after the consummation of the relevant acquisition, or such longer period as may reasonably be necessary to comply with Applicable Law (provided that in those circumstances the Seller shall procure that the such competing business activity is disposed of as soon as reasonably practicable);



- 12.2.5 passive investments by a pension or employee benefit plan or trust for present or former employees;
- 12.2.6 performance of any obligation of the Seller's Group under this Agreement or any of the Ancillary Agreements, as amended from time to time in accordance with their terms;
- 12.2.7 any manufacturing of products that are not Competing Products by any member of the Seller's Group for the Seller's Group or any third party;
- 12.2.8 any manufacturing and supply of the Divested Zofran Product by any member of the Seller's Group exclusively for or to the order of Aspen Global Incorporated and its Affiliates for sale in Australia to the extent required under the Aspen Agreements; or
- 12.2.9 provision of data or other content to or in connection with business conducted by any person, in each case as required by Applicable Law.

**12.3 Non-solicit**

The Seller will not, and undertakes to procure that each member of the Seller's Group will not, for a period of two years after the Closing Date, solicit or induce any Restricted Group Employee to become employed or engaged whether as employee, consultant or otherwise by any member of the Seller's Group.

**12.4 Exceptions to the non-solicit**

The restrictions in Clause 12.3 shall not apply to the solicitation, inducement or recruitment of any person:

- 12.4.1 through the placing of advertisements of posts available to the public generally;
- 12.4.2 through an employment agency, provided that no member of the Seller's Group encourages or advises such agency to approach any such person; or
- 12.4.3 who is no longer employed by the Purchaser's Group.

**12.5 Reasonableness of Restrictions**

Each undertaking contained in this Clause 12 shall be construed as a separate undertaking and if one or more of the undertakings is held to be against the public interest or unlawful or in any way an unreasonable restraint of trade, the remaining undertakings shall continue to bind the Seller.



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**13. Confidentiality**

**13.1 Announcements**

No announcement, communication or circular concerning the existence or the subject matter of this Agreement shall be made or issued by or on behalf of any member of the Seller's Group or the Purchaser's Group without the prior written approval of the Seller and the Purchaser (such consent not to be unreasonably withheld or delayed). This shall not affect any announcement, communication or circular required by law or any governmental or regulatory body or the rules of any stock exchange on which the shares of any party (or its holding company) are listed but the party with an obligation to make an announcement or communication or issue a circular (or whose holding company has such an obligation) shall consult with the other parties (or shall procure that its holding company consults with the other parties) insofar as is reasonably practicable before complying with such an obligation.

**13.2 Confidentiality**

**13.2.1** Subject to Clause 13.1 and Clause 13.2.2, each of the parties shall treat as strictly confidential and not disclose or use any information received or obtained as a result of entering into this Agreement, the Ancillary Agreements (or any other agreement entered into pursuant to this Agreement) which relates to:

- (i) the existence and provisions of this Agreement, the Ancillary Agreements and of any other agreement entered into pursuant to this Agreement;
- (ii) the negotiations relating to this Agreement, the Ancillary Agreements and any such other agreement;
- (iii) (in the case of the Seller) any information relating to the Business following Closing and any other information relating to the business, financial or other affairs (including future plans and targets) of the Purchaser's Group; or
- (iv) (in the case of the Purchaser) any information relating to the business, financial or other affairs (including future plans and targets) of the Seller's Group including, prior to Closing, any information relating to the Business.

**13.2.2** Clause 13.2.1 shall not prohibit disclosure or use of any information if and to the extent:

- (i) the disclosure or use is required by law, any governmental or regulatory body or any stock exchange on which the shares of any party (or its holding company) are listed;
- (ii) the disclosure or use is required to vest the full benefit of this Agreement or the Ancillary Agreements in any party;



- (iii) the disclosure or use is required for the purpose of any arbitral or judicial proceedings arising out of this Agreement, the Ancillary Agreements or any other agreement entered into under or pursuant to this Agreement;
- (iv) the disclosure is made to a Tax Authority in connection with the Tax affairs of the disclosing party;
- (v) the disclosure is made to a ratings agency on a confidential basis in connection with the affairs of the disclosing party;
- (vi) the disclosure is made by the Purchaser to any of its Representatives, any member of the Purchaser's Group and/or any of their respective Representatives, or by the Seller to any of its Representatives, any member of the Seller's Group and/or any of their respective Representatives, in each case on a "need-to-know" basis and provided they have a duty (contractual or otherwise) to keep such information confidential;
- (vii) the information was lawfully in the possession of that party without any obligation of secrecy prior to its being received or held, in either case as evidenced by written records;
- (viii) the information is or becomes publicly available (other than by breach of this Agreement);
- (ix) the other party has given prior written approval to the disclosure or use; or
- (x) the information is independently developed,

provided that prior to disclosure or use of any information pursuant to Clause 13.2.2(i), (ii) or (iii), the party concerned shall, where not prohibited by law, promptly notify the other parties of such requirement with a view to providing the other parties with the opportunity to contest such disclosure or use or otherwise to agree the timing and content of such disclosure or use.

**14. Insurance**

**14.1 No cover under Seller's Group Insurance Policies from Closing**

The Purchaser acknowledges and agrees that following Closing:

**14.1.1** the Purchaser shall not have or be entitled to the benefit of any Seller's Group Insurance Policy in respect of any event, act or omission that takes place after Closing and it shall be the sole responsibility of the Purchaser to ensure that adequate insurances are put in place in relation to the Business with effect from Closing;

**14.1.2** neither the Seller nor any member of the Seller's Group shall be required to maintain any Seller's Group Insurance Policy in relation to the Business; and



14.1.3 the Purchaser shall not be entitled to make or notify a claim under any Seller’s Group Insurance Policy in respect of any event, act or omission that occurred prior to the Closing Date.

15. France Business and Netherlands Business

15.1 France Business

Notwithstanding any other provision of this Agreement, this Agreement shall not constitute a binding agreement to sell or purchase the France Business, provided that:

15.1.1 in the event that the France Put Option Exercise occurs before Closing, this Clause 15.1 (other than this Clause 15.1.1) shall terminate and shall cease to have effect and the sale of the France Business shall be subject to the provisions of this Agreement as if it were part of the Business to be sold as and from the date of this Agreement;

15.1.2 in the event that the France Put Option Exercise does not occur before Closing:

- (i) the provisions of Clauses 2 and 6 (the “Disapplied Provisions”) shall not apply to the France Business;
- (ii) prior to the France Closing, the provisions of Clause 12, Schedule 8 and Schedule 9 (the “Suspended Provisions”) shall not apply to the France Business; and
- (iii) in respect of the Disapplied Provisions and, prior to the France Closing, the Suspended Provisions only:
  - (a) the term “Business” shall be deemed to exclude the France Business;
  - (b) the term “Assumed Liabilities” shall be deemed to exclude the France Assumed Liabilities; and
  - (c) the term “Employees” shall be deemed to exclude the France Employees;

15.1.3 with effect from the France Closing, the Suspended Provisions shall apply to the France Business mutatis mutandis save that in respect of the Suspended Provisions only (A) the term “Closing” shall be deemed to refer to the France Closing and (B) the term “Closing Date” shall be deemed to refer to the date of the France Closing; and

15.1.4 the parties shall negotiate in good faith to agree any amendments to this Agreement and any of the Ancillary Agreements as are required in order to give effect to the principles set forth in this Clause 15.1 for the purposes of complying with the information and consultation requirements in respect of the relevant works council in respect of the France Business; and



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15.1.5 the provisions of Clause 10 shall apply to the France Business as if the remaining provisions of this Clause 15.1 did not have any force or effect.

15.2 Netherlands Business

Notwithstanding any other provision of this Agreement, this Agreement shall not constitute a binding agreement to sell or purchase the Netherlands Business, provided that:

15.2.1 in the event that the Netherlands Put Option Exercise occurs before Closing, this Clause 15.2 (other than this Clause 15.2.1) shall terminate and shall cease to have effect and the sale of the Netherlands Business shall be subject to the provisions of this Agreement as if it were part of the Business to be sold as and from the date of this Agreement;

15.2.2 in the event that the Netherlands Put Option Exercise does not occur before Closing:

- (i) the Disapplied Provisions shall not apply to the Netherlands Business;
- (ii) prior to the Netherlands Closing, the Suspended Provisions shall not apply to the Netherlands Business; and
- (iii) in respect of the Disapplied Provisions and, prior to the Netherlands Closing, the Suspended Provisions only:
  - (a) the term “**Business**” shall be deemed to exclude the Netherlands Business;
  - (b) the term “**Assumed Liabilities**” shall be deemed to exclude the Netherlands Assumed Liabilities; and
  - (c) the term “**Employees**” shall be deemed to exclude the Netherlands Employees;

15.2.3 with effect from the Netherlands Closing, the Suspended Provisions shall apply to the Netherlands Business mutatis mutandis save that in respect of the Suspended Provisions only (A) the term “**Closing**” shall be deemed to refer to the Netherlands Closing and (B) the term “**Closing Date**” shall be deemed to refer to the date of the Netherlands Closing; and

15.2.4 the parties shall negotiate in good faith to agree any amendments to this Agreement and any of the Ancillary Agreements as are required in order to give effect to the principles set forth in this Clause 15.2 for the purposes of complying with the information and consultation requirements in respect of the relevant works council in respect of the Netherlands Business; and

15.2.5 the provisions of Clause 10 shall apply to the Netherlands Business as if the remaining provisions of this Clause 15.2 did not have any force or effect.



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**16. Other Provisions**

**16.1 Further Assurances**

**16.1.1** Without prejudice to any restriction or limitation on the extent of any party’s obligations under this Agreement, each of the parties shall from time to time, so far as each is reasonably able, do or procure the doing of all such acts and/or execute or procure the execution of all such documents in a form reasonably satisfactory to the party concerned as they consider necessary to transfer the Business to the Purchaser or otherwise to give the other party the full benefit of this Agreement.

**16.2 Whole Agreement**

**16.2.1** This Agreement and the Ancillary Agreements contain the whole agreement between the parties relating to the subject matter of this Agreement at the date hereof to the exclusion of any terms implied by law which may be excluded by contract and supersedes any previous written or oral agreement between the parties in relation to the matters dealt with in this Agreement.

**16.2.2** The Purchaser acknowledges that, in entering into this Agreement, it is not relying on any representation, warranty or undertaking not expressly incorporated into it.

**16.2.3** Each of the parties agrees and acknowledges that its only right and remedy in relation to any representation, warranty or undertaking made or given in connection with this Agreement shall be for breach of the terms of this Agreement and each of the parties waives all other rights and remedies (including those in tort or arising under statute) in relation to any such representation, warranty or undertaking.

**16.2.4** In Clauses 16.2.1 to 16.2.3, “this Agreement” includes the Ancillary Agreements and all other documents entered into pursuant to this Agreement.

**16.2.5** Nothing in this Clause 16.2 excludes or limits any liability for fraud.

**16.3 No Assignment**

No party may without the prior written consent of the other parties, assign, grant any security interest over, hold on trust or otherwise transfer the benefit of the whole or any part of this Agreement.

**16.4 Third Party Rights**

**16.4.1** Subject to Clause 16.4.2, the parties to this Agreement do not intend that any term of this Agreement should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Agreement.

**16.4.2** Certain provisions of this Agreement confer benefits on the Affiliates of the Purchaser and the Affiliates of the Seller (each such Affiliate being, for the purposes of this Clause 16.4, a “**Third Party**”) and, subject to Clause 16.4.3, are intended to be enforceable by each Third Party by virtue of the Contracts (Rights of Third Parties) Act 1999.



**16.4.3** Notwithstanding Clause 16.4.2, this Agreement may be varied in any way and at any time without the consent of any Third Party.

**16.5 Variation or waiver**

**16.5.1** No variation of this Agreement shall be effective unless in writing and signed by or on behalf of each of the parties.

**16.5.2** No failure or delay by a party in exercising any right or remedy provided by Applicable Law or under this Agreement or any Ancillary Agreement shall impair such right or remedy or operate or be construed as a waiver or variation of it or preclude its exercise at any subsequent time and no single or partial exercise of any such right or remedy shall preclude any further exercise of it or the exercise of any other remedy.

**16.6 Method of Payment and set off**

**16.6.1** Payments (including payments pursuant to an indemnity, compensation or reimbursement provision) made or expressed to be made by the Purchaser or the Seller pursuant to this Agreement or any claim for breach of this Agreement shall, insofar as the payment or claim relates to or affects the Share (including the Company by reason of the transfer of the Share) or any assets or liabilities transferred pursuant to this Agreement, be made or received (as the case may be) by:

- (i) the Seller, for itself or as agent on behalf of the relevant Business Seller or the Share Seller (each in respect of the assets and liabilities to be transferred by it pursuant to this Agreement including, in the case of the Share Seller, the Share); and
- (ii) the Purchaser, for itself or as agent on behalf of the relevant members of the Purchaser's Group (each in respect of the assets and liabilities to be transferred to it pursuant to this Agreement, including the Share).

**16.6.2** Payments pursuant to this Agreement shall be settled by payments between the Seller, on behalf of the relevant members of the Seller's Group, and the Purchaser, on behalf of the relevant members of the Purchaser's Group.

**16.6.3** Any payments pursuant to this Agreement shall be made in full, without any set-off, counterclaim, restriction or condition and without any deduction or withholding (save as may be required by law or as otherwise agreed).

**16.6.4** Any payments pursuant to this Agreement shall be effected by crediting for same day value the account specified by the Seller or the Purchaser (as the case may be) on behalf of the party entitled to the payment (reasonably in advance and in sufficient detail to enable payment by telegraphic or other electronic means to be effected) on or before the due date for payment.



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**16.6.5** Payment of a sum in accordance with this Clause 16.6 shall constitute a payment in full of the sum payable and shall be a good discharge to the payer (and those on whose behalf such payment is made) of the payer's obligation to make such payment and the payer (and those on whose behalf such payment is made) shall not be obliged to see to the application of the payment as between those on whose behalf the payment is received.

**16.7 Costs**

**16.7.1** Subject to Clause 16.8, the Seller shall bear all costs incurred by it and its Affiliates in connection with the preparation and negotiation of, and the entry into, this Agreement and the sale of the Business.

**16.7.2** Subject to Clause 2.3.6 and to paragraph 3, Part 1 of Schedule 18, the Purchaser shall bear all such costs incurred by it and its Affiliates in connection with the preparation and negotiation of, and the entry into, this Agreement and the purchase of the Business.

**16.8 Notarial Fees, Registration, Stamp and Transfer Taxes and Duties**

The Seller shall bear the cost of all notarial fees and all registration, stamp and transfer taxes and duties (including, for the avoidance of doubt, stamp duty reserve tax) or their equivalents ("**Transfer Taxes**") in all jurisdictions where such fees, taxes and duties are payable as a result of the transactions contemplated by this Agreement. The Purchaser shall be responsible for arranging the payment of all Transfer Taxes payable as a result of transactions taking place at or after Closing, including fulfilling any administrative or reporting obligation imposed by the jurisdiction in question in connection with such payment. The Seller shall indemnify the Purchaser or any other member of the Purchaser's Group against any Transfer Taxes payable as a result of the transactions contemplated by this Agreement to the extent that such amounts have not already been deducted from the amount payable by the Purchaser at Closing under Clause 6.3.1(i)(d).

**16.9 Interest**

If any party defaults in the payment when due of any sum payable under this Agreement, the liability of that party shall be increased to include interest on such sum from the date when such payment is due until the date of actual payment (as well after as before judgment) at a rate per annum of two per cent. above LIBOR. Such interest shall accrue from day to day.

**16.10 Grossing-up**

**16.10.1** All sums payable under this Agreement and the Local Transfer Documents shall be paid free and clear of all deductions, withholdings, set-offs or counterclaims whatsoever save only as required by Applicable Law or as may be otherwise agreed. Subject to Clauses 16.10.2 to 16.10.7 if any deductions or withholdings are required by law the party making the payment shall (except in the case of any interest payable under Clause 16.9) be obliged to pay to the other party such sum as will after such deduction or withholding has been made leave the other party with the same amount as it would have been entitled to receive in the absence of any such



requirement to make a deduction or withholding, provided that if either party to this Agreement shall have assigned or novated the benefit in whole or in part of this Agreement or shall, after the date of this Agreement, have changed its tax residence or the permanent establishment to which the rights under this Agreement are allocated then the liability of the other party under this Clause 16.10.1 shall be limited to that (if any) which it would have been had no such assignment, novation or change taken place.

- 16.10.2** If either party is or becomes aware of any facts making it reasonably likely that the Purchaser, or any relevant member of the Purchaser's Group, will be required to deduct or withhold any amount in respect of the Business Consideration and/or the Share Consideration (a "**Relevant Tax Deduction**"), then that party shall, as soon as reasonably practicable, give notice to the other party (including details of the relevant facts and, so far as possible, details of the rate and basis of such withholding).
- 16.10.3** The Seller and the Purchaser shall, and shall procure that the members of their respective groups shall (at the Seller's cost), co-operate with each other in good faith and use all reasonable efforts to reduce or mitigate any Relevant Tax Deduction (or its amount) and/or to enable the Seller or the relevant Business Seller or Share Seller to obtain any available credit or refund in respect of such Relevant Tax Deduction, including, without limitation, making any available claim under an applicable double taxation treaty.
- 16.10.4** Without prejudice to the generality of Clause 16.10.3, the Seller and the Purchaser shall co-operate in good faith to establish or agree the amount or basis of calculation of any Relevant Tax Deduction prior to Closing (and in this regard the Purchaser shall consider reasonably any relevant information or evidence provided or obtained by the Seller) including, if requested by the Seller and at the Seller's expense, by seeking to obtain a ruling or confirmation from a relevant Tax Authority, or obtaining an opinion from reputable local tax counsel or a firm of accountants of international standing satisfactory to the Purchaser (acting reasonably) and instructed jointly by the Seller and the Purchaser.
- 16.10.5** The Purchaser shall, or shall procure that the relevant member of the Purchaser's Group shall, make any Relevant Tax Deduction in the minimum amount required by Applicable Law, provided that:
- (i) if a double taxation treaty between the jurisdiction under the laws of which the Relevant Tax Deduction is required and the jurisdiction of residence of the Seller or the relevant Share Seller or Business Seller is in force, the Purchaser shall (and shall procure that any relevant member of the Purchaser's Group shall) make any Relevant Tax Deduction in an amount not exceeding the rate specified in such double taxation treaty (which may be nil), provided that the Seller has provided the Purchaser with such evidence as is required under Applicable Law to establish the entitlement of the Seller (or relevant Share Seller or Business Seller) to the benefit of the applicable treaty; and



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(ii) if an opinion from reputable local counsel or a firm of accountants of international standing has been obtained as envisaged by Clause 16.10.4, the Purchaser shall (and shall procure that any relevant member of the Purchaser Group shall) make such Relevant Tax Deduction in an amount or on a basis which is consistent with that opinion (which may result in no withholding or deduction), provided that the Seller has indemnified the Purchaser and any relevant member of the Purchaser's Group, to the Purchaser's reasonable satisfaction, against any Liabilities arising (including any interest and penalties) should such opinion be wholly or partly incorrect.

**16.10.6** The Purchaser shall promptly provide the Seller with evidence reasonably satisfactory to the Seller that a Relevant Tax Deduction has been made and an appropriate amount paid to the relevant Tax Authority.

**16.10.7** If any Relevant Tax Deduction is required, an additional sum shall be payable in accordance with Clause 16.10.1 only if and to the extent that such deduction or withholding would not have been required had the Purchaser and each member of the Purchaser's Group making such payment or to which such payment relates been resident for Tax purposes only in Switzerland.

**16.11 Notices**

**16.11.1** Any notice or other communication in connection with this Agreement (each, a "Notice") shall be:

- (i) in writing in English; and
- (ii) delivered by hand, fax, or by courier using an internationally recognised courier company.

**16.11.2** A Notice to the Seller shall be sent to such party at the following address, or such other person or address as the Seller may notify to the Purchaser from time to time:

GlaxoSmithKline plc  
980 Great West Road  
Brentford  
Middlesex TW8 9GS

Fax: +44 (0)208 0476904

Attention: Company Secretary

with a copy to the Seller's Lawyers, marked for the urgent attention of Simon Nicholls (delivery of such copy shall not itself constitute valid notice).



**16.11.3** A Notice to the Purchaser shall be sent to such party at the following address, or such other person or address as the Purchaser may notify to the Seller from time to time:

Novartis AG  
Postfach  
CH-4002 Basel  
Switzerland

Fax: +41 613244300

Attention: Head Legal M&A, Novartis International AG

with a copy to the Purchaser's Lawyers, marked for the urgent attention of Jennifer Bethlehem (delivery of such copy shall not itself constitute valid notice).

**16.11.4** A Notice shall be effective upon receipt and shall be deemed to have been received:

- (i) at the time of delivery, if delivered by hand or courier;
- (ii) at the time of transmission in legible form, if delivered by fax.

**16.12 Invalidity or Conflict**

**16.12.1** If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, the provision shall apply with whatever deletion or modification is necessary so that the provision is legal, valid and enforceable and gives effect to the commercial intention of the parties.

**16.12.2** To the extent it is not possible to delete or modify the provision, in whole or in part, under Clause 16.12.1, then such provision or part of it shall, to the extent that it is illegal, invalid or unenforceable, be deemed not to form part of this Agreement and the legality, validity and enforceability of the remainder of this Agreement shall, subject to any deletion or modification made under Clause 16.12.1, not be affected.

**16.12.3** If there is any conflict between the terms of this Agreement and any of the Ancillary Agreements this Agreement shall prevail (as between the parties between this Agreement and as between any member of the Seller's Group and any member of the Purchaser's Group) unless (i) such Ancillary Agreement expressly states that it overrides this Agreement in the relevant respect and (ii) the Seller and the Purchaser are either also parties to that Ancillary Agreement or otherwise expressly agree in writing that such Ancillary Agreement shall override this Agreement in that respect.

**16.13 Counterparts**

This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. Any party may enter into this Agreement by executing any such counterpart. Delivery of a counterpart of this Agreement by email attachment shall be an effective mode of delivery.



**16.14 Governing Law and Submission to Jurisdiction**

**16.14.1** This Agreement and the documents to be entered into pursuant to it, save as expressly referred to therein, and any non-contractual obligations arising out of or in connection with the Agreement and such documents shall be governed by and construed in accordance with English law.

**16.14.2** Each of the parties irrevocably agrees that the courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Agreement and the documents to be entered into pursuant to it, save as expressly referred to therein, and that accordingly any proceedings arising out of or in connection with this Agreement and the documents to be entered into pursuant to it shall be brought in such courts. Each of the parties irrevocably submits to the jurisdiction of such courts and waives any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

**16.15 Appointment of Process Agent**

**16.15.1** The Purchaser hereby irrevocably appoints Hackwood Secretaries Limited of One Silk Street, London EC2Y 8HQ as its agent to accept service of process in England and Wales in any legal action or proceedings arising out of this Agreement, service upon whom shall be deemed completed whether or not forwarded to or received by the Purchaser.

**16.15.2** The Purchaser agrees to inform the Seller in writing of any change of address of such process agent within 28 days of such change.

**16.15.3** If such process agent ceases to be able to act as such or to have an address in England and Wales, the Purchaser irrevocably agrees to appoint a new process agent in England and Wales and to deliver to the Seller within 14 days a copy of a written acceptance of appointment by the process agent.

**16.15.4** Nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

This Agreement has been entered into on the date stated at the beginning.



SIGNED by

AND

for and on behalf of  
**NOVARTIS AG:**

SIGNED by

for and on behalf of  
**GLAXOSMITHKLINE PLC:**

}

}

}



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**Schedule 1**  
**Products**

**Part 1 Products**

[See overleaf]

**Part 2 Product Expansions**

[See overleaf]



Schedule 1  
Part 1  
Products

No	Brand name	Active Ingredient	Product Description	Marketing Authorisation details (includes all countries that have product approval; NOTE: for products with multiple indications, some countries may not have yet have approval for all indications)	Product Expansion Applications (includes only those submitted or currently under regulatory review)	ATC Code	Dosage
1	Tafinlar	Dabrafenib	Dabrafenib mesylate is a kinase inhibitor. The chemical name for dabrafenib mesylate is N-{3-[5-(2-Amino-4-pyrimidinyl)-2-(1,1-dimethylethyl)-1,3-thiazol-4-yl]-2-fluorophenyl}-2,6-difluorobenzene sulfonamide, methanesulfonate salt. It has the molecular formula C <sub>23</sub> H <sub>20</sub> F <sub>3</sub> N <sub>5</sub> O <sub>2</sub> S <sub>2</sub> •CH <sub>4</sub> O <sub>3</sub> S and a molecular weight of 615.68.	Australia, Austria, Belgium, Bulgaria, Canada, Chile, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States	<u>Combination w/ MEK (regulatory reviews ongoing in certain markets, i.e. Switzerland); proposed indication below:</u>  TAFINLAR in combination with trametinib is indicated for the treatment of patients with unresectable or metastatic melanoma with BRAF V600E or V600K mutations.	L01XE23	The recommended dose of TAFINLAR is 150 mg orally twice daily as a single agent or in combination with trametinib 2 mg orally once daily.
2	Mekinist	Trametinib	Trametinib dimethyl sulfoxide is a kinase inhibitor. The chemical name is acetamide, N-[3-[3-cyclopropyl-5-(2-fluoro-4-iodophenyl)amino]-3,4,6,7-tetrahydro-6,8-dimethyl-2,4,7-trioxopyrido[4,3-d]pyrimidin-1(2H)-yl]phenyl]-, compound with 1,1'-sulfinylbis [methane] (1:1). It has a molecular formula C <sub>26</sub> H <sub>23</sub> FIN <sub>5</sub> O <sub>4</sub> •C <sub>2</sub> H <sub>6</sub> OS with a molecular mass of 693.53.	Australia, Canada, Switzerland, United States	EU opinion for Mekinist monotherapy on track for April CHMP meeting:  Trametinib is indicated in monotherapy for the treatment of adult patients with unresectable or metastatic melanoma with a BRAF V600 mutation	L01XE23	The recommended dosage regimens of MEKINIST are 2 mg orally once daily as a single agent or in combination with dabrafenib 150 mg orally twice daily



3	Votrient Pazopanib	<p>VOTRIENT (pazopanib) is a tyrosine kinase inhibitor (TKI). Pazopanib is presented as the hydrochloride salt, with the chemical name 5-[[4-[(2,3-dimethyl-2H-indazol-6-yl)methylamino]-2-pyrimidinyl]amino]-2-methylbenzene sulfonamide monohydrochloride. It has the molecular formula <math>C_{21}H_{23}N_7O_2S \cdot HCl</math> and a molecular weight of 473.99.</p>	<p>Albania, Argentina, Aruba, Australia, Austria, Bahrain, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina, Brazil, Brunei Darussalam, Bulgaria, Canada, Chile, Colombia, Costa Rica, Croatia, Cuba, Curacao, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Finland, France, Germany, Greece, Guatemala, Guyana, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Korea, Republic of, Kuwait, Latvia, Lebanon, Lithuania, Luxembourg, Macao, Macedonia, Malaysia, Malta, Mexico, Morocco, Netherlands, New Zealand, Nicaragua, Norway, Oman, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, Spain, Suriname, Sweden, Switzerland, Syrian Arab Republic, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, Venezuela, Yemen</p>	<p>EU withdrawal of maintenance treatment of women with FIGO stage II-IV epithelial ovarian, fallopian tube or primary peritoneal cancer who had not progressed after receiving first-line chemotherapy.</p>	<p>Antineoplastic agents, other antineoplastic agents, protein- kinase inhibitors, ATC code: L01XE11</p>	<p>The recommended dose of pazopanib for the treatment of RCC or STS is 800 mg once daily.</p>
4	Tykerb/ Tyverb Lapatinib	<p>Lapatinib is a small molecule and a member of the 4-anilinoquinazoline class of kinase inhibitors. It is present as the monohydrate of the ditosylate salt, with chemical name <i>N</i>-(3-chloro-4-[[3-(3-fluorophenyl)methyl]oxy}phenyl)-6-[5-((2-(methylsulfonyl)ethyl)amino}methyl)-2-furanyl]-4-quinazolinamine bis(4-methylbenzene sulfonate) monohydrate. It has the molecular formula <math>C_{29}H_{26}ClFN_4O_4S</math> (<math>C_7H_8O_3S</math>)<sub>2</sub> H<sub>2</sub>O and a molecular weight of 943.5.</p>	<p>Albania, Argentina, Aruba, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belgium, Brazil, Bulgaria, Cambodia, Chile, Colombia, Croatia, Cyprus, Czech Republic, Denmark, Ecuador, Egypt, Finland, France, Germany, Greece, Guatemala, Guyana, Honduras, Hungary, Iceland, Indonesia, Ireland, Israel, Italy, Kazakhstan, Korea, Republic of, Latvia, Lithuania, Luxembourg, Malaysia, Malta, Mexico, Moldova, Morocco, Netherlands, Norway, Oman, Pakistan, Paraguay, Peru, Poland, Portugal, Romania, Russian Federation,</p>	<p>Awaiting results of ALTTO to support submission along with NeoALTTO.</p>	<p>Antineoplastic agent, other antineoplastic agents, protein kinase inhibitor, ATC code: L01XE07</p>	<p><u>Tyverb / capecitabine combination:</u> The recommended dose of Tyverb is 1250 mg (i.e. five tablets) once daily continuously.  The recommended dose of capecitabine is 2000 mg/m<sup>2</sup>/day taken in 2 doses 12 hours apart on days 1-14 in a 21 day cycle  <u>Tyverb / trastuzumab combination:</u> The recommended dose of Tyverb is</p>



Serbia, Singapore,  
Slovakia, Slovenia,  
Spain, Sri Lanka,  
Sweden,  
Switzerland, Syrian  
Arab Republic,  
Turkey, Ukraine,  
United Kingdom,  
United States,  
Yemen, Algeria,  
Armenia, Belarus,  
Bosnia and  
Herzegovina,  
Canada, China,  
Costa Rica, Curacao,  
Dominican Republic,  
El Salvador,  
Georgia,  
Hong Kong, India,  
Jamaica, Japan,  
Jordan, Kuwait,  
Lebanon, Macao,  
Macedonia, New  
Zealand, Nicaragua,  
Panama, Qatar,  
Saudi Arabia, South  
Africa, Suriname,  
Taiwan, Thailand,  
Trinidad and  
Tobago, United Arab  
Emirates, Uruguay,  
Venezuela

1000 mg (i.e. four  
tablets) once daily  
continuously.

The recommended  
dose of trastuzumab  
is 4 mg/kg  
administered as an  
intravenous (IV)  
loading dose,  
followed by 2  
mg/kg IV weekly

Tyverb / aromatase  
inhibitor  
combination:

The recommended  
dose of Tyverb is  
1500 mg (i.e. six  
tablets) once daily  
continuously.

**U.S. FDA Label:**

**HER2-Positive  
Metastatic  
Breast Cancer:**

The recommended  
dose of TYKERB  
is 1,250 mg given  
orally once daily on  
Days 1-21  
continuously in  
combination with  
capecitabine 2,000  
mg/m<sup>2</sup>/day  
(administered  
orally in 2 doses  
approximately 12  
hours apart) on  
Days 1-14 in a  
repeating 21-day  
cycle.

**Hormone  
Receptor-Positive,  
HER2-Positive  
Metastatic Breast  
Cancer:**

The recommended  
dose of TYKERB  
is 1,500 mg given  
orally once daily  
continuously in  
combination with  
letrozole. When  
coadministered  
with TYKERB, the  
recommended dose  
of letrozole is 2.5  
mg once daily.



5 Promacta/ Revolade	Eltrombopag olamine is a biphenyl hydrazone. The chemical name for eltrombopag olamine is 3'- {(2Z)-2-[1-(3,4- dimethylphenyl)-3- methyl-5-oxo-1,5- dihydro-4H- pyrazol-4-ylidene] hydrazino} -2'-hydroxy-3- biphenylcarboxylic acid - 2- aminoethanol (1:2). It has the molecular formula C <sub>25</sub> H <sub>22</sub> N <sub>4</sub> O <sub>4</sub> •2 (C <sub>2</sub> H <sub>7</sub> NO). The molecular weight is 564.65 for eltrombopag olamine and 442.5 for eltrombopag free acid.	Albania, Argentina, Aruba, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina, Brazil, Brunei Darussalam, Bulgaria, Canada, Chile, Colombia, Costa Rica, Croatia, Curacao, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Finland, France, Georgia, Germany, Greece, Guatemala, Guyana, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Jordan, Kazakhstan, Korea Republic of, Kuwait, Latvia, Lebanon, Lithuania, Luxembourg, Macao, Macedonia, Malaysia, Malta, Mexico, Moldova, Morocco, Myanmar, Netherlands, New Zealand, Nicaragua, Norway, Oman, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, Spain, Sudan (North part), Suriname, Sweden, Switzerland, Syrian Arab Republic, Taiwan, Thailand, Trinidad and Tobago, Turkey, United Arab Emirates, United Kingdom, United States, Uruguay, Yemen	<u>sNDA filed 27 Feb 2014: Proposed Indication below:</u> PROMACTA is indicated for the treatment of cytopenias in patients with severe aplastic anemia who have had an insufficient response to immunosuppressive therapy	Antihemorrhagics, other systemic hemostatics. ATC code: B02BX 05	US FDA Label:  Promacta has four FDA approved dosages: 12.5 mg, 25 mg, 50 mg, 75 mg, and 100 mg tablets.
6 Arzerra	Ofatumumab ARZERRA (ofatumumab) is an IgG1κ human monoclonal antibody with a molecular weight of approximately 149 kDa. The antibody was generated via transgenic mouse and hybridoma technology and is produced in a recombinant murine cell line (NS0) using	Argentina, Australia, Austria, Bahrain, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Panama, Poland, Portugal, Qatar, Romania,	Arzerra in combination with alkylator (e.g. chlorambucil) is indicated for the treatment of chronic lymphocytic leukaemia (CLL) in previously untreated patients PDUFA date (4/18)	monoclonal antibodies, ATC code: L01XC10	The recommended dose is 300 mg ofatumumab for the first infusion and 2,000 mg ofatumumab for all subsequent infusions. The infusion schedule is 8 consecutive weekly infusions, followed 4-5 weeks later by 4 consecutive monthly (i.e. every 4 weeks) infusions.



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standard mammalian cell cultivation and purification technologies.

Russian Federation, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom, United States

**U.S. FDA Label:****Previously Untreated CLL:**

The recommended dosage and schedule is:

- 300 mg on Day 1 followed 1 week later by 1,000 mg on Day 8 (Cycle 1) followed by
- 1,000 mg on Day 1 of subsequent 28-day cycles for a minimum of 3 cycles until best response or a maximum of 12 cycles.

**Refractory CLL:**

The recommended dosage and schedule is 12 doses administered as follows:

- 300 mg initial dose (Dose 1), followed 1 week later by
- 2,000 mg weekly for 7 doses (Doses 2 through 8), followed 4 weeks later by
- 2,000 mg every 4 weeks for 4 doses (Doses 9 through 12).

7 Hycamtin Topotecan	HYCAMTIN (topotecan hydrochloride) is a semi-synthetic derivative of camptothecin and is an anti-tumor drug with topoisomerase I-inhibitory activity. HYCAMTIN for Injection is supplied as a sterile lyophilized, buffered, light yellow to greenish powder available in single-dose vials. Each vial contains topotecan hydrochloride equivalent to 4 mg of topotecan as free base. The chemical name for topotecan hydrochloride is (S)-10-[(dimethylamino)methyl]-4-ethyl-4,9-dihydroxy-1H-pyrano[3',4':6,7]indolizino [1,2-b]quinoline-3,14-(4H,12H)-dione	Albania, Argentina, Aruba, Australia, Austria, Bahrain, Belarus, Belgium, Bosnia and Herzegovina, Brazil, Brunei Darussalam, Bulgaria, Canada, Chile, China, Colombia, Costa Rica, Croatia, Curacao, Cyprus, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Finland, France, Gabon, Germany, Greece, Guatemala, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland,	None
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Other antineoplastic agents: ATC code: L01XX17

**Hycamtin IV infusion Ovarian & Small Cell Lung Cancer:**

The recommended dose of topotecan is 1.5 mg/m<sup>2</sup> body surface area/day administered by intravenous 2 infusion over 30 minutes daily for five consecutive days with a three week interval between the start of each course.

**Cervical Carcinoma:** The recommended



monohydrochloride. Israel, Italy,  
It has the molecular formula  
C<sub>23</sub>H<sub>23</sub>N<sub>3</sub>O<sub>5</sub>•HCl  
and a molecular weight of 457.9.  
Jamaica, Japan,  
Jordan, Kazakhstan,  
Kenya, Korea,  
Republic of Kuwait,  
Latvia, Lebanon,  
Lithuania,  
Luxembourg,  
Macedonia,  
Madagascar,  
Malaysia, Maldives,  
Malta, Moldova,  
Morocco, Namibia,  
Netherlands, New Zealand, Nicaragua,  
Niger, Norway,  
Oman, Pakistan,  
Palestine, Panama,  
Peru, Philippines,  
Poland, Portugal,  
Qatar, Romania,  
Russian Federation,  
Saudi Arabia,  
Serbia, Singapore,  
Slovakia, Slovenia,  
South Africa, Spain,  
Sri Lanka, Sweden,  
Switzerland, Syrian Arab Republic,  
Taiwan, Thailand,  
Trinidad and Tobago, Ukraine,  
United Arab Emirates, United Kingdom, United States, Uruguay

dose of topotecan is 0.75 mg/m<sup>2</sup>/day administered as 30 minute intravenous infusion daily on days 1, 2 and 3. Cisplatin is administered as an intravenous infusion on day 1 at a dose of 50 mg/m<sup>2</sup>/day and following the topotecan dose.  
Hycamtin Capsules (per US FDA label)  
The recommended dose of HYCAMTIN capsules is 2.3 mg/m<sup>2</sup> /day once daily for 5 consecutive days repeated every 21 days. Round the calculated oral daily dose to the nearest 0.25 mg, and prescribe the minimum number of 1 mg and 0.25 mg capsules. The same number of capsules should be prescribed for each of the 5 dosing days.

8 Argatroban Argatroban

Argatroban is a synthetic direct thrombin inhibitor derived from L-arginine. The chemical name for Argatroban is 1-[5-[(aminoimino methyl)amino]-1-oxo-2-[[[(1,2,3,4-tetrahydro-3-methyl-8quinoliny) sulfonyl]amino] pentyl]-4-methyl-2-piperidinecarboxylic acid, monohydrate. Argatroban has 4 asymmetric carbons. One of the asymmetric

None

B01AE03

**Heparin-Induced Thrombocytopenia (HIT/HITTS):**  
**Initial Dosage:**

Before administering Argatroban, discontinue heparin therapy and obtain a baseline aPTT. The recommended initial dose of Argatroban for adult patients without hepatic impairment is 2 mcg/kg/min, administered as a continuous infusion



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carbons has an *R* configuration (stereoisomer Type I) and an *S* configuration (stereoisomer Type II). Argatroban consists of a mixture of *R* and *S* stereoisomers at a ratio of approximately 65:35.

The molecular formula of Argatroban is  $C_{23}H_{36}N_6O_5S \cdot H_2O$ . Its molecular weight is 526.66.

**Percutaneous Coronary Interventions (PCI) in HIT/HITTS Patients: Initial Dosage:** An infusion of Argatroban should be started at 25 mcg/kg/min and a bolus of 350 mcg/kg administered via a large bore intravenous (IV) line over 3 to 5 minutes (see Table 9). Activated clotting time (ACT) should be checked 5 to 10 minutes after the bolus dose is completed. The procedure may proceed if the ACT is greater than 300 seconds.

9	Zofran	Ondansetron	<p>The active ingredient in ZOFRAN Injection is ondansetron hydrochloride (HCl), the racemic form of ondansetron and a selective blocking agent of the serotonin 5-HT<sub>3</sub> receptor type. Chemically it is (±) 1, 2, 3, 9-tetrahydro-9-methyl-3-[(2-methyl-1H-imidazol-1-yl)methyl]-4Hc o e o u</p> <p>The empirical formula is <math>C_{18}H_{19}N_3O \cdot HCl \cdot 2 H_2O</math>, representing a molecular weight of 365.9.</p>	None	A04AA01
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**Prevention of Chemotherapy-Induced Nausea and Vomiting:**  
**Adult Dosing:** The recommended I.V. dosage of ZOFRAN for adults is a single 32-mg dose or three 0.15-mg/kg doses. A single 32-mg dose is infused over 15 minutes beginning 30 minutes before the start of emetogenic chemotherapy.

The recommended infusion rate should not be exceeded (see OVERDOSAGE). With the three-dose (0.15-mg/kg) regimen, the first dose is infused over 15 minutes beginning 30



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minutes before the start of emetogenic chemotherapy. Subsequent doses (0.15 mg/kg) are administered 4 and 8 hours after the first dose of ZOFRAN.

**Prevention of Postoperative Nausea and Vomiting: Adult**

**Dosing:** The recommended I.V. dosage of ZOFRAN for adults is 4 mg **undiluted** administered intravenously in not less than 30 seconds, preferably over 2 to 5 minutes, immediately before induction of anesthesia, or postoperatively if the patient experiences nausea and/or vomiting occurring shortly after surgery.

10 Arranon/ Nelarabine  
Atriance

ARRANON (nelarabine) is a pro-drug of the cytotoxic deoxyguanosine analogue, 9-β-D-250 arabinofuranosyl guanine (ara-G).  
The chemical name for nelarabine is 2-amino-9-β-D-arabinofuranosyl-6-methoxy-9H-purine. It has the molecular formula C<sub>11</sub>H<sub>15</sub>N<sub>5</sub>O<sub>5</sub> and a molecular weight of 297.27.

None

Antineoplastic agents, antimetabolites, purine analogues, ATC code: L01B B 07

Adults and adolescents (aged 16 years and older):

The recommended dose of nelarabine for adults is 1,500 mg/m<sup>2</sup> administered intravenously over two hours on days 1, 3 and 5 and repeated every 21 days.

Paediatric population:

Children and adolescents (aged 21 years and younger):

The recommended dose of nelarabine for children and adolescents is 650 mg/m<sup>2</sup> administered intravenously over one hour daily for 5 consecutive days, repeated every 21 days.



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11 AKT GSK2141795	-	An orally bioavailable inhibitor of the serine/threonine protein kinase Akt (protein kinase B) with potential antineoplastic activity. Akt inhibitor GSK2141795 binds to and inhibits the activity of Akt, which may result in inhibition of the PI3K/Akt signaling pathway and tumor cell proliferation and the induction of tumor cell apoptosis. Activation of the PI3K/Akt signaling pathway is frequently associated with tumorigenesis and dysregulated PI3K/Akt signaling may contribute to tumor resistance to a variety of antineoplastic agents	None	None	Antineoplastic agents, protein kinase inhibitor	n/a
12 GSK2110183 Afuresertib	An orally bioavailable inhibitor of the serine/threonine protein kinase Akt (protein kinase B) with potential antineoplastic activity. Afuresertib binds to and inhibits the activity of Akt, which may result in inhibition of the	None	None	Antineoplastic agents, protein kinase inhibitor	n/a	



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PI3K/Akt signaling pathway and tumor cell proliferation and the induction of tumor cell apoptosis. Activation of the PI3K/Akt signaling pathway is frequently associated with tumorigenesis and dysregulated PI3K/Akt signaling may contribute to tumor resistance to a variety of antineoplastic agents.



**Schedule 1**  
**Part 2**  
**Product Expansions – Combos**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of ten pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 2**  
**Certain Intellectual Property Rights Matters**  
**(Clause 2.3.1)**

Part 1: Registered Transferred Product Intellectual Property Rights

Patents

[\*\*\*]

Registered Trade Marks and Copyright

[\*\*\*]

Part 2: List of Transferred Contracts and Transferred IP Contracts

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of 66, 72 and 3 pages, respectively, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 3**  
**Excluded Assets and Excluded Contracts**  
**(Clause 2.3.2)**

**Part 1 Excluded Assets**

None

**Part 2 Excluded Contracts**

None



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**Schedule 4**  
**Excluded Liabilities**  
**(Clause 2.3.4)**

Not Used



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**Schedule 5**  
**Permitted Encumbrances**  
**(Clause 1.1)**

(i) Co-Owned Business Product Intellectual Property Rights listed at Part 1 of Schedule 2.



**Schedule 6  
Product Approvals  
(Clause 6.2.2)**

**Part 1 Terms relating to the Product Approvals**

**1. General Provisions**

- 1.1 The Purchaser shall do all things necessary to effect the transfer of each Product Approval, including complying with requirements and requests of Governmental Entities with respect to the transfer of each Product Approval.
- 1.2 The Marketing Authorisations shall be transferred in accordance with Part 2 of this Schedule 6.

**2. Fees and expenses**

From and after the Closing Date, the Purchaser shall promptly reimburse the relevant members of the Seller's Group for all maintenance and renewal fees and similar fees paid, and all out of pocket expenses reasonably incurred in connection with the satisfaction of any commitments or obligations by such member of the Seller's Group with respect to each Product Approval.

**3. Product Expansion Applications**

- 3.1 The Purchaser shall file or cause to be filed applications for the transfer of each Product Expansion Application in each country or territory in which such transfer is required to be submitted as soon as possible after the Closing Date.
- 3.2 Pending the transfer of each Product Expansion Application the Seller shall, and shall cause the relevant members of the Seller's Group to:
  - 3.2.1 upon reasonable request from the Purchaser and at the Purchaser's expense, reasonably cooperate and coordinate with the Purchaser in relation to the transfer of the Product Expansion Applications, including by providing the Purchaser with regulatory documentation concerning the Products owned or controlled by Seller or its Affiliates;
  - 3.2.2 perform such acts and services as may be requested by the Purchaser that are reasonably necessary or required by any Governmental Entity to maintain or renew any Product Expansion Application or are reasonably necessary for the Purchaser to pursue the regulatory approval for any Product Expansion Application, including conducting any studies, including clinical and stability studies, concerning the Products and the Product Expansions; and
  - 3.2.3 notify the Purchaser as soon as is reasonably practicable of any written communication received by the Seller or any member of the Seller's Group with respect to any Product Expansion Application and shall consult with the Purchaser with respect to such communication and take into account the Purchaser's views as to the form and content of any communication with any Governmental Entity concerning such Product Expansion Application.



## Part 2 Marketing Authorisation Transfer Provisions

### 1. Transfer of Marketing Authorisations

#### *Marketing Authorisation Transfer and Marketing Authorisation Re-registration*

- 1.1** The Seller and the Purchaser hereby agree they will each use, and will procure that their respective Affiliates will use, all reasonable endeavours to ensure that, as soon as reasonably practicable after the Closing Date:
- 1.1.1** subject to paragraph 1.1.2, each Marketing Authorisation shall be transferred in accordance with Applicable Law by the Marketing Authorisation Holder to the Marketing Authorisation Transferee (“**Marketing Authorisation Transfer**”); and
  - 1.1.2** where Applicable Law does not permit Marketing Authorisation Transfer, a new marketing authorisation shall be registered in the name of the Marketing Authorisation Transferee to replace the existing Marketing Authorisation (“**Marketing Authorisation Re-registration**”) and the Seller shall procure that the relevant Marketing Authorisation Holder takes all necessary steps to withdraw, abandon, cancel or allow to lapse the superseded Marketing Authorisation as soon as practicable after the Marketing Authorisation Re-registration Date.
- 1.2** Without prejudice to any rights the Purchaser may have under the terms of this Agreement, to the extent that, before Closing, and in the event that, at Closing, the Marketing Authorisation Holder of the Marketing Authorisation for Argatroban in the United States and Canada (the “**Argatroban MA**”) is not the Seller or a member of the Seller’s Group, the Seller shall use all reasonable endeavours to procure or assist the Purchaser to procure the transfer of the Argatroban MA to the Marketing Authorisation Transferee as soon as reasonably practicable.
- 1.3** Any Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable) shall each be effected on a Market-by-Market basis (such that there shall not be any staggered Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as the case may be) on a Product-by-Product basis in any Market), unless otherwise agreed between the Seller and the Purchaser.
- 1.4** With effect from the Closing Date until the Marketing Authorisation Transfer Date or the Marketing Authorisation Re-registration Date (as applicable), the Seller shall procure that each Marketing Authorisation Holder shall hold the Marketing Authorisation(s) in its name but for the account, risk and benefit of the relevant Marketing Authorisation Transferee.

#### *Submission of MA Documentation*



- 1.5 Without prejudice to paragraph 1.6, the Purchaser shall be responsible for preparing and submitting, or for procuring that there is prepared and submitted (in any such case at the Purchaser's cost and expense), all notices, applications, submissions, reports and any other instruments, documents, correspondence or filings necessary to complete Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable) (the "MA Documentation"). The MA Documentation shall be prepared in accordance with Applicable Law as soon as reasonably practicable.
- 1.6 At the Seller's election, the Purchaser shall procure that advanced drafts of the MA Documentation are submitted to the Seller so as to allow the Seller and/or the Marketing Authorisation Holder a reasonable opportunity to provide comments on such MA Documentation before it is submitted to the relevant Governmental Entity. The Purchaser shall incorporate all comments on such drafts as may reasonably be made by the Seller and/or the Marketing Authorisation Holder PROVIDED THAT the Purchaser shall not be obliged to incorporate any comments if the Purchaser considers, acting reasonably that to do so would materially delay Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable).
- 1.7 Where under Applicable Law the MA Documentation is required to be submitted to the relevant Governmental Entity:
- 1.7.1 by the Marketing Authorisation Holder, the Purchaser shall procure that the finalised MA Documentation is provided to the Seller after such MA Documentation is finalised in accordance with paragraph 1.6 above and the Seller shall, in turn, procure that the Marketing Authorisation Holder submits such MA Documentation to the relevant Governmental Entity (the timing and date of such submission to be agreed with the Purchaser) and the Seller shall promptly thereafter advise the Purchaser of such submission and provide a copy of the relevant MA Documentation (in the form submitted) to the Purchaser; and
- 1.7.2 by the Marketing Authorisation Transferee, the Purchaser shall procure that the relevant Marketing Authorisation Transferee submits the finalised MA Documentation to the relevant Governmental Entity as soon as reasonably practicable after such MA Documentation is finalised in accordance with paragraph 1.6 above and the Purchaser shall promptly thereafter advise the Seller of such submission and provide a copy of the relevant MA Documentation (in the form submitted) to the Seller.
- 1.7.3 From the Closing Date, the Seller shall procure that the relevant Marketing Authorisation Holder shall, as soon as reasonably practicable, sign any notices, applications, submissions, reports and other instruments, documents, correspondence or filings presented to it by the Purchaser or the relevant Marketing Authorisation Transferee that are necessary to effect Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable). The Marketing Authorisation Holder shall:
- (i) provide notice of its consent to a Marketing Authorisation Transfer or Marketing Authorisation Re-registration if required by any Governmental Entity; and



- (ii) provide to the Purchaser or the relevant Marketing Authorisation Transferee any information or other data or technical or other information in its possession that relates to the relevant Marketing Authorisation and that is required by a relevant Governmental Entity or otherwise reasonably required by the Purchaser or the relevant Marketing Authorisation Transferee to assist the Purchaser or the relevant Marketing Authorisation Transferee to effect the relevant Marketing Authorisation Transfer or Marketing Authorisation Re-registration;
- (iii) in the event of any request for information or any query from any relevant Governmental Entity in respect of Marketing Authorisation Transfer or the Marketing Authorisation Re-registration (as applicable), the relevant party receiving such request or query shall provide copies of any such request or query to the Seller or, as the case may be, to the Purchaser. The Purchaser shall be responsible for preparing, or shall be responsible for procuring that there is prepared, (at the Purchaser's cost and expense) any response to such a request or query with the intention that such request or query shall be dealt with as promptly and efficiently as possible. In advance of finalising any such response, the Purchaser shall procure that the relevant response is submitted to the Seller so as to allow the Seller and/or the relevant Marketing Authorisation Holder a reasonable opportunity to provide comments on such response before it is submitted to the Governmental Entity. The Purchaser shall procure that relevant Marketing Authorisation Transferee (i) shall submit the response to the relevant Governmental Entity as soon as reasonably practicable after the same has been finalised in accordance with this paragraph 1.7.3(iii) and (ii) shall provide a copy of the relevant response (in the form submitted) to the Seller.

**2. Obligations Pending Marketing Authorisation Transfer or Marketing Authorisation Re-Registration**

**2.1** Unless otherwise required by Applicable Law or a relevant Governmental Entity (or unless otherwise agreed in writing by the Seller and the Purchaser), from the Closing Date until the applicable Marketing Authorisation Transfer Date or Marketing Authorisation Re-registration Date:

**2.1.1** the Seller shall:

- (i) maintain in force (or procure that there is maintained in force) each Marketing Authorisation, and shall not voluntarily amend, cancel or surrender any Marketing Authorisation unless requested to do so in writing by the Purchaser or required to do so by any Applicable Law or any Governmental Entity;
- (ii) with the Purchaser's consent (not to be unreasonably withheld or delayed) progress (or procure that there is progressed) any registrations, variations or renewals to Marketing Authorisations initiated by the Seller (or any other member of the Seller's Group) prior to the Closing Date or withdraw them upon the request of the Purchaser;



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- (iii) procure that each Marketing Authorisation Holder shall comply with the terms of any Marketing Authorisation and shall notify the Purchaser as soon as reasonably practicable of the details of any variations or renewals initiated following the Closing Date;
- (iv) inform the Purchaser of any impending renewals of Marketing Authorisations as at the Closing Date and the parties shall discuss in good faith to what extent any such renewal will be pursued or withdrawn (it being agreed that the Purchaser shall have the final decision in any such matter);
- (v) not without the consent of the Purchaser, initiate any additional variations or amendments to the Marketing Authorisations, except to the extent required by any Governmental Entity or where failure to do so would breach Applicable Law; and
- (vi) consider in good faith any request by the Purchaser to apply for a new marketing authorisation in respect of a Product PROVIDED THAT if the Seller agrees to submit such application, any costs or expenses incurred by the Seller in making such application shall be for the Purchaser's account and shall constitute MA Costs;

**2.1.2**

without prejudice to the generality of the foregoing paragraph 2.1.1(iii), the Purchaser acknowledges and agrees that each Marketing Authorisation Holder shall be entitled to do (or to procure that there is done) any or all of the following (and the Purchaser acknowledges that, where the relevant Marketing Authorisation Holder so chooses and unless otherwise agreed, responsibility for each of the following activities shall rest with the relevant Marketing Authorisation Holder):

- (i) pharmacovigilance activities related to the Marketing Authorisations, which activities shall be conducted in accordance with the Applicable Law, the Pharmacovigilance Agreement, and the standards, policies and procedures of the Seller's Group from time to time in force; and
- (ii) conducting any and all communications with a Governmental Entity in respect of a Marketing Authorisation (including, without limitation to the generality of the foregoing, attending any meetings with relevant Governmental Entities and filing and submitting all reports and other documents which it reasonably considers necessary to be submitted in order to comply with Applicable Law or its obligations under this Agreement), PROVIDED THAT responsibility for (a) the costs of preparation of any such documents, reports and/or filings shall be borne by the Purchaser (or the relevant Marketing Authorisation Transferee) to the extent such costs are reasonably necessary, and (b) the submission of MA Documentation shall be the responsibility of the Purchaser in accordance with paragraph 1.5 above, PROVIDED THAT the Seller shall ensure that the Purchaser is kept fully and promptly informed of any such communications or submissions in advance, to the extent reasonably practicable; and



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- 2.1.3** the Seller shall procure that each Marketing Authorisation Holder shall act in accordance with the reasonable instructions of the Purchaser or the Marketing Authorisation Transferee in respect of each Marketing Authorisation in respect of which such Marketing Authorisation Holder is the holder, PROVIDED THAT no Marketing Authorisation Holder shall be obliged to comply with such instructions to the extent the same: (i) infringe the terms of the relevant Marketing Authorisation(s); or (ii) are otherwise inconsistent with the provisions of the Pharmacovigilance Agreement relating to the Seller;
- 2.1.4** the Purchaser shall only request artwork changes to the extent such changes are required in order to comply with Applicable Law; and
- 2.1.5** the Purchaser shall submit to the Seller (or shall procure that there is submitted) written details (in such form and with such supporting materials as the Seller may reasonably request) of any new, amended or proposed advertising and promotional activity or training materials in respect of any Product Commercialised pursuant to any Marketing Authorisation (including (without limitation) any material reasonably requested by the Seller in order to validate new and/or amended promotional or training materials), and the Purchaser acknowledges and agrees that no such advertising, promotional or training activity shall be implemented, undertaken or otherwise commenced without the prior written consent of the Seller (for itself and on behalf of the relevant Marketing Authorisation Holder), such consent not to be unreasonably withheld. The Purchaser further agrees and acknowledges that, if it so chooses, the Seller shall be entitled to assume responsibility for obtaining (or procuring that there is obtained) the consent(s) and approval(s) of any relevant Governmental Entity required for such new, amended or proposed advertising and promotional activity or training activity; and
- 2.1.6** to the extent permitted by the terms of the relevant Marketing Authorisation and provided for in the Transitional Distribution Services Agreement, the Purchaser or any other member of the Purchaser's Group shall Commercialise the Product(s) which are the subject of such Marketing Authorisation (notwithstanding that such Marketing Authorisation is held in the name of the relevant Marketing Authorisation Holder and, for the avoidance of doubt, the proceeds of any such Commercialisation shall be for the benefit of the Purchaser's Group) and the Purchaser shall:
- (i) indemnify each member of the Seller's Group against any and all actions, claims, demands, investigations, judgments, proceedings, liabilities, loss, damages, payments, costs and expenses arising in relation to the Commercialisation of the Product(s) by the Purchaser or any other member of the Purchaser's Group under this paragraph 2.1.6; and



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- (ii) procure that such Product(s) are Commercialised in compliance with the terms of the relevant Marketing Authorisation and/or the requirements of the relevant Governmental Entity.

### 3. New and Pending Marketing Authorisations in Respect of the Products

- 3.1 If, at any time prior to Closing, any member of the Seller's Group is granted or otherwise comes to hold any marketing authorisation which relates exclusively to one or more Products (a "**New Marketing Authorisation**") then:
- 3.1.1 the Seller undertakes to the Purchaser to notify the Purchaser as soon as reasonably practicable following the date on which the relevant member of the Seller's Group is granted, or becomes entitled to, the New Marketing Authorisation; and
- 3.1.2 the provisions of paragraphs 1 and 2 above shall apply to that new Marketing Authorisation.
- 3.2 Where a member of the Seller's Group has submitted to any Governmental Entity any application relating to the grant of a new marketing authorisation in respect of the Business which is pending or in process as at the date of this Agreement (a "**Pending Marketing Authorisation**"):
- 3.2.1 the Seller shall continue to be responsible for preparation and submission of all documents required to register such Pending Marketing Authorisation but, following Closing, it shall do so at the Purchaser's cost and shall pass responsibility for such Pending Marketing Authorisation to the Purchaser (or such member of the Purchaser's Group as the Purchaser may nominate) as soon reasonably possible after Closing, subject to Applicable Law;
- 3.2.2 from the Closing Date, the provisions of paragraph 1 shall apply mutatis mutandis to any registration process for any Pending Marketing Approval.

### 4. MA Costs

- 4.1 From the Closing Date, the Purchaser shall be responsible for all necessary costs of preparation and submission of MA Documentation and, save as expressly provided in this Agreement, any other necessary costs incurred by the Seller or a member of the Seller's Group in connection with the maintenance and any variations, amendments and renewals of the Marketing Authorisations relating to the Products or for any matter requested by the Purchaser pursuant to this Part 2 of Schedule 6 and for all fees and costs reasonably incurred by the relevant member of the Seller's Group in complying with its obligations in respect of a Marketing Authorisation Transfer or Marketing Authorisation Re-registration ("**MA Costs**").



**5. Obligations following Marketing Authorisation Transfer or Marketing Authorisation Re-Registration**

- 5.1** On and from the relevant Marketing Authorisation Transfer Date or Marketing Authorisation Re-registration Date (as applicable), the Purchaser shall procure that each Marketing Authorisation Transferee shall assume and be solely responsible for:
- 5.1.1** all obligations as the holder of such Marketing Authorisation including (subject to the terms of the Pharmacovigilance Agreement) pharmacovigilance activities related to such Marketing Authorisation;
  - 5.1.2** all activities and actions required by Applicable Law in connection with such Marketing Authorisation; and
  - 5.1.3** any and all outstanding commitments and obligations to the relevant Governmental Entities with respect to the relevant Marketing Authorisation, save for any such commitments or obligations arising from a breach of this Agreement by the Seller.
- 5.2** In the event that, following Marketing Authorisation Transfer or Marketing Authorisation Re-registration in respect of any Product, the Seller wishes to apply for a marketing authorisation in respect of a retained product, the Purchaser shall (and shall procure that the relevant Marketing Authorisation Transferee shall) co-operate with and provide all reasonable assistance to the Seller (or the relevant member of the Seller's Group) at the Seller's costs as may be reasonably required for the purposes of applying for such new marketing authorisation, including (without limitation) providing the Seller (or the relevant member of the Seller's Group) and/or any Governmental Entity with such access to Marketing Authorisation Data or such other data or technical or other information as is reasonably requested by the relevant Governmental Entity or is otherwise reasonably required by the Seller or the relevant member of the Seller's Group.
- 5.3** Except to the extent provided for in the Ofatumumab Intellectual Property Licence Agreement, nothing in paragraph 5.2 above shall require the Purchaser to consent to or assist the Seller or any member of the Seller's Group to apply for a marketing authorisation for any product which contains the same compound as any Product.

**Part 3 Tenders**

- 1.1** From Closing until the Marketing Authorisation Transfer Date in any Market, the Seller shall, and shall procure that each member of the Seller's Group and the relevant Marketing Authorisation Holder shall, to the extent permitted by Applicable Law:
- 1.1.1** inform the Purchaser in writing of any Call for New Tender as soon as reasonably practicable following receipt; and
  - 1.1.2** co-operate with and provide reasonable assistance to the Purchaser (or the relevant member of the Purchaser's Group) for the purposes of responding to the Call for New Tender or otherwise applying for a new tender; and



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**1.1.3** where Applicable Law requires such responses or applications to be made by the Marketing Authorisation Holder, the Seller shall procure that the Marketing Authorisation Holder submits such responses or applications on behalf of the Purchaser PROVIDED THAT the Purchaser shall indemnify the Seller and/or the relevant Marketing Authorisation Holder (as the case may be) for any and all costs, expenses and liabilities suffered or reasonably incurred by the Seller and/or the Marketing Authorisation Holder in complying with or as a result of the provisions of this paragraph.



**Schedule 7**  
**Transferred Contracts, Transferred Intellectual Property Contracts, Co-Owned**  
**Transferred Product Intellectual Property Rights, and**  
**Shared Business Contracts**  
**(Clause 2.3.1)**

**1. Separation of Shared Business Contracts**

**1.1** Prior to Closing, the Seller and the Purchaser shall discuss and agree in good faith a process to identify all material Shared Business Contracts.

**1.2** The Seller shall use all reasonable efforts to maintain relationships under the Shared Business Contracts and continue to operate the Shared Business Contracts, including without limitation fulfilling all its obligations under the Shared Business Contracts, in the same manner as it has for the twelve months prior to this Agreement.

**1.3** The Purchaser may, by notice to the Seller at any time prior to the later of:

**1.3.1** the date falling 90 days after the Closing Date or, if the Seller has not provided Full Disclosure of a Shared Business Contract on or prior to Closing, the date falling 90 days after the date on which Full Disclosure of the relevant Shared Business Contract is made; and

**1.3.2** the Marketing Authorisation Transfer Date in respect of the relevant Product in the relevant territory (the “**Relevant Election Date**”),

elect to take the rights and obligation of the Relevant Part of any Shared Business Contract. For the purposes of paragraph 1.3.2 above only, if a Shared Business Contract is in relation to more than one Product and/or territory, the first Marketing Authorisation Transfer Date in respect of a Product covered by that Shared Business Contract shall be the relevant date.

**1.4** If the Purchaser makes an election under paragraph 1.3 above:

**1.4.1** the Seller and the Purchaser shall use all reasonable endeavours to procure that an arrangement is entered into with the relevant counterparty to each Shared Business Contract, the effect of which shall be that, with effect from whichever is the later of Marketing Authorisation Transfer Date and the date of the relevant arrangement, the benefit and burden of the Relevant Part is severed from such Shared Business Contract and an agreement or arrangement equivalent to such Shared Business Contract is entered into between the relevant counterparty and a member of the Purchaser’s Group (or the Relevant Part of the Shared Business Contract is sub-licensed to such Purchaser) (a “**Separation**”). For the avoidance of doubt, no part of any such Shared Business Contract shall be severed and transferred to any Purchaser in so far as it relates to the Seller’s Retained Business, any product other than the Products or any Excluded Asset; and



- 1.4.2** in the event that the Marketing Authorisation Transfer Date occurs before the effective date of a Separation, the provisions of sub-paragraphs 3.2.1, 3.2.2 and 4.1 of this Schedule shall apply in respect of such Shared Business Contracts.
- 1.5** If no election is made by the Purchaser under paragraph 1.3 above by the Relevant Election Date, the provisions of sub-paragraphs 3.2.1 and 3.2.2 of this Schedule shall apply in respect of the Relevant Part of such Shared Business Contract until:
- 1.5.1** in the case of any Shared Business Contract that is not a development contract or otherwise related to any Ongoing Clinical Trials, the earlier of 9 months from the Relevant Election Date and the date on which the Purchaser notifies the Seller that an alternative arrangement has been put in place; and
- 1.5.2** in the case of any Shared Business Contract that is a development contract or which otherwise relates to any Ongoing Clinical Trials, the end of the period specified in the Transitional Services Agreement which in any event shall be no less than 9 months from Closing.
- 1.6** For the avoidance of doubt, paragraphs 1.3, 1.4 and 1.5 shall not apply in respect of any Shared Business Contract which terminates before the Relevant Election Date.
- 1.7** The parties acknowledge that the Purchaser has elected to take the rights and obligations of the Zofran Trade Mark and Domain Name Licence from Closing in so far as such agreement relates to Business Product Intellectual Property Rights.
- 2. Obligation to obtain Third Party Consents**
- 2.1** Subject to paragraph 2.4, in relation to any Transferred Contract or Transferred Intellectual Property Contract (excluding, for the purposes of this Schedule, any Product Approval) or rights in a Co-Owned Transferred Product Intellectual Property Right which is not assignable or sub-licensable without a Third Party Consent or a Separation of a Shared Business Contract which is not separable without a Third Party Consent, this Agreement shall not be construed as an assignment, an attempted assignment, a sub-licensing or an attempted sub-licensing and the Seller and the Purchaser shall each use reasonable endeavours both before and after Closing to obtain all necessary Third Party Consents as soon as possible and shall keep the other informed of progress in obtaining such Third Party Consents. The Seller shall deliver to the Purchaser, on Closing or, if later, as soon as possible after receipt, any Third Party Consent.
- 2.2** In connection with the obtaining of any Third Party Consent referred to in paragraph 2.1, the Purchaser shall supply to the Seller such information as may be reasonably requested by the Seller or any relevant third party.
- 2.3** Subject to paragraph 2.4, and save as otherwise provided in this Agreement, the cost of any fee demanded by the third party as consideration for giving the Third Party Consent shall be borne by the Purchaser, provided that:
- 2.3.1** the cost is agreed in advance by the Purchaser (such agreement not to be unreasonably withheld or delayed); and



**2.3.2** no party shall be required to bear any internal or administrative costs of the other party in relation to any Third Party Consent.

**2.4** In relation to any rights in a Co-Owned Transferred Product Intellectual Property Right for which a Third Party Consent is required for the satisfaction of any step of the Pre-Closing Products Reorganisation, the following shall apply:

**2.4.1** the Seller shall use reasonable endeavours to obtain all necessary Third Party Consents required for:

- (i) the satisfaction of any step of the Pre-Closing Products Reorganisation that takes place prior to the Closing Date; and
- (ii) the assignment or transfer to the Purchaser or any member of the Purchaser's Group of the Co-Owned Transferred Product Intellectual Property Rights after the Closing Date;

**2.4.2** If the Seller has not, prior to the date on which Step 5 of the Pre-Closing Products Reorganisation takes effect, obtained all of the Third Party Consents referred to in paragraphs 2.4.1(i) and (ii) above which are required for the transfer of any Co-Owned Transferred Product Intellectual Property Rights:

- (i) the legal title in that Co-Owned Transferred Product Intellectual Property Right shall not be transferred to the Company pursuant to Schedule 18; and
- (ii) the terms of paragraphs 3 and 4 shall apply to that Co-Owned Transferred Product Intellectual Property Right; and

**2.4.3** the cost of any fee demanded by the third party as consideration for giving any Third Party Consent in connection with paragraph 2.4.1 shall be paid by the Seller and shall be allocated between the Seller and Purchaser as follows:

- (i) the Seller shall meet the cost of any fee demanded by the third party as consideration for giving any Third Party Consent in connection with 2.4.1(i);
- (ii) the Purchaser shall meet the cost of any fee demanded by the third party as consideration for giving any Third Party Consent in connection with 2.4.1(ii) provided that:
  - (a) the cost is agreed in advance by the Purchaser (such agreement not to be unreasonably withheld or delayed); and
  - (b) the Purchaser shall not be required to bear any internal or administrative costs of the other party in relation to any Third Party Consent]; and
- (iii) if the cost of any fee demanded by the third party as consideration for giving any Third Party Consent does not distinguish between consent provided for the purposes of paragraph 2.4.1(i) and 2.4.1(ii), the Seller and Purchaser shall discuss in good faith the allocation of the fee that should be payable by each in connection with any Third Party Consent. If the Seller and Purchaser are unable to agree on the allocation within a period of 14 calendar days the allocation of the fee payable by each of the Seller and Purchaser shall be split equally.



2.5 The parties agree that the provisions of any document entered into in connection with a Third Party Consent (including by way of novation) shall be without prejudice to the provisions of Clauses 8.1, 8.2 and 13 of this Agreement.

**3. Obligations until Third Party Consents are obtained/where Third Party Consents are refused**

3.1 Subject to paragraph 3.2, the Purchaser shall assume, carry out, perform and discharge the Seller's and the Business Sellers' obligations arising under the Transferred Contracts, the Transferred Intellectual Property Contracts, the Co-Owned Transferred Product Intellectual Property Right, and the Relevant Part of the Shared Business Contracts as from Closing.

3.2 In respect of any Transferred Contract or Transferred Intellectual Property Contract, Relevant Part of any Shared Business Contract or Co-Owned Transferred Product Intellectual Property Right from Closing until the relevant Third Party Consent has been obtained as contemplated by paragraphs 2.1 or 2.4 or where the Third Party Consent has been refused:

3.2.1 the relevant Business Seller shall hold on trust to the extent it is lawfully able to do so or, where it is not lawfully able to do so or where holding on trust is not possible under local law or otherwise impracticable, the relevant Business Seller and the Purchaser shall make such other arrangements between themselves to provide to the Purchaser the benefits of the Contract (other than amounts corresponding to any Tax payable by the relevant Business Seller in respect of amounts due under the Transferred Contract or Transferred Intellectual Property Contract or Relevant Part of the Shared Business Contract or Co-Owned Transferred Product Intellectual Property Right), including the enforcement at the cost and for the account of the Purchaser of all rights of the relevant Business Seller against any other party thereto;

3.2.2 to the extent that the Purchaser is lawfully able to do so, the Purchaser shall perform the relevant Business Seller's obligations under the Contract as agent or sub-contractor and shall indemnify the Seller and the relevant Business Seller if the Purchaser fails to do so. To the extent that the Purchaser is not lawfully able to perform such obligations, the Seller shall procure that relevant Business Seller shall, (subject to being indemnified by the Purchaser for any Losses the Seller or the relevant Business Seller may incur in connection therewith) do all such things as the Purchaser may reasonably require to enable due performance of the Contract and the Purchaser shall indemnify the relevant Business Seller in respect thereof.



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**4. Failure to Obtain Third Party Consents**

**4.1** If a Third Party Consent is refused or otherwise not obtained on terms reasonably acceptable to the Purchaser within 18 months of Closing, or in the case of a Separation, 18 months of the earliest Marketing Authorisation Transfer Date applicable to such Shared Business Contract:

- 4.1.1** the Seller shall be entitled to procure the termination of the Transferred Contract, Transferred Intellectual Property Contract or the Relevant Part of the Shared Business Contract or Co-Owned Transferred Product Intellectual Property Right and the obligations of the parties under this Agreement in relation to such Transferred Contract, Transferred Intellectual Property Contract or Relevant Part of the Shared Business Contract or Co-Owned Transferred Product Intellectual Property Right shall cease forthwith;
- 4.1.2** references in this Agreement to the Transferred Contracts, Transferred Intellectual Property Contracts or Relevant Part of the Shared Business Contract or Co-Owned Transferred Product Intellectual Property Right (other than in this paragraph 4) shall be construed as excluding such Transferred Contract, Transferred Intellectual Property Contract or the Relevant Part of the Shared Business Contract or Co-Owned Transferred Product Intellectual Property Right; and
- 4.1.3** the Seller and the Purchaser shall use all reasonable efforts to put in place alternative arrangements so as to give the Purchaser equivalent benefits or rights as would have been enjoyed under the terminated Transferred Contract, Transferred Intellectual Property Contract, or the Relevant Part of the Shared Business Contract or Co-Owned Transferred Product Intellectual Property Right.



**Schedule 8  
Employees  
(Clause 2.4.1)**

**1. Information and consultation**

**1.1** At such time as the parties agree to be appropriate following the public announcement of the matters contemplated by this Agreement, the Seller and the Purchaser or the relevant member of the Purchaser's Group shall jointly communicate to the Employees an agreed notice which shall (other than to the extent the parties agree otherwise):

**1.1.1** inform the Employees that following Closing those Employees who continue to be employed in the Business would be employed by the Purchaser or relevant member of the Purchaser's Group; and

**1.1.2** comply with the requirements of any applicable national law.

For the avoidance of doubt, the parties may agree to issue such notice to different Employees or categories of Employees at different times and in different forms.

**1.2** Notwithstanding the operation of paragraph 1.1 above, the Seller and the Purchaser agree to comply with any more onerous notice requirements imposed by local laws.

**1.3** The Purchaser (on its own behalf and on behalf of any relevant member of the Purchaser's Group) shall provide the Seller (for itself and any relevant member of the Seller's Group) with such information and assistance at such times as the Seller may reasonably request or as may be reasonably necessary for the Seller or any other member of the Seller's Group to comply with any formal or informal requirement to inform or consult with the Employees, a relevant trade union, a relevant works council, or any other employee representatives in connection with the matters contemplated by this Agreement (which formal or informal requirements the Seller hereby undertakes to comply or procure compliance with). Where reasonably necessary to ensure compliance with any formal or informal requirements or obligations to inform or consult with Employees, a relevant trade union, a relevant works council or any other employee representatives in connection with the matters contemplated by this Agreement, the Seller (for itself and for each member of the Seller's Group) and the Purchaser (for itself and for each member of the Purchaser's Group) agree that the Purchaser or relevant member of the Purchaser's Group shall cooperate with and participate in any information, negotiation and/or consultation process as reasonably required by the Seller.

**1.4** As soon as practicable following the date of this Agreement, the Purchaser agrees to provide on a timely basis such information, in writing, in respect of its existing terms and conditions of employment as may reasonably be required by the Seller so as to facilitate the Seller's information and consultation exercise with its Employees in respect of the matters set out in this Agreement.



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**2. Employees**

**2.1 General**

**2.1.1** The Purchaser shall (or shall procure that the relevant member of the Purchaser’s Group shall) fulfil all its duties and obligations under Applicable Law in relation to the Employees. Where the provisions of local law do not provide for an automatic transfer of the employment of the Employees to the Purchaser or a relevant member of the Purchaser’s Group with effect from (and including) the Closing Date, then paragraph 2.2 below shall apply. Where the provisions of local law do provide for an automatic transfer of employment of the Relevant Employees to the Purchaser or the relevant member of the Purchaser’s Group with effect from (and including) the Closing Date, then paragraph 2.3 below shall apply.

**2.1.2** The parties acknowledge and agree that:

- (i) any Deferred Employee shall be treated for all purposes under this Agreement as if such Deferred Employee were an Employee; and
- (ii) the Purchaser’s obligations under this Schedule 8 shall apply in respect of each Deferred Employee in the same way as they do to each Employee; and
- (iii) if any Deferred Employee accepts an offer of employment made by the Purchaser under paragraph 2.2.1 below, such Deferred Employee shall further be treated for all purposes under this Agreement as a Transferred Employee.

**2.1.3** For the avoidance of doubt, this paragraph 2 shall not apply to any Excluded Employee, who will remain employed by the Seller or the relevant member of the Seller’s Group.

**2.2 Where no automatic transfer of employment**

**2.2.1** In such timescale as the parties may agree, but in any event at least 30 Business Days prior to the Closing Date, the Purchaser or relevant member of the Purchaser’s Group shall make an offer to each Employee employed by the Seller or a member of the Seller’s Group to employ him or her under a new contract of employment to commence with effect from (and including) the Closing Date provided that such employee continues to be an Employee until the Closing Date. Save as otherwise agreed with the Seller (such agreement not to be unreasonably withheld), the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that Employee immediately prior to the Closing Date. The Purchaser shall keep the Seller updated throughout the offer process on when offers are made and accepted or rejected.

**2.2.2** If the Employee wishes to accept the offer of employment from the Purchaser or the relevant member of the Purchaser’s Group, then the Seller shall (or shall procure that the relevant member of Seller’s Group shall), insofar as it is permitted by Applicable Law, waive the requirement on the Employee concerned to give any period of notice of termination of his or her employment under the terms of his or her employment so as to allow the Employee to commence employment with the Purchaser or relevant member of the Purchaser’s Group with effect from (and including) the Closing Date.



**2.3 Where automatic transfer of employment**

If the Transfer Regulations do not or are found not to or are alleged not to apply to any person who is a Relevant Employee, and to whom paragraph 2.2 does not apply, the Purchaser agrees that following Closing:

- 2.3.1 in consultation with the Seller, the Purchaser or relevant member of the Purchaser's Group shall within 10 Business Days of being so requested by the Seller (as long as the request is made no later than 3 months after Closing) (or if the Purchaser so chooses), make such Relevant Employee an offer in writing to employ him or her under a new contract of employment subject to, and to take effect upon, a date agreed between the parties and such employee; and
- 2.3.2 save as otherwise agreed with the Seller (such agreement not to be unreasonably withheld), the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that Relevant Employee immediately prior to the Closing Date.

**3. Wrong-pocket arrangements for persons other than Relevant Employees**

**3.1** If the contract of employment of any person other than a Relevant Employee is found or alleged to have effect upon Closing as if originally made with the Purchaser or another member of the Purchaser's Group as a consequence of this Agreement, the Seller agrees that following Closing:

- 3.1.1 in consultation with the Purchaser, the Seller or relevant member of the Seller's Group may within 10 Business Days of being so requested by the Purchaser (as long as the request is made no later than 3 months after Closing) (or if the Seller so chooses), make to that person an offer in writing to employ him or her under a new contract of employment subject to, and to take effect upon, the termination referred to below; and
- 3.1.2 the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that person immediately prior to the Closing Date.

**3.2** After the expiry of the 10 Business Days referred to at paragraph 3.1 above, and provided that the relevant member of the Purchaser's Group takes such steps as are legally possible to terminate the employment of the person concerned as soon as reasonably practicable after becoming aware of the finding or allegation referred to at paragraph 3.1 above (either by giving notice or transferring the person by agreement to be concluded between the relevant member of the Purchaser's Group, the person concerned and the relevant member of the Seller's Group), the Seller shall be responsible for and shall indemnify and keep indemnified the Purchaser (for itself and as trustee for any relevant member of the Purchaser's Group) against all Losses from time to time made, suffered or incurred by the Purchaser (or any other member of the Purchaser's Group) as a result of:



- 3.2.1 the actual or alleged transfer to a member of the Purchaser's Group and (regardless of whether there has been such a transfer) any employment liabilities relating to such person;
- 3.2.2 employing such person on and from the Closing Date until such termination (up to the time reasonably expected to have achieved such termination in accordance with the terms of the contract of employment and Applicable Law) but subject to a maximum period of 6 months unless prevented by the terms of the contract of employment or Applicable Law; and
- 3.2.3 such termination.
- 3.3 The parties agree to co-operate in good faith to minimise the Losses which are subject to the indemnity referred to in paragraph 3.2 above.
- 4. **Employment liabilities**
- 4.1 All wages, salaries, employer's liabilities in respect of associated Taxes and other periodic outgoings in respect of the Transferred Employees which relate to a period:
  - 4.1.1 after the Closing Date shall be borne or discharged by the Purchaser or relevant member of the Purchaser's Group; and
  - 4.1.2 on or before the Closing Date shall be borne or discharged by the Seller or relevant member of the Seller's Group.
- 4.2 The Seller shall (for itself and for each member of the Seller's Group) indemnify and keep indemnified the Purchaser (for itself and as trustee for each other member of the Purchaser's Group) against all Losses (ignoring any amount in respect of Employee Benefits, as to which see Schedule 9) in respect of:
  - 4.2.1 the employment of any Employee at any time prior to the Closing Date (excluding any Transferred Employee Benefit Liabilities (as defined in Schedule 9) which the Purchaser agrees to assume in accordance with Schedule 9);
  - 4.2.2 any termination of the employment of any Employees prior to the Closing Date including, but not limited to, all claims relating to severance, termination pay, pay in lieu of notice of termination and similar obligations (excluding any liability arising directly as a result of any breach of the commitments set out in paragraph 5 or 6 below by the Purchaser or a member of the Purchaser's Group and any act or omission by the Purchaser or any member of the Purchaser's Group in relation to any Employee before Closing as a result of which that Employee treats his employment as having been terminated prior to the Closing Date);



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- 4.2.3 any amount which becomes payable to any Employee or benefit to which any Employee becomes entitled by reason of this Agreement or the matters it contemplates, including any change of control or other payment or benefit (and including any enhancement of severance terms on a subsequent termination of employment but excluding any Losses relating to any share-based incentive schemes, as to which see paragraph 10 below);
  - 4.2.4 any failure by the Seller or any other member of the Seller's Group to comply with any obligation to inform or consult with employee representatives in connection with the matters contemplated by this Agreement (other than as a result of any failure set out in paragraph 4.3.3 below); and
  - 4.2.5 any breach by the Seller or any other member of the Seller's Group of paragraph 4.1.2 above or paragraph 4.4, 4.5 or 9 below.
- 4.3 The Purchaser shall (for itself and for each member of the Purchaser's Group) indemnify and keep indemnified the Seller (for itself and as trustee for each other member of the Seller's Group) against all Losses (ignoring any amount in respect of Employee Benefits, as to which see Schedule 9) in respect of:
- 4.3.1 the employment of any of the Transferred Employees on and after the Closing Date (including, without limitation, any changes to terms and conditions of employment by the Purchaser or any other member of the Purchaser's Group);
  - 4.3.2 any termination of the employment of any Transferred Employees on and after the Closing Date including, but not limited to, all claims relating to severance, termination pay, pay in lieu of notice of termination and similar obligations except as contemplated under paragraph 3.2 above;
  - 4.3.3 any failure by the Purchaser or any other member of the Purchaser's Group to provide information and reasonable assistance to the Seller to enable the Seller or any other member of the Seller's Group to comply with any obligation to inform or consult with employee representatives in connection with the matters contemplated by this Agreement;
  - 4.3.4 any breach by the Purchaser or any other member of the Purchaser's Group of paragraph 4.1.1 above or paragraph 4.4 or 4.5 below; and
  - 4.3.5 any act or omission by the Purchaser or any member of the Purchaser's Group in relation to any Employee before Closing as a result of which that Employee treats his employment as having been terminated prior to the Closing Date.
- 4.4 Any amount payable to or in respect of any Transferred Employee after Closing (including without limitation amounts paid under paragraph 4.5 below) which (ignoring vesting conditions and any amount payable in respect of Employee Benefits or otherwise in accordance with Schedule 9) is referable to the period prior to Closing is payable by the Seller (for itself or on behalf of the relevant Business Seller). Responsibility for amounts payable which are only partly referable to the period prior to Closing (again ignoring vesting conditions) is to be shared between the Seller (for itself or on behalf of the relevant



Business Seller) and the Purchaser (for itself or on behalf of the relevant member of the Purchaser's Group) such that the Seller bears S per cent. of the cost and the Purchaser bears P per cent., where S is the percentage of the period by reference to which the amount was earned which fell on or before the Closing Date and P is the percentage of that period which falls after the Closing Date. The Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, pay such amounts when due to the relevant Transferred Employees on or after Closing and shall deduct and/or pay and account for any Tax payable or accountable for by the employer in respect of such amounts. The Seller covenants to reimburse the Purchaser in respect of any such amount (or S per cent. of it where relevant), including any Tax payable or accountable for by the employer in respect of such amount, within 30 days of receiving notification that it has been paid. The Seller will provide the Purchaser with all information and documentation reasonably necessary to allow such payments to be made.

**4.5** Following the Closing Date:

- 4.5.1** the Purchaser shall, or shall procure that a member of the Purchaser's Group shall, pay a pro-rated cash bonus of an amount advised by the Seller to the Purchaser to each Transferred Employee who participated in an annual cash bonus plan immediately before the Closing Date in their first payroll payment after the Closing Date; and
- 4.5.2** where the Seller is able to determine performance, any such bonus payment made to such eligible employees by the Purchaser or a member of the Purchaser's Group will be based on the Seller's determination of performance to the Closing Date and pro-rated to the Closing Date; or
- 4.5.3** where the Seller is unable to determine performance (either business or individual), for example, because the Closing Date occurs near the start of the bonus year, the Seller shall calculate any such bonus payment based on a deemed achievement of performance conditions at target level pro-rated to the Closing Date; and
- 4.5.4** as soon as reasonably practicable after the Closing Date, the Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, provide such information as the Seller requires in order for the Seller to calculate the Tax payable or accountable for by the employer in respect of such bonus payments; and
- 4.5.5** the Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, deduct and/or account for any Tax payable or accountable for by the employer in respect of such bonus payments; and
- 4.5.6** the Seller shall reimburse the Purchaser for the aggregate bonuses advised by the Seller to the Purchaser which are paid pursuant to this paragraph 4.5 along with the employer's social security contributions due in respect of such payments.

**5. Protection of terms and conditions and termination rights post-Closing**

- 5.1** Without prejudice to paragraph 5.4 below, the Purchaser shall procure that for a period of 24 months following the Closing Date:
- 5.1.1** each Transferred Employee will (for so long as such Transferred Employee continues in the same role with any member of the Purchaser's Group save that the Purchaser shall not seek to demote any Transferred Employee to avoid the application of this provision) continue to receive at least the same basic salary; and
  - 5.1.2** each Transferred Employee will continue to receive contractual benefits (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans) which the Purchaser reasonably considers to be substantially comparable, taken as a whole, to the contractual benefits (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans) of such Transferred Employee immediately prior to the Closing Date; and
  - 5.1.3** no Transferred Employee will suffer a change to his overall employment terms (whether contractual or otherwise) and including, without limitation, any related to length of service (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans), which, when taken as a whole viewed in the round (including to the extent relevant alongside any other changes being made at the same time to that Transferred Employee's employment terms), would in the Purchaser's reasonable opinion acting in good faith be regarded as materially detrimental.
- 5.2** The Purchaser confirms that, following the Closing Date and for so long as the Transferred Employees continue in the employment of any member of the Purchaser's Group, the Transferred Employees will be eligible to participate in those share-based incentive schemes or other long-term incentive plans that are operated by the Purchaser or relevant members of the Purchaser's Group from time to time for employees of equivalent status, subject always to the rules of such share-based incentive schemes or long-term incentive plans and any qualifying conditions.
- 5.3** The Seller shall provide or shall cause to be provided to any member of the Purchaser's Group such information reasonably requested in writing by any member of the Purchaser's Group to enable the Purchaser to comply with its obligations in paragraph 5.1 above.
- 5.4** If the employment of any Transferred Employee is terminated by reason of redundancy within 24 months following the Closing Date, the Purchaser shall procure that there shall be provided to such Transferred Employee benefits which are equivalent to those provided under such redundancy and severance policies and benefits (whether contractual or otherwise and giving due credit to the Transferred Employees for any additional service or earnings from the Closing Date onwards) (but excluding Employee Benefits other than the Agreed UK Restructuring Arrangement) as were applicable in respect of the particular Transferred Employee immediately prior to the Closing Date, to the extent that such policies and benefits are notified in writing to the Purchaser prior to the Closing Date. If, at any time during the 24 month period immediately following the Closing Date, the Purchaser places any Transferred Employee into a redundancy selection process, the Purchaser undertakes that, in determining such selection, it will or will procure that the relevant member of the Purchaser's Group will take no account of the costs of dismissal of any person within the relevant selection pool (including such Transferred Employee).



5.5 For the avoidance of doubt, the provisions of this paragraph 5 are without prejudice to the operation of any rule of law in relation to the terms and conditions of employment of the Transferred Employees.

**6. Benefits arrangements/service continuity**

6.1 Each Transferred Employee shall have their service with the Seller's Group and their respective predecessors recognised under any employee benefit plans or arrangements of the Purchaser's Group for all purposes of eligibility, vesting and accrual of benefits to the extent past service was recognised for such Transferred Employee under a comparable plan or arrangement immediately prior to the Closing Date. Notwithstanding the foregoing, nothing in this paragraph 6.1 shall be construed to require recognition of service for the purposes of calculation of Employee Benefits or that would result in:

- 6.1.1 any additional liability being assumed by the Purchaser's Group in respect of Employee Benefits other than subject to and in accordance with the provisions of Schedule 9;
- 6.1.2 duplication of benefit;
- 6.1.3 recognition of service for any purposes under any plan or arrangement for which participation, service and/or benefits accrual is frozen or any post-retirement medical plan; or
- 6.1.4 recognition of service under a newly established plan or arrangement for which prior service is not taken into account for employees of the Purchaser's Group generally.

6.2 Without limiting the foregoing, with respect to the Transferred Employees, the Purchaser shall, or shall cause such other member of the Purchaser's Group to, be responsible for all paid time off benefits, including vacation pay, sick pay, banked leave, flexitime and other payments for time off of normal work hours accrued by the Transferred Employees up to the Closing Date provided that if the value of such matters (excluding normal accrued but untaken annual leave for the year current as at Closing) would exceed US\$7.5 million if accrued for in a balance sheet in accordance with IFRS then the Seller shall compensate the Purchaser for such matters (again excluding normal accrued but untaken annual leave for the year current as at Closing) by paying the Purchaser an amount equal to that value, less any amount actually accrued and transferred to the Purchaser for such matters.

6.3 With respect to any welfare plan maintained by the Purchaser or any other member of the Purchaser's Group in which Transferred Employees are eligible to participate after the Closing Date, the Purchaser shall:



- 6.3.1** waive all limitations as to pre-existing conditions, exclusions, evidence of insurability provisions, waiting periods with respect to such participation and coverage requirements or similar provisions under a Purchaser's benefit plans that are welfare plans (as defined in section 3(1) of ERISA or any equivalent Applicable Law) applicable to such employees to the extent such conditions, exclusions and waiting periods or other provisions were satisfied or did not apply to such employees under welfare plans maintained by the Seller or other members of the Seller's Group prior to the Closing Date; and
- 6.3.2** provide each Transferred Employee with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any analogous deductible or out-of-pocket requirements to the extent applicable under any such plan in the year in which Closing occurs, to the extent credited under the welfare plans maintained by the Seller or other members of the Seller's Group prior to the Closing Date.

## 7. US Transferred Employees

- 7.1** To the extent the Purchaser or any other member of the Purchaser's Group maintains a health care and dependent care flexible spending account arrangement pursuant to section 125 or 129 of the Code (collectively, "FSAs"), the Purchaser will use commercially reasonable efforts to honour the elections of all Transferred Employees who are employed in the United States and/or covered by US Benefit Plans ("US Transferred Employees") under the FSAs of any relevant member of the Seller's Group ("Relevant Employer's FSAs"), as in effect immediately prior to the Closing Date, and the Purchaser will use commercially reasonable efforts to assume responsibility for administering all reimbursement claims of US Transferred Employees with respect to the calendar year in which the Closing Date occurs that are submitted for payment on or after the Closing Date, whether arising before, on or after the Closing Date, under the Purchaser's FSAs. As soon as practicable but no more than 45 days following the Closing Date, the Seller will cause to be transferred to the Purchaser an amount in cash equal to (i) the sum of all contributions to the Relevant Employer's FSAs with respect to the calendar year in which the Closing Date occurs by or on behalf of the US Transferred Employees prior to the Closing Date, reduced by (ii) the sum of all claims incurred in the calendar year in which the Closing Date occurs that are submitted to the Relevant Employer for payment prior to the Closing Date and paid by the Relevant Employer's FSAs with respect to such US Transferred Employees prior to the date of such cash transfer to the Purchaser; provided, however, if this calculation results in a negative number, then the Purchaser will pay to the Seller (on behalf of the Relevant Employer) as soon as practicable following the end of the calendar year in which the Closing Date occurs, the amount by which (ii) exceeds (i).
- 7.2** With effect on and from the Closing Date, the Purchaser shall, or shall procure that such other members of the Purchaser's Group shall, assume the responsibility and obligation to provide COBRA continuation coverage to all US Transferred Employees whose employment is terminated after the Closing Date and their eligible dependents.



**8. International Assignees**

Where Applicable Law does not provide for the automatic transfer of employment of any International Assignee and/or the other terms governing their international assignment, the Purchaser shall assume and agree to be bound by the individual contract of employment and such other terms governing their international assignment including any tax equalisation agreement entered into between an International Assignee and a member of the Seller's Group provided that such employee becomes a Transferred Employee and the Seller has disclosed to the Purchaser the template international assignment terms of the Seller's Group prior to the Closing Date.

**9. Liability for retention arrangements**

The Seller or any other member of the Seller's Group has or will put in place certain retention arrangements (in the form of cash) to retain key employees in connection with the matters contemplated by this Agreement. To the extent that details of such retention arrangements are disclosed to the Purchaser prior to the Closing Date, and in respect of arrangements put in place after the date of this Agreement, with the agreement of the Purchaser, the Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, make the cash retention payments when due to the relevant Transferred Employees on or after Closing and shall deduct and/or pay and account for any Tax payable or accountable for by the employer in respect of such cash payments. The Seller covenants to reimburse the Purchaser in respect of any cash retention payments, whether or not disclosed (including any Tax payable or accountable for by the employer in respect of such payments), which are put in place prior to the Closing Date. The Seller acknowledges that the Purchaser may ask the Seller to put in place more generous retention arrangements than those proposed by the Seller (including, where practicable, putting in place retention arrangements which last for a period of at least six months following Closing) and will not unreasonably withhold consent to such arrangements provided that any incremental cost of such arrangements over and above the cost of the Seller's own proposals will be for the Purchaser's account. The Seller will provide the Purchaser with all information and documentation reasonably necessary to allow such payments to be made.

**10. Share-based incentive schemes**

**10.1** This paragraph 10 applies notwithstanding any other provision of this Agreement.

**10.2** The Seller undertakes that share-based awards held by Transferred Employees pursuant to a share-based incentive scheme operated by the Seller or another member of the Seller's Group ("**Relevant Awards**") shall be treated in a manner consistent with the "good leaver treatment" pursuant to the default position under those share-based incentive schemes. Where Relevant Awards are subject to performance (or other) conditions and it is not possible to determine whether or not such conditions have been met at the applicable early vesting date (or within a reasonable period thereafter), the Seller and Purchaser agree that performance shall be deemed "on target".



For the avoidance of doubt, such “good leaver treatment” provides that:

- 10.2.1 Relevant Awards shall not lapse or be forfeited as a result of Closing except to the extent that they do not vest in accordance with paragraphs 10.2.2 and/or 10.2.3 below;
- 10.2.2 Relevant Awards shall vest early as a result of Closing and shall be time pro-rated to take account of the reduced period of time, as a proportion of the original vesting period, that the relevant Transferred Employee worked within the Seller’s Group (calculated on the basis of the number of years of service as at the Closing Date, where part years of service are rounded up); and
- 10.2.3 Relevant Awards that vest after the Closing Date shall remain subject to any relevant performance (or other) conditions, adjusted as necessary to take account of Closing and measured up to the applicable early vesting date.

For the purposes of this paragraph 10.2, “on target” performance shall not be construed as permitting share-based awards to vest in full.

- 10.3 The Seller agrees to indemnify the Purchaser (or relevant member of the Purchaser’s Group) for any Liabilities borne by the Purchaser’s Group in connection with the Relevant Awards, including any Tax. The Purchaser agrees to use its best endeavours to seek any applicable Tax relief in respect of the Relevant Awards and to indemnify the Seller in respect of any Tax relief obtained, provided always that the Seller provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner.
- 10.4 Subject to paragraph 10.5, the Seller undertakes to inform the Purchaser of the vesting or exercise (as applicable) of the Relevant Awards and to provide, in a timely manner, details of the Relevant Awards that so vest or are exercised so that the Purchaser’s Group can make any applicable withholdings for Tax and pay any Tax for which the Purchaser’s Group is liable in respect of the Relevant Awards to the relevant Tax Authority within any applicable timescale.
- 10.5 To the extent permitted under the relevant plan rules and any Applicable Law, the Seller undertakes to sell such number of the shares underlying the Relevant Awards as may be necessary for the sale proceeds to satisfy any applicable Tax withholdings and to pay such amounts to the Purchaser in sufficient time for the Purchaser to pay such Tax to the relevant Tax Authority within any applicable timescale, provided always that the Purchaser provides the Seller with any information that the Seller may reasonably request in this respect in a timely manner.
- 10.6 The Seller undertakes to procure that each relevant member of the Seller’s Group will pay any Tax for which each member is liable in respect of the Relevant Awards to the relevant Tax Authority within any applicable timescale.
- 10.7 The Seller undertakes to complete any relevant Tax Return in respect of the Relevant Awards and to submit any such Tax Return to the relevant Tax Authority within any applicable timescale.
- 10.8 This paragraph shall apply where Relevant Awards lapse or are forfeited (or will lapse or be forfeited) either in whole or in part as a result of Closing. As soon as practicable following Closing (and, in any event, by the later of 30 days from the



Closing Date and 30 days from the first date after the Closing Date when the granting of share-based awards is not prevented by dealing restrictions, subject in both cases to the relevant plan rules and any Applicable Law), the Purchaser (or member of the Purchaser's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of the Purchaser substantially equal in value (valued as at the date of grant) to the value of the portion of their Relevant Awards which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing (valued as at the Closing Date), where relevant disregarding any loss (or expected loss) of Tax-favourable treatment (each a "**Compensation Award**"). To the extent that (i) it could reasonably have been expected that any related matching share award and/or free share award would have been granted to a Transferred Employee following Closing in connection with any Relevant Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing (each a "**Relevant Matching Award**"), and (ii) such Relevant Matching Award has not been granted (or will not be granted) as a result of Closing, on or around the date on which such Relevant Matching Award would, in the ordinary course of business, have been made by the Seller (or member of the Seller's Group), the Purchaser (or member of the Purchaser's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of the Purchaser substantially equal in value (valued as at the date of grant) to the value of such Relevant Matching Award (valued as at the date of grant of the related Matching Award, defined below), where relevant, disregarding any loss (or expected loss) of Tax-favourable treatment (each a "**Matching Award**"), subject to the relevant plan rules and any Applicable Law.

Such Compensation Awards and Matching Awards shall be granted pursuant to the rules of whichever share-based incentive plan operated by the Purchaser's Group at the time of grant the Purchaser considers most closely aligned to the share-based incentive plan operated by the Seller's Group pursuant to which the related Relevant Award had been granted (or related Relevant Matching Award would have been granted) but will vest according to a vesting schedule substantially similar to the vesting schedule that would have otherwise applied to the related Relevant Award or related Relevant Matching Award if Closing had not occurred. In such cases:

- 10.8.1** the Purchaser undertakes to seek any applicable Tax relief in respect of the Compensation Awards and Matching Awards and to indemnify the Seller in respect of 50 per cent. of any Tax relief obtained, provided always that the Seller provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner;
- 10.8.2** where a Compensation Award or Matching Award is granted in the form of a restricted share award, the Purchaser undertakes to obtain a valid election pursuant to section 431 of the Income Tax (Earnings and Pensions) Act 2003 (or, as applicable, any similar Tax election that is available pursuant to any Applicable Law in another jurisdiction), provided that, if either party makes representations to the other party to waive this obligation in respect of certain Compensation Awards or certain Matching Awards and the other party consents to such waiver (such consent not to be unreasonably withheld), this paragraph 10.8.2 shall not apply in respect of such Compensation Awards or Matching Awards; and



- 10.8.3** the Seller agrees to indemnify the Purchaser (or relevant member of the Purchaser's Group) for any Liabilities borne by the Purchaser's Group in connection with such Compensation Awards and Matching Awards, including any Tax, provided that:
- (i) the Seller shall not indemnify the Purchaser (or relevant member of the Purchaser's Group) to the extent that the Purchaser (or member of the Purchaser's Group) compensates Transferred Employees for any loss (or expected loss) of Tax-favourable treatment in respect of Relevant Awards or for any Liabilities to Tax as contemplated in paragraph 10.9 below;
  - (ii) the Seller only agrees to indemnify the Purchaser (or member of the Purchaser's Group) to a maximum of 50 per cent. of the total of: (i) the value of the portion of such Relevant Awards that lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing, (ii) the value of the Relevant Matching Awards, and (iii) any related Liabilities, including any Tax; and
  - (iii) for the avoidance of doubt, the Seller shall not indemnify the Purchaser (or member of the Purchaser's Group) for any lapse or forfeiture (or expected lapse or forfeiture) due to a failure to meet any applicable performance (or other) conditions.

For these purposes, the compensation in respect of the portion of a Relevant Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing shall not exceed the difference between (i) the value of the Relevant Award which could reasonably have been expected to vest on the normal vesting date but for Closing (subject, where applicable, to performance (or other) conditions), and (ii) the value of the Relevant Award which actually vested (or will vest) as a result of Closing.

For the purposes of this paragraph 10.8:

- 10.8.4** the portion of a Relevant Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Closing shall be valued on the basis of the average price of an ordinary share in the capital of the Seller over the five trading days immediately prior to Closing;
- 10.8.5** the value of a Compensation Award to be granted shall be valued on the basis of the average price of an ordinary share in the capital of the Purchaser over the five trading days immediately prior to the date of grant;
- 10.8.6** the value of a Relevant Matching Award shall be valued on the basis of the average price of an ordinary share in the capital of the Seller over the five trading days immediately prior to the date of grant of the related Matching Award;



**10.8.7** the value of a Matching Award to be granted shall be valued on the basis of the average price of an ordinary share in the capital of the Purchaser over the five trading days immediately prior to the date of grant; and

**10.8.8** any currency conversion shall be made in accordance with Clause 1.12 of this Agreement.

**10.9** To the extent that any payment to a Transferred Employee (whether by the Seller's Group or by the Purchaser's Group) would trigger Liabilities to Tax under section 280G of the United States Internal Revenue Code ("Section 280G"), the relevant Transferred Employee shall be allowed to choose whether to accept the full payment (and pay any relevant Section 280G Tax) or to receive such lower payment as may be necessary in order to fall below the Section 280G threshold for Tax. To the extent that any similar Tax would arise pursuant to any Applicable Law in another jurisdiction, this paragraph 10.9 shall apply mutatis mutandis.

**10.10** This paragraph shall apply where: (i) a Transferred Employee would, in the ordinary course of business, have been granted a share-based award pursuant to a share-based incentive scheme operated by the Seller or another member of the Seller's Group on the basis of performance criteria linked to the Seller's Group's 2014 financial year (which may, for the avoidance of doubt, be business and/or individual performance criteria and assessment) (each a "2014 Performance Award"), and (ii) Closing occurs prior to the grant of such 2014 Performance Award. As soon as practicable following Closing (and, in any event, by the later of 30 days from the Closing Date and 30 days from the date when the value of each 2014 Performance Award has been determined), the Seller shall notify the Purchaser in writing of the value of each 2014 Performance Award and under which share-based incentive plan operated by the Seller's Group the related 2014 Performance Award would have been granted. As soon as practicable following the receipt of such notice (and, in any event, by the later of 30 days from the receipt of such notice and 30 days from the first date following the receipt of such notice when the granting of share-based awards is not prevented by dealing restrictions, subject in both cases to the relevant plan rules and any Applicable Law), the Purchaser (or member of the Purchaser's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of the Purchaser substantially equal in value (valued as at the date of grant) to the value of the 2014 Performance Award which would have been granted but for the occurrence of Closing. Such 2014 Performance Awards shall be granted pursuant to the rules of whichever share-based incentive plan operated by the Purchaser's Group at the time of grant the Purchaser considers most closely aligned to the share-based incentive plan operated by the Seller's Group pursuant to which the related 2014 Performance Award would have been granted. In such cases:

**10.10.1** the Purchaser undertakes to seek any applicable Tax relief in respect of the 2014 Performance Awards and to indemnify the Seller in respect of any Tax relief obtained, provided always that the Seller provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner;

**10.10.2** where a 2014 Performance Award is granted in the form of a restricted share award, the Purchaser undertakes to obtain a valid election pursuant to section 431 of the Income Tax (Earnings and Pensions) Act 2003 (or, as



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applicable, any similar Tax election that is available pursuant to any Applicable Law in another jurisdiction), provided that, if either party makes representations to the other party to waive this obligation in respect of certain 2014 Performance Awards and the other party consents to such waiver (such consent not to be unreasonably withheld), this paragraph 10.10.2 shall not apply in respect of such 2014 Performance Awards; and

**10.10.3** the Seller agrees to indemnify the Purchaser (or relevant member of the Purchaser’s Group) for any Liabilities borne by the Purchaser’s Group in connection with such 2014 Performance Awards, including any Tax.

The grant of a 2014 Performance Award to a Transferred Employee shall be taken into account by the Purchaser when determining the extent to which that Transferred Employee shall participate in incentive arrangements (other than any Compensation Award or Matching Award) operated by the Purchaser’s Group following Closing.

For the purposes of this paragraph 10.10:

**10.10.4** the value of a 2014 Performance Award to be granted shall: (i) be determined by the Seller acting reasonably and in good faith, (ii) be consistent with past practice, (iii) take into account the relevant business and/or individual performance criteria linked to the Seller’s Group’s 2014 financial year, and (iv) if Closing occurs before 31 December 2014, be time pro-rated to take account of the reduced period of time, as a proportion of the Seller’s Group’s 2014 financial year, that the relevant Transferred Employee worked within the Seller’s Group (calculated on the basis of the number of complete months of service as at the Closing Date);

**10.10.5** the number of shares to be placed under a 2014 Performance Award shall be valued on the basis of the average price of an ordinary share in the capital of the Purchaser over the five trading days immediately prior to the date of grant; and

**10.10.6** any currency conversion shall be made in accordance with Clause 1.12 of this Agreement.



**Schedule 9**  
**Employee Benefits**  
**(Clause 2.4.2)**

In this Schedule 9:

**“Employee Benefits”** means benefits to or in respect of any current or former employee, including without limitation, any pension, early retirement, disability, death benefit, long service awards, termination indemnity (such as Italian TFR) or post-retirement medical benefits or deferred compensation linked to retirement, disability or death benefits or old age part-time benefits (such as German ATZ) and jubilee payments.

**“Employee Benefit Liabilities”** means liabilities and obligations (whether funded or unfunded) in respect of any employee benefit promise, scheme, plan, fund, program, policy, practice or other individual or collective arrangement providing Employee Benefits.

**“Purchaser Funding Assumptions”** means, in relation to any Transferred Employee Benefits, where a member of the Purchaser’s Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc.), and there is a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund those similar or comparable benefits to a funding target which is determined by reference to a method and assumptions other than IFRS (such as would, for example, be the case in relation to UK HMRC-registered defined benefit pension obligations), then that method and those assumptions as in force in relation to those similar or comparable benefits immediately prior to the date of this Agreement (so, taking the example of UK defined benefit obligations, this would be the method and assumptions used to determine the relevant plan’s technical provisions as at the date of this Agreement – regardless of whether the plan is in fact fully funded on that basis at any relevant time).

**“Purchaser IFRS Assumptions”** means, in relation to any Transferred Employee Benefits, where a member of the Purchaser’s Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc.), the method and assumptions used most recently prior to the date of this Agreement to value those similar or comparable benefits by the Purchaser’s Group (or any relevant member thereof) for IFRS accounting purposes.

**“Seller Funding Assumptions”** means, in relation to any Transferred Employee Benefits, if there is a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund those Transferred Employee Benefits to a funding target which is determined by reference to a method and assumptions other than IFRS (such as would, for example, be the case in relation to UK HMRC-registered defined benefit pension obligations), then that method and those assumptions as in force in relation to those Transferred Employee Benefits immediately prior to the date of this Agreement (so, taking the example of UK defined benefit obligations, this would be the method and assumptions used to determine the relevant plan’s technical provisions as at the date of this Agreement – regardless of whether the plan is in fact fully funded on that basis at any relevant time).



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“**Seller IFRS Assumptions**” means, in relation to any Transferred Employee Benefits, the method and assumptions used by the Seller’s Group (or the most relevant member thereof) most recently prior to the date of this Agreement to value those Transferred Employee Benefits for IFRS accounting purposes.

“**Swiss Actuary**” means an actuary: (a) who can reasonably be viewed: (i) as independent of both the Purchaser and the Seller; and (ii) as familiar with Swiss pension issues; and (b) whom the Purchaser and the Seller have agreed should be jointly appointed by them for the purposes of determining the Swiss Assumptions or who in default of such agreement has been appointed by the Swiss Association of Actuaries or other industry body of actuaries in Switzerland as agreed by the Seller and the Purchaser.

“**Swiss Assumptions**” means, in relation to any Transferred Employee Benefits in Switzerland, the Seller IFRS Assumptions adjusted:

(i) by replacing any assumed “cash balance” annuity conversion rate in the Seller IFRS Assumptions with a conversion rate which the Swiss Actuary certifies to the Purchaser and the Seller as representing a reasonable estimate of the likely effective overall blended conversion rate which will apply in relation to the Transferred Employee Benefits in question, having regard to the changes to the rate which can (having regard to longevity projections, legal and governance constraints around Swiss pension structures and such other matters as the Swiss Actuary considers relevant) in the Swiss Actuary’s opinion reasonably be expected to occur during the expected service lives of the Transferred Employees to whom the Transferred Employee Benefits relate, and weighting the impact of those changes by reference to the ages of the relevant employees (and so the extent to which the changes will in fact operate to reduce the effective liability on the Purchaser); and

(ii) by removing any reserve for death or disability benefits to the extent that the Swiss Actuary certifies to the Purchaser and the Seller that it constitutes a reserve for liabilities to and in respect of the relevant Transferred Employees which could reasonably be externally insured by the Purchaser without introducing a new ongoing cost on the Purchaser which was not reflected in the Seller’s ongoing cost base prior to the date of this Agreement.

“**Vaccines Funding Assumptions**” means, in relation to any Transferred Employee Benefits which are similar or comparable to benefits in the same country which are Transferred Employee Benefits under the Vaccines Sale and Purchase Agreement (the “**Equivalent Vaccines Benefits**”), the method and assumptions used under the Vaccines Sale and Purchase Agreement to value those Equivalent Vaccines Benefits. For the avoidance of doubt, the Vaccines Funding Assumptions are only available in respect of Transferred Employee Benefits for which there are Equivalent Vaccines Benefits.

For the purposes of each of the Purchaser Funding Assumptions, the Purchaser IFRS Assumptions, the Seller Funding Assumptions, the Seller IFRS Assumptions, the Swiss Assumptions (and, for the avoidance of doubt, the Vaccines Funding Assumptions), any economic and financial assumptions which are based (whether expressly or implicitly) on yields, rates or indices shall be updated for the purposes of such definitions to take account of those yields, rates or indices as at Closing (or the latest practicable time prior to Closing).



1. Except to the extent otherwise requested by the Seller and expressly agreed by the Purchaser before Closing (such Purchaser agreement not to be unreasonably withheld to the extent that it is not reasonably possible for the Seller or its Affiliates to retain the relevant Employee Benefit Liabilities – for example, where liability unavoidably transfers by operation of law under European Council Directive 2001/23/EC or its local implementing legislation), any Employee Benefit Liabilities in respect of service in the Business or with any member of the Seller’s Group or in any plan or arrangement in which any member of the Seller’s Group participates or has participated:
  - (i) (in the case of a Transferred Employee) prior to Closing; or
  - (ii) (in the case of any other person) at any time,(together, “**Pre-Closing EB Liabilities**”) will stay with or be assumed by the Seller or its Affiliates and the Seller shall fully indemnify the Purchaser and its Affiliates against any such Employee Benefit Liabilities and against any liabilities and obligations to or in respect of any plan or arrangement for the provision of Employee Benefits in which any member of the Seller’s Group participates or participated prior to Closing. For the avoidance of doubt, the Purchaser’s agreement under this paragraph 1 may, if the Purchaser so determines, relate only to certain specified categories or tranches of Pre-Closing EB Liabilities under a particular benefit programme (in other words, it does not need to be “all or nothing”), in which case it is only those specified Pre-Closing EB Liabilities which are excluded from the scope of the Purchaser’s indemnity entitlement hereunder.
2. Where and to the extent that the Purchaser agrees under paragraph 1 that any Pre-Closing EB Liabilities may transfer to or remain with the Purchaser and/or its Affiliates (such Pre-Closing EB Liabilities being the “**Transferred Employee Benefit Liabilities**” and the benefits to which they relate being the “**Transferred Employee Benefits**”), the Purchaser will be compensated in respect of such Transferred Employee Benefit Liabilities as set out in the rest of this Schedule 9. Subject to being so compensated but without prejudice to paragraphs 9 and 11, the Purchaser shall, or shall procure that its relevant Affiliate shall, assume, with a full discharge for the Seller and its Affiliates, the Transferred Employee Benefit Liabilities. Without limiting the Purchaser’s obligation not unreasonably to withhold consent under paragraph 1 of this Schedule 9 above, the Purchaser acknowledges its agreement to the principle that the post-retirement medical healthcare plan to which it admits US Transferred Employees who immediately before Closing were members of such a plan will take account of periods of employment with the Seller’s Group to the extent previously recognised under the equivalent Seller’s Group plan for the purposes of determining eligibility, contributions, and vesting; again, therefore, subject to appropriate identification during the period before Closing of such liabilities and to the operation of the compensation mechanism set out in this Schedule 9, they will become Transferred Employee Benefit Liabilities.



3. The value of the Transferred Employee Benefit Liabilities shall be determined on employee census data and plan provision as at Closing on the Vaccines Funding Assumptions if available, but if not available then on:
- 3.1 in relation to any Transferred Employee Benefits in Switzerland, the Swiss Assumptions; and
- 3.2 in relation to any other Transferred Employee Benefits, the Seller IFRS Assumptions, PROVIDED that if any of the following values is available and is greater than the value derived using the Seller IFRS Assumptions then that value will be used instead (and if more than one of these values is available then the one which would place the greatest value on the relevant Transferred Employee Benefit Liabilities will be used):
- 3.2.1 if a member of the Purchaser's Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc.), the value which is midway between the value based on the Seller IFRS Assumptions and the Purchaser IFRS Assumptions;
- 3.2.2 if there is a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund the Transferred Employee Benefits to a funding target which is determined by reference to a method and assumptions other than IFRS, the value derived using the Seller Funding Assumptions; and
- 3.2.3 if there is both: (i) a local obligation or practice prior to the date of this Agreement to pre-fund or externally fund the Transferred Employee Benefits to a funding target which is determined by reference to a method and assumptions other than IFRS; and (ii) a member of the Purchaser's Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc.), the value which is midway between the value based on the Seller Funding Assumptions and the Purchaser Funding Assumptions.

The market value as at Closing of any underlying assets related to the Transferred Employee Benefit Liabilities which are or are to be transferred as per paragraph 8 below will be deducted from the value of the Transferred Employee Benefit Liabilities to the extent such assets are or will be available to the Purchaser or its Affiliates to meet such liabilities and the remaining value of the Transferred Employee Benefit Liabilities (if any) is the "**Employee Benefit Indemnification Amount**". Such determination shall be carried out on a country-by-country basis and, where necessary, on a plan-by-plan basis. If any Employee Benefit Indemnification Amount is greater than the estimate of such amount determined for the purposes of the Estimated Employee Benefit Adjustment (or, where no such estimate was made, greater than zero), the Seller shall pay or procure payment (by way of a reduction in the Share Consideration) an amount equal to the difference (or, where no such estimate was made, such amount) to the Purchaser, or at the request of the Purchaser to an Affiliate of the Purchaser, as compensation for the Transferred Employee Benefit Liabilities. If any Employee Benefit Indemnification Amount is less than the estimate of such amount determined for the purposes of the Estimated Employee Benefit Adjustment (if any), the Purchaser shall pay an amount equal to the difference to the Seller.



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4. The Seller and its Affiliates shall, within 45 days after Closing, provide its actuary, the Swiss Actuary and the actuary chosen by the Purchaser with all relevant plan, asset, assumptions and employee census information needed to calculate the Employee Benefit Indemnification Amounts in respect of any Transferred Employees. The actuary chosen by the Seller shall provide the actuary chosen by the Purchaser with its calculation of the Employee Benefit Indemnification Amounts (including, but not limited to, any supporting documentation on which it relied as well as the methodologies it employed in calculating the Employee Benefit Indemnification Amounts), on a plan-by-plan basis, within 90 days following Closing. The actuary chosen by the Purchaser shall review the calculation of the Employee Benefit Indemnification Amounts of the Seller's actuary within 120 days following Closing. The Employee Benefit Indemnification Amounts shall be determined, on a plan-by-plan basis, by mutual agreement between the parties within 180 days following the Closing Date.
5. If the parties cannot agree on any Employee Benefit Indemnification Amount within the 180-day period referred to in paragraph 4, the parties shall appoint within 5 days an independent actuary acceptable to both parties, or such actuary shall be selected by the President of the Institute and Faculty of Actuaries in the UK if they cannot agree, and the independent actuary thus appointed shall review their calculations and, within 75 days after appointment, render a final and binding decision on the amount of that Employee Benefit Indemnification Amount, and, in making such decision, shall be limited to adopting the position taken by either one of the parties. The cost of any independent actuary shall be borne jointly by the parties.
6. In connection with the procedures referred to in this Schedule 9, the parties shall provide each other and the actuaries referred to in this Schedule 9 with access to the relevant business records and other relevant documents and information as may reasonably be requested. All documents, records and information provided for the purposes of this Schedule 9 must be accurate and complete in all material respects.
7. Subject to Paragraph 3.2 of this Schedule, each Employee Benefit Indemnification Amount shall be paid by the Seller (by way of a reduction in the Share Consideration) within 14 days following its final determination. The Seller may make an accelerated or advance payment at its own discretion (which, for the avoidance of doubt, includes in relation to each Employee Benefit Indemnification Amount so much (if any) of the Estimated Employee Benefit Adjustment as the Seller notified pursuant to Clause 6.3.8 was intended to relate to that Employee Benefit Indemnification Amount). Each Employee Benefit Indemnification Amount shall include interest calculated from (and including) the Closing Date to (and including) the date of payment at a rate per annum of LIBOR (but where amounts are prepaid or paid in stages or treated as



paid via inclusion in the Estimated Employee Benefit Adjustment then the interest will cease to accrue on so much of the Employee Benefit Indemnification Amount as has been paid). Such interest shall accrue from day to day. Any such payment shall be made in US dollars (and any underlying values shall be expressed in US dollars) and any currency other than US dollars shall be converted into US dollars at the exchange rates determined in accordance with Clause 1.12 of this Agreement on the Closing Date.

8. To the extent (if any) that there are any Transferred Employee Benefit Liabilities which prior to Closing were externally funded by assets held in a trust or other vehicle established for the purposes of meeting such Transferred Employee Benefit Liabilities, the Purchaser will, if requested by the Seller before Closing and unless it is not reasonably practicable to do so, establish or nominate a trust or other vehicle which is capable of receiving a transfer of assets from the pre-Closing trust or other vehicle to the extent that such assets relate to the Transferred Employee Benefit Liabilities.
9. If, within one year of Closing, the Seller or the Purchaser notifies the other that the membership or other benefit data (the “**Data**”) used for calculating any Employee Benefit Indemnification Amount may be inaccurate, then a “**Data Dispute**” has arisen and the following provisions shall apply:
  - (i) On such notification, the Seller shall procure that its actuary and the Purchaser shall procure that its actuary consult each other with a view to agreeing whether the Data is inaccurate and if so, what the accurate Data should be. If the Seller’s actuary and the Purchaser’s actuary agree that the Data is inaccurate, they will jointly certify this to be the case and advise on what the accurate Data should be. The notification is deemed to have occurred on the date of the certification.
  - (ii) If the Seller’s actuary and the Purchaser’s actuary fail to agree whether the Data is inaccurate within 60 days of the notification by one party to the other that the Data may be inaccurate, paragraph 5 shall apply mutatis mutandis. The notification is deemed to have occurred when the independent actuary advises that the Data is inaccurate and what the accurate Data should be.
  - (iii) On the occurrence of the Data Dispute, the Seller and the Purchaser shall respectively procure that a valuation of the relevant Employee Benefit Indemnification Amount is carried out in accordance with paragraphs 3 and 4 (mutatis mutandis) but on the basis of the accurate Data as agreed under sub-paragraph (i) or determined under sub-paragraph (ii).
  - (iv) If as a consequence of sub-paragraph (iii), the Seller has paid to the Purchaser an amount which on the basis of the further valuation is not payable, such amount (the “**Overpayment**”) shall be repaid within 21 days of the amount of the Overpayment being agreed or determined. Any such payment



shall bear interest calculated from (and including) the date the Overpayment was made to (and including) the date the payment is made in full in accordance with this sub-paragraph (iv) at a rate per annum of LIBOR. Such interest shall accrue from day to day.

- (v) If as a consequence of sub-paragraph (iii), the Seller has not paid to the Purchaser an amount which on the basis of the further valuation is payable, such amount (the “**Outstanding Amount**”) shall be paid within 21 days of the amount of the Outstanding Amount being agreed or determined. Any such payment shall bear interest calculated from (and including) the Closing Date to (and including) the date the payment is made in full in accordance with this sub-paragraph (v) at a rate per annum of LIBOR. Such interest shall accrue from day to day.

10. Except as otherwise agreed by the Seller, the Purchaser shall where a trust or other vehicle has been established under paragraph 8, procure that all of the assets transferred as envisaged by paragraph 8 are paid into such trust or other vehicle. If, after such payment or transfer, or after payment of an Employee Benefit Indemnification Amount or after making an Estimated Employee Benefit Adjustment, the Purchaser and/or its Affiliates achieves a reduction in its liability to any Tax in respect of or in connection with the payment or transfer, the Purchaser shall pay to Seller (for itself or on behalf of the relevant Business Seller or Share Seller as applicable), within 30 days after the Purchaser would otherwise have been liable to pay the saved Tax, a sum equal to the amount of that Tax reduction by way of an increase in the Share Consideration. This paragraph 10 applies for a period of four years following the later of the date on which a transfer of assets is made, or payment of any Employee Benefit Indemnification Amount or Estimated Employee Benefit Adjustment is made to the Purchaser.

11. The Seller covenants with the Purchaser to pay to the Purchaser an amount equal to any cost, claim or liability incurred by any member of the Purchaser’s Group which it is or becomes liable to make on or at any time after Closing by reason of any change or purported change made to the terms of any Transferred Employee Benefits prior to Closing proving to be or have been legally ineffective or by reason of such terms and/or benefits failing to comply with any mandatory legal requirements (excluding any obligation to equalise guaranteed minimum pensions in the United Kingdom). The Seller shall not be liable under this paragraph 11 in respect of any individual claim (or a series of claims arising from similar or identical facts or circumstances) unless the liability in respect of such claim or series of claims exceeds US\$100,000. If the Purchaser becomes aware of any fact, matter or circumstance that may give rise to a claim against the Seller under this paragraph 11 the Purchaser shall as soon as reasonably practicable give notice in writing to the Seller of such facts, matters or circumstances as are then available regarding the potential claim. Failure to give such notice within such period shall not affect the rights of the Purchaser to make a relevant claim under this paragraph 11, except that the Seller shall not be liable for any increase in the amount of such claim arising from such failure. The latest date on which the Purchaser may give notice of a claim under this paragraph 11 is the fourth anniversary of the Closing Date.



12. Notwithstanding any general provision to the contrary in Schedule 8 and subject to being compensated in accordance with this Schedule 9, the Purchaser shall admit Transferred Employees in the United States who participated in a post-retirement medical plan immediately prior to Closing to its own post-retirement medical plan. Subject to being compensated in accordance with this Schedule 9, periods of employment with the Seller's Group (including, without limitation, any current or former Affiliate of the Seller, to the extent previously recognised under the applicable benefit plan arrangement provided by the Seller's Group), shall be taken into account for the purposes of determining, as applicable, the eligibility for participation, contributions, and vesting for any employee under such post-retirement medical plan.
13. Notwithstanding any general provision to the contrary in Schedule 8, the US Transferred Employees shall, as of the Closing Date, become eligible to participate in a US tax-qualified defined contribution plan to the extent such plan is sponsored by the Purchaser or a relevant member of the Purchaser's Group. The Purchaser agrees that it will use commercially reasonable efforts to cause such plan to accept rollovers of the account balances of the US Transferred Employees (including participant loan promissory notes) from the relevant employer's tax-qualified retirement plans; provided that (i) the Purchaser will not be required to accept any such rollovers that might result in material liability to the Purchaser or may otherwise cause the relevant plan to cease to qualify under Section 401(a) of the Code and (ii) the Purchaser will not be required to amend any plan to permit participant loans.
14. By way of exception to the general principle at paragraph 1, where a UK Transferred Employee who had joined service with the Seller's Group before 1 April 2005 is made redundant within 24 months of Closing, then the Purchaser shall pay the Seller an amount equal to the cost of applying the Agreed UK Restructuring Arrangement to an employee of the employee's actual age at the date he is made redundant, but only to so much of the employee's benefits in a Seller's Group plan as were accrued prior to Closing; and provided further that the Purchaser's aggregate liability under this paragraph in respect of all such UK Transferred Employees who are so made redundant is capped at £1 million. This cost shall be calculated on a basis consistent with that which is used across the Seller's Group retained business for internal cost-charging purposes in relation to the Agreed UK Restructuring Arrangement, and the Seller shall supply the Purchaser with such evidence as the Purchaser may reasonably require to verify that. Subject to receipt of such payment, the Seller shall apply the Agreed UK Restructuring Arrangement to the relevant employee's Seller's Group plan benefits. This provision shall cease to apply 24 months after Closing, whereafter the Purchaser shall procure that neither it nor its Affiliates offers or indicates the availability of the Agreed UK Restructuring Arrangement to any Transferred Employee.



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15. The parties agree that where any Transferred Employee has accrued defined contribution benefits prior to Closing in a Seller's Group arrangement then:
- (i) the Seller shall use commercially reasonable efforts to procure the vesting of those benefits (if they would otherwise lapse as a result of Closing);
  - (ii) the parties shall, provided this will not impose unreasonable administrative burdens on the Purchaser's Group, co-operate in good faith to procure a transfer of the account balances of such Transferred Employee from the Seller's Group arrangement to a Purchaser's Group arrangement; and
  - (iii) for the avoidance of doubt, the Purchaser will comply with the provisions of paragraph 6.1 of Schedule 8.



**Schedule 10  
Allocation  
(Clause 3.2)**

1. The Seller and the Purchaser agree that to the extent it is necessary for Tax purposes to allocate any amount as between:
  - 1.1 all of the Products, such amount shall be allocated for those Tax purposes as between the Products in proportions reflected as whole number percentages, to be agreed in accordance with the remaining paragraphs of this Schedule 10; or
  - 1.2 some but not all of the Products, such amount shall be allocated for those Tax purposes as between those particular Products in accordance with the relative proportions reflected in the whole number percentages agreed in accordance with the remaining paragraphs of this Schedule 10.
2. The Seller shall prepare, or procure the preparation of, a draft of the Allocation Statement, which shall be delivered to the Purchaser within 105 Business Days of the date of this Agreement (the “**Draft Allocation Statement**”).
3. The Purchaser shall have a period of 20 Business Days (the “**Review Period**”) after the delivery to it of the Draft Allocation Statement to review the Draft Allocation Statement and may at any time during the Review Period request (in writing to the Seller) an adjustment to be made to any amount set out therein (an “**Adjustment Request**”).
4. If no Adjustment Request is presented to the Seller within the Review Period, the Draft Allocation Statement shall be deemed to have been agreed and approved by the Seller and the Purchaser, shall be final and binding upon them and shall constitute the “**Allocation Statement**” for the purposes of this Agreement.
5. If an Adjustment Request is presented to the Seller within the Review Period:
  - 5.1 the Purchaser and the Seller shall attempt to resolve the matter in dispute between them in good faith negotiations and before the date falling 20 Business Days before Closing; and
  - 5.2 in the event that the Purchaser and the Seller fail to agree the matter in dispute between them within 10 Business Days following delivery to the Seller of the Adjustment Request, and unless the Seller and the Purchaser agree in writing to extend the period in which they may agree such allocation (subject to such extension not falling past Closing), the matter will be referred to the Reporting Accountants, to be instructed jointly by the Purchaser and the Seller to determine the relevant allocation as soon as practicable and in any case before the date falling five Business Days before Closing.



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6. If following agreement or determination of the Allocation Statement in accordance with paragraphs 4 and 5, the consideration payable by the Purchaser under this Agreement is adjusted in accordance with any provision of this Agreement or any Ancillary Agreement:
- 6.1 if the adjustment of the consideration payable by the Purchaser relates specifically to one or more, but not all, of the Products, or relates to all of the Products but to some more than others, the Purchaser and the Seller shall discuss in good faith the extent to which the percentage proportion allocated to the Products shall be adjusted and the Allocation Statement shall be amended to reflect the outcome of those discussions (unless no agreement is reached, in which case paragraph 5.2 shall apply mutatis mutandis).
7. The agreed or determined allocation set out in the Allocation Statement (as adjusted, where applicable) at Closing shall be binding on the parties and the Purchaser and the Seller, or as the case may be, the Company, the Share Seller, the relevant Business Seller and the Purchaser, shall:
- 7.1 not in any Tax Return, or other document or filing, or in any Tax proceeding, take a position in relation to any of the allocation set out therein which is inconsistent with the agreed or determined allocation; and
- 7.2 where reasonably necessary, make joint elections or otherwise cooperate in good faith to have the agreed or determined allocation respected for applicable Tax purposes by any relevant Tax Authority.
8. For the avoidance of doubt, it is understood and agreed by the parties that any valuation of the Products used in order to determine the allocation pursuant to this Schedule 10 is not intended to be, and shall not be interpreted as, any assurance by any party as to the value of the Products (including the related assets and liabilities) being transferred.



**Schedule 11**  
**VAT**

**1. VAT: Records**

**1.1** The Seller, the Share Seller or any Business Seller may, on or before the Closing Date, obtain a direction from the relevant Tax Authority for the retention and preservation by it of any VAT records relating to its period of ownership of the Business or the Share (as the case may be) and, where any such direction is obtained, the Seller undertakes to, or to procure that the relevant Business Seller or the Share Seller (as the case may be) will:

**1.1.1** preserve the records to which that direction relates in such a manner and for such period as may be required by the direction or by Applicable Law; and

**1.1.2** allow the Purchaser, upon the Purchaser giving reasonable notice, reasonable access to and copies of such records where reasonably required by the Purchaser for its Tax purposes.

**1.2** If no such direction as is referred to in paragraph 1.1 above is obtained before the Closing Date and any documents in the possession or control of a member of the Seller's Group are required by law to be preserved by the Purchaser, the Seller shall, as soon as reasonably practicable after Closing, deliver such documents to the Purchaser.

**2. VAT: Going Concern - EU Member States**

**2.1** The Seller and the Purchaser shall use reasonable endeavours (including, for the avoidance of doubt, the making of an election or application in respect of VAT to any Tax Authority or entering into a written agreement) to secure that, to the extent reasonably possible, the sale of all or any part of the Business, so far as carried on in the European Union, is treated as neither a supply of goods nor a supply of services for the purposes of the laws governing VAT in each relevant member state.

**2.2** Each Business Seller shall have the right to seek a ruling from the relevant Tax Authority as to whether the sale of all or part of the Business, so far as carried on in the relevant member state, should be treated as neither a supply of goods nor a supply of services for the purposes of the laws governing VAT in that member state and to account for VAT (and accordingly to seek an additional payment from the Purchaser under Clause 3.3.3) in accordance with that ruling. The Seller shall not be obliged to challenge (or to procure that any relevant Business Seller challenges) that ruling unless required to do so by the Purchaser. If the Purchaser wishes to challenge, or to require the relevant Business Seller to challenge, any such ruling it may do so, provided that it bears the full cost of, and agrees to indemnify the relevant Business Seller in respect of any loss arising from or in connection with, that challenge and that such challenge shall not affect the date on which VAT must be paid to the Seller under paragraph 4 below.



2.3 Insofar as no ruling has been obtained from a relevant Tax Authority prior to Closing, the Seller shall determine in good faith if (or the extent to which) VAT is payable in respect of the sale of the Business and shall be entitled to charge (or not to charge) VAT to the Purchaser in accordance with such determination.

3. **VAT: Going Concern - non-EU Jurisdictions**

3.1 To the extent that any state outside the European Union provides for relief or exemption from VAT on the transfer of a business or a company or treats such a transaction as being non-taxable for VAT purposes, the Seller and the Purchaser shall use reasonable endeavours (including, for the avoidance of doubt, the making of an election or application in respect of VAT to any Tax Authority or entering into a written agreement) to secure such relief, exemption or treatment, to the extent reasonably possible, as regards the sale of all or part of the Business (insofar as carried on in the relevant state) under this Agreement.

3.2 The relevant Business Seller shall have the right to seek a ruling from the relevant Tax Authority as to whether the sale of all or part of the Business, so far as carried on in the relevant state, is eligible for a relief or exemption or is otherwise eligible to be treated as non-taxable for the purposes of the laws governing VAT in that state and to account for VAT (and accordingly seek an additional payment from the Purchaser under Clause 3.3.3 in accordance with that ruling). The Seller shall not be obliged to challenge (or to procure then the relevant Business Seller challenges) that ruling unless required to do so by the Purchaser. If the Purchaser wishes to challenge, or to require the relevant Business Seller to challenge, any ruling it may do so, provided that it bears the full cost of, and agrees to indemnify the relevant Business Seller in respect of any loss arising from or in connection with, that challenge and that such challenge shall not affect the date on which VAT must be paid to the Seller under paragraph 4 below. Insofar as no ruling has been obtained from a relevant Tax Authority prior to Closing, the Seller shall determine in good faith if (or the extent to which) VAT is payable in respect of the sale of the Business and shall be entitled to charge (or not to charge) VAT to the Purchaser in accordance with such determination.

4. **VAT: Time, Manner and Currency of Payment**

4.1 Any amounts which the Purchaser is obliged to pay to the Seller under this Agreement in respect of VAT shall be paid by the Purchaser, on its own account or on behalf of another member of the Purchaser's Group, to the Seller or to such member of the Seller's Group as the Seller may direct. Such amounts shall be paid in the currency in which the VAT in question must be accounted for to the relevant Tax Authority.

4.2 Subject to any provision or express agreement to the contrary, any amounts in respect of VAT payable in any jurisdiction in respect of the transfer at Closing of any of the Business shall be paid in accordance with paragraph 4.1 above at Closing against production of a valid VAT invoice (or equivalent, if any).



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**4.3** Notwithstanding any other provision of this Agreement, the Purchaser shall not be liable to account to the Seller or any member of the Seller's Group for or in respect of penalties or interest arising solely from the failure of the Seller or any other member of the Seller's Group to account promptly for VAT to the relevant Tax Authority following the Seller having been placed in the appropriate amount of funds for that purpose by the Purchaser.



**Schedule 12**  
**Closing Obligations**

**1. General Obligations**

**1.1 The Seller's Obligations**

On Closing, the Seller shall deliver or make available to the Purchaser the following:

- 1.1.1** the Ancillary Agreements (other than the France SPA and the Netherlands APA and any other Ancillary Agreements that have not been agreed and are subject to Clause 5.3.2) duly executed by the relevant members of the Seller's Group (save that, without prejudice to any other applicable provisions of this Agreement including without limitation paragraph 1.3, Part 2 of Schedule 19, no Intellectual Property Assignment Agreements shall be required in respect of Owned Product Intellectual Property Rights);
- 1.1.2** a valid power of attorney or such other evidence reasonably satisfactory to the Purchaser that the Seller, and each of its relevant Affiliates, are authorised to execute this Agreement, the Ancillary Agreements and the Local Transfer Documents (including, where relevant, any notarial deeds referred to in this Schedule 12), in each case to the extent that they are parties thereto;
- 1.1.3** the Certificate duly executed by the Seller;
- 1.1.4** a duly executed transfer in respect of the Share in favour of the Purchaser (or its Affiliate or its nominee);
- 1.1.5** a power of attorney in the terms agreed between the Seller and the Purchaser to allow the Purchaser (or its Affiliate or its nominee) to vote the Share;
- 1.1.6** the statutory books of the Company (which shall be written up to but not including the Closing Date), the certificate of incorporation of the Company and share certificate in respect of all the issued share capital of the Company;
- 1.1.7** indemnities directly in favour of the Company in the form of Clause 2.3.6 and of the Company Tax Indemnity, mutatis mutandis; and
- 1.1.8** the interim accounts of the Company as at the Closing Date which reflect the Company Intra-Group Debt.

**1.2** In addition, the Seller shall procure:

- 1.2.1** any then present directors and officers (if any) of the Company resign their offices to take effect at the Closing Date as such and to relinquish any rights which they may have under any contract with the Company or under any statutory provisions (including any right to damages or compensation for breach of contract, loss of office, redundancy or unfair dismissal or on any other account whatsoever) and to confirm that no agreement or arrangement is outstanding under which the Company has or could have any obligation to any of them including in respect of remuneration or expenses;



- 1.2.2 the present auditors of the Company to resign their office as such, such resignations to take effect as at the Closing Date; and
- 1.2.3 a board meeting of the Company is held, or written resolutions of the board are passed, at or by which:
- (i) it shall be resolved that the transfer relating to the Share shall, so far as possible, be approved for registration; and
  - (ii) any person nominated by the Purchaser shall be appointed director, such appointments to take effect on the Closing Date.

**1.3 The Purchaser's Obligations**

On Closing, the Purchaser shall deliver or make available to the Seller the following:

- 1.3.1 the Ancillary Agreements (other than the France SPA and the Netherlands APA and any other Ancillary Agreements that have not been agreed and are subject to Clause 5.3.2) duly executed by the relevant members of the Purchaser's Group; and
- 1.3.2 a valid power of attorney or such other evidence reasonably satisfactory to the Seller that the Purchaser, and each of its relevant Affiliates, are authorised to execute this Agreement and the Ancillary Agreements (as appropriate), in each case to the extent that they are parties thereto.

**1.4 Discharge of the Company Intra-Group Debt**

Immediately following the above, the amount held by the Seller as a result of the payment by the Purchaser pursuant to Clause 6.3.1(ii) shall be applied to the settlement by the Purchaser (as agent for the Company) of the Company Intra-Group Debt.

**2. Transfer of the Assets**

**2.1 General Transfer Obligations**

On Closing or such other date as agreed between the parties, the Seller shall procure that the Business Sellers shall, and the Purchaser shall, take such steps as are required to transfer the Assets and Assumed Liabilities not held by the Company in accordance with this Agreement.



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**Schedule 13**  
**Not Used**



**Schedule 14**  
**Warranties given under Clause 9.1**

**1. Authority and Capacity**

**1.1 Incorporation**

**1.1.1** The Seller and each Business Seller is validly existing and is a company duly incorporated and registered under the law of its jurisdiction of incorporation.

**1.1.2** The Company is duly incorporated, validly existing and in good standing, under the laws of its jurisdiction of organisation.

**1.2 Authority to enter into Agreement**

**1.2.1** The Seller has the legal right and full power and authority to enter into and perform this Agreement and the Seller, the Share Seller, each Business Seller and the Company has the legal right and full power and authority to enter into and perform any other documents to be executed by it pursuant to or in connection with this Agreement.

**1.2.2** The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on the Seller, the Share Seller, each Business Seller and the Company in accordance with their respective terms.

**1.2.3** Except as referred to in this Agreement the Seller:

- (i) is not required to make any announcement, consultation, notice, report or filing; and
- (ii) does not require any consent, approval, registration, authorisation or permit, in each case in connection with the performance of this Agreement or any other document referred to in paragraph 1.2.1.

**1.2.4** The execution and delivery of the documents referred to in paragraph 1.2.1 and the performance by the Seller, the Share Seller, each Business Seller and the Company of their respective obligations under them, will not:

- (i) result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional document of the relevant member of the Seller's Group;
- (ii) result in a breach of, or constitute a default under, any instrument or contract to which the relevant member of the Seller's Group is party or by which the relevant member of the Seller's Group is bound where such breach is material to their ability to perform their obligations under such documents;
- (iii) result in a breach of any existing order, judgment or decree of any court, Governmental Entity by which the relevant member of the Seller's Group is bound and where such breach is material to their ability to perform their obligations under such documents.



**1.3 Authorisation**

The Seller, the Share Seller, each Business Seller and the Company has taken, or will have taken by Closing, all corporate action required by it to authorise it to enter into and to perform this Agreement, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Ancillary Agreement.

**2. Warranties relating to the Business**

**2.1 Organisation and Standing of the Assets**

**2.1.1** Schedule 1 sets out a complete and accurate list of each of the Products, together with details of each Product Expansion which is a combination study and which is the subject of a phase II or later clinical trial.

**2.1.2** The summary details relating to the Products set out in Schedule 1 are true and accurate.

**2.2 The Assets and the Share**

**2.2.1** Save in relation to the Transferred Product Intellectual Property Rights, either the Seller or one of the Business Sellers has good and valid title to the Assets, free and clear of all Encumbrances other than Permitted Encumbrances.

**2.2.2** GGL is the legal and beneficial owner of the Share.

**2.2.3** There is no option, right to acquire, mortgage, charge, pledge, lien or other form of security or Encumbrance or equity on, over or affecting the Share and there is no agreement or commitment to give or create any.

**2.2.4** The Share has been duly authorised and validly issued and is fully paid and non-assessable. There are no options, warrants, rights, convertible, exercisable or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which any member of the Seller Group is a party or by which it is bound obligating any member of the Seller Group to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible into, or exercisable or exchangeable for, any capital stock of, or other equity interest in, the Company.

**2.2.5** There are no outstanding Contracts to which any member of the Seller Group is a party or is otherwise bound to repurchase, redeem or otherwise acquire any shares, capital stock or other equity interest of the Company.

**2.2.6** The Share is not subject to and was not issued in violation of any purchase option, call option, right of first refusal, pre-emptive right, subscription right or similar right or any provision of Applicable Law or the constitutional documents of the Company.



**2.3 Key Financial Information**

**2.3.1** The Key Financial Information has been prepared by the Seller:

- (i) in good faith and with all due care and attention;
- (ii) in a manner applying the accounting policies and practices of the Seller’s Group on a consistent basis;
- (iii) in accordance with International Financial Reporting Standards as adopted by the European Union;
- (iv) is based on information properly extracted from the Seller’s Group accounting records without adjustment; and
- (v) having regard to the purpose for which they were prepared, the Key Financial Information presents fairly, in all material respects, the gross profit and revenue in respect of each of the Key Products.

**2.4 Changes Since 31 December 2013**

Except as a result of the execution and delivery of this Agreement from 31 December 2013 to the date of this Agreement:

- 2.4.1** the Business has been conducted in all material respects in the ordinary and usual course;
- 2.4.2** no member of the Seller’s Group has entered into any material contract or commitment outside the ordinary course of business in respect of the Business as conducted prior to 31 December 2013; and
- 2.4.3** to the Seller’s knowledge, there has been no event or circumstance arising which is reasonably likely to have had a Material Adverse Effect (as if reference in the definition of “Material Adverse Effect” to the date of this Agreement were to 31 December 2013).

**3. Intellectual Property**

**3.1** Part 1 of Schedule 2 sets out a complete and accurate list of each item of Registered Business Product Intellectual Property Rights, including for each such item, as applicable, (i) the identity of the record owner, (ii) the registration or application number, and (iii) the jurisdiction of issuance or registration. To the Seller’s Knowledge, all Patents forming part of Registered Business Product Intellectual Property Rights for the Key Products and all Patents forming part of Registered Licensed Product Intellectual Property Rights for the Key Products are subsisting, valid and enforceable and have not lapsed or been abandoned.

**3.2** All documents and instruments necessary to maintain and preserve any extension of patent terms (including any Patent Term Extensions and Patent Term Adjustments) in relation to (i) Registered Business Product Intellectual Property Rights with respect to the Key Products; and (ii) Registered Licensed Product Intellectual Property Rights with respect to the Key Products where the Seller or its Affiliates controls prosecution and maintenance; and in each case, where such applications have a reasonable prospect of success, have been validly executed, delivered, and filed in a timely manner with the appropriate Governmental Entity. For the purposes of this warranty, the Patent Term Extension application relating to patent number US7378423 shall be deemed to have a reasonable prospect of success.



- 3.3 Each of the patents and patent applications included in the Registered Business Product Intellectual Property Rights for the Key Products and, to the Seller's Knowledge, in the Registered Licensed Product Intellectual Property Rights for the Key Products, correctly identifies by name each inventor thereof as determined in accordance with the Applicable Law of each jurisdiction in which such patent issued and/or patent application is pending.
- 3.4 All renewal, application and registry fees required for the maintenance, prosecution and enforcement of the Business Product Intellectual Property Rights relating to the Key Products have been paid.
- 3.5 Part 2 of Schedule 2 sets out a complete and accurate list of each material Transferred Intellectual Property Contract. No member of the Seller's Group is in default under any such Transferred Intellectual Property Contract and, to the Seller's Knowledge, no third party is in default under any such material Transferred Intellectual Property Contract nor has the Seller nor any of its Affiliates given, or received, written notice to terminate any such Transferred Intellectual Property Contract.
- 3.6 The Seller and its Affiliates between them own all Business Product Intellectual Property Rights free of all Encumbrances except Permitted Encumbrances.
- 3.7 To the Seller's Knowledge, the manufacture, use, research, development, marketing, distribution, and sale of the Products does not infringe or misappropriate any Intellectual Property Rights of any third party and neither the Seller nor any of its Affiliates is a party to any Proceeding (public or private) in relation to such infringement or misappropriation under which the same is alleged. Neither the Seller nor any of its Affiliates has received any written notice of such infringement or misappropriation.
- 3.8 To the Seller's Knowledge, no person (including any employees and former employees of the Seller or its Affiliates) is infringing or misappropriating any Business Product Intellectual Property Rights, Registered Licensed Product Intellectual Property Rights under the Genmab Agreement, Registered Licensed Product Intellectual Property Rights under the JTI Agreement or Proprietary Information, and neither Seller nor any of its Affiliates have made any such claims against any such person nor, to the Seller's Knowledge, is there any basis for such a claim.
- 3.9 The Business Product Intellectual Property Rights, the Shared Product Intellectual Property Rights and the Licensed Product Intellectual Property Rights constitute all the material Intellectual Property Rights used in the manufacture, use, research, development, marketing, distribution and sale of the Products as currently conducted by the Seller and its Affiliates on a worldwide basis, provided however that the foregoing is not a representation of non-infringement, non-misappropriation or any other non-violation of Intellectual Property Rights of any third party, which representation is solely set out in paragraph 3.7 above.



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- 3.10** Each of the Seller and its Affiliates has taken reasonable steps to protect the confidentiality of Proprietary Information and Know-How relating to the Products.
- 3.11** Except to the extent the Seller is prohibited from doing so under Applicable Law, all material information relating to the COMBI-D trial has been disclosed to the Purchaser and there are no material omissions or inaccuracies in such material.

#### **4. Contracts**

- 4.1** No Business Seller nor the Company is a party to or subject to any contract, transaction, arrangement, understanding or obligation (other than in relation to any property, lease, contract of employment, Information Technology or Intellectual Property Right) which is material to the manufacture, use, research, development, marketing, distribution and sale of the Products and which:
- 4.1.1** is not in the ordinary course of business or is unduly onerous;
  - 4.1.2** is not on an arm's length basis;
  - 4.1.3** has an unexpired term or likely duration of 5 years or more;
  - 4.1.4** restricts its freedom to carry on its business in any part of the world in such manner as it thinks fit;
  - 4.1.5** involves an aggregate outstanding expenditure by it of more than US\$50 million, exclusive of VAT; or
  - 4.1.6** involves the sale of goods and services, the aggregate sales value of which (exclusive of VAT) will be more than 5 per cent of turnover of the Business (exclusive of VAT) for the preceding financial year.
- 4.2** Save in relation to a Transferred Intellectual Property Contract, no member of the Seller's Group is in material default under any material Contract which is relevant to the Business and to which it is party, and no third party is in material default under any material Contract which is relevant to the Business to which a member of the Seller's Group is a party, and to the Seller's Knowledge, there are no circumstances in either case likely to give rise to such a default.
- 4.3** Other than the Contracts entered into by the Company pursuant to the Pre-Closing Product Reorganisation, Transferred Contracts and Shared Business Contracts (and excluding the Transferred Intellectual Property Contracts) there are no other Contracts which are material to the Business.

#### **5. Agreements with Connected Parties**

- 5.1** There are no existing contracts or arrangements material to the Business between, on the one hand, any Business Seller or the Company and, on the other hand, the Seller or any member of the Seller's Group other than on normal commercial terms in the ordinary course of business.



**6. Sufficiency of Assets**

- 6.1** Each of the Assets and the Owned Product Intellectual Property Rights is owned both legally and beneficially by a Business Seller or the Company and each of those Assets and the Owned Product Intellectual Property Rights capable of possession is, save where in the possession of third parties in the ordinary course of business, in the possession of a Business Seller or the Company.
- 6.2** Save for Permitted Encumbrances, no option, right to acquire, mortgage, charge, pledge, line or other form of security or Encumbrance (excluding licences of Intellectual Property or Know-How) or equity on, over or affecting the whole or any part of the Assets or the Owned Product Intellectual Property Rights is outstanding and, save in relation to Permitted Encumbrances, there is no agreement or commitment entered into by any member of the Seller's Group to give or create any and no claim has been made against any member of the Seller's Group by any person entitled to any.
- 6.3** The Assets and the Owned Product Intellectual Property Rights, when taken together with the rights and services under the Ancillary Agreements and for the respective terms thereof:
- 6.3.1** comprise all of the assets required to carry out the Business in substantially the same manner as it has been during the twelve months prior to the date of this Agreement; and
  - 6.3.2** are sufficient in all material respects to carry out the Business after Closing substantially as conducted by the Seller and its Affiliates as of the date of this Agreement,

provided however, that the foregoing is not a warranty of non-infringement, non-misappropriation or any other non-violation of Intellectual Property Rights of any third party, which warranty is solely set out in paragraph 3.7.

**7. Compliance with Laws, Permits and Anti-Bribery**

- 7.1** Neither the Seller nor any of its Affiliates is in breach of any Applicable Law where such breach is reasonably likely to be material to the Business.
- 7.2** Neither the Seller nor any of its Affiliates has received any written notice from any Governmental Entity that it is not in compliance (or any warning letter that it may not be in compliance) with any Applicable Law or is not in possession of any permits, licences, certificates or other authorisations or consents of a Governmental Entity in each case as is necessary for the conduct of the Business in all material respects as presently conducted (each a "Permit" and, collectively, the "Permits"), except where such non-compliance or non-possession does not remain outstanding or uncured as of Closing or would not reasonably be expected to have a material effect on the Business.



- 7.3 With respect to the Business, since 1 January 2009, neither the Seller nor any of its Affiliates, nor any of their respective directors, officers or employees and, to the Seller's Knowledge, no Seller Partner has, directly or indirectly: (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity or to influence official action; (ii) made or offered to make any unlawful payment to any foreign or domestic government official or employee, or agent, political party or any official of such party, or political candidate from corporate funds; (iii) made or offered to make any bribe, rebate, payoff, influence payment, money laundering, kickback or other unlawful payment; or (iv) violated or is in violation of any provision of any applicable Anti-Bribery Law; and with respect to the Business, the Seller and its relevant Affiliates have instituted and maintain policies and procedures reasonably designed to ensure compliance with applicable Anti-Bribery Law.
- 7.4 With respect to the Business, neither the Seller nor any of its Affiliates, nor any of their respective directors, officers or employees and, to the Seller's Knowledge, no Seller Partner: (i) is currently the subject of, nor has it been since 1 January 2009, the subject of, any action alleging a violation, or possible violation, of any Anti-Bribery Law, or been since 1 January 2009, the recipient of a subpoena, letter of investigation or other document alleging a violation, or possible violation, of any Anti-Bribery Law, or (ii) has, since 1 January 2009, improperly or inaccurately recorded in any books and records (A) any payments, cash, contributions, gifts, hospitalities or entertainment to a foreign or domestic government official, employee of an enterprise owned or controlled in whole or in part by any foreign government, official of a foreign or domestic political party or campaign, or a foreign or domestic candidate for political office; or (B) other expenses related to political activity or lobbying.
- 7.5 With respect to the Business, since 1 January 2009, neither the Seller nor any of its Affiliates, nor any of their respective directors or officers, and, to the Seller's Knowledge, none of their respective employees has received notice that any such person is or has been alleged to be in violation of any sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or by the U.S. Department of State or equivalent measures of the United Kingdom, European Union, or the United Nations (the "**Sanctions Law**"). With respect to the Business, neither the Seller nor any of its Affiliates, nor any of their respective directors or officers, and, to the Seller's Knowledge, none of their respective employees has conducted any of their business activities whatsoever with, or for the benefit of, a government, national or legal entity to the extent such actions would violate any Sanctions Law. None of the execution, delivery and performance of this Agreement and the direct or indirect use of proceeds from any transaction contemplated hereby or the fulfilment of the terms hereof will result in a violation by any person of any Sanctions Law.
- 7.6 Each member of the Seller's Group, in connection with the Products, the Product Approvals, the Transferred Contracts, the Shared Business Contracts and the Transferred Intellectual Property Contracts requires its Service Providers to act in accordance with the requirements of applicable Anti-Bribery Law and uses all reasonable endeavours to procure that they do so. Each such Service Provider has in place policies, systems, controls and procedures designed to prevent, and which are reasonably expected to continue to prevent, it and its Associated Persons from violating applicable Anti-Bribery Law.



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**8. Product Approvals**

- 8.1** The Seller or one of its Affiliates is the registered holder of each of the Product Approvals. All material Product Approvals held by Seller or its Affiliates are in full force and effect. No material deficiencies have been asserted by any applicable Government Entity with respect to any Product Approval or Product Filing, nor, to the Seller's knowledge, are there any facts or circumstances that would be likely to lead to such assertions being made.
- 8.2** Each Product was and is being researched, developed, manufactured, marketed or sold in all material respects in accordance with the specifications and standards contained in the relevant Product Approval and the related Marketing Authorisation Data and in accordance with Applicable Law.
- 8.3** Neither the Seller or any of its Affiliates has received any written notice that any Governmental Entity with jurisdiction over the Products has commenced or will commence any action: (i) to withdraw the approval of any Product or otherwise revoke or materially amend any Product Approval or Marketing Authorisation Data or (ii) enjoin production, marketing or sale of any Product and, to the Seller's knowledge, no such action has been threatened.
- 8.4** All application and renewal fees due and payable with respect to all material Product Approvals have been paid.
- 8.5** All preclinical and clinical investigations with respect to the Products are being and have been conducted in compliance with Applicable Law in all material respects. The Seller and its Affiliates have not, and to the Seller's Knowledge, none of its Product Partners or any other third party under any Licensed Intellectual Property Contract has received since 1 January 2009, any written notices or other correspondence from any Governmental Entity with respect to any on-going clinical or pre-clinical studies or tests of any Product requiring the termination, suspension or material modification of such studies or tests.
- 8.6** None of the Seller or its Affiliates or, to the Seller's Knowledge, any Product Partner or any other third parties pursuant to any Licensed Intellectual Property Contract, has any knowledge of any adverse event, arising since the date three years prior to the date of this Agreement, reportable with respect to the safety or efficacy of any Product which is or would reasonably be expected to be material.

**9. Product Recall**

No Product (or any component thereof) has been recalled, suspended, withdrawn, seized, discontinued or the subject of a refusal to file, clinical hold, deficiency or similar action letter (including any correspondence questioning data integrity) as a result of any action by any Governmental Entity, by the Seller or any of its Affiliates; nor are any such actions pending or under consideration (or any facts, conditions, or circumstance known) by the Seller or any of its Affiliates, or, to the Seller's Knowledge, by any Governmental Entity. There is not, to the Seller's Knowledge, pending or threatened litigation anywhere in the world seeking the recall, withdrawal, suspension, seizure or discontinuance of any of the Products.



**10. Product Liability**

The Products sold by the Business during the Relevant Period have complied in all material respects with all applicable product specifications and have been Manufactured in all material respects in accordance with applicable requirements of then current GMP and any Applicable Law, except for any such non-compliance that is not, and would not reasonably be expected to have, a materially adverse impact on the relevant Product.

**11. Taxes**

- 11.1** The Company, each Business Seller and (in either case) each Tax Group to which it belongs has, and every member of the Seller's Group with an interest in the Business has in respect of the Business, duly, and within any appropriate time limits, filed all Tax Returns required to be filed and has maintained all records required to be maintained for tax purposes in relation to the assets comprised in the Business; all such information was and remains complete and accurate in all material respects and all such Tax Returns were complete and accurate in all material respects and were made on the proper basis.
- 11.2** There are no Tax liens on the Share, any Asset or any Owned Product Intellectual Property Rights comprised in the Business (other than Permitted Encumbrances).
- 11.3** No member of the Seller's Group with an interest in the Business (including the Company) has received notice from a Tax Authority of, and so far as the Seller is aware, there is not any dispute or disagreement outstanding at the date of this Agreement with any Tax Authority regarding the proper method of computing the profits of the Business (or any part of it) or of the Company for Tax purposes or the proper treatment for VAT purposes of any supplies of goods or services made (or treated as made) in the course of the Business or by the Company and, so far as the Seller is aware, there are no circumstances which make it likely that any such dispute or disagreement will commence.
- 11.4** So far as the Seller is aware, no Tax Authority has within the past three years operated or agreed to operate any special arrangement (being an arrangement which is not based on relevant legislation or any published practice) in relation to any Assets or Owned Product Intellectual Property Rights comprised in the Business or in relation to the Company or the Share.
- 11.5** In respect of all documents which establish or are necessary to establish the title of the relevant member of the Seller's Group to the Share and to each material asset comprised in the Business, or by virtue of which the relevant member of the Seller's Group has any right in respect of each such asset, all applicable stamp duties, transfer taxes, registration charges or similar duties or charges have been duly paid.

**12. Employees**

- 12.1** The Disclosure Letter contains a true, complete and correct list of the following information in respect of each Employee as of 31 March 2014 (organised by country): (A) employee identification details; (B) date of birth; (C) employment status (part-time or full-time); (D) employment start date; (E) base salary; (F) target annual incentive for 2014 (and actual bonus for 2013); and (G) target long-term incentive for 2014 (and actual long-term incentive for 2013).
- 12.2** In each of the Material Employee Jurisdictions except as would not be reasonably expected to have a Material Adverse Effect:
- 12.2.1** as of the date of this Agreement there is not, and in the two years prior to the date of this Agreement there has not been, nor to the Seller's Knowledge is there pending or threatened, any labour strike, dispute, work stoppage or lockout by any group of Employees;
- 12.2.2** no trade union or works council is recognised in any way for bargaining, information or consultation purposes in relation to any of the Employees and no collective bargaining negotiations, whether voluntary or mandatory, are currently taking place with respect to any of the Employees and, as of the date of this Agreement, no Business Seller is a party to any agreement (whether legally binding or not) with any trade union or works council affecting any Employee and there is no existing dispute with any such representative body (or, to the Seller's Knowledge, pending or threatened) in relation to the Business;
- 12.2.3** there is no material litigation, claim or other dispute existing, nor, to the Seller's Knowledge, pending or threatened by or in respect of any Employees in respect of their employment or any matter arising from their employment; and
- 12.2.4** no Business Seller has, within the 2 years prior to the date of this Agreement, closed any plant or facility, effectuated any layoffs of employees or implemented any early retirement, separation or similar programme in each case in violation of the WARN Act, nor has any Business Seller announced any such action or programme for the future.
- 12.3** No Key Personnel has given notice terminating his or her contract of employment, nor is under notice of dismissal.
- 12.4** The severance costs disclosed in the Data Room at document 2.2.1.11 represent the Seller's estimation, calculated in good faith, of the indicative severance cost for a full-time employee at middle-management level in each of the countries listed therein.
- 12.5** Since 31 December 2013, no material change has been made, announced or proposed to the emoluments or other terms of employment of any Employee, and no such change, and no negotiation or request for such a change, is due or expected within 12 months from the date of this Agreement, and the employing company is under no obligation to make such a change (with or without retrospective operation) other than any arrangement relating to the share-based incentive schemes of the Seller's Group pursuant to paragraph 10 of Schedule 8.



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- 12.6 The Company has no employees and has never had any, and nor has it ever entered into any service contract or similar arrangements (whether formal or otherwise) with any person.
13. **Employee Benefits**
- 13.1 The Disclosure Letter contains a true, complete and correct list of all bonus, staff incentives (including any share-based incentive schemes), redundancy or other benefits payable on termination of employment (whether voluntary or involuntary but excluding arrangements required in accordance with Applicable Law), ill-health, Employee Benefits or other benefits which are the material benefits available to the Employees in the Material Employee Jurisdictions. To the Seller's Knowledge, other than any arrangement relating to the share-based incentive schemes of the Seller's Group pursuant to paragraph 10 of Schedule 8, no Business Seller has made any promises or commitments to make available any additional benefits to the Employees in the Material Employee Jurisdictions, or to modify or change in any material way any existing benefits in the Material Employee Jurisdictions, or to continue or maintain the level of any existing benefits generally for any period, which in each case could reasonably be expected to have a Material Adverse Effect.
- 13.2 The Disclosure Letter contains true and complete copies of all documents of any written benefit schemes, plans or arrangements referred to in paragraph 13.1 above applicable to Employees in the Material Employee Jurisdictions containing material terms (including governing documents, and for benefit plans that are not share-based incentive schemes, related trust agreements or other funding documents) and a true, complete and correct summary of the material terms of any unwritten benefit schemes, plans or arrangements referred to in paragraph 13.1 above.
- 13.3 **Benefit Plans**
- 13.3.1 In the Material Employee Jurisdictions, all benefit and compensation schemes, plans, funds, contracts, policies, agreements or arrangements (other than the US Benefit Plans and any schemes, plans, funds, contracts, policies, agreements or arrangements operated by any Governmental Entity) (A) operated by or on behalf of a Business Seller, with respect to Employees, (B) in respect of which any Business Seller, with respect to Employees, the Seller or any member of the Seller's Group contributes or has contributed or (C) in respect of which any Business Seller, with respect to Employees, has any liability (whether actual or contingent), including, but not limited to, plans providing Employee Benefits or during periods of sickness or disablement, or any deferred or incentive compensation, welfare, healthcare, medical, stock or stock-related award plans, including individual pension commitments, "jubilee" pension benefits and retirement and termination indemnity arrangements, and in relation to Switzerland, all plans, funds, contracts, policies, agreements or arrangements providing pension or other benefits on retirement (such schemes, plans, funds, contracts, policies, agreements and arrangements hereinafter being referred to as "**Non-US Benefit Plans**") and the



US Benefit Plans have been administered in accordance with their terms and are in compliance with Applicable Law, except for any failures to so administer or be in compliance that, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect. All required filings for all Benefit Plans have been made on time and with the appropriate Governmental Entity, except for any failures to timely file that, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect. As of the date of this Agreement there is no existing, pending or, to the Seller's Knowledge, threatened material litigation, claim or other dispute relating to Benefit Plans.

**13.3.2** The Business Sellers, with respect to Employees in each Material Employee Jurisdiction, (A) are in material compliance with all Applicable Law respecting employment, employment practices, terms and conditions of employment, occupational health, safety, wages and hours, (B) have withheld all amounts required by Applicable Law, collective bargaining agreements or the Benefit Plans to be withheld from the wages, salaries or other payments to the Employees, (C) in respect of the Employees, are not liable under any applicable provisions of the Benefit Plans and any Applicable Law for any arrears, wages, Taxes, other than payments not yet due, or any penalty for failure to comply with the foregoing and (D) are not liable under any applicable provisions of the Benefit Plans and any Applicable Law for any payment to any trust or other fund or to any Governmental Entity with respect to unemployment compensation benefits, workers compensation, social security or other benefits for Employees, other than payments not yet due, except, in each case, for any failures to comply, failures to withhold or liabilities that, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

**13.3.3** All material contributions that the Business Sellers, with respect to Employees in a Material Employee Jurisdiction, and Switzerland, are required to make to any Benefit Plan in respect of the period on or before the date of this Agreement have been fully and timely paid when due.

**13.4** The Company has never established, sponsored, participated in or contributed to any arrangement or agreed to do so for providing pensions or other benefits on, or in anticipation of, the retirement, death, accident or sickness of any current or former director or employee of any company.

**14. Litigation**

**14.1** No Business Seller nor the Company is involved whether as claimant or defendant or other party in any claim or Proceeding (other than as claimant in the collection of debts arising in the ordinary course of its business none of which exceeds US\$5 million) which is material to the Business or a Key Product.

**14.2** To the Seller's Knowledge, no such claim or Proceeding of material importance is pending or threatened by or against any Business Seller or the Company.



**15. Insolvency**

- 15.1** No order has been made and no resolution has been passed for the winding up of any Business Seller, the Share Seller or the Company or for the appointment of any administrator, receiver (including administrative receiver) or liquidator (provisional or otherwise) over the whole or any part of the property, assets and/or undertaking of any Business Seller, the Share Seller or the Company.
- 15.2** No petition has been presented or meeting convened for the purpose of considering a resolution or resolution circulated for the winding up of any Business Seller, the Share Seller or the Company, or for the appointment of any administrator, receiver (including administrative receiver) or liquidator (provisional or otherwise) over the whole or any part of the property, assets and/or undertaking of any Business Seller, the Share Seller or the Company.
- 15.3** Each of the Business Sellers, the Share Seller and the Company has not stopped payment or suspended payment of its debts generally, is not insolvent or deemed unable to pay its debts as they fall due.

**16. Insurance**

All material insurance policies relating to the Business are in full force and effect and, to the Seller's Knowledge, no notice of cancellation, termination or default has been received with respect to any such insurance policy. All premiums due and payable on such policies covering periods up to Closing have been paid in full or accrued.

**17. Consents and Licences**

- 17.1** All governmental and quasi-governmental licences, consents, permissions, waivers, exceptions and approvals required for carrying on the Business, the absence of which, individually or in the aggregate, would be material to the Business, are in force and, to the Seller's Knowledge, no written notice has been received by the Seller or any member of the Seller's Group which indicates that any such licence, consent, permission, waiver, exception or approval is likely to be revoked or which may confer a right of revocation.

**18. Delinquent and Wrongful Acts**

- 18.1** To the Seller's Knowledge, no member of the Seller's Group has, during the Relevant Period, committed any criminal or illegal act which relates to the Business.
- 18.2** No member of the Seller's Group has, during the Relevant Period, received notification that any investigation or inquiry is being or has been conducted by any supranational, national or local authority or governmental agency specifically related to the Business, which is material in respect of the Business.



**19. Compliance**

- 19.1** No member of the Seller’s Group has received in the Relevant Period any written notification or written claim (in each case, which remains outstanding) that it has conducted the Business with respect to the research, development, manufacturing, distribution and sale of the Products in a manner which does not in any respect comply with all Applicable Law, or which in any respect is defective or dangerous, where the pursuit of any such notification or claim is, or would reasonably be expected to be, material in respect of the Business or any of the Key Products.
- 19.2** So far as the Seller is aware, the Business has, and has during the Relevant Period been, operated in all material respects in compliance with all Applicable Law or standards and to the Seller’s Knowledge there are no circumstances that could involve or lead to a material violation of any material Applicable Laws or standards.

**20. Pipeline Products**

- 20.1** The information set out in Schedule 1 with respect to the Product Expansions is true and accurate.
- 20.2** The Seller or one of its Affiliates is the registered holder of each of the Product Expansion Applications, and each Product Expansion Application can be transferred to the Purchaser (or another member of the Purchaser’s Group) regardless as to whether such transfer occurs directly (whether by way of transfer, reissuance or any other equivalent mechanism under Applicable Law of the relevant jurisdiction) or indirectly (through the transfer to a member of the Purchaser Group).
- 20.3** All development activities in relation to the Product Expansions have been conducted in the ordinary course and in accordance with Applicable Law and standards and to the Seller’s Knowledge there are no circumstances relating to the development of the Product Expansions that could involve or lead to a material violation of any material Applicable Law or standards.
- 20.4** No material regulatory, clinical or safety event has occurred in relation to the Products and no member of the Seller’s Group has received any notification or claim from any person of any such event (or the possibility of any such event).

**21. Manufacturing Licences and Manufacture**

- 21.1** All Manufacturing Licences which are material to the manufacture of the Products, are in effect and are validly held by a member of the Seller’s Group and during the Relevant Period, to the Seller’s Knowledge, no member of the Seller’s Group has received any written notice of any suit, action or proceeding regarding the revocation or modification of any such Manufacturing Licence.
- 21.2** No directive, order or notice has been given to the Seller or any member of the Seller’s Group by any relevant regulatory authority to update, modify, amend, vary, supplement or delete any process and/or methodology relevant to the manufacture of any Product and, so far as the Seller is aware, no such directive, order or notice is pending.



**22. The Company**

**22.1** The Company does not have outstanding any borrowing or indebtedness with any person who is not a member of the Seller's Group.

**22.2** The Company does not have any derivative, hedging or swap arrangements or contracts or anything similar in nature to such documentation.



**Schedule 15**  
**Warranties given by the Purchaser under Clause 9.3**

**1. Authority and Capacity**

**1.1 Incorporation**

The Purchaser is validly existing and is a company duly incorporated and registered under the law of its jurisdiction of incorporation.

**1.2 Authority to enter into Agreement**

**1.2.1** The Purchaser has the legal right and full power and authority to enter into and perform this Agreement and any other documents to be executed by it pursuant to or in connection with this Agreement.

**1.2.2** The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on the Purchaser in accordance with their respective terms.

**1.2.3** Except as referred to in this Agreement, the Purchaser:

- (i) is not required to make any announcement, consultation, notice, report or filing; and
- (ii) does not require any consent, approval, registration, authorisation or permit,

in each case in connection with the performance of this Agreement or any other document referred to in paragraph 1.2.1.

**1.2.4** The execution and delivery of the documents referred to in paragraph 1.2.1 and the performance by the Purchaser and each member of its Group of their respective obligations under them, will not:

- (i) result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional document of the relevant member of the Purchaser's Group;
- (ii) result in a breach of, or constitute a default under, any instrument or contract to which the relevant member of the Purchaser's Group is party or by which the relevant member of the Purchaser's Group is bound where such breach is material to their ability to perform their obligations under such documents;
- (iii) result in a breach of any existing order, judgment or decree of any court, Governmental Entity by which the relevant member of the Purchaser's Group is bound and where such breach is material to their ability to perform their obligations under such documents.



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**1.3 Authorisation**

The Purchaser has taken, or will have taken by Closing, all corporate action required by it to authorise it to enter into and to perform this Agreement, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Agreement or any Ancillary Agreement.



**Schedule 16  
Certificate  
(Clause 4.4)**

To: Novartis AG

[Date]

Certificate

This Certificate is issued in accordance with Clause 4.4.1(iii)(b) and paragraph 1.1.3 of Schedule 12 of the sale and purchase agreement between Novartis AG and GlaxoSmithKline plc dated 22 April 2014 (the “**Agreement**”). Unless otherwise defined, capitalised words used in this Certificate shall have the meanings given to them in the Agreement.

We confirm that:

1. no Material Adverse Effect has occurred between the date of the Agreement and the date of this Certificate;
2. having made due and careful enquiry, we are not aware of any breach or breaches of Clause 9.1 which alone or together give rise to a Material Adverse Effect; and

[either]

3. having made due and careful enquiry, we are not aware of any breach or breaches of the Seller’s Warranties that would have occurred and that would, alone or together, have given rise to a Material Adverse Effect had the Seller’s Warranties been repeated immediately before Closing by reference to the facts, circumstances and knowledge then existing as if references in the Seller’s Warranties to the date of this Agreement were references to the Closing Date.

[or]

3. having made due and careful enquiry, we are aware of the following material breaches of the Seller’s Warranties that would, alone or together, be material and have occurred had the Seller’s Warranties been repeated immediately before Closing by reference to the facts, circumstances and knowledge then existing as if references in the Seller’s Warranties to the date of this Agreement were references to the Closing Date.

[description of material breaches.]

For and on behalf of GlaxoSmithKline plc



**Schedule 17**  
**Key Study Plans**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of eleven pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 18**  
**Pre-Closing Product Reorganisation**

**Part 1 Description of the Pre-Closing Product Reorganisation**

1. For the purposes of this Schedule:

“**Category 1A Assets**” means:

- (i) all the Transferred Product Intellectual Property Rights which are owned directly by GIPL and relate to Votrient, which shall include full legal title to such Transferred Product Intellectual Property Rights or the right to call for such legal title for no consideration; and
- (ii) for so long as the Votrient LLC Licence remains in force, the licensed interest in all Transferred Product Intellectual Property Rights licensed under the Votrient LLC Licence,

and which for the avoidance of doubt shall not include any Transferred Intellectual Property Contracts;

“**Category 1B Assets**” means:

- (i) all the Transferred Product Intellectual Property Rights which are owned directly by SmithKline Beecham (Cork) Limited and relate to Tykerb, which shall include full legal title to such Transferred Product Intellectual Property Rights or the right to call for such legal title for no consideration; and
- (ii) for so long as the Tykerb LLC Licence remains in force, the licensed interest in all the Transferred Product Intellectual Property Rights licensed under the Tykerb LLC Licence,

and which for the avoidance of doubt shall not include any Transferred Intellectual Property Contracts;

“**Category 2 Assets**” means full legal and beneficial economic ownership of all the Transferred Product Intellectual Property Rights other than the Category 1A Assets and Category 1B Assets, and which for the avoidance of doubt shall not include any Transferred Intellectual Property Contracts;

“**Company**” means Leo Osprey Limited, a company incorporated in England and Wales on 16 April 2014 under company number 9000270, whose registered office is 980 Great West Road, Brentford, TW8 9GS, United Kingdom, which has an issued share capital of one share of £1 and whose sole shareholder is Glaxo Group Limited;

“**Company Intra-Group Debt**” means all sums owed by the Company to GlaxoSmithKline Finance plc at the Closing Date (immediately prior to Closing) as shall be notified by the Seller to the Purchaser in accordance with Clause 6.3.2;



“**Company Tax Indemnity**” means the deed of tax covenant relating to the Company, in the Agreed Terms;

“**GFplc**” means GlaxoSmithKline Finance plc;

“**GGL**” means Glaxo Group Limited;

“**GIPL**” means GlaxoSmithKline Intellectual Property Limited;

“**GIPL B Share**” means one share in GIPL carrying a right to a preferential special dividend by GIPL of the Category 1A Assets, whereupon the GIPL B Share shall convert into a deferred share having no voting rights and economic rights typical of deferred shares created in a B share scheme implemented by an English public limited company;

“**GIPL Estimated Value**” means £2,934,000,000;

“**GSKHIL**” means GlaxoSmithKline Holdings (Ireland) Limited;

“**GSKHIL B Share**” means one share in GSKHIL carrying a right to a preferential dividend by GSKHIL of the Category 1B Assets, whereupon the GSKHIL B Share shall convert into a deferred share having no voting rights and economic rights typical of deferred shares created in a B share scheme implemented by an English public limited company;

“**GSKHIL Estimated Value**” means £147,000,000;

“**Purchaser Tax Indemnity**” means the deed of tax covenant relating to the Purchaser’s Group, in the Agreed Terms;

“**Setfirst**” means Setfirst Limited;

“**Share**” means the entire issued share capital of the Company;

“**Tykerb LLC Licence**” means the licence agreement dated 1 January 2004 between GlaxoSmithKline LLC and SmithKline Beecham (Cork) Limited relating to Tykerb (as amended from time to time); and

“**Votrient LLC Licence**” means the licence agreement dated 1 July 2008 between GlaxoSmithKline LLC and GIPL relating to Votrient (as amended from time to time).

2. Subject to paragraphs 3 and 4 below, and to Part 4 of this Schedule, the Pre-Closing Product Reorganisation shall consist of all of the following steps.

2.1 The Seller shall procure that the following steps are taken in the order set out below.



*Preliminary step(s)*

- (A) Any steps necessary to procure that GGL has full legal and beneficial ownership of the Share.

*Step 1*

- (B) The Company shall receive funding sufficient to carry out Step 3 and Step 3A in the form of (i) an intra-group interest-bearing loan from GFplc on terms standard within the Seller's Group, and (ii) a subscription for ordinary shares by GGL.
- (C) GFplc shall provide the Company with an interest-bearing on demand loan facility (which shall terminate at Closing) on terms standard within the Seller's Group, under which the Company can draw down any further funds it requires to pay any purchase price adjustment on the GIPL B Share or the GSKHIL B Share, as required under paragraph (F)(ii) or (I)(ii) below.

The loans referred to in paragraphs (B)(i) and (C) shall take the form of a single facility.

*Step 2*

- (D) GIPL shall reclassify one ordinary share in its capital, held by GGL, as the GIPL B Share.

*Step 3*

- (E) Promptly after completion of Step 2, the Company shall purchase the GIPL B Share from GGL for consideration reflecting the percentage allocated to Votrient in accordance with Schedule 10 less the fair market value of (i) all the royalty rights in respect of Votrient which are held by members of the Seller's Group other than the Company and (ii) any Transferred Intellectual Property Contracts to the extent relating to Votrient, as at Closing (the "**GIPL Agreed Value**").
- (F) The sale terms in respect of the sale and purchase of the GIPL B Share shall provide that:
- (i) the GIPL B Share shall be transferred to the Company for the GIPL Estimated Value; and
  - (ii) as soon as reasonably practicable after the GIPL Agreed Value has been agreed or determined pursuant to Schedule 10, the Company or GGL shall pay the other an amount equal to the difference between the GIPL Agreed Value and the GIPL Estimated Value, as appropriate, to ensure that the total amount paid for the GIPL B Share is equal to the GIPL Agreed Value.
- (G) The Seller shall procure that, at the Seller's cost (such that, if any such costs are paid by the Purchaser, the Seller shall reimburse the Purchaser for the amount of such costs): (i) all steps are taken which are necessary to pay any stamp duty and/or stamp duty reserve tax in respect of the sale of the GIPL B Share under this Step 3, and (ii) the GIPL B Share is registered in the name of the Company.



The Company shall subsequently (but before Step 4) enter into arrangements with another member of the Seller's Group for the exploitation and management of any intellectual property that it may come to hold (the "**Exploitation Arrangements**"). The material terms of the Exploitation Arrangements will be provided to the Purchaser in advance in the form of summaries.

*Step 3A*

- (H) Promptly after completion of Step 2, the Company shall purchase the GSKHIL B Share from Setfirst for consideration reflecting the percentage allocated to Tykerb in accordance with Schedule 10 less the fair market value of (i) all the royalty rights in respect of Tykerb which are held by members of the Seller's Group other than the Company and (ii) any Transferred Intellectual Property Contracts to the extent relating to Tykerb, as at Closing (the "**GSKHIL Agreed Value**"). At the time at which the Company acquires the GSKHIL B Share, a wholly-owned subsidiary of GSKHIL will hold all of the Category 1B Assets. Full beneficial and economic ownership of the Category 1B Assets will be transferred to GSKHIL by its wholly-owned subsidiary by way of dividend.
- (I) The sale terms in respect of the sale and purchase of the GSKHIL B Share shall provide that:
  - (i) the GSKHIL B Share shall be transferred to the Company for the GSKHIL Estimated Value; and
  - (ii) as soon as reasonably practicable after the GSKHIL Agreed Value has been agreed or determined pursuant to Schedule 10, the Company or GSKHIL shall pay the other an amount equal to the difference between the GSKHIL Agreed Value and the GSKHIL Estimated Value, as appropriate, to ensure that the total amount paid for the GSKHIL B Share is equal to the GSKHIL Agreed Value.
- (J) The Seller shall procure that, at the Seller's cost (such that, if any such costs are paid by the Purchaser, the Seller shall reimburse the Purchaser for the amount of such costs): (i) all steps are taken which are necessary to pay any stamp duty and/or stamp duty reserve tax in respect of the sale of the GSKHIL B Share under this Step 3, and (ii) the GSKHIL B Share is registered in the name of the Company.

*Step 4*

- (K) After completion of Step 3, GIPL shall declare a special dividend of the Category 1A Assets on the GIPL B Share and full beneficial and economic ownership of the Category 1A Assets shall be assigned to the Company (the “**GIPL Distribution**”). GIPL shall not carry out a capital reduction in connection with such special dividend. The assignment of the Category 1A Assets will become effective at exactly the same time as the assignment of the Category 1B Assets under Step 4A.

*Step 4A*

- (L) On 29 August 2014, GSKHIL shall become resident solely in the UK for UK Tax purposes and shall thereafter remain solely resident in the UK for UK Tax purposes until at least Closing.

- (M) After having become resident in the UK for Tax purposes in accordance with paragraph (L) above, GSKHIL shall:

- (i) carry out a reduction of capital in order to create distributable reserves; and
- (ii) declare a special dividend of the Category 1B Assets on the GSKHIL B Share, to be paid solely out of profits available for distribution at the time the dividend is paid that arose on or after the Company’s acquisition of the GSKHIL B Share,

and full beneficial and economic ownership of the Category 1B Assets shall be assigned to the Company (the “**GSKHIL Distribution**”). The assignment of the Category 1B Assets will become effective at exactly the same time as the assignment of the Category 1A Assets under Step 4.

- 2.2 After Step 4 and Step 4A and on or before the Business Day before Closing, the Seller shall procure that the following steps are taken.

*Step 5*

- (A) The Company shall sell the GIPL B Share for a nominal amount to a company that is UK resident for UK Tax purposes and is in the same group (within the meaning of section 170 of the Taxation of Chargeable Gains Act 1992) as the Company.
- (B) The Company shall exercise its rights under the Transferred Intellectual Property Rights falling with limb (i) of the definition of “Category 1A Assets” to procure that registered legal title to the Category 1A Assets is transferred to the Company for no consideration. If all Third Party Consents relevant to any particular Category 1A Asset are not obtained, that Category 1A Asset shall be treated in accordance with paragraph 2.4 below.



*Step 5A*

- (C) The Company shall sell the GSKHIL B Share for a nominal amount to a company that is UK resident for UK Tax purposes and is in the same group (within the meaning of section 170 of the Taxation of Chargeable Gains Act 1992) as the Company.
- (D) The Company shall exercise its rights under the Transferred Intellectual Property Rights falling with limb (i) of the definition of "Category 1B Assets" to procure that registered legal title to the Category 1B Assets is transferred to the Company for no consideration. If all Third Party Consents relevant to any particular Category 1B Asset are not obtained, that Category 1B Asset shall be treated in accordance with paragraph 2.4 below.

2.3 After completion of Step 5 and Step 5A and on or before the Business Day before Closing the Seller shall procure the following actions are taken.

*Step 6*

- (A) The Company shall acquire the Category 2 Assets from the relevant members of the Seller's Group for consideration in cash reflecting, in respect of each Category 2 Asset, the percentage allocated to the Product to which that Category 2 Asset is attributable in accordance with Schedule 10 less that part attributable to that Product other than that Category 2 Asset. If all Third Party Consents relevant to any particular Category 2 Asset are not obtained, that Category 2 Asset shall be treated in accordance with paragraph 2.4 below.
- (B) In order to acquire the Category 2 Assets, the Company shall be funded in the form of (i) an intra-group interest-bearing loan from GFplc on terms standard within the Seller's Group, (ii) an ordinary share subscription from GGL, or (iii) a combination of both.

2.4 If a Third Party Consent has not been obtained in respect of any Category 1A Asset, Category 1B Asset or Category 2 Asset before the date on which Step 5 takes effect:

- (A) the legal title in the relevant Category 1A Asset, Category 1B Asset or Category 2 Asset affected by the Third Party Consent shall not be transferred to the Company pursuant to Step 5, Step 5A or Step 6; and
- (B) the relevant Category 1A Asset, Category 1B Asset or Category 2 Asset affected by the Third Party Consent will be dealt with in accordance with paragraphs 2 to 4 of Schedule 7.

2.5 After completion of Step 6, the Votrient LLC Licence and the Tykerb LLC Licence shall terminate in so far as such licences relate to Business Product Intellectual Property Rights owned by or transferred to the Company. In the event that such termination does not terminate the Tykerb LLC Licence and the Votrient LLC Licence entirely, the licensee interest in the Votrient LLC Licence and the licensee interest in the Tykerb LLC Licence shall then be assigned by the Company to another member of the Seller's Group.



*Step 7*

(A) The Company shall:

- (i) distribute to GGL an amount equal to the lower of (a) the sum of any after-Tax profits generated in respect of the Category 1A Assets since the GIPL Distribution and any after-Tax profits generated in respect of the Category 1B Assets since the GSKHIL Distribution, and (b) the distributable reserves of the Company at the time of this step; and
- (ii) sell to another member of the Seller's Group any rights to receive future adjustment payments under the Exploitation Arrangements in respect of the use of its assets prior to Closing, in consideration of the payment of £1 and the assumption of any obligations to make payments in respect of the use of such assets prior to Closing,

and may effect a reduction of capital in order to be able validly to effect any distributions to be made.

2.6 On:

- (A) the day before Closing, the Seller shall procure that the then current accounting period of the Company is terminated on that day; and
- (B) the Closing Date but prior to Closing, the Company's debts to GFplc shall be refinanced into interest-free debts denominated in US dollars in accordance with Clause 6.3.2.

*Step 8(a)*

2.7 On Closing:

- (A) the Seller shall procure that GGL will sell; and
- (B) the Purchaser shall purchase, or shall procure that a member of the Purchaser Group, will purchase, the Share in accordance with the terms of this Agreement (and whichever member of the Purchaser's Group acquires the Share shall be the "**Novartis Purchaser**" for the purposes of this Schedule).

2.8 On Closing, the Purchaser shall procure that the Company will discharge the Company Intra-Group Debt.

*Step 8(b)*



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- 2.9 For the purpose of discharging its debt to GFplc in paragraph 2.6, the Company shall receive funding in the form of: (i) a loan from a member of the Purchaser's Group; (ii) a subscription for ordinary shares in the Company by the Novartis Purchaser; or (iii) a combination of both. Subject to those constraints, the Purchaser shall be free to decide the form in which this funding is provided to the Company at Closing.

*Step 9*

- 2.10 Within four weeks after Closing, the relevant member of the Purchaser's Group shall waive or convert into ordinary shares in the Company any loan provided to the Company under paragraph 2.9, which step may be preceded by a transfer of such loan within the Purchaser's Group. The loan may be converted into ordinary shares (rather than being waived) only if the Novartis Purchaser is the creditor under the loan at the time of such conversion.

*Step 10*

- 2.11 By the later of (a) four weeks after Closing and (b) two weeks after the Seller provides any material which it is required to provide under paragraph 3, the Company shall effect a reduction of share capital using the method prescribed in sections 642-644 of the Companies Act 2006 (reduction of share capital supported by solvency statement) to create an amount of additional distributable reserves at least sufficient for it to distribute the Category 1A Assets and the Category 1B Assets. Prior to Closing, the Seller shall enter into indemnities directly in favour of the Company in the form of Clause 2.3.6 of this Agreement and of the Company Tax Indemnity, mutatis mutandis.

*Step 11*

- 2.12 By the later of (a) four weeks after Closing and (b) two weeks after the Seller provides any material which it is required to provide under paragraph 3, the Company shall declare a distribution in specie of the Category 1A Assets and the Category 1B Assets and accordingly transfer the Category 1A Assets and the Category 1B Assets to the Novartis Purchaser.

*Step 12*

- 2.13 By the later of (a) six weeks after Closing and (b) four weeks after the Seller provides any material which it is required to provide under paragraph 3, the Company shall either:
- (A) sell the Category 2 Assets to the Novartis Purchaser for consideration in cash or one or more debt instruments reflecting, in respect of each Category 2 Asset, the percentage allocated to that Category 2 Asset in accordance with Schedule 10; or
  - (B) declare a distribution in specie of the Category 2 Assets and transfer the Category 2 Assets to the Novartis Purchaser.



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3. The parties shall co-operate in good faith, and the Seller shall provide any assistance reasonably requested by the Purchaser, in connection with the implementation of any of Steps 9 to 12. In particular, the parties shall consult before Closing on whether any interim accounts or other material are required to support the reduction of capital at Step 10 and/or the distribution in specie at Step 11. If the Purchaser considers (acting reasonably and in good faith) that any such material is required, and notifies the Seller of this, then the Seller shall, at its own cost, procure the preparation of this material, with the input and cooperation of the Purchaser, by the later of (a) thirty Business Days after receipt of such notice and (b) ten Business Days before Closing.
4. The Seller may notify the Purchaser in writing, at any time up to five Business Days before Closing, that the Seller no longer wishes to proceed with the Pre-Closing Product Reorganisation set out in this Schedule. If the Seller notifies the Purchaser to this effect, then:
  - (A) the Seller shall not be entitled to sell the Share to the Purchaser at Closing; and
  - (B) the Seller shall reimburse the whole of any reasonable out of pocket costs and expenses incurred by the Purchaser and/or any other member of the Purchaser's Group in connection with their assessment of the Pre-Closing Product Reorganisation or with any preparation undertaken for Steps 8 to 12 (to the extent that those costs and expenses would not have been incurred had the sale and purchase of the Category 1A Assets, the Category 1B Assets and the Category 2 Assets always been structured as a direct sale of those assets from a member of the Seller's Group to a member of the Purchaser's Group).
5. The Seller acknowledges that any decision to proceed with Steps 9 to 12 shall be a matter for the Purchaser and for the then directors of the Company, and that neither the Purchaser nor the Company shall be under any obligation to implement all or any of those steps.

**Part 2 Seller undertakings**

1. The Seller undertakes to procure that, between the date of this Agreement and Closing:
  - (A) the Company will not acquire any assets which are not the Category 1A Assets, Category 1B Assets, Category 2 Assets or assets arising under or pursuant to the Exploitation Arrangements;
  - (B) the Company will not carry on any business or other activities, other than the acquisition, management and exploitation of the Category 1A Assets, the Category 1B Assets and Category 2 Assets;
  - (C) the Company will not have any employees;



- (D) any agreements which the Company enters into in connection with the management and exploitation of the Category 1A Assets, the Category 1B Assets and Category 2 Assets shall be terminated, with immediate effect, by the Company immediately before Closing; and
- (E) the Company will not be a member of any VAT group, party to any group payment arrangement or otherwise party to any Tax allocation, contribution, indemnification or sharing arrangement, Tax consolidation or fiscal unity,

except as may be required in connection with the provisions listed in Part 1 of this Schedule or as agreed by the parties.

2. The Seller undertakes that the Company will have no Third Party Indebtedness at Closing, except as agreed by the parties.
3. The Seller shall procure that on Closing the Company will have no debts (other than the Company Intra-Group Debt).
4. For the avoidance of doubt, the Seller acknowledges that the indemnity in Clause 2.3.6 of this Agreement shall apply to the Pre-Closing Product Reorganisation set out in this Schedule.
5. The Seller shall procure that, at Closing, the Company will have a Permitted Cash Receivable equal to the amount for which the Seller would be liable under clause 2 of the Company Tax Indemnity in the absence of clause 3.1(A) of the Company Tax Indemnity.

### Part 3 Co-operation between the parties; modifications

1. At any time, the parties shall, on the request of the Seller and at the Seller's expense, cooperate in good faith to identify and, subject to paragraph 4 below, to implement any reasonable steps which can be taken to mitigate or remove any risk in relation to Swiss Tax which will result in a liability or potential liability for the Seller under clause 2 of the Purchaser Tax Indemnity. For the avoidance of doubt, a step shall not be considered "reasonable" for the purposes of this Part 3 of this Schedule if it may have the effect on increasing an unindemnified Liability of the Purchaser's Group.
2. Subject to paragraph 4 below, such reasonable steps may include:
  - (A) the Purchaser seeking a ruling from the Swiss Tax authorities, with both parties having input into the drafting of any ruling application and subsequent correspondence, and with the Seller being consulted in good faith on the approach which should be taken at any discussion, meetings or negotiations with the Swiss Tax authorities to discuss the ruling application, so far as permitted under Swiss law and being informed within a reasonable time thereafter of the outcome of any such discussion, meeting or negotiation (but without giving the Seller any rights to attend); and



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- (B) amending the steps set out in Part 1 of this Schedule (at the Seller's sole expense and risk) if, pursuant to their good faith cooperation under paragraph 1 of this Part 3, the parties identify any alternative or additional reasonable steps for implementing the Pre-Closing Product Reorganisation set out in this Schedule in a way which reduces or removes any risk indemnified under the Purchaser Tax Indemnity.
- 3. The parties shall co-operate in good faith in relation to the Company's affairs with a view to minimising the Company's balance sheet assets and liabilities, and winding the Company up as soon as commercially practicable, in each case following completion of Step 8 and, if undertaken, Steps 9 to 12 and any agreed modifications to any of those Steps.
- 4. Any modification or amendment of (including any addition to) the steps set out in Part 1 of this Schedule (other than the Seller electing at any time not to proceed with the Pre-Closing Product Reorganisation) shall require the prior written consent of the Purchaser, not to be unreasonably withheld or delayed. Without prejudice to any other exercise of a discretion whether or not to give consent, the Purchaser shall not be acting unreasonably if:
  - (A) it withholds or delays its consent because it believes in good faith that the modification or amendment would result in exposure of any member of the Purchaser's Group to cost, loss of benefit or Liability; and
  - (B) the relevant member or members of the Purchaser's Group would not be indemnified (and the Seller does not agree to indemnify them), in each case to the Purchaser's reasonable satisfaction, in respect of that cost, loss of benefit or Liability.
- 5. Nothing done by or at the request of the Seller pursuant to this Part 3 of this Schedule shall in any respect reduce or restrict any rights the Purchaser may have to make a claim against the Seller under the Company Tax Indemnity or the Purchaser Tax Indemnity.



**Part 4 Definitions**

1. In this Schedule, the following expressions shall have the following meanings:

“**Indebtedness**” means all loans and other financing liabilities and obligations in the nature of borrowed moneys and overdrafts and moneys borrowed, but excluding trade debt and liabilities arising in the ordinary course of business;

“**Third Party Indebtedness**” means any Indebtedness owed by the Company to any third party and, for the purposes of this definition, third party shall exclude any member of the Seller’s Group;

**Part 5 Details of the Company**

<b>Name of Company:</b>	<b>Leo Osprey Limited</b> (the “Company”)
Registered Number:	9000270
Registered Office:	980 Great West Road, Brentford, TW8 9GS United Kingdom
Date and place of incorporation:	16 April 2014, United Kingdom
Issued share capital:	one share of £1
Shareholders and shares held:	Glaxo Group Limited            1 (100%)



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**Schedule 19**  
**Pre-Closing Obligations****(Clause 5)****Part 1 Seller's Group Restrictions**

The actions for the purposes of Clause 5.1.2 are:

- 1.1** (a) terminate, materially amend (or amend in any respect in relation to a Key Product) or grant any material waiver under (or any waiver in relation to a Key Product) any Transferred Intellectual Property Contract, or (b) terminate any Transferred Contract other than in the ordinary course of business;
- 1.2** fail to comply in all material respects with all Applicable Law, Product Approvals and Marketing Authorisations applicable to the operation of the Business;
- 1.3** assign, dispose of, license (save in respect of non-exclusive licences relating to the Seller's research, development or Commercialisation of the Products) or abandon any material Business Product Intellectual Property Rights (or any Business Product Intellectual Property Rights in respect of a Key Product) or cease to prosecute or fail to maintain, defend, or pursue applications for any material Business Product Intellectual Property Rights (or any Business Product Intellectual Property Rights in respect of a Key Product);
- 1.4** save where requested in writing by the Purchaser or required by any applicable Governmental Entity, cancel, surrender or materially amend (or amend in any respect in relation to a Key Product) any applications, submissions or filings with respect to Registered Business Product Intellectual Property Rights;
- 1.5** take any further steps to abandon US patent with publication number 2012/0202822;
- 1.6** terminate (except for good cause) the employment of any Key Personnel;
- 1.7** take any steps to increase or reduce the proportion of time spent working in the Business by any employee of any member of the Seller's Group or to transfer the employment of any Employee to another member of the Seller's Group or to employ or offer to employ or engage any new persons in the Business other than in the ordinary course of business consistent with past practice and subject to an aggregate increase of not more than 2.5 per cent. in total staff costs of the Business per annum;
- 1.8** make, or commit to make, any changes to the terms and conditions of employment (including pension fund commitments or any increase to remuneration) or to any employee benefit plan of any Employee, other than (a) those required by Applicable Law or (b) pursuant to normal annual pay reviews in the ordinary course of business consistent with past practice and subject to an aggregate increase of not more than 5 per cent. in total staff costs of the Business per annum or (c) retention arrangements (in the form of cash or shares) to retain key employees in connection with the matters contemplated by this Agreement as described in paragraphs 9 and 10 of Schedule 8 or (d) those changes to share-based incentive schemes made for the purpose of complying with paragraph 10 of Schedule 8;



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- 1.9** make any promises or commitment to any Employees or employee representative body concerning the matters contemplated by this Agreement or offer or otherwise give any assurances to any Employees as to the possibility of continued employment with the Purchaser's Group after Closing;
- 1.10** make any change or commitment to make any change to the terms of any redundancy policy or practice applying to the Employees (including amounts payable on redundancy);
- 1.11** enter into (where there is no existing agreement) or materially amend any collective bargaining agreement or other contract with a labour organisation, works council or employee organisation to create new or additional obligations for any member of the Seller's Group, in each case in relation to the Business;
- 1.12** instigate, cease, compromise or settle any litigation or arbitration proceedings related to the Business or the Company in relation to a claim for which the potential liability attaching thereto is in excess of US\$5 million;
- 1.13** make any material amendment to any Marketing Authorisation, except to the extent required by: (a) Applicable Law; (b) any Governmental Entity, or (c) the standards, policies and procedures of the Seller's Group as then in force;
- 1.14** enter into or amend in any material respect any Transferred Contract, or incur any commitment, which is not capable of being terminated without compensation at any time with twelve months' notice or less or which is not in the ordinary course of business, or which involves or may involve total annual expenditure in excess of US\$10 million, exclusive of VAT;
- 1.15** enter into any contract which would materially restrict the freedom of the Business to operate in any part of the world;
- 1.16** save in respect of Intellectual Property Rights, sell, lease, license, transfer or dispose of, or create any Encumbrance (other than a Permitted Encumbrance) over, any material assets (other than any Excluded Asset) of the Business;
- 1.17** undertake any recall or withdrawal of any Product (other than in the ordinary course of business or to comply with Applicable Law);
- 1.18** amend or otherwise modify the constitutional documents of the Company other than minor or administrative amendments or modifications which are not adverse to the Business or to the Purchaser or any member of the Purchaser's Group;
- 1.19** create, allot or issue, or grant an option or right to subscribe for or purchase, any share capital or other securities or loan capital of the Company;
- 1.20** repay, redeem or repurchase any share capital, or other securities of the Company; and
- 1.21** cause or permit the Company to be subject to Tax in any jurisdiction other than in the United Kingdom.



## Part 2 Seller's Group Obligations

### 1. Obligations to be satisfied prior to the Closing Date

1.1 The Seller shall procure that the relevant member of the Seller Group shall notify, Pharmicare Limited in writing, in relation to:

1.1.1 the distribution agreement dated 27 November 2009 between Pharmicare Limited and Glaxo South Africa (Proprietary) Limited (the "SA Distribution Agreement"); and

1.1.2 the SSA Collaboration Agreement dated 27 November 2009 between Pharmicare Limited, Glaxo Export Limited (the "SSA Collaboration Agreement"),

of the withdrawal of the Products to the extent relevant from the agreements set out in the SA Distribution Agreement and the SSA Collaboration Agreement, in each case with effect from Closing.

1.2 The Seller shall procure that the relevant member(s) of the Seller's Group shall use best efforts to:

1.2.1 obtain the unconditional consent of [\*\*\*] to the assignment to the Purchaser of the rights and obligations of the relevant member of the Seller's Group under each of the [\*\*\*] (at the Seller's cost); and

1.2.2 obtain the unconditional consent of [\*\*\*] to the assignment to the Purchaser of the rights and obligations of the relevant member of the Seller's Group under the [\*\*\*] (at the Seller's cost).

1.3 At least 5 Business Days prior to the Closing Date, the Seller shall provide the Purchaser with a list of any required actions that must be taken by the Purchaser within three (3) months after Closing with respect to the payment of any registration, maintenance, or renewal fees or the filing of any documents, applications or certificates in order to maintain Registered Intellectual Property Product Rights in full force and effect. Upon the Purchaser's reasonable request, the Seller shall execute and deliver assignment agreements and other transfer documentation, including duly executed assignments of the Registered Business Product Intellectual Property Rights for recording with the applicable Governmental Entity, and to take such further actions, in each case, subject to Clause 2.3.5(ii), at the Purchaser's reasonable cost and expense and as may be required, to give effect to the foregoing assignments.

### 2. Obligations from the date of the Agreement to the Closing Date

The requirements for the purposes of Clause 5.1.3 are:

2.1 so far as permitted by Applicable Law, inform the Purchaser promptly if it becomes aware of, or has reasonable grounds for suspecting any violation of Anti-Bribery Law which is reasonably likely to have an impact on the Business;

2.2 maintain in force all Seller's Group Insurance Policies for the benefit of the Business;

2.3 allow the Purchaser and its respective agents, upon reasonable notice, reasonable access to personnel, and such information as the Seller considers reasonable, provided that the obligations of the Seller under this Clause shall not extend to allowing access to information which is (i) reasonably regarded as confidential to the activities of the Seller and the Seller's Group otherwise than in relation to the Business or (ii) commercially sensitive or other information which is related to the Business if such information cannot be shared with the Purchaser prior to Closing in compliance with Applicable Law;



- 2.4 in so far as it relates to the Business, continue to take such steps as are currently planned by the Seller's Group in relation to the remediation of the manufacturing site operated by the Seller's Group in Cork, Ireland;
- 2.5 maintain and keep any Business Product Intellectual Property Rights and ensure that all filings and notifications required to be made in respect of the same are made in accordance with past practice;
- 2.6 progress, in accordance with past practice, any applications, submissions, filings or other correspondence relating to the grant of new Business Product Intellectual Property Rights;
- 2.7 continue to conduct the Ongoing Clinical Trials in accordance with GCP and the Seller Group's policies and procedures;
- 2.8 notify the Purchaser in writing of any actual safety or quality issue in respect of any Product or the manufacture of any Product (as soon as reasonably practicable after becoming aware of the same) which issue the relevant member of the Seller's Group, acting reasonably and in good faith, considers material in the context of the manufacture or commercialisation of such Product;
- 2.9 so far as permitted by Applicable Law, report periodically to the Purchaser concerning the status of the Business, including delivering to the Purchaser as soon as reasonably practicable each month:
  - 2.9.1 an update on material commercial developments in relation to the Business and the Products during the previous month;
  - 2.9.2 the gross profit for each Product in respect of the previous month; and
  - 2.9.3 a report on the month-end in-trade inventory in respect of each Product for the previous month prepared in the ordinary course of business consistent with past practice, together with a comparison against the comparable period of trading for the prior year;
- 2.10 not discontinue or cease to operate or materially reduce the resources applied to any part of the Business related to the Products or the Product Expansions;
- 2.11 continue to promote, market and Commercialise the Products in a manner consistent with past practice;
- 2.12 maintain levels of in-trade inventory in accordance with past practice and not materially accelerate or increase the quantity of the Products distributed to the relevant distributors and/or wholesalers, except in respect of a bona fide increase in demand for the relevant Product by the relevant distributor and/or wholesaler which has not been stimulated in any way by discounts, rebates, claw-backs or the like outside of the ordinary course or the grant of preferred terms offered by the Seller's Group outside of the ordinary course; and



2.13 continue to respond to any Call For New Tender in accordance with past practices in the relevant market.



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**Schedule 20**  
**Key Personnel**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of two pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Schedule 21  
Regulatory Approvals**

1. The following table provides the additional jurisdictions and applicable antitrust, merger control, or foreign investment rules referenced in Clause 4.1.3 of the Agreement.
2. This list of jurisdictions and statutes is not meant to be indicative of a known filing or approval requirement in these jurisdictions. To the extent that clearances, approvals, waivers, no action letters or consents are not required to be obtained or not otherwise agreed by the parties to be appropriate and waiting periods are not required to have expired in these jurisdictions prior to closing of the transactions contemplated by the Agreement, such clearances, approvals, waivers, no action letters, consents, and waiting period expirations will not be conditions precedent to closing of the transactions contemplated by the Agreement.

<u>Country</u>	<u>Statute Under Which Filing/Approval Is Required</u>
Australia	The Competition and Consumer Act of 2010
Brazil	Law No. 12,529 of November 30, 2011
Canada	The Competition Act
China	The Chinese Anti-Monopoly Law
India	The Competition Act of 2002, as amended by The Competition (Amendment) Act of 2007
Israel	The Restrictive Trade Practices Law, 5748-1988
Japan	The Act on Prohibition of Private Monopolisation and Maintenance of Fair Trade No. 54 of 1947
Mexico	The Federal Law on Economic Competition
New Zealand	The Commerce Act of 1986
Russia	Federal Law No. 135-FZ of July 16, 2006 on Protection of Competition
South Africa	The Competition Act 89 of 1998
South Korea	The Monopoly Regulation and Fair Trade Act
Taiwan	The Fair Trade Law of 1991



Turkey The Law on Protection of Competition No. 4054 of 1994



## Schedule 22 Ongoing Collaboration

1. Subject to paragraph 4 below, in the event that:
  - 1.1.1 any member of the Seller's Group decides in its applicable governance committee (and in any event before approaching any third party) to seek a third party partner for global or major market (that is, pan-EU, Spain, Italy, UK, Germany, France, US, a group of emerging markets, Switzerland, Japan, Canada or China) co-development or commercialisation of, or to whom to divest rights to, any Relevant Development Product (the "**In-scope Relevant Development Product**"); or
  - 1.1.2 any member of the Seller's Group proposes to seek a marketing authorisation in a major market (that is, EU, US, Switzerland, Japan, Canada or China) for an In-Scope Relevant Development Product,  
the Seller shall (prior to (in the case of paragraph 1.1.1 above) entering into any such discussions with any third party or (in the case of paragraph 1.1.2 above) filing an application for any such marketing authorisation) first notify the Purchaser of the same, including in such notification details of the geographic markets in which it would intend to explore opportunities with the third party. The Purchaser shall then have a period of 30 days to confirm whether or not it is in principle interested in pursuing discussions regarding the co-development and commercialisation or acquisition of the In-scope Relevant Development Product, and shall specify to the Seller the geographic markets in which it is interested in the opportunity (which need not be limited to the markets specified by the Seller and may be worldwide). If the Purchaser declines the same or confirms in writing that it is not interested, then the provisions of this Schedule shall cease to apply with respect to such In-scope Relevant Development Product for the following 24 months.
2. If the Purchaser confirms its interest in pursuing discussions, then, during the 6 month period from the date of such notification (the "**Negotiation Period**"):
  - 2.1 the Seller shall not (and shall procure that no other member of its Group shall) enter into any discussions or negotiations with any third party in relation to possible co-development and commercialisation arrangements in respect of or the divestment of the In-scope Relevant Development Product in all territories specified by the Seller and/or the Purchaser in the foregoing notifications;
  - 2.2 the Seller shall make available to the Purchaser, subject to reasonable obligations and appropriate arrangements of confidence and compliance, all information reasonably necessary for the Purchaser to assess the opportunity, including information regarding project budgets and costs, timelines and relevant clinical plans and data; and
  - 2.3 the Seller and the Purchaser (or the relevant members of their respective Groups) shall negotiate in good faith, the terms and conditions of a co-development and commercialisation arrangement for or divestment of the In-Scope Relevant



Development Product, including (without limitation) financial terms, allocation of costs and responsibilities, project governance arrangements and appropriate intellectual property licences, which terms and conditions shall include (without limitation), exclusive commercialization rights in favour of the Purchaser with respect to the In-Scope Relevant Development Product and otherwise be reasonable and customary (for similarly situated products).

3. In the event that the Negotiation Period expires and the Seller and the Purchaser (or the relevant members of their respective Groups) have not entered into a binding agreement in relation to the co-development or commercialisation or acquisition of the In-scope Relevant Development Product, then the Seller (or the relevant member of its Group) shall be free:

3.1.1 to pursue the continued internal development and commercialisation of such In-scope Relevant Development Product; or

3.1.2 at any time thereafter, to enter into discussions and/or negotiations with a third party in relation to the same, provided that for a period of 18 months after such expiration, the Seller shall not enter into an agreement with a third party involving any such co-development and/or commercialisation arrangement for or divestment of the In-scope Relevant Development Product on terms that are more favourable to the third party than those last offered by the Seller to the Purchaser without first notifying the Purchaser of the material terms thereof and offering the Purchaser the right to match the offer by entering into an agreement on such terms (or substantially similar terms if any of such terms are unique to the third party). In the event that such an offer is made by the Seller, the Purchaser shall have a period of 30 days to accept it. If the Purchaser does not do so within such period, then the Seller shall be free to proceed with the agreement with the third party on substantially such terms without further restrictions hereunder; provided, that, in the spirit of partnership, the Seller will in any event notify the Purchaser at least 5 days prior to entering into an agreement with a third party regarding such an arrangement or divestment, including (where not restricted by law or contract from doing so) the material terms thereof (it being understood that, other than as provided above, no match right will apply),

and, save as provided in paragraph 3.1.2 above, the provisions of this Schedule shall cease to apply with respect to such In-scope Relevant Development Product.

4. The provisions of this Schedule:

4.1 shall expire 12 years and six months after Closing unless renewed by mutual agreement;

4.2 shall apply subject to the Seller's existing written agreements with third parties, provided that the Seller represents and warrants that neither it nor any member of its Group is party to any agreement or arrangement with a third party which would materially impact the expected benefit to the Purchaser of the arrangement set out in this Schedule;



- 4.3 shall apply notwithstanding Clause 12.1 (Non-compete) and, subject to the provisions of this Schedule, shall not restrict any activities of the Seller's Group in relation to the research and development (including manufacturing for development) of or relating to Relevant Development Products;
- 4.4 shall not apply to situations where the Seller is seeking a third party partner for the co-development or commercialisation of a broad portfolio of products where the majority of such portfolio is not comprised of Relevant Development Products; and
- 4.5 for the avoidance of doubt, shall not apply to situations where the Seller is seeking a third party contractor to provide research or development services.



**Schedule 23  
Seller Marks**

GLAXOSMITHKLINE

GLAXO

GSK

SMITHKLINE

SMITHKLINE BEECHAM

SB

STERLING

STIEFEL

WELLCOME

GLAXO WELLCOME

GSK Logo

GLAXOSMITHKLINE Logo

STIEFEL Logo



**Schedule 24**  
**Statement of Company Intra-Group Debt**

Amount of the Company Intra-Group Debt in US\$, as determined by the Seller using the US\$ Spot Rate:

US\$

Agreed and accepted:

\_\_\_\_\_  
For and on behalf of the Seller

\_\_\_\_\_  
For and on behalf of the Purchaser

\_\_\_\_\_  
For and on behalf of the Purchaser



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**Schedule 25**  
**Seller's Indian Business**

1. The parties acknowledge and agree that the Seller's Indian Business cannot be transferred to the Purchaser without the approval of the Indian Foreign Investment Promotion Board ("**FIPB Approval**") and therefore this Agreement shall not be construed as a transfer or attempted transfer of the Seller's Indian Business without FIPB Approval.
2. The Purchaser agrees to use its reasonable endeavours to obtain FIPB Approval prior to Closing. Without prejudice to the generality of the foregoing, the Purchaser shall, as soon as reasonably practicable following the date of this Agreement:
  - (i) commence the process in relation to the obtaining of the FIPB Approval; and
  - (ii) give the Seller a reasonable opportunity to take part in the process of, and to review and comment on any material documentation in relation to (with the Purchaser to take reasonable account of any such comments), the obtaining of FIPB Approval.
3. The Seller shall cooperate with the Purchaser in connection with obtaining the FIPB Approval and shall promptly provide the Purchaser with information reasonably required by the Purchaser in respect of the Seller's Indian Business to seek and obtain FIPB Approval.
4. In the event that FIPB Approval is not obtained prior to Closing, such that the Seller's Indian Business cannot be transferred to the Purchaser upon Closing in accordance with the provisions of this Agreement:
  - 4.1 the parties shall use reasonable endeavours to obtain FIPB Approval and to procure that the Seller's Indian Business is transferred to the Purchaser as soon as reasonably practicable after Closing;
  - 4.2 until FIPB Approval is obtained, the Seller shall continue to operate and run the Seller's Indian Business and provide the Purchaser with full details of the sales of each Product made by the Seller's Indian Business on a monthly basis between Closing and the date of India Closing (as defined below);
  - 4.3 promptly following receipt of the FIPB Approval, the transfer of any assets or rights comprising the Seller's Indian Business shall be effected, and Closing in respect of the Seller's Indian Business shall otherwise take place in accordance with the terms of this Agreement ("**India Closing**"); and
  - 4.4 the Seller shall remit to the Purchaser an amount for the sales made by the Seller's Indian Business in respect of the Products during the period from Closing until India Closing, as calculated in accordance with the provisions of the



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Transitional Distribution Services Agreement related to the remittance of sales of the Products made by the Seller's Group post-Closing and payable on the first date following India Closing on which such amounts are to be remitted to the Purchaser or a member of the Purchaser's Group under the Transitional Distribution Services Agreement.



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**CONFIDENTIAL TREATMENT REQUESTED**

EXECUTION VERSION

29 May 2014

NOVARTIS AG

and

GLAXOSMITHKLINE PLC

DEED OF AMENDMENT AND RESTATEMENT

relating to the

PUT OPTION DEED

relating to all or part of the Influenza Business of the Novartis Group, dated 22 April 2014

Linklaters  
Linklaters LLP  
One Silk Street  
London EC2Y 8HQ  
Telephone (+44) 20 7465 2000  
Facsimile (+44) 20 7456 2222  
Ref L-220595



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**This Deed** (the “**Deed**”) is made on 29 May 2014 **between:**

- (1) **NOVARTIS AG**, a corporation (Aktiengesellschaft) incorporated in Switzerland whose registered office is at Lichtstrasse 35, 4056 Basel, Switzerland (“**Novartis**”); and
- (2) **GLAXOSMITHKLINE PLC**, a public limited company incorporated in England and Wales whose registered office is at 980 Great West Road Brentford, Middlesex, TW8 9GS (the “**Purchaser**”),

each a “**party**” and together the “**parties**”.

**Whereas:**

- (A) Novartis and the Purchaser entered into the Original Deed (as defined below) on 22 April 2014 (the “**Signing Date**”).
- (B) In connection with the Original Deed, Novartis provided the Original Disclosure Letter (as defined below) to the Purchaser.
- (C) Novartis and the Purchaser now wish to amend and restate:
  - (i) the Original Deed, in the form of the Amended Deed (as defined below); and
  - (ii) the Original Disclosure Letter, in the form of the Amended Disclosure Letter (as defined below).

**It is agreed** as follows:

## **1 Definitions and Interpretation**

In this Deed, unless the context otherwise requires, the provisions in this Clause 1 apply.

### **1.1 Incorporation of defined terms**

Unless otherwise stated, terms defined in the Original Deed shall have the same meaning in this Deed.

### **1.2 Definitions**

“**Amended Deed**” means the Original Deed, as amended and restated in the form set out in Schedule 1 to this Deed;

“**Amended Disclosure Letter**” means the Original Disclosure Letter, as amended and restated in the form set out in Schedule 2 to this Deed;

“**Original Deed**” means the Put Option Deed relating to all or part of the Influenza Business of the Novartis Group, dated 22 April 2014; and

“**Original Disclosure Letter**” means the letter given on the Signing Date from Novartis to the Purchaser disclosing information constituting exceptions to Novartis’s Warranties.

### **1.3 Interpretation clauses**

1.3.1 The principles of interpretation set out in Clause 1 of the Original Deed shall have effect as if set out in this Deed, save that references to “this Deed” shall be construed as references to this Deed.

1.3.2 References to this Deed include the Schedules.

## **2 Amendment**

**2.1** In accordance with Paragraphs 15.4.3 and 15.5.1 of Schedule 1 of the Original Deed, the parties agree that the Original Deed shall be amended and restated as set out in Schedule 1 to this Deed.

**2.2** The parties agree that the Original Disclosure Letter shall be amended and restated as set out in Schedule 2 to this Deed.



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**2.3** The amendment and restatement of the Original Deed pursuant to clause 2.1 and the amendment and restatement of the Original Disclosure Letter pursuant to clause 2.2 shall take effect from the Signing Date, as if the Amended Deed and the Amended Disclosure Letter had been entered into on the Signing Date. Therefore, upon this Deed being entered into:

**2.3.1** the Amended Deed shall supersede the Original Deed in its entirety; and

**2.3.2** the Amended Disclosure Letter shall supersede the Original Disclosure Letter in its entirety.

**3 Miscellaneous**

**3.1** Each party represents and warrants that it has full power and authority to enter into this Deed and to perform its obligations under it.

**3.2** The provisions of Paragraphs 13, 15.2 to 15.5 and 15.11 to 15.15 of Schedule 1 of the Amended Deed shall apply to this Deed as if set out in full in this Deed and as if references in those Paragraphs to “this Deed” are references to this Deed and references to “party” or “parties” are references to parties to this Deed.

**In witness whereof** this Deed has been delivered on the date first stated above.

Executed as a DEED by /s/ Roy Papatheodorou  
Roy Papatheodorou

AND }  
Jonathan Emery /s/ Jonathan Emery  
on  
behalf of  
**NOVARTIS AG**



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Executed as a DEED by  
**GLAXOSMITHKLINE PLC**  
acting by its duly appointed attorney

)  
) /s/ David Redfern  
) (Signature of attorney)

in the presence of:

)

Witness's signature:

/s/ Claire Jackson

Name (print):

Claire Jackson

Occupation:

Solicitor

Address:

One Bunhill Row, London



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**Schedule 1**

**Amended Agreement**



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EXECUTION VERSION

Dated 22 April 2014

as amended and restated on 29 May 2014

NOVARTIS AG

and

GLAXOSMITHKLINE PLC

PUT OPTION DEED

relating to all or part of the Influenza Business of the Novartis Group



**Execution Version**

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## Execution Version

### Put Option Deed

This Deed is made on 22 April 2014 and amended and restated on 29 May 2014 **between:**

- (1) **Novartis AG** a corporation (*Aktiengesellschaft*) incorporated in Switzerland whose registered office is at Lichstrasse 35, 4056 Basel, Switzerland (“**Novartis**”); and
- (2) **GlaxoSmithKline plc** a company incorporated in England and Wales whose registered office is at 980 Great West Road, Brentford, Middlesex, United Kingdom (the “**Purchaser**”),  
each a “**party**” and together the “**parties**”.

### Whereas:

The parties wish to provide Novartis with a right to require the Purchaser to purchase the influenza business of the Novartis Group or a part of that business subject to the terms and conditions set out in this Deed.

It is agreed as follows:

## 1 Interpretation

In this Deed (including its Schedules and Appendices), unless the context requires otherwise, the provisions in this Clause 1 apply:

### 1.1 Definitions

“**Affiliate**” means:

- (i) with respect to any person (other than a party to this Deed), any other person that Controls, is Controlled by or is under common Control with such person; or
- (ii) with respect to a party to this Deed, any other person that is Controlled by such party,

and “**Affiliates**” shall be interpreted accordingly;

“**Applicable Law**” means any supra-national, federal, national, state, municipal or local statute, law, ordinance, regulation, rule, code, order (whether executive, legislative, judicial or otherwise), judgment, injunction, notice, decree or other requirement or rule of law or legal process (including common law), or any other order of, or agreement issued, promulgated or entered into by, any Governmental Entity or any rule or requirement of any national securities exchange, including all Healthcare Laws, and GCP, GLP and GMP, each as may be amended from time to time;

“**Business**” has the meaning given in Schedule 1;

“**Business Day**” means a day which is not a Saturday, a Sunday or a public holiday in the canton of Basel-Stadt (Switzerland) or London;

“**Cell-based Influenza Business**” has the meaning given in Schedule 1;

“**Class 1 Transaction**” means a transaction requiring shareholder approval under Chapter 10 of the Listing Rules;

“**Compensation Amount**” has the meaning given in Clause 4.1.1;



## Execution Version

“**Consumer Contribution Agreement**” means the contribution agreement dated the date of this Deed between Novartis and the Purchaser relating to the establishment of a joint venture between Novartis and the Purchaser;

“**Contract**” means any binding contract, agreement, instrument, lease, licence or commitment, excluding (i) any lease or other related or similar agreements, undertakings and arrangements with respect to the leasing or ownership of the Properties (to which the provisions set out in Appendix 3 to Schedule 1 shall apply); and (ii) any contract with any Employee;

“**Control**” means the power to direct the management and policies of a person (directly or indirectly), whether through ownership of voting securities, by Contract or otherwise (and the term “**Controlled**” shall be interpreted accordingly);

“**Egg-based Influenza Business**” has the meaning given in Schedule 1;

“**Exercise Period**” has the meaning given in Clause 2.2.1;

“**FCA**” means the Financial Conduct Authority;

“**FSMA**” means the Financial Services and Markets Act 2000;

“**Good Clinical Practices**” or “**GCP**” means the then-current standards, practices and procedures promulgated or endorsed by (i) the ICH Harmonised Tripartite Guidelines for Good Clinical Practice (CPMP/ICH/135/95) and any other guidelines for good clinical practices for trials on medicinal products in the European Union; (ii) the FDA as set forth in the guidelines entitled “Guidance for Industry E6 Good Clinical Practice: Consolidated Guidance,” including related regulatory requirements imposed by the FDA; and (iii) the equivalent Applicable Law in any relevant country;

“**Good Laboratory Practices**” or “**GLP**” means the then-current standards, practices and procedures promulgated or endorsed by: (i) the European Commission Directive 2004/10/EC relating to the application of the principles of good laboratory practices as well as “The rules governing medicinal products in the European Union,” Volume 3, Scientific guidelines for medicinal products for human use (ex - OECD principles of GLP); (ii) the then-current standards, practices and procedures promulgated or endorsed by the FDA as defined in 21 C.F.R. Part 58; and (iii) the equivalent Applicable Law in any relevant country;

“**Good Manufacturing Practices**” or “**GMP**” means the then-current standards, practices and procedures promulgated or endorsed by: (i) the European Commission Directive 91/356/EEC, as amended by Directive 2003/94/EC and 91/412/EEC respectively, as well as “The rules governing medicinal products in the European Union,” Volume 4, Guidelines for good manufacturing practices for medicinal products for human and veterinary use; (ii) the FDA and the provisions of 21 C.F.R. Parts 210 and 211; (iii) the principles detailed in the ICH Q7A guidelines; and (iv) all Applicable Law with respect to each of (i) through (iii);

“**Governmental Entity**” means any supra-national, federal, national, state, county, local, municipal or other governmental, regulatory or administrative authority, agency, commission or other instrumentality, any court, tribunal or arbitral body with competent jurisdiction, or any national securities exchange or automated quotation service including any governmental regulatory authority or agency responsible for the grant, approval, clearance, qualification, licensing or permitting of any aspect of the research, development, manufacture, marketing distribution or sale of the Products including the FDA, the European Medicines Agency, or any successor agency hereto;



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“**Healthcare Laws**” means the federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)); the Anti-Inducement Law (42 U.S.C. § 1320a-7a (a)(5)); the civil False Claims Act (31 U.S.C. §§ 3729 et seq.); the administrative False Claims Law (42 U.S.C. § 1320a-7b(a)); the Exclusion Laws (42 U.S.C. § 1320a-7); the Medicare statute (Title XVIII of the Social Security Act), including Social Security Act §§ 1860D-1 to 1860D-43 (relating to Medicare Part D and the Medicare Part D Coverage Gap Program); the Medicaid statute (Title XIX of the Social Security Act); the Physician Payment Sunshine Act (42 U.S.C. § 1320a-7h) and any analogous state laws; the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. § 1320d et seq.), as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and any other similar law, including the price reporting requirements and the requirements relating to the processing of any applicable rebate, chargeback or adjustment, under applicable rules and regulations relating to the Medicaid Drug Rebate Program (42 U.S.C. § 1396r-8), any state supplemental rebate program, Medicare average sales price reporting (42 U.S.C. § 1395w-3a), the Public Health Service Act (42 U.S.C. § 256b), the Veterans Health Care Act (38 U.S.C. § 8126), regulatory requirements applicable to sales on the Federal Supply Schedule or under any state pharmaceutical assistance program or United States Department of Veterans Affairs agreement, all legal requirements relating to the billing or submission of claims, collection of accounts receivable, underwriting the cost of, or provision of management or administrative services in connection with, any and all of the foregoing, by the Novartis Group and any successor government programs, and all foreign equivalents of the foregoing;

“**Implementation Agreement**” means the implementation agreement dated the date of this Deed between Novartis and the Purchaser relating to, among other things, the transactions contemplated by this Deed;

“**Intellectual Property Rights**” has the meaning given in Schedule 1;

“**Listing Rules**” means the Listing Rules made by the FCA under section 73A of FSMA, as from time to time amended;

“**Novartis Group**” means Novartis and its Affiliates from time to time;

“**Oncology Group Businesses**” has meaning given in the Oncology SAPA;

“**Oncology SAPA**” means the Share and Business Sale Agreement dated the date of this Deed between Novartis and the Purchaser relating to the Oncology Group Businesses;

“**Option Assets**” means the Option 1 Assets; the Option 2 Assets; the Option 3 Assets; the Option 4 Assets or any combination thereof specified in accordance with Clause 2.1, as the case may be;

“**Option 1 Assets**” means the Business;

“**Option 2 Assets**” means the assets comprising the Cell-based Influenza Business;

“**Option 3 Assets**” means the assets comprising the Egg-based Influenza Business;

“**Option 4 Assets**” means the assets of the Novartis Group set out in Schedule 4;

“**Option Closing**” means the completion of the sale of the Relevant Option Assets on the terms and subject to the conditions set out in Schedule 1;

“**Option Closing Date**” means the date on which Option Closing takes place;



## Execution Version

“**Option Exercise Date**” has the meaning given in Clause 2.2.2;

“**Option Long Stop Date**” has meaning given in Clause 3.4.2;

“**Option Price**” means the consideration payable by the Purchaser to Novartis at Option Closing for the Relevant Option Assets in accordance with the terms of this Deed;

“**Purchaser’s Group**” means the Purchaser and its Affiliates from time to time;

“**Put Option**” has the meaning given in Clause 2.1;

“**Put Option Deed**” means this deed;

“**Put Option Price**” has the meaning given in Clause 2.1;

“**Relevant Event**” has the meaning given in Clause 4.2.2;

“**Relevant Option Assets**” has the meaning given in Clause 2.3;

“**Relevant Payment**” has the meaning given in Clause 4.1.4;

“**Relevant Period**” means the period from and including the day on which any Compensation Amount is paid by the Purchaser pursuant to Clause 4.1.2 and ending on and including the date falling 18 months after such date;

“**Taxation**” or “**Tax**” means all supra-national, federal, state, county, local, municipal, foreign and other taxes, assessments, duties or similar charges of any kind whatsoever (other than deferred tax), including all corporate franchise, income, gross receipts, sales, use, ad valorem, receipts, value added, profits, licence, withholding, payroll, employment, excise, premium, property, net worth, capital gains, transfer, stamp, documentary, social security, alternative minimum, occupation, recapture and other taxes regardless as to whether any such taxes, assessments, duties or similar charges are chargeable directly or primarily against or attributable directly or primarily to a member of the Novartis Group or any other person, and including all interest, penalties and additions imposed with respect to such amounts by any Tax Authority or with respect to any failure to file any Tax Return;

“**Tax Authority**” means any taxing or other authority competent to impose any liability in respect of Taxation or responsible for the administration and/or collection of Taxation or enforcement of any law in relation to Taxation;

“**Third Party Purchaser**” means any person who is not a member of the Novartis Group;

“**Third Party Purchaser Intellectual Property Rights**” has the meaning given in Clause 5.1.3;

“**VAT**” means within the European Union such Taxation as may be levied in accordance with (but subject to derogations from) Council Directive 2006/112/EC and outside the European Union any Taxation levied by reference to added value or sales;

“**Vaccines Group Businesses**” has the meaning given in the Vaccines SAPA;

“**Value Received**” has the meaning given in Clause 4.2.1; and

“**Vaccines SAPA**” means the Share and Business Sale Agreement dated the date of this Deed between Novartis and the Purchaser relating to the Vaccines Group Businesses.



## Execution Version

### 1.2 Singular, plural, gender

References to one gender include all genders and references to the singular include the plural and vice versa.

### 1.3 References to persons and companies

References to:

**1.3.1** a person include any individual, company, partnership or unincorporated association (whether or not having separate legal personality); and

**1.3.2** a company include any company, corporation or any body corporate, wherever incorporated.

### 1.4 Schedules etc.

References to this Deed shall include any Recitals and Schedules to it and references to “Clauses” and “Schedules” are to Clauses of, and Schedules to, this Deed. References to “Paragraphs”, “Parts” and “Appendices” are to paragraphs and parts of, and appendices to, the Schedules. References to “paragraphs” are to paragraphs of appendices to the Schedules.

### 1.5 Reference to documents

References to any document (including this Deed), or to a provision in a document, shall be construed as a reference to such document or provision as amended, supplemented, modified, restated or novated from time to time.

### 1.6 References to enactments

Except as otherwise expressly provided in this Deed, any express reference to an enactment (which includes any legislation in any jurisdiction) includes references (i) to that enactment as amended, consolidated or re-enacted by or under any other enactment before or after the date of this Deed; (ii) any enactment which that enactment re-enacts (with or without modification); and (iii) any subordinate legislation (including regulations) made before or after the date of this Deed under that enactment as amended, consolidated or re-enacted as described in (i) or (ii) above, except to the extent that any of the matters referred to in (i) to (iii) occurs after the date of this Deed and increases or alters the liability of Novartis or the Purchaser under this Deed.

### 1.7 Information

References to books, records or other information mean books, records or other information in any form including paper, electronically stored data, magnetic media, film and microfilm.

### 1.8 Legal Terms

References to any English legal term shall, in respect of any jurisdiction other than England and Wales, be construed as references to the term or concept which most nearly corresponds to it in that jurisdiction.



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**1.9 Non-limiting effect of words**

The words “including”, “include”, “in particular” and words of similar effect shall not be deemed to limit the general effect of the words that precede them.

**1.10 Currency conversion**

Any amount to be converted from one currency into another currency for the purposes of this Deed shall be converted into an equivalent amount at the Conversion Rate prevailing at the Relevant Date. For the purposes of this Clause 1.10:

“**Conversion Rate**” means the spot reference rate for a transaction between the two currencies in question as quoted by the European Central Bank on the Business Day immediately preceding the Relevant Date or, if no such rate is quoted on that date, on the preceding date on which such rates are quoted;

“**Relevant Date**” means, save as otherwise provided in this Deed, the date on which a payment or an assessment is to be made, save that, for the following purposes, the date shall mean:

- (i) for the purposes of paragraph 5 of Schedule 1, the date of this Deed;
- (ii) for the purposes of paragraph 7 of Schedule 1 and Appendices 16 (*Post Option Closing*) and 22 (*Statement of Net Assets*) to Schedule 1, the Option Closing Date;
- (iii) for the purposes of paragraph 10 of Schedule 1, the date of this Deed; or
- (iv) for the purposes of the monetary amounts set out in Appendix 18 (*Warranties given under paragraph 9.1*) to Schedule 1, the date of this Deed.

**2 Put Option**

**2.1 The Option**

The Purchaser irrevocably grants to Novartis (for itself and on behalf of the relevant members of the Novartis Group), in consideration for the payment of US\$5 million (the “**Put Option Price**”) in accordance with Clause 2.4, an option (the “**Put Option**”) to require the Purchaser to purchase, or procure the purchase by one or more other members of the Purchaser’s Group of, any one of the following asset combinations as specified by Novartis at its sole discretion:

- 2.1.1** the Option 1 Assets;
- 2.1.2** the Option 2 Assets;
- 2.1.3** the Option 3 Assets;
- 2.1.4** the Option 2 Assets and some or all of the Option 4 Assets;
- 2.1.5** the Option 3 Assets and some or all of the Option 4 Assets; or
- 2.1.6** some or all of the Option 4 Assets,

from Novartis or the relevant members of the Novartis Group on the terms and subject to the conditions of this Deed.



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**2.2 Exercise**

**2.2.1** The Put Option is exercisable by notice in writing from Novartis to the Purchaser given at any time during the period which:

- (i) starts on (and includes) the earlier of: (A) the date falling nine months following the date of this Deed or, if a Class 1 Transaction for the Purchaser is then pending completion, the day after such Class 1 Transaction has completed; and (B) the date falling 18 months after the date of this Deed; and
- (ii) ends on (and includes) the date falling 18 months later,

(the “**Exercise Period**”). Such notice shall specify (in accordance with Clause 2.1) in respect of which combination of assets the Put Option is being exercised, including in the case of any combination which includes Option 4 Assets, which specific products (from the list in Schedule 4).

**2.2.2** The date on which the Purchaser is deemed, pursuant to Paragraph 15.11 of Schedule 1, to receive the notice served by Novartis pursuant to Clause 2.2.1 shall be the “**Option Exercise Date**”.

**2.2.3** The Put Option may be exercised only once.

**2.3 Sale and Purchase**

Service of a notice by Novartis pursuant to Clause 2.2.1 shall, subject to the conditions set out in Schedule 1, oblige the Purchaser to purchase or procure the purchase by a member of the Purchaser’s Group and Novartis to sell or procure the sale of the Option Assets as specified by Novartis in the notice of exercise pursuant to Clause 2.1 and Clause 2.2 (the “**Relevant Option Assets**”) on the terms set out in Schedule 1.

**2.4 Payment of Put Option Price**

**2.4.1** Novartis shall pay the Option Price to the Purchaser as follows:

- (i) US\$1 million within 60 Business Days of the date of this Deed; and
- (ii) US\$4 million within 5 Business Days of the start of the Exercise Period,

in each case in immediately available funds to the bank account notified to Novartis by the Purchaser.

**2.4.2** If Novartis exercises its termination right in Clause 3.2(ii) prior to one or both of the payments in Clause 2.4.1 being made, it shall pay the amount of the Option Price not paid in immediately available funds (and without any deduction or withholding, save as required by law) to the bank account notified to Novartis by the Purchaser within five Business Days of it exercising such termination right.

**2.4.3** If Novartis makes any payments pursuant to Clause 2.4.2 and the Vaccines SAPA then terminates or is terminated in accordance with its terms, the Purchaser shall refund any such payment to Novartis within 5 Business Days of termination of the Vaccines SAPA.

**2.4.4** The provisions of paragraphs 3.4.2 (VAT) and 15.10 (Grossing up) of Schedule 1 shall apply to payments of the Put Option Price *mutatis mutandis*, treating references to the “Purchase Price” as references to such payment, and references to Belgium as references to the United Kingdom.



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**3 Termination**

**3.1 Termination for non-exercise or transaction failure**

The Put Option will terminate with immediate effect if:

- 3.1.1 the Put Option is not validly exercised during the Exercise Period; or
- 3.1.2 any of the Implementation Agreement, the Vaccines SAPA, the Oncology SAPA or the Consumer Contribution Agreement terminates or is terminated in accordance with its terms.

**3.2 Other termination rights**

This Deed may be terminated at any time, with immediate effect, prior to Option Closing:

- (i) by written consent of Novartis and the Purchaser; or
- (ii) by Novartis giving written notice to the Purchaser.

**3.3** If this Deed is terminated pursuant to Clause 3.1 or 3.2, this Deed shall be of no further force and effect and there shall be no further liability on the part of any party (and in particular, the Purchaser shall have no liability under Clause 4), except that Clauses 1, 2.4 and this Clause 3, and Paragraphs 13 and 15 of Schedule 1 in each case, to the extent applicable, shall survive any termination.

**3.4 Termination upon non-satisfaction of conditions**

If:

- 3.4.1 Novartis has validly exercised the Put Option in accordance with Clause 2.2; and
- 3.4.2 the conditions set out in paragraph 4 of Schedule 1 are not satisfied or waived on or before the date falling 18 months after the Option Exercise Date (the “**Option Long Stop Date**”),

this Deed shall automatically terminate and there shall be no further liability on the part of any party, except that Clauses 1, 2.4, this Clause 3, Clause 4 and Paragraphs 13 and 15 of Schedule 1, in each case to the extent applicable, shall survive any termination.

**3.5** Nothing in this Clause 3 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Deed prior to termination of this Deed.



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4 Payment of Compensation / Disposal after Payment of Compensation

4.1 Payment of Compensation

4.1.1 If:

- (i) Novartis has validly exercised the Put Option in accordance with Clause 2.2;
- (ii) any of the conditions in paragraph 4.1 of Schedule 1 are not satisfied or waived on or before the Option Long Stop Date;
- (iii) Novartis has complied with its obligations under paragraph 4.2 of Schedule 1, other than in any respect which is immaterial in its contribution to the non-satisfaction of such conditions; and
- (iv) had all of the conditions in paragraph 4.1 of Schedule 1 been satisfied or waived, Novartis would have been capable of performing its obligations at Option Closing had it occurred in accordance with Schedule 1,

the Purchaser shall pay to Novartis or to such member of the Novartis Group as Novartis may direct by way of compensation the full amount of the Headline Price for the Relevant Option Assets which would have been payable to Novartis at Option Closing pursuant to Paragraph 3 of Schedule 1 had the relevant condition(s) been satisfied (the “**Compensation Amount**”).

4.1.2 In the event that the Compensation Amount becomes payable, the Purchaser shall pay or procure the payment of the Compensation Amount within five Business Days of the Option Long Stop Date in immediately available funds (and without any deduction or withholding, save as required by law) to the bank account notified to the Purchaser by Novartis.

4.1.3 If any deduction or withholding is required by law to be made from any payment required to be made pursuant to Clause 4.1.2 then the Purchaser shall be obliged to pay to Novartis such sum as will, after the deduction or withholding has been made, leave Novartis with the same amount as it would have been entitled to receive in the absence of any such requirement to make a deduction or withholding. If the Purchaser thus makes an increased payment and Novartis, in respect of the Tax that gave rise to such increased payment, receives and utilises a loss, relief, allowance or credit in respect of any Tax or any deduction in computing its income, profits or gains for the purposes of any Tax, Novartis shall reimburse the Purchaser with such amount as shall leave Novartis in the same position as Novartis would have been in had no such deduction or withholding been required to be made.

4.1.4 The parties anticipate that any payment to be made pursuant to Clause 4.1.2 would not be treated as the consideration for a taxable supply for VAT purposes. If any Tax Authority determines that any such payment (the “**Relevant Payment**”) is the consideration for a taxable supply then the Relevant Payment shall be inclusive of any amounts in respect of VAT but shall be subject to adjustment on the following basis:

- (i) if the Purchaser (or the representative member of its VAT group) is liable to account for VAT under a reverse charge mechanism, to the extent that the Purchaser (or such representative member) is not entitled to recover such VAT from the relevant Tax Authority, the Relevant Payment shall be reduced such that the aggregate of the reduced payment and any irrecoverable VAT in respect thereof equals the original amount of the Relevant Payment; and



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- (ii) if Novartis (or the representative member of its VAT group) is liable to account for VAT, Novartis shall issue a valid VAT invoice to the Purchaser and the amount of the Relevant Payment (inclusive of amounts in respect of VAT) shall be increased by the amount which the Purchaser (or the representative member of its VAT group) is entitled to recover as an input tax in respect thereof.

**4.1.5** The parties agree that in the event the Compensation Amount becomes payable pursuant to Clause 4.1.1, Novartis shall not have any other rights or remedies under, or in connection with, this Deed against the Purchaser.

**4.1.6** The parties agree that nothing in Clauses 4.1.1 and (if applicable) 4.1.3 and 4.1.4 of this Deed shall oblige the Purchaser to pay an aggregate amount under such Clause which is more than the maximum amount permitted under the Listing Rules.

**4.2 Disposal after payment of compensation**

**4.2.1** If:

- (i) one or more Relevant Events occurs during the Relevant Period; and
- (ii) Novartis or any member of the Novartis Group has received from the Purchaser payment of the Compensation Amount pursuant to Clause 4.1.1,

Novartis agrees to pay or procure payment to the Purchaser by way of a refund of the Compensation Amount an amount equal to the value of any cash or non-cash consideration received by Novartis or any member of the Novartis Group in connection with such Relevant Event or Relevant Events (net of any Taxes or out-of-pocket costs or expenses incurred by Novartis and any member of the Novartis Group in connection with such Relevant Event or Relevant Events) (the “**Value Received**”) up to an amount equal to the Compensation Amount received, (net of any Taxes incurred by the Novartis Group in respect thereof), provided that Novartis shall not be required to make any payment pursuant to this Clause 4.2.1 unless the Value Received is equal to or in excess of US\$7.5 million (or the equivalent in another currency). Where the Value Received is equal to or in excess of US\$7.5 million (or the equivalent in another currency), the liability of Novartis shall be for an amount equal to the whole of the Value Received and not just the excess. Clauses 4.1.3 and 4.1.4 shall apply to any payment to be made pursuant to this Clause 4.2.1, *mutatis mutandis*.

**4.2.2** Each of the following shall constitute a “**Relevant Event**” for the purposes of Clause 4.2.1:

- (i) the sale of any (or any part of any) of the Relevant Option Assets to a Third Party Purchaser either as a single transaction or by a number of transactions, excluding a sale of any (or any part of any) of the Relevant Option Assets to another member of the Purchaser’s Group;
- (ii) any transaction, or series of transactions, the effect of which is to transfer ownership, or the ability to direct or control the use of, or to transfer the economic benefit of, any (or any part of any) of the Relevant Option Assets from the Novartis Group to one or more Third Party Purchasers;



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- (iii) the grant of any option or the making or signing of or entry into any agreement to effect any of the foregoing; or
- (iv) any other transaction entered into or arrangement or agreement made by Novartis or any member of the Novartis Group that has substantially the same effect as any of the foregoing.

**4.2.3** As soon as reasonably practicable after becoming aware that a Relevant Event will or is reasonably likely to occur in the Relevant Period, Novartis shall, unless prohibited by Applicable Law, give written notice to the Purchaser setting out such details as the Purchaser may reasonably require regarding the identity of the Third Party Purchaser or Third Party Purchasers and the timetable upon which it is envisaged that the Relevant Event will or may occur.

**4.2.4** Any payment to be made pursuant to this Clause 4.2 shall be made by Novartis in immediately available funds (and without any deduction or withholding, save as required by law or provided for in Clause 4.2.1) to the bank account notified to Novartis by the Purchaser within five Business Days of Novartis having received the relevant consideration. It is acknowledged that more than one payment may be required by this Clause 4.2.

**4.2.5** Novartis undertakes to the Purchaser that it shall act in good faith in relation to this Clause 4.2.

**5 Sale to Third Party Purchaser and Separation**

**5.1 No Restriction**

**5.1.1** The Purchaser acknowledges and agrees that, subject to Clause 5.2.1, Novartis shall not be subject to any restrictions on selling any of the Option Assets to a Third Party Purchaser after the date of this Deed.

**5.1.2** Novartis agrees to use its reasonable endeavours to sell the Option Assets to one or more Third Party Purchasers prior to the start of the Exercise Period on such terms as Novartis may in its sole discretion determine.

**5.1.3** If, otherwise than pursuant to the sale of the Option 1 Assets to a Third Party Purchaser, any member of the Novartis Group disposes of or transfers (or agrees to dispose of or transfer) any Intellectual Property Rights used in or held for use in relation to any of the Option Assets to a Third Party Purchaser prior to the Option Exercise Date (“**Third Party Purchaser Intellectual Property Rights**”) and, after the signing of the relevant disposal or transfer agreement, Novartis exercises the Put Option in respect of any of the Option Assets (excluding the Option 1 Assets), Novartis (and any relevant member(s) of the Novartis Group) shall, or shall procure (under the relevant disposal or transfer agreement(s) or otherwise) that the Third Party Purchaser shall, upon the Option Closing Date, grant the Purchaser and each relevant member of the Purchaser’s Group a non-exclusive irrevocable, perpetual, fully paid-up, royalty-free, freely-assignable, worldwide licence or sub-licence (to the extent permissible under any relevant intellectual property rights contract), with a right to sub-licence, to use the Third Party Purchaser Intellectual Property Rights in relation to the Relevant Option Assets in the manner (if any), and to the extent, that such Third Party Purchaser Intellectual Property Rights were used in relation to the Relevant Option Assets as at the earlier of the date of closing of the relevant disposal or transfer agreement or the Option Closing Date.



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**5.1.4** If the terms of any relevant intellectual property rights contract do not permit the sub-licensing to the Purchaser's Group as contemplated in Clause 5.1.3 above, Novartis and the Purchaser shall discuss in good faith and each use reasonable endeavours to agree an arrangement for giving the Purchaser's Group the benefits of any such contract that would have been enjoyed by the Purchaser's Group but for the terms of the contract not permitting such sub-licensing.

**5.2 Notification**

**5.2.1** In respect of a sale of any Option Assets by Novartis or a member of the Novartis Group to a Third Party Purchaser, Novartis agrees subject to Applicable Laws, to keep the Purchaser updated as to the progress of any such sale to a Third Party Purchaser by:

- (i) providing updates to the Purchaser, at such times as the Purchaser may reasonably request, as to the status of Novartis's endeavours to sell the Option Assets;
- (ii) giving notice to the Purchaser of Novartis or any of its Affiliates providing access to business information relating to the Option Assets to a Third Party Purchaser in contemplation of a sale of any Option Assets, but without providing information as to the identity of the Third Party Purchaser;
- (iii) providing updates to the Purchaser following the entry into force of this Deed as to the number of Third Party Purchasers that have access from time to time to business information relating to the Option Assets in contemplation of a sale of any Option Assets, but without providing information as to the identity of those Third Party Purchasers; and
- (iv) giving notice to the Purchaser of a firm intention by Novartis or any of its Affiliates to enter into an agreement with a Third Party Purchaser in relation to the sale of any Option Assets, together with the identity of the Option Assets that are intended to form the subject of the sale and the identity of that Third Party Purchaser.

**6 Application of provisions of Schedule 1**

**6.1.1** The provisions of Schedule 1 shall become effective as if set out in this Deed and on the basis set out in Clause 6.1.2 from and including the Option Exercise Date (or as stated expressly or impliedly in Schedule 1), except that:

- (i) Paragraph 15 shall apply with effect from and including the date of this Deed and shall govern the operative Clauses of this Deed, as well as the provisions of Schedule 1; and
- (ii) Paragraph 1 shall apply with effect from the date of this Deed to the extent that it contains defined terms and interpretive provisions relating to the Paragraphs of Schedule 1 that shall apply with effect from and including the date of this Deed in accordance with Clause 6.1.1.(i); and



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- (iii) Paragraphs 2.3.5, 2.3.6, 2.4.1 (only to the extent that such paragraph applies to Paragraph 10 of Appendix 10), 5.1, 5.2, 5.3, 5.4, 9, 10, 11 and 13 shall apply with effect from and including the date of this Deed.
- 6.1.2** If the Put Option is exercised in respect of the asset combination set out in Clause 2.1.1 (the Option 1 Assets), Schedule 1 shall apply without amendment.
- 6.1.3** If the Put Option is exercised in respect of any of the asset combinations set out in Clauses 2.1.2 to 2.1.6, with effect from the Option Exercise Date Schedule 1 shall be amended as follows (more than one may apply):
  - (i) if the asset combination includes the Option 2 Assets, Schedule 1 shall apply as amended on the basis set out in Schedule 2;
  - (ii) if the asset combination includes the Option 3 Assets, Schedule 1 shall apply as amended on the basis set out in Schedule 3; and
  - (iii) if the asset combination includes the Option 4 Assets, Schedule 1 shall apply as amended on the basis set out in Schedule 4.
- 6.1.4** References in this Deed to Schedule 1 shall, where applicable, be construed as references to Schedule 1 as amended in accordance with Clause 6.1.3.





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**Execution Version**

**Schedule 1**

**Influenza Business – Terms and Conditions of Sale and Purchase**



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Execution Version

Schedule 1

Influenza Business – Terms and Conditions of Sale and Purchase

1 Interpretation and amendment post signing

Clause 1 of this Deed shall apply to this Schedule 1 and, as such, capitalised terms used in this Deed shall have the meanings given to them in this Deed. In this Deed, unless the context requires otherwise, the further interpretative provisions of this Paragraph 1 apply:

1.1 Definitions

“**Accounts**” means the audited financial statements of each of the Company and Novartis Vaccines and Diagnostics Limited, prepared in accordance with legislation as in force and applicable to each respective company for the accounting reference period ended on the Accounts Date, comprising the balance sheet, the profit and loss account and the notes to the accounts;

“**Accounts Date**” means 31 December 2012;

“**Action**” means the taking of any steps by any Governmental Entity to seek a Judgment which would have the effect of preventing the consummation of the transactions contemplated by this Deed by the Purchaser;

“**Affiliate Contract**” means a Contract between or among any member of the Novartis Group (other than the Influenza Group Companies) on the one hand, and any Influenza Group Company on the other hand, but excluding any Ancillary Agreement;

“**Agreed Terms**” means, in relation to a document, such document in the terms agreed between Novartis and the Purchaser and signed for identification purposes by the Novartis’s Lawyers and the Purchaser’s Lawyers, with such alterations as may be agreed in writing between Novartis and the Purchaser from time to time;

“**Allocation**” has the meaning given to it in paragraph 1 of Appendix 13;

“**Ancillary Agreements**” means the Local Transfer Documents, Disclosure Letter, the Option Exercise Date Disclosure Letter, the Tax Indemnity, the Transitional Services Agreement, the Manufacturing and Supply Agreement, the Manufacturing, Supply and Distribution Agreement, the Purchaser Intellectual Property Licence Agreement, the Intellectual Property Assignment Agreements and the Pharmacovigilance Agreement;

“**Anti-Bribery Law**” means any Applicable Law that relates to bribery or corruption, including the US Foreign Corrupt Practices Act of 1977 and the UK Bribery Act 2010, in each case as amended, re-enacted or replaced from time to time;

“**Applicable Law**” means any supra-national, federal, national, state, municipal or local statute, law, ordinance, regulation, rule, code, order (whether executive, legislative, judicial or otherwise), judgment, injunction, notice, decree or other requirement or rule of law or legal process (including common law), or any other order of, or agreement issued, promulgated or entered into by, any Governmental Entity or any rule or requirement of any national securities exchange, including all Healthcare Laws, and GCP, GLP, and GMP, each as may be amended from time to time;

“**Appointment Notice**” has the meaning given to it in paragraph 1.4 of Appendix 16;



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“**Associated Person**” means, in relation to the Novartis Group, a person (including any director, officer, employee, agent or other intermediary) who performs services for or on behalf of any member of the Novartis Group or who holds shares of capital stock, partnership interests, limited liability company membership interests and units, shares, interest and other participations in any member of the Novartis Group (in each case when performing such services or acting in such capacity);

“**Assumed Liabilities**” means all Liabilities relating to the Influenza Group Businesses other than: (i) the Excluded Liabilities; (ii) any Relevant Pension and Employment Liability; and (iii) any Liabilities in respect of Tax (other than Tax which has been provided for or reflected in the Option Closing Statement) or which have been assumed by the Purchaser’s Group under an express provision of this Deed;

“**Benefit Plans**” means the US Benefit Plans and the Non-US Benefit Plans;

“**Business**” means the Cell-based Influenza Business and the Egg-based Influenza Business, taken together;

“**Business Information**” means: (i) Commercial Information; (ii) Medical Information; and (iii) any other information Predominantly Related to the Business;

“**Business Sellers**” means the members of the Novartis Group (other than the Influenza Group Companies) that own assets of or otherwise conduct any of the Influenza Group Businesses;

“**Call for New Tender**” means any calls for a tender (including any tender for a basket of products), whether a new tender or the renewal of an existing tender, which includes the Products and which is published after Option Closing of which Novartis and/or any of Novartis’s Affiliates become aware and which relates in whole or in part to the sale of Products;

“**Cash Balances**” means cash in hand or credited to any account with a financial institution and securities which are readily convertible into cash;

“**Cash Pooling Arrangements**” means the cash pooling arrangements of members of the Novartis Group in which the Influenza Group Companies participate;

“**Cell-based Influenza Business**” means:

- (v) the business conducted by the Novartis Group from time to time of research, development, manufacture, sales, distribution, marketing and commercialisation of:
  - (a) influenza Vaccines using cell-based technologies, including such business conducted at the Holly Springs Site;
  - (b) adjuvants conducted at the Holly Springs Site; and
  - (c) other Vaccines products to the extent that such business is conducted or contemplated to be conducted by the Novartis Group at the Holly Springs Site in accordance with its obligations to, or as requested by, the US government or regulatory authorities; and
- (vi) technical development, manufacturing and supply of Enoxaparin, Copaxone or any other pharmaceutical or biological products (other than Vaccines) at the Holly Springs Site, including, but not limited to, pursuant to agreements or arrangements with Sandoz Inc. or its Affiliates;



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“CFIUS” means the Committee on Foreign Investment in the United States;

“CFIUS Approval” means written notice from CFIUS that any review or investigation of the Transaction under Section 721 of the Defense Production Act of 1950, as amended (50 U.S.C. App. Section 2170), has been concluded and there are no unresolved national security concerns with respect to the Transaction or the President shall have determined not to take action with respect to the Transaction;

“CFIUS Filing” has the meaning given to it in Paragraph 4.2.3(ii);

“Clinical Trials/Data Liability” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the conduct of, or reporting or data in relation to, clinical studies or trials (including post-approval studies) in relation to the Influenza Group;

“COBRA” means the Consolidated Omnibus Budget Reconciliation Act of 1985 of the United States, as amended, section 4980B of the Code, Title I Part 6 of ERISA, and any similar US state group health plan continuation law, together with its implementing regulations;

“Code” means the U.S. Internal Revenue Code of 1986, as amended, together with its implementing regulations;

“Commercial Information” means information that is, as of the Option Closing Date, owned by Novartis and/or its Affiliates and relates predominantly to the Commercialisation of any Product;

“Commercial Practices Liability” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the Commercialisation of products;

“Commercialise” means to promote, market, distribute and/or sell a Product and “Commercialising” and “Commercialisation” shall be construed accordingly;

“Company” means Novartis Vaccines Holdings Limited, details of which are set out in paragraph 1 of Appendix 2;

“Company Lease” has the meaning given to it in paragraph 1.1 of Part 3 of Appendix 3;

“Company Leased Real Properties” has the meaning given to it in paragraph 1.1 of Part 3 of Appendix 3;

“Company Owned Real Properties” has the meaning given to it in paragraph 1.1 of Part 3 of Appendix 3;

“Company Real Properties” means the Company Owned Real Properties and the Company Leased Real Properties, and “Company Real Property” means any one of them;

“Contracts Liabilities” means Liabilities relating to the: (i) Transferred Contracts; (ii) Transferred Intellectual Property Contracts; and (iii) all other contracts or parts thereof transferred, assigned, novated or assumed by the Purchaser pursuant to this Deed or to which an Influenza Group Company is or was a party or under which an Influenza Group Company has any Liability, and a “Contracts Liability” shall mean any one of them;

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“**Co-Owned Influenza Group Intellectual Property Right**” means any Influenza Group Intellectual Property Rights or any MF59<sup>®</sup> Intellectual Property Rights that are owned in part by a third party;

“**Copyright**” means any works of authorship, copyrights, database rights, mask work rights and registrations and applications therefor;

“**Decision**” means the issuing of any decision by a competition, antitrust, foreign investment, national, local, supranational or supervisory or other government, governmental, quasi-governmental, trade, or regulatory body, agency, branch, subdivision, department, commission, official or authority, including any Tax Authority and any governmental department and any court or other tribunal, that would have the effect of prohibiting the acquisition of the Influenza Group by the Purchaser;

“**Deferred Employee**” means any person to whom Novartis, any Influenza Group Company or any other member of the Novartis Group has made an offer of employment for a role in the Business in compliance with Paragraph 5 and whose employment in the Business will take effect on a date following the Option Closing Date, save that no person shall become a Deferred Employee unless and until Novartis has provided to the Purchaser a copy of the offer letter setting out the agreed principal terms of employment and/or employment agreement (if executed) applicable to such person;

“**Disclosure Letter**” means the letter dated on the same date as this Deed from Novartis to the Purchaser disclosing information constituting exceptions to Novartis’s Warranties;

“**Draft Option Closing Statement**” has the meaning given to it in Paragraph 7.1;

“**Effective Time**” means 11.59 p.m. (local time in the relevant location) on the Option Closing Date or, if the Option Closing Date is not the last day of a month but the first Business Day of a month, 11.59 p.m. on the last day of the immediately preceding month;

“**Egg-based Influenza Business**” means the business conducted by the Novartis Group from time to time of research, development, manufacture, sales, distribution, marketing and commercialisation of influenza Vaccines and other products using egg-based technologies and related adjuvant technologies;

“**Election Date**” has the meaning given in Paragraph 4.2.3(ii);

“**Employee Benefit Indemnification Amount**” has the meaning given to it in Appendix 11;

“**Employee Benefits**” has the meaning given to it in Appendix 11;

“**Employees**” means the Influenza Business Employees and the Influenza Group Company Employees, and “**Employee**” means any one of them;

“**Encumbrance**” means any claim, charge, mortgage, lien, option, equitable right, power of sale, pledge, hypothecation, usufruct, retention of title, right of pre-emption, right of first refusal or other security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing, and for the avoidance of doubt, shall exclude any licences of or claims of infringement relating to, Intellectual Property Rights;

“**Environmental Laws**” means any and all Applicable Law regulating or imposing Liability or standards of conduct concerning pollution or protection of the environment (including surface water, groundwater or soil);



**Execution Version**

“**Environmental Liabilities**” means any Liability arising out of, relating to or resulting from any Environmental Law or environmental, health or safety matter or condition, including natural resources, but excluding any Product Liability;

“**Environmental Permit**” means any permit, licence, consent or authorisation required by Environmental Laws issued by any relevant competent authority and used in relation to the operation or conduct of Manufacturing at each Property, and “**Environmental Permit**” shall be construed accordingly;

“**ERISA**” means the Employee Retirement Income Security Act of 1974 of the United States, as amended, together with its implementing regulations;

“**Estimated Influenza Group Companies’ Cash Balances**” means Novartis’s reasonable estimate of the aggregate of the Influenza Group Companies’ Cash Balances, to be notified by Novartis to the Purchaser pursuant to Paragraph 6.4;

“**Estimated Employee Benefit Adjustment**” means Novartis’s reasonable estimate (in so far as practicable), made in good faith after consulting with the Purchaser, of 95 per cent. of the anticipated aggregate of the Employee Benefit Indemnification Amounts, to be notified by Novartis to the Purchaser pursuant to Paragraph 6.4;

“**Estimated Intra-Group Non-Trade Payables**” means Novartis’s reasonable estimate of the Intra-Group Non-Trade Payables, to be notified by Novartis to the Purchaser pursuant to Paragraph 6.4;

“**Estimated Intra-Group Non-Trade Receivables**” means Novartis’s reasonable estimate of the Intra-Group Non-Trade Receivables, to be notified by Novartis to the Purchaser pursuant to Paragraph 6.4;

“**Estimated Tax Adjustment**” means Novartis’s reasonable estimate of the Tax Adjustment, to be notified by Novartis to the Purchaser pursuant to Paragraph 6.4;

“**Estimated Third Party Indebtedness**” means Novartis’s reasonable estimate of the Third Party Indebtedness, to be notified by Novartis to the Purchaser pursuant to Paragraph 6.4;

“**Excluded Assets**” means the property, rights and assets referred to in Paragraph 2.3.2;

“**Excluded Contracts**” means, collectively, each Contract which is not Predominantly Related to the Business;

“**Excluded Employees**” means any Influenza Group Company Employees who do not work wholly or substantially in the Business, and such other employees as may be agreed in writing between Novartis and the Purchaser after the date of this Deed but before the Option Closing Date;

“**Excluded Liabilities**” means:

- (vii) all Liabilities
    - (a) relating to the Influenza Group Businesses other than to the extent taken into account in the Option Closing Statement; and
    - (b) of the Influenza Group Companies (other than Liabilities in respect of Tax),
- in either case, to the extent that they have arisen or arise (whether before or after Option Closing) as a result of, or otherwise relate to, an act, omission, fact, matter, circumstance or event undertaken, occurring, in existence or arising before Option Closing, other than any Relevant Pension and Employment Liability and any Liabilities in respect of Tax provided for or reflected in the Option Closing Statement; and



**Execution Version**

(viii) all Liabilities relating to the Novartis Group Retained Business and the Excluded Assets;

“**Exclusively Related to the Business**” means exclusively related to, or exclusively used or held for use exclusively, in connection with the Business;

“**FDA**” means the United States Food and Drug Administration (or its successor);

“**Final Allocation Schedule**” has the meaning given to it in paragraph 4 of Appendix 13;

“**Final Payment Date**” means five Business Days after the date on which the process described in Part 1 of Appendix 16 for the preparation of the Option Closing Statement is complete;

“**FSAs**” has the meaning given to it in paragraph 7.1 of Appendix 10;

“**FSMA**” means the Financial Services and Markets Act 2000;

“**Full Title Guarantee**” means on the basis that the covenants implied under Part 1 of the Law of Property (Miscellaneous Provisions) Act 1994 where a disposition is expressed to be made with full title guarantee are deemed to be given by Novartis (on behalf of the relevant Share Seller or Business Seller) on Option Closing;

“**Governmental Entity**” means any supra-national, federal, national, state, county, local, municipal or other governmental, regulatory or administrative authority, agency, commission or other instrumentality, any court, tribunal or arbitral body with competent jurisdiction, or any national securities exchange or automated quotation service including, any governmental regulatory authority or agency responsible for the grant approval, clearance, qualification, licensing or permitting of any aspect of the research, development, manufacture, marketing distribution or sale of the Products including the FDA, the European Medicines Agency, or any successor agency thereto;

“**Governmental Liability**” means any Liability arising out of, relating to or resulting from any claim, demand, action, suit, proceedings or investigation by a Governmental Entity (other than a Tax Authority) brought or undertaken in connection with products sold or developed by, or operations or practices of, the Influenza Group prior to Option Closing;

“**Hazardous Substance**” means any gasoline or petroleum products, polychlorinated biphenyls, urea-formaldehyde insulation, hazardous wastes, toxic substances, asbestos, pollutants, or contaminants defined as such in or regulated under any applicable Environmental Law;

“**Headline Price**” has the meaning given to it in Paragraph 3.1.1(i);

“**Holly Springs Site**” means the Properties located in Holly Springs, North Carolina, United States of America at which the Business undertakes Manufacturing activities;

“**HSR Act**” means the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, together with its implementing regulations;



## Execution Version

“**IFRS**” means International Financial Reporting Standards, comprising the accounting standards and interpretations issued, adopted and/or approved by the International Accounting Standards Board;

“**In-Market Inventory**” means all inventory of Products for Commercialisation that, at any particular time: (i) is beneficially owned by a member of the Novartis Group; and (ii) is in finished packed form and released for Commercialisation; and (iii) is located: (a) in (or in transit to) the relevant Market; or (b) in (or in transit to) a multi-market warehouse owned or operated by a member of the Novartis Group or by a third party; or (c) at a Property pending despatch following release by the relevant qualified person to the relevant market or multi-market warehouse;

“**Indebtedness**” means all loans and other financing liabilities and obligations in the nature of borrowed moneys and overdrafts and moneys borrowed, but excluding trade debt and liabilities arising in the ordinary course of business;

“**Influenza Business Employees**” means the employees of any member of the Novartis Group who work wholly or substantially in the Business from time to time including, for the avoidance of any doubt, the International Assignees other than the Influenza Group Company Employees, the Excluded Employees and the Shared Employees and provided that, in relation to Novartis’s Warranties only, the words “from time to time” shall be deemed to be replaced by “at the date of this Deed” or “at the Option Exercise Date” (as applicable) and “**Influenza Business Employee**” means any one of them;

“**Influenza Group**” means the Influenza Group Companies and the Influenza Group Businesses, taken as a whole;

“**Influenza Group Businesses**” means the assets of the Business as set out in Paragraph 2.3.1, but subject always to Paragraph 2.3.2;

“**Influenza Group Companies**” means the Company and the Subsidiaries, and “**Influenza Group Company**” means any one of them;

“**Influenza Group Companies’ Cash Balances**” means the aggregate amount of the Cash Balances held by or on behalf of the Influenza Group Companies at the Effective Time;

“**Influenza Group Company Employees**” means the employees from time to time of any of the Influenza Group Companies other than the Excluded Employees, and provided that, in relation to Novartis’s Warranties only, the words “from time to time” shall be deemed to be replaced by “at the date of this Deed” or “at the Option Exercise Date” (as applicable), and “**Influenza Group Company Employee**” means any one of them;

“**Influenza Group Goodwill**” means all goodwill of the Influenza Group Businesses, but excluding any Trademark goodwill;

“**Influenza Group Information Technology**” means the Transferred Information Technology and the Owned Information Technology;

“**Influenza Group Insurance Policies**” means all insurance policies held exclusively by and for the benefit of the Influenza Group Companies and “**Influenza Group Insurance Policy**” means any one of them;

“**Influenza Group Intellectual Property Contracts**” means the Transferred Intellectual Property Contracts and the Owned Intellectual Property Contracts;



**Execution Version**

“**Influenza Group Intellectual Property Rights**” means the Transferred Intellectual Property Rights and the Owned Intellectual Property Rights;

“**Influenza Patent**” means any Influenza Group Intellectual Property Right which is a Patent;

“**Information Technology**” means computer, hardware, software and network;

“**Intellectual Property Assignment Agreements**” means the assignments between Novartis and/or one or more of its Affiliates and the Purchaser and/or one or more of its Affiliates on terms consistent with the Agreed Terms, to be entered into at Option Closing, in respect of the transfer of certain Intellectual Property Rights in each of the relevant jurisdictions;

“**Intellectual Property Rights**” means all (i) Patents; (ii) Know-How; (iii) Trademarks; (iv) internet domain names; (v) Copyrights; (vi) rights in designs; (vii) database rights; and (viii) all rights or forms of protection, anywhere in the world, having equivalent or similar effect to the rights referred to in paragraphs (i) to (vii) above, in each case, whether registered or unregistered and including applications for registration of any such thing;

“**International Assignees**” means such employees as may be agreed in writing between Novartis and the Purchaser after the date of this Deed but before the Option Closing Date;

“**Intra-Group Non-Trade Payables**” means all outstanding loans or other financing liabilities or obligations (including, for the avoidance of doubt, interest accrued, dividends declared or payable but not paid) owed by an Influenza Group Company to a member of the Novartis Group (other than an Influenza Group Company) as at the Effective Time as derived from the Option Closing Statement, but excluding: (i) Intra-Group Trading Balances; and (ii) any item which falls to be included in calculating the Influenza Group Companies’ Cash Balances or the Third Party Indebtedness;

“**Intra-Group Non-Trade Receivables**” means all outstanding loans or other financing liabilities or obligations (including, for the avoidance of doubt, interest accrued, dividends declared or payable but not paid) owed by a member of the Novartis Group (other than an Influenza Group Company) to an Influenza Group Company as at the Effective Time as derived from the Option Closing Statement, but excluding: (i) Intra-Group Trading Balances; and (ii) any item which falls to be included in calculating the Influenza Group Companies’ Cash Balances or the Third Party Indebtedness;

“**Intra-Group Trading Balances**” means all trade accounts and notes receivable or payable arising in the ordinary course between any two members of the Novartis Group, in each case to the extent related to the Business, to which lines “BS01\_630 Payables Other BU’s”, “BS01\_140 Receivables Other BU’s”, “BS01\_620 Payables Own BU” and “BS01\_130 Receivables Own BU” of the Statement of Net Assets apply, together with any unpaid financing charges accrued thereon;

“**IP Liability**” means any Liability arising out of, relating to or resulting from any actual or alleged infringement, misappropriation or other violation of Intellectual Property Rights of third parties;

“**Judgment**” means any order, writ, judgment, injunction, decree, stipulation, determination, decision or award entered into by or with any Governmental Entity of competent jurisdiction;

“**Key Sites**” means the Holly Springs Site and the Liverpool Site, each being a “**Key Site**”;



## Execution Version

“**Know-How**” means all existing and available technical information, know-how and data, including inventions (whether patentable or not), discoveries, trade secrets, specifications, instructions, processes and formulae, including all biological, chemical, pharmacological, biochemical, toxicological, pharmaceutical, physical, safety, quality control, preclinical and clinical data;

“**Lease**” has the meaning given to it in paragraph 1.1 of Part 4 of Appendix 3;

“**Liabilities**” means all liabilities, claims, damages, proceedings, demands, orders, suits, costs, losses and expenses of every description, whether deriving from contract, common law, statute or otherwise, whether present or future, actual or contingent, ascertained or unascertained or disputed and whether owed or incurred severally or jointly or as principal or surety;

“**LIBOR**” means the London interbank offered rate, being the interest rate offered in the London inter-bank market for three month US dollar deposits as displayed on pages LIBOR01 or LIBOR02 of the Reuters screen at 11 a.m. (London) on the second Business Day prior to the Option Closing Date;

“**Licensed Intellectual Property Contract**” means any Influenza Group Intellectual Property Contract constituting or containing a licence of Intellectual Property Rights in respect of the Business or Products;

“**Liverpool Site**” means the Properties located at Liverpool, United Kingdom at which the Influenza Group undertakes Manufacturing activities;

“**Local Transfer Document**” has the meaning given to it in Paragraph 2.6.1;

“**Losses**” means all losses, liabilities, costs (including legal costs and experts’ and consultants’ fees), charges, expenses, actions, proceedings, claims and demands;

“**MA Costs**” has the meaning given to it in paragraph 4 of Part 2 of Appendix 8;

“**MA Documentation**” has the meaning given to it in paragraph 1.4 of Part 2 of Appendix 8;

“**Manufacture**”, “**Manufacturing**” or “**Manufactured**” means the planning, purchasing of materials for, production, processing, compounding, storage, filling, packaging, labelling, leafleting, warehousing, quality control testing, waste disposal, quality release, sample retention and stability testing of products;

“**Manufacturing and Supply Agreement**” has the meaning given in the Vaccines SAPA to the term “Influenza Business Manufacturing and Supply Agreement”;

“**Manufacturing Inventory**” means any packed inventory of Products and/or products for Commercialisation that is: (i) in finished form (save for any secondary packaging undertaken outside of a Property); (ii) beneficially owned by any member of the Novartis Group; (iii) held at a Property; and (iv) not yet released by the qualified person at a Property; and excluding in each case, for the avoidance of doubt, any In-Market Inventory and Manufacturing Stocks;

“**Manufacturing Liability**” means any Liability arising out of, relating to or resulting from any breach of Applicable Law in connection with the manufacturing of products;

“**Manufacturing Licences**” means any certificates, permits, licences, consents and approvals issued by any Governmental Entity, used in the operation or conduct of Manufacturing at each Property, and “**Manufacturing Licence**” shall be construed accordingly;



**Execution Version**

“**Manufacturing Stocks**” means, as at Option Closing, all stocks of raw materials, active pharmaceutical ingredients, ingredients, adjuvants, drug substances, intermediates, packaging materials, components, devices and other production and pre-production consumables and work-in-progress that are beneficially owned by any member of the Novartis Group for use in the Manufacture of Products or Pipeline Products and held at a Property;

“**Manufacturing, Supply and Distribution Agreement**” means the manufacturing, supply and distribution agreement between Novartis and/or one or more of its Affiliates and the Purchaser and/or one or more of its Affiliates, expected to be entered into at Option Closing on the heads of terms in the Agreed Terms for the “Manufacturing, Supply and Distribution Agreement” as defined in the Vaccines SAPA (with any necessary amendments) or, if the “Manufacturing, Supply and Distribution Agreement” as defined in the Vaccines SAPA is entered into before Option Closing, on the terms of the “Manufacturing, Supply and Distribution Agreement” as defined in the Vaccines SAPA (with any necessary amendments);

“**Marketing Authorisation Data**” means the existing and available dossiers containing the relevant Know-How used by Novartis and/or its Affiliates to obtain and maintain the Marketing Authorisations;

“**Marketing Authorisation Holder**” means the holder of the relevant Marketing Authorisation;

“**Marketing Authorisation Re-registration**” has the meaning given to it in paragraph 1.1.2 of Part 2 of Appendix 8;

“**Marketing Authorisation Re-Registration Date**” means the date on which the relevant Governmental Entity approves, or is deemed to approve, the relevant Marketing Authorisation Re-registration;

“**Marketing Authorisation Transfer Date**” means the date on which the relevant Governmental Entity approves, or is deemed to approve, the relevant Marketing Authorisation Transfer;

“**Marketing Authorisation Transfer**” has the meaning given to it in paragraph 1.1.1 of Part 2 of Appendix 8;

“**Marketing Authorisation Transferee**” means the member of the Purchaser’s Group or, where no member of the Purchaser’s Group satisfies the requirements under Applicable Law to be transferred the relevant Marketing Authorisation, such Third Party as is nominated by the Purchaser, in either case, to whom the relevant Marketing Authorisation is to be transferred;

“**Marketing Authorisations**” means the marketing authorisations issued or applications for Marketing Authorisations with respect to the Products and all supplements, amendments and revisions thereto;

“**Markets**” means the markets in which the Products are marketed and sold under the relevant Marketing Authorisation, and “**Market**” shall be construed accordingly;



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**Execution Version**

“**Material Employee Jurisdictions**” means the United Kingdom and the United States of America;

“**Medical Information**” means information relating to clinical and technical matters, such as therapeutic uses for the approved indications, drug-disease information, and other product characteristics Predominantly Related to the Business which is available to or used by Novartis and/or its Affiliates as of the Option Closing Date;

“**MF59<sup>®</sup> Intellectual Property Rights**” means the Intellectual Property Rights owned by the Novartis Group comprised within the MF59<sup>®</sup> Rights including the Intellectual Property Rights of any member of the Novartis Group set out in Part 3 of Appendix 4;

“**MF59<sup>®</sup> Intellectual Property Rights Contracts**” means the Contracts held by the Novartis Group relating to the Intellectual Property Rights comprised within the MF59<sup>®</sup> Rights including any such Contracts set out in Part 4 of Appendix 4;

“**MF59<sup>®</sup> Rights**” means all rights in the MF59<sup>®</sup> Adjuvant owned by or licensed to Novartis or its Affiliates including: (a) all stocks of the adjuvant and materials used in its production; (b) all Intellectual Property Rights in and relating to the MF59<sup>®</sup> Adjuvant; and (c) all Intellectual Property Rights in and relating to the manufacture and production or fill finish process relating to the MF59<sup>®</sup> Adjuvant;

“**Novartis Group**” means Novartis and its Affiliates from time to time;

“**Novartis Group Insurance Policies**” means all insurance policies (whether under policies maintained with third party insurers or any member of the Novartis Group), other than Influenza Group Insurance Policies, maintained by Novartis or any member of the Novartis Group in relation to the Influenza Group or under which, immediately prior to Option Closing, any Influenza Group Company or Novartis or member of the Novartis Group in relation to the Influenza Group Businesses is entitled to any benefit, and “**Novartis Group Insurance Policy**” means any one of them;

“**Novartis Group Retained Business**” means, from time to time, all businesses of the Novartis Group, excluding the Business;

“**Novartis Marks**” means any of the marks (including in either or both logo and local script form) “Novartis”, “Sandoz”, “Alcon” and “Ciba Vision” used alone or in combination with other words or marks;

“**Novartis Restricted Marks**” means any of the marks (including in either or both logo and local script form) “Novartis”, “Sandoz”, “Alcon” and “Ciba Vision”;

“**Novartis’s Disagreement Notice**” has the meaning given to it in paragraph 1.5 of Appendix 16;

“**Novartis’s Knowledge**” has the meaning given to it in Paragraph 9.1.6;

“**Novartis’s Lawyers**” means Linklaters LLP of One Silk Street, London EC2Y 8HQ, United Kingdom;

“**Novartis’s Warranties**” means the warranties given by Novartis pursuant to Paragraph 9 and Appendix 18, and

“**Novartis’s Warranty**” means any one of them;

“**Non-US Benefit Plans**” has the meaning given to it in paragraph 16.3.1 of Appendix 18;

“**Notice**” has the meaning given to it in Paragraph 15.11.1;



## Execution Version

“**Ongoing Clinical Trials**” means the ongoing clinical studies sponsored or supported by Novartis Group (including post-approval studies) or otherwise recommended by a Governmental Entity, and regulatory commitments in respect of the Products and the Pipeline Products, listed in Appendix 21 and “**Ongoing Clinical Trial**” shall mean any one of them;

“**Option Closing**” means the completion of the sale of the Shares and the Influenza Group Businesses pursuant to this Deed and any Ancillary Agreement;

“**Option Closing Date**” means the date on which Option Closing takes place;

“**Option Closing Statement**” means the statement setting out the Influenza Group Companies’ Cash Balances, the Intra-Group Non-Trade Receivables, the Third Party Indebtedness, the Intra-Group Non-Trade Payables and the Tax Adjustment, to be prepared by Novartis and agreed or determined in accordance with Paragraph 7 and Appendix 16;

“**Option Exercise Date Disclosure Letter**” has the meaning given in Paragraph 9.1.3;

“**Out-Licensing Programme**” means the out-licensing and enforcement of Intellectual Property Rights that are not used in or developed for the Business and generally relate to base technology useful in drug discovery and/or manufacturing processes, including any contracts or Intellectual Property Rights related thereto;

“**Out-Licensing Programme Intellectual Property Rights**” means the Intellectual Property Rights used in relation to the Out-Licensing Programme;

“**Out of Scope Patent**” means any Patent of the Novartis Group at the date of Option Closing, but excluding (i) the Transferred Intellectual Property Rights; (ii) any Patents licensed under the Purchaser Intellectual Property Licence Agreement; and (iii) Out-Licensing Programme Intellectual Property Rights;

“**Owned Information Technology**” means all Information Technology of any Influenza Group Company to the extent Exclusively Related to the Business;

“**Owned Intellectual Property Contracts**” means the Contracts Exclusively Related to the Business which relate to Intellectual Property Rights and that are held by the Influenza Group Companies, including any such Contracts set out in Part 2 of Appendix 4;

“**Owned Intellectual Property Rights**” means the Intellectual Property Rights of any Influenza Group Company to the extent Exclusively Related to the Business, including the Intellectual Property Rights of any Influenza Group Company set out in Part 1 of Appendix 4;

“**Owned Plant and Equipment**” means:

- (ix) the Owned Information Technology; and
- (x) all plant, furniture, furnishings, vehicles, equipment, tools and other tangible personal property (other than Owned Information Technology) of the Novartis Group that are Predominantly Related to the Business and held by the Influenza Group Companies;

“**Patent Term Extensions**” means any and all extensions of a term of a Patent granted under the Patent laws or regulations of any country, the European Union, or any other Governmental Entity;



## Execution Version

“**Patents**” means patents, design patents, patent applications and any reissues, re-examinations, divisionals, continuations, continuations-in-part, provisionals, and extensions thereof or any counterparts to any of the foregoing (including rights resulting from any post-grant proceedings relating to any of the foregoing);

“**PA Transfer Date**” means, in relation to a Product or Product Application, the date upon which the relevant Governmental Entity approves and notifies the Product Approval or Product Application (as applicable) naming the Purchaser or the relevant Affiliate of the Purchaser (or designee thereof) as the holder of such Product Approval or Product Application in the relevant country or territory covered by that Product Approval or Product Application;

“**Payment**” has the meaning given to it in Paragraph 1.4;

“**Permit**” has the meaning given to it in paragraph 9.2 of Appendix 18;

“**Permitted Encumbrance**” means:

- (xi) Encumbrances imposed by Applicable Law;
- (xii) Encumbrances imposed in the ordinary course of business which are not yet due and payable or which are being contested in good faith;
- (xiii) Encumbrances which are listed in Appendix 7;
- (xiv) pledges or deposits to secure obligations under Applicable Law relating to workers’ compensation, unemployment insurance or to secure public or statutory obligations; and
- (xv) liens, title retention arrangements or deposits to secure the performance of bids, trade contracts (other than for borrowed money), conditional sales contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of the Business;

“**Personal Property**” means all tangible personal property legally and beneficially owned by the Novartis Group which is Predominantly Related to the Business and is located at a Property at Option Closing;

“**Pharmacovigilance Agreement**” means the agreement between Novartis and the Purchaser, to be entered into at Option Closing, in respect of pharmacovigilance and regulatory matters relating to the Products;

“**Pipeline Product**” means:

- (xvi) each product in development by the Business set out under the heading “Pipeline Products” in Part 3 of Appendix 8; and
- (xvii) any other product in development which is Exclusively Related to the Business;

“**Pipeline Product Approvals**” means the approvals in relation to the Pipeline Products;

“**Predominantly Related to the Business**” means exclusively or predominantly related to, or used or held for use exclusively or predominantly, in connection with the Business;

“**Proceedings**” means any legal actions, proceedings, suits, litigations, prosecutions, investigations, enquiries, mediations or arbitrations;



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**Execution Version**

“**Product Applications**” means all applications for Product Approval filed with respect to Products Under Registration, with each individual application being a “**Product Application**”;

“**Product Approvals**” means all permits, licences, certificates, clearances, registrations or other authorisations or consents issued by any Governmental Entity to Novartis or one of its Affiliates with respect to the Products or the use, research, development, marketing, distribution or sale thereof, including the Marketing Authorisations;

“**Product Filings**” means all filings, written representations, declarations, listings, registrations, reports or submissions with or to any Governmental Entity, including adverse event reports and all submitted data relating to each Product;

“**Product Liabilities**” means any Liability arising out of, relating to or resulting from actual or alleged harm, injury, damage or death to persons in connection with the use of any product (including in any clinical trial or study);

“**Product Liability Relevant Period**” means the period of two years prior to the date of this Deed;

“**Product Partners**” means any third parties which pursuant to a Contract with Novartis or any Affiliate of Novartis co-develop, co-promote, co-market, or otherwise have a licence or other right to research, develop, manufacture, promote, distribute, market, or sell any Product, including all manufacturers and suppliers of any such Product;

“**Products**” means: (i) the products set out under the heading “Products” in Part 3 of Appendix 8; and (ii) any other products Exclusively Related to the Business;

“**Products Under Registration**” means:

(xviii) the products set out under the heading “Products Under Registration” in Part 3 of Appendix 8, which are pending Product Approval as of the date hereof; and

(xix) any other product under registration Exclusively Related to the Business;

“**Properties**” means the Company Real Properties and the Transferred Real Properties, and “**Property**” means any one of them;

“**Proprietary Information**” means all confidential and proprietary information of Novartis or its Affiliates that is Predominantly Related to the Business, including confidential Medical Information, confidential Know How and confidential Commercial Information;

“**Purchase Price**” has the meaning given to it in Paragraph 3.1.1;

“**Purchase Price Bank Account**” means the account notified by Novartis to the Purchaser no later than two Business Days prior to the Option Closing Date;

“**Purchaser Intellectual Property Licence Agreement**” means the agreement between Novartis and/or one or more of its Affiliates and the Purchaser and/or one or more of its Affiliates on terms consistent with the Agreed Terms attached to this Deed as Attachment 1, expected to be entered into on Option Closing, in respect of the grant of licences from Novartis to the Purchaser of certain Intellectual Property Rights;

“**Purchaser’s Disagreement Notice**” has the meaning given to it in paragraph 1.4 of Part 1 of Appendix 16;



## Execution Version

“**Purchaser’s Lawyers**” means Slaughter and May of One Bunhill Row, London EC1Y 8YY, United Kingdom;

“**Purchaser Shareholders**” means the holders of ordinary shares in the capital of the Purchaser from time to time;

“**Registered Intellectual Property Rights**” means Intellectual Property Rights that are registered, issued, filed, or applied for under the authority of any Governmental Entity;

“**Registered Influenza Group Intellectual Property Rights**” means all Influenza Group Intellectual Property Rights that are Registered Intellectual Property Rights;

“**Registered MF59<sup>®</sup> Intellectual Property Rights**” means all MF59<sup>®</sup> Intellectual Property Rights that are Registered Intellectual Property Rights;

“**Regulation**” has the meaning given to it in Paragraph 4.1.1;

“**Relevant Employees**” means the Relevant Influenza Business Employees and the Relevant Influenza Group Company Employees and “**Relevant Employee**” means any one of them;

“**Relevant Employers**” means the Business Sellers and such other members of the Novartis Group who employ the Relevant Influenza Business Employees;

“**Relevant Employer’s FSAs**” has the meaning given to it in paragraph 7.1 of Appendix 10;

“**Relevant Influenza Business Employees**” means the Influenza Business Employees immediately prior to the Option Closing Date and “**Relevant Influenza Business Employee**” means any one of them;

“**Relevant Influenza Group Company Employees**” means the Influenza Group Company Employees immediately prior to the Option Closing Date (excluding any who do not work wholly or substantially in the Business) and “**Relevant Influenza Group Company Employee**” means any one of them;

“**Relevant Part**” means the relevant part of the Shared Business Contracts which relates exclusively to the Business (or the relevant part of the Business that is transferred to the Purchaser at Option Closing);

“**Relevant Pension and Employment Liability**” means (i) any Liabilities assumed by the Purchaser or a member of the Purchaser’s Group as contemplated by Appendix 10; and (ii) any Transferred Employee Benefit Liabilities (as defined in Appendix 11) which the Purchaser agrees to assume in accordance with Appendix 11;

“**Relevant Persons**” has the meaning given to it in Paragraph 8.2.2;

“**Reorganisation**” has the meaning given to it in Paragraph 2.3.5;

“**Reporting Accountants**” means the London office of Ernst & Young or, if that firm is unable or unwilling to act in any matter referred to them under this Deed, the London office of Deloitte or, if that firm is also unable or unwilling to act in any matter referred to them under this Deed, an internationally recognised and independent firm of accountants who does not act as auditor to Novartis or the Purchaser, to be agreed by Novartis and the Purchaser within seven days of a notice by one to the other requiring such agreement or, failing such agreement, to be nominated on the application of either of them by or on behalf of the Institute of Chartered Accountants of England and Wales;

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“**Required Item**” has the meaning given to it in paragraph 2 of Appendix 13;

“**Required Notifications**” has the meaning given to it in Paragraph 4.2.1;

“**Sanctions Laws**” has the meaning given to it in paragraph 9.5 of Appendix 18;

“**Seller Partner**” means any counterparty to a development, contract research, commercialisation, manufacturing, distribution, sales, marketing, supply, consulting or other collaboration Contract with Novartis or any Affiliate of Novartis;

“**Service Provider**” means an Associated Person who is a legal person;

“**Share Seller**” means, in relation to the Company, Novartis Pharma AG, as set out in Appendix 1;

“**Shared Business Contracts**” means any Contract which relates both:

(xx) to the Business or any part of the Business to be transferred to the Purchaser at Option Closing; and

(xxi) to any part of the Novartis Group Retained Business, any product other than the Products, or any Excluded Asset,

and to which a member of the Novartis Group is a party or in respect of which a member of the Novartis Group has any liability or obligation at Option Closing, and “**Shared Business Contract**” shall mean any of them;

“**Shared Employees**” means employees of any member of the Novartis Group who work wholly or substantially in the Business pursuant to service level agreements with the Influenza Group Companies and other members of the Novartis Group but excluding, for the avoidance of any doubt, any Influenza Group Company Employee and any employees included on the list of employees provided pursuant to paragraph 15.2 of Appendix 18;

“**Shares**” means the shares in the capital of the Company specified in Appendix 2;

“**Sinergium Arrangements**” means agreements and arrangements relating to the business and activities of the Sinergium Consortium, including agreements and arrangements between: (i) any of the Sinergium Consortium Members; (ii) any of the Sinergium Consortium Members (and/or the Sinergium Consortium) and the Argentinian Ministry of Health; and (iii) any member of the Novartis Group and any Sinergium Consortium Member (and/or the Sinergium Consortium);

“**Sinergium Consortium Members**” means the shareholders of Sinergium Biotech - Consorcio de Cooperación (taken together, the “**Sinergium Consortium**”), who as at the date of this Deed are Novartis Argentina, S.A., Biogénesis Bago, S.A., Laboratorio ELEA S.A.C.I.F. y A. and Sinergium Biotech, S.A.;

“**Statement of Net Assets**” has the meaning given to it in Appendix 22;

“**Statement of Net Assets Date**” means 31 December 2013;

“**Statement of Net Assets Rules**” means the rules in accordance with which the Statement of Net Assets was prepared, as set out in Part 2 of Appendix 22;

“**Subsidiaries**” means the companies listed in paragraph 2 of Appendix 2 and “**Subsidiary**” means any one of them;

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“**Surviving Affiliate Contracts**” means any of the agreements or arrangements referred to in Paragraph 5.3.1(iii);

“**Tax Adjustment**” means the amount by which:

- (i) the aggregate amount of the income taxes and sales taxes payable by the Influenza Group Companies, as at the Effective Time and as derived from the Option Closing Statement;

exceeds or is less than

- (ii) the aggregate amount of the current income tax and, sales tax receivables of the Influenza Group Companies, as at the Effective Time and as derived from the Option Closing Statement,

and any such excess amount shall be treated as a positive number and any shortfall shall be treated as a negative amount;

“**Tax Consolidation**” means any group, consolidation, fiscal unity or other arrangement (whether in place by law, agreement or otherwise and including any group for the purposes of VAT) under which a person is primarily responsible for paying or discharging Tax liabilities on behalf of, or attributable to the income, profits or gains of, or events affecting, one or more other persons;

“**Tax Group**” means any group, consolidation or fiscal unity for the purposes of any Tax, including any group for the purposes of VAT and any Tax Consolidation;

“**Tax Indemnity**” means the deed of covenant against taxation, in a form that applies the provisions of the “Tax Indemnity” as defined in the Vaccines SAPA in relation to the Influenza Group Companies as those provisions apply in relation to the Vaccines Group Companies, *mutatis mutandis*, to be entered into by Novartis and the Purchaser on the Option Closing Date;

“**Tax Return**” means any return, declaration, claim for refund, information return or statement, including any schedule or attachment thereto, which must be filed or lodged with, or submitted to, any Tax Authority in relation to the assessment, notification, collection or administration of any Tax, or which a taxpayer must prepare and retain;

“**Tax Warranties**” means Novartis’s Warranties set out in paragraph 13 of Appendix 18;

“**Third Party**” has the meaning given to it in Paragraph 15.4.2;

“**Third Party Claim**” has the meaning given to it in Paragraph 11.4;

“**Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from third parties for the assignment or transfer to the Purchaser of any of the Transferred Contracts, Transferred Intellectual Property Contracts, MF59® Intellectual Property Rights Contracts or Shared Business Contracts or Co-Owned Influenza Group Intellectual Property Rights or Transferred Plant and Equipment and “**Third Party Consent**” means any one of them;

“**Third Party Indebtedness**” means the aggregate amount as at the Effective Time of all outstanding Indebtedness owed by the Influenza Group Companies to any third party less any Indebtedness owed by any third party to any Influenza Group Company as derived from the Option Closing Statement (but excluding any item included in respect of any Influenza Group Companies’ Cash Balances or Intra-Group Non-Trade Payables), and, for the purposes of this definition, third party shall exclude any member of the Novartis Group;



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“**Time-Limited Excluded Liability**” means an Excluded Liability which is:

- (xxii) a Contracts Liability;
- (xxiii) an Environmental Liability;
- (xxiv) a Manufacturing Liability; or
- (xxv) a Commercial Practices Liability,

“**Trademarks**” means trademarks, service marks, trade names, certification marks, service names, industrial designs, brand names, brand marks, trade dress rights, identifying symbols, logos, emblems, and signs or insignia and all goodwill of the business in relation to which any of the foregoing are used (but no other or greater goodwill);

“**Transaction**” has the meaning given to it in Paragraph 4.1.1;

“**Transfer Regulations**” means the relevant national measure by which the employment of a Relevant Influenza Business Employee automatically transfers to the Purchaser or a relevant member of the Purchaser’s Group;

“**Transferred Accounts Payable**” means all trade accounts and notes payable arising in the ordinary course of the Novartis Group (other than any Influenza Group Company) to the extent related to the Business, and outstanding at the Effective Time, together with any unpaid financing charges accrued thereon;

“**Transferred Accounts Receivable**” means all trade accounts and notes receivable arising in the ordinary course of the Novartis Group (other than any Influenza Group Company) to the extent related to the Business, and outstanding at the Effective Time, together with any unpaid financing charges accrued thereon;

“**Transferred Books and Records**” means all books, ledgers, files, reports, plans, records, manuals and other materials (in any form or medium) to the extent of, or maintained predominantly for, the Business by the Novartis Group (excluding the Influenza Group Companies) (other than emails), but excluding:

- (xxvi) any such items to the extent that: (A) they are related to any Excluded Assets or Excluded Liabilities, (B) they are related to any corporate, Tax, human resources or stockholder matters of Novartis or its Affiliates (other than the Influenza Group Companies), (C) any Applicable Law prohibits their transfer or (D) any transfer thereof otherwise would subject Novartis or any of its Affiliates to any material liability; and
- (xxvii) any laboratory notebooks to the extent containing research and development information unrelated to the Business;

“**Transferred Contracts**” means:

- (i) the Contracts, other than Transferred Intellectual Property Contracts and the US Government Contracts, that are Predominantly Related to the Business between a member of the Novartis Group (excluding the Influenza Group Companies), on the one hand, and any third party, on the other hand (other than this Deed and any Ancillary Agreement), but excluding any Excluded Contract; and



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(ii) subject to paragraph 1 of Appendix 9, the Relevant Part of the Shared Business Contracts;

“**Transferred Employees**” means (i) the Influenza Business Employees to whom the Purchaser (or a member of the Purchaser’s Group) offers employment and who accept such employment and become employed by the Purchaser (or a member of the Purchaser’s Group) in accordance with Appendix 10; (ii) any Relevant Influenza Business Employees who transfer to the Purchaser (or a member of the Purchaser’s Group) by operation of the Transfer Regulations and do not object to such transfer (to the extent permitted by the Transfer Regulations) in accordance with Appendix 10; and (iii) the Relevant Influenza Group Company Employees, and “**Transferred Influenza Business Employees**” means the employees in (i) and (ii), “**Transferred Influenza Group Company Employees**” means the employees in (iii) and “**Transferred Employee**”, “**Transferred Influenza Business Employee**” and “**Transferred Influenza Group Company Employee**” respectively means any one of them;

“**Transferred Information Technology**” means all Information Technology of any member of the Novartis Group (other than an Influenza Group Company) to the extent Exclusively Related to the Business;

“**Transferred Intellectual Property Contracts**” means Contracts Exclusively Related to the Business which relate to Intellectual Property Rights (but excluding the rights under any such Contracts that are held by the Influenza Group Companies), including any such Contracts set out in Part 2 of Appendix 4;

“**Transferred Intellectual Property Rights**” means the Intellectual Property Rights of any member of the Novartis Group (other than an Influenza Group Company) Exclusively Related to the Business, including the Intellectual Property Rights of any member of the Novartis Group (other than an Influenza Group Company) set out in Part 1 of Appendix 4;

“**Transferred Inventory**” means all inventories (including Manufacturing Inventory and Manufacturing Stocks and In-Market Inventory), wherever located, including all raw materials, work in progress, finished Products and packaging and labelling material in respect of the Products and otherwise Predominantly Related to the Business (but excluding any such items held by the Influenza Group Companies) whether held at any location or facility of a member of the Novartis Group or in transit to a member of the Novartis Group, in each case as of the Effective Time;

“**Transferred Leased Real Properties**” has the meaning given to it in paragraph 1.1 of Part 4 of Appendix 3;

“**Transferred Owned Real Properties**” has the meaning given to it in paragraph 1.1 of Part 4 of Appendix 3;

“**Transferred Plant and Equipment**” means:

- (xxviii) the Transferred Information Technology; and
- (xxix) all plant, furniture, furnishings, vehicles, equipment, tools and other tangible personal property (other than Transferred Inventory or Transferred Information Technology) of the Novartis Group that are Predominantly Related to the Business (but excluding any such items owned by the Influenza Group Companies);

“**Transferred Real Properties**” means:



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- (xxx) the Transferred Owned Real Properties;
- (xxxi) the Transferred Leased Real Properties; and
- (xxxii) all other freehold, leasehold or other immovable property Predominantly Related to the Business, other than any freehold, leasehold or other immovable property within the definition of “Excluded Assets”,

and “**Transferred Real Property**” means any one of them;

“**Transitional Services Agreement**” means the transitional services agreement expected to be entered into between Novartis and the Purchaser at Option Closing on the heads of terms in the Agreed Terms for the “Transitional Services Agreement” as defined in the Vaccines SAPA (with any necessary amendments) or, if the “Transitional Services Agreement” as defined in the Vaccines SAPA is entered into before Option Closing, on the terms of the “Transitional Services Agreement” as defined in the Vaccines SAPA (with any necessary amendments);

“**US Benefit Plans**” means all United States “employee benefit plans” (within the meaning of section 3(3) of ERISA), severance, change in control or employment, vacation, incentive, bonus, stock option, stock purchase, or restricted stock plans, programmes, agreements or policies benefiting the Influenza Business Employees;

“**US Government Contracts**” means: (i) the Contracts of Novartis Vaccines & Diagnostics, Inc. set out in Part 1 of Appendix 17; and (ii) any other Contracts that are Predominantly Related to the Business between a member of the Novartis Group (excluding the Influenza Group Companies), on the one hand, and a Governmental Entity in the United States of America on the other hand, but excluding any Excluded Contract;

“**US Transferred Employees**” has the meaning given to it in paragraph 7.1 of Appendix 10;

“**Vaccines**” means a preparation comprising (i) an antigen, (ii) an epitope of an antigen, or (iii) a polynucleotide encoding an antigen derived directly or indirectly from, or mimicking, an agent (including, but not limited to, a compound, a toxin, a microbe including a pathogen or component thereof), wherein such preparation may further comprise a composition capable of modulating an immune response, including preparations intended to improve a human’s immune response to a microbe that has been linked to cancer, wherein said preparation is intended for purposes of inducing an immune response in a human, including, but not limited to, a functional immune response or immunological memory to the particular or related antigen or agent, thereby causing or improving an immune response to a challenge by the particular or related agent. “Vaccines” shall not include preparations intended to improve a human’s immune response to or to treat other non-infectious conditions, whether or not related to pathogens, such as certain autoimmune diseases, Alzheimer’s disease and certain cancers, or non-antigen preparations comprising immune system components intended to function analogous to corresponding native components within the patient, such as antibodies or white blood cells (both unmodified or modified to better treat disease);

“**Vaccines Group Companies**” has the meaning given in the Vaccines SAPA; and

“**WARN Act**” means the Worker Adjustment and Retraining Notification Act of 1988 of the United States.



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### 1.2 Shares

References to shares shall include, where relevant, quotas.

### 1.3 Reference to documents

References to any document (including this Deed), or to a provision in a document, shall be construed as a reference to such document or provision as amended, supplemented, modified, restated or novated from time to time.

### 1.4 References to “indemnify”

Unless specified to the contrary, references to “indemnify” and “indemnifying” any person against any circumstance include indemnifying and holding that person harmless on an after-Tax basis and:

- 1.4.1 references to the Purchaser indemnifying each member of the Novartis Group shall constitute undertakings by the Purchaser to Novartis for itself and on behalf of each other member of the Novartis Group;
- 1.4.2 references to Novartis indemnifying each member of the Purchaser’s Group shall constitute undertakings by Novartis to the Purchaser for itself and on behalf of each other member of the Purchaser’s Group;
- 1.4.3 to the extent that the obligation to indemnify relates to any Shares (including any Influenza Group Companies) or other assets or liabilities transferred by a Share Seller or Business Seller (as the case may be) to a member of the Purchaser’s Group pursuant to this Deed, references to Novartis indemnifying the Purchaser and references to Novartis indemnifying the Purchaser or any member of the Purchaser’s Group shall constitute undertakings by Novartis, to indemnify or procure the indemnification of the relevant purchaser of the Shares transferred by that Share Seller or the relevant purchaser of the assets or liabilities transferred by that Business Seller (as the case may be), and references to the Purchaser indemnifying Novartis and references to the Purchaser indemnifying Novartis and each member of the Novartis Group shall constitute undertakings by the Purchaser to indemnify or procure the indemnification of the relevant member of the Novartis Group; and
- 1.4.4 where under the terms of this Deed one party is liable to indemnify or reimburse another party in respect of any costs, charges or expenses, the payment shall include an amount equal to any VAT thereon not otherwise recoverable by the other party or any member of any group or consolidation of which it forms part for VAT purposes, subject to that party using reasonable endeavours to recover or to procure recovery of such amount of VAT as may be practicable.

For the purposes of this Paragraph 1.4, indemnifying and holding harmless a person on an “after-Tax basis” means that the amount payable pursuant to the indemnity (the “**Payment**”) shall be calculated in such a manner as will ensure that, after taking into account:

- (i) any Tax required to be deducted or withheld from the Payment and any additional amounts required to be paid by the payer of the Payment in consequence of such withholding;



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- (ii) the amount and timing of any additional Tax which becomes (or would, but for the use of any credit or other relief which would otherwise have been available to reduce the Tax liabilities of any member of the Novartis Group, have become) payable by the recipient of the Payment (or a member of the Novartis Group or the Purchaser’s Group, as the case may be) as a result of the Payments being subject to Tax in the hands of that person; and
- (iii) the amount and timing of any Tax benefit which is obtained by the recipient of the Payment (or a member of the Novartis Group or the Purchaser’s Group, as the case may be) to the extent that such Tax benefit is attributable to the matter giving rise to the indemnity payment or to the receipt of the Payment,

which amount and timing is to be determined by the auditors of the recipient at the shared expense of both relevant parties and is to be certified as such to the party making the Payment, the recipient of the Payment is in no better and no worse after Tax position as that in which it would have been if the matter giving rise to the indemnity payment had not occurred, provided that if either party to this Deed shall have assigned or novated the benefit of this Deed in whole or in part or shall , after the date of this Deed, have changed its Tax residence or the permanent establishment to which the rights under this Deed are allocated then no Payment to that party shall be increased by reason of the operation of paragraphs (i) to (iii) above to any greater extent than would have been the case had no such assignment, novation or change taken place.

**1.5 References to wholly or substantially in the Business**

References to “wholly or substantially in the Business” in relation to any employee employed by a member of the Novartis Group means that such employee spends more than 70 per cent. of their time working in the Business at the relevant time.

**2 Sale and Purchase of the Influenza Group**

**2.1 Sale and Purchase of the Influenza Group**

Subject to the valid exercise of the Put Option in accordance with Clause 2.2 of this Deed, and on and subject to the terms and conditions of this Deed and the Local Transfer Documents:

- 2.1.1** Novartis shall procure that the Share Sellers and Business Sellers shall sell, and
- 2.1.2** the Purchaser shall purchase, or shall procure the purchase by one or more members of the Purchaser’s Group, of

the Influenza Group as a going concern.

**2.2 Sale of the Shares**

- 2.2.1** Novartis shall procure that the Share Seller shall sell the Shares, which shall be sold with Full Title Guarantee free from Encumbrances and together with all rights and advantages attaching to them as at Option Closing (including the right to receive all dividends or distributions declared, made or paid on or after Option Closing).

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**2.2.2** Novartis shall procure that, on or prior to Option Closing, any and all rights of pre-emption over the Shares, and over the shares or equity interests in any Subsidiaries, are waived irrevocably by the persons entitled thereto.

**2.3 Sale of the Influenza Group Businesses**

**2.3.1** Novartis shall procure that the Business Sellers shall sell the Influenza Group Businesses to be sold under this Deed or under the Local Transfer Documents, in each case with Full Title Guarantee (save in respect of the Transferred Intellectual Property Rights which are not Registered Intellectual Property Rights) and free from Encumbrances other than Permitted Encumbrances (save for the Transferred Real Properties, which shall be sold free from Encumbrances other than as provided in paragraph 1.9 of Part 4 of Appendix 3), such Influenza Group Businesses comprising:

- (i) the Transferred Real Properties;
- (ii) the Transferred Plant and Equipment;
- (iii) the Transferred Inventory;
- (iv) the Transferred Accounts Receivable;
- (v) the Transferred Books and Records;
- (vi) subject to and in accordance with Appendix 9, the Transferred Intellectual Property Rights and the MF59<sup>®</sup> Intellectual Property Rights;
- (vii) subject to and in accordance with Appendix 9, the Transferred Intellectual Property Contracts and the MF59<sup>®</sup> Intellectual Property Rights Contracts;
- (viii) subject to and in accordance with Appendix 9, the Transferred Contracts;
- (ix) the US Government Contracts;
- (x) the Manufacturing, production and research activity carried on by the Novartis Group at the Holly Springs Site;
- (xi) the interest of the Novartis Group in the Sinergium Arrangements;
- (xii) the Manufacturing and Supply Agreement;
- (xiii) subject to and in accordance with Appendix 8, all Product Approvals and all Product Applications and all other permits, licences, certificates, registrations, marketing or other authorisations or consents issued by a Governmental Entity Predominantly Related to the Business and not held by the Influenza Group Companies;
- (xiv) subject to and in accordance with Appendix 8, all Marketing Authorisation Data not held by the Influenza Group Companies;
- (xv) all Business Information not held at Option Closing by the Influenza Group Companies;
- (xvi) all rights of the Purchaser, its Affiliates and the Influenza Group Companies as contemplated by Appendix 10 and Appendix 11;
- (xvii) the MF59<sup>®</sup> Rights (to the extent not included within (vi) and (vii) above);



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- (xviii) the Influenza Group Goodwill; and
- (xix) all other property, rights and assets owned or held by the Novartis Group (other than the Influenza Group Companies) and Predominantly Related to the Business at Option Closing (other than any property, rights and assets of the Influenza Group expressly excluded from the sale under this Deed).

**2.3.2** There shall be excluded from the sale of the Influenza Group under this Deed and the Local Transfer Documents the following:

- (i) the Novartis Group Retained Business;
- (ii) Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd. and any business carried on by or on behalf of Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd.;
- (iii) the Out-Licensing Programme;
- (iv) any Intellectual Property Right that is not an Influenza Group Intellectual Property Right or MF59<sup>®</sup> Intellectual Property Right (subject to the Purchaser Intellectual Property Licence Agreement) and any Contract relating to Intellectual Property Rights that is not an Influenza Group Intellectual Property Contract or MF59<sup>®</sup> Intellectual Property Rights Contract or the Relevant Part of a Shared Business Contract;
- (v) any Information Technology other than Influenza Group Information Technology;
- (vi) the Novartis Marks;
- (vii) any product and any permits, licences, certificates, registrations, marketing or other authorisations or consents issued by any Governmental Entity in respect of any products, or any applications therefor, other than (a) the Products, Product Approvals, Products Under Registration and Pipeline Product Approvals; and (b) Permits Predominantly Related to the Business;
- (viii) all cash, marketable securities and negotiable instruments, and all other cash equivalents, of the Novartis Group (other than the Influenza Group Companies);
- (ix) all real property and any leases thereof and interests therein other than the Properties;
- (x) the land and buildings of the Novartis Group at 4560 Horton Street, Emeryville CA, United States of America;
- (xi) the land and buildings of the Novartis Group at Jaboatão dos Guararapes, State of Pernambuco (Brazil), together with all, buildings, fixtures and improvements erected thereon and any other assets, rights and Contracts related thereto;
- (xii) the company seal, minute books, charter documents, stock or equity record books and such other books and records pertaining to Novartis or its Affiliates (other than the Influenza Group Companies and the Transferred Books and Records), as well as any other records or material relating to Novartis or its Affiliates (other than Influenza Group Companies) generally and not involving or related to the Influenza Group;



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- (xiii) any right of Novartis or its Affiliates to be indemnified in respect of Assumed Liabilities;
- (xiv) all Tax assets (including Tax refunds and prepayments), other than Tax Assets of any Influenza Group Company;
- (xv) all Tax Returns of the Novartis Group (other than the Influenza Group Companies) and all Tax Returns relating to Tax Groups of which persons other than Influenza Group Companies are members and, in each case, all books and records (including working papers) related thereto;
- (xvi) any rights in respect of any insurance policies of the Novartis Group, as provided in Paragraph 14;
- (xvii) all artwork, paintings, drawings, sculptures, prints, photographs, lithographs and other artistic works of the Novartis Group that are not embodiments of Influenza Group Intellectual Property Rights;
- (xviii) any rights of the Novartis Group (other than the Influenza Group Companies) under any Intra-Group Non-Trade Payables or Intra-Group Non-Trade Receivables (excluding Transferred Accounts Receivable);
- (xix) any rights of Novartis or its Affiliates (other than the Influenza Group Companies) contemplated by Appendix 10 and Appendix 11;
- (xx) any equity interest in any person other than an Influenza Group Company;
- (xxi) the Excluded Contracts;
- (xxii) all rights of the Novartis Group under this Deed and the Ancillary Agreements; and
- (xxiii) the Purchase Price Bank Account; and
- (xxiv) the lease in respect of the 884 rentable square feet located at 7030 Kit Creek Road, Research Triangle Park, North Carolina, US.

**2.3.3** Novartis agrees to procure the transfer (to the extent it is able so to do) and the Purchaser agrees to accept (or procure the acceptance by another member of the Purchaser's Group of) the transfer of, and to assume, pay, satisfy, discharge, perform or fulfil (or procure that another member of the Purchaser's Group will assume, pay, satisfy, discharge, perform or fulfil) the Assumed Liabilities with effect from Option Closing.

**2.3.4** Paragraph 2.3.3 shall not apply to, and the Purchaser shall not be obliged to accept (or procure the acceptance by another member of the Purchaser's Group of), the transfer of or to assume, pay, satisfy, discharge, perform or fulfil, or procure that another member of the Purchaser's Group will assume, pay, satisfy, discharge, perform or fulfil:

- (i) any Excluded Liability; or
- (ii) any Liability to the extent it relates to an Excluded Asset.

**2.3.5** Without prejudice to Clauses 2.1 to 2.3 and Paragraphs 2.1, 2.2, 2.3.1 to 2.3.4, 2.4 and 2.5 of this Deed, on or prior to Option Closing, Novartis may:



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- (i) assign or otherwise transfer assets, liabilities and (only where in compliance with Paragraph 5 (other than Paragraph 5.3.1(ii)) employees between members of the Novartis Group as may be reasonably required to facilitate the separation of the Business from any other business or activities of the Novartis Group; and
- (ii) otherwise, carry out or procure one or more reorganisations of the Novartis Group (including assigning or otherwise transferring assets and liabilities between members of the Novartis Group but excluding assigning or otherwise transferring assets or liabilities to Influenza Group Companies) as may reasonably be required to facilitate the Transaction,

each, a “**Reorganisation**”,

**2.3.6** In respect of any Reorganisation:

- (i) Novartis shall notify the Purchaser of any proposed Reorganisation, the steps proposed to be implemented and such other information as the Purchaser may reasonably request regarding the proposed Reorganisation in advance of it being implemented;
- (ii) Novartis shall, in good faith, consult with, and take into account the reasonable views of, and any reasonable requests made by the Purchaser in relation to any Reorganisation before it is implemented, including any proposals to reduce or avoid Liability or cost being suffered or incurred by any member of the Purchaser’s Group or any Influenza Group Company; and
- (iii) all fees, costs and expenses of implementing any Reorganisation (or any part thereof) shall be borne by the Novartis Group.

**2.3.7** Novartis undertakes to the Purchaser (for itself and as trustee for each other member of the Purchaser’s Group and each Influenza Group Company) that, with effect from Option Closing, Novartis will indemnify on demand and hold harmless the relevant member of the Purchaser’s Group (including each Influenza Group Company) against and in respect of any and all Liabilities arising in connection with any Reorganisation (or part thereof) undertaken by Novartis, other than:

- (i) any Liabilities of any Influenza Group Company in respect of Tax (which shall be dealt with under the Tax Indemnity); and
- (ii) any Liabilities in connection with this Deed or any document entered into as provided by this Deed or any Ancillary Agreement.

**2.4 Employees and Employee Benefits**

**2.4.1** The provisions of Appendix 10 shall apply in respect of the Employees.

**2.4.2** The provisions of Appendix 11 shall apply in respect of Employee Benefits.

**2.5 Properties**

The provisions of Appendix 3 shall apply in respect of the Properties.



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2.6 Local Transfer Documents

- 2.6.1 On Option Closing or at such other time as agreed between the parties, Novartis shall procure that the Share Seller and Business Sellers execute, and the Purchaser shall execute (or procure the execution by one or more other members of the Purchaser’s Group of), such agreements, transfers, conveyances and other documents, as may be required pursuant to the relevant local law and otherwise as may be agreed between Novartis and the Purchaser to implement the transfer of (i) the Shares and (ii) the Influenza Group Businesses, in each case on Option Closing (the “**Local Transfer Documents**” and each, a “**Local Transfer Document**”). The parties do not intend this Deed to transfer title to any of the Shares. Title shall be transferred by the applicable Local Transfer Document.
- 2.6.2 To the extent that the provisions of a Local Transfer Document are inconsistent with or (except to the extent they implement a transfer in accordance with Deed) additional to the provisions of this Deed:
  - (i) the provisions of this Deed, shall prevail; and
  - (ii) so far as permissible under the laws of the relevant jurisdiction, Novartis and the Purchaser shall procure that the provisions of the relevant Local Transfer Document are adjusted, to the extent necessary to give effect to the provisions of this Deed or, to the extent this is not permissible, Novartis shall indemnify the Purchaser against all Liabilities suffered by the Purchaser or its Affiliates or, as the case may be, the Purchaser shall indemnify Novartis against all Liabilities suffered by Novartis or its Affiliates, in either case through or arising from the inconsistency between the Local Transfer Document and this Deed or the additional provisions (except to the extent they implement a transfer in accordance with this Deed).
- 2.6.3 If there is an adjustment to the Purchase Price under Paragraph 7.3 which relates to a part of the Influenza Group which is the subject of a Local Transfer Document, then, if required to implement the adjustment and so far as permissible under Applicable Law, the Purchaser shall (or shall procure that the relevant member of the Purchaser’s Group will), and Novartis shall procure that its relevant Affiliate shall, enter into a supplemental agreement reflecting such adjustment and the allocation of such adjustment.
- 2.6.4 Novartis shall not, and shall procure that none of its Affiliates shall, bring any claim against the Purchaser or any member of the Purchaser’s Group in respect of or based upon the Local Transfer Documents save to the extent necessary to implement any transfer of the Shares or Influenza Group Businesses as contemplated by this Deed. To the extent that Novartis or a member of the Novartis Group does bring a claim in breach of this Paragraph, Novartis shall indemnify the Purchaser and each member of the Purchaser’s Group against all Liabilities which the Purchaser or that member of the Purchaser’s Group may suffer through or arising from the bringing of such a claim.
- 2.6.5 The Purchaser shall not, and shall procure that none of its Affiliates shall, bring any claim against Novartis or any member of the Novartis Group in respect of or based upon the Local Transfer Documents save to the extent necessary to implement any transfer of the Shares or Influenza Group Businesses as contemplated by this Deed. To the extent that the Purchaser or a member of the Purchaser’s Group does bring a claim in breach of this Paragraph, the Purchaser shall indemnify Novartis and each member of the Novartis Group against all Liabilities which Novartis or any member of the Novartis Group may suffer through or arising from the bringing of such a claim.



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**3 Consideration**

**3.1 Amount**

**3.1.1** The aggregate consideration for the purchase of the Influenza Group under this Deed and the Local Transfer Documents (the "**Purchase Price**") shall be an amount in US dollars equal to the sum of:

- (i) US\$250,000,000 (the "**Headline Price**");  
plus
- (ii) the Influenza Group Companies' Cash Balances and the Intra-Group Non-Trade Receivables;  
minus
- (iii) the Third Party Indebtedness;  
minus
- (iv) the Intra-Group Non-Trade Payables;  
minus
- (v) any Employee Benefit Indemnification Amount paid in accordance with Appendix 11;  
minus
- (vi) the Tax Adjustment.

**3.2 Payment of Purchase Price**

The Purchase Price shall be paid by the Purchaser (for itself and on behalf of each relevant member of the Purchaser's Group) by way of cash payments to the Purchase Price Bank Account pursuant to Paragraphs 6.3 and 7.6.

**3.3 Allocation of Purchase Price**

The Purchase Price shall be allocated in accordance with Appendix 13.

**3.4 VAT**

**3.4.1** The provisions of Appendix 14 shall apply in respect of VAT.

**3.4.2** Novartis and the Purchaser agree that the consideration given under this Deed in respect of the sale of the Influenza Group Businesses and the Shares is exclusive of any VAT.



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**3.4.3** To the extent that VAT is chargeable in respect of that sale or any part thereof, the Purchaser shall, against delivery of a valid VAT invoice (or equivalent, if any), in addition to any other amount expressed in this Deed to be payable by the Purchaser, pay or procure the payment to Novartis (on behalf of the relevant Business Seller or Share Seller as applicable) any amount of any VAT so chargeable for which Novartis (or the relevant Share Seller or Business Seller, as the case may be) is liable to account, in accordance with Appendix 14.

**3.5 Treatment of Payments**

**3.5.1** If any payment is made or procured (i) by Novartis to the Purchaser or relevant member of the Purchaser's Group, or (ii) by a Purchaser to Novartis or a member of the Novartis Group, in either case in respect of any claim under or for any breach of this Deed, or pursuant to an indemnity (or equivalent covenant to pay) under this Deed, the payment shall be treated, so far as possible, as an adjustment of the consideration paid by the relevant member of the Purchaser's Group for the Shares or the particular part of the Influenza Group to which the payment and/or claim relates under this Deed and the consideration shall be deemed to be increased or reduced (as applicable) by the amount of such payment, provided that this Paragraph 3.5.1 shall not require any amount to be treated as an amount in respect of the Purchase Price for the purposes of Paragraph 15.10 if it would not otherwise have been so treated.

**3.5.2** If:

- (i) the payment and/or claim relates to the shares in more than one Influenza Group Company or to more than one category of Influenza Group Business, it shall be allocated in a manner which reflects the impact of the matter to which the payment and/or claim relates, failing which it shall be allocated rateably to the shares in the Influenza Group Companies or Influenza Group Businesses concerned by reference to the proportions in which the consideration is allocated in accordance with Appendix 13; or
- (ii) the payment and/or claim relates to no particular shares in any Influenza Group Company or no particular category of Influenza Group Business, it shall be allocated rateably to all the Shares and all the Influenza Group Businesses by reference to the proportions in which the consideration is allocated in accordance with Appendix 13,

and in each case the consideration shall be deemed to have been reduced by the amount of such payment.



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4 Conditions

4.1 Conditions Precedent

The sale and purchase of the Influenza Group is conditional upon satisfaction or, where applicable, waiver of the following conditions, or their satisfaction subject only to Option Closing:

4.1.1 to the extent that the proposed acquisition of all or any of the Shares or Influenza Group Businesses (the “**Transaction**”) either constitutes (or is deemed to constitute under Article 4(5) and/or Article 5(2)) a concentration with a Community dimension within the meaning of Council Regulation (EC) 139/2004 (as amended) (the “**Regulation**”) or is to be examined by the European Commission as a result of a decision under Article 22(3) of the Regulation:

- (i) the European Commission taking a decision (or being deemed to have taken a decision) under Article 6(1)(b) or, if the Commission has initiated proceedings pursuant to Article 6(1)(c), under Article 8(1) or 8(2) of the Regulation declaring the Transaction compatible with the common market; or
- (ii) the European Commission taking a decision (or being deemed to have taken a decision) to refer the whole or part of the Transaction to the competent authorities of one or more Member States under Article 4(4) or 9(3) of the Regulation; and
  - (a) each such authority taking a decision with equivalent effect to Paragraph 4.1.1(i) with respect to those parts of the Transaction referred to it; and
  - (b) the European Commission taking any of the decisions under Paragraph 4.1.1(i) with respect to any part of the Transaction retained by it;

4.1.2 any waiting period (and any extension thereof) under the HSR Act applicable to the Transaction having expired;

4.1.3 any additional clearances, approvals, waivers, no-action letters and consents required or otherwise agreed between the Parties as appropriate to be obtained having been obtained, or any waiting periods required to have expired having expired, in each case under applicable antitrust, merger control or foreign investment rules and which are, in each case: (i) necessary (or mutually agreed as appropriate) to permit Novartis and the Purchaser to consummate the Transaction; and (ii) following consultation with Novartis, notified by the Purchaser to Novartis in the period from and including the Option Exercise Date and ending on and including the twentieth Business Day after the Option Exercise Date;

4.1.4 any additional clearances, approvals and consents having been obtained from any Governmental Entity, which are mandatory and necessary to permit Novartis and the Purchaser to lawfully consummate the Transaction;

4.1.5 receipt of CFIUS Approval if CFIUS has initiated a review of the transactions contemplated by this Deed, whether pursuant to Paragraph 4.2.3 or otherwise;

4.1.6 in relation to all US Government Contracts which require formal novation pursuant to 48 C.F.R. Subpart 42.12 in connection with the consummation of the Transaction, no relevant Governmental Entity within the United States Government having stated that it will not, or intends not to, grant such consents, unless such statement or indication has been withdrawn as at the proposed Option Closing Date;

4.1.7 no Governmental Entity having enacted, issued, promulgated, enforced or entered any Applicable Law or Judgment (whether temporary, preliminary or permanent) that is in effect at the Option Closing Date and that has the effect of making the transactions contemplated by this Deed illegal or otherwise restraining or prohibiting the consummation of such transactions; and



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- 4.1.8 the passing at a duly convened and held general meeting of the Purchaser Shareholders of an ordinary resolution as contemplated by clause 2.1 of the Implementation Agreement.

**4.2 Responsibility for Satisfaction**

- 4.2.1 The Purchaser and Novartis shall prepare and file the notifications necessary for the fulfilment of the conditions in Paragraphs 4.1.1 to 4.1.4 (the “**Required Notifications**”) as soon as reasonably practicable after the Option Exercise Date (with any necessary notifications under the HSR Act to be filed within 15 Business Days after the Option Exercise Date). Notwithstanding anything to the contrary contained in this Deed, the Purchaser shall have primary responsibility for obtaining all consents, approvals or actions of any Governmental Entity which are required in connection with the Required Notifications.
- 4.2.2 The Purchaser shall be responsible for payment of all filing and other fees and expenses in connection with the Required Notifications and the satisfaction of the conditions in Paragraphs 4.1.1 to 4.1.4.
- 4.2.3 CFIUS:
- (i) Novartis and the Purchaser shall consult, cooperate and keep each other reasonably informed regarding communications with, and requests for additional information from, CFIUS with respect to the Transaction. Novartis and the Purchaser shall use their respective reasonable best efforts to provide promptly all information that is pursuant to a request by CFIUS.
  - (ii) Within 60 calendar days after the Option Exercise Date, any party wishing to submit a formal joint voluntary notice to CFIUS pursuant to 31 C.F.R. Section 800.401, et. seq. (“**CFIUS Filing**”) shall provide the other party with written notice of its intent to make a CFIUS Filing (“**Election Date**”). Prior to making its election to submit a CFIUS Filing, the party wishing to make a CFIUS Filing shall consult in good faith with senior executives of the other party. If neither Novartis nor the Purchaser provides notice to submit a formal joint voluntary notice to CFIUS, a CFIUS Filing will not be made unless requested by CFIUS.
  - (iii) If either Novartis or the Purchaser elects to make a CFIUS Filing following the procedures and consultations in Clause 4.2.3(i) or if CFIUS requires a filing, then:
    - (a) Novartis and the Purchaser shall use their respective reasonable best efforts to submit a draft CFIUS Filing no later than 15 Business Days following the Election Date, and a final CFIUS Filing the earlier of (1) five business days after submitting the draft CFIUS filing or (2) five calendar days after the receipt of any comments from CFIUS staff regarding the draft CFIUS Filing;
    - (b) Novartis and the Purchaser will provide each other with the reasonable opportunity to review and comment on any information provided to CFIUS to the extent permitted by Applicable Law, with the exception of personal identifier information required under Section 800.402(c)(6)(vi)(B) of the CFIUS regulations, 31 C.F.R.. Competitively sensitive information, or information not related to the transactions contemplated by this Deed, may be restricted to each party’s external counsel to the extent reasonably considered necessary or advisable by the providing party;



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- (c) Novartis and the Purchaser shall each have an opportunity to approve and mutually agree on the joint contents of the CFIUS Filing and shall be jointly responsible for the accuracy of such contents. Novartis and the Purchaser respectively, shall each be responsible for the accuracy of contents of the CFIUS Filing that exclusively relate to itself, its business, and any subsidiaries, parents or other related parties; and
- (d) Novartis and the Purchaser shall use their respective reasonable best efforts to obtain CFIUS Approval as promptly as practicable and shall consult with each other on strategic matters related to obtaining such CFIUS Approval, provided that the Purchaser shall have no obligation to agree to any mitigation or other restrictive provision that could reasonably be considered to have a substantial impact on either the Business or the Purchaser.

**4.2.4** The party responsible for satisfaction of each condition pursuant to this Paragraph 4 shall give notice to the other party of the satisfaction of the relevant condition within one Business Day of becoming aware of the same.

**4.2.5** The parties shall cooperate with each other in connection with the satisfaction of the conditions in Paragraphs 4.1.1 to 4.1.4. The parties will consult and cooperate reasonably with one another, consider in good faith the views of one another, and provide to the other party in advance any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals they or their agents make or submit to a Governmental Entity. Without limiting the foregoing, the parties agree to: (a) give each other reasonable advance notice of all meetings with any Governmental Entity; (b) give each other an opportunity to participate in each of such meetings; (c) to the extent practicable, give each other reasonable advance notice of all substantive oral communications with any Governmental Entity; (d) if any Governmental Entity initiates a substantive oral communication, promptly notify the other party of the substance of such communication; (e) provide each other with a reasonable advance opportunity to review and comment upon all written communications (including any analyses, presentations, memoranda, briefs, arguments, opinions and proposals) with a Governmental Entity; (f) provide each other with copies of all written communications to or from any Governmental Entity; and (g) not advance arguments in connection with any regulatory review or litigation proceeding related to this Deed, (other than litigation between the parties) over the objection of the other party that would reasonably be likely to have a significant adverse impact on that other party, provided however, that neither party shall be required to comply with sub-Paragraph (b) above to the extent that the Governmental Entity objects to the participation of a party, or with sub-Paragraph (e) or (f) above to the extent that such disclosure may raise regulatory concerns (in which case, the disclosure may be made on an outside counsel basis).



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- 4.2.6** The Purchaser shall and, shall cause its Affiliates to use reasonable endeavours to procure the satisfaction of the conditions in Paragraphs 4.1.1 to 4.1.4 as soon as reasonably possible (and, in any event, not later than the Option Long Stop Date). For the avoidance of doubt, nothing in this Deed shall require the Purchaser to propose, negotiate, offer to commit or effect any sale, divestiture, licence or other remedy in order to procure the satisfaction of the conditions in Paragraphs 4.1.1 to 4.1.4.
- 4.2.7** Novartis shall, and shall cause the Influenza Group to use reasonable endeavours to cooperate with the Purchaser in connection with procuring the satisfaction of the conditions in Paragraphs 4.1.1 to 4.1.4 as soon as reasonably possible (and, in any event, not later than the Longstop Date), including providing to the Purchaser such information with respect to the Influenza Group as the Purchaser may reasonably require in connection with satisfaction of its obligations under this Paragraph.
- 4.2.8** The Purchaser and Novartis shall cooperate, in the manner contemplated in Paragraph 4.2.5, and use reasonable endeavours to ensure that no Governmental Entity shall enact, issue, promulgate, enforce or enter any Applicable Law or Judgment as contemplated under Paragraph 4.1.7. In the event that any Governmental Entity enacts, issues, promulgates, enforces or enters any Applicable Law or Judgment as contemplated under Paragraph 4.1.7, the Purchaser and Novartis shall cooperate and use reasonable endeavours to put in place arrangements that would allow the Transaction to complete to the greatest possible extent in compliance with the relevant Applicable Law or Judgment.

## 4.3 Waiver

- 4.3.1** The Purchaser may at any time in whole or in part (and conditionally or unconditionally) waive the conditions set out in Paragraph 4.1.4, in each case with Novartis's prior written consent, such consent not to be unreasonably withheld or delayed.
- 4.3.2** The Purchaser may at any time in whole or in part (and conditionally or unconditionally) waive the condition set out in Paragraph 4.1.6 by notice in writing to Novartis.

## 5 Pre-Option Closing

### 5.1 General

Subject to the terms and conditions of this Deed and subject to the Put Option being exercised, Novartis and the Purchaser shall use reasonable endeavours to cooperate with each other on and after the date of this Deed to consummate the transactions contemplated in it.

### 5.2 Novartis's Obligations in Relation to the Business

- 5.2.1** Novartis undertakes to procure that between the date of this Deed and Option Closing, so far as permitted by Applicable Law, the Business is carried on by the Influenza Group as a going concern in the ordinary course as carried on immediately prior to the date of this Deed, save in so far as agreed in writing by the Purchaser (such consent not to be unreasonably withheld or delayed) or as provided in Paragraph 5.3.

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- 5.2.2** Without prejudice to the generality of Paragraph 5.2.1 and subject to Paragraph 5.3, Novartis undertakes to procure that, with respect to the Business, between the date of this Deed and Option Closing, no member of the Novartis Group shall, except as may be required to comply with this Deed, without the prior written consent of the Purchaser (such consent not to be unreasonably withheld or delayed), take any of the actions listed in Part 1 of Appendix 20.
- 5.2.3** Without prejudice to the generality of Paragraph 5.2.1 and subject to Paragraph 5.3, Novartis shall, in each case with respect to the Business: (i) undertake to procure the satisfaction of its obligations listed in paragraph 1, Part 2 of Appendix 20; and (ii) procure that the Influenza Group shall, between the date of this Deed and Option Closing, comply with the requirements of paragraph 2, Part 2 of Appendix 20.

**5.3 Exceptions to Novartis's Obligations in Relation to the Conduct of Business**

- 5.3.1** Paragraphs 5.1 and 5.2 shall not operate so as to prevent or restrict:
- (i) subject to Paragraph 5.3.2, the disposal or transfer by Novartis or any other member of the Novartis Group of all or any part of the Business to a Third Party Purchaser or to another member of the Novartis Group;
  - (ii) any matter undertaken by any member of the Novartis Group to facilitate or implement any Reorganisation in accordance with Paragraph 2.3.5;
  - (iii) the entry into of any agreements or arrangements on arm's length terms with respect to the supply by the Influenza Group of Enoxaparin, Copaxone and any other products to Sandoz Inc. or its Affiliates;
  - (iv) the closure of any production lines or facilities where the manufacture or production is transferred to another site within the Novartis Group, provided that such closure does not adversely affect (i) the ability of the Business to operate in a similar form as at the date of this Deed or (ii) the Purchaser's rights under this Deed;
  - (v) the technology transfer of any production line between manufacturing sites, provided that such transfer does not adversely affect (i) the ability of the Business to operate in a similar form as at the date of this Deed or (ii) the Purchaser's rights under this Deed;
  - (vi) any matter undertaken by any member of the Influenza Group that is set out in Part 3 of Appendix 20;
  - (vii) any action relating to the Business required to be undertaken to comply with Applicable Law or requests from, and any dealings or other arrangements with, any Governmental Entity including, for the avoidance of doubt, the tender for, or re-negotiation of, Contracts with Governmental Entities in the ordinary course of business;
  - (viii) any matter reasonably undertaken in relation to the Business in an emergency or disaster situation with the intention of minimising any adverse effect of such situation on the Business, provided that Novartis shall notify the Purchaser as soon as reasonably practicable of any action taken or proposed to be taken as described in this Paragraph (viii), shall provide to the Purchaser all such information as the Purchaser may reasonably request and use reasonable endeavours to consult with the Purchaser in respect of any such action; or

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(ix) anything provided for under Clause 5 of this Deed.

**5.3.2** Notwithstanding any other provision of this Deed if, at any time after the date of this Deed, Novartis and / or any other member of the Novartis Group disposes of or transfers assets to a Third Party Purchaser such that:

- (i) it or they would no longer be able to sell and transfer all or substantially all of the Business as at the date of this Deed to the Purchaser at Option Closing, Clause 2.1.1 shall no longer apply with the effect that Novartis (and the members of the Novartis Group) may no longer exercise the Put Option with respect to the Option 1 Assets;
- (ii) it or they would no longer be able to sell and transfer all or substantially all of the Cell-based Influenza Business as at the date of this Deed to the Purchaser at Option Closing, Clauses 2.1.2 and 2.1.4 shall no longer apply with the effect that Novartis (and the members of the Novartis Group) may no longer exercise the Put Option with respect to the Option 2 Assets, or a combination of the Option 2 Assets and some or all of the Option 4 Assets; and / or
- (iii) it or they would no longer be able to sell and transfer all or substantially all of the Egg-based Influenza Business as at the date of this Deed to the Purchaser at Option Closing, Clauses 2.1.3 and 2.1.5 shall no longer apply with the effect that Novartis (and the members of the Novartis Group) may no longer exercise the Put Option with respect to the Option 3 Assets, or a combination of the Option 3 Assets and some or all of the Option 4 Assets.

**5.4 Novartis's obligations in relation to insurance**

Without prejudice to the generality of Paragraph 5.2.1, between the date of this Deed and Option Closing, Novartis shall or shall procure that the relevant members of the Novartis Group shall maintain in force all Influenza Group Insurance Policies and all Novartis Group Insurance Policies for the benefit of the Influenza Group Businesses and Influenza Group Companies.

**5.5 Novartis's obligations in relation to cash, Intra-Group Non-Trade Payables and Receivables and Third Party Indebtedness**

From the Option Exercise Date and prior to Option Closing, Novartis shall seek to minimise the amounts which would, but for this Paragraph 5.5, otherwise fall to be treated as:

- (i) Intra-Group Non-Trade Payables;
- (ii) Intra-Group Non-Trade Receivables;
- (iii) Influenza Group Companies Cash Balances; and
- (iv) Third Party Indebtedness.



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in each case to the extent reasonably possible, taking into account the consequences of any such reduction for the Novartis Group.

**5.6 Novartis's Obligations in Relation to Books and Records**

Without prejudice to the generality of Paragraph 5.2.1, from the Option Exercise Date and prior to Option Closing, Novartis shall, and shall procure that its Affiliates shall, allow the Purchaser and its respective agents, upon reasonable notice, reasonable access to, and to take copies of, the books, records and documents of or relating in whole or in part to the Influenza Group, provided that the obligations of Novartis under this Paragraph shall not extend to allowing access to information which is: (i) reasonably regarded as confidential to the activities of Novartis and the Novartis Group otherwise than in relation to the Influenza Group; or (ii) commercially sensitive or other information relating to the Option Assets if such information cannot be shared with the Purchaser prior to Option Closing in compliance with Applicable Law (though Novartis shall seek to share such information with the Purchaser to the extent and in such a manner as would comply with Applicable Law).

**5.7 Affiliate Contracts**

**5.7.1** Other than as provided in the Ancillary Agreements and subject to Paragraph 8.6, Novartis and the Purchaser shall procure that:

- (i) the Cash Pooling Arrangements; and
- (ii) each Affiliate Contract in force immediately prior to Option Closing, other than any Surviving Affiliate Contract,

shall terminate prior to Option Closing and each counterparty thereto shall, effective as of Option Closing, settle all outstanding financial obligations arising out of such Affiliate Contracts and unconditionally release and irrevocably discharge each other party thereto from (i) any and all further obligations to perform or any further performance of the various covenants, undertakings, warranties and other obligations contained in such Affiliate Contract and (ii) any and all claims and Liabilities whatsoever arising out of, in any way connected with, as a result of or in respect of such Affiliate Contract.

**5.7.2** As soon as practicable following the Option Exercise Date, and in any event within one month of the Option Exercise Date, Novartis shall provide a copy of each Affiliate Contract that is material to the Influenza Group and is in writing to the Purchaser. Within two months of the Option Exercise Date, the Purchaser shall notify Novartis of the services provided under the Affiliate Contracts from the Novartis Group which the Purchaser reasonably requires in order to operate the business of the Influenza Group as it is carried on at the Option Exercise Date to continue to receive on the same terms as contained in the relevant Affiliate Contract for a maximum period of 6 months following Option Closing provided that such services are not addressed by the Ancillary Agreements.

**5.8 Tax Groups**

**5.8.1** Novartis shall take all reasonable steps to procure that any Tax Consolidation existing between any member of the Novartis Group and any Influenza Group Company be terminated on or before Option Closing, so far as permitted by the applicable law, or otherwise on the earliest date on which such termination is permitted under applicable law, and Novartis and the Purchaser shall take such action as is necessary to procure or effect this, including timely submitting any necessary Tax documents.



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- 5.8.2** Pending the taking effect of the action referred to in Paragraph 5.8.1, and for so long thereafter as may be necessary, the Purchaser shall (subject to the provisions of the Tax Indemnity) procure that such information is provided to Novartis as may reasonably be required to enable any relevant member of the Novartis Group to make all Tax Returns and other filings required of it in respect of the Tax Consolidation.
- 5.8.3** Novartis and the Purchaser shall cooperate in good faith to take, and procure that each member of the Novartis Group and the Purchaser’s Group takes, all reasonable procedural or administrative steps (including the making of elections and filings with relevant Tax Authorities) which are reasonably necessary to procure the minimisation of the extent to which Tax liabilities of members of the Novartis Group (other than Influenza Group Companies) can be assessed on members of the Purchaser’s Group or on Influenza Group Companies.
- 5.8.4** Novartis shall take all reasonable steps to ensure that Chiron Technologies Limited and Chiron Pharmaceuticals Limited are finally liquidated, and cease to exist, before the Option Closing Date.

**6 Option Closing**

**6.1 Date and Place**

Option Closing shall take place at 11.59 p.m. (Central European Time) in at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS (other than in respect of any Local Transfer Documents agreed between the parties to be executed in another jurisdiction) on the last Business Day of the month in which fulfilment or waiver of the last of the condition(s) set out in Paragraph 4.1 to be fulfilled or waived takes place, except that:

- 6.1.1** where the last day of such month is not a Business Day, the Option Closing shall instead take place on the first Business Day of the following month; and
- 6.1.2** where less than five Business Days remain between such fulfilment or waiver and the last Business Day of the month, Option Closing shall take place:
  - (i) on the last Business Day of the following month;
  - (ii) where the last day of such month is not a Business Day, the Option Closing shall instead take place on the first Business Day of the month following the month referred to in Paragraph 6.1.2(i); or
  - (iii) at such other location, time or date as may be agreed between the Purchaser and Novartis in writing,

provided that in determining the date on which the last of the conditions set out in Paragraph 4.1 is fulfilled or waived, the date shall be the date on which the last of the conditions set out in Paragraphs 4.1.1, 4.1.2, 4.1.3, 4.1.4, 4.1.5 and 4.1.8 is fulfilled or waived unless any of the conditions set out in Paragraphs 4.1.6 and 4.1.7 is not fulfilled or waived on that date, in which case the date shall then be the first following date on which all of the conditions set out in Paragraphs 4.1.6 and 4.1.7 are fulfilled or waived.

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- 6.2.1** On Option Closing, the parties shall comply with their respective obligations specified in Appendix 15. Novartis may waive some or all of the obligations of the Purchaser as set out in Appendix 15 and the Purchaser may waive some or all of the obligations of Novartis as set out in Appendix 15.
- 6.2.2** The parties acknowledge that the transfer of Product Approvals and Product Applications to the Purchaser or other members of the Purchaser's Group may be subject to the approval of applicable Governmental Entities, and that, notwithstanding anything in this Deed to the contrary, each Product Approval and Product Application shall continue to be held by the relevant member of the Novartis Group from the Option Closing Date until the relevant PA Transfer Date.
- 6.2.3** The parties shall perform their respective obligations with respect to:
- (i) the transfer of the Product Approvals, Product Applications and Pipeline Product Approvals as set out in Appendix 8;
  - (ii) the transfer of Contracts (other than Product Approvals, Product Applications and Pipeline Product Approvals) and the Transferred Intellectual Property Contracts as set out in Appendix 9 and the treatment of Shared Business Contracts; and
  - (iii) to the extent the Purchaser has elected to have the Relevant Part of a Shared Business Contract transferred to it, the separation of each Shared Business Contract as set out in Appendix 9.

**6.3 Payment on Option Closing**

- 6.3.1** On Option Closing the Purchaser shall pay (for itself and on behalf of each relevant member of the Purchaser's Group in accordance with Paragraph 15.6) an amount in cleared funds, to Novartis to the Purchase Price Bank Account, which is equal to the sum of:
- (i) the Headline Price;
- plus
- (ii) the Estimated Influenza Group Companies' Cash Balances and the Estimated Intra-Group Non-Trade Receivables;
- minus
- (iii) the Estimated Third Party Indebtedness;
- minus
- (iv) the Estimated Intra-Group Non-Trade Payables;
- minus
- (v) any Estimated Employee Benefit Adjustment;
- minus
- (vi) the Estimated Tax Adjustment.



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**6.4 Notifications to determine payments on Option Closing**

**6.4.1** Five Business Days prior to Option Closing, Novartis shall notify the Purchaser of

- (i) the Estimated Influenza Group Companies' Cash Balances;
- (ii) the Estimated Third Party Indebtedness;
- (iii) the Estimated Intra-Group Non-Trade Receivables;
- (iv) the Estimated Intra-Group Non-Trade Payables;
- (v) any Estimated Employee Benefit Adjustment; and
- (vi) the Estimated Tax Adjustment,

and shall at the same time provide to the Purchaser reasonable supporting calculations and information to enable the Purchaser to review the basis on which the estimates have been prepared.

**6.4.2** Novartis's notification pursuant to Paragraph 6.4.1 shall specify the relevant debtor and creditor for each Estimated Intra-Group Payable and Estimated Intra-Group Receivable.

**6.4.3** Immediately following Option Closing:

- (i) the Purchaser shall procure that each Influenza Group Company repays to the relevant member of the Novartis Group the amount of any Estimated Intra-Group Non-Trade Payables and shall acknowledge on behalf of each Group Company the payment of the Estimated Intra-Group Non-Trade Receivables in accordance with Paragraph 6.4.3(ii); and
- (ii) Novartis shall procure that each relevant member of the Novartis Group repays to the relevant Influenza Group Company the amount of any Estimated Intra-Group Non-Trade Receivables and shall acknowledge on behalf of each relevant member of the Novartis Group the payment of the Estimated Intra-Group Non-Trade Payables in accordance with Paragraph 6.4.3(i).

**6.4.4** The repayments made pursuant to Paragraph 6.4.3 shall be adjusted in accordance with Paragraphs 7.3 and 7.4 when the Option Closing Statement becomes final and binding in accordance with Paragraph 7.2.1.

**6.5 Breach of Option Closing Obligations**

**6.5.1** If any party fails to comply with any material obligation in Paragraphs 6.2 or 6.3 or Appendix 15 in relation to Option Closing, the Purchaser, in the case of non-compliance by Novartis, or Novartis, in the case of non-compliance by the Purchaser, shall be entitled (in addition to and without prejudice to all other rights or remedies available) by written notice to Novartis or the Purchaser to fix a new date for Option Closing which, except as agreed by the parties, shall be the last day of the month next ending or, if that day is not a Business Day, the first Business Day falling after that day, in which case the provisions of Appendix 15 shall apply to Option Closing as so deferred, but provided such deferral may only occur once.



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6.5.2 Option Closing shall occur only once and shall only be effective if it is in respect of all of the Business to be transferred to the Purchaser under this Deed.

**7 Post-Option Closing Adjustments**

**7.1 Option Closing Statements**

7.1.1 Novartis shall procure that as soon as practicable following Option Closing there shall be drawn up a draft of the Option Closing Statement (the “**Draft Option Closing Statement**”) in accordance with Appendix 16 in relation to the Influenza Group Companies and Influenza Group Businesses, on a combined basis.

7.1.2 The Option Closing Statement shall be drawn up as at the Effective Time.

**7.2 Determination of Option Closing Statement**

7.2.1 The Draft Option Closing Statement as agreed or determined pursuant to paragraph 1 of Part 1 of Appendix 16:

- (i) shall constitute the Option Closing Statement for the purposes of this Deed; and
- (ii) shall be final and binding on the parties.

7.2.2 The Influenza Group Companies’ Cash Balances, the Third Party Indebtedness, the Intra-Group Non-Trade Receivables, the Intra-Group Non-Trade Payables and the Tax Adjustment shall be derived from the Option Closing Statement.

**7.3 Adjustments to Purchase Price**

7.3.1 Influenza Group Companies’ Cash Balances:

- (i) if the Influenza Group Companies’ Cash Balances are less than the Estimated Influenza Group Companies’ Cash Balances, Novartis shall repay to the Purchaser an amount equal to the deficiency; or
- (ii) if the Influenza Group Companies’ Cash Balances are greater than the Estimated Influenza Group Companies’ Cash Balances, the Purchaser shall pay to Novartis an additional amount equal to the excess.

7.3.2 Intra-Group Non-Trade Receivables:

- (i) if the Intra-Group Non-Trade Receivables are less than the Estimated Intra-Group Non-Trade Receivables, Novartis shall repay to the Purchaser an amount equal to the deficiency; or
- (ii) if the Intra-Group Non-Trade Receivables are greater than the Estimated Intra-Group Non-Trade Receivables, the Purchaser shall pay to Novartis an additional amount equal to the excess.

7.3.3 Third Party Indebtedness

- (i) if the Third Party Indebtedness is greater in magnitude than the Estimated Third Party Indebtedness, Novartis shall repay to the Purchaser an amount equal to the excess; or



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- (ii) if the Third Party Indebtedness is less in magnitude than the Estimated Third Party Indebtedness, the Purchaser shall pay to Novartis an additional amount equal to the deficiency.

**7.3.4** Intra-Group Non-Trade Payables:

- (i) if the Intra-Group Non-Trade Payables are greater in magnitude than the Estimated Intra-Group Non-Trade Payables, Novartis shall repay to the Purchaser an amount equal to the excess; or
- (ii) if the Intra-Group Non-Trade Payables are less in magnitude than the Estimated Intra-Group Non-Trade Payables, the Purchaser shall pay to Novartis an additional amount equal to the deficiency.

**7.3.5** Tax Adjustment

- (i) if the Tax Adjustment is greater than the Estimated Tax Adjustment, Novartis shall repay to the Purchaser an amount equal to the difference; or
- (ii) if the Tax Adjustment is less than the Estimated Tax Adjustment, the Purchaser shall pay to Novartis an additional amount equal to the difference.

**7.4 Adjustments to repayment of Intra-Group Non-Trade Payables and Intra-Group Non-Trade Receivables**

Following the determination of the Option Closing Statement pursuant to Paragraph 7.2 and paragraph 1 of Part 1 of Appendix 16, if the amount of any Intra-Group Non-Trade Payable and/or any Intra-Group Non-Trade Receivable contained in the Option Closing Statement is greater or less than the amount of the corresponding Estimated Intra-Group Non-Trade Payable or Estimated Intra-Group Non-Trade Receivable, then Novartis and the Purchaser shall procure that such adjustments to the repayments pursuant to Paragraph 6.4.3 are made as are necessary to ensure that (taking into account such adjustments) the actual amount of each Intra-Group Non-Trade Payable and each Intra-Group Non-Trade Receivable has been repaid by each Group Company to the relevant member of the Novartis Group or by the relevant member of the Novartis Group to the relevant Group Company, as the case may be.

**7.5 Interest**

Any payment to be made in accordance with Paragraph 7.3 shall include interest thereon calculated from the Option Closing Date to the date of payment at a rate per annum of LIBOR.

**7.6 Payment**

**7.6.1** Any payments pursuant to Paragraph 7.3 or 7.4, and any interest payable pursuant to Paragraph 7.5, shall be made on or before the Final Payment Date.

**7.6.2** Where any payment is required to be made pursuant to Paragraph 7.3 or Paragraph 7.5 (in relation to a payment pursuant to Paragraph 7.3) the payment made on account of the Purchase Price shall be reduced or increased accordingly.

**7.6.3** Where any payment is required to be made pursuant to Appendix 12, the payment made shall be deemed to be a reduction to the Purchase Price.

**Execution Version****8 Post-Option Closing Obligations****8.1 Indemnities****8.1.1 Indemnity by the Purchaser against Assumed Liabilities**

The Purchaser hereby undertakes to Novartis (for itself and on behalf of each other member of the Novartis Group and their respective directors, officers, employees and agents) that, with effect from Option Closing, the Purchaser will indemnify on demand and hold harmless each member of the Novartis Group and their respective directors, officers, employees and agents against and in respect of any and all Assumed Liabilities.

**8.1.2 Indemnities by Novartis**

Subject to Paragraph 8.1.3, Novartis hereby undertakes to the Purchaser (for itself and on behalf of each other member of the Purchaser's Group and their respective directors, officers, employees and agents) that, with effect from Option Closing, Novartis will indemnify on demand and hold harmless each member of the Purchaser's Group and their respective directors, officers, employees and agents against and in respect of any and all:

- (i) Excluded Liabilities; and
- (ii) Liabilities, including legal fees, to the extent they have arisen or arise (whether before or after Option Closing) as a result of or otherwise relate to any act, omission, fault, matter, circumstance or event undertaken, occurring or in existence or arising before Option Closing so far as related to: (A) any breach of any anti-bribery warranty, including without limitation those set forth in paragraphs 9.1 through 9.6 of Appendix 18, not being true and correct when made; (B) any government inquiries or investigations involving Novartis, its Affiliates or its associated persons; (C) save to the extent in existence as at the date of this Deed any limitation, restriction or other reduction in drug registrations, licenses, listings or marketing approvals, government pricing or reimbursement rates relating to the Products including specifically the value of lost future profits as a result of any such limitation, restriction or reduction; or (D) any other claim, litigation, investigation or proceeding to the extent related to any of the foregoing (A) to (C), including but not limited to costs of investigation and defense and legal fees.

**8.1.3 Limitations on Indemnities**

Subject to Paragraph 8.1.4, Novartis shall not be liable under Paragraph 8.1.2 in respect of:

- (i) any Time-Limited Excluded Liability unless a notice of a claim in respect of the matter giving rise to such liability is given by the Purchaser to Novartis within ten years of Option Closing, provided that this sub-Paragraph (i) shall not apply in respect of any claim by the Purchaser which relates to:
  - (a) a Product Liability;
  - (b) a Governmental Liability;
  - (c) a Clinical Trials/Data Liability;



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- (d) an IP Liability; or
- (e) an Excluded Asset;
- (ii) any claim if and to the extent that the relevant Liability is included in the Option Closing Statement; or
- (iii) any individual claim (or a series of claims arising from similar or identical facts or circumstances) where the liability (disregarding the provisions of this Paragraph 8.1.3(iii)) in respect of any such claim or series of claims does not exceed US\$10 million, provided that, for the avoidance of doubt, where the Liability in respect of any such claim or series of claims exceeds US\$10 million, the Liability of Novartis shall be for the whole amount of such claim(s) and not just the excess.

**8.1.4 Disapplication of limitations**

None of the limitations contained in Paragraph 8.1.3 shall apply to any claim to the extent that such claim which arises or is increased, or to the extent to which it arises or is increased, as the consequence of, or which is delayed as a result of, fraud by any member of the Novartis Group or any director, officer or employee of any member of the Novartis Group.

**8.2 Conduct of Claims**

**8.2.1 Assumed Liabilities**

- (i) If Novartis becomes aware after Option Closing of any claim by a third party which constitutes or may constitute an Assumed Liability, Novartis shall as soon as reasonably practicable:
  - (a) give written notice thereof to the Purchaser, setting out such information as is available to Novartis as is reasonably necessary to enable the Purchaser to assess the merits of the potential claim;
  - (b) take all appropriate actions to preserve evidence; and
  - (c) provide the Purchaser with periodic updates on the status of the claim upon request and shall not admit, compromise, settle, discharge or otherwise deal with such claim without the prior written agreement of the Purchaser (such agreement not to be unreasonably withheld or delayed).
- (ii) Novartis shall, and shall procure that each Share Seller and Business Seller shall, take such action as the Purchaser may reasonably request to avoid, dispute, resist, appeal, compromise, defend or mitigate any claim which constitutes or may constitute an Assumed Liability subject to Novartis and each Share Seller and Business Seller being indemnified and secured to their reasonable satisfaction by the Purchaser against all Liabilities which may thereby be incurred. In connection therewith, Novartis shall make or procure to be made available to the Purchaser or their duly authorised agents on reasonable notice during normal business hours all relevant books of account, records and correspondence relating to the Influenza Group Businesses which have been retained by the Novartis Group (and shall permit the Purchaser to take copies thereof at its expense) for the purposes of enabling the Purchaser to ascertain or extract any information relevant to the claim.



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8.2.2 Excluded Liabilities

- (i) If the Purchaser becomes aware after Option Closing of any claim by a third party which constitutes or may constitute an Excluded Liability or relates to an Excluded Liability or any investigations related thereto, regardless of whether the Purchaser believes that such claim would be made against a member of the Purchaser's Group or a member of the Novartis Group, the Purchaser shall as soon as reasonably practicable:
  - (a) give written notice thereof to Novartis, setting out such information as is available to the Purchaser as is reasonably necessary to enable Novartis to assess the merits of the potential claim;
  - (b) take all appropriate actions to preserve evidence; and
  - (c) provide Novartis with periodic updates on the status upon request and shall not admit, compromise, settle, discharge or otherwise deal with such claim without the prior written agreement of Novartis (such agreement not to be unreasonably withheld or delayed).
- (ii) The Purchaser shall take such action as Novartis may reasonably request to avoid, dispute, resist, appeal, compromise, defend or mitigate any claim which constitutes or may constitute an Excluded Liability subject to the Purchaser being indemnified and secured to its reasonable satisfaction by Novartis against all Liabilities which may thereby be incurred.
- (iii) In addition, where any such claim or investigation involves a Governmental Entity, the Purchaser shall, subject to Applicable Law, the requirements of the Relevant Governmental Entity and Novartis providing any appropriate confidentiality undertaking in favour of the Purchaser's Group, provide to Novartis, at least five Business Days in advance (or, where not possible, as soon as reasonably possible), any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals they or their agents make or submit to a Governmental Entity. Without limiting the foregoing, the parties agree, subject to the Applicable Law and the requirements of the relevant Governmental Entity and Novartis providing an appropriate confidentiality undertaking in favour of the Purchaser's Group, to:
  - (a) give Novartis reasonable advance notice of all meetings with any Governmental Entity;
  - (b) give Novartis an opportunity to participate in each of such meetings;
  - (c) to the extent practicable, give Novartis reasonable advance notice of all substantive oral communications with any Governmental Entity;
  - (d) if any Governmental Entity initiates a substantive oral communication, promptly notify Novartis of the substance of such communication;
  - (e) provide Novartis with a reasonable advance opportunity to review and comment upon all substantive written communications (including any substantive correspondence, analyses, presentations, memoranda, briefs, arguments, opinions and proposals) that the Purchaser or its agents intend to make or submit to a Governmental Entity in connection with such claim;



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- (f) provide Novartis with copies of all substantive written communications to or from any Governmental Entity; and
- (g) not advance arguments with the Governmental Entity without prior agreement of Novartis that would reasonably be likely to have a significant adverse impact on Novartis,

provided however, that the Purchaser shall not be required to comply with paragraph (b) above to the extent that the Governmental Entity objects to the participation of a party, or with paragraph (e) or (f) above to the extent that such disclosure may raise regulatory concerns (in which case, the disclosure may be made on an outside counsel basis).

- (iv) Other than in respect of any claim to the extent it relates to an IP Liability, a Commercial Practices Liability or a Governmental Liability (other than in respect of any Liability arising solely by virtue of a breach of any Contract with any Governmental Entity which breach does not also constitute a breach of Applicable Law), Novartis shall be entitled at its own expense and in its absolute discretion, by notice in writing to the Purchaser, to take such action as it shall deem necessary to avoid, dispute, deny, defend, resist, appeal, compromise or contest any such claim (including making counterclaims or other claims against third parties) in the name of and on behalf of the Purchaser or other member of the Purchaser’s Group concerned and to have the conduct of any related proceedings, negotiations or appeals. In taking action on behalf of any member of the Purchaser’s Group as permitted by this Paragraph 8.2, Novartis shall, in good faith, take into account and have due regard to any reputational matters or issues arising out of the claim for any member of the Purchaser’s Group or any of their respective directors, officers, employees or agents which are brought to its attention by the Purchaser or a member of the Purchaser’s Group.
- (v) Without limitation to Novartis’s rights pursuant to Paragraph 8.10, the Purchaser shall make or procure to be made available to the Novartis or its duly authorised agents on reasonable notice during normal business hours full and free access to all relevant books of account, records and correspondence relating to the Influenza Group which are in the possession of the Purchaser or any member of the Purchaser’s Group (and shall permit Novartis to take copies thereof) for the purposes of enabling Novartis to ascertain or extract any information relevant to the claim.
- (vi) The Purchaser shall, and shall procure that each other member of the Purchaser’s Group shall, on reasonable notice from Novartis, give such assistance to Novartis as it may reasonably require in relation to the claim including providing Novartis or any member of the Novartis Group and its representative and advisers with access to and assistance from directors, officers, managers, employees, advisers, agents or consultants of the Purchaser and/or of each other member of the Purchaser’s Group (collectively, the “**Relevant Persons**”) and the Purchaser will use its reasonable endeavours to procure that such Relevant Persons comply with any reasonable requests from Novartis and generally co-operates with and assists Novartis and other members of Novartis Group.

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- (vii) When seeking assistance under Paragraph 8.2.2(v) and (vi), Novartis, or any other relevant member of the Novartis Group, shall use reasonable endeavours to minimise interference with the Purchaser and the Purchaser's Group's conduct of the relevant business or the performance by the Relevant Persons of their employment duties.

**8.3 Release of Guarantees**

**8.3.1** The Purchaser shall use reasonable endeavours to procure as soon as reasonably practicable after Option Closing, the release of Novartis or any member of the Novartis Group from any securities, guarantees or indemnities given by or binding upon Novartis or any member of the Novartis Group in respect of the Assumed Liabilities or in connection with a liability of any of the Influenza Group Companies (other than an Excluded Liability). Pending such release, the Purchaser shall indemnify Novartis and any member of the Novartis Group against all amounts paid by any of them (acting reasonably) pursuant to any such securities, guarantees or indemnities in respect of such Assumed Liabilities or such liability of the Influenza Group Companies (other than an Excluded Liability).

**8.3.2** Novartis shall use reasonable endeavours to procure by Option Closing or, to the extent not done by Option Closing, as soon as reasonably practicable after Option Closing, the release of the Influenza Group Companies from any securities, guarantees or indemnities given by or binding upon the Influenza Group Companies in respect of any liability of Novartis or any member of the Novartis Group. Pending such release, Novartis shall indemnify the Influenza Group Companies against all amounts paid by any of them (acting reasonably) pursuant to any such securities, guarantees or indemnities in respect of such liability of Novartis which arises after Option Closing.

**8.4 Transferred Accounts Payable**

If at any time after Option Closing, Novartis or any of its Affiliates pays any monies in respect of any Transferred Accounts Payable, then the Purchaser shall pay or procure payment to Novartis (for the relevant Business Seller), as soon as reasonably practicable the amount paid, plus any Taxation suffered or incurred by the Novartis Group which would not have arisen but for the payment and receipt of such monies.

**8.5 Transferred Accounts Receivable**

If at any time after Option Closing, a Business Seller receives any monies in respect of any Transferred Accounts Receivable, then the Business Seller shall pay or procure payment to the Purchaser, as soon as reasonably practicable the amount recovered, less any Taxation suffered or incurred by the Novartis Group which would not have arisen but for the receipt and payment of such monies.



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### 8.6 Intra-Group Trading Balances

Any Intra-Group Trading Balances shall be settled after Option Closing in the ordinary course of business and in any event within 60 days of Option Closing.

### 8.7 Transfer of Marketing Authorisations

**8.7.1** The transfer of the Marketing Authorisations following Option Closing shall take place in accordance with Part 2 of Appendix 8 and the terms of the Manufacturing, Supply and Distribution Agreement.

**8.7.2** Between the Option Closing Date and the Marketing Authorisation Transfer Date, Novartis agrees to assist the Purchaser in accordance with Part 4 of Appendix 8 in respect of any tenders relating to the Products.

### 8.8 Wrong Pockets Obligations

**8.8.1** Except as provided in Appendices 3, 8, 9, 10 and 11, if any property, right or asset forming part of the Influenza Group (other than any property, right or asset expressly excluded from the sale under this Deed) has not been transferred to the Purchaser or to another member of the Purchaser's Group and should have transferred pursuant to the terms of this Deed, Novartis shall procure that such property, right or asset (and any related liability which is an Assumed Liability) is transferred to the Purchaser, or to such other member of the Purchaser's Group as the Purchaser may nominate which is reasonably acceptable to Novartis, as soon as practicable and at no cost to the Purchaser.

**8.8.2** If, following Option Closing, any property, right or asset not forming part of the Influenza Group (other than any property, right or asset expressly included in the sale under this Deed) is found to have been transferred to the Purchaser or to another member of the Purchaser's Group and should not have transferred pursuant to the terms of this Deed, the Purchaser shall procure that such property, right or asset is transferred to the transferor or another member of the Novartis Group nominated by Novartis which is reasonably acceptable to the Purchaser as soon as practicable and at no cost to Novartis.

### 8.9 Covenant not to sue

**8.9.1** Novartis hereby undertakes not to enforce, at any time after Option Closing, any Out of Scope Patent against the Purchaser's Group in relation to the Purchaser's Group carrying on the Business as at the date of Option Closing.

**8.9.2** The Purchaser hereby undertakes not to enforce, at any time after Option Closing, any Influenza Patent against the Novartis Group in relation to the Novartis Group carrying on the Novartis Group Retained Business as at the date of Option Closing.

### 8.10 The Purchaser's Continuing Obligations

**8.10.1** The Purchaser shall procure that as soon as practicable after Option Closing, each of the Influenza Group Companies shall change its name so that it does not contain any of the Novartis Restricted Marks or any name which is likely to be confused with the same and shall provide Novartis with appropriate evidence of such change of name.



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- 8.10.2** Except as provided in the Ancillary Agreements, the Purchaser shall not, and shall procure that no member of the Purchaser’s Group shall, after Option Closing, use any of the Novartis Restricted Marks or any confusingly similar name or mark, any extensions thereof or developments thereto in any business which competes with Novartis’s business, or any other business of Novartis or any member of the Novartis Group in which the Novartis Restricted Marks are used for a minimum period of five (5) years following Option Closing and thereafter for so long as any member of the Novartis Group continues to retain an interest in the relevant Novartis Restricted Marks.
- 8.10.3** The Purchaser shall, and shall procure that the relevant Influenza Group Companies shall, retain for a period of 10 years from Option Closing (and, upon notice from Novartis between 9 and 10 years from Option Closing, for a further period of 5 years), and not dispose of or destroy the books, records and documents of the Influenza Group to the extent they relate to the period prior to Option Closing and shall, and shall procure that the relevant Influenza Group Companies shall, if reasonably requested by Novartis, allow Novartis reasonable access to such books, records and documents (including the right to take copies at Novartis’s expense) and to the employees of the Influenza Group or former employees of the Influenza Group who are employees of any member of the Purchaser’s Group.
- 8.10.4** During the 90 days following the Option Closing Date, the Purchaser shall provide and cause to be provided to Novartis the information reasonably required to enable Novartis to prepare and audit the standard monthly reporting forms of the Novartis Group, to the extent that such financial reporting relates to the Influenza Group, in respect of the period prior to the Option Closing and in respect of the calendar month in which the Option Closing occurs. The Purchaser shall provide such financial reporting in respect of the calendar month in which Option Closing occurs to Novartis within six Business Days of the last day of the relevant month.

**8.11 Novartis’s Continuing Obligations**

For a period of 10 years from Option Closing (and, upon notice from the Purchaser between 9 and 10 years from Option Closing, for a further period of 5 years), Novartis shall make or procure to be made available to the Purchaser or their duly authorised agents on reasonable notice during normal business hours:

- 8.11.1** all relevant books, accounts, other records and correspondence relating to the Influenza Group which have been retained by the Novartis Group (and shall permit the Purchaser to take copies thereof); and
- 8.11.2** reasonable access to employees of the Novartis Group who have knowledge relating to any of the Products (including any inventor of the Products) for the purposes of the defence, prosecution or enforcement of any Influenza Group Intellectual Property Rights, or as required by law or a Governmental Entity, provided that the Purchaser shall promptly reimburse Novartis for expenses reasonably incurred by Novartis in relation to providing such access if it exceeds 25 man hours in aggregate per annum.

**8.12 Manufacturing, Supply and Distribution Agreement**

If the Manufacturing, Supply and Distribution Agreement has not been entered into at Option Closing, the provisions of the heads of terms in the Agreed Terms for the “Manufacturing, Supply and Distribution Agreement” as defined in the Vogel SAPA (with any necessary amendments) shall be binding on the Seller and Purchaser until the earlier of: (i) the date on which the Manufacturing, Supply and Distribution Agreement (as defined in this Deed) is entered into; or (ii) the date on which the Seller no longer manufactures and supplies Products to the Seller for distribution.



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**8.13 Transitional Services Agreement**

If the Transitional Services Agreement has not been entered into at Option Closing, the provisions of the heads of terms in the Agreed Terms for the “Transitional Services Agreement” as defined in the Vogel SAPA (with any necessary amendments) shall be binding on the Seller and Purchaser until the earlier of: (i) the date on which the Transitional Services Agreement (as defined in this Deed) is entered into; or (ii) the date on which Novartis no longer provides such transitional services to the Purchaser.

**8.14 Novartis’s Licence under the Out-Licensing Programme**

Novartis grants (and shall procure the grant) to the Purchaser of a non-exclusive, irrevocable, royalty-free, non-assignable, sub-licensable licence of the Out-Licensing Programme Intellectual Property Rights solely for use in relation to the Business which shall be sub-licensable by the Purchaser solely (i) to members of the Purchaser’s Group and (ii) to third parties working with it on the development of the Products.

**8.15 Holly Springs Facility**

Novartis and the Purchaser shall perform their respective obligations with respect to the transfer of the facility at the Holly Springs Site as set out in Part 2 of Appendix 17.

**9 Warranties**

**9.1 Novartis’s Warranties**

- 9.1.1** Subject to Paragraph 9.2, Novartis warrants (on behalf of the relevant Business Sellers or Share Seller as applicable) to the Purchaser and each member of the Purchaser’s Group to which Shares or other assets are transferred pursuant to this Deed or any Local Transfer Document, that the statements set out in Appendix 18 are true and accurate as at the date of this Deed.
- 9.1.2** Subject to Paragraph 9.2, Novartis warrants that that the statements set out in Appendix 18 will be true and accurate as at the Option Exercise Date as if repeated immediately before the Option Exercise Date by reference to the facts and circumstances subsisting at that date on the basis that any reference in Novartis’s Warranties, whether express or implied, to the date of this Deed (other than any reference to the Disclosure Letter) is substituted by a reference to the Option Exercise Date.
- 9.1.3** Novartis may, solely in respect of Novartis’s Warranties given pursuant to Paragraph 9.1.2, make specific disclosures against such Novartis’s Warranties by providing a further letter addressed from it to the Purchaser (an “**Option Exercise Date Disclosure Letter**”), provided that any such Option Exercise Date Disclosure Letter:
  - (i) shall be delivered to the Purchaser’s Lawyers in substantially final form no less than two Business Days before the intended Option Exercise Date;



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- (ii) (x) may only contain specific disclosures against Novartis's Warranties in relation to facts, matters or circumstances occurring or arising after the date of this Deed; and (y) shall not contain any disclosures against Novartis's Warranties set out in paragraphs 1, 2.2, 8.2 to 8.4 and 18 of Appendix 18; and
- (iii) shall, save for the restrictions on its contents as set out in this Paragraph 9.1.3, be in substantially the same form and written on substantially the same basis as the Disclosure Letter.

**9.1.4** Each of Novartis's Warranties shall be separate and independent and shall not be limited by reference to any other paragraph of Appendix 18 or by anything in this Deed or any Local Transfer Document or in the Tax Indemnity.

**9.1.5** Novartis does not give or make any warranty as to the accuracy of the forecasts, estimates, projections, statements of intent or statements of opinion provided to the Purchaser or any of its directors, officers, employees, agents or advisers on or prior to the date of this Deed.

**9.1.6** Any Novartis Warranty qualified by the expression "so far as Novartis is aware" or to "Novartis's Knowledge" or any similar expression shall, unless otherwise stated, be deemed to refer to the knowledge of the following persons: [\*\*\*], such persons having made due and reasonable enquiry.

**9.2 Novartis's Disclosures**

**9.2.1** Novartis's Warranties are subject to all matters which are fairly disclosed in:

- (i) this Deed;
- (ii) the Disclosure Letter, in respect of the Novartis's Warranties given pursuant to Paragraph 9.1.1; or
- (iii) the Disclosure Letter and the Option Exercise Date Disclosure Letter, in respect of the Novartis's Warranties given pursuant to Paragraph 9.1.2.

**9.2.2** References in the Disclosure Letter or the Option Exercise Date Disclosure Letter to paragraph numbers shall be to the paragraphs in Appendix 18 to which the disclosure is most likely to relate. Such references are given for convenience only and, shall not limit the effect of any of the disclosures, all of which are made against Novartis's Warranties as a whole.

**9.3 The Purchaser's Warranties**

**9.3.1** The Purchaser warrants to Novartis that the statements set out in Appendix 19 are true and accurate as of the date of this Deed.

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\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**10 Limitation of Liability**

**10.1 Application**

- 10.1.1** In respect of the Tax Indemnity, the provisions of this Paragraph 10 shall operate to limit the liability of Novartis only in so far as any provision in this Paragraph 10 is expressed to be applicable to the Tax Indemnity, and the provisions of the Tax Indemnity shall further operate to limit the liability of Novartis in respect of any claims thereunder.
- 10.1.2** References to Novartis's Warranties in Paragraphs 10.2 to 10.5 and 10.7 to 10.9 shall not include the Tax Warranties and the Tax Indemnity shall operate to limit the liability of Novartis and to govern the claims procedure in respect of any claim under the Tax Warranties in respect of a liability for Tax as if such claim had been a claim in respect of a Tax Liability (as defined in the Tax Indemnity) under the Tax Indemnity.

**10.2 Time Limitation for Claims**

Novartis shall not be liable under this Deed or any Local Transfer Document for breach of any Novartis's Warranty or under the Tax Indemnity in respect of any claim unless a notice of the claim is given by the Purchaser to Novartis specifying the matters set out in Paragraph 11.2:

- 10.2.1** in the case of a claim under paragraphs 1, 2.1, 2.2.1, 2.2.3 or 2.3 of Appendix 18, within the applicable statutory limitation period;
- 10.2.2** in the case of any claim under paragraphs 4.1 to 4.10 of Appendix 18, within 6 years of Option Closing;
- 10.2.3** in respect of claims under the Tax Warranties or the Tax Indemnity, before the date falling six months after the expiry of the period specified by statute during which an assessment of the relevant liability to tax may be issued by the relevant Tax Authority; and
- 10.2.4** in the case of any other claim, within two years of Option Closing.

**10.3 Minimum Claims**

- 10.3.1** Novartis shall not be liable under:
  - (i) this Deed or any Local Transfer Document for breach of any Novartis's Warranty in respect of any individual claim (or a series of claims arising from similar or identical facts or circumstances) where the liability agreed or determined (disregarding the provisions of this Paragraph 10.3) in respect of any such claim or series of claims does not exceed US\$250,000; or
  - (ii) this Deed for breach of any Tax Warranty or under the Tax Indemnity in respect of any individual claim (or series of claims arising from similar or identical facts or circumstances) where the liability agreed or determined (disregarding the provisions of this Clause 10.3) in respect of any such claim or series of claims does not exceed US\$50,000;
- 10.3.2** Where the liability agreed or determined in respect of any such claim or series of claims exceeds US\$250,000 (in the case of claims falling within paragraph 10.3.1(i)) or US\$50,000 (in the case of claims falling within paragraph 10.3.1(ii)), the liability of Novartis shall be for the whole amount of such claim(s) and not just the excess.



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### 10.4 Aggregate Minimum Claims

- 10.4.1** Novartis shall not be liable under this Deed or any Local Transfer Document for breach of any Novartis's Warranty in respect of any claim unless the aggregate amount of all claims for which Novartis would otherwise be liable under this Deed or any Local Transfer Document for breach of any Novartis's Warranty (disregarding the provisions of this Paragraph 10.4) exceeds US\$2.5 million.
- 10.4.2** Where the liability agreed or determined in respect of all claims exceeds US\$2.5 million, Novartis shall be liable for the aggregate amount of all claims as agreed or determined and not just the excess.
- 10.4.3** For the avoidance of doubt, the Purchaser may give notice of any single claim in accordance with and for the purposes of Paragraph 10.2, irrespective of whether, at the time the notice is given, the amount set out in Paragraph 10.4.2 has been exceeded.

### 10.5 Maximum Liability

The aggregate liability of Novartis in respect of:

- 10.5.1** any breaches of Novartis's Warranties (other than Novartis's Warranties contained in paragraphs 1, 2.1, 2.2.1, 2.2.3, 2.3 or 4.1 to 4.10 of Appendix 18) shall not exceed an amount equal to thirty per cent. of the Headline Price;
- 10.5.2** any breaches of Novartis' Warranties contained in paragraphs 4.1 to 4.10 of Appendix 18 shall not exceed an amount equal to sixty per cent. of the Headline Price; and
- 10.5.3** any breaches of Novartis's Warranties contained in paragraphs 1, 2.1, 2.2.1, 2.2.3 or 2.3 of Appendix 18 shall not exceed the Headline Price.

### 10.6 Contingent Liabilities

The Novartis shall not be liable under this Deed or any Local Transfer Document for breach of any Novartis's Warranty in respect of which the liability is contingent, unless and until such contingent liability becomes an actual liability and is due and payable (but the Purchaser has the right under Paragraph 11.1 to give notice of such claim before such time). For the avoidance of doubt, the fact that the liability may not have become an actual liability by the relevant date provided in Paragraph 10.2 shall not exonerate Novartis in respect of any claim properly notified before that date.

### 10.7 Provisions

Novartis shall not be liable under this Deed or any Local Transfer Document, in either case, in respect of any claim for breach of any Novartis's Warranty, if and to the extent that any allowance, provision or reserve has been properly made in the Option Closing Statement or Statement of Net Assets for the matter giving rise to the claim and Novartis can demonstrate that the allowance, provision or reserve so made was in respect of such matter.



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**10.8 Matters Arising Subsequent to this Deed**

Subject to Paragraph 8.1.2, Novartis shall not be liable under this Deed or any Local Transfer Document, in either case in respect of any claim for breach of any Novartis’s Warranty, in respect of any matter, act, omission or circumstance (or any combination thereof), to the extent that the same would not have occurred but for:

**10.8.1 Agreed matters**

any matter or thing done or omitted to be done by Novartis or any member of the Novartis Group before Option Closing pursuant to and in compliance with this Deed or any Local Transfer Document or otherwise at the request in writing of the Purchaser; or

**10.8.2 Changes in legislation**

the passing of, or any change in, after the Option Closing Date, any Applicable Law or administrative practice of any government, governmental department, agency or regulatory body having the force of the law including (without prejudice to the generality of the foregoing) any increase in the rates of Taxation or any imposition of Taxation or any withdrawal of relief from Taxation not in force at the Option Closing Date.

**10.9 Insurance**

Without prejudice to Paragraph 14, Novartis’s Liability under this Deed for breach of any Novartis’s Warranty shall be reduced by an amount equal to any loss or damage to which such claim related which has actually been recovered under a policy of insurance held by the Purchaser or an Influenza Group Company (after deducting any reasonable costs incurred in making such recovery including the amount of any excess or deductible).

**10.10 Purchaser’s Right to Recover**

If Novartis has paid an amount in discharge of any claim under this Deed for breach of any Novartis’s Warranty and subsequently the Purchaser recovers (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates the Purchaser (in whole or in part) in respect of the loss or liability which is the subject matter of the claim, the Purchaser shall pay to Novartis as soon as practicable after receipt an amount equal to (i) the sum recovered from the third party less any costs and expenses incurred in obtaining such recovery and any Tax on any amounts recovered (or Tax that would have been payable on such amounts but for the availability of any Tax relief), or if less (ii) the amount previously paid by Novartis to the Purchaser. Any payment made by the Purchaser to Novartis under this Paragraph shall be made or procured by way of further adjustment of the consideration paid by the Purchaser and the provisions of Paragraph 3.3 shall apply *mutatis mutandis*.

**10.11 No Double Recovery and no Double Counting**

A party shall be entitled to make more than one claim under this Deed arising out of the same subject matter, fact, event or circumstance but shall not be entitled to recover under this Deed or any Local Transfer Document or the Tax Indemnity or otherwise more than once in respect of the same Losses suffered or amount for which the party is otherwise entitled to claim (or part of such Losses or amount), regardless of whether more than one claim arises in respect of it. No amount (including any relief) (or part of any amount) shall be taken into account, set off or credited more than once under this Deed or any Local Transfer Document or the Tax Indemnity or otherwise, with the intent that there will be no double counting under this Deed or any Local Transfer Document and the Tax Indemnity or otherwise.



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**10.12 Fraud**

None of the limitations contained in this Paragraph 10 shall apply to any claim to the extent that such claim which arises or is increased, or to the extent to which it arises or is increased, as the consequence of, or which is delayed as a result of, fraud by any director or officer of any member of the Novartis Group.

**11 Claims**

**11.1 Notification of Potential Claims**

Without prejudice to the obligations of the Purchaser under Paragraph 11.2, if the Purchaser becomes aware of any fact, matter or circumstance that may give rise to a claim against Novartis under this Deed or any Local Transfer Document for breach of any Novartis's Warranty other than a Tax Warranty (ignoring for these purposes the application of Paragraph 11.2 or 11.3), the Purchaser shall as soon as reasonably practicable give a notice in writing to Novartis of such facts, matters or circumstances as are then available regarding the potential claim. Failure to give notice within such period shall not affect the rights of the Purchaser to make a relevant claim under this Deed or any Local Transfer Document for breach of any Novartis's Warranty, except that the failure shall be taken into account in determining the liability of Novartis for such claim to the extent Novartis establishes that the amount of it is increased, or is not reduced, as a result of such failure.

**11.2 Notification of Claims under this Deed**

Notices of claims under this Deed or any Local Transfer Document for breach of any Novartis's Warranty (other than a Tax Warranty) shall be given by the Purchaser to Novartis within the time limits specified in Paragraph 10.2 and shall specify information (giving reasonable detail) in relation to the basis of the claim and setting out the Purchaser's estimate of the amount of Losses which are, or are to be, the subject of the claim.

**11.3 Commencement of Proceedings**

Any claim notified pursuant to Paragraph 11.2 shall (if it has not been previously satisfied, settled or withdrawn) be deemed to be irrevocably withdrawn 9 months after the relevant time limit set out in Paragraph 10.2 unless, at the relevant time, legal proceedings in respect of the relevant claim have been commenced by being both issued and served except:

**11.3.1** where the claim relates to a contingent liability, in which case it shall be deemed to have been withdrawn unless legal proceedings in respect of it have been commenced by being both issued and served with 9 months of it having become an actual liability; or

**11.3.2** where the claim is a claim for breach of a Novartis's Warranty of which notice is given for the purposes of Paragraph 10.2 at a time when the amount set out in Paragraph 10.4.2 has not been exceeded, in which case it shall be deemed to have been withdrawn unless legal proceedings in respect of it have been commenced by being both issued and served within 9 months of the date of any subsequent notification to Novartis pursuant to Paragraph 11.1 of one or more claims which result(s) in the total amount claimed in all claims notified to Novartis pursuant to Paragraph 10.2 exceeding the amount set out in Paragraph 10.4.2 for the first time.



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**11.4 Conduct of Third Party Claims**

If the matter or circumstance that may give rise to a claim against Novartis under this Deed or any Local Transfer Document for breach of any Novartis's Warranty (other than a Tax Warranty) is a result of or in connection with a claim by a third party (a "**Third Party Claim**") then:

- 11.4.1** the Purchaser shall as soon as reasonably practicable give written notice thereof to Novartis and thereafter shall provide Novartis with periodic updates upon reasonable request and shall consult with Novartis so far as reasonably practicable in relation to the conduct of the Third Party Claim and shall take reasonable account of the views of Novartis in relation to the Third Party Claim;
- 11.4.2** the Third Party Claim shall not be admitted, compromised, disposed of or settled without the written consent of Novartis (such consent not to be unreasonably withheld or delayed); and
- 11.4.3** subject to Novartis indemnifying the Purchaser or other member of the Purchaser's Group concerned against all reasonable costs and expenses (including legal and professional costs and expenses) that may be incurred thereby, the Purchaser shall, or the Purchaser shall procure that any other members of the Purchaser's Group shall, take such action as Novartis may reasonably request to avoid, dispute, deny, defend, resist, appeal, compromise or contest the Third Party Claim, provided that this Paragraph 11.4.3 shall not apply where the claim by the third party relates to matters or circumstances referred to in paragraphs 4 or 9 of Appendix 18 and the Purchaser shall then have the right to conduct the claim at its discretion (subject to Paragraphs 11.4.1 and 11.4.2),

provided that failure to give notice in accordance with Paragraph 11.4.1 shall not affect the rights of the Purchaser to make a relevant claim under this Deed for breach of any Novartis's Warranty, except that the failure shall be taken into account in determining the liability of Novartis for such claim to the extent Novartis establishes that the amount of it is increased, or is not reduced, as a result of such failure.

**12 Restrictive Covenants**

**12.1 Non-compete**

Novartis will not, and undertakes to procure that each member of the Novartis Group will not, for the period from Option Closing until three years after the Option Closing Date:

- 12.1.1** be engaged (directly or indirectly) in any business which competes with the Business as it is carried on at the Option Closing Date (the "**Restricted Business**"), provided that commercial transactions outside the Restricted Business with a client, customer, supplier, licensor or distributor that is not a member of the Novartis Group shall not be deemed to indirectly violate this Paragraph 12.1.1 by reason of such person being engaged in the Restricted Business or taking any other action prohibited hereunder; or



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**12.1.2** solicit the custom of any person to whom goods or services have been sold by any member of the Influenza Group in the course of its business during the two years before the Option Closing Date, in each case only to the extent that such solicitation is in competition with the Business of the Influenza Group as it is carried on at the Option Closing Date.

**12.2 Exceptions to the non-compete**

The restrictions in Paragraph 12.1 shall not apply to:

- 12.2.1** the Specified Excluded Businesses;
- 12.2.2** any activities of any nature undertaken or developed by the Novartis Group (other than the Influenza Group) in relation to oncology;
- 12.2.3** any activities of any nature (or any assets related thereto) contributed by the Novartis Group pursuant to the Consumer Contribution Agreement;
- 12.2.4** any supply agreements between the Novartis Group (other than the Influenza Group) and the Business, the Vaccines Group Businesses (as defined in the Vaccines SAPA) or GlaxoSmithKline Constellation Limited (or its Affiliates);
- 12.2.5** any person at such time as it is no longer a member of the Novartis Group, and any person that purchases assets, operations, subsidiaries or businesses from the Novartis Group if such Person is not a member of the Novartis Group after such transaction is consummated;
- 12.2.6** any Affiliate of Novartis in which a person who is not a member of the Novartis Group holds equity interests and with respect to whom a member of the Novartis Group has existing contractual or legal obligations limiting its discretion to impose non-competition obligations;
- 12.2.7** the holding of shares in a company or other entity for investment purposes provided Novartis does not exercise, directly or indirectly, Control over that company or entity;
- 12.2.8** any business activity that would otherwise violate Paragraph 12.1 that is acquired in connection with an acquisition so long as the relevant member of the Novartis Group divests all or substantially all of the business activity that would otherwise violate Paragraph 12.1 or otherwise terminates or disposes of such business activity, product line or assets of such acquired business that would otherwise violate Paragraph 12.1 within nine months after the consummation of the relevant acquisition, or such longer period as may reasonably be necessary to comply with Applicable Law (provided that in those circumstances Novartis shall procure that the Restricted Business is disposed of as soon as reasonably practicable);
- 12.2.9** passive investments by a pension or employee benefit plan or trust for present or former employees;
- 12.2.10** financial investments by the Novartis Venture Funds;
- 12.2.11** investments by the Novartis Foundation for Sustainable Development, or a similar non-profit-based organization;

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- 12.2.12** performance of any obligation of the Novartis Group under the Transaction Documents, as amended from time to time in accordance with their terms; or
- 12.2.13** provision of data or other content to or in connection with business conducted by any person, in each case as required by Applicable Law.

**12.3 Non-solicit**

Novartis will not, and undertakes to procure that each member of the Novartis Group will not, for a period of two years after the Option Closing Date, solicit or induce any Restricted Influenza Group Employee to become employed or engaged whether as employee, consultant or otherwise by any member of the Novartis Group.

**12.4 Exceptions to the non-solicit**

The restrictions in Paragraph 12.3 shall not apply to the solicitation, inducement or recruitment of any person:

- 12.4.1** through the placing of advertisements of posts available to the public generally;
- 12.4.2** through an employment agency, provided that no member of the Novartis Group encourages or advises such agency to approach any such person; or
- 12.4.3** who is no longer employed by the Purchaser's Group.

**12.5 Reasonableness of Restrictions**

Each undertaking contained in this Paragraph 12 shall be construed as a separate undertaking and if one or more of the undertakings is held to be against the public interest or unlawful or in any way an unreasonable restraint of trade, the remaining undertakings shall continue to bind Novartis.

**12.6 Definitions**

For the purposes of this Paragraph:

**"Restricted Influenza Group Employee"** means any Transferred Employee who has access to trade secrets or other confidential information of the Influenza Group with an annual basic salary in excess of US\$150,000; and;

**"Specified Excluded Businesses"** means the businesses and activities of: (i) Roche Holding AG and (ii) Novartis Institutes for BioMedical Research (and other activities of a similar type to those currently conducted by Novartis Institutes for BioMedical Research).

**13 Confidentiality****13.1 Announcements**

No announcement, communication or circular concerning the existence or the subject matter of this Deed shall be made or issued by or on behalf of any member of the Novartis Group or the Purchaser's Group without the prior written approval of Novartis and the Purchaser (such consent not to be unreasonably withheld or delayed). This shall not affect any announcement, communication or circular required by law or any governmental or regulatory body or the rules of any stock exchange on which the shares of any party (or its holding company) are listed but the party with an obligation to make an announcement or communication or issue a circular (or whose holding company has such an obligation) shall consult with the other parties (or shall procure that its holding company consults with the other parties) insofar as is reasonably practicable before complying with such an obligation.



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13.2 Confidentiality

13.2.1 Subject to Paragraph 13.1 and Paragraph 13.2.2, each of the parties shall treat as strictly confidential and not disclose or use any information received or obtained as a result of entering into this Deed, the Ancillary Agreements or any agreement entered into pursuant to this Deed which relates to:

- (i) the existence and provisions of this Deed, the Ancillary Agreements and of any other agreement entered into pursuant to this Deed;
- (ii) the negotiations relating to this Deed, the Ancillary Agreements and any such other agreement;
- (iii) (in the case of Novartis) any information relating to the Influenza Group Companies and Influenza Group Businesses following Option Closing and any other information relating to the business, financial or other affairs (including future plans and targets) of the Purchaser's Group; or
- (iv) (in the case of the Purchaser) any information relating to the business, financial or other affairs (including future plans and targets) of the Novartis Group including, prior to Option Closing, the Influenza Group Companies and Influenza Group Businesses.

13.2.2 Paragraph 13.2.1 shall not prohibit disclosure or use of any information if and to the extent:

- (i) the disclosure or use is required by law, any governmental or regulatory body or any stock exchange on which the shares of any party (or its holding company) are listed;
- (ii) the disclosure or use is required to vest the full benefit of this Deed or the Ancillary Agreements in any party;
- (iii) the disclosure or use is required for the purpose of any arbitral or judicial proceedings arising out of this Deed, the Ancillary Agreements or any other agreement entered into under or pursuant to this Deed or to enable a determination to be made by the Reporting Accountants under this Deed;
- (iv) the disclosure is made to a Tax Authority in connection with the Tax affairs of the disclosing party;
- (v) the disclosure is made to a ratings agency on a confidential basis in connection with the affairs of the disclosing party;
- (vi) the disclosure is made to professional advisers of any party on a need to know basis and on terms that such professional advisers undertake to comply with the provisions of Paragraph 13.2.1 in respect of such information as if they were a party to this Deed;
- (vii) the information was lawfully in the possession of that party without any obligation of secrecy prior to its being received or held, in either case as evidenced by written records;



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- (viii) the information is or becomes publicly available (other than by breach of this Deed);
- (ix) the other party has given prior written approval to the disclosure or use; or
- (x) the information is independently developed,

provided that prior to disclosure or use of any information pursuant to Paragraph 13.2.2(i), (ii) or (iii), the party concerned shall, where not prohibited by law, promptly notify the other parties of such requirement with a view to providing the other parties with the opportunity to contest such disclosure or use or otherwise to agree the timing and content of such disclosure or use.

**14 Insurance**

**14.1 No cover under Novartis Group Insurance Policies from Option Closing**

The Purchaser acknowledges and agrees that following Option Closing:

- 14.1.1** neither the Purchaser nor any Influenza Group Company shall have or be entitled to the benefit of any Novartis Group Insurance Policy in respect of any event, act or omission that takes place after Option Closing and it shall be the sole responsibility of the Purchaser to ensure that adequate insurances are put in place for those Influenza Group Companies and Influenza Group Businesses with effect from Option Closing;
- 14.1.2** neither Novartis nor any member of the Novartis Group shall be required to maintain any Novartis Group Insurance Policy for the benefit of the Influenza Group;
- 14.1.3** no Influenza Group Company shall make or shall be entitled to make or notify a claim under any Novartis Group Insurance Policy in respect of any event, act or omission that occurred prior to the Option Closing Date.

**14.2 Existing claims under Novartis Group Insurance Policies**

With respect to any claim made before the Option Closing Date under any Novartis Group Insurance Policy by or on behalf of any Influenza Group Company or in relation to any Influenza Group Business, to the extent that:

- 14.2.1** neither the Purchaser nor the Influenza Group Companies have been indemnified by Novartis prior to the Option Closing Date in respect of the matter in respect of which the claim was made; or
- 14.2.2** the Liability in respect of which the claim was made has not been properly provided for in the Option Closing Statement,

Novartis shall use reasonable endeavours after Option Closing to recover all monies due from insurers and shall pay any monies received (after taking into account any deductible under the Novartis Group Insurance Policies and less any Taxation suffered on the proceeds and any reasonable out of pocket expenses suffered or incurred by Novartis or any member of the Novartis Group in connection with the claim) to the Purchaser or, at the Purchaser's written direction, the relevant Influenza Group Company as soon as practicable after receipt.

**Execution Version****15 Other Provisions****15.1 Further Assurances**

**15.1.1** Without prejudice to any restriction or limitation on the extent of any party's obligations under this Deed, each of the parties shall from time to time, so far as each is reasonably able, do or procure the doing of all such acts and/or execute or procure the execution of all such documents in a form reasonably satisfactory to the party concerned as they may reasonably consider necessary to transfer the Influenza Group to the Purchaser or otherwise to give the other party the full benefit of this Deed.

**15.1.2** The parties shall negotiate in good faith to agree definitive and legally binding documentation in respect of each of the Ancillary Agreements for which heads of terms are in the Agreed Terms on the date of this Deed, and shall duly execute and deliver such definitive and legally binding documentation in respect of the Ancillary Agreements at Option Closing.

**15.2 Whole Agreement**

**15.2.1** This Deed and the Ancillary Agreements contain the whole agreement between the parties relating to the subject matter of this Deed at the date hereof to the exclusion of any terms implied by law which may be excluded by contract and supersedes any previous written or oral agreement between the parties in relation to the matters dealt with in this Deed.

**15.2.2** The Purchaser acknowledges that, in entering into this Deed, it is not relying on any representation, warranty or undertaking not expressly incorporated into it.

**15.2.3** Each of the parties agrees and acknowledges that its only right and remedy in relation to any representation, warranty or undertaking made or given in connection with this Deed shall be for breach of the terms of this Deed and each of the parties waives all other rights and remedies (including those in tort or arising under statute) in relation to any such representation, warranty or undertaking.

**15.2.4** In Paragraphs 15.2.1 to 15.2.3, "this Deed" includes the Ancillary Agreements and all other documents entered into pursuant to this Deed.

**15.2.5** Nothing in this Paragraph 15.2 excludes or limits any liability for fraud.

**15.3 No Assignment**

No party may without the prior written consent of the other parties, assign, grant any security interest over, hold on trust or otherwise transfer the benefit of the whole or any part of this Deed.

**15.4 Third Party Rights**

**15.4.1** Subject to Paragraph 15.4.2, the parties to this Deed do not intend that any term of this Deed should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Deed.

**15.4.2** Certain provisions of this Deed confer benefits on the Affiliates of the Purchaser and the Affiliates of Novartis (each such Affiliate being, for the purposes of this Paragraph 15.4, a "**Third Party**") and, subject to Paragraph 15.4.3, are intended to be enforceable by each Third Party by virtue of the Contracts (Rights of Third Parties) Act 1999.



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**15.4.3** Notwithstanding Paragraph 15.4.2, this Deed may be varied in any way and at any time without the consent of any Third Party.

**15.5 Variation or waiver**

**15.5.1** No variation of this Deed shall be effective unless in writing and signed by or on behalf of each of the parties.

**15.5.2** No failure or delay by a party in exercising any right or remedy provided by Applicable Law or under this Deed or any Ancillary Agreement shall impair such right or remedy or operate or be construed as a waiver or variation of it or preclude its exercise at any subsequent time and no single or partial exercise of any such right or remedy shall preclude any further exercise of it or the exercise of any other remedy.

**15.6 Method of Payment and set off**

**15.6.1** Except as set out in Paragraph 15.6.2, payments (including payments pursuant to an indemnity, compensation or reimbursement provision) made or expressed to be made by the Purchaser and Novartis pursuant to this Deed or any claim for breach of this Deed shall, insofar as the payment or claim relates to or affects any Shares (including the underlying Influenza Group Companies transferred (directly or indirectly) by reason of the transfer of those Shares), assets or liabilities, transferred pursuant to this Deed and the Local Transfer Documents, be made or received (as the case may be) by:

- (i) Novartis, for itself or as agent on behalf of the relevant Share Seller or the Business Seller (each in respect of the Shares and/or assets and liabilities to be transferred by it pursuant to this Deed and the Local Transfer Documents); and
- (ii) the Purchaser, for itself or as agent on behalf of the relevant members of the Purchaser's Group (each in respect of Shares and/or the assets and liabilities to be transferred by it pursuant to this Deed and the Local Transfer Documents).

**15.6.2** The repayment of the Estimated Intra-Group Non-Trade Receivables and the Estimated Intra-Group Non-Trade Payables pursuant to Paragraph 6.4.3 and any adjustments to such repayment pursuant to Paragraph 7.4 shall be settled by payments between Novartis, on behalf of the relevant members of the Novartis Group, and the Purchaser, on behalf of the relevant Influenza Group Companies.

**15.6.3** Any payments pursuant to this Deed shall be made in full, without any set-off, counterclaim, restriction or condition and without any deduction or withholding (save as may be required by law or as otherwise agreed), except that payments due between Novartis and the Purchaser:

- (i) in relation to repayments of the Estimated Intra-Group Non-Trade Payables and Estimated Intra-Group Non-Trade Receivables pursuant to Paragraph 6.4.3; or
- (ii) in relation to adjustments to those repayments pursuant to Paragraph 7.4,



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respectively, shall be discharged to the fullest extent possible by way of set-off against each other.

**15.6.4** Any payments pursuant to this Deed shall be effected by crediting for same day value the account specified by Novartis or the Purchaser (as the case may be) on behalf of the party entitled to the payment (reasonably in advance and in sufficient detail to enable payment by telegraphic or other electronic means to be effected) on or before the due date for payment.

**15.6.5** Payment of a sum in accordance with this Paragraph 15.6 shall constitute a payment in full of the sum payable and shall be a good discharge to the payer (and those on whose behalf such payment is made) of the payer's obligation to make such payment and the payer (and those on whose behalf such payment is made) shall not be obliged to see to the application of the payment as between those on whose behalf the payment is received.

**15.7 Costs**

**15.7.1** Subject to Paragraph 15.8, Novartis shall bear all costs incurred by it and its Affiliates in connection with the preparation and negotiation of, and the entry into, this Deed, the Local Transfer Documents, the Tax Indemnity and the sale of the Influenza Group.

**15.7.2** The Purchaser shall bear all such costs incurred by it and its Affiliates in connection with the preparation and negotiation of, and the entry into, this Deed, the Local Transfer Documents, the Tax Indemnity and the purchase of the Influenza Group.

**15.8 Notarial Fees, Registration, Stamp and Transfer Taxes and Duties**

**15.8.1** Subject to Paragraph 2.3.5, 2.3.6 and 15.8.2, the Purchaser or the relevant member of the Purchaser's Group:

- (i) shall bear the cost of half of all notarial fees and all registration, stamp and transfer taxes and duties or their equivalents in all jurisdictions where such fees, taxes and duties are payable as a result of the transactions contemplated by this Deed the other half of such cost to be borne by Novartis;
- (ii) shall be responsible for arranging the payment of all such fees, taxes and duties, including fulfilling any administrative or reporting obligation imposed by the jurisdiction in question in connection with such payment; and
- (iii) shall indemnify Novartis or any other member of the Novartis Group against any Losses suffered by Novartis or that member of the Novartis Group as a result of the Purchaser failing to comply with its obligations under this Paragraph 15.8.

**15.8.2** The Purchaser and Novartis shall make or procure the making of such payments to each other (and to each other's Affiliates) as are necessary to ensure the sharing of cost provided for under Paragraph 15.8.1.

**15.9 Interest**

If any party defaults in the payment when due of any sum payable under this Deed, the Local Transfer Documents or the Tax Indemnity the liability of that party shall be increased to include interest on such sum from the date when such payment is due until the date of actual payment (as well after as before judgment) at a rate per annum of two per cent. above LIBOR. Such interest shall accrue from day to day.



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**Execution Version****15.10 Grossing-up**

- 15.10.1** All sums payable under this Deed, the Local Transfer Documents and the Tax Indemnity shall be paid free and clear of all deductions, withholdings, set-offs or counterclaims whatsoever save only as may be permitted by Paragraph 15.6.3 or required by law. Subject to Paragraphs 15.10.3 to 15.10.7 if any deductions or withholdings are required by law the party making the payment shall (except in the case of any interest payable under Paragraph 7.5 or 15.9) be obliged to pay to the other party such sum as will after such deduction or withholding has been made leave the other party with the same amount as it would have been entitled to receive in the absence of any such requirement to make a deduction or withholding, provided that if either party to this Deed shall have assigned or novated the benefit in whole or in part of this Deed or shall, after the date of this Deed, have changed its tax residence or the permanent establishment to which the rights under this Deed are allocated then the liability of the other party under this Paragraph 15.10.1 shall be limited to that (if any) which it would have been had no such assignment, novation or change taken place.
- 15.10.2** If either party is or becomes aware of any facts making it reasonably likely that the Purchaser, or any relevant member of the Purchaser's Group, will be required to deduct or withhold any amount in respect of the Purchase Price (a "**Relevant Tax Deduction**"), then that party shall, as soon as reasonably practicable, give notice to the other party (including details of the relevant facts and, so far as possible, details of the rate and basis of such withholding) provided that for the purposes of this Paragraph 15.10.2, Novartis may assume that the Purchase Price will be paid by (and for) a company resident for Tax purposes only in Belgium.
- 15.10.3** Novartis and the Purchaser shall, and shall procure that the members of their respective groups shall (at Novartis's cost), co-operate with each other in good faith and use all reasonable efforts to reduce or mitigate any Relevant Tax Deduction (or its amount) and/or to enable Novartis or the relevant Share Seller or Business Seller to obtain any available credit or refund in respect of such Relevant Tax Deduction, including, without limitation, making any available claim under an applicable double taxation treaty.
- 15.10.4** Without prejudice to the generality of Paragraph 15.10.3, Novartis and the Purchaser shall co-operate in good faith to establish or agree the amount or basis of calculation of any Relevant Tax Deduction prior to Option Closing (and in this regard the Purchaser shall consider reasonably any relevant information or evidence provided or obtained by Novartis) including, if requested by Novartis and at the Novartis's expense, by seeking to obtain a ruling or confirmation from a relevant Tax Authority, or obtaining an opinion from reputable local tax counsel or a firm of accountants of international standing satisfactory to the Purchaser (acting reasonably) and instructed jointly by Novartis and the Purchaser.



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- 15.10.5** The Purchaser shall, or shall procure that the relevant member of the Purchaser's Group shall, make any Relevant Tax Deduction in the minimum amount required by Applicable Law, provided that:
- (i) if a double taxation treaty between the jurisdiction under the laws of which the Relevant Tax Deduction is required and the jurisdiction of residence of Novartis or the relevant Share Seller or Business Seller is in force, the Purchaser shall (and shall procure that any relevant member of the Purchaser's Group shall) make any Relevant Tax Deduction in an amount not exceeding the rate specified in such double taxation treaty (which may be nil), provided that Novartis has provided the Purchaser with such evidence as is required under Applicable Law to establish the entitlement of Novartis (or relevant Share Seller or Business Seller) to the benefit of the applicable treaty; and
  - (ii) if an opinion from reputable local counsel or a firm of accountants of international standing has been obtained at the request of Novartis as envisaged by Paragraph 15.10.4, the Purchaser shall (and shall procure that any relevant member of the Purchaser Group shall) make such Relevant Tax Deduction in an amount or on a basis which is consistent with that opinion (which may result in no withholding or deduction), provided that Novartis has indemnified the Purchaser and any relevant member of the Purchaser's Group, to the Purchaser's reasonable satisfaction, against any Liabilities arising (including any interest and penalties) should such opinion be wholly or partly incorrect.
- 15.10.6** The Purchaser shall promptly provide Novartis with evidence reasonably satisfactory to Novartis that a Relevant Tax Deduction has been made and an appropriate amount paid to the relevant Tax Authority.
- 15.10.7** If any Relevant Tax Deduction is required an additional sum shall be payable in accordance with Paragraph 15.10.1 only if and to the extent that such deduction or withholding would not have been required had the Purchaser and each member of the Purchaser's Group making such payment or to which such payment relates been resident for Tax purposes only in Belgium.

**15.11 Notices**

- 15.11.1** Any notice or other communication in connection with this Deed (each, a "**Notice**") shall be:
- (i) in writing in English; and
  - (ii) delivered by hand, fax, or by courier using an internationally recognised courier company.
- 15.11.2** A Notice to Novartis shall be sent to such party at the following address, or such other person or address as Novartis may notify to the Purchaser from time to time:
- Novartis AG  
Postfach  
CH-4002  
Basel Switzerland  
Fax: +41 613244300  
Attention: Head of M&A Legal



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with a copy to Novartis’s Lawyers, marked for the urgent attention of James Inglis (delivery of such copy shall not in itself constitute valid notice).

**15.11.3** A Notice to the Purchaser shall be sent to such party at the following address, or such other person or address as the Purchaser may notify to Novartis from time to time:

GlaxoSmithKline PLC

980 Great West Road  
Brentford  
Middlesex TW8 9GS  
United Kingdom

Fax: +44 (0)208 0476904

Attention: The Company Secretary

with a copy to the Purchaser’s Lawyers, marked for the urgent attention of Simon Nicholls (delivery of such copy shall not in itself constitute valid notice).

**15.11.4** A Notice shall be effective upon receipt and shall be deemed to have been received:

- (i) at the time of delivery, if delivered by hand or courier;
- (ii) at the time of transmission in legible form, if delivered by fax.

**15.12 Invalidity or Conflict**

**15.12.1** If any provision in this Deed shall be held to be illegal, invalid or unenforceable, in whole or in part, the provision shall apply with whatever deletion or modification is necessary so that the provision is legal, valid and enforceable and gives effect to the commercial intention of the parties.

**15.12.2** To the extent it is not possible to delete or modify the provision, in whole or in part, under Paragraph 15.12.1, then such provision or part of it shall, to the extent that it is illegal, invalid or unenforceable, be deemed not to form part of this Deed and the legality, validity and enforceability of the remainder of this Deed shall, subject to any deletion or modification made under Paragraph 15.12.1, not be affected.

**15.12.3** If there is any conflict between the terms of this Deed and any of the Ancillary Agreements this Deed shall prevail (as between the parties between this Deed and as between any member of Novartis Group and any member of the Purchaser Group) unless (i) such Ancillary Agreement expressly states that it overrides this Deed in the relevant respect and (ii) Novartis and the Purchaser are either also parties to that Ancillary Agreement or otherwise expressly agree in writing that such Ancillary Agreement shall override this Deed in that respect.

**15.13 Counterparts**

This Deed may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. Any party may enter into this Deed by executing any such counterpart. Delivery of a counterpart of this Deed by email attachment shall be an effective mode of delivery.



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**15.14 Governing Law and Submission to Jurisdiction**

- 15.14.1 This Deed and the documents to be entered into pursuant to it, save as expressly referred to therein, and any non-contractual obligations arising out of or in connection with the Deed and such documents shall be governed by and construed in accordance with English law.
- 15.14.2 Each of the parties irrevocably agrees that the courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Deed and the documents to be entered into pursuant to it save as expressly referred to therein, and that accordingly any proceedings arising out of or in connection with this Deed and the documents to be entered into pursuant to it shall be brought in such courts. Each of the parties irrevocably submits to the jurisdiction of such courts and waives any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

**15.15 Appointment of Process Agent**

- 15.15.1 Novartis hereby irrevocably appoints Hackwood Secretaries Limited of One Silk Street, London EC2Y 8HQ as its agent to accept service of process in England and Wales in any legal action or proceedings arising out of this Deed, service upon whom shall be deemed completed whether or not forwarded to or received by Novartis.
- 15.15.2 Novartis agrees to inform the Purchaser in writing of any change of address of such process agent within 28 days of such change.
- 15.15.3 If such process agent ceases to be able to act as such or to have an address in England and Wales, Novartis irrevocably agrees to appoint a new process agent in England and Wales and to deliver to the Purchaser within 14 days a copy of a written acceptance of appointment by the process agent.
- 15.15.4 Nothing in this Deed shall affect the right to serve process in any other manner permitted by law.



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**Appendix 1**  
**Details of the Share Seller, Shares etc.**  
**(Paragraph 2.1)**

(1) Name of Share Seller	(2) Name of Company	(3) Shares
Novartis Pharma AG	Novartis Vaccines Holdings Limited	92 shares (100%)



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**Appendix 2  
Company and Subsidiaries**

**1 Particulars of the Company**

**Name of Company:** Novartis Vaccines Holdings Limited  
**Registered Number:** 4679458  
**Registered Office:** C/O Novartis Pharmaceuticals UK Limited,  
Frimley Business Park, Frimley,  
Camberley, GU16 7SR, United Kingdom  
**Date and place of incorporation:** 26 February 2003, England and Wales  
**Issued share capital:** GBP 92 divided into 92 shares of GBP 1 each  
**Shareholders and shares held:** Novartis Pharma AG 92 (100%)

**2 Particulars of the Subsidiaries**

**Name of Subsidiary:** Chiron Technologies Limited  
**Registered Number:** 02977138  
**Registered Office:** 3 Rivergate, Temple Quay, Bristol,  
BS1 6GD, United Kingdom  
**Date and place of incorporation:** 10 October 1994, England and Wales  
**Issued share capital:** GBP 2 divided into 2 shares of GBP 1 each  
**Shareholders and shares held:** Novartis Vaccines Holdings Ltd 2 (100%)

**Name of Subsidiary:** Novartis Vaccines and Diagnostics Limited  
**Registered Number:** 3970089  
**Registered Office:** C/O Novartis Pharmaceuticals UK Ltd,  
Frimley Business Park, Frimley, Camberley,  
Surrey, GU16 7SR, United Kingdom  
**Date and place of incorporation:** 11 April 2000, England and Wales



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<b>Name of Subsidiary:</b>	<b>Novartis Vaccines and Diagnostics Limited</b>
Issued share capital:	GBP 100 divided into 100 shares of GBP 1 each
Shareholders and shares held:	Novartis Vaccines Holdings Limited 100 (100%)
<b>Name of Subsidiary:</b>	<b>Chiron Pharmaceuticals Limited</b>
Registered Number:	3321428
Registered Office:	3 Rivergate, Temple Quay, Bristol, BS1 6GD, United Kingdom
Date and place of incorporation:	14 February 1997, England and Wales
Issued share capital:	GBP 9,858,543.50 divided into 98,585,435 shares of GBP 0.1 each
Shareholders and shares held:	Novartis Vaccines Holdings Limited 144,000,000 (100%)



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**Appendix 3**  
**The Properties**  
**Part 1**  
**(Company Real Property)**

**Part A**

**Company Owned Real Property**

None

**Part B**

**Company Leased Real Property**

**1 INFLUENZA GROUP COMPANY:**

**Novartis Vaccines and Diagnostics Limited**

**1.1** Property Description:

‘Site 2’ – Land on the North side of Speke Boulevard,  
Liverpool, UK

Date and parties to Lease:

1 April 1948

- (1) Home and Communities Agency
- (2) Novartis Vaccines and Diagnostics Limited  
(current tenant)

Title Number:

MS134921

**1.2** Property Description:

‘Site 2’ – Land on the South side of Gaskill Road, Speke,  
Liverpool, UK

Date and parties to Lease:

20 February 1952

- (1) Home and Communities Agency
- (2) Novartis Vaccines and Diagnostics Limited  
(current tenant)

Title Number:

MS253780



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- 1.3** Property Description: 'Site 4' – Plot 5A Boulevard Industrial Estate (as well as car parking bays and loading area), Liverpool, UK
- Date and parties to Lease: 28 February 2006
- (1) The Matrix Speke Limited Partnership
  - (2) Novartis Vaccines and Diagnostics Limited (current tenant)
- Title Number: MS536103
- 1.4** Property Description: 'Site 3' – Unit 7, Boulevard Industrial Estate, Liverpool, UK
- Date and parties to Lease: 23 December 2013
- (1) Medimmune U.K. Limited
  - (2) Novartis Vaccines and Diagnostics Limited
- 1.5** Property Description: Unit 4 Boulevard Industrial Estate, Speke, Liverpool, UK
- Date and parties to Lease: 18 July 2001
- (1) Speke-Garston Development Limited
  - (2) Novartis Vaccines and Diagnostics Limited (current tenant)
- Title Number: MS451073



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**Appendix 3  
The Properties  
Part 2  
(Transferred Real Property)**

**Part A**

**Transferred Owned Real Property**

- 1 BUSINESS SELLER: Novartis Vaccines & Diagnostics, Inc.**
- 1.1** Property Description: 85 acre tract, Holly Springs Business Park, US  
Real Estate ID Number: 0348207 and Part of 0347056, Wake County Tax Office  
Documents: Deed - Bk 12119, Pg 2155, Wake County Registry  
Declaration of covenants, conditions and restrictions for Holly Springs Business Park
- 1.2** Property Description: 77 acre tract, Holly Springs Business Park, US  
Real Estate ID Number: Part of 0347056, Wake County Tax Office  
Documents: Deed - Bk 12390, Pg 2295, Wake County Registry  
Declaration of covenants, conditions and restrictions for Holly Springs Business Park
- 1.3** Property Description: 14.455 acres, Holly Springs Business Park, US  
Real Estate ID Number: 0005476, Wake County Tax Office  
Documents: Deed - Bk 14464, Pg 320, Wake County Registry  
Declaration of covenants, conditions and restrictions for Holly Springs Business Park

**Part B**

**Transferred Leased Real Property**

- 1 BUSINESS SELLER: Novartis Vaccines and Diagnostics, Inc.**
- 1.1** Property Description: Parcel L, Holly Springs Business Park, US  
Date and parties to Lease: 24 July 2006  
(1) Town of Holly Springs  
(2) Novartis Vaccines and Diagnostics, Inc.  
Real Estate ID Number: 0348208, Wake County Tax Office  
Documents: Bk 12097, Pg 1486, Wake County Registry  
Declaration of covenants, conditions and restrictions for Holly Springs Business Park



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**Appendix 3**  
**The Properties**  
**Part 3**  
**Terms relating to the Company Real Property**

**1 General Provisions relating to the Company Real Property**

**1.1 Interpretation**

The following further definitions apply in this Part 3 of Appendix 3:

“**Company Landlord**” means the person for the time being entitled to the reversion immediately expectant on the termination of the term granted by a Company Lease;

“**Company Leased Real Properties**” means the leasehold properties identified in Part B of Part 1 of this Appendix 3, and “**Company Leased Real Property**” means any one of them;

“**Company Leases**” means the leases, licence documents or tenancy agreements under which the Company Leased Real Properties are held, including all documents supplemental to them, and “**Company Lease**” means any one of them;

“**Company Owned Real Properties**” means the owned properties as identified in Part A of Part 1 of this Appendix 3 together with all buildings, structures, fixed plant, fixed machinery and fixed equipment thereon (except as excluded in Paragraph 2.3.2), and “**Company Owned Real Property**” means any one of them;

“**Company Real Property Longstop Date**” means the date on which a court of competent jurisdiction finally determines that a Company Third Party Consent has been lawfully refused or cannot be obtained and/or that the Purchaser may not acquire (directly or indirectly, acting through a subsidiary) the relevant Company Real Property; and

“**Company Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from any Company Landlord, superior landlord and/or other third party, including any consents, licences, approvals, permits, authorisations or waivers required by any legislation or regulation or by any statutory, governmental, state, provincial or municipal bodies or authorities which are required under a Company Lease or otherwise in relation to any change of control, shareholders or directors of the Influenza Group Companies, and “**Company Third Party Consent**” means any one of them.



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1.2 Company Third Party Consents

1.2.1 This paragraph 1.2.1 of Part 3 of Appendix 3 applies to those Company Real Properties in relation to which a Company Third Party Consent is required and if such Company Third Party Consent remains to be obtained as at the Option Closing Date this paragraph 1.2.1 of Part 3 of Appendix 3 shall continue to apply until the relevant Company Third Party Consent shall have been obtained or until the Company Real Property Longstop Date. If any Company Third Party Consents are required:

- (i) Novartis shall make an application for, and shall use all reasonable endeavours to obtain each Company Third Party Consent as soon as reasonably practicable following the Option Exercise Date and shall at all times keep the Purchaser informed of progress in obtaining such Company Third Party Consents;
- (ii) the Purchaser shall supply such information and references as may reasonably be required by a Company Landlord, any superior landlord or other relevant third party in connection with a Company Third Party Consent;
- (iii) the Purchaser shall be responsible for and undertake to pay, or procure the giving of undertakings to pay the professional and other fees of any Company Landlord, any superior landlord or other relevant person (including any Tax or disbursements in respect of such fees but excluding any Tax on the actual net income, profit or gains of the Company Landlord, any superior landlord or any other relevant person) properly incurred in connection with any application for Company Third Party Consents, whether or not such Company Third Party Consents are given; and
- (iv) in respect of the period after Option Closing only, the Purchaser shall enter into such covenants for the payment of the rent under the Company Lease and for the observance and performance of the covenants and conditions contained in the Company Lease as may reasonably be required by the Company Landlord, any superior landlord or other relevant third party.

1.2.2 Each party shall give written notice to the other party as soon as reasonably practicable after obtaining any Company Third Party Consents which shall be accompanied by a copy of such consent.

1.2.3 Save as set out in paragraph 1.2.1(iii) of this Part 3 of Appendix 3, Novartis shall pay any moneys or provide or procure the giving of any guarantees or other security, in each case as may be lawfully required by a Company Landlord, superior landlord or other relevant third party in connection with the obtaining of the Company Third Party Consents, provided that the Purchaser shall indemnify and keep indemnified Novartis in an amount equal to:

- (i) any moneys required to be paid by Novartis pursuant to this paragraph; and
- (ii) any Liabilities under any guarantees or other security given or procured by Novartis pursuant to this paragraph and arising out of, or in connection with, an act or omission on the part of the Purchaser or (following Option Closing) the relevant Influenza Group Company,



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and where the Company Landlord, superior landlord or other relevant third party lawfully requires any guarantees or other security to be given by the person who is acquiring a membership interest in respect of the relevant Influenza Group Company, the Purchaser shall provide or procure the giving of any such guarantees or security.

**Company Third Party Consent not obtained**

- 1.2.4** If a Company Third Party Consent has been refused or otherwise not obtained within twelve months following the Option Closing Date, Novartis and the Purchaser may (acting reasonably) agree that an application is to be made to a court of competent jurisdiction that the relevant Company Third Party Consent has been unreasonably withheld or delayed.
- 1.2.5** If an application is to be made to a court of competent jurisdiction pursuant to paragraph 1.2.4 of this Part 3 of Appendix 3:
- (i) the proceedings shall be brought by, and prosecuted at the expense of, the Purchaser;
  - (ii) Novartis shall provide all such assistance in connection with such proceedings as the Purchaser (acting reasonably) may require in the interests of obtaining the Company Third Party Consent; and
  - (iii) provided that Novartis has complied with its obligation under paragraph 1.2.1(i) of this Part 3 of Appendix 3, the Purchaser shall indemnify and keep indemnified Novartis for any costs and expenses properly incurred in connection with any such assistance provided by Novartis.
- 1.2.6** If a Company Third Party Consent has not been obtained by the Company Real Property Longstop Date then Novartis and the Purchaser shall each bear fifty per cent. of any Losses of Novartis and the Purchaser arising out of or in connection with the failure to obtain such Company Third Party Consent.



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**Appendix 3**  
**The Properties**  
**Part 4**  
**Terms relating to the Transferred Real Property**

**1 General Provisions Relating to the Transferred Real Property**

**1.1 Interpretation**

The following further definitions apply in this Part 4 of Appendix 3:

“**Landlord**” means the person for the time being entitled to the reversion immediately expectant on the termination of the term granted by a Lease;

“**Leases**” means the leases, licences or tenancy agreements under which the Transferred Leased Real Properties are held by the relevant member of the Novartis Group, including all documents supplemental to them, and “**Lease**” means any one of them;

“**Letting Document**” means any lease, licence or tenancy agreement to which a Transferred Real Property is subject;

“**Licence**” means a right in favour of the Purchaser and all persons authorised by it to occupy the Licensed Premises during the Licence Period pursuant to this Part 4 of Appendix 3;

“**Licence Fee**” means the payments to be made by the Purchaser to the Novartis Group pursuant to paragraph 1.4.4 of this Part 4 of Appendix 3;

“**Licence Period**” means a period, which may be different for each of the Licensed Premises, commencing on the Option Closing Date and ending on the earliest of the following dates:

- (xxxiii) the date on which this Deed is terminated by whatever means whether in whole or in relation to the relevant Licensed Premises;
- (xxxiv) the date immediately preceding the date on which the term of the relevant Lease ends by whatever means;
- (xxxv) the date of Property Transfer Completion in relation to the relevant Transferred Real Property; and
- (xxxvi) the Property Longstop Date;

“**Licensed Premises**” means any of the Transferred Real Properties for which all relevant Property Third Party Consents have not been obtained prior to, or at, the Option Closing Date;

“**Property Agreed Terms**” means a transfer in the terms agreed between the relevant Business Seller, the Purchaser and any relevant third party or determined pursuant to paragraph 1.3.2 of this Part 4 of Appendix 3 and signed for identification by or on behalf of the Business Seller and by or on behalf of the Purchaser from time to time before or after the date of this Deed, with such alterations as may be agreed from time to time in writing between the relevant Business Seller, the Purchaser and any relevant third party;



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“**Property Longstop Date**” means the date on which a court of competent jurisdiction finally determines that a Property Third Party Consent has been lawfully refused;

“**Property Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from any Landlord, superior landlord and/or other third party, including any consents, licences, approvals, permits, authorisations or waivers required by any legislation or regulation or by any statutory, governmental, state, provincial or municipal bodies or authorities for or in connection with the transfer of a Transferred Real Property by the Business Sellers to the Purchaser and includes (where the context so admits) Sublease Consents;

“**Property Transfer Completion**” means the completion of the transfer of a Transferred Real Property under this Deed, where such completion does not take place on the Option Closing Date because any relevant Property Third Party Consents have not been obtained on or prior to such date;

“**Property Transfer Completion Date**” means the date of Property Transfer Completion in accordance with paragraph 1.7 of this Part 4 of Appendix 3;

“**Registered Title**” means the registered title relating to a Transferred Real Property;

“**Sublease Consent**” has the meaning given to it in paragraph 1.11.2 of this Part 4 of Appendix 3;

“**transfer**”, for the purposes of this Part 4 of Appendix 3 only, means in respect of a Transferred Leased Real Property, the transfer or assignment of the relevant Lease or Leases, and in the case of a Transferred Owned Real Property the transfer thereof, and “**a transfer**” means and includes any instruments, deeds or agreements effecting such transfer;

“**Transferred Leased Real Properties**” means the leasehold properties held by a Business Seller and identified in Part B of Part 2 of this Appendix 3 and “**Transferred Leased Real Property**” means any one of them; and

“**Transferred Owned Real Properties**” means the owned properties identified in Part A of Part 2 of this Appendix 3 together with all buildings, structures, fixed plant, fixed machinery and fixed equipment thereon (except as excluded in Paragraph 2.3.2, and “**Transferred Owned Real Property**” means any one of them.



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**1.2** Each of the Transferred Real Properties and/or the Leases thereof shall be transferred subject to the terms set out in this Part 4 of Appendix 3 and all other applicable terms of this Deed.

**1.3 Pre-Option Closing**

**1.3.1** Prior to Option Closing, the Business Sellers and the Purchaser shall agree (acting reasonably) the form of all documents on Property Agreed Terms necessary for the transfer of each of the Transferred Real Properties pursuant to the terms set out in this Part 4 of Appendix 3 and all other applicable terms of this Deed.

**1.3.2** Any dispute arising out of or connected with paragraph 1.3.1 of this Part 4 of Appendix 3 which is not resolved by agreement between the parties within nine months of such dispute arising shall be referred for and resolved by expert determination as follows:

- (i) either the relevant Business Seller or the Purchaser may initiate an expert reference under this provision by proposing to the other party the appointment of an expert (the “**Expert**”);
- (ii) the Expert shall either be the nearest equivalent to a chartered surveyor in the relevant jurisdiction or (in relation to legal issues) a single QC (or equivalent), in each case with no less than 15 years’ post-qualification experience in commercial real estate in the relevant jurisdiction chosen by agreement between the relevant Business Seller and the Purchaser or, failing agreement within 14 days of the initiation of the reference, by the President for the time being of the relevant professional body to which the Expert belongs (the “**President**”) on the application of either the relevant Business Seller or the Purchaser;
- (iii) the relevant Business Seller and the Purchaser shall request that the Expert determines the referred dispute within 10 days of receiving the reference;
- (iv) if the Expert has been appointed but is unable or unwilling to complete the reference, another Expert shall be appointed by agreement between the relevant Business Seller and the Purchaser or, failing agreement within 7 days of the parties being notified that the Expert is unable or unwilling to complete the reference, by the President on the application of either party;
- (v) the Expert shall act as an expert and not as an arbitrator;
- (vi) the relevant Business Seller and the Purchaser shall have the right to make representations and submissions to the Expert, but there will be no formal hearing;
- (vii) the relevant Business Seller and the Purchaser shall make all relevant documents and information within their control available to the Expert;
- (viii) the costs of the Expert shall be borne equally by the relevant Business Seller and the Purchaser; and



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- (ix) the decision of the Expert shall, in the absence of fraud or manifest error, be final and binding on the parties.

**1.3.3** This paragraph 1.3.3 of Part 4 of Appendix 3 applies to those Transferred Real Properties in relation to which a Property Third Party Consent is required and if such Property Third Party Consent remains to be obtained as at the Option Closing Date this paragraph 1.3.3 of Part 4 of Appendix 3 shall continue to apply until the relevant Property Third Party Consent shall have been obtained or until the Property Longstop Date. If any Property Third Party Consents are required:

- (i) Novartis or relevant Business Seller shall make an application for, and shall use all reasonable endeavours to obtain each Property Third Party Consent as soon as reasonably practicable following the Option Exercise Date for the transfer of the Transferred Real Property and shall, at all times, keep the Purchaser informed of progress in obtaining such Property Third Party Consents;
- (ii) the Purchaser shall:
  - (a) supply such information and references as may reasonably be required by a Landlord, any superior landlord or other relevant third party in connection with a Property Third Party Consent;
  - (b) in respect of the period after Option Closing only, enter into such covenants for the payment of the rent in respect of the Transferred Leased Real Properties and for the observance and performance of the covenants and conditions on the part of the lessee contained in any Lease as may reasonably be required by the Landlord, any superior landlord or other relevant third party;
  - (c) if reasonably required by the Landlord, any superior landlord or other relevant third party, provide a rent deposit or procure that a surety acceptable to such person guarantees the Purchaser's obligations under the Lease following the transfer of the relevant Transferred Leased Real Property; and
  - (d) be responsible for and undertake to pay, or procure the giving of undertakings to pay the professional and other fees of any Landlord, any superior landlord or other relevant person (including any Tax or disbursements in respect of such fees but excluding any Tax on the actual net income, profit or gains of the Landlord, any superior landlord or any other relevant person) properly in connection with any application for Property Third Party Consents, whether or not such Property Third Party Consents are given.

**1.3.4** Each party shall give written notice to the other party as soon as reasonably practicable after obtaining any Property Third Party Consents which shall be accompanied by a copy of such consent.

**1.3.5** Subject to the Purchaser complying with its obligations under paragraphs 1.3.3(ii)(b) to (d) of this Part 4 of Appendix 3, Novartis shall pay, or shall procure that a member of the Novartis Group pays, any moneys or provide or procure the giving of any guarantees or other security, in each case as may be lawfully required by a Landlord, superior landlord or other relevant third party in connection with the obtaining of the Property Third Party Consents, provided that the Purchaser shall indemnify and keep indemnified Novartis in an amount equal to:

- (i) any moneys required to be paid, or procured to be paid, by Novartis pursuant to this paragraph; and



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- (ii) any Liabilities under any guarantees or other security given or procured by Novartis pursuant to this paragraph and arising out of, or in connection with, an act or omission on the part of the Purchaser.

1.4 Licence

1.4.1 In the event that any Property Third Party Consents are not obtained on or before the Option Closing Date, notwithstanding the terms of the Leases, Novartis shall procure that the relevant Business Seller allows the Purchaser to occupy the Licensed Premises for the Licence Period relating to the relevant Licensed Premises on the terms set out in this paragraph 1.4 of Part 4 of Appendix 3.

1.4.2 The Purchaser acknowledges that the grant of each Licence may amount to a breach of the terms of the relevant Lease.

1.4.3 The Licence of each Licensed Premises is granted:

- (i) subject to all of the matters to which the relevant Leases relating to the Transferred Leased Real Property are subject;
- (ii) subject to the matters referred to in the Registered Title and the Letting Documents;
- (iii) out of whatever right, title and interest that the relevant Business Seller has in the Licensed Premises and/or under the Leases;
- (iv) in such state of repair and condition as the Licensed Premises may be in as at the date on which the relevant Licence is granted; and
- (v) without making any statement or representation that the relevant Business Seller is entitled to grant it.

1.4.4 From Option Closing and pending Property Transfer Completion, the Purchaser shall pay to the relevant Business Seller a "Licence Fee" equivalent to:

- (i) all rents and other charges (including VAT due thereon under the relevant Lease where payable at the date of this Deed by the relevant Business Seller) payable in respect of the Licensed Premises; and
- (ii) all outgoings (including VAT due thereon under the relevant Lease) (including, but not limited to, rates, service charges, management charges, levies, air-conditioning charges, insurance, heating, electricity, gas, telecommunications and other services and the cost of complying with fire and other statutory regulations) payable by the relevant Business Seller in respect of the Licensed Premises or charged upon the owner or occupier of the Licensed Premises,

such payments to be made not less than 10 Business Days before any such sum falls due subject to the relevant Business Seller giving the Purchaser not less than 10 Business Days' prior written notice to that effect. To the extent that there has been a prepayment at the Option Closing Date of the amounts in paragraphs 1.4.4(i) and (ii) of this Part 4 of Appendix 3 by the Novartis Group which is not otherwise accounted for in the Option Closing Statement, the Purchaser shall pay to the relevant member of the Novartis Group within 10 Business Days of written demand an amount equal to the amount of such prepayment in respect of any period after the Option Closing Date.



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- 1.4.5** Throughout the Licence Period, the Purchaser shall, in respect of the Licensed Premises only:
- (i) keep the Licensed Premises in no worse a state of repair than they are in at the Option Closing Date, fair wear and tear excepted;
  - (ii) observe and perform the covenants and conditions on the part of the lessee in the relevant Lease under which the relevant Business Seller holds the Licensed Premises (other than in relation to the payment of rent and other charges paid to the relevant Business Seller as part of the Licence Fee and subject to paragraph 1.4.5(i) of this Part 4 of Appendix 3); and
  - (iii) use the Licensed Premises only in accordance with the terms of the Lease of the relevant Licensed Premises and in compliance with the law and regulations where the relevant Licensed Premises is located (save for any such law or regulation that prohibits the use of the Licensed Premises without a Property Third Party Consent having been obtained).
- 1.4.6** The Purchaser and each Business Seller agree that:
- (i) the Licence is personal to the Purchaser and may only be exercised by the Purchaser and those authorised by it;
  - (ii) (subject to paragraph 1.4.5 of this Part 4 of Appendix 3) the Purchaser and all persons authorised by it are permitted to have the unrestricted use and occupation of the Licensed Premises; and
  - (iii) no relationship of landlord and tenant is created as a result of the Licence.
- 1.4.7** If a Landlord or any other relevant third party commences proceedings, raises any lawful objection or takes any other action in connection with the Purchaser's occupation or use of any of the Licensed Premises pending the obtaining of the relevant Property Third Party Consents, the Purchaser and the relevant Business Seller shall meet and negotiate in good faith in order to determine which steps should be taken in respect of the relevant Transferred Real Property.
- 1.4.8** Throughout the Licence Period, the Purchaser shall, in respect of the Licensed Premises only, indemnify and keep indemnified each member of the Novartis Group from and against any Licence Fee and any Losses arising from the Licence and/or as a result of the occupation of the Licensed Premises by the Purchaser.
- 1.4.9** The Purchaser and the Business Sellers shall each inform the other forthwith of any notice received by it in relation to any of the Licensed Premises from the Landlord or any other third party.



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**1.5 Determination of Licence**

**1.5.1** The Licence in relation to any one or more of the Licensed Premises shall determine:

- (i) immediately if the Property Longstop Date occurs; or
- (ii) by the relevant Business Seller giving at least three months' prior written notice to the Purchaser if the Purchaser fails to make the payment of the Licence Fee for a period of one month or is otherwise in material breach of the provisions of the Licence for a continuous period of one month following written notification by the relevant Business Seller to the Purchaser of the same, and in either case the Purchaser has failed to remedy the relevant failure to pay or to remedy the breach prior to the expiry of the three month notice period (or, if the breach is not capable of remedy within such three month period, the Purchaser has failed to commence to remedy the breach within that period and thereafter failed diligently to continue with such remedy); or
- (iii) if the relevant Landlord in relation to a Transferred Leased Real Property prosecutes forfeiture proceedings (or the nearest local law equivalent) as a result of the occupation by the Purchaser of the Licensed Premises then the parties shall either:
  - (a) agree that the Licence shall determine on a date to be agreed between the parties (acting reasonably); or
  - (b) in the absence of such agreement, either party may require a QC (or equivalent) with no less than 15 years' post-qualification experience in commercial real estate in the relevant jurisdiction to be appointed (such appointment to be by agreement between Novartis and the Purchaser or, failing agreement, within 14 days, by the President (as defined in paragraph 1.3.2(ii) of this Part 4 of Appendix 3)). Should the QC determine that there is more than a 50% chance of the proceedings in question resulting in the Lease in question being forfeited (or equivalent), then the Licence shall determine on a date to be agreed between the parties (acting reasonably) in order to afford Novartis the opportunity to apply for relief from forfeiture or otherwise challenge the proceedings in question on the basis that any breach resulting from the grant of the Licence has been cured,

provided that this paragraph 1.5.1(iii) shall at all times operate without prejudice to paragraphs 1.4.7, 1.5.1(i) and 1.12.

**1.5.2** If, for whatever reason, the Licence Period comes to an end in relation to any of the Licensed Premises then:

- (i) the Licence insofar as it relates to the relevant Licensed Premises shall be severable from the remainder of this Deed and this Deed shall otherwise remain in full force and effect;
- (ii) the Purchaser shall not be entitled to any refund, abatement or reduction of the Purchase Price but shall be entitled to a refund in respect of any Licence Fee prior to the termination of the Licence for the Licensed Premises and which relates to the period following termination of the Licence;



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- (iii) it shall not prejudice or affect any claim by any relevant Business Seller in respect of any prior breach of this Deed by the Purchaser in respect of that Licensed Premises; and
- (iv) unless the Licence Period comes to an end due to Property Transfer Completion in respect of the relevant Licensed Premises taking place, the Purchaser shall:
  - (a) vacate the Licensed Premises forthwith;
  - (b) remove from the Licensed Premises all items belonging to it;
  - (c) leave the Licensed Premises in a clean and tidy condition; and
  - (d) at the request of the relevant Business Seller, reinstate the Licensed Premises or any part or parts thereof to at least as good a state of repair or condition as at Option Closing, fair wear and tear excepted.

**1.6 Option Closing**

- 1.6.1** The transfer of the Transferred Real Property shall only take place on Option Closing to the extent that all necessary Property Third Party Consents in respect of the relevant transfer have been obtained prior to the Option Closing Date.
- 1.6.2** The Purchase Price shall be paid on the Option Closing Date in accordance with this Deed even if any necessary Property Third Party Consents have not then been obtained and not all the Transferred Real Property is transferred on the Option Closing Date.
- 1.6.3** Completion of the transfer of the Transferred Real Property shall take place at such place (or places) as the parties may agree.

**1.7 Property Transfer Completion**

Property Transfer Completion in respect of a Transferred Real Property shall take place on the date falling 15 Business Days following the grant of all relevant Property Third Party Consents for such Transferred Real Property or on such other date as the parties shall agree acting reasonably (but not before the Option Closing Date).

**1.8 General Transfer Provisions**

- 1.8.1** Novartis shall procure that the relevant members of the Novartis Group shall transfer the Transferred Real Property to the Purchaser subject to the terms set out in this Part 4 of Appendix 3 and all other applicable terms of this Deed on the Option Closing Date or (if later) Property Transfer Completion.
- 1.8.2** The Transferred Real Property is sold subject to the Letting Documents (if any) but otherwise with vacant possession together with all buildings, structures, fixed plant, fixed machinery and fixed equipment thereon except as excluded in Paragraph 2.3.2.



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**1.8.3** The transfer of each Transferred Real Property shall contain covenants with the relevant Business Seller by the Purchaser to comply with:

- (i) the obligations arising from the matters mentioned in the Registered Title; and
- (ii) obligations on the part of the landlord arising under the Letting Documents (if any),

insofar as the relevant Business Seller may remain liable directly or indirectly for them after the Option Closing Date or Property Transfer Completion (as the case may be) and to indemnify the relevant member of the Novartis Group against any non-compliance and a further covenant by the Purchaser to indemnify the relevant Business Seller against any liability arising under an authorised guarantee agreement (or equivalent) entered into by the relevant member of the Novartis Group.

**1.8.4** The transfer of each Transferred Real Property shall be on the nearest equivalent terms that exist under local (national) law to a transfer of real property in England and Wales made with full title guarantee save that where it is a Transferred Leased Real Property the covenant set out in Section 4(2)(b) of the Law of Property (Miscellaneous Provisions) Act 1994 shall not extend to the imposition on the transferor of liability for any subsisting breach of obligation relating to the physical state of the Transferred Leased Real Property.

**1.8.5** On the Option Closing Date or Property Transfer Completion (as the case may be) in respect of each of the Transferred Real Properties:

- (i) Novartis shall procure that the relevant Business Seller delivers to the Purchaser a duly executed transfer in respect of the relevant Transferred Real Property on Property Agreed Terms; and
- (ii) the Purchaser shall deliver to Novartis a duly executed transfer in respect of the relevant Transferred Real Property on Property Agreed Terms.

**1.8.6** The Purchaser shall, at its own cost and expense, procure that all transfers are duly stamped, filed or registered at the relevant registries on a timely basis and within the statutory period (if any) and the relevant Business Seller shall promptly assist the Purchaser with any requisitions or enquiries raised in relation thereto.

**1.9 Subjections**

Notwithstanding anything contained in this Deed:

**1.9.1** Each of the Transferred Real Properties is transferred subject to and (where appropriate) with the benefit of the following matters (to the extent applicable under the laws of the relevant jurisdiction):

- (i) any unregistered interest which overrides first registration under Schedule 1 of the Land Registration Act 2002 (the “**2002 Act**”) and any interest which fall within Section 11(4)(c) of the 2002 Act and any unregistered interests which override registered dispositions under Appendix 3 of the 2002 Act or their local jurisdiction equivalent (if any);



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- (ii) such unregistered interests as may affect that Transferred Real Property to the extent and for so long as they are preserved by the transitional provisions of Schedule 12 of the 2002 Act or its local jurisdiction equivalent (if any);
- (iii) all matters contained or referred to in the Letting Documents;
- (iv) all matters contained or referred to in the Property, Proprietorship and Charges registers (or equivalent entries and registers) of the Registered Title relating to that Transferred Real Property (except fixed and floating charges securing money or liabilities);
- (v) all exceptions, reservations, rights, easements, quasi-easements, wayleaves, rent charges, covenants, conditions, declarations, leases, tenancies (including statutory tenancies), licences and agreements affecting the same;
- (vi) (in the case of a leasehold property) the rents, covenants and conditions reserved by or contained in the Lease under which the same is respectively held;
- (vii) all local land charges (whether or not registered before the date of this Deed) and all matters capable of registration as local land charges (whether or not actually registered) or their local jurisdiction equivalent (if any);
- (viii) all notices served and orders, demands, proposals, or requirements made by any local or other public or competent authority;
- (ix) all actual or proposed orders, directions, plans, notices, instruments, charges, restrictions, conditions, agreements or other matters arising under any statute relating to town and country planning and any laws and regulations intended to control or regulate the construction, demolition, alteration or change of use of land or buildings or to preserve or protect the environment; and
- (x) matters which are fairly disclosed by the Disclosure Letter.

**1.9.2** The Purchaser is deemed to acquire with full knowledge of the matters referred to in paragraph 1.9.1 of this Part 4 of Appendix 3.

**1.9.3** The Business Sellers shall procure that any and all financial charges affecting the Transferred Real Properties will be discharged on or before the date on which such Transferred Real Property is to be transferred to the Purchaser, and shall provide to the Purchaser such evidence as the Purchaser may reasonably require in order to satisfy itself that such discharge has been effected and to remove any notices or entries in respect of such charges from any relevant register.

**1.9.4** The Business Sellers do not give any warranty as to the use or area of any of the Transferred Real Properties and shall not be required to define the boundaries of any of the Transferred Real Properties. The transfer of the Transferred Real Properties shall not be annulled, nor shall any compensation be allowed or payable, in respect of any error in respect of any such matters.



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- 1.9.5** On the date on which the transfer of each Transferred Real Property is completed, Novartis shall deliver, to the Purchaser (or such other third party as the Purchaser may reasonably direct) all of the original documents in the possession of the Business Sellers or relevant member of the Novartis Group in respect of each of the Transferred Real Properties.
- 1.9.6** The Purchaser shall not raise any requisition on matters arising after the date of this Deed, except where the subject matter of the requisition is registered at the Land Registry (or equivalent local registry) after the date of this Deed and does not relate to any matter referred to in paragraph 1.9.1 of this Part 4 of Appendix 3.
- 1.9.7** To the extent that deposit guarantees have been given by the Novartis Group in respect of any Transferred Real Property and/or insofar as the Novartis Group retains any residual or ongoing liabilities or obligations (including performance guarantees) in connection with the Transferred Real Property, the Purchaser shall use all reasonable endeavours to procure that the Novartis Group is released from all deposit guarantees and all other residual or ongoing liabilities or obligations and, insofar as the counterparties thereto shall properly and lawfully refuse to give any such release, the Purchaser shall indemnify and keep indemnified Novartis (or the relevant member of the Novartis Group) in an amount equal to any Liabilities under any such residual or ongoing liabilities or obligations arising out of, or in connection with, an act or omission on the part of the Purchaser.

**1.10 Insurance**

The Business Sellers shall maintain their existing insurance (if any) on the Transferred Real Properties and shall cancel such insurance with effect from the Option Closing Date or, if later, the date of Property Transfer Completion (as the case may be) unless agreed otherwise with the Purchaser.

**1.11 Grant of Sublease**

If a Business Seller is unable to obtain a Property Third Party Consent from a Landlord for the transfer of a Transferred Leased Real Property the provisions of this paragraph 1.11 of Part 4 of Appendix 3 shall apply:

- 1.11.1** where a Lease permits a sublease to be granted without the requirement for any Property Third Party Consent from the Landlord, the relevant Business Seller shall grant to the Purchaser a sublease of the Transferred Leased Real Property on the same rent and other terms and conditions as the Lease of the Transferred Leased Real Property with such changes as are appropriate and agreed between the relevant Business Seller and the Purchaser acting reasonably and the term of the sublease shall be the term of such Lease less one day; and
- 1.11.2** where the Transferred Leased Real Property is held by the relevant Business Seller from a Landlord on terms which require the consent of the Landlord to:
  - (i) the grant of a sublease; or
  - (ii) the terms on which a sublease is granted,

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Novartis or the relevant Business Seller shall use all reasonable endeavours to obtain such consent (“**Sublease Consent**”) from such Landlord. Where the relevant Business Seller is able to obtain the appropriate Sublease Consent (or, where applicable, the court of competent jurisdiction referred to in paragraph 1.12.1 of this Part 4 of Appendix 3 declares that the Sublease Consent has been unreasonably withheld or delayed), the relevant Business Seller shall grant to the Purchaser a sublease of the Transferred Leased Real Property on the same rent and other terms and conditions as the Lease of the Transferred Leased Real Property with such changes as are appropriate and agreed between the relevant Business Seller and the Purchaser acting reasonably and the term of the sublease shall be the term of such Lease less one day.

**1.12 Property Third Party Consent not obtained**

- 1.12.1** If a Property Third Party Consent (and, where applicable, a Sublease Consent) has been refused or otherwise not obtained within twelve months following the Option Closing Date, Novartis and the Purchaser may (acting reasonably) agree that an application is to be made to a court of competent jurisdiction that the relevant Property Third Party Consent has been unreasonably withheld or delayed.
- 1.12.2** If an application is to be made to a court of competent jurisdiction pursuant to paragraph 1.12.1 of this Part 4 of Appendix 3:
- (i) the proceedings shall be brought and prosecuted by Novartis; and
  - (ii) the Purchaser shall provide all such assistance in connection with such proceedings as Novartis (acting reasonably) may require in the interests of obtaining the Property Third Party Consent; and
  - (iii) provided that Novartis has complied with its obligations under paragraphs 1.3.3(i) and 1.11.2 of this Part 4 of Appendix 3, the Purchaser shall indemnify and keep indemnified Novartis for any costs and expenses properly incurred by Novartis in bringing and prosecuting proceedings under this paragraph.
- 1.12.3** If a Property Third Party Consent has not been obtained by the Property Longstop Date then Novartis and the Purchaser shall each bear fifty per cent. of any Losses of Novartis and the Purchaser arising out of or in connection with the failure to obtain such Property Third Party Consent.

**1.13 Obligations on the Business Sellers**

In this Part 4 of Appendix 3, any reference to an obligation on the part of the Business Sellers (or any of them, as the case may be) shall be read as if it were an obligation on the part of Novartis to procure performance of such obligation by the Business Seller or Business Sellers in question.



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**Appendix 4**  
**Influenza Group Intellectual Property Rights and Influenza Group Intellectual**  
**Property Contracts**  
**(Paragraph 2.3)**

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This appendix shall be populated prior to the Option Exercise Date]

**Part 1**

**Influenza Group Intellectual Property Rights**

**Part 2**

**Influenza Group Intellectual Property Contracts**

**Part 3**

**MF59® Intellectual Property Rights**

**Part 4**

**MF59® Intellectual Property Rights Contracts**



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**Appendix 5**  
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**Appendix 6**  
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**Appendix 7  
Permitted Encumbrances  
(Paragraph 1.1)**

- 1 Co-owned Influenza Group Intellectual Property Rights.



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**Appendix 8**  
**Product Approvals and Product Applications**  
**Part 1**  
**Terms relating to the Product Approvals and Product Applications**

**1 General Provisions**

- 1.1 The Purchaser shall do all things necessary to effect the transfer of each Product Approval and Product Application, including complying with requirements and requests of Governmental Entities with respect to the transfer of each Product Approval and Product Application.
- 1.2 The Marketing Authorisations shall be transferred in accordance with Part 2 of this Appendix 8.

**2 Product Applications**

- 2.1 The Purchaser shall file or cause to be filed applications for the transfer of each Product Application in each country or territory in which such transfer is required to be submitted as soon as possible after the Option Closing Date.
- 2.2 Pending the transfer of each Product Application Novartis shall, and shall cause the relevant members of the Novartis Group to:
  - 2.2.1 upon reasonable request from the Purchaser and at the Purchaser's expense, reasonably cooperate and coordinate with the Purchaser in relation to the transfer of the Product Applications, including by providing the Purchaser with regulatory documentation concerning the Products owned or controlled by Novartis or any of its Affiliates;
  - 2.2.2 perform such acts and services as may be requested by the Purchaser that are reasonably necessary or required by any Governmental Entity to maintain or renew any Product Application or are reasonably necessary for the Purchaser to pursue the regulatory approval for any Product Application, including conducting any studies, including clinical and stability studies, concerning the Products; and
  - 2.2.3 notify the Purchaser as soon as is reasonably practicable of any written communication received by Novartis or any member of the Novartis Group with respect to any Product Application and shall consult with the Purchaser with respect to such communication and take into account the Purchaser's views as to the form and content of any communication with any Governmental Entity concerning such Product Application.

**3 Fees and expenses**

From and after the Option Closing Date, the Purchaser shall promptly reimburse the relevant members of the Novartis Group for all maintenance and renewal fees and similar fees paid, and all out of pocket expenses reasonably incurred in connection with the satisfaction of any commitments or obligations by such members of the Novartis Group with respect to each Product Approval and each Product Application.



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**4 Notification**

As soon as Novartis or the Purchaser or any of their respective Affiliates receives notification, if any, of impending approval or approval of the transfer of a Product Application from a Governmental Entity, the notified party or the party whose Affiliate was notified shall inform the other party of the expected date of appointment or transfer and actual date of appointment or transfer of that Product Application.

**5 Responsibility for transfer**

Notwithstanding any other provision of this Deed, neither Novartis nor any of its Affiliates shall have any Liability to the Purchaser in the event that the transfer of any Product Application alone results in any further obligations, commitments or Liabilities in relation to such Product Application.



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**Appendix 8**  
**Product Approvals and Product Applications**  
**Part 2**  
**Transfer of Marketing Authorisations**

**1 Marketing Authorisation Transfer and Marketing Authorisation Re-registration**

- 1.1** Novartis and the Purchaser hereby agree they will each use, and will procure that their respective Affiliates will use, all reasonable endeavours to ensure that, as soon as reasonably practicable after the Option Closing Date:
- 1.1.1** subject to paragraph 1.1.2, each Marketing Authorisation shall be transferred in accordance with Applicable Law by the Marketing Authorisation Holder to the Marketing Authorisation Transferee (“**Marketing Authorisation Transfer**”); and
  - 1.1.2** where Applicable Law does not permit Marketing Authorisation Transfer, a new marketing authorisation shall be registered in the name of the Marketing Authorisation Transferee to replace the existing Marketing Authorisation (“**Marketing Authorisation Re-registration**”) and Novartis shall procure that the relevant Marketing Authorisation Holder takes all necessary steps to withdraw, abandon, cancel or allow to lapse the superseded Marketing Authorisation as soon as practicable after the Marketing Authorisation Re-registration Date.
- 1.2** Any Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable) shall each be effected on a Market-by-Market basis (such that there shall not be any staggered Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as the case may be) on a Product-by-Product basis in any Market), unless otherwise agreed between Novartis and the Purchaser.
- 1.3** With effect from the Option Closing Date until the Marketing Authorisation Transfer Date or the Marketing Authorisation Re-registration Date (as applicable), Novartis shall procure that each Marketing Authorisation Holder shall hold the Marketing Authorisation(s) in its name but for the account, risk and benefit of the relevant Marketing Authorisation Transferee.

*Submission of MA Documentation*

- 1.4** Without prejudice to paragraph 1.5, the Purchaser shall be responsible for preparing and submitting, or for procuring that there is prepared and submitted (in any such case at the Purchaser’s cost and expense), all notices, applications, submissions, reports and any other instruments, documents, correspondence or filings necessary to complete Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable) (the “**MA Documentation**”). The MA Documentation shall be prepared in accordance with Applicable Law as soon as reasonably practicable.
- 1.5** At Novartis’s election, the Purchaser shall procure that advanced drafts of the MA Documentation are submitted to Novartis so as to allow Novartis and/or the Marketing Authorisation Holder a reasonable opportunity to provide comments on such MA Documentation before it is submitted to the relevant Governmental Entity. The Purchaser shall incorporate all comments on such drafts as may reasonably be made by Novartis and/or the Marketing Authorisation Holder PROVIDED THAT the Purchaser shall not be obliged to incorporate any comments if the Purchaser considers, acting reasonably that to do so would materially delay Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable).

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- 1.6** Where under Applicable Law the MA Documentation is required to be submitted to the relevant Governmental Entity:
- 1.6.1** by the Marketing Authorisation Holder, the Purchaser shall procure that the finalised MA Documentation is provided to Novartis after such MA Documentation is finalised in accordance with paragraph 1.5 above and Novartis shall, in turn, procure that the Marketing Authorisation Holder submits such MA Documentation to the relevant Governmental Entity (the timing and date of such submission to be agreed with the Purchaser) and Novartis shall promptly thereafter advise the Purchaser of such submission and provide a copy of the relevant MA Documentation (in the form submitted) to the Purchaser; and
- 1.6.2** by the Marketing Authorisation Transferee, the Purchaser shall procure that the relevant Marketing Authorisation Transferee submits the finalised MA Documentation to the relevant Governmental Entity as soon as reasonably practicable after such MA Documentation is finalised in accordance with paragraph 1.5 above and the Purchaser shall promptly thereafter advise Novartis of such submission and provide a copy of the relevant MA Documentation (in the form submitted) to Novartis.
- 1.7** From the Option Closing Date, Novartis shall procure that the relevant Marketing Authorisation Holder shall, as soon as reasonably practicable, sign any notices, applications, submissions, reports and other instruments, documents, correspondence or filings presented to it by the Purchaser or the relevant Marketing Authorisation Transferee that are necessary to effect Marketing Authorisation Transfer or Marketing Authorisation Re-registration (as applicable). The Marketing Authorisation Holder shall:
- 1.7.1** provide notice of its consent to a Marketing Authorisation Transfer or Marketing Authorisation Re-registration if required by any Governmental Entity;
- 1.7.2** provide to the Purchaser or the relevant Marketing Authorisation Transferee any information or other data or technical or other information in its possession that relates to the relevant Marketing Authorisation and that is required by a relevant Governmental Entity or otherwise reasonably required by the Purchaser or the relevant Marketing Authorisation Transferee to assist the Purchaser or the relevant Marketing Authorisation Transferee to effect the relevant Marketing Authorisation Transfer or Marketing Authorisation Re-registration; and
- 1.7.3** in the event of any request for information or any query from any relevant Governmental Entity in respect of Marketing Authorisation Transfer or the Marketing Authorisation Re-registration (as applicable), the relevant party receiving such request or query shall provide copies of any such request or query to Novartis or, as the case may be, to the Purchaser. The Purchaser shall be responsible for preparing, or shall be responsible for procuring that there is prepared, (at the Purchaser's cost and expense) any response to such a request or query with the intention that such request or query shall be dealt with as promptly and efficiently as possible. In advance of finalising any such response, the Purchaser shall procure that the relevant response is submitted to the Novartis so as to allow Novartis and/or the relevant Marketing Authorisation Holder a reasonable opportunity to provide comments on such response before it is submitted to the Governmental Entity.



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The Purchaser shall procure that relevant Marketing Authorisation Transferee (i) shall submit the response to the relevant Governmental Entity as soon as reasonably practicable after the same has been finalised in accordance with this paragraph 1.7.3 and (ii) shall provide a copy of the relevant response (in the form submitted) to Novartis.

**2 Obligations Pending Marketing Authorisation Transfer Or Marketing Authorisation Re-Registration**

**2.1** Unless otherwise required by Applicable Law or a relevant Governmental Entity (or unless otherwise agreed in writing by Novartis and the Purchaser), from the Option Closing Date until the applicable Marketing Authorisation Transfer Date or Marketing Authorisation Re-registration Date:

**2.1.1** Novartis shall:

- (i) maintain in force (or procure that there is maintained in force) each Marketing Authorisation, and shall not voluntarily amend, cancel or surrender any Marketing Authorisation unless requested to do so in writing by the Purchaser or required to do so by any Applicable Law or any Governmental Entity;
- (ii) with the Purchaser's consent (not to be unreasonably withheld or delayed) progress (or procure that there is progressed) any registrations, variations or renewals to Marketing Authorisations initiated by Novartis (or any other member of Novartis's Group) prior to the Option Closing Date or withdraw them upon the request of the Purchaser;
- (iii) procure that each Marketing Authorisation Holder shall comply with the terms of any Marketing Authorisation and shall notify the Purchaser as soon as reasonably practicable of the details of any variations or renewals initiated following the Option Closing Date;
- (iv) inform the Purchaser of any impending renewals of Marketing Authorisations as at the Option Closing Date and the parties shall discuss in good faith to what extent any such renewal will be pursued or withdrawn (it being agreed that the Purchaser shall have the final decision in any such matter);
- (v) not without the consent of the Purchaser, initiate any additional variations or amendments to the Marketing Authorisations, except to the extent required by any Governmental Entity or where failure to do so would breach Applicable Law; and
- (vi) consider in good faith any request by the Purchaser to apply for a new marketing authorisation in respect of a Product PROVIDED THAT if Novartis agrees to submit such application, any costs or expenses incurred by Novartis in making such application shall be for the Purchaser's account and shall constitute MA Costs;

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- 2.1.2** without prejudice to the generality of the foregoing paragraph 2.1.1(iii), the Purchaser acknowledges and agrees that each Marketing Authorisation Holder shall be entitled to do (or to procure that there is done) any or all of the following (and the Purchaser acknowledges that, where the relevant Marketing Authorisation Holder so chooses and unless otherwise agreed, responsibility for each of the following activities shall rest with the relevant Marketing Authorisation Holder):
- (i) pharmacovigilance activities related to the Marketing Authorisations, which activities shall be conducted in accordance with Applicable Law, the Pharmacovigilance Agreement and the standards, policies and procedures of Novartis's Group from time to time in force; and
  - (ii) conducting any and all communications with a Governmental Entity in respect of a Marketing Authorisation (including, without limitation to the generality of the foregoing, attending any meetings with relevant Governmental Entities and filing and submitting all reports and other documents which it reasonably considers necessary to be submitted in order to comply with Applicable Law or its obligations under this Deed), PROVIDED THAT responsibility for (a) the costs of preparation of any such documents, reports and/or filings shall be borne by the Purchaser (or the relevant Marketing Authorisation Transferee) to the extent such costs are reasonably necessary, and (b) the submission of MA Documentation shall be the responsibility of the Purchaser in accordance with paragraph 1.4 above, PROVIDED THAT Novartis shall ensure that the Purchaser is kept fully and promptly informed of any such communications or submissions in advance, to the extent reasonably practicable; and
- 2.1.3** Novartis shall procure that each Marketing Authorisation Holder shall act in accordance with the reasonable instructions of the Purchaser or the Marketing Authorisation Transferee in respect of each Marketing Authorisation in respect of which such Marketing Authorisation Holder is the holder, PROVIDED THAT no Marketing Authorisation Holder shall be obliged to comply with such instructions to the extent the same: (i) infringe the terms of the relevant Marketing Authorisation(s); or (ii) are otherwise inconsistent with the provisions of the Pharmacovigilance Agreement relating to Novartis;
- 2.1.4** the Purchaser shall only request artwork changes to the extent such changes are required in order to comply with Applicable Law;
- 2.1.5** the Purchaser shall submit to Novartis (or shall procure that there is submitted) written details (in such form and with such supporting materials as Novartis may reasonably request) of any new, amended or proposed advertising and promotional activity or training materials in respect of any Product Commercialised pursuant to any Marketing Authorisation (including (without limitation) any material reasonably requested by Novartis in order to validate new and/or amended promotional or training materials), and the Purchaser acknowledges and agrees that no such advertising, promotional or training activity shall be implemented, undertaken or otherwise commenced without the prior written consent of Novartis (for itself and on behalf of the relevant Marketing Authorisation Holder), such consent not to be unreasonably withheld. The Purchaser further agrees and acknowledges that, if it so chooses, Novartis shall be entitled to assume responsibility for obtaining (or procuring that there is obtained) the consent(s) and approval(s) of any relevant Governmental Entity required for such new, amended or proposed advertising and promotional activity or training activity; and



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- 2.1.6** to the extent permitted by the terms of the relevant Marketing Authorisation, the Purchaser or any other member of the Purchaser's Group shall Commercialise the Product(s) which are the subject of such Marketing Authorisation (notwithstanding that such Marketing Authorisation is held in the name of the relevant Marketing Authorisation Holder and, for the avoidance of doubt, the proceeds of any such Commercialisation shall be for the benefit of the Purchaser's Group) and the Purchaser shall:
- (i) indemnify each member of Novartis's Group against any and all actions, claims, demands, investigations, judgments, proceedings, liabilities, loss, damages, payments, costs and expenses arising in relation to the Commercialisation of the Products by the Purchaser or any other member of the Purchaser's Group under this paragraph 2.1.6; and
  - (ii) procure that such Product(s) are Commercialised in compliance with the terms of the relevant Marketing Authorisation and/or the requirements of the relevant Governmental Entity.

## 3 New and Pending Marketing Authorisations in Respect of the Products

- 3.1** If, at any time prior to Option Closing, any member of the Novartis Group is granted or otherwise comes to hold any marketing authorisation which relates exclusively to one or more Products (a "**New Marketing Authorisation**") then:
- 3.1.1** Novartis undertakes to the Purchaser to notify the Purchaser as soon as reasonably practicable following the date on which the relevant member of Novartis's Group is granted, or becomes entitled to, the New Marketing Authorisation; and
  - 3.1.2** the provisions of paragraphs 1 and 2 above shall apply to that new Marketing Authorisation.
- 3.2** Where a member of Novartis's Group has submitted to any Governmental Entity any application relating to the grant of a new marketing authorisation in respect of the Influenza Group which is pending or in process as at the Option Exercise Date (a "**Pending Marketing Authorisation**"):
- 3.2.1** Novartis shall continue to be responsible for preparation and submission of all documents required to register such Pending Marketing Authorisation but, following Option Closing, it shall do so at the Purchaser's cost and shall pass responsibility for such Pending Marketing Authorisation to the Purchaser (or such member of the Purchaser's Group as the Purchaser may nominate) as soon reasonably possible after Option Closing, subject to Applicable Law;
  - 3.2.2** from the Option Closing Date, the provisions of paragraph 1 shall apply *mutatis mutandis* to any registration process for any Pending Marketing Approval.

## 4 MA Costs

From the Option Closing Date, the Purchaser shall be responsible for all necessary costs of preparation and submission of MA Documentation and, save as expressly provided in this Deed, any other necessary costs incurred by Novartis or a member of Novartis's Group in connection with the maintenance and any variations, amendments and renewals of the Marketing Authorisations relating to the Products or for any matter requested by the Purchaser pursuant to this Part 2 of Appendix 8 and for all fees and costs reasonably incurred by the relevant member of Novartis's Group in complying with its obligations in respect of a Marketing Authorisation Transfer or Marketing Authorisation Re-registration ("**MA Costs**").



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**5 Obligations following Marketing Authorisation Transfer or Marketing Authorisation Re-Registration**

**5.1** On and from the relevant Marketing Authorisation Transfer Date or Marketing Authorisation Re-registration Date (as applicable), the Purchaser shall procure that each Marketing Authorisation Transferee shall assume and be solely responsible for:

- 5.1.1** all obligations as the holder of such Marketing Authorisation including (subject to the terms of the Pharmacovigilance Agreement) pharmacovigilance activities related to such Marketing Authorisation;
- 5.1.2** all activities and actions required by Applicable Law in connection with such Marketing Authorisation; and
- 5.1.3** any and all outstanding commitments and obligations to the relevant Governmental Entities with respect to the relevant Marketing Authorisation, save for any such commitments or obligations arising from a breach of this Deed by Novartis.

**5.2** In the event that, following Marketing Authorisation Transfer or Marketing Authorisation Re-registration in respect of any Product, Novartis wishes to apply for a marketing authorisation in respect of a retained product, the Purchaser shall (and shall procure that the relevant Marketing Authorisation Transferee shall) co-operate with and provide all reasonable assistance to Novartis (or the relevant member of Novartis's Group) at Novartis's costs as may be reasonably required for the purposes of applying for such new marketing authorisation, including (without limitation) providing Novartis (or the relevant member of Novartis's Group) and/or any Governmental Entity with such access to Marketing Authorisation Data or such other data or technical or other information as is reasonably requested by the relevant Governmental Entity or is otherwise reasonably required by Novartis or the relevant member of the Novartis Group.



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**Appendix 8**  
**Product Approvals and Product Applications**  
**Part 3**  
**List of Products, Products Under Registration and Pipeline Products**

**Products**

1. Aflunov
2. Agriflu Republic of South Korea (Copy product of Agrippal)
3. Agrippal
4. Agrippal Pediatric
5. Araflu for Saudi Arabia (copy product of Agrippal)
6. Celtura
7. Certat (Copy Product of AGRIPPAL)
8. Dotaricin (Copy Product of FLUAD)
9. FLUAD
10. Fluvirin
11. Fluxvir for Argentina (copy product of Fluad)
12. Focetria
13. Foclivia
14. INFLUPOZZI ADIUVATO
15. Influpozzi Subunità
16. Optaflu
17. Prepandemic Influenza vaccine (H5N1)
18. Satixeo
19. Vantaflu Republic of South Korea (Copy product of Fluad)
20. Viraflu for Argentina (copy product of Agrippal)
21. Viraflu Pediatric for Argentina (copy product of Agrippal Pediatric)

**Products under Registration**

1. Agrippal – in Brunei and Venezuela
2. Agrippal Pediatric – in Mexico
3. Fluxvir Pediatric for Argentina (copy product of Fluad Pediatric) – new presentations in Argentina



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**Pipeline Products**

1. All lifecycle management programs, geographic expansion, or age extensions for Products
2. QIV Cell Culture Influenza Vaccines
3. Adjuvanted QIV Egg Based Influenza Vaccines



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**Appendix 8**  
**Product Approvals and Product Applications**  
**Part 4**  
**Tenders**

From Option Closing until the Marketing Authorisation Transfer Date in any Market, Novartis shall, and shall procure that each member of the Novartis Group and the relevant Marketing Authorisation Holder shall, to the extent permitted by Applicable Law:

- (i) inform the Purchaser in writing of any Call for New Tender as soon as reasonably practicable following receipt; and
- (ii) co-operate with and provide reasonable assistance to the Purchaser (or the relevant member of the Purchaser's Group) for the purposes of responding to the Call for New Tender or otherwise applying for a new tender; and
- (iii) where Applicable Law requires such responses or applications to be made by the Marketing Authorisation Holder, Novartis shall procure that the Marketing Authorisation Holder submits such responses or applications on behalf of the Purchaser PROVIDED THAT the Purchaser shall indemnify Novartis and/or the relevant Marketing Authorisation Holder (as the case may be) for any and all costs, expenses and liabilities suffered or reasonably incurred by Novartis and/or the Marketing Authorisation Holder in complying with or as a result of the provisions of this paragraph.



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**Appendix 9  
Transferred Contracts  
(Paragraph 2.3)**

**1 Separation of Shared Business Contracts**

- 1.1** Following the Option Exercise Date and prior to Option Closing, Novartis and the Purchaser shall discuss and agree in good faith a process to identify all material Shared Business Contracts
- 1.2** Novartis shall use all reasonable efforts to maintain relationships under the Shared Business Contracts and continue to operate the Shared Business Contracts, including without limitation fulfilling all its obligations under the Shared Business Contracts, in the same manner as it has for the twelve months prior to this Deed.
- 1.3** The Purchaser may, by notice to Novartis at any time prior to the Marketing Authorisation Transfer Date in respect of the relevant Product in the relevant territory, elect to take the rights and obligation of the Relevant Part of any Shared Business Contract.
- 1.4** If the Purchaser makes an election under paragraph 1.3 above, Novartis and the Purchaser shall use all reasonable endeavours to procure that an arrangement is entered into with the relevant counterparty to each Shared Business Contract, the effect of which shall be that, with effect from whichever is the later of Marketing Authorisation Transfer Date and the date of the relevant arrangement, the benefit and burden of the Relevant Part is severed from such Shared Business Contract and an agreement or arrangement equivalent to such Shared Business Contract is entered into between the relevant counterparty and a member of the Purchaser's Group (or the Relevant Part of the Shared Business Contract is sub-licensed to such Purchaser) (a "**Separation**"). For the avoidance of doubt, no part of any such Shared Business Contract shall be severed and transferred to any Purchaser in so far as it relates to Novartis's Retained Business, any product other than the Products or any Excluded Asset.

**2 Obligation to obtain Third Party Consents**

- 2.1** In relation to any Transferred Contract (excluding, for the purposes of this Appendix 9, any US Government Contract, Product Approval or Product Application) or Transferred Intellectual Property Contract or MF59<sup>®</sup> Intellectual Property Rights Contracts or Co-Owned Influenza Group Intellectual Property Right or Transferred Plant or Equipment which is not assignable or sub-licensable without a Third Party Consent or a Separation of a Shared Business Contract which is not separable without a Third Party Consent, this Deed, shall not be construed as an assignment, an attempted assignment, a sub-licensing or an attempted sub-licensing and Novartis and the Purchaser shall each use reasonable endeavours both before and after Option Closing to obtain all necessary Third Party Consents as soon as possible and shall keep each other informed of progress in obtaining such Third Party Consents. Novartis shall deliver to the Purchaser, on Option Closing or, if later, as soon as possible after receipt, any Third Party Consent.
- 2.2** In connection with the obtaining of any Third Party Consent referred to in paragraph 2.1, the Purchaser shall supply to Novartis such information as may be reasonably requested by Novartis or any relevant third party.



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**2.3** Save as otherwise provided in this Deed, the cost of any fee demanded by the third party as consideration for giving the Third Party Consent shall be borne by the Purchaser, provided that:

**2.3.1** the cost is agreed in advance by the Purchaser (such agreement not to be unreasonably withheld or delayed); and

**2.3.2** no party shall be required to bear any internal or administrative costs of the other party in relation to any Third Party Consent.

**3 Obligations until Third Party Consents are obtained/where Third Party Consents are refused**

**3.1** Subject to paragraph 3.2, the Purchaser shall assume, carry out, perform and discharge Novartis's and the Business Seller's obligations arising under the Transferred Contracts, Transferred Intellectual Property Contracts, MF59® Intellectual Property Rights Contracts, Co-Owned Influenza Group Intellectual Property Rights, Transferred Plant and Equipment and the Relevant Part of the Shared Business Contracts as from Option Closing.

**3.2** In respect of any Transferred Contract, Transferred Intellectual Property Contract, MF59® Intellectual Property Rights Contract, Transferred Plant and Equipment, Relevant Part of Shared Business Contract or Co-Owned Influenza Group Intellectual Property Right, from Option Closing until the relevant Third Party Consent has been obtained as contemplated by paragraph 2.1 or where the Third Party Consent has been refused:

**3.2.1** the relevant Business Seller shall hold on trust to the extent it is lawfully able to do so or, where it is not lawfully able to do so or where holding on trust is not possible under local law or otherwise impracticable, the relevant Business Seller and the Purchaser shall make such other arrangements between themselves to provide to the Purchaser the benefits of the Contract (other than amounts corresponding to any Tax Liability by the relevant Business Seller in respect of amounts due under or in respect of the Transferred Contract, Transferred Intellectual Property Contract, MF59® Intellectual Property Rights Contract, Relevant Part of Shared Business Contract, Transferred Plant and Equipment or Co-Owned Influenza Group Intellectual Property Right including the enforcement at the cost and for the account of the Purchaser of all rights of the relevant Business Seller against any other party thereto;

**3.2.2** to the extent that the relevant Business Purchaser is lawfully able to do so, the Purchaser shall perform the relevant Business Seller's obligations under the Contract as agent or sub-contractor and shall indemnify Novartis and the relevant Business Seller if the Purchaser fails to do so. To the extent that the Purchaser is not lawfully able to perform such obligations, Novartis shall procure that relevant Business Seller shall, (subject to being indemnified by the Purchaser for any Losses Novartis or the relevant Business Seller may incur in connection therewith) do all such things as the Purchaser may reasonably require to enable due performance of the Transferred Contract, Transferred Intellectual Property Contract, MF59® Intellectual Property Rights Contract, Transferred Plant and Equipment or Relevant Part of the Shared Business Contract and the Purchaser shall indemnify the relevant Business Seller in respect thereof.

**4 Failure to Obtain Third Party Consents**



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- 4.1 If a Third Party Consent is refused or otherwise not obtained on terms reasonably acceptable to the Purchaser within 18 months of Option Closing, or in the case of a Separation, 18 months of the Marketing Authorisation Transfer Date:
- 4.1.1 Novartis shall be entitled to procure the termination of the Transferred Contract, Transferred Plant and Equipment, Transferred Intellectual Property Contract, MF59<sup>®</sup> Intellectual Property Rights Contract or Relevant Part of the Shared Business Contract and the obligations of the parties under this Deed in relation to such Transferred Contract, Transferred Intellectual Property Contract or Relevant Part of the Shared Business Contract shall cease forthwith;
  - 4.1.2 references in this Deed to the Transferred Contracts, Transferred Intellectual Property Contracts, MF59<sup>®</sup> Intellectual Property Rights Contracts, Transferred Plant and Equipment or Relevant Part of the Shared Business Contracts and the Influenza Group Businesses (other than in this paragraph 4) shall be construed as excluding such Transferred Contract, Transferred Intellectual Property Contract, MF59<sup>®</sup> Intellectual Property Rights Contract, Transferred Plant and Equipment or Relevant Part of the Shared Business Contract; and
  - 4.1.3 Novartis and the Purchaser shall use all reasonable efforts to put in place alternative arrangements so as to give the Purchaser equivalent benefits or rights as would have been enjoyed under the terminated Transferred Contract, Transferred Intellectual Property Contract, MF59<sup>®</sup> Intellectual Property Rights Contract, Relevant Part of the Shared Business Contract or Co-Owned Influenza Group Intellectual Property Right.



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**Appendix 10  
Employees  
(Paragraph 2.4.1)**

**1 Information and consultation**

**1.1** At such time as the parties agree to be appropriate following the Option Exercise Date, Novartis and the Purchaser or the relevant member of the Purchaser’s Group shall jointly communicate to the Employees an agreed notice which shall, other than to the extent the parties agree otherwise:

**1.1.1** inform the Employees that following Option Closing those Employees who continue to be employed in the Business would be employed by the Purchaser or relevant member of the Purchaser’s Group; and

**1.1.2** comply with the requirements of any applicable national law.

For the avoidance of doubt, the parties may agree to issue such notice to different Employees or categories of Employees at different times and in different forms.

**1.2** Notwithstanding the operation of paragraph 1.1 above, Novartis and the Purchaser agree to comply with any more onerous notice requirements imposed by local laws.

**1.3** The Purchaser (on its own behalf and on behalf of any relevant member of the Purchaser’s Group) shall provide Novartis (for itself and any relevant member of the Novartis Group) with such information and assistance at such times as Novartis may reasonably request or as may be reasonably necessary for Novartis or any other member of the Novartis Group to comply with any formal or informal requirement to inform or consult with the Employees, a relevant trade union, a relevant works council, or any other employee representatives in connection with the matters contemplated by this Deed (which formal or informal requirements Novartis hereby undertakes to comply or procure compliance with). Where reasonably necessary to ensure compliance with any formal or informal requirements or obligations to inform or consult with Employees, a relevant trade union, a relevant works council or any other employee representatives in connection with the matters contemplated by this Deed, Novartis (for itself and for each member of the Novartis Group) and the Purchaser (for itself and for each member of the Purchaser’s Group) agree that the Purchaser or relevant member of the Purchaser’s Group shall cooperate with and participate in any information, negotiation and/or consultation process as reasonably required by Novartis.

**1.4** As soon as practicable following the Option Exercise Date, the Purchaser agrees to provide on a timely basis such information, in writing, in respect of its existing terms and conditions of employment as may reasonably be required by Novartis so as to facilitate Novartis’s information and consultation exercise with its Employees in respect of the matters set out in this Deed.

**2 Influenza Business Employees**

**2.1 General**

**2.1.1** The Purchaser shall (or shall procure that the relevant member of the Purchaser’s Group shall) fulfil all its duties and obligations under Applicable Law in relation to the Influenza Business Employees. Where the provisions of local law do not provide for an automatic transfer of the employment of the Influenza Business Employees to the Purchaser or a relevant member of the Purchaser’s Group with effect from (and including) the Option Closing Date, then paragraph 2.2 below shall apply. Where the provisions of local law do provide for an automatic transfer of employment of the Relevant Influenza Business Employees to the Purchaser or the relevant member of the Purchaser’s Group with effect from (and including) the Option Closing Date, then paragraph 2.3 below shall apply.



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**2.1.2** The parties acknowledge and agree that:

- (i) any Deferred Employee shall be treated for all purposes under this Deed as if such Deferred Employee were an Influenza Business Employee or an Influenza Group Company Employee (as appropriate); and
- (ii) the Purchaser's obligations under this Appendix 10 shall apply in respect of each Deferred Employee in the same way as they do to each Influenza Business Employee or Influenza Group Company Employee (as appropriate); and
- (iii) if any Deferred Employee accepts an offer of employment made by the Purchaser under paragraph 2.2.1 below or becomes an employee of an Influenza Group Company after the Option Closing Date, such Deferred Employee shall further be treated for all purposes under this Deed as a Transferred Employee.

**2.1.3** For the avoidance of doubt, this paragraph 2 shall not apply to any Excluded Employee, who will remain employed by Novartis or the relevant member of the Novartis Group.

**2.2 Where no automatic transfer of employment**

**2.2.1** In such timescale as the parties may agree, but in any event at least 30 Business Days prior to the Option Closing Date, the Purchaser or relevant member of the Purchaser's Group shall make an offer to each Influenza Business Employee employed by Novartis or a member of the Novartis Group to employ him or her under a new contract of employment to commence with effect from (and including) the Option Closing Date provided that such employee continues to be an Influenza Business Employee until the Option Closing Date. Save as otherwise agreed with Novartis (such agreement not to be unreasonably withheld), the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that Influenza Business Employee immediately prior to the Option Closing Date. The Purchaser shall keep Novartis updated throughout the offer process on when offers are made and accepted or rejected.

**2.2.2** If the Influenza Business Employee wishes to accept the offer of employment from the Purchaser or the relevant member of the Purchaser's Group, then Novartis shall (or shall procure that the relevant member of the Novartis Group shall), insofar as it is permitted by Applicable Law, waive the requirement on the Influenza Business Employee concerned to give any period of notice of termination of his or her employment under the terms of his or her employment so as to allow the Influenza Business Employee to commence employment with the Purchaser or relevant member of the Purchaser's Group with effect from (and including) the Option Closing Date.



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**2.3 Where automatic transfer of employment**

If the Transfer Regulations do not or are found not to or are alleged not to apply to any person who is a Relevant Influenza Business Employee and to whom paragraph 2.2 does not apply, the Purchaser agrees that following Option Closing:

- 2.3.1** in consultation with Novartis, the Purchaser or relevant member of the Purchaser's Group shall within 10 Business Days of being so requested by Novartis (as long as the request is made no later than 3 months after Option Closing) (or if the Purchaser so chooses), make such Relevant Influenza Business Employee an offer in writing to employ him or her under a new contract of employment subject to, and to take effect upon, a date agreed between the parties and such employee; and
- 2.3.2** save as otherwise agreed with Novartis (such agreement not to be unreasonably withheld) the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that Relevant Influenza Business Employee immediately prior to the Option Closing Date.

**3 Wrong-pocket arrangements for persons other than Relevant Employees**

**3.1** If the contract of employment of any person other than a Relevant Employee is found or alleged to have effect upon Option Closing as if originally made with the Purchaser or another member of the Purchaser's Group (including any Influenza Group Company) as a consequence of this Deed, or if any Influenza Group Company employs any person who does not work wholly or substantially in the Business, Novartis agrees that following Option Closing:

- 3.1.1** in consultation with the Purchaser, Novartis or relevant member of the Novartis Group may within 10 Business Days of being so requested by the Purchaser (as long as the request is made no later than 3 months after Option Closing) (or if Novartis so chooses), make to that person an offer in writing to employ him or her under a new contract of employment subject to, and to take effect upon, the termination referred to below; and
- 3.1.2** the offer to be made will be on the same terms and conditions (including as to period of continuous employment) as were provided to that person immediately prior to the Option Closing Date.

**3.2** After the expiry of the 10 Business Days referred to at paragraph 3.1 above, and provided that the relevant member of the Purchaser's Group takes such steps as are legally possible to terminate the employment of the person concerned as soon as reasonably practicable after becoming aware of the finding or allegation referred to at paragraph 3.1 above (either by giving notice or transferring the person by agreement to be concluded between the relevant member of the Purchaser's Group, the person concerned and the relevant member of the Novartis Group), Novartis shall be responsible for and shall indemnify and keep indemnified the Purchaser (for itself and as trustee for any relevant member of the Purchaser's Group) against all Losses from time to time made, suffered or incurred by the Purchaser (or any other member of the Purchaser's Group) as a result of:

- 3.2.1** the actual or alleged transfer to a member of the Purchaser's Group and (regardless of whether there has been such a transfer) any employment liabilities relating to such person;

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**3.2.2** employing such person on and from the Option Closing Date until such termination (up to the time reasonably expected to have achieved such termination in accordance with the terms of the contract of employment and Applicable Law) but subject to a maximum period of 6 months unless prevented by the terms of the contract of employment or Applicable Law; and

**3.2.3** such termination.

**3.3** The parties agree to co-operate in good faith to minimise the Losses which are subject to the indemnity referred to in paragraph 3.2 above.

**4 Employment liabilities**

**4.1** All wages, salaries, employer's liabilities in respect of associated Taxes and other periodic outgoings in respect of the Transferred Employees which relate to a period:

**4.1.1** after the Option Closing Date shall be borne or discharged by the Purchaser or relevant member of the Purchaser's Group; and

**4.1.2** on or before the Option Closing Date shall be borne or discharged by Novartis or relevant member of the Novartis Group.

**4.2** Novartis shall (for itself and for each member of the Novartis Group) indemnify and keep indemnified the Purchaser (for itself and as trustee for each other member of the Purchaser's Group) against all Losses (ignoring any amount in respect of Employee Benefits, as to which see Appendix 11) in respect of:

**4.2.1** the employment of any Employee at any time prior to the Option Closing Date (excluding any Transferred Employee Benefit Liabilities (as defined in Appendix 11) which the Purchaser agrees to assume in accordance with Appendix 11);

**4.2.2** any termination of the employment of any Employees prior to the Option Closing Date including, but not limited to, all claims relating to severance, termination pay, pay in lieu of notice of termination and similar obligations (excluding any liability arising directly as a result of any breach of the commitments set out in paragraph 5 or 6 below by the Purchaser or a member of the Purchaser's Group and any act or omission by the Purchaser or any member of the Purchaser's Group in relation to any Employee before Option Closing as a result of which that Employee treats his employment as having been terminated prior to the Option Closing Date);

**4.2.3** any amount which becomes payable to any Employee or benefit to which any Employee becomes entitled by reason of this Deed or the matters it contemplates, including any change of control or other payment or benefit (and including any enhancement of severance terms on a subsequent termination of employment but excluding any Losses relating to any share-based incentive schemes, as to which see paragraph 11 below);

**4.2.4** any failure by Novartis or any other member of the Novartis Group to comply with any obligation to inform or consult with employee representatives in connection with the matters contemplated by this Deed (other than as a result of any failure set out in paragraph 4.3.3 below); and

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- 4.2.5** any breach by Novartis or any other member of the Novartis Group of paragraph 4.1.2 above or paragraph 4.4, 4.5 or 10 below.
- 4.3** The Purchaser shall (for itself and for each member of the Purchaser's Group) indemnify and keep indemnified Novartis (for itself and as trustee for each other member of the Novartis Group) against all Losses (ignoring any amount in respect of Employee Benefits, as to which see Appendix 11) in respect of:
- 4.3.1** the employment of any of the Transferred Employees on and after the Option Closing Date (including, without limitation, any changes to terms and conditions of employment by the Purchaser or any other member of the Purchaser's Group);
- 4.3.2** any termination of the employment of any Transferred Employees on and after the Option Closing Date including, but not limited to, all claims relating to severance, termination pay, pay in lieu of notice of termination and similar obligations except as contemplated under paragraph 3.2 above;
- 4.3.3** any failure by the Purchaser or any other member of the Purchaser's Group to provide information and reasonable assistance to Novartis to enable Novartis or any other member of the Novartis Group to comply with any obligation to inform or consult with employee representatives in connection with the matters contemplated by this Deed;
- 4.3.4** any breach by the Purchaser or any other member of the Purchaser's Group of paragraph 4.1.1 above or paragraph 4.4 or 4.5 below; and
- 4.3.5** any act or omission by the Purchaser or any member of the Purchaser's Group in relation to any Employee before Option Closing as a result of which that Employee treats his employment as having been terminated prior to the Option Closing Date.
- 4.4** Any amount payable to or in respect of any Transferred Employee after Option Closing (including without limitation amounts paid under paragraph 4.5 below) which (ignoring vesting conditions and any amount payable in respect of Employee Benefits or otherwise in accordance with Appendix 11) is referable to the period prior to Option Closing is payable by Novartis (for itself or on behalf of the relevant Share Seller or Business Seller). Responsibility for amounts payable which are only partly referable to the period prior to Option Closing (again ignoring vesting conditions) is to be shared between Novartis (for itself or on behalf of the relevant Share Seller or Business Seller) and the Purchaser (for itself or on behalf of the relevant member of the Purchaser's Group) such that Novartis bears **S** per cent. of the cost and the Purchaser bears **P** per cent., where **S** is the percentage of the period by reference to which the amount was earned which fell on or before the Option Closing Date and **P** is the percentage of that period which falls after the Option Closing Date. The Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, pay such amounts when due to the relevant Transferred Employees on or after Option Closing and shall deduct and/or pay and account for any Tax payable or accountable for by the employer in respect of such amounts. Novartis covenants to reimburse the Purchaser in respect of any such amount (or **S** per cent. of it where relevant), including any Tax payable or accountable for by the employer in respect of such amount, within 30 days of receiving notification that it has been paid to the extent such amounts are not reflected in the Option Closing Statement. Novartis will provide the Purchaser with all information and documentation reasonably necessary to allow such payments to be made.



**Execution Version**

**4.5** Following the Option Closing Date:

- 4.5.1** the Purchaser shall, or shall procure that a member of the Purchaser's Group shall, pay a pro-rated cash bonus of an amount advised by Novartis to the Purchaser to each Transferred Employee who participated in an annual cash bonus plan immediately before the Option Closing Date in their first payroll payment after the Option Closing Date; and
- 4.5.2** where Novartis is able to determine performance, any such bonus payment made to such eligible employees by the Purchaser or a member of the Purchaser's Group will be based on Novartis's determination of performance to the Option Closing Date and pro-rated to the Option Closing Date; or
- 4.5.3** where Novartis is unable to determine performance (either business or individual), for example, because the Option Closing Date occurs near the start of the bonus year, Novartis shall calculate any such bonus payment based on a deemed achievement of performance conditions at target level pro-rated to the Option Closing Date; and
- 4.5.4** as soon as reasonably practicable after the Option Closing Date, the Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, provide such information as Novartis requires in order for Novartis to calculate the Tax payable or accountable for by the employer in respect of such bonus payments; and
- 4.5.5** the Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, deduct and/or account for any Tax payable or accountable for by the employer in respect of such bonus payments; and
- 4.5.6** Novartis shall reimburse the Purchaser for the aggregate bonuses advised by Novartis to the Purchaser which are paid pursuant to this paragraph 4.5 along with the employer's social security contributions due in respect of such payments to the extent such amounts are not reflected in the Option Closing Statement.

**5 Protection of terms and conditions and termination rights post-Option Closing**

**5.1** Without prejudice to paragraph 5.4 below, the Purchaser shall procure that for a period of 24 months following the Option Closing Date:

- 5.1.1** each Transferred Employee will (for so long as such Transferred Employee continues in the same role with any member of the Purchaser's Group save that the Purchaser shall not seek to demote any Transferred Employee to avoid the application of this provision) continue to receive at least the same basic salary;

**Execution Version**

- 5.1.2** each Transferred Employee will continue to receive contractual benefits (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans) which the Purchaser reasonably considers to be substantially comparable, taken as a whole, to the contractual benefits (but excluding Employee Benefits and any share-based incentive schemes or other long term incentive plans) of such Transferred Employee immediately prior to the Option Closing Date; and
- 5.1.3** no Transferred Employee will suffer a change to his overall employment terms (whether contractual or otherwise) and including, without limitation, any related to length of service (but excluding Employee Benefits and any share-based incentive schemes or other long-term incentive plans), which, when taken as a whole viewed in the round (including to the extent relevant alongside any other changes being made at the same time to that Transferred Employee's employment terms), would in the Purchaser's reasonable opinion acting in good faith be regarded as materially detrimental.
- 5.2** The Purchaser confirms that, following the Option Closing Date and for so long as the Transferred Employees continue in the employment of any member of the Purchaser's Group, the Transferred Employees will be eligible to participate in those share-based incentive schemes or other long-term incentive plans that are operated by the Purchaser or relevant members of the Purchaser's Group from time to time for employees of equivalent status, subject always to the rules of such share-based incentive schemes or long-term incentive plans and any qualifying conditions.
- 5.3** Novartis shall provide or shall cause to be provided to any member of the Purchaser's Group such information reasonably requested in writing by any member of the Purchaser's Group to enable the Purchaser to comply with its obligations in paragraph 5.1 above.
- 5.4** If the employment of any Transferred Employee is terminated by reason of redundancy within 24 months following the Option Closing Date, the Purchaser shall procure that there shall be provided to such Transferred Employee benefits which are equivalent to those provided under such redundancy and severance policies and benefits (whether contractual or otherwise and giving due credit to the Transferred Employees for any additional service or earnings from the Option Closing Date onwards) (but excluding Employee Benefits) as were applicable in respect of the particular Transferred Employee immediately prior to the Option Closing Date, to the extent that such policies and benefits are notified in writing to the Purchaser prior to the Option Closing Date. If, at any time during the 24 month period immediately following the Option Closing Date, the Purchaser places any Transferred Employee into a redundancy selection process, the Purchaser undertakes that, in determining such selection, it will or will procure that the relevant member of the Purchaser's Group will take no account of the costs of dismissal of any person within the relevant selection pool (including such Transferred Employee).



**Execution Version**

**5.5** For the avoidance of doubt, the provisions of this paragraph 5 are without prejudice to the operation of any rule of law in relation to the terms and conditions of employment of the Transferred Employees.

**6 Benefits arrangements/service continuity**

**6.1** Each Transferred Employee shall have their service with the Novartis Group and their respective predecessors recognised under any employee benefit plans or arrangements of the Purchaser's Group for all purposes of eligibility, vesting and accrual of benefits to the extent past service was recognised for such Transferred Employee under a comparable plan or arrangement immediately prior to the Option Closing Date. Notwithstanding the foregoing, nothing in this paragraph 6.1 shall be construed to require recognition of service for the purposes of calculation of Employee Benefits or that would result in:

- 6.1.1** any additional liability being assumed by the Purchaser's Group in respect of Employee Benefits other than subject to and in accordance with the provisions of Appendix 11;
- 6.1.2** duplication of benefit;
- 6.1.3** recognition of service for any purposes under any plan or arrangement for which participation, service and/or benefits accrual is frozen or any post-retirement medical plan; or
- 6.1.4** recognition of service under a newly established plan or arrangement for which prior service is not taken into account for employees of the Purchaser's Group generally.

**6.2** Without limiting the foregoing, with respect to the Transferred Employees, the Purchaser shall, or shall cause such other member of the Purchaser's Group to, be responsible for all paid time off benefits, including vacation pay, sick pay, banked leave, flexitime and other payments for time off of normal work hours accrued by the Transferred Employees up to the Option Closing Date, provided that, if the value of such matters (excluding normal accrued but untaken annual leave for the year current as at Closing) would exceed US\$7.5 million if accrued for in a balance sheet in accordance with IFRS, then Novartis shall compensate the Purchaser for such matters (again excluding normal accrued but untaken annual leave for the year current as at Option Closing) by paying the Purchaser an amount equal to that value, less any amount actually accrued and transferred to the Purchaser for such matters.



**Execution Version**

**6.3** With respect to any welfare plan maintained by the Purchaser or any other member of the Purchaser’s Group in which Transferred Employees are eligible to participate after the Option Closing Date, the Purchaser shall:

**6.3.1** waive all limitations as to pre-existing conditions, exclusions, evidence of insurability provisions, waiting periods with respect to such participation and coverage requirements or similar provisions under a Purchaser’s benefit plans that are welfare plans (as defined in section 3(1) of ERISA or any equivalent Applicable Law) applicable to such employees to the extent such conditions, exclusions and waiting periods or other provisions were satisfied or did not apply to such employees under welfare plans maintained by Novartis or other members of the Novartis Group prior to the Option Closing Date; and

**6.3.2** provide each Transferred Employee with credit for any co-payments and deductibles paid prior to the Option Closing Date in satisfying any analogous deductible or out-of-pocket requirements to the extent applicable under any such plan in the year in which Option Closing occurs, to the extent credited under the welfare plans maintained by Novartis or other members of the Novartis Group prior to the Option Closing Date.

**7 US Transferred Employees**

**7.1** To the extent the Purchaser or any other member of the Purchaser’s Group maintains a health care and dependent care flexible spending account arrangement pursuant to section 125 or 129 of the Code (collectively, “FSAs”), the Purchaser will use commercially reasonable efforts to honour the elections of all Transferred Employees who are employed in the United States and/or covered by US Benefit Plans (“US Transferred Employees”) under the FSAs of any relevant member of the Novartis Group (“Relevant Employer’s FSAs”), as in effect immediately prior to the Option Closing Date, and the Purchaser will use commercially reasonable efforts to assume responsibility for administering all reimbursement claims of US Transferred Employees with respect to the calendar year in which the Option Closing Date occurs that are submitted for payment on or after the Option Closing Date, whether arising before, on or after the Option Closing Date, under the Purchaser’s FSAs. As soon as practicable but no more than 45 days following the Option Closing Date, Novartis will cause to be transferred to the Purchaser an amount in cash equal to (i) the sum of all contributions to the Relevant Employer’s FSAs with respect to the calendar year in which the Option Closing Date occurs by or on behalf of the US Transferred Employees prior to the Option Closing Date, reduced by (ii) the sum of all claims incurred in the calendar year in which the Option Closing Date occurs that are submitted to the Relevant Employer for payment prior to the Option Closing Date and paid by the Relevant Employer’s FSAs with respect to such US Transferred Employees prior to the date of such cash transfer to the Purchaser; provided, however, if this calculation results in a negative number, then the Purchaser will pay to Novartis (on behalf of the Relevant Employer) as soon as practicable following the end of the calendar year in which the Option Closing Date occurs, the amount by which (ii) exceeds (i).



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7.2 With effect on and from the Option Closing Date, the Purchaser shall, or shall procure that such other members of the Purchaser's Group shall, assume the responsibility and obligation to provide COBRA continuation coverage to all US Transferred Employees whose employment is terminated after the Option Closing Date and their eligible dependents.

**8 Shared Employees**

After the date of this Deed, Novartis shall identify any Shared Employees who work wholly or substantially in the Business but who are not Influenza Group Company Employees or Influenza Business Employees. In consultation with the Purchaser, Novartis will procure that an Influenza Group Company will offer employment to any such employee before the Option Closing Date, to take effect from immediately before the Option Closing Date (provided that such employee continues to work wholly or substantially in the Business until the Option Closing Date) or, where that is not reasonably practicable or there is no Influenza Group Company in the country in which the employee works, the Purchaser shall treat such employee as if he or she were an Influenza Business Employee (provided that such employee continues to work wholly or substantially in the Business until the Option Closing Date) and the provisions of this Appendix 10 will apply to him or her and further provided, however, that these arrangements will apply to no more than 10 full time equivalent employees.

**9 International Assignees**

Where Applicable Law does not provide for the automatic transfer of employment of any International Assignee and/or the other terms governing their international assignment, the Purchaser shall assume and agree to be bound by the individual contract of employment and such other terms governing their international assignment including any tax equalisation agreement entered into between an International Assignee and a member of the Novartis Group provided that such employee becomes a Transferred Employee and Novartis has disclosed to the Purchaser the template international assignment terms of the Novartis Group prior to the Option Closing Date.



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**10 Liability for retention arrangements**

Novartis or any other member of the Novartis Group has or will put in place certain retention arrangements (in the form of cash) to retain key employees in connection with the matters contemplated by this Deed. To the extent that details of such retention arrangements are disclosed to the Purchaser prior to the Option Closing Date, and in respect of arrangements put in place after the date of this Deed, with the agreement of the Purchaser, the Purchaser shall, or shall procure that such other member of the Purchaser's Group shall, make the cash retention payments when due to the relevant Transferred Employees on or after Option Closing and shall deduct and/or pay and account for any Tax payable or accountable for by the employer in respect of such cash payments. Novartis covenants to reimburse the Purchaser in respect of any cash retention payments, whether or not disclosed (including any Tax payable or accountable for by the employer in respect of such payments), which are put in place prior to the Option Closing Date. Novartis acknowledges that the Purchaser may ask Novartis to put in place more generous retention arrangements than those proposed by Novartis (including, where practicable, putting in place retention arrangements which last for a period of at least six months following Option Closing) and will not unreasonably withhold consent to such arrangements provided that any incremental cost of such arrangements over and above the cost of Novartis's own proposals will be for the Purchaser's account. Novartis will provide the Purchaser with all information and documentation reasonably necessary to allow such payments to be made.

**11 Share-based incentive schemes**

**11.1** This paragraph 11 applies notwithstanding any other provision of this Deed.

**11.2** Subject to paragraph 11.10, Novartis undertakes to use its best endeavours to ensure that share-based awards held by Transferred Employees pursuant to a share-based incentive scheme operated by Novartis or another member of the Novartis Group ("**Relevant Awards**") shall be treated in a manner consistent with the "good leaver treatment" in the share-based incentive schemes operated by the Purchaser, to the extent possible under the relevant plan rules and any Applicable Law. Where Relevant Awards are subject to performance (or other) conditions and it is not possible to determine whether or not such conditions have been met at the applicable early vesting date (or within a reasonable period thereafter), Novartis and the Purchaser agree that performance shall be deemed "on target".

**Execution Version**

For the avoidance of doubt:

- (A) where necessary and subject to (B), Novartis shall rely on the exercise of existing discretions in the relevant plan rules and (provided the approval of Novartis's shareholders is not required) shall be expected to amend the relevant plan rules to achieve the "good leaver treatment";
- (B) Novartis (or relevant member of the Novartis Group) shall not take any action which would require shareholder approval or which could trigger any significant legal, Tax or operational issues for the relevant Transferred Employee (including the loss of any Tax-favourable treatment), the Novartis Group or the Purchaser's Group.

For the purposes of this paragraph 11.2, the "good leaver treatment" shall be that:

- (C) Relevant Awards shall not lapse or be forfeited as a result of Option Closing except to the extent that they do not vest in accordance with (D) and/or (E) below;
- (D) Relevant Awards shall vest early as a result of Option Closing and shall be time pro-rated to take account of the reduced period of time, as a proportion of the original vesting period, that the relevant Transferred Employee worked within the Novartis Group (calculated on the basis of the number of years of service as at the Option Closing Date, where part years of service are rounded up); and
- (E) Relevant Awards that vest after the Option Closing Date shall remain subject to any relevant performance (or other) conditions, adjusted as necessary to take account of Option Closing and measured up to the applicable early vesting date.

For the purposes of this paragraph 11.2, "on target" performance shall not be construed as permitting share-based awards to vest in full.

- 11.3** Novartis agrees to indemnify the Purchaser (or relevant member of the Purchaser's Group) for any Liabilities borne by the Purchaser's Group in connection with the Relevant Awards, including any Tax. The Purchaser agrees to use its best endeavours to seek any applicable Tax relief in respect of the Relevant Awards and to indemnify Novartis in respect of any Tax relief obtained provided always that Novartis provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner.



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- 11.4** Subject to paragraph 11.5, Novartis undertakes to inform the Purchaser of the vesting or exercise (as applicable) of the Relevant Awards and to provide, in a timely manner, details of the Relevant Awards that so vest or are exercised so that the Purchaser's Group can make any applicable withholdings for Tax and to pay any Tax for which the Purchaser's Group is liable in respect of the Relevant Awards to the relevant Tax Authority within any applicable timescale.
- 11.5** To the extent permitted under the relevant plan rules and any Applicable Law, Novartis undertakes to sell such number of the shares underlying the Relevant Awards as may be necessary for the sale proceeds to satisfy any applicable Tax withholdings and to pay such amounts to the Purchaser in sufficient time for the Purchaser to pay such Tax to the relevant Tax Authority within any applicable timescale, provided always that the Purchaser provides Novartis with any information that Novartis may reasonably request in this respect in a timely manner.
- 11.6** Novartis undertakes to procure that each relevant member of the Novartis Group will pay any Tax for which such member is liable in respect of the Relevant Awards to the relevant Tax Authority within any applicable timescale.
- 11.7** Novartis undertakes to procure the completion of any relevant Tax Return in respect of the Relevant Awards and to procure the submission of any such Tax Return to the relevant Tax Authority within any applicable timescale.

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**11.8** This paragraph shall apply where Relevant Awards lapse or are forfeited (or will lapse or be forfeited) either in whole or in part as a result of Option Closing. As soon as practicable following Option Closing (and, in any event, by the later of 30 days from the Option Closing Date and 30 days from the first date after the Option Closing Date when the granting of share-based awards is not prevented by dealing restrictions, subject in both cases to the relevant plan rules and any Applicable Law), the Purchaser (or member of the Purchaser's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of the Purchaser substantially equal in value (valued as at the date of grant) to the value of the portion of their Relevant Awards which lapsed or was forfeited (or will lapse or be forfeited) as a result of Option Closing (valued as at the Option Closing Date), where relevant, disregarding any loss (or expected loss) of Tax-favourable treatment (each a "**Compensation Award**"). To the extent that (i) it could reasonably have been expected that any related matching share award and/or free share award would have been granted to a Transferred Employee following Option Closing in connection with any Relevant Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Option Closing (each a "**Relevant Matching Award**"), and (ii) such Relevant Matching Award has not been granted (or will not be granted) as a result of Option Closing, on or around the date on which such Relevant Matching Award would, in the ordinary course of business, have been made by Novartis (or a member of the Novartis Group), the Purchaser (or member of the Purchaser's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of the Purchaser substantially equal in value (valued as at the date of grant) to the value of such Relevant Matching Award (valued as at the date of grant of the related Matching Award, defined below), where relevant, disregarding any loss (or expected loss) of Tax-favourable treatment (each a "**Matching Award**"), subject to the relevant plan rules and any Applicable Law.

Such Compensation Awards shall be granted pursuant to the rules of whichever share-based incentive plan operated by the Purchaser's Group at the time of grant the Purchaser considers most closely aligned to the share-based incentive plan operated by the Novartis Group pursuant to which the related Relevant Award had been granted (or related Relevant Matching Award would have been granted) but will vest according to a vesting schedule substantially similar to the vesting schedule that would have otherwise applied to the related Relevant Award or related Relevant Matching Award if Option Closing had not occurred. In such cases:

- (a) the Purchaser undertakes to seek any applicable Tax relief in respect of the Compensation Awards and Matching Awards and to indemnify Novartis in respect of 50 per cent of any Tax relief obtained, provided always that Novartis provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner;
- (b) where a Compensation Award or Matching Award is granted in the form of a restricted share award, the Purchaser undertakes to obtain a valid election pursuant to section 431 of the Income Tax (Earnings and Pensions) Act 2003 (or, as applicable, any similar Tax election that is available pursuant to any Applicable Law in another jurisdiction), provided that, if either party makes representations to the other party to waive this obligation in respect of certain Compensation Awards or certain Matching Awards and the other party consents to such waiver (such consent not to be unreasonably withheld), this paragraph (b) shall not apply in respect of such Compensation Awards or Matching Awards; and



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- (c) Novartis agrees to indemnify the Purchaser (or relevant member of the Purchaser's Group) for any Liabilities borne by the Purchaser's Group in connection with such Compensation Awards and Matching Awards, including any Tax, provided that:
  - (i) Novartis shall not indemnify the Purchaser (or relevant member of the Purchaser's Group) to the extent that the Purchaser (or member of the Purchaser's Group) compensates Transferred Employees for any loss (or expected loss) of Tax-favourable treatment in respect of Relevant Awards or for any Liabilities to Tax as contemplated in paragraph 11.9 below; and
  - (ii) Novartis only agrees to indemnify the Purchaser (or member of the Purchaser's Group) to a maximum of 50 per cent of the total of (i) the value of the portion of such Relevant Awards that lapsed or was forfeited (or will lapse or be forfeited) as a result of Option Closing, (ii) the value of the Relevant Matching Awards, and (iii) any related Liabilities, including any Tax;
  - (iii) for the avoidance of doubt, Novartis shall not indemnify the Purchaser (or any member of the Purchaser's Group) for any lapse or forfeiture (or expected lapse or forfeiture) due to a failure to meet any applicable performance (or other) conditions.

For these purposes, the compensation in respect of the portion of a Relevant Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Option Closing shall not exceed the difference between (i) the value of the Relevant Award which could reasonably have been expected to vest on the normal vesting date but for Option Closing (subject, where applicable, to performance (or other) conditions), and (ii) the value of the Relevant Award which actually vested (or will vest) as a result of Option Closing.

For the purposes of this paragraph 11.8:

- (a) the portion of a Relevant Award which lapsed or was forfeited (or will lapse or be forfeited) as a result of Option Closing shall be valued on the basis of the average price of an ordinary share in the capital of Novartis over the five trading days immediately prior to Option Closing;
- (b) the value of a Compensation Award to be granted shall be valued on the basis of the average price of an ordinary share in the capital of the Purchaser over the five trading days immediately prior to the date of grant;
- (c) the value of a Relevant Matching Award shall be valued on the basis of the average price of an ordinary share in the capital of Novartis over the five trading days immediately prior to the date of grant of the related Matching Award;
- (d) the value of a Matching Award to be granted shall be valued on the basis of the average price of an ordinary share in the capital of the Purchaser over the five trading days immediately prior to the date of grant; and
- (e) any currency conversion shall be made in accordance with Clause 1.10 of this Deed.



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- 11.9** To the extent that any payment to a Transferred Employee (whether by the Novartis Group or by the Purchaser's Group) would trigger Liabilities to Tax under section 280G of the United States Internal Revenue Code ("**Section 280G**"), the relevant Transferred Employee shall be allowed to choose whether to accept the full payment (and pay any relevant Section 280G Tax) or to receive such lower payment as may be necessary in order to fall below the Section 280G threshold for Tax. To the extent that any similar Tax would arise pursuant to any Applicable Law in another jurisdiction, this paragraph 11.9 shall *apply mutatis mutandis*.
- 11.10** This paragraph shall apply where: (i) a Transferred Employee would, in the ordinary course of business, have been granted a share-based award pursuant to a share-based incentive scheme operated by Novartis or another member of the Novartis Group on the basis of performance criteria linked to the Novartis Group's 2014 financial year (which may, for the avoidance of doubt, be business and/or individual performance criteria and assessment) (each a "**2014 Performance Award**"), and (ii) Option Closing occurs prior to the grant of such 2014 Performance Award. As soon as practicable following Option Closing (and, in any event, by the later of 30 days from the Option Closing Date and 30 days from the date when the value of each 2014 Performance Award has been determined), Novartis shall notify the Purchaser in writing of the value of each 2014 Performance Award and under which share-based incentive plan operated by the Novartis Group the related 2014 Performance Award would have been granted. As soon as practicable following the receipt of such notice (and, in any event, by the later of 30 days from the receipt of such notice and 30 days from the first date following the receipt of such notice when the granting of share-based awards is not prevented by dealing restrictions, subject in both cases to the relevant plan rules and any Applicable Law), the Purchaser (or member of the Purchaser's Group) shall grant each relevant Transferred Employee a share-based award over shares in the capital of the Purchaser substantially equal in value (valued as at the date of grant) to the value of the 2014 Performance Award which would have been granted but for the occurrence of Option Closing. Such 2014 Performance Awards shall be granted pursuant to the rules of whichever share-based incentive plan operated by the Purchaser's Group at the time of grant the Purchaser considers most closely aligned to the share-based incentive plan operated by the Novartis Group pursuant to which the related 2014 Performance Award would have been granted. In such cases:
- (a) the Purchaser undertakes to seek any applicable Tax relief in respect of the 2014 Performance Awards and to indemnify Novartis in respect of any Tax relief obtained, provided always that Novartis provides the Purchaser with any information that the Purchaser may reasonably request in this respect in a timely manner;
  - (b) where a 2014 Performance Award is granted in the form of a restricted share award, the Purchaser undertakes to obtain a valid election pursuant to section 431 of the Income Tax (Earnings and Pensions) Act 2003 (or, as applicable, any similar Tax election that is available pursuant to any Applicable Law in another jurisdiction), provided that, if either party makes representations to the other party to waive this obligation in respect of certain 2014 Performance Awards and the other party consents to such waiver (such consent not to be unreasonably withheld), this paragraph (b) shall not apply in respect of such 2014 Performance Awards; and

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- (c) Novartis agrees to indemnify the Purchaser (or relevant member of the Purchaser's Group) for any Liabilities borne by the Purchaser's Group in connection with such 2014 Performance Awards, including any Tax.

The grant of a 2014 Performance Award to a Transferred Employee shall be taken into account by the Purchaser when determining the extent to which that Transferred Employee shall participate in incentive arrangements (other than any Compensation Award or Matching Award) operated by the Purchaser's Group following Option Closing.

For the purposes of this paragraph 11.10:

- (a) the value of a 2014 Performance Award to be granted shall: (i) be determined by Novartis acting reasonably and in good faith, (ii) be consistent with past practice and with the level of similar awards granted to employees remaining in service within the Novartis Group, (iii) take into account the relevant business and/or individual performance criteria linked to the Novartis's Group's 2014 financial year, and (iv) if Option Closing occurs before 31 December 2014, be time pro-rated to take account of the reduced period of time, as a proportion of the Novartis's Group's 2014 financial year, that the relevant Transferred Employee worked within the Novartis Group (calculated on the basis of the number of complete months of service as at the Option Closing Date);
- (b) the number of shares to be placed under a 2014 Performance Award shall be valued on the basis of the average price of an ordinary share in the capital of the Purchaser over the five trading days immediately prior to the date of grant; and
- (c) any currency conversion shall be made in accordance with Clause 1.10 of this Deed.

**11.11** This paragraph shall apply if any member of the Novartis Group's corporate executive team (or similar body) is a Transferred Employee (each a "**CET Member**"). The treatment of share-based awards held by CET members shall be determined by the remuneration committee of the board of directors of Novartis (acting reasonably and in good faith and following informal consultation with the Purchaser), subject to the rules of any relevant share-based incentive scheme and any Applicable Law, and the provisions of paragraph 11.8 shall apply.



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**Appendix 11  
Employee Benefits  
(Paragraph 2.4.2)**

In this Appendix 11:

“**Employee Benefits**” means benefits to or in respect of any current or former employee, including without limitation, any pension, early retirement, disability, death benefit, long service awards, termination indemnity (such as Italian TFR) or post-retirement medical benefits or deferred compensation linked to retirement, disability or death benefits or old age part-time benefits (such as German ATZ) and jubilee payments.

“**Employee Benefit Liabilities**” means liabilities and obligations (whether funded or unfunded) in respect of any employee benefit promise, scheme, plan, fund, program, policy, practice or other individual or collective arrangement providing Employee Benefits.

“**Novartis Funding Assumptions**” means, in relation to any Transferred Employee Benefits, if there is a local obligation or practice prior to the date of this Deed to pre-fund or externally fund those Transferred Employee Benefits to a funding target which is determined by reference to a method and assumptions other than IFRS (such as would, for example, be the case in relation to UK HMRC-registered defined benefit pension obligations), then that method and those assumptions as in force in relation to those Transferred Employee Benefits immediately prior to the date of this Deed (so, taking the example of UK defined benefit obligations, this would be the method and assumptions used to determine the relevant plan’s technical provisions as at the date of this Deed – regardless of whether the plan is in fact fully funded on that basis at any relevant time).

“**Novartis IFRS Assumptions**” means, in relation to any Transferred Employee Benefits, the method and assumptions used by the Novartis Group (or the most relevant member thereof) most recently prior to the date of this Deed to value those Transferred Employee Benefits for IFRS accounting purposes.

“**Partial Liquidation Longstop Date**” means, in relation to each of Novartis Pensionskasse 1, Novartis Pensionskasse 2, and Kaderkasse Novartis, the earlier of (i) the date after Option Closing on which the plan undergoes partial liquidation, and (ii) 12 months after Option Closing.

“**Purchaser Funding Assumptions**” means, in relation to any Transferred Employee Benefits, where a member of the Purchaser’s Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc), and there is a local obligation or practice prior to the date of this Deed to pre-fund or externally fund those similar or comparable benefits to a funding target which is determined by reference to a method and assumptions other than IFRS (such as would, for example, be the case in relation to UK HMRC-registered defined benefit pension obligations), then that method and those assumptions as in force in relation to those similar or comparable benefits immediately prior to the date of this Deed (so, taking the example of UK defined benefit obligations, this would be the method and assumptions used to determine the relevant plan’s technical provisions as at the date of this Deed – regardless of whether the plan is in fact fully funded on that basis at any relevant time).



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“**Purchaser IFRS Assumptions**” means, in relation to any Transferred Employee Benefits, where a member of the Purchaser’s Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc), the method and assumptions used most recently prior to the date of this Deed to value those similar or comparable benefits by the Purchaser’s Group (or any relevant member thereof) for IFRS accounting purposes.

“**Swiss Actuary**” means an actuary: (a) who can reasonably be viewed: (i) as independent of both the Purchaser and Novartis; and (ii) as familiar with Swiss pension issues; and (b) whom the Purchaser and Novartis have agreed should be jointly appointed by them for the purposes of determining the Swiss Assumptions or who in default of such agreement has been appointed by the Swiss Association of Actuaries or other industry body of actuaries in Switzerland as agreed by Novartis and the Purchaser.

“**Swiss Assumptions**” means, in relation to any Transferred Employee Benefits in Switzerland, the Novartis IFRS Assumptions adjusted:

- (a) by replacing any assumed “cash balance” annuity conversion rate in the Novartis IFRS Assumptions with a conversion rate which the Swiss Actuary certifies to the Purchaser and Novartis as representing a reasonable estimate of the likely effective overall blended conversion rate which will apply in relation to the Transferred Employee Benefits in question, having regard to the changes to the rate which can (having regard to longevity projections, legal and governance constraints around Swiss pension structures and such other matters as the Swiss Actuary considers relevant) in the Swiss Actuary’s opinion reasonably be expected to occur during the expected service lives of the Transferred Employees to whom the Transferred Employee Benefits relate, and weighting the impact of those changes by reference to the ages of the relevant employees (and so the extent to which the changes will in fact operate to reduce the effective liability on the Purchaser); and
- (b) by removing any reserve for death or disability benefits to the extent that the Swiss Actuary certifies to the Purchaser and Novartis that it constitutes a reserve for liabilities to and in respect of the relevant Transferred Employees which could reasonably be externally insured by the Purchaser without introducing a new ongoing cost on the Purchaser which was not reflected in the Accounts.



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For the purposes of each of the Purchaser Funding Assumptions, the Purchaser IFRS Assumptions, the Novartis Funding Assumptions, the Novartis IFRS Assumptions and the Swiss Assumptions, any economic and financial assumptions which are based (whether expressly or implicitly) on yields, rates or indices shall be updated for the purposes of such definitions to take account of those yields, rates or indices as at Option Closing (or the latest practicable time prior to Option Closing).

1 Except to the extent otherwise requested by Novartis and expressly agreed by the Purchaser before Option Closing (such Purchaser agreement not to be unreasonably withheld to the extent that it is not reasonably possible for Novartis or its Affiliates to retain the relevant Employee Benefit Liabilities – for example, where an Influenza Group Company operates its own standalone arrangement, liability for which cannot lawfully be assumed by another member of the Novartis Group, or where liability unavoidably transfers by operation of law under European Council Directive 2001/23/EC or its local implementing legislation), any Employee Benefit Liabilities in respect of service in the Influenza Group or with any member of the Novartis Group (including any Influenza Group Company) or in any plan or arrangement in which any member of the Novartis Group (including any Influenza Group Company) participates or has participated:

- (a) (in the case of a Transferred Employee) prior to Option Closing; or
- (b) (in the case of any other person) at any time,

(together, “**Pre-Closing EB Liabilities**”) will stay with or be assumed by Novartis or its Affiliates (excluding any Influenza Group Company) and Novartis shall fully indemnify the Purchaser and its Affiliates (which for the avoidance of doubt in the period from Option Closing includes any Influenza Group Company) against any such Employee Benefit Liabilities and against any liabilities and obligations to or in respect of any plan or arrangement for the provision of Employee Benefits in which any member of the Novartis Group (including any Influenza Group Company) participates or participated prior to Option Closing. For the avoidance of doubt, the Purchaser’s agreement under this paragraph 1 may, if the Purchaser so determines, relate only to certain specified categories or tranches of Pre-Closing EB Liabilities under a particular benefit programme (in other words, it does not need to be “all or nothing”), in which case it is only those specified Pre-Closing EB Liabilities which are excluded from the scope of the Purchaser’s indemnity entitlement hereunder.

2 Where and to the extent that the Purchaser agrees under paragraph 1 that any Pre-Closing EB Liabilities may transfer to or remain with the Purchaser and/or its Affiliates (which for the avoidance of doubt in the period from Option Closing includes any Influenza Group Company) (such Pre-Closing EB Liabilities being the “**Transferred Employee Benefit Liabilities**” and the benefits to which they relate being the “**Transferred Employee Benefits**”), the Purchaser will be compensated in respect of such Transferred Employee Benefit Liabilities as set out in the rest of this Appendix 11. Subject to being so compensated but without prejudice to paragraphs 9 and 11, the Purchaser shall, or shall procure that its relevant Affiliate shall, assume, with a full discharge for Novartis and its Affiliates, the Transferred Employee Benefit Liabilities.



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Without limiting the Purchaser’s obligation not unreasonably to withhold consent under paragraph 1 above, the Purchaser acknowledges its agreement to the principle that the post-retirement medical healthcare plan to which it admits US Transferred Employees who immediately before Option Closing were members of such a plan will take account of periods of employment with the Novartis Group to the extent previously recognised under the equivalent Novartis Group plan for the purposes of determining eligibility, contributions, and vesting; therefore, subject to appropriate identification during the period before Option Closing of such liabilities and to the operation of the compensation mechanism set out in this Appendix 11, they will become Transferred Employee Benefit Liabilities.

Without limiting the Purchaser’s obligation not unreasonably to withhold consent under paragraph 1 above, the parties hereby acknowledge that it would not be reasonably possible for Novartis or its Affiliates to retain those Pre-Closing EB Liabilities which attach to the Influenza Group Companies in relation to the Chiron UK Pension Scheme (formerly known as the “Powderject Pension Scheme”) (the “**Agreed UK Scheme**”). So, subject to appropriate identification during the period before Option Closing of such liabilities and to the operation of the compensation mechanism set out in this Appendix 11, and the liabilities will become Transferred Employee Benefit Liabilities and, for the avoidance of doubt, the Agreed UK Scheme will transfer to the Purchaser. Novartis acknowledges that the Purchaser’s agreement to this is expressly based on Novartis’s belief, as confirmed to it by the Purchaser, that the following documents relate to the Agreed UK Scheme:

- A. the document titled “Chiron UK Pension Scheme - Actuarial Report as at 31 December 2012” and signed for identification purposes on or around 22 April 2014 by Eleanor Hart of Slaughter and May and John Gordon of Linklaters LLP; and
- B. the 2001 rules (when the Agreed UK Scheme was called the Powderject Pension Scheme) which were disclosed to the Purchaser prior to the date of this Deed,

and that if either of these beliefs should not be correct, then it will be reasonable for the Purchaser to refuse to agree that the Pre-Closing EB Liabilities associated with the Agreed UK Scheme should become Transferred Employee Benefits Liabilities and instead to require Novartis to procure that the Influenza Group Companies have no further liabilities to or in respect of the Agreed UK Scheme prior to Option Closing.

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- 3 The value of the Transferred Employee Benefit Liabilities shall be determined on employee census data and plan provision as at Option Closing:
- A. in relation to any Transferred Employee Benefits in Switzerland, the Swiss Assumptions; and
  - B. in relation to any other Transferred Employee Benefits, the Novartis IFRS Assumptions, PROVIDED that if any of the following values is available and is greater than the value derived using the Novartis IFRS Assumptions then that value will be used instead (and if more than one of these values is available then the one which would place the greatest value on the relevant Transferred Employee Benefit Liabilities will be used):
    - (i) if a member of the Purchaser's Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc), the value which is midway between the value based on the Novartis IFRS Assumptions and the Purchaser IFRS Assumptions;
    - (ii) if there is a local obligation or practice prior to the date of this Deed to pre-fund or externally fund the Transferred Employee Benefits to a funding target which is determined by reference to a method and assumptions other than IFRS, the value derived using the Novartis Funding Assumptions; and
    - (iii) if there is both: (i) a local obligation or practice prior to the date of this Deed to pre-fund or externally fund the Transferred Employee Benefits to a funding target which is determined by reference to a method and assumptions other than IFRS; and (ii) a member of the Purchaser's Group provides, in the same country, a similar or comparable benefit programme to the programme to which the Transferred Employee Benefits relate (regardless of differences in the terms of entitlement of accrual etc), the value which is midway between the value based on the Novartis Funding Assumptions and the Purchaser Funding Assumptions.

The market value as at Option Closing of any underlying assets related to the Transferred Employee Benefit Liabilities which are or are to be transferred as per paragraph 8 below will be deducted from the value of the Transferred Employee Benefit Liabilities to the extent such assets are or will be available to the Purchaser or its Affiliates to meet such liabilities and the remaining value of the Transferred Employee Benefit Liabilities (if any) is the "**Employee Benefit Indemnification Amount**". Such determination shall be carried out on a country-by-country basis and, where necessary, on a plan-by-plan basis. For the avoidance of doubt, in relation to Switzerland, the calculation shall, if partial liquidation occurs in relation to any of the Transferred Employee Benefit Liabilities by the Partial Liquidation Longstop Date, make allowance for the assets thereby transferred assuming that they will be available to meet such liabilities. If any Employee Benefit Indemnification Amount is greater than the estimate of such amount determined for the purposes of the Estimated Employee Benefit Adjustment (or, where no such estimate was made, greater than zero), Novartis shall pay or procure payment, by way of a reduction in the Purchase Price attributable to the Shares or the particular part of the Influenza Group to which the payment relates, an amount equal to the difference (or, where no such estimate was made, such amount) to the Purchaser, or at the request of the Purchaser to an Affiliate of the Purchaser, as compensation for the Transferred Employee Benefit Liabilities. If any Employee Benefit Indemnification Amount is less than the estimate of such amount determined for the purposes of the Estimated Employee Benefit Adjustment (if any), the Purchaser shall pay an amount equal to the difference to Novartis.



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- 4 Novartis and its Affiliates shall, within 45 days after Option Closing (or, in the case of Switzerland, 45 days after the Partial Liquidation Longstop Date), provide its actuary, the Swiss Actuary and the actuary chosen by the Purchaser with all relevant plan, asset, assumptions and employee census information needed to calculate the Employee Benefit Indemnification Amounts in respect of any Transferred Influenza Business Employees. The actuary chosen by Novartis shall provide the actuary chosen by the Purchaser with its calculation of the Employee Benefit Indemnification Amounts (including, but not limited to, any supporting documentation on which it relied as well as the methodologies it employed in calculating the Employee Benefit Indemnification Amounts), on a plan-by-plan basis, within 90 days following Option Closing (or, in the case of Switzerland, 90 days after the Partial Liquidation Longstop Date). The actuary chosen by the Purchaser shall review the calculation of the Employee Benefit Indemnification Amounts of Novartis's actuary within 120 days following Option Closing (or, in the case of Switzerland, 120 days after the Partial Liquidation Longstop Date). The Employee Benefit Indemnification Amounts shall be determined, on a plan-by-plan basis, by mutual agreement between the parties within 180 days following the Option Closing Date (or, in the case of Switzerland, 180 days after the Partial Liquidation Longstop Date).
- 5 If the parties cannot agree on any Employee Benefit Indemnification Amount within the 180-day period referred to in paragraph 4, the parties shall appoint within 5 days an independent actuary acceptable to both parties, or such actuary shall be selected by the President of the Institute and Faculty of Actuaries in the UK if they cannot agree, and the independent actuary thus appointed shall review their calculations and, within 75 days after appointment, render a final and binding decision on the amount of that Employee Benefit Indemnification Amount, and, in making such decision, shall be limited to adopting the position taken by either one of the parties. The cost of any independent actuary shall be borne jointly by the parties.
- 6 In connection with the procedures referred to in this Appendix 11, the parties shall provide each other and the actuaries referred to in this Appendix 11 with access to the relevant business records and other relevant documents and information as may reasonably be requested. All documents, records and information provided for the purposes of this Appendix 11 must be accurate and complete in all material respects.

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- 7 Each Employee Benefit Indemnification Amount shall be paid by Novartis (by way of a reduction in the Purchase Price attributable to the Shares or the particular part of the Influenza Group to which the payment relates) within 14 days following its final determination. Novartis may make an accelerated or advance payment at its own discretion (which, for the avoidance of doubt, includes in relation to each Employee Benefit Indemnification Amount so much (if any) of the Estimated Employee Benefit Adjustment as Novartis notified pursuant to Paragraph 6.4 of Schedule 1 was intended to relate to that Employee Benefit Indemnification Amount). Each Employee Benefit Indemnification Amount shall include interest calculated from (and including) the Option Closing Date to (and including) the date of payment at a rate per annum of LIBOR (but where amounts are prepaid or paid in stages or treated as paid via inclusion in the Estimated Employee Benefit Adjustment then the interest will cease to accrue on so much of the Employee Benefit Indemnification Amount as has been paid). Such interest shall accrue from day to day. Any such payment shall be made in US dollars (and any underlying values shall be expressed in US dollars) and any currency other than US dollars shall be converted into US dollars at the exchange rates determined in accordance with Clause 1.10 of this Deed on the Option Closing Date.
- 8 To the extent (if any) that there are any Transferred Employee Benefit Liabilities which prior to Option Closing were externally funded by assets held in a trust or other vehicle established for the purposes of meeting such Transferred Employee Benefit Liabilities, the Purchaser will, if requested by Novartis before Option Closing and unless it is not reasonably practicable to do so, establish or nominate a trust or other vehicle which is capable of receiving a transfer of assets from the pre-Option Closing trust or other vehicle to the extent that such assets relate to the Transferred Employee Benefit Liabilities.
- 9 If, within one year of Option Closing, Novartis or the Purchaser notifies the other that the membership or other benefit data (the “**Data**”) used for calculating any Employee Benefit Indemnification Amount may be inaccurate, then a “**Data Dispute**” has arisen and the following provisions shall apply:
- (a) On such notification, Novartis shall procure that its actuary and the Purchaser shall procure that its actuary consult each other with a view to agreeing whether the Data is inaccurate and if so, what the accurate Data should be. If Novartis’s actuary and the Purchaser’s actuary agree that the Data is inaccurate, they will jointly certify this to be the case and advise on what the accurate Data should be. The notification is deemed to have occurred on the date of the certification.
  - (b) If Novartis’s actuary and the Purchaser’s actuary fail to agree whether the Data is inaccurate within 60 days of the notification by one party to the other that the Data may be inaccurate, paragraph 5 shall apply mutatis mutandis. The notification is deemed to have occurred when the independent actuary advises that the Data is inaccurate and what the accurate Data should be.
  - (c) On the occurrence of the Data Dispute, Novartis and the Purchaser shall respectively procure that a valuation of the relevant Employee Benefit Indemnification Amount is carried out in accordance with paragraphs 3 and 4 (mutatis mutandis) but on the basis of the accurate Data as agreed under paragraph (a) or determined under paragraph (b).
  - (d) If as a consequence of paragraph (c), Novartis has paid to the Purchaser an amount which on the basis of the further valuation is not payable, such amount (the “**Overpayment**”) shall be repaid within 21 days of the amount of the Overpayment being agreed or determined. Any such payment shall bear interest calculated from (and including) the date the Overpayment was made to (and including) the date the payment is made in full in accordance with this paragraph (d) at a rate per annum of LIBOR. Such interest shall accrue from day to day.



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(e) If as a consequence of paragraph (c), Novartis has not paid to the Purchaser an amount which on the basis of the further valuation is payable, such amount (the “**Outstanding Amount**”) shall be paid within 21 days of the amount of the Outstanding Amount being agreed or determined. Any such payment shall bear interest calculated from (and including) the Option Closing Date to (and including) the date the payment is made in full in accordance with this paragraph (e) at a rate per annum of LIBOR. Such interest shall accrue from day to day.

10 Except as otherwise agreed by Novartis, the Purchaser shall where a trust or other vehicle has been established under paragraph 8, procure that all of the assets transferred as envisaged by paragraph 8 are paid into such trust or other vehicle. If, after such payment or transfer, or after payment of an Employee Benefit Indemnification Amount or after making an Estimated Employee Benefit Adjustment, the Purchaser and/or its Affiliates achieves a reduction in its liability to any Tax in respect of or in connection with the payment or transfer, the Purchaser shall pay to Novartis (for itself or on behalf of the relevant Share Seller or Business Seller as applicable), within 30 days after the Purchaser would otherwise have been liable to pay the saved Tax, a sum equal to the amount of that Tax reduction by way of an increase in the Purchase Price in respect of the relevant Shares or the particular part of the Influenza Group. This paragraph 10 applies for a period of four years following the later of the date on which a transfer of assets is made, or payment of any Employee Benefit Indemnification Amount or Estimated Employee Benefit Adjustment is made to the Purchaser.

11 Novartis covenants with the Purchaser to pay to the Purchaser an amount equal to any cost, claim or liability incurred by any member of the Purchaser’s Group which it is or becomes liable to make on or at any time after Option Closing by reason of any change or purported change made to the terms of any Transferred Employee Benefits prior to Option Closing proving to be or have been legally ineffective or by reason of such terms and/or benefits failing to comply with any mandatory legal requirements (excluding any obligation to equalise guaranteed minimum pensions in the United Kingdom). Novartis shall not be liable under this paragraph 11 in respect of any individual claim (or a series of claims arising from similar or identical facts or circumstances) unless the liability in respect of such claim or series of claims exceeds US\$100,000. If the Purchaser becomes aware of any fact, matter or circumstance that may give rise to a claim against Novartis under this paragraph 11, the Purchaser shall as soon as reasonably practicable give notice in writing to Novartis of such facts, matters or circumstances as are then available regarding the potential claim. Failure to give such notice within such period shall not affect the rights of the Purchaser to make a relevant claim under this paragraph 11, except that Novartis shall not be liable for any increase in the amount of such claim arising from such failure. The latest date on which the Purchaser may give notice of a claim under this paragraph 11 is the fourth anniversary of the Option Closing Date.

12 Notwithstanding any general provision to the contrary in Appendix 10 and subject to being compensated in accordance with this Appendix 11, the Purchaser shall admit Transferred Employees in the United States who participated in a post-retirement medical plan immediately prior to Option Closing to its own post-retirement medical plan. Subject to being compensated in accordance with this Appendix 11, periods of employment with the Novartis Group (including, without limitation, any current or former Affiliate of Novartis, to the extent previously recognised under the applicable benefit plan arrangement provided by the Novartis Group), shall be taken into account for the purposes of determining, as applicable, the eligibility for participation, contributions, and vesting for any employee under such post-retirement medical plan.

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- 13** Notwithstanding any general provision to the contrary in Appendix 10, the US Transferred Employees shall, as of the Option Closing Date, become eligible to participate in a US tax-qualified defined contribution plan to the extent such plan is sponsored by the Purchaser or a relevant member of the Purchaser's Group. The Purchaser agrees that it will use commercially reasonable efforts to cause such plan to accept rollovers of the account balances of the US Transferred Employees (including participant loan promissory notes) from the relevant employer's tax-qualified retirement plans; provided that (i) the Purchaser will not be required to accept any such rollovers that might result in material liability to the Purchaser or may otherwise cause the relevant plan to cease to qualify under Section 401(a) of the Code and (ii) the Purchaser will not be required to amend any plan to permit participant loans.
- 14** The parties agree that where any Transferred Employee has accrued defined contribution benefits prior to Option Closing in a Novartis Group arrangement then:
- 14.1** Novartis shall use commercially reasonable efforts to procure the vesting of those benefits (if they would otherwise lapse as a result of Option Closing);
- 14.2** the parties shall, provided this will not impose unreasonable administrative burdens on the Purchaser's Group, co-operate in good faith to procure a transfer of the account balances of such Transferred Employee from the Novartis Group arrangement to a Purchaser's Group arrangement; and
- 14.3** for the avoidance of doubt, the Purchaser will comply with the provisions of paragraph 6.1 of Appendix 10.



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**Appendix 13**  
**Allocation of Purchase Price**  
**(Paragraphs 3.3 and 7.6)**

- 1** Novartis and the Purchaser agree that the Purchase Price (and any adjustments thereto) and the Assumed Liabilities shall be allocated for Tax purposes among the Shares and the Influenza Group Businesses in accordance with Applicable Law (the “**Allocation**”).
- 2** From the Option Exercise Date and prior to the Option Closing Date and subject always to paragraph 1, Novartis and the Purchaser shall negotiate in good faith to reach an agreement as to the Allocation of the Purchase Price and the Assumed Liabilities to the Shares, and to any Influenza Group Businesses that are subject to transfer Taxes or VAT, or where a valuation of a particular Influenza Group Business prior to Option Closing is otherwise required by Applicable Law (each a “**Required Item**”).
- 3** Failing agreement between the parties on the Allocation in respect of any Required Item in accordance with this Appendix 13, the Allocation shall be determined by the Reporting Accountants on the application of Novartis or the Purchaser. Paragraphs 1.7 to 1.13 of Part 1 of Appendix 16 shall apply *mutatis mutandis* to the engagement and determination of the Reporting Accountants pursuant to this paragraph 3.
- 4** Novartis and the Purchaser shall negotiate in good faith to further allocate the Purchase Price and Assumed Liabilities among the Influenza Group Businesses for which an allocation was not agreed prior to Option Closing within 90 calendar days after the Option Closing Date. If Novartis and the Purchaser reach written agreement within such 90 day period, the Allocation, as so amended, shall become binding upon Novartis and the Purchaser as the “**Final Allocation Schedule**”.
- 5** Novartis and the Purchaser shall, and shall procure that each of their Affiliates will, file all Tax Returns in a manner consistent with the Final Allocation Schedule, unless otherwise required by Applicable Law, and shall take no position inconsistent with the Final Allocation Schedule in any proceedings before any Governmental Entity or otherwise.
- 6** If Novartis and the Purchaser are unable to agree to an Allocation pursuant to paragraph 4, the matter shall be determined by the Reporting Accountants on the application of Novartis or the Purchaser. Paragraphs 1.7 to 1.13 of Part 1 of Appendix 16 shall apply *mutatis mutandis* to the engagement and determination of the Reporting Accountants pursuant to this paragraph 6.

**Execution Version****Appendix 14  
VAT  
(Paragraph 3.4)****1 VAT: Records**

- 1.1** Novartis may, on or before the date of Option Closing, obtain a direction from the relevant Tax Authority for the retention and preservation by it of any VAT records relating to its period of ownership of the relevant part of the Influenza Group and, where any such direction is obtained, Novartis shall:
- 1.1.1** preserve the records to which that direction relates in such a manner and for such period as may be required by the direction or by Applicable Law; and
  - 1.1.2** allow the Purchaser, upon the Purchaser giving reasonable notice, reasonable access to and copies of such records where reasonably required by the Purchaser for its Tax purposes.
- 1.2** If no such direction as is referred to in paragraph 1.1 above is obtained on or before the date of Option Closing and any documents in the possession or control of a member of Novartis's Group are required by law to be preserved by the Purchaser, Novartis shall, as soon as reasonably practicable after Option Closing, deliver such documents to the Purchaser.

**2 VAT: Going Concern - EU Member States**

- 2.1** Novartis and the Purchaser shall use reasonable endeavours (including, for the avoidance of doubt, the making of an election or application in respect of VAT to any Taxation Authority or entering into a written agreement) to secure that, to the extent reasonably possible, the sale of all or any part of the Influenza Group Businesses, so far as carried on in the European Union, is treated as neither a supply of goods nor a supply of services for the purposes of the laws governing VAT in each relevant member state.
- 2.2** Each Business Seller shall have the right to seek a ruling from the relevant Tax Authority as to whether the sale of all or part of the Influenza Group Businesses, so far as carried on in the relevant member state, should be treated as neither a supply of goods nor a supply of services for the purposes of the laws governing VAT in that member state and to account for VAT (and accordingly to seek an additional payment from the Purchaser under Paragraph 3.4.3) in accordance with that ruling. Novartis shall not be obliged to challenge (or to procure that any relevant Business Seller challenges) that ruling unless required to do so by the Purchaser. If the Purchaser wishes to challenge, or to require the relevant Business Seller to challenge, any such ruling it may do so, provided that it bears the full cost of, and agrees to indemnify the relevant Business Seller in respect of any loss arising from or in connection with, that challenge and that such challenge shall not affect the date on which VAT must be paid to Novartis under paragraph 4 below.
- 2.3** Insofar as no ruling has been obtained from a relevant Tax Authority prior to Option Closing, Novartis shall determine in good faith if (or the extent to which) VAT is payable in respect of the sale of the Influenza Group Businesses and shall be entitled to charge (or not to charge) VAT to the Purchaser in accordance with such determination.

**3 VAT: Going Concern - non-EU Jurisdictions**



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- 3.1** To the extent that any state outside the European Union provides for relief or exemption from VAT on the transfer of a business or a company or treats such a transaction as being non-taxable for VAT purposes, Novartis and the Purchaser shall use reasonable endeavours (including, for the avoidance of doubt, the making of an election or application in respect of VAT to any Tax Authority or entering into a written agreement) to secure such relief, exemption or treatment, to the extent reasonably possible, as regards the sale of all or part of the Influenza Group Businesses (insofar as the business of the Influenza Group is carried on in the relevant state) under this Deed.
- 3.2** The relevant Business Seller shall have the right to seek a ruling from the relevant Tax Authority as to whether the sale of all or part of the Influenza Group Businesses, so far as the business of the Influenza Group is carried on in the relevant state, is eligible for a relief or exemption or is otherwise eligible to be treated as non-taxable for the purposes of the laws governing VAT in that state and to account for VAT (and accordingly seek an additional payment from the Purchaser under Paragraph 3.4.3) in accordance with that ruling. Novartis shall not be obliged to challenge (or to procure then the relevant Business Seller challenges) that ruling unless required to do so by the Purchaser. If the Purchaser wishes to challenge, or to require the relevant Business Purchaser to challenge, any ruling it may do so, provided that it bears the full cost of, and agrees to indemnify the relevant Business Seller in respect of any loss arising from or in connection with, that challenge and that such challenge shall not affect the date on which VAT must be paid to Novartis under paragraph 4 below. Insofar as no ruling has been obtained from a relevant Tax Authority prior to Option Closing, Novartis shall determine in good faith if (or the extent to which) VAT is payable in respect of the sale of the Influenza Group Businesses and shall be entitled to charge (or not to charge) VAT to the Purchaser in accordance with such determination.

**4 VAT: Time, Manner and Currency of Payment**

- 4.1** Any amounts which the Purchaser is obliged to pay to Novartis under this Deed in respect of VAT shall be paid by the Purchaser, on its own account or on behalf of another member of the Purchaser's Group, to Novartis or to such member of the Novartis Group as Novartis may direct. Such amounts shall be paid in the currency in which the VAT in question must be accounted for to the relevant Tax Authority.
- 4.2** Subject to any provision or express agreement to the contrary, any amounts in respect of VAT payable in any jurisdiction in respect of the transfer at Option Closing of any of the Influenza Group Businesses or Shares shall be paid in accordance with paragraph 4.1 above at Option Closing against production of a valid VAT invoice (or equivalent, if any).
- 4.3** Notwithstanding any other provision of this Deed, the Purchaser shall not be liable to account to Novartis or any member of the Novartis Group for or in respect of penalties or interest arising solely from the failure of Novartis or any other member of the Novartis Group to account promptly for VAT to the relevant Tax Authority following Novartis having been placed in the appropriate amount of funds for that purpose by the Purchaser.



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**Appendix 15  
 Option Closing Obligations  
 (Paragraph 6)**

**1 General Obligations**

**1.1 Novartis's Obligations**

On Option Closing, Novartis shall deliver or make available to the Purchaser the following:

- 1.1.1 the Tax Indemnity duly executed by Novartis;
- 1.1.2 the Ancillary Agreements (other than, if they have not been agreed, the Transitional Services Agreement and the Manufacturing, Supply and Distribution Agreement) duly executed by the relevant members of the Novartis Group;
- 1.1.3 a valid power of attorney or such other evidence reasonably satisfactory to the Purchaser that Novartis, and each of its relevant Affiliates, are authorised to execute the Tax Indemnity, the Ancillary Agreements and the Local Transfer Documents (including, where relevant, any notarial deeds referred to in this Deed), in each case to the extent that they are parties thereto; and
- 1.1.4 the statutory books of the Influenza Group Companies (which shall be written up to but not including the Option Closing Date), the certificate of incorporation (and certificate of incorporation on change of name) and common seal (if any) of each Influenza Group Company and share certificates (or other documents of title) in respect of all the issued share capital of each Influenza Group Company.

In addition, Novartis shall, if requested by the Purchaser by notice in writing not less than five Business Days prior to the Option Closing Date:

- (i) procure any then present directors and officers (if any) of each Influenza Group Company resign their offices to take effect at the Option Closing Date as such and to relinquish any rights which they may have under any contract of employment with any Influenza Group Company or under any statutory provisions (including any right to damages or compensation for breach of contract, loss of office, redundancy or unfair dismissal or on any other account whatsoever) and to confirm that no agreement or arrangement is outstanding under which any Influenza Group Company has or could have any obligation to any of them including in respect of remuneration or expenses;
- (ii) procure the present auditors of each Influenza Group Company to resign their office as such, such resignations to take effect as at the Option Closing Date; and
  - (a) procure board meetings of the relevant Influenza Group Companies are held, or written resolutions of the board are passed, at or by which:
  - (b) it shall be resolved that each of the transfers relating to the Shares shall, so far as possible, be approved for registration and any person nominated by the Purchaser shall be appointed director, such appointments to take effect on the Option Closing Date.



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**Execution Version****1.2 The Purchaser's Obligations**

On Option Closing, the Purchaser shall deliver or make available to Novartis the following:

- 1.2.1 the Tax Indemnity duly executed by the Purchaser;
- 1.2.2 the Ancillary Agreements (other than, if they have not been agreed, the Transitional Services Agreement and the Manufacturing, Supply and Distribution Agreement) duly executed by the relevant members of the Purchaser's Group; and
- 1.2.3 evidence reasonably satisfactory to Novartis that the Purchaser, and each of its relevant Affiliates, are authorised to execute the Tax Indemnity, the Ancillary Agreements and the Local Transfer Documents (including, where relevant, any notarial deeds referred to in this Deed), in each case to the extent that they are parties thereto.

**2 Transfer of the Shares and Influenza Group Businesses****2.1 General Transfer Obligations**

On Option Closing or such other date as agreed between the parties, Novartis shall procure that the Share Seller and Business Sellers shall, and the Purchaser shall, execute and/or deliver and/or make available Local Transfer Documents and take such steps as are required to transfer the Shares and Influenza Group Businesses in accordance with this Deed.

**2.2 Specific Transfer Obligations**

For the purposes of compliance with paragraph 2.1, Novartis and the Purchaser shall, between the Option Exercise Date and Option Closing, negotiate in good faith any and all Local Transfer Documents and other such steps as are required to transfer the Shares and Influenza Group Businesses in accordance with this Deed.



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## Execution Version

**Appendix 16**  
**Post Option Closing Adjustments**  
**(Paragraph 7)**

**Part 1**  
**Preparation of Option Closing Statement**

**1 Preparation**

- 1.1** No later than 60 days following Option Closing, Novartis shall deliver to the Purchaser the Draft Option Closing Statement. Prior to such delivery, Novartis shall so far as is practicable consult with the Purchaser with a view to reducing the potential areas of disagreement.
- 1.2** In order to enable Novartis to prepare the Draft Option Closing Statement, the Purchaser shall keep up-to-date and, subject to reasonable notice, make available to Novartis's representatives and to Novartis's accountants all books and records relating to the Influenza Group during normal office hours and co-operate with them with regard to the preparation, review and agreement or determination of the Draft Option Closing Statement. The Purchaser agrees to make available the services of the employees of the Influenza Group to assist Novartis in the preparation, review and agreement or determination of the Draft Option Closing Statement.
- 1.3** In order to allow the Purchaser to review the Draft Closing Statement, Novartis shall, subject to reasonable notice, make available to the Purchaser's representatives and to the Purchaser's accountants all books and records relating to the Vaccines Group during normal office hours and co-operate with them with regard to their review of the Draft Closing Statement. Novartis agrees to make available the services of the employees of Novartis and its Affiliates to assist the Purchaser in its review of the Draft Closing Statement.
- 1.4** If the Purchaser does not within 60 days of presentation to it of the Draft Option Closing Statement give notice to Novartis that it disagrees with the Draft Option Closing Statement or any item thereof, such notice stating the reasons for the disagreement in reasonable detail and specifying the adjustments which, in the Purchaser's opinion should be made to the Draft Option Closing Statement (the "**Purchaser's Disagreement Notice**"), the Draft Option Closing Statement shall be final and binding on the parties for all purposes. If the Purchaser gives a valid Purchaser's Disagreement Notice within such 60 days, Novartis and the Purchaser shall attempt in good faith to reach agreement in respect of the Draft Option Closing Statement and, if they are unable to do so within 30 days of such notification, Novartis or the Purchaser may by notice to the other require that the Draft Option Closing Statement be referred to the Reporting Accountants (an "**Appointment Notice**").
- 1.5** Within 30 days of the giving of an Appointment Notice, Novartis may by notice to the Purchaser indicate that, in the light of the fact that the Purchaser has not accepted the Draft Option Closing Statement in its entirety, it wishes the Reporting Accountants to consider matters relating to the Draft Option Closing Statement in addition to those specified in the Purchaser's Disagreement Notice, provided that such matters as are related to the matters specified in the Purchaser's Disagreement Notice and that the notice states in reasonable detail the reasons why and in what respects Novartis believes that the Draft Option Closing Statement should be altered in respect of such matters (the "**Novartis's Disagreement Notice**").



**Execution Version**

- 1.6** The Reporting Accountants shall be engaged jointly by Novartis and the Purchaser on the terms set out in this paragraph 1 and otherwise on such terms as shall be agreed; provided that neither Novartis nor the Purchaser shall unreasonably (having regard, inter alia, to the provisions of this paragraph 1) refuse its agreement to terms proposed by the Reporting Accountants or by the other party. If the terms of engagement of the Reporting Accountants have not been settled within 45 days of their identity having been determined (or such longer period as Novartis and the Purchaser may agree) then, unless Novartis or the Purchaser is unreasonably refusing its agreement to those terms, those accountants shall be deemed never to have become the Reporting Accountants and new Reporting Accountants shall be selected in accordance with the provisions of this Deed.
- 1.7** Except to the extent that Novartis and the Purchaser agree otherwise, the Reporting Accountants shall determine their own procedure but:
  - 1.7.1** apart from procedural matters and as otherwise set out in this Deed shall determine only:
    - (i) whether any of the arguments for an alteration to the Draft Option Closing Statement put forward in the Purchaser’s Disagreement Notice or Novartis’s Disagreement Notice is correct in whole or in part; and
    - (ii) if so, what alterations should be made to the Draft Option Closing Statement in order to correct the relevant inaccuracy in it;
  - 1.7.2** shall apply the accounting principles, policies, procedures, practices and estimation techniques as set out in Part 2 of this Appendix;
  - 1.7.3** shall make their determination pursuant to paragraph 1.7.1 as soon as is reasonably practicable;
  - 1.7.4** the procedure of the Reporting Accountants shall:
    - (i) give Novartis and Purchaser a reasonable opportunity to make written and oral representations to them;
    - (ii) require that each party supply the other with a copy of any written representations at the same time as they are made to the Reporting Accountants;
    - (iii) permit each party to be present while oral submissions are being made by the other party; and
    - (iv) for the avoidance of doubt, the Reporting Accountants shall not be entitled to determine the scope of their own jurisdiction.
- 1.8** The Reporting Accountants shall send Novartis and the Purchaser a copy of their determination pursuant to paragraph 1.7.1 within one month of their appointment. Such determination:
  - 1.8.1** shall be made available to Novartis and the Purchaser in writing; and
  - 1.8.2** unless otherwise agreed by Novartis and the Purchaser, shall include reasons for each relevant determination.



**Execution Version**

- 1.9** The Reporting Accountants shall act as experts and not as arbitrators and their determination of any matter falling within their jurisdiction shall be final and binding on Novartis and the Purchaser save in the event of manifest error (when the relevant part of their determination shall be void and the matter shall be remitted to the Reporting Accountants for correction). In particular, their determination shall be deemed to be incorporated into the Draft Option Closing Statement.
- 1.10** The expenses (including amounts in respect of VAT) of the Reporting Accountants shall be borne as they shall direct at the time they make any determination under paragraph 1.7.1(i) or, failing such direction, equally between the Purchaser and Novartis.
- 1.11** Novartis and the Purchaser shall co-operate with the Reporting Accountants and comply with their reasonable requests made in connection with the carrying out of their duties under this Deed. In particular, Purchaser shall keep up-to-date and, subject to reasonable notice, make available to Novartis's representatives, Novartis's accountants and the Reporting Accountants all books and records relating to the Influenza Group during normal office hours as Novartis or the Reporting Accountants may reasonably request during the period from the appointment of the Reporting Accountants down to the making of the relevant determination.
- 1.12** Nothing in this Appendix 16 shall entitle a party or the Reporting Accountants access to any information or document which is protected by legal professional or litigation privilege, provided that neither Novartis nor the Purchaser shall be entitled to refuse to supply such part or parts of documents as contain only the facts on which the relevant claim or argument is based.
- 1.13** Each party and the Reporting Accountants shall, and shall procure that its accountants and other advisers shall, keep all information and documents provided to them pursuant to this paragraph 1 confidential and shall not use the same for any purpose, except for disclosure or use in connection with the preparation of the Draft Option Closing Statement, the proceedings of the Reporting Accountants or another matter arising out of this Deed.



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**Execution Version****Part 2****Option Closing Statement Principles**

This Part 2 of Appendix 16 comprises the specific rules, principles, policies and practices, without limitation, for preparing the Option Closing Statement.

The Option Closing Statement sets out the Influenza Group Companies' Cash Balances, the Third Party Indebtedness, the Intra-Group Non-Trade Receivables, the Intra-Group Non-Trade Payables and the Tax Adjustment, in each case as prepared in accordance with the specific rules, principles, policies and practices set forth in this Part 2 of Appendix 16. The Option Closing Statement shall be prepared in the form of the Illustrative Option Closing Statement in Part 3 of this Appendix 16.

For the avoidance of doubt, the Option Closing Statement as referred to in this Part 2 of Appendix 16 shall inclusively apply to each of the Draft Option Closing Statement and the Option Closing Statement.

**1 Option Closing Statement Rules**

**1.1** The Option Closing Statement shall be prepared as follows:

**1.1.1** in accordance with the specific accounting treatments set out in paragraph 2 of this Part 2 of Appendix 16; and, subject thereto

**1.1.2** adopting the same accounting principles, methods, procedures and practices utilized in preparing the Statement of Net Assets, as detailed in the Statement of Net Asset Rules, applied on a consistent basis using consistent estimation methodologies and judgments and with consistent classifications as were used to prepare the Statement of Net Assets; and subject thereto

**1.1.3** in accordance with IFRS.

**1.2** For the avoidance of doubt, paragraph 1.1.1 shall take precedence over paragraphs 1.1.2 and 1.1.3, and paragraph 1.1.2 shall take precedence over paragraph 1.1.3.

**2 Specific requirements****2.1 Cut-off**

The Option Closing Statement (including the Draft Option Closing Statement) shall not take into account any additional events and any additional information that becomes available after the statement time up to the date that such Option Closing Statement is prepared.



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**Execution Version****2.2 Change of Ownership**

The Option Closing Statement shall not be adjusted for any charges, provisions, reserves or write-offs in respect of any costs, liabilities or charges that may be incurred by the Influenza Group prior to or after the Option Closing as a consequence of the change of ownership of the Influenza Group or any changes in the management strategy, direction or priority or possible closure of any part of the Influenza Group by the Purchaser after Option Closing, whether or not resulting from the change in ownership.

**2.3 Deferred Tax**

The Option Closing Statement (including the Draft Option Closing Statement) shall not take into account or provide for deferred Tax.

**2.4 Other Taxes**

The Option Closing Statement (including the Draft Option Closing Statement) shall take account of or provide for all income taxes and sales taxes, to which lines BS14\_120 Taxes other than income taxes (Liability account) and BS13\_108 Value added tax receivable apply.



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## Execution Version

**Part 3**  
**Illustrative Option Closing Statement**

	Influenza Group Illustrative Closing Statement
<b>Target Group Companies' Cash Balances</b> (BS01_180 Cash & cash equivalents)	[ ]
<b>Intra-Group Non-Trade Receivables</b> (BS01_050 Total financing and loans to subsidiaries / JV)	[ ]
<b>Third Party Indebtedness</b> , comprising:	
BS01_511 Financial Debt – long term	[ ]
BS01_651 Financial Debt – short term	[ ]
<b>Intra-Group Non-Trade Payables</b>	[ ]
BS01_516 Financing from subsidiaries / JV:	[ ]
BS01_518 Loans from subsidiaries / JV:	[ ]
<b>Tax Adjustment</b> , comprising	[ ]
BS13_190 Current income tax receivables	[ ]
BS01_660 Income taxes payable	[ ]
<b>Balancing payment required:</b>	[ ]



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**Execution Version**

**Appendix 17**  
**US Government Contracts**  
**Paragraphs 1.1 and 8.15**

**Part 1**

**List of US Government Contracts**

- 1** HHS 101C (Contract No: HHSO100200900101C)
- 2** HHS CIADM (Contract No: HHSO100201200003I)
- 3** Flu Cell Culture Contract (Contract No: HHSO100200600012C)
- 4** Antigen Sparing Contract (Contract No: HHSO100200700030C)
- 5** 2014 CDC Adult Flu (Contract No: 200-2014-57655)
- 6** 2014 CDC Pediatric Flu (Contract No: 200-2014—57659)
- 7** DLA Flu (Contract No: SPM2DP-13-D-0004)
- 8** Federal Supply Schedule (Contract No: V797P-2134D)
- 9** Community Economic Development Agreement with North Carolina Economic Investment Committee
- 10** Grant Agreement with Wake County, North Carolina
- 11** Economic Development Agreement with the Town of Holly Springs, North Carolina
- 12** Development Agreement Regarding Infrastructure Construction and Fee Reimbursement with the Town of Holly Springs, North Carolina – Recorded in Bk 12097, Pg 1497, Wake County Registry, as amended by First Amendment to Development Agreement Regarding Infrastructure Construction and Fee Reimbursement recorded in Bk 14473, Pg 2755, Wake County Registry
- 13** HHS Stockpile Contract (Contract No: HHSO100201200014I)
- 14** HHS 061C (Contract No: HHSO100201000061C)



## Execution Version

## Part 2

## Holly Springs Facility

**1 Obligation to Obtain US Government Consent**

**1.1** Unless the parties agree otherwise, in relation to all US Government Contracts which require formal novation pursuant to 48 C.F.R. Subpart 42.12 (the “**Applicable FAR Regulations**”), Novartis and the Purchaser shall obtain all US Government consents necessary for such novation as soon as possible and shall keep each other informed of progress in obtaining such consents. Novartis shall deliver to the Purchaser, on Option Closing, or, if such consents have not been received at Option Closing, as soon as possible after receipt, copies of any such consent executed by the appropriate parties.

**2 Obligations of the Parties**

**2.1** Each party shall use all reasonable endeavours to procure the novation of the US Government Contracts in accordance with this Part 2. The Parties shall perform their respective obligations under the Applicable FAR Regulations in order to consummate the novation of the US Government Contracts.

**2.2** Without limitation of and subject to the Applicable FAR Regulations:

- (a) Novartis shall begin discussions with the Responsible Contracting Officer (as defined in the Applicable FAR Regulations) as soon as reasonably practicable after the Option Exercise Date, and in doing so shall use its reasonable endeavours to identify any possible issues with, or objections to, the Transaction and/or the proposed novation of US Government Contracts that the Responsible Contracting Officer and/or US Government might raise;
- (b) the parties shall use their reasonable endeavours to negotiate, as soon as reasonably practicable after the Option Exercise Date and, in any event, no less than 45 Business Days before the intended Option Closing Date, documentation in Agreed Terms to be entered into as at the Option Closing Date providing for such sub-contracting arrangements as would customarily apply in a transaction such as the Transaction during the period between closing and the novation of contracts in accordance with the Applicable FAR Regulations and consistent with the following principles:
  - (i) during the relevant period, the Purchaser will perform Novartis’s obligations under the relevant US Government Contracts to the extent permissible under the Federal Acquisition Regulations (“**FAR**”);
  - (ii) during the relevant period, Novartis will perform its obligations under the relevant US Government Contracts to the extent necessary to entitle it to payment from the US Government for the work performed under such contracts; and
  - (iii) any payments made by the US Government during the relevant period in respect of the relevant contracts shall promptly be paid over to the Purchaser;
- (c) where US Government consent is required before implementing the sub-contracting arrangements described in sub-paragraph (b) above and such consent is not obtained prior to Option Closing, the parties shall put in place an arrangement between them which achieves substantially the same economic effect as would have been achieved had the sub-contracting arrangements described in sub-paragraph (b) been implemented;

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- (d) if, following escalation to the senior management of Novartis and Purchaser, the parties do not reach agreement on the documentation referred to in sub-paragraph (b) within the 45 Business Day time period specified in sub-paragraph (b), any remaining dispute as to the contents of such document may be referred (on the application of either party) for determination by such independent law firm of international standing with extensive experience in advising in relation to contracts with the US Government, as the parties shall agree or, failing agreement, such firm as is appointed on application by either party by the President of the American Bar Association (the "**Firm**"). The Firm shall be requested to make its decision within 30 Business Days of confirmation and acknowledgement by the Firm of its appointment (or such later date as the parties and the Firm agree in writing). The following provisions shall apply once the Firm has been appointed:
- (i) the parties shall each prepare a written statement within seven days of the Firm's appointment on the matters in dispute which (together with the relevant supporting documents) shall be submitted to the Firm for determination and copied at the same time to the other;
  - (ii) following delivery of their respective submissions, the parties shall each have the opportunity to comment once only on the other's submission by written comment delivered to the Firm not later than seven days after receipt of the other's submission and, thereafter, neither party shall be entitled to make further statements or submissions except insofar as the Firm so requests (in which case it shall, on each occasion, give the other party (unless otherwise directed) five days to respond to any statements or submission so made);
  - (iii) in giving his/her determination, the Firm shall state his/her reasons for his/her determination; and
  - (iv) the Firm shall act as an expert (and not as an arbitrator) in making his/her determination which shall, in the absence of manifest error or fraud, be final and binding on the parties (subject to the Firm's determination being compatible with Applicable Law) and, without prejudice to any other rights which they may respectively have under this Deed, the parties expressly waive, to the extent permitted by Applicable Law, any rights of recourse they may otherwise have to challenge it;
- (e) the parties shall each be responsible for their own costs in connection with the novation of the US Government Contracts. The fees and expenses of the Firm, if appointed, shall be borne equally between the parties or in such other proportions as the Firm shall determine.



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**Execution Version**

- (f) the parties shall prepare and provide (or cause to be prepared and provided) to the Responsible Contracting Officer (as defined in the Applicable FAR Regulations) for Novartis Vaccines and Diagnostics Inc., as promptly as practicable, and in any event within two months of Option Closing, audited balance sheets of:
  - (i) Novartis Vaccines and Diagnostics Inc. as of immediately prior to Option Closing;
  - (ii) Novartis Vaccines and Diagnostics Inc. as of immediately following Closing;
  - (iii) the Purchaser as of immediately prior to Option Closing; and
  - (iv) the Purchaser as of immediately following the Option Closing; and
- (g) the parties shall provide the following information to the Responsible Contracting Officer:
  - (i) all information required under 48 C.F.R. § 42.1204(e)-(f), including an opinion of legal counsel for the transferor and transferee stating that the transfer was properly effected under Applicable Law and the effective date of transfer; and
  - (ii) any other relevant information requested by the Responsible Contracting Officer.

**2.3** The provisions of Paragraph 4.2.5 shall apply *mutatis mutandis* to this Part 2 of Appendix 17.

**Execution Version****Appendix 18 Warranties given under Paragraph 9.1****1. Authority and Capacity****1.1 Incorporation**

Novartis and each Share Seller and Business Seller is validly existing and is a company duly incorporated and registered under the law of its jurisdiction of incorporation.

**1.2 Authority to enter into Deed**

**1.2.1** Novartis and each Share Seller and Business Seller has the legal right and full power and authority to enter into and perform this Deed, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Deed or any Ancillary Agreement.

**1.2.2** The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on Novartis and each Share Seller and Business Seller in accordance with their respective terms.

**1.2.3** Except as referred to in this Deed, Novartis:

- (i) is not required to make any announcement, consultation, notice, report or filing; and
- (ii) does not require any consent, approval, registration, authorisation or permit,

in each case in connection with the performance of this Deed or any other document referred to in paragraph 1.2.1.

**1.2.4** The execution and delivery of the documents referred to in paragraph 1.2.1 and the performance by Novartis, each Share Seller and each Business Seller of their respective obligations under them, will not:

- (i) result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional document of the relevant member of the Novartis Group;
- (ii) result in a breach of, or constitute a default under, any instrument or contract to which the relevant member of the Novartis Group is party or by which the relevant member of the Novartis Group is bound where such breach is material to their ability to perform their obligations under such documents;
- (iii) result in a breach of any existing order, judgment or decree of any court, Governmental Entity by which the relevant member of the Novartis Group is bound and where such breach is material to their ability to perform their obligations under such documents.



## Execution Version

### 1.3 Authorisation

Novartis and each Share Seller and Business Seller has taken, or will have taken by Option Closing, all corporate action required by it to authorise it to enter into and to perform this Deed, any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Deed or any Ancillary Agreement.

## 2 Influenza Group

### 2.1 Organisation and Standing of the Influenza Group Companies

- 2.1.1 Appendix 2 sets out a complete and accurate list of each of the Influenza Group Companies, together with its jurisdiction of organisation, its authorised and outstanding capital stock or other equity interests, all of which equity interests are held by Novartis or an Affiliate of Novartis unless otherwise stated in Appendix 2.
- 2.1.2 Each Influenza Group Company is duly incorporated, validly existing and in good standing, under the laws of its jurisdiction of organisation and has all necessary corporate power under its constitutional documents to conduct its portion of the Business as at the date of this Deed.

### 2.2 The Shares

- 2.2.1 Either Novartis or one of its Affiliates is the legal and beneficial owner of the Shares.
- 2.2.2 There is no option, right to acquire, mortgage, charge, pledge, lien or other form of security or Encumbrance or equity on, over or affecting the Shares or the shares, capital stock or other equity interests in the Subsidiaries or any of them and there is no agreement or commitment to give or create any.
- 2.2.3 All of the Shares and all of the shares, capital stock or other equity interests in the Subsidiaries have been duly authorised and validly issued and are fully paid and non-assessable. There are no options, warrants, rights, convertible, exercisable or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which any of the Influenza Group Companies is a party or by which it is bound obligating any of the Influenza Group Companies to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible into, or exercisable or exchangeable for, any capital stock of, or other equity interest in, such Influenza Group Company.
- 2.2.4 There are no outstanding Contracts to which any of the Influenza Group Companies is a party or is otherwise bound to repurchase, redeem or otherwise acquire any shares, capital stock or other equity interest of such Influenza Group Company.
- 2.2.5 None of the Shares, and the shares, capital stock and other equity interests in the Subsidiaries is subject to and was not issued in violation of any purchase option, call option, right of first refusal, pre-emptive right, subscription right or similar right or any provision of Applicable Law or the constitutional documents of the Influenza Group Companies.



## Execution Version

### 2.3 The Assets

Save in relation to the Transferred Intellectual Property Rights, either Novartis or another member of the Novartis Group has good and valid title to the assets listed in Paragraph 2.3.1 free and clear of all Encumbrances other than Permitted Encumbrances.

### 2.4 Accounts

The Accounts of the Company and Novartis Vaccines and Diagnostics Limited:

2.4.1 were prepared in accordance with accounting practices generally accepted in the jurisdiction of incorporation of the relevant Influenza Group Company at the time they were audited; and

2.4.2 show, in accordance with applicable legal requirements:

- (i) the assets and liabilities of the relevant Influenza Group Company at the Accounts Date; and
- (ii) of the profits or losses of the relevant Influenza Group Company for the accounting period ended on the Accounts Date.

### 2.5 Statement of Net Assets

2.5.1 Appendix 22 sets out the Statement of Net Assets.

2.5.2 The Statement of Net Assets was prepared for the purposes of the transactions contemplated by this Deed and in accordance with the Statement of Net Assets Rules and, so far as Novartis is aware on that basis the penultimate column of the Statement of Net Assets fairly presents, in all material respects, the financial position of the Influenza Group as of the date thereof, subject to year-end audit adjustments and the absence of footnote discussions and similar presentation items therein. For the purposes of this paragraph 2.5.2, "in all material respects" shall be construed as having a materiality threshold of US\$50m.

### 2.6 Changes Since 31 December 2013

Except as a result of the execution and delivery of this Deed and other than as contemplated by Paragraph 2.3.5 or Paragraph 5, from 31 December 2013 to the date of this Deed:

2.6.1 the Business of the Influenza Group has been conducted in all material respects in the ordinary and usual course;

2.6.2 the Influenza Group has not entered into any material contract or commitment outside the ordinary course of business as conducted prior to 31 December 2013; and

2.6.3 to Novartis's knowledge, there has been no event or circumstance arising which is reasonably likely to have had a material adverse effect.

### 2.7 Third Party Indebtedness and financial instruments

None of the Influenza Group Companies: (i) has any Third Party Indebtedness exceeding \$1 million (other than short term bank borrowings in the ordinary course of business) or (ii) is a party to any financial instruments (including any swaps or derivatives).



**Execution Version**

**3 Real Property and Key Sites**

**3.1 Company Real Properties**

- 3.1.1 The Company Real Properties are the only material freehold, leasehold or other immovable property in any part of the world owned, used or occupied by the Influenza Group Companies or in respect of which any Influenza Group Company has any estate, or any material interest, right or liability.
- 3.1.2 Each of the Company Real Properties is used and occupied for the purpose of the business of a member of an Influenza Group Company.
- 3.1.3 A member of the Novartis Group is solely legally and beneficially entitled to such Company Real Property.
- 3.1.4 No person has or will have any right to possession, occupation or use of such Company Real Property in a manner that has or will have a material adverse effect on the use of, or operations at, such Company Real Property.
- 3.1.5 There are no mortgages or charges affecting any of the Company Real Properties other than those registered in the relevant Land Register.
- 3.1.6 There are no material outstanding disputes, actions, claims or demands in respect of any Company Real Property, nor has Novartis or any member of the Novartis Group received any notice threatening the same.
- 3.1.7 In respect of each Company Leased Real Property, all material covenants and conditions contained in the Company Lease have been observed and performed to date.

**3.2 Transferred Real Properties**

- 3.2.1 The Transferred Real Properties are the only material freehold, leasehold or other immovable property in any part of the world owned or occupied by the Influenza Group Businesses or in respect of which any Influenza Group Business has any estate, or any material interest, right or liability.
- 3.2.2 Each of the Transferred Real Properties is used and occupied for the purpose of the business of the Influenza Group Business.
- 3.2.3 A member of the Novartis Group is solely legally and beneficially entitled to such Transferred Real Property.
- 3.2.4 No person has or will have any right to possession, occupation or use of such Transferred Real Property in a manner that has or will have a material adverse effect on the use of, or operations at, such Transferred Real Property.
- 3.2.5 There are no mortgages or charges affecting any of the Transferred Real Properties other than those registered in the relevant Land Register.
- 3.2.6 There are no material outstanding disputes, actions, claims or demands in respect of any Transferred Real Property, nor has Novartis or any member of the Novartis Group received any notice threatening the same.
- 3.2.7 In respect of each Transferred Leased Real Property, all material covenants and conditions contained in the Lease have been observed and performed to date.



## Execution Version

### 3.3 Key Sites

- 3.3.1 The Key Sites are the only properties used or occupied by the Novartis Group for the purpose of Manufacturing in respect of the Business.
- 3.3.2 No consents, licences, approvals, permits, authorisations or waivers are required from any Landlord, superior landlord or other third party to transfer any Key Site to the Purchaser (or any other member of the Purchaser's Group) regardless as to whether such transfer occurs directly (through a change of ownership of the relevant key site) in the case of the Holly Springs Site or indirectly (through the transfer of the Influenza Group Companies) in the case of the Liverpool Site.
- 3.3.3 There is no circumstance which would entitle any third party to exercise a right of power of entry or to take possession which would materially adversely restrict the continued possession, enjoyment or existing use of each Key Site and there are no material restrictive conditions of servitude or public easements attaching to each Key Site.
- 3.3.4 No member of the Novartis Group has had any notice from any competent authority to make any alteration, repair or addition to any Key Site, including with regards to the disposal of effluent or the state of buildings or the number of legally required parking spaces which is presently outstanding.

## 4 Intellectual Property and Information Technology

- 4.1 Appendix 4 sets out, as of the Option Exercise Date, complete and accurate details of Registered Influenza Group Intellectual Property Rights and the Registered MF59<sup>®</sup> Intellectual Property Rights, including for each such item, as applicable, (i) the identity of the record owner, (ii) the registration or application number, and (iii) the jurisdiction of issuance or registration.
- 4.2 In relation to Products which are material to the Business, all documents and instruments necessary to maintain and preserve any extension of patent terms including Patent Term Extensions and patent term adjustments in relation to: (i) the Registered Influenza Group Intellectual Property Rights; (ii) the Registered MF59<sup>®</sup> Intellectual Property Rights; and (iii) any Registered Intellectual Property Rights licensed under any Influenza Group Intellectual Property Contracts or MF59<sup>®</sup> Intellectual Property Rights Contracts for which Novartis controls the prosecution and maintenance; and in each case, where such applications have a reasonable prospect of success, have been validly executed, delivered and filed in a timely manner with the appropriate Governmental Entity.
- 4.3 Each of the Patents: (i) included within the Registered Influenza Group Intellectual Property Rights and the Registered MF59<sup>®</sup> Intellectual Property Rights for the Products which are material to the Business; and (ii) to Novartis's Knowledge, included within the Registered Intellectual Property Rights licensed under the Influenza Group Intellectual Property Contracts for Products which are material to the Business, in each case, correctly identifies by name each inventor thereof as determined in accordance with the Applicable Law of each jurisdiction in which such Patent issued and/or is pending.
- 4.4 To Novartis's Knowledge, the Patents forming part of: (i) the Registered Influenza Group Intellectual Property Rights; (ii) the Registered MF59<sup>®</sup> Intellectual Property Rights; and (iii) the Registered Intellectual Property Rights licensed under the Influenza Group Intellectual Property Contracts, in each case, for the Products which are material to the Business are subsisting, valid and enforceable and have not lapsed or been abandoned.

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- 4.5** All renewal, application and other registry fees required for the maintenance, prosecution and enforcement of the Registered Influenza Group Intellectual Property Rights and the Registered MF59<sup>®</sup> Intellectual Property Rights relating to Products that are material to the Business have been paid.
- 4.6** Appendix 4 sets out, as of the Option Exercise Date, a complete and accurate list of each material Influenza Group Intellectual Property Contract and MF59<sup>®</sup> Intellectual Property Rights Contract. Neither Novartis nor any of its Affiliates has given, or received, written notice to terminate any material Influenza Group Intellectual Property Contract or MF59<sup>®</sup> Intellectual Property Rights Contract, and neither Novartis nor any Affiliate of Novartis is in default of any material Influenza Group Intellectual Property Contract or MF59<sup>®</sup> Intellectual Property Rights Contract. To Novartis's Knowledge, no third party is in default under any material Influenza Group Intellectual Property Contract or MF59<sup>®</sup> Intellectual Property Rights Contract.
- 4.7** Novartis and its Affiliates between them own all Registered Influenza Group Intellectual Property Rights and Registered MF59<sup>®</sup> Intellectual Property Rights free of all Encumbrances except Permitted Encumbrances. Novartis and its Affiliates have taken reasonable steps to protect the confidentiality of Proprietary Information and Know-How relating to the Products.
- 4.8** To Novartis's Knowledge: (i) the conduct of the Business as currently conducted does not infringe or misappropriate the Intellectual Property Rights of any third party; and (ii) there is no material judicial, administrative or arbitral action, suit, hearing, inquiry, investigation or other proceeding (public or private) before any Governmental Entity pending against Novartis or any of its Affiliates in which it is alleged that the conduct of the Business as currently conducted by Novartis and its Affiliates infringes or misappropriates any Intellectual Property Rights of any third party. Neither Novartis nor any of its Affiliates has received any written notice of such infringement or misappropriation.
- 4.9** To Novartis's Knowledge, no third party is infringing or misappropriating any Influenza Group Intellectual Property Rights, MF59<sup>®</sup> Intellectual Property Rights or Proprietary Information and neither Novartis nor its Affiliates have made any such claims against any such persons, nor, to Novartis's knowledge is there any basis for such a claim.
- 4.10** The Influenza Group Intellectual Property Rights, the Intellectual Property Rights licensed under the Influenza Group Intellectual Property Contracts, the MF59<sup>®</sup> Rights and the Intellectual Property Rights licensed under the Purchaser Intellectual Property Licence Agreement constitute all the material Intellectual Property Rights used in the conduct of the Business as currently conducted by Novartis and its Affiliates on a worldwide basis; provided however, that the foregoing is not a representation of non-infringement, non-misappropriation, or any other non-violation of Intellectual Property Rights of any third party, which representation is solely set out in paragraph 4.8 above.
- 4.11** All Information Technology necessary for the Business to be conducted in all material respects as it is carried on at the date of this Deed is: (i) Owned Information Technology; (ii) is Transferred Information Technology; or (iii) will be provided by Novartis and its Affiliates to the Purchaser and the Business under the Transitional Services Agreement.
- 4.12** The Business has not, in the 12 months prior to the date of this Deed, experienced any material disruption in its operations as a result of any failure of its Information Technology.



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**5 Contracts**

- 5.1** No Influenza Group Company or Business Seller is a party to or subject to any Contract, transaction, arrangement, understanding or obligation (other than in relation to any Property, lease or contract of employment, Information Technology or Intellectual Property Right) which is material to the business of the Influenza Group and which:
- 5.1.1 is not in the ordinary course of business or is unduly onerous;
  - 5.1.2 is not on an arm's length basis;
  - 5.1.3 has an unexpired term or likely duration of 10 years or more;
  - 5.1.4 restricts its freedom to carry on its business in any part of the world in such manner as it thinks fit;
  - 5.1.5 involves an aggregate outstanding expenditure by it of more than US\$50 million, exclusive of VAT;
  - 5.1.6 can be terminated in the event of a change of underlying ownership or control of an Influenza Group Company; or
  - 5.1.7 involves the supply of goods and services, the aggregate sales value of which (exclusive of VAT) will be more than 5 per cent of turnover of the Influenza Group (exclusive of VAT) for the preceding financial year.
- 5.2** Save in relation to any Influenza Group Intellectual Property Contract, no Influenza Group Company is in material default under any material Contract to which it is party and no third party is in material default under any material Contract to which an Influenza Group Company is party and, to the Novartis's knowledge, there are no circumstances in either case likely to give rise to such a material default.
- 5.3** Save in relation to any Influenza Group Intellectual Property Contract, no Business Seller is in material default under any material Contract to which it is party and no third party is in material default under any material Contract to which a Business Seller is party and, to the Novartis's knowledge, there are no circumstances in either case likely to give rise to such a material default.

**6 Joint Ventures etc.**

No Influenza Group Company or Business Seller is, or has agreed to become, a member of any joint venture, consortium, partnership or other unincorporated association (other than a recognised trade association in relation to which the Influenza Group Company or Business Seller has no liability or obligation except for the payment of annual subscription or membership fees).



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### 7 Agreements with Connected Parties

- 7.1 There are no existing contracts or arrangements material to the business of the Influenza Group between, on the one hand, any Business Seller or Influenza Group Company and, on the other hand, Novartis, the Share Seller or any Business Seller other than on normal commercial terms in the ordinary course of business.
- 7.2 No Affiliate Contract is required to run the Business and the termination of any Affiliate Contract will not, when taken together with the rights and services under the Ancillary Agreements and for the respective terms thereof, have a material effect on the Business.
- 7.3 The Influenza Group Companies do not currently carry on any Novartis Group Retained Business.

### 8 Sufficiency of Influenza Group

- 8.1 Each of the assets listed in Paragraph 2.3.1 is owned both legally and beneficially by Novartis or its Affiliates and each of those assets capable of possession is, save where in the possession of third parties in the ordinary course of business, in the possession of Novartis or its Affiliates.
- 8.2 Save for Permitted Encumbrances, no option, right to acquire, mortgage, charge, pledge, line or other form of security or Encumbrance (excluding licences of Intellectual Property or Know-How) or equity on, over or affecting the whole or any part of the assets listed in Paragraph 2.3.1 is outstanding and, save in relation to Permitted Encumbrances, there is no agreement or commitment entered into by any member of the Novartis Group to give or create any and no claim has been made against any member of the Novartis Group by any person entitled to any.
- 8.3 The Influenza Group Businesses and the assets of the Influenza Group Companies, when taken together with the rights and services under the Ancillary Agreements and for the respective terms thereof:
- (i) comprise all of the assets required to carry out the Business in substantially the same manner as it has been during the twelve months prior to the date of this Deed; and
  - (ii) are sufficient in all material respects to carry out the Business after Option Closing substantially as conducted by Novartis and its Affiliates as of the date of this Deed,

provided however, that the foregoing is not a warranty of non-infringement, non-misappropriation or any other non-violation of Intellectual Property Rights of any third party, which warranty is solely set out in paragraph 4.8.

- 8.4 So far as Novartis is aware, the US Government Contracts set out in Part 1 of Appendix 17 comprise the only US Government Contracts in relation to the Business at the Holly Springs Site conducted in substantially the same manner as it has been during the twelve months prior to the date of this Deed.

### 9 Compliance with Laws, Permits and Anti-Bribery

- 9.1 None of Novartis or its Affiliates is in breach of any Applicable Law where such breach is reasonably likely to be material to the Influenza Group.
- 9.2 Neither Novartis nor any of its Affiliates has received any written notice from any Governmental Entity that it is not in compliance (or any warning letter that it may not be in compliance) with any Applicable Law or is not in possession of any permits, licences, certificates or other authorisations or consents of a Governmental Entity in each case as is necessary for the conduct of the Business of the Influenza Group in all material respects as presently conducted (each a "Permit" and, collectively, the "Permits"), except where such non-compliance or non-possession does not remain outstanding or uncured as of Option Closing or would not reasonably be expected to have a material effect on the Business.



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- 9.3 With respect to the Influenza Group, since 1 January 2009, neither Novartis nor any of its Affiliates, nor any of their respective directors, officers or employees and, to Novartis’s Knowledge, no Seller Partner has, directly or indirectly: (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity or to influence official action; (ii) made or offered to make any unlawful payment to any foreign or domestic government official or employee, or agent, political party or any official of such party, or political candidate from corporate funds; (iii) made or offered to make any bribe, rebate, payoff, influence payment, money laundering, kickback or other unlawful payment; or (iv) violated or is in violation of any provision of any applicable Anti-Bribery Law; and with respect to the Influenza Group, Novartis and its relevant Affiliates have instituted and maintain policies and procedures reasonably designed to ensure compliance with applicable Anti-Bribery Law.
- 9.4 With respect to the Influenza Group, neither Novartis nor any of its Affiliates, nor any of their respective directors, officers or employees and, to Novartis’s Knowledge, no Seller Partner: (i) is currently the subject of, nor has it been since 1 January 2009, the subject of, any action alleging a violation, or possible violation, of any Anti-Bribery Law, or been since 1 January 2009, the recipient of a subpoena, letter of investigation or other document alleging a violation, or possible violation, of any Anti-Bribery Law, or (ii) has, since 1 January 2009, improperly or inaccurately recorded in any books and records (A) any payments, cash, contributions, gifts, hospitalities or entertainment to a foreign or domestic government official, employee of an enterprise owned or controlled in whole or in part by any foreign government, official of a foreign or domestic political party or campaign, or a foreign or domestic candidate for political office; or (B) other expenses related to political activity or lobbying.
- 9.5 With respect to the Influenza Group, since 1 January 2009, neither Novartis nor any of its Affiliates, nor any of their respective directors or officers, and, to Novartis’s Knowledge, none of their respective employees has received notice that any such person is or has been alleged to be in violation of any sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or by the U.S. Department of State or equivalent measures of the United Kingdom, European Union, or the United Nations (the “**Sanctions Law**”). With respect to the Influenza Group, neither Novartis nor any of its Affiliates, nor any of their respective directors or officers, and, to Novartis’s Knowledge, none of their respective employees has conducted any of their business activities whatsoever with, or for the benefit of, a government, national or legal entity to the extent such actions would violate any Sanctions Law. None of the execution, delivery and performance of this Deed and the direct or indirect use of proceeds from any transaction contemplated hereby or the fulfilment of the terms hereof will result in a violation by any person of any Sanctions Law.
- 9.6 Each member of the Novartis Group, in connection with the Products, the Product Approvals, the Product Applications, the Transferred Contracts and the Transferred Intellectual Property Contracts requires its Service Providers to act in accordance with the requirements of applicable Anti-Bribery Law and uses all reasonable endeavours to procure that they do so. Each such Service Provider has in place policies, systems, controls and procedures designed to prevent, and which are reasonably expected to continue to prevent, it and its Associated Persons from violating applicable Anti-Bribery Law.

**Execution Version****10 Product Approvals**

- 10.1** Novartis or one of its Affiliates is the registered holder of each of the Product Approvals. All material Product Approvals held by Novartis or its Affiliates are in full force and effect. No material deficiencies have been asserted by any applicable Governmental Entity with respect to any Product Approval or Product Filing, nor, to Novartis's knowledge, are there any facts or circumstances that would be likely to lead to such assertions being made.
- 10.2** Each Product was and is being researched, developed, manufactured, marketed or sold in all material respects in accordance with the specifications and standards contained in the relevant Product Approval and the related Marketing Authorisation Data and in accordance with Applicable Law.
- 10.3** Neither Novartis or any of its Affiliates has received any written notice that any Governmental Entity with jurisdiction over the Products has commenced or will commence any action: (i) to withdraw the approval of any Product or otherwise revoke or materially amend any Product Approval or Marketing Authorisation Data; or (ii) enjoin production, marketing or sale of any Product and, to Novartis's knowledge, no such action has been threatened.
- 10.4** All application and renewal fees due and payable with respect to all material Product Approvals have been paid.
- 10.5** All preclinical and clinical investigations with respect to the Products are being and have been conducted in compliance with Applicable Laws in all material respects. Novartis and its Affiliates have not, and to Novartis's Knowledge, none of its Product Partners or any other third party under any Licensed Intellectual Property Contract has received since 1 January 2009, any written notices or other correspondence from any Governmental Entity with respect to any on-going clinical or pre-clinical studies or tests of any Product requiring the termination, suspension or material modification of such studies or tests.
- 10.6** None of Novartis or its Affiliates or, to Novartis's Knowledge, any Product Partner or any other third parties pursuant to any Licensed Intellectual Property Contract, has any knowledge of any adverse event, arising since the date three years prior to the date of this Deed, reportable with respect to the safety or efficacy of any Product which is expected to be material.

**11 Product Recall**

- 11.1** No Product (or any component thereof) has been recalled, suspended, withdrawn, seized, discontinued or the subject of a refusal to file, clinical hold, deficiency or similar action letter (including any correspondence questioning data integrity) as a result of any action by any Governmental Entity, by Novartis or any of its Affiliates; nor are any such actions pending or under consideration (or any facts, conditions, or circumstance known) by Novartis or any of its Affiliates, or, to Novartis's Knowledge, by any Governmental Entity. There is not, to Novartis's Knowledge, pending or threatened litigation anywhere in the world seeking the recall, withdrawal, suspension, seizure or discontinuance of any of the Products.



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**Execution Version****12 Product Liability**

The Products sold by the Business during the Product Liability Relevant Period have complied in all material respects with all applicable product specifications and have been Manufactured in all material respects in accordance with applicable requirements of then current GMP and any Applicable Law, except for any such non-compliance that has not had, and would not reasonably be expected to have, a materially adverse impact on the relevant Product.

**13 Taxes**

- 13.1** Each Influenza Group Company and each Tax Group to which it belongs has, and every member of the Novartis Group with an interest in the Influenza Group has in respect of the Influenza Group, duly, and within any appropriate time limits, filed all Tax Returns required to be filed and has maintained all records required to be maintained for tax purposes in relation to the assets comprised in the Influenza Group; all such information was and remains complete and accurate in all material respects and all such Tax Returns were complete and accurate in all material respects and were made on the proper basis.
- 13.2** There are no Tax liens on any asset comprised in the Influenza Group Businesses (other than Permitted Encumbrances).
- 13.3** No Influenza Group Company and no Tax Group to which an Influenza Group Company belongs is currently under audit or examination by a Tax Authority that could result in the assessment of a material amount of Tax and neither Novartis nor any Influenza Group Company (nor any Tax Group to which an Influenza Group Company belongs) has received notice from a Tax Authority of any dispute or disagreement outstanding or contemplated at the date of this Deed with any Tax Authority regarding liability or potential liability to any Tax recoverable from any Influenza Group Company or regarding the availability of any relief from Tax to any Influenza Group Company and, so far as Novartis is aware, there are no circumstances which make it likely that any such dispute or disagreement will commence.
- 13.4** The Disclosure Letter lists every written agreement that an Influenza Group Company has entered into, in each case, which is currently in force, to have its Tax affairs dealt with on a consolidated basis and for any Tax sharing arrangement (including without limitation any arrangement under which Tax losses or Tax reliefs are surrendered or agreed to be surrendered or claimed) in respect of the profits, gains or losses of that Influenza Group Company with any company not being another Influenza Group Company.
- 13.5** No Influenza Group Company, and no Tax Group to which an Influenza Group Company belongs, has received or requested any extension of time to file a Tax Return that remains unfiled or has granted or requested a waiver or extension of a limitation on any period for audit and examination or assessment and collection of Tax for any taxable period as to which Tax could be assessed.
- 13.6** No member of the Novartis Group with an interest in the Influenza Group has received notice from a Tax Authority of, and so far as Novartis is aware, there is not any dispute or disagreement outstanding at the date of this Deed with any Tax Authority regarding the proper method of computing the profits of the Influenza Group (or any part of it) for Tax purposes or the proper treatment for VAT purposes of any supplies of goods or services made (or treated as made) in the course of the Influenza Group and, so far as the Novartis is aware, there are no circumstances which make it likely that any such dispute or disagreement will commence.



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- 13.7** So far as the Novartis is aware, no Influenza Group Company benefits from any preferential Tax regime, granted by law or by special authorisation issued by any Tax Authority or by any other authority, which would in whole or in part be withdrawn as a result of the signature of this Deed.
- 13.8** So far as Novartis is aware, no Tax Authority has within the past three years operated or agreed to operate any special arrangement (being an arrangement which is not based on relevant legislation or any published practice) in relation to any assets comprised in the Influenza Group.
- 13.9** In respect of all documents which establish or are necessary to establish the title of the relevant member of the Novartis Group to each material asset comprised in the Influenza Group, or by virtue of which the relevant member of the Novartis Group has any right in respect of each such asset, all applicable stamp duties, transfer taxes, registration charges or similar duties or charges have been duly paid.
- 13.10** So far as Novartis is aware, other than any payments which are of a nature or type (such as expenditure on business entertainment or marketing) which are not deductible for Tax purposes by reason of a general restriction on deductibility applicable to payments of that nature or type under the laws of the jurisdiction in which the relevant Influenza Group Company is resident for Tax purposes or carries on its business, no Influenza Group Company is under any obligation to make any future payment which will not be deductible for Tax purposes in an amount which, if the payment were deductible for Tax purposes, would reduce the Tax liability of the relevant Influenza Group Company by an amount exceeding US\$5 million.
- 13.11** The country of incorporation which is given in Appendix 2 for each Influenza Group Company is also the Tax residence of each Influenza Group Company is the only country whose Tax Authorities seek to charge Tax on the worldwide profits or gains of that Influenza Group Company and no Influenza Group Company has, within the past three years, carried on the Business of the Influenza Group through a permanent establishment in any other country.
- 14 Environmental Matters**
- 14.1** To Novartis's Knowledge, each Business Seller (with respect to its conduct of the Business and any Transferred Real Property) and Influenza Group Company is in compliance in all material respects with all Environmental Laws.
- 14.2** To Novartis's Knowledge, each Influenza Group Company and each Business Seller (with respect to its conduct of the Business and any Transferred Real Property) possesses all material Permits required under applicable Environmental Laws necessary to conduct its portion of the Business.
- 14.3** To Novartis's Knowledge, no Influenza Group Company nor any Business Seller (with respect to its conduct of the Business and any Transferred Real Property) has received any written notice alleging a material violation of any Environmental Laws, other than matters that have been resolved in all material respects.



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**14.4** To Novartis’s Knowledge, no Influenza Group Company nor any Business Seller (with respect to its conduct of the Business and any Transferred Real Property) has received any written notice or claim alleging that it is or may be liable to any person in any material respect under any applicable Environmental Law as a result of a release or threatened release of any Hazardous Substance at any Transferred Real Property, other than matters that have been resolved in all material respects.

**14.5** To Novartis’s Knowledge, no Influenza Group Company nor any Business Seller (with respect to its conduct of the Business and any Transferred Real Property) is a party to any pending proceedings relating to any Environmental Laws, other than proceedings that would not reasonably be expected to have a material adverse effect.

**15 Employees**

**15.1** The Employees are all employed by an Influenza Group Company or a Business Seller and work wholly or substantially in the Business.

**15.2** The Disclosure Letter contains a true, complete and correct list of the following information in respect of each Influenza Business Employee and each Influenza Group Company Employee as of 17 April 2014 (organised by country and, in relation to any Influenza Group Company, by legal employer): (A) employee identification details; (B) date of birth; (C) employment status (part-time or full-time); (D) employment start date; (E) base salary; (F) target annual incentive for 2014 (and actual bonus for 2013); and (G) target long-term incentive for 2014 (and actual long-term incentive for 2013).

**15.3** In each of the Material Employee Jurisdictions except as would not be reasonably expected to have a material adverse effect:

15.3.1 as of the date of this Deed there is not, and in the two years prior to the date of this Deed there has not been, nor to Novartis’s Knowledge is there pending or threatened, any labour strike, dispute, work stoppage or lockout by any group of either Influenza Business Employees or Influenza Group Company Employees;

15.3.2 no trade union or works council is recognised in any way for bargaining, information or consultation purposes in relation to any of the Influenza Business Employees or Influenza Group Company Employees and no collective bargaining negotiations, whether voluntary or mandatory, are currently taking place with respect to any of the Influenza Business Employees or Influenza Group Company Employees and, as of the date of this Deed, no Influenza Group Company or Business Seller is a party to any agreement (whether legally binding or not) with any trade union or works council affecting any Influenza Business Employee or Influenza Group Company Employee and there is no existing dispute with any such representative body (or, to Novartis’s Knowledge, pending or threatened) in relation to the Business;

15.3.3 there is no material litigation, claim or other dispute existing, nor to the Novartis’s Knowledge, pending or threatened by or in respect of any Employees (or any former employees of the Influenza Group Companies) in respect of their employment or any matter arising from their employment; and

15.3.4 no Influenza Group Company or Business Seller has, within the 2 years prior to the date of this Deed, closed any plant or facility, effectuated any layoffs of employees or implemented any early retirement, separation or similar programme in each case in violation of the WARN Act, nor has any Influenza Group Company or Business Seller announced any such action or programme for the future.



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- 15.4** To Novartis's Knowledge, and subject to the next sentence, no Influenza Group Company Employee will, as a result of the entering into of this Deed or Option Closing, be entitled to receive any payment or benefit which he would not otherwise be entitled to receive (including, without limitation, an enhanced severance package on a subsequent termination) or be entitled to treat either such event as amounting to a breach of his terms and conditions of employment or to treat himself as redundant or dismissed or released from any obligation. This warranty shall not apply to any retention arrangements (in the form of cash or shares) put in place by Novartis or any member of the Novartis Group to retain key employees in connection with the matters contemplated by this Deed as described in paragraphs 10 and 11 of Appendix 10, or any arrangement relating to the share-based incentive schemes of the Novartis Group pursuant to paragraph 11 of Appendix 10.
- 15.5** Since the Statement of Net Assets Date, no material change has been made, announced or proposed to the emoluments or other terms of employment of any Employee, and no such change, and no negotiation or request for such a change, is due or expected within 12 months from the date of this Deed, and the employing company is under no obligation to make such a change (with or without retrospective operation) other than any arrangement relating to the share-based incentive schemes of the Novartis Group pursuant to paragraph 11 of Appendix 10.
- 16 Employee Benefits**
- 16.1** The Disclosure Letter contains a true, complete and correct list of all bonus, staff incentives (including any share-based incentive schemes), redundancy or other benefits payable on termination of employment (whether voluntary or involuntary but excluding arrangements required in accordance with Applicable Law), ill-health, Employee Benefits or other benefits which are the material benefits available to the Influenza Business Employees and the Influenza Group Company Employees in the Material Employee Jurisdictions. To Novartis's Knowledge, other than any arrangement relating to the share-based incentive schemes of the Novartis Group pursuant to paragraph 11 of Appendix 10, no Influenza Group Company or Business Seller has made any promises or commitments to make available any additional benefits to the Influenza Business Employees and the Influenza Group Company Employees in the Material Employee Jurisdictions, or to modify or change in any material way any existing benefits in the Material Employee Jurisdictions, or to continue or maintain the level of any existing benefits generally for any period, which in each case could reasonably be expected to have a material adverse effect.
- 16.2** The Disclosure Letter contains true and complete copies of all documents of any written benefit schemes, plans or arrangements referred to in paragraph 16.1 above applicable to either Influenza Business Employees or Influenza Group Company Employees in the Material Employee Jurisdictions containing material terms (including governing documents, and for benefit plans that are not share-based incentive schemes, related trust agreements or other funding documents) and a true, complete and correct summary of the material terms of any unwritten benefit schemes, plans or arrangements referred to in paragraph 16.1 above.



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16.3 Benefit Plans

16.3.1 In the Material Employee Jurisdictions all benefit and compensation schemes, plans, funds, contracts, policies, agreements or arrangements (other than the US Benefit Plans and any schemes, plans, funds, contracts, policies, agreements or arrangements operated by any Governmental Entity) (A) operated by or on behalf of an Influenza Group Company or Business Seller, with respect to Influenza Group Company Employees or Influenza Business Employees or current or former employees or directors of an Influenza Group Company, (B) in respect of which any Influenza Group Company or Business Seller, with respect to Influenza Group Company Employees or Influenza Business Employees, Novartis or any member of the Novartis Group contributes or has contributed or (C) in respect of which any Influenza Group Company or Business Seller, with respect to Influenza Group Company Employees or Influenza Business Employees, has any liability (whether actual or contingent), including, but not limited to, plans providing Employee Benefits or during periods of sickness or disablement, or any deferred or incentive compensation, welfare, healthcare, medical, stock or stock-related award plans, including individual pension commitments, "jubilee" pension benefits and retirement and termination indemnity arrangements, (such schemes, plans, funds, contracts, policies, agreements and arrangements hereinafter being referred to as "Non-US Benefit Plans") and the US Benefit Plans have been administered in accordance with their terms and are in compliance with Applicable Law, except for any failures to so administer or be in compliance that, individually and in the aggregate, would not reasonably be expected to have a material adverse effect. All required filings for all Benefit Plans have been made on time and with the appropriate Governmental Entity, except for any failures to timely file that, individually and in the aggregate, would not reasonably be expected to have a material adverse effect. As of the date of this Deed, there is no existing, pending or, to the Novartis's Knowledge, threatened material litigation, claim or other dispute relating to Benefit Plans.

16.3.2 The Influenza Group Companies or Business Sellers, with respect to Influenza Group Company Employees or Influenza Business Employees in each Material Employee Jurisdiction, (A) are in material compliance with all Applicable Law respecting employment, employment practices, terms and conditions of employment, occupational health, safety, wages and hours, (B) have withheld all amounts required by Applicable Law, collective bargaining agreements or the Benefit Plans to be withheld from the wages, salaries or other payments to the Influenza Group Company Employees or the Influenza Business Employees and former employees of the Influenza Group Companies, (C) in respect of the Influenza Group Company Employees or Influenza Business Employees or former employees of the Influenza Group Companies, are not liable under any applicable provisions of the Benefit Plans and any Applicable Law for any arrears, wages, Taxes, other than payments not yet due, or any penalty for failure to comply with the foregoing and (D) are not liable under any applicable provisions of the Benefit Plans and any Applicable Law for any payment to any trust or other fund or to any Governmental Entity with respect to unemployment compensation benefits, workers compensation, social security or other benefits for Influenza Group Company Employees or Influenza Business Employees or former employees of the Influenza Group Companies, other than payments not yet due, except, in each case, for any failures to comply, failures to withhold or liabilities that, individually and in the aggregate, would not reasonably be expected to have a material adverse effect.



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16.3.3 All material contributions that the Influenza Group Companies or Business Sellers, with respect to Influenza Business Employees or the Influenza Group Company Employees in a Material Employee Jurisdiction, are required to make to any Benefit Plan in respect of the period on or before the date of this Deed have been fully and timely paid when due.

**17 Litigation**

17.1 No Influenza Group Company or Business Seller is involved whether as claimant or defendant or other party in any claim or Proceeding (other than as claimant in the collection of debts arising in the ordinary course of its business none of which exceeds US\$5 million) which is material to the Business.

17.2 To Novartis's Knowledge, no such claim or Proceeding of material importance is pending or threatened by or against any Influenza Group Company or Business Seller.

**18 Insolvency**

18.1 No order has been made and no resolution has been passed for the winding up of any Share Seller or any Business Seller, or for the appointment of any administrator, receiver (including administrative receiver) or liquidator (provisional or otherwise) over the whole or any part of the property, assets and/or undertaking of any Share Seller or any Business Seller.

18.2 No petition has been presented or meeting convened for the purpose of considering a resolution or resolution circulated for the winding up of any Share Seller or any Business Seller, or for the appointment of any administrator, receiver (including administrative receiver) or liquidator (provisional or otherwise) over the whole or any part of the property, assets and/or undertaking of any Share Seller or any Business Seller.

18.3 Neither any Share Seller nor any Business Seller has stopped payment or suspended payment of its debts generally, is insolvent or deemed unable to pay its debts as they fall due.

18.4 Neither Chiron Technologies Limited nor Chiron Pharmaceuticals Limited, each of which is in the process of liquidation, owns any assets in relation to the Business.

**19 Insurance**

All material insurance policies relating to the Influenza Group are in full force and effect and, to Novartis's Knowledge, no notice of cancellation, termination or default has been received with respect to any such insurance policy. All premiums due and payable on such policies covering periods up to Option Closing have been paid in full or accrued.

**20 Consents and Licences**

20.1 All governmental and quasi-governmental licences, consents, permissions, waivers, exceptions and approvals required for carrying on the Business of the Influenza Group, the absence of which, individually or in the aggregate, would be material to the Influenza Group, are in force and, to Novartis's Knowledge, no written notice has been received by Novartis or any member of the Novartis Group which indicates that any such licence, consent, permission, waiver, exception or approval is likely to be revoked or which may confer a right of revocation.



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**21 Delinquent and Wrongful Acts**

- 21.1** To Novartis’s Knowledge, no member of the Novartis Group has, during the Product Liability Relevant Period, committed any criminal or illegal act which relates to the Influenza Group Companies or the Influenza Group Businesses.
- 21.2** No member of the Novartis Group has, during the Product Liability Relevant Period, received notification that any investigation or inquiry is being or has been conducted by any supranational, national or local authority or governmental agency specifically related to the Influenza Group, which is material in respect of the Influenza Group.

**22 Compliance**

- 22.1** No member of the Novartis Group has received in the Product Liability Relevant Period any written notification or written claim (in each case, which remains outstanding) that it has conducted the Business of the Influenza Group with respect to the research, development, manufacturing, distribution and sale of the Products in a manner which does not in any respect comply with all Applicable Law, or which in any respect is defective or dangerous, where the pursuit of any such notification or claim is, or would reasonably be expected to be, material in respect of the Influenza Group.
- 22.2** So far as Novartis is aware, the Influenza Group has, and has during the Product Liability Relevant Period been, operated in all material respects in compliance with all Applicable Law or standards and to Novartis’s Knowledge there are no circumstances that could involve or lead to a material violation of any material Applicable Law or standards.

**23 Pipeline Products**

- 23.1** Novartis or one of its Affiliates is the registered holder of each of the Pipeline Product Approvals, and the benefit of each Pipeline Product Approval can be transferred to the Purchaser (or another member of the Purchaser’s Group) regardless as to whether such transfer occurs directly (whether by way of transfer, reissuance or any other equivalent mechanism under Applicable Law of the relevant jurisdiction) or indirectly (through the transfer of the Influenza Group Companies).
- 23.2** All development activities in relation to the Pipeline Products have been conducted in the ordinary course and in accordance with all Applicable Law and standards and to Novartis’s Knowledge there are no circumstances relating to the development of the Pipeline Products that could involve or lead to a material violation of any material Applicable Law or standards.
- 23.3** No material regulatory, clinical or safety event has occurred in relation to the Pipeline Products and no member of the Novartis Group has received any notification or claim from any person of any such event (or the possibility of any such event).

**24 Manufacturing Licences and Manufacture**

- 24.1** All Manufacturing Licences which are material to the Influenza Group, are in effect and are validly held by a member of the Novartis Group and during the Product Liability Relevant Period, to Novartis’s Knowledge, no member of the Novartis Group has received any written notice of any suit, action or proceeding regarding the revocation or modification of any such Manufacturing Licence.



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**24.2** No directive, order or notice has been given to Novartis or any member of the Novartis Group by any relevant regulatory authority to update, modify, amend, vary, supplement or delete any process and/or methodology relevant to the manufacture at the Key Sites of any Product currently manufactured at the Key Sites and, so far as Novartis is aware, no such directive, order or notice is pending.

**25 No Industrial Action**

To Novartis's Knowledge, there is no industrial action currently taking place, threatened or expected which is, or is expected to be, material to the Business.

**26 Ongoing Clinical Trials**

Appendix 21 contains a complete list of all Ongoing Clinical Trials.



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**Appendix 19**  
**Warranties given by the Purchaser under Paragraph 9.3**

**1 Authority and Capacity**

**1.1 Incorporation**

The Purchaser is validly existing and is a company duly incorporated and registered under the law of its jurisdiction of incorporation.

**1.2 Authority to enter into Deed**

**1.2.1** The Purchaser and each member of its Group has the legal right and full power and authority to enter into and perform this Deed and any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Deed or any Ancillary Agreement.

**1.2.2** The documents referred to in paragraph 1.2.1 will, when executed, constitute valid and binding obligations on the Purchaser and each member of its Group in accordance with their respective terms.

**1.2.3** Except as referred to in this Deed the Purchaser:

- (i) is not required to make any announcement, consultation, notice, report or filing; and
- (ii) does not require any consent, approval, registration, authorisation or permit,

in each case in connection with the performance of this Deed or any other document referred to in paragraph 1.2.1.

**1.2.4** The execution and delivery of the documents referred to in paragraph 1.2.1 and the performance by the Purchaser and each member of its Group of their respective obligations under them, will not:

- (i) result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional document of the relevant member of the Purchaser's Group;
- (ii) result in a breach of, or constitute a default under, any instrument or contract to which the relevant member of the Purchaser's Group is party or by which the relevant member of the Purchaser's Group is bound where such breach is material to their ability to perform their obligations under such documents;
- (iii) result in a breach of any existing order, judgment or decree of any court, Governmental Entity by which the relevant member of the Purchaser's Group is bound and where such breach is material to their ability to perform their obligations under such documents.

**1.3 Authorisation**

The Purchaser has taken, or will have taken by Option Closing, all corporate action required by it to authorise it to enter into and to perform this Deed and any Ancillary Agreement to which it is a party and any other documents to be executed by it pursuant to or in connection with this Deed or any Ancillary Agreement.



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**Appendix 20**  
**Pre-Option Closing Obligations**  
**(Paragraph 5.2)**

**Part 1**  
**Novartis Restrictions**

The actions for the purposes of Paragraph 5.2.2 are:

- 1** amend or otherwise modify the constitutional documents of any Influenza Group Company other than minor or administrative amendments or modifications which are not adverse to the Business or to the Purchaser of any member of the Purchaser's Group;
- 2** create, allot or issue, or grant an option or right to subscribe for or purchase, any share capital or other securities or loan capital of any Influenza Group Company;
- 3** repay, redeem or repurchase any share capital, or other securities of any Influenza Group Company;
- 4** make any acquisition or disposal which has a value in excess of US\$10 million, exclusive of VAT;
- 5** grant any guarantee or indemnity for the obligations of any person which has a value in excess of US\$5 million (other than in the ordinary course of trading);
- 6** dispose of, or agree to dispose of, any material asset or material stock at below market value other than in the ordinary course of business;
- 7** acquire or agree to acquire any share, shares or other interest in any company, partnership or other venture, other than an investment of 5 per cent or less of the total shares or interest in such company, partnership or venture and provided the investment is not more than US\$5 million;
- 8** enter into, extend, amend, give notice to terminate or vary in any material respect any lease of real property or change the existing use of such property which is material to the Influenza Group;
- 9** cease, compromise or settle any dispute including litigation, arbitration or administrative proceedings in relation to (or otherwise compromise or settle) any claim by Pfizer which relates to any form of meningococcal vaccine (Group B) whether adjuvanted, combined or otherwise (or any similar product) of Pfizer or enter into any licensing arrangements with Pfizer in relation to such products or Intellectual Property Rights relevant to them;
- 10** enter into any borrowing facility which has a value in excess of US\$10 million;
- 11** enter into any off-balance sheet finance arrangements;
- 12** sell, lease, license, transfer or dispose of, or create any Encumbrance over, any material assets of the Influenza Group other than (i) in the ordinary course of business (including any sale of inventory); or (ii) any Permitted Encumbrance;



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- 13 (a) terminate, materially amend (or amend in any respect in relation to a Product or Pipeline Product which is material to the Business) or grant any material waiver under (or any waiver in relation to a Product or Pipeline Product which is material to the Business) any Influenza Group Intellectual Property Contract or MF59<sup>®</sup> Intellectual Property Rights Contract other than in the ordinary course of business, or (b) terminate any Transferred Contract other than in the ordinary course of business or terminate any Contract held by the Influenza Group Companies other than in the ordinary course of business;
- 14 fail to comply in all material respects with all Applicable Laws, Product Approvals, Pipeline Product Approvals and Marketing Authorisations applicable to the operation of the Business;
- 15 assign, dispose of, license (save in respect of non-exclusive licences relating to Novartis's research, development or Commercialisation of the Products) or abandon any material Influenza Group Intellectual Property Rights or material MF59<sup>®</sup> Intellectual Property Rights (or any Registered Influenza Group Intellectual Property Rights or Registered MF59<sup>®</sup> Intellectual Property Rights in respect of a Product or Pipeline Product which is material to the Business), or cease to prosecute or otherwise dispose of, fail to maintain, defend or pursue applications for any material Registered Influenza Group Intellectual Property Rights or Registered MF59<sup>®</sup> Intellectual Property Rights (or any Registered Influenza Group Intellectual Property Rights or Registered MF59<sup>®</sup> Intellectual Property Rights in respect of a Product or Pipeline Product which is material to the Business) in each case other than in the ordinary course of business;
- 16 save where requested in writing by the Purchaser or required by any applicable Governmental Entity, cancel or surrender or materially amend (or amend in any respect in relation to a Product or Pipeline Product which is material to the Business) any applications, submissions or filings with respect to Registered Influenza Group Intellectual Property Rights or Registered MF59<sup>®</sup> Intellectual Property Rights, in each case other than in the ordinary course of business;
- 17 instigate, cease, compromise or settle any litigation or arbitration proceedings related to the Influenza Group in relation to a claim for which the potential liability attaching thereto is in excess of US\$5 million;
- 18 make any material amendment to any Marketing Authorisation, Manufacturing Licence or Environmental Permit, in each case except to the extent required by: (a) Applicable Law; (b) any Governmental Entity, or (c) the standards, policies and procedures of the Novartis Group as then in force;
- 19 enter into or amend in any material respect any Transferred Contract, or incur any commitment, which is not capable of being terminated without compensation at any time with twelve months' notice or less or which is not in the ordinary course of business, or which involves or may involve total annual expenditure in excess of US\$10 million, exclusive of VAT;
- 20 enter into any contract which would materially restrict the freedom of the Influenza Group to operate in any part of the world;



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- 21** take any steps to increase or reduce the proportion of time spent working in the Business by any employee of any member of the Novartis Group or to transfer the employment of any Employee to another member of the Novartis Group or to employ or offer to employ or engage any new persons in the Business other than in the ordinary course of business consistent with past practice and subject to an aggregate increase of not more than 2.5 per cent. in total staff costs of the Business per annum, provided that this restriction shall not apply to the redeployment of any Influenza Group Company Employee who is not wholly or substantially engaged in the Business before the Option Closing Date to employment with another member of the Novartis Group;
- 22** make, or commit to make, any changes to the terms and conditions of employment (including pension fund commitments or any increase to remuneration) or to any employee benefit plan of any Employee, other than (a) those required by Applicable Law or (b) pursuant to normal annual pay reviews in the ordinary course of business consistent with past practice and subject to an aggregate increase of not more than five per cent. in total staff costs of the Business per annum or (c) retention arrangements in the form of cash or shares to retain key employees in connection with the matters contemplated by this Deed as described in paragraphs 10 and 11 of the Appendix 10, or (d) those changes to the share-based incentive schemes made for the purpose of complying with paragraph 11 of Appendix 10;
- 23** make any promises or commitment to any Employees or employee representative body concerning the matters contemplated by this Deed or offer or otherwise give any assurances to any Employees as to the possibility of continued employment with the Purchaser's Group after Option Closing;
- 24** make any change or commitment to make any change to the terms of any redundancy policy or practice applying to the Employees (including amounts payable on redundancy);
- 25** enter into (where there is no existing agreement) or materially amend any collective bargaining agreement or other contract with a labour organisation, works council or employee organisation to create new or additional obligations for any member of the Novartis Group, in each case in relation to the Business; and
- 26** undertake any recall or withdrawal of any Product (other than in the ordinary course of business or to comply with Applicable Law).



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**Part 2  
Novartis Obligations**

**1 Obligations to be Satisfied prior to the Option Closing**

At least five Business Days prior to the Option Closing Date, Novartis shall provide the Purchaser with a list of any required actions that must be taken within three (3) months after Option Closing with respect to the payment of any registration, maintenance, or renewal fees or the filing of any documents, applications or certificates in order to maintain any Registered Influenza Group Intellectual Property Rights and Registered MF59® Intellectual Property Rights in full force and effect. Upon the Purchaser's reasonable request, Novartis shall execute and deliver assignment agreements and other transfer documentation, including, where applicable, duly executed assignments of such Intellectual Property Rights for recording with the applicable Governmental Entity, and to take such further actions, in each case at the Purchaser's reasonable cost and expense and as may be required, to give effect to the foregoing assignments.

**2 Obligations from the Date of the Deed to the Option Closing**

The requirements for the purposes of Paragraph 5.2.3 are:

- 2.1** so far as permitted by Applicable Law, Novartis shall procure that each member of the Novartis Group informs the Purchaser promptly if Novartis becomes aware of, or has reasonable grounds for suspecting any violation of Anti-Bribery Law which is reasonably likely to have an impact on the Influenza Group, and
- 2.2** carry out capital expenditure in relation to any site operated by the Influenza Group where the Products are manufactured in a manner materially consistent (and within a variance of 10 per cent. in aggregate) with Novartis's capital expenditure programme for the Business as at the date of this Deed;
- 2.3** maintain and keep any Registered Influenza Group Intellectual Property Rights and Registered MF59® Intellectual Property Rights and ensure that all filings and notifications required to be made in respect of the same are made in accordance with past practice;
- 2.4** progress, in accordance with past practice any applications, submissions, filings or other correspondence relating to the grant of new Registered Influenza Group Intellectual Property Rights and Registered MF59® Intellectual Property Rights;
- 2.5** progress, in accordance with past practice during the Product Liability Relevant Period, any applications, submissions, filings or other correspondence initiated by such member of the Novartis Group relating to the grant of new Manufacturing Licences and Environmental Permits in respect of the Influenza Group;

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- 2.6** continue to promote, market and Commercialise the Products in accordance with past practice during the Product Liability Relevant Period and do not materially accelerate or increase the quantity of Products distributed to the relevant distributors and/or wholesalers, in each case except in respect of a bona fide increase in demand for the relevant Product by the relevant distributor and/or wholesaler which has not been stimulated in any way by discounts, rebates, claw-backs or the like outside of the ordinary course of business or the grant of preferred terms offered by the Novartis Group outside of the ordinary course;
- 2.7** not discontinue or cease to operate or materially reduce the resources applied to any part of the Business;
- 2.8** maintain the level of Manufacturing Stocks and Manufacturing Inventory held for use in the Business materially in accordance with the Novartis Group's operating policies as applied to the Influenza Group from time to time in force;
- 2.9** maintain the level of In-Market Inventory held for use in the Business materially in accordance with the Novartis Group's operating policies as applied to the Influenza Group from time to time in force;
- 2.10** use all reasonable endeavours to ensure that the manufacture of the Products by the Novartis Group comply with Applicable Law;
- 2.11** use all reasonable endeavours to ensure that the Products sold by the Business comply with Applicable Law;
- 2.12** continue to conduct the Ongoing Clinical Trials in accordance with GCP and the Novartis Group's policies and procedures;
- 2.13** notify the Purchaser in writing of any actual safety or quality issue in respect of any Product or the manufacture of any Product (as soon as reasonably practicable after becoming aware of the same) which issue the relevant member of the Novartis Group, acting reasonably and in good faith, considers material in the context of the manufacture or commercialisation of such Product;
- 2.14** so far as permitted by Applicable Law, report periodically to the Purchaser concerning the status of the Business, including delivering to the Purchaser as soon as reasonably practicable each month:
- 2.14.1** an update on material commercial developments in relation to the Business and the Products during the previous month;
- 2.14.2** the gross profit for each Product in respect of the previous month; and
- 2.15** a report on the month-end in-trade inventory in respect of each Product for the previous month prepared in the ordinary course of business consistent with past practice, together with a comparison against the comparable period of trading for the prior year; and
- 2.16** shall or shall procure that each member of the Novartis Group continues to respond to any Calls For Tender in accordance with past practices in the relevant market.



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**Part 3**  
**Exceptions**

Paragraphs 5.1 and 5.2 shall not operate so as to prevent or restrict the declaration, making or payment of any dividend or other distribution to shareholders.



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**Appendix 21  
Ongoing Clinical Trials  
(Paragraph 1.1)**

**1 Ongoing interventional trials**

[\*\*\*]

**2. Ongoing observational trials**

[\*\*\*]

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.

**Execution Version****Appendix 22  
Statement of Net Assets  
(Paragraph 1.1)****Part 1  
Statement of Net Assets Rules****Part 1  
Statement of Net Assets Rules**

Part 1 of Appendix 22 comprises the Statement of Net Assets Rules.

Part 2 of Appendix 22 sets forth, for illustrative purposes only, a computation of the Statement of Net Assets as of the close of business on 31 December 2013 (the “**Statement of Net Assets**”).

**1 Preparation of the Statement of Net Assets****1.1 Period**

The Statements of Net Assets is prepared as of the close of business on the final day of the relevant calendar month.

**1.2 Translation of Reporting Entity’s Statements of Net Assets**

A reporting entity reports in local currency. All reports are translated into US Dollars by Novartis for reporting purposes. The Statement of Net Assets is translated with the period-end exchange rates which are the rates provided by Novartis Group Treasury and are based on Bloomberg’s mid-morning CET exchange rates and are published in the Group Treasury section of the Novartis intranet.

**1.3 Novartis Reporting System and Materiality:**

**1.3.1** Financial information is obtained from the Financial Consolidation & Reporting System of Novartis and the supporting general ledgers are prepared in accordance with Novartis’s Accounting Manual (the “**NAM**”). The Financial Consolidation & Reporting System is the system of record for Novartis external reporting. References in the Statement of Net Assets included as part 2 of this Appendix 23 shown as “BS01 lines 010-671” relate to the groupings shown in Novartis’s monthly reporting form “BS01 – Balance sheet”.

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- 1.3.2** For Novartis's reporting purposes, the financial reporting of a legal entity is separated into a divisional part, which includes operating items and a corporate part, which mainly captures the amounts related to taxes, post-employment benefit obligations and most of the financial assets and liabilities. The Statement of Net Assets contains the business of the Vaccines division (including the Business) as included in Novartis's segment reporting (column C - "Vaccines Divisional Reported Statement of Net Assets"), and items of the corporate Statement of Net Assets for the Vaccines Group Companies (as defined in the Vaccines SAPA) (Column D - "Vaccines Statement of Net Assets of the Corporate part of the Vaccines Group Companies" and items related to the Statement of Net Assets for the Novartis Vaccines Institute for Global Health (column E - "Statement of Net Assets of the part of Novartis Vaccines Institute for Global Health") as well as adjustments for certain items which are either excluded from or added to the transaction (columns F - "Excluded items"). A US\$10 million threshold was applied. Column H shows the impact of the Business which is excluded from the transaction contemplated by the Vaccines SAPA. For the purpose of the carve out of the influenza business allocations have been made based on management's best estimate of the contribution of the Business. For Receivables own BU (BS01\_130) and Payables own BU (BS01\_620) items related to the entity in Liverpool, which will not transfer have been added back into the statement of net assets. For other entities amounts related to the Business have not been added back in as they are offsetting each other. Payables and Receivables to Other BU's related to the Business have been left in the statement of net assets as they are not expected to be material on a net basis. A materiality threshold of US\$50 million applies to the Business.
- 1.3.3** The Statement of Net Assets has been prepared as follows:
- (i) in accordance with the specific accounting treatments set out below; and, subject thereto,
  - (ii) adopting the same accounting principles, methods, procedures and practices utilized in preparing the consolidated financial statements of Novartis AG as described in the Novartis Accounting Manual applied on a consistent basis using consistent estimation methodologies and judgments and with consistent classifications and, subject thereto,
  - (iii) in accordance with IFRS.
- 1.3.4** For the avoidance of doubt, paragraph 1.3.3(i) shall take precedence over paragraphs 1.3.3(ii) and 1.3.3(iii), and paragraph 1.3.3(ii) shall take precedence over paragraph 1.3.3(iii).

**2 Specific Policies**

The following supplement the description in the NAM for certain items included in the Vaccines Group (as defined in the Vaccines SAPA) Statement of Net Assets:

**2.1 Non-Current assets****2.1.1 Property, plant and equipment (BS01\_010)**

For the purpose of the Vaccines Divisional Statement of Net Assets an amount of US\$122 million is included for assets which are not dedicated to the Vaccines Group and will not transfer to the purchaser under the Vaccines SAPA (as reflected in Column F). These assets comprise all property, plant and equipment located in Emeryville, California and in Pernambuco, Brazil.



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**Execution Version****2.1.2 Financial assets &- subsidiaries/JV (BS01\_040)**

This line reflects equity investments that Vaccines Group Companies hold in other Vaccines Group Companies. These relationships have been eliminated in the Statement of Net Assets (as reflected in Column F).

**2.1.3 Total financing and loans to subsidiaries/JV (BS01\_050)**

This line represents financing owed by any member of the Novartis Group to a Transferred Subsidiary. For the purpose of the Statement of Net Assets balances within the Vaccines Group have been excluded (as reflected in Column F).

**2.2 Current Assets:****2.2.1 Trade receivables (BS01\_120)**

An amount of US\$51 million of trade receivables is excluded from this Statement of Net Assets (as reflected in Column F) as it relates to non-Vaccines business activity such as licence fee receivables related to HCV and HIV patents.

**2.2.2 Receivables own BU (BS01\_130)**

Column C of the Statement of Net Assets represents receivables against other entities within the Vaccines division, which are offset by an equivalent amount in the line Payables own BU. These amounts have been eliminated in Column F of the Statement of Net Assets.

**2.2.3 Receivables own BU – Corporate and Institute for Global Health (BS01\_130)**

Columns D and E of the Statement of Net Assets represent receivables against other members of the Novartis Group as well as other Vaccines Group Companies. The receivables against other Vaccines Group Companies have been eliminated in Column F of the Statement of Net Assets.

**2.2.4 Receivables other BU's (BS01\_140)**

Receivables recognized on this line are due from members of the Novartis Group operating in the Pharmaceuticals and Sandoz segments which are selling vaccines in markets where the Vaccines Group is not represented. The receivable of the Vaccines Institute for Global Health relates to a Transferred Subsidiary and has therefore been eliminated.

**2.2.5 Other current assets (BS01\_160)**

An amount of US\$5 million is related to current assets of the divested Diagnostics business, which did not transfer to the purchaser of the Diagnostics business. They are excluded from the Statement of Net Assets as they do not relate to the activities of the Vaccines Group (as reflected in Column F). Furthermore, an amount of US\$1 million is related to assets of the plant in Pernambuco, Brazil which will not be transferred and has therefore been excluded (as reflected in Column F) from the Statement of Net Assets.



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**2.2.6 Prepaid share-based payments (BS01\_161)**

An asset for prepaid share-based compensation is recognized to reflect Novartis’s internal charge-out mechanism for its equity settled share-based compensation plans. For entities settling the charge for the shares at the beginning of the vesting period, it reflects the expense yet to be recognized for the unvested part of a share-based compensation plan. This asset has been excluded (as reflected in Column F) and is not reflected in the Statement of Net Assets.

**2.3 Long-term Liabilities:**

**2.3.1 Total financing and loans from subsidiaries/JV (BS01\_520)**

This line represents financing received from any member of the Novartis Group. For the purpose of the Statement of Net Assets, balances within the Vaccines Group have been excluded (as reflected in Column F).

**2.3.2 Other non-current liabilities (BS01\_540)**

Column F excludes net liabilities for post-employment benefits of US\$90 million included in the corporate part of the Vaccines Group Companies as their treatment is addressed separately in Appendix 11.

**2.4 Current Liabilities:**

**2.4.1 Trade payables (BS01\_610)**

An amount of US\$11 million included in this line relates to the construction of the plant in Pernambuco, Brazil which will not be transferred and has therefore been excluded (as reflected in Column F) from the Statement of Net Assets.

**2.4.2 Payables own BU (BS01\_620)**

Column C of the Statement of Net Assets represents payables against other entities within the Vaccines division, which are offset by an equivalent amount in the line Receivables own BU. These amounts have been eliminated in the Statement of Net Assets.



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**Execution Version****2.4.3 Payables own BU – Corporate (BS01\_620)**

Column D of the Statement of Net Assets represents payables against other Vaccines Group Companies as well as payables against other members of the Novartis Group. The corporate payables against Vaccines Group Companies have been eliminated in Column F of the Statement of Net Assets.

**2.4.4 Payables other BU's (BS01\_630)**

Payables recognized on this line are due to members of the Novartis Group, except for a payable recognized by the Vaccines Institute for Global Health, which is owed to a Vaccines Group Company and has therefore been eliminated.

**2.4.5 Accrued and other current liabilities (BS01\_670)**

An amount of US\$35 million is related to short-term liabilities of the divested Diagnostics business, which did not transfer to the purchaser of this Diagnostics business. They are excluded from the Statement of Net Assets (as reflected in Column F) as they do not relate to the activities of the Vaccines Group. Furthermore, an amount of US\$3 million relates to the construction of the plant in Pernambuco, Brazil, which will not be transferred and has therefore also been excluded (as reflected in Column F) from the Statement of Net Assets. An amount of US\$1 million relates to legal fees for litigation not related to the Vaccines Group.

**2.4.6 Accrued share-based payments (BS01\_671)**

A liability for share-based compensation is recognized to reflect Novartis's internal charge-out mechanism for its equity-settled share-based compensation plans. For entities settling the charge for the shares after the vesting period, it reflects the expense recognized for the vested part of a share based compensation plan. This liability has been excluded (as reflected in Column F) and is not reflected in the Statement of Net Assets.



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## Execution Version

Part 2  
Statement of Net Assets

All amounts in \$ thousands

	Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
	Vaccines Dataroom balance sheet Dec 31, 2013	Adjustments*	Vaccines Divisional Reported Statement of Net Assets at Dec 31, 2013	Vaccines Statement of Net Assets of the Corporate part of the Vaccines Group Companies	Statement of Net Assets of the part of Novartis Vaccines Institute for Global Health	Excluded items	Vaccines Group Statement of Net Assets Dec 31, 2013	Influenza business	Vaccines Group (excl. Influenza business) Statement of Net Assets Dec 31, 2013
BS01_010 Property, plant and equipment	***	***	***	***	***	***	***	***	778,011
BS01_020 Intangible assets	***	***	***	***	***	***	***	***	1,853,635
BS01_034 Financial assets_ associated companies	***	***	***	***	***	***	***	***	777
BS01_035 Financial assets - 3rd parties and loans to AC	***	***	***	***	***	***	***	***	17,981
BS01_040 Financial assets & subsidiaries//JV	***	***	***	***	***	***	***	***	0
BS01_042 Deferred tax assets	***	***	***	***	***	***	***	***	78,951
BS01_044 Other non-current non-financial assets	***	***	***	***	***	***	***	***	23,129

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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BS01_050 Total financing and loans to subsidiaries / JV	***	***	***	***	***	***	***	***	58,563
BS01_110 Total inventories	***	***	***	***	***	***	***	***	400,663
BS01_120 Trade receivables (3rd parties and AC)	***	***	***	***	***	***	***	***	335,387
BS01_130 Receivables own BU	***	***	***	***	***	***	***	***	21,818
BS01_130 Receivables own BU – Corporate and Institute for Global Health	***	***	***	***	***	***	***	***	865
BS01_140 Receivables other BU's	***	***	***	***	***	***	***	***	20,419
BS01_160 Other current assets(3rd parties and AC)	***	***	***	***	***	***	***	***	70,208
BS01_161 Prepaid share-based payments	***	***	***	***	***	***	***	***	0
BS01_180 Cash & cash equivalents	***	***	***	***	***	***	***	***	4,393
<b>Total Assets</b>	***	***	***	***	***	***	***	***	<b>3,664,799</b>
Bs01_511 Financial debt – long-term	***	***	***	***	***	***	***	***	8

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Execution Version**

BS01_520 Total financing and loans from subsidiaries// JV	***	***	***	***	***	***	***	***	680,633
BS01_535 Deferred tax liabilities	***	***	***	***	***	***	***	***	92,072
BS01_540 Other non-current liabilities (3rd parties and AC)	***	***	***	***	***	***	***	***	54,438
BS01_610 Trade payables (3rd parties and AC)	***	***	***	***	***	***	***	***	176,115
BS01_620 Payables own BU	***	***	***	***	***	***	***	***	15,056
BS01_620 Payables own BU – Corporate	***	***	***	***	***	***	***	***	3,239
BS01_630 Payables other BU's	***	***	***	***	***	***	***	***	40,675
BS01_651 Financial debt – Short-term (3rd parties and AC)	***	***	***	***	***	***	***	***	1,395
BS01_660 Income taxes payable	***	***	***	***	***	***	***	***	55,060
BS01_670 Accrued and other current liabilities (3rd parties and AC)	***	***	***	***	***	***	***	***	240,559
BS01_671 Accrued share-based payments	***	***	***	***	***	***	***	***	0

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



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**Execution Version**

<b>Total Liabilities</b>	***	***	***	***	***	***	***	***	<b>1,359,250</b>
<b>Net Assets</b>	***	***	***	***	***	***	***	***	<b>2,305,549</b>

\* The difference for BS01\_010 Property, plant and equipment relates to the plant built in Pernambuco Brazil, which had been excluded in the dataroom balance sheet.

The difference for BS01\_160 Other current assets is composed of other current assets related to the Diagnostics business, but which have not been transferred to Grifols; these were excluded in the dataroom balance sheet.

Line BS01\_620 and Line BS01\_630 have been combined into the line Intercompany payable in the dataroom balance sheet and items related to Pernambuco have been excluded.

The difference for BS01\_670 Accrued and other current liabilities is composed of items related to the Diagnostics business, which have not been transferred to Grifols and were therefore excluded in the dataroom balance and items related to the Plant in Pernambuco, which have also been excluded in the dataroom balance sheet.

\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.



**Execution Version**

**Attachment 1: Purchaser Intellectual Property Licence – Agreed Terms**

Novartis shall grant the Purchaser a licence on terms consistent with the following Agreed Terms.

**Flu Licence**

**Definitions**

Each of “Affiliate”, “Business”, “Option Closing”, “Intellectual Property Rights”, “Out-Licensing Programme Intellectual Property Rights”, “Novartis Group”, “Novartis Marks” and “Transferred Intellectual Property Rights” have the meanings given to them in the Put Option Deed (relating to all or part of the Influenza Business of the Novartis Group).

“Licensed IP Rights” means Intellectual Property Rights not transferred to the Purchaser under the Put Option Deed, which are owned by, or licensed (to the extent it has a right to sub-license) to, any member of the Novartis Group as at the date of Option Closing and related to, used in or held for use in the Business excluding: (i) the Transferred Intellectual Property Rights; (ii) the Out-Licensing Programme Intellectual Property Rights; and (iii) the Novartis Marks.

**Retained IP Licence** - licence from Novartis to the Purchaser of retained IP

**Licence Grant**

Novartis entity(ies) grant[s] to the Purchaser entity(ies) an exclusive, irrevocable, fully paid-up, royalty-free, freely-assignable (with notification to be provided after assignment other than to Affiliates), worldwide licence or sub-licence, with a right to sub-licence (with notification to be provided after grant of sub-licence other than to Affiliates), of the Licensed IP Rights:

(A) for research and development purposes; and

(B) to use, manufacture, have manufactured, promote, distribute, market, sell, have sold, offer for sale, import, export and otherwise commercialise any products and services,

in relation to the Business.

**Term**

Perpetual

**Prosecution and maintenance**

Licensor shall:

- pay renewal fees and take all reasonable actions to maintain registered Licensed IP Rights;
- not surrender or allow to lapse all registered Licensed IP Rights;
- use reasonable endeavours to prosecute to grant any applications for registered Licensed IP Rights; and
- keep Licensee reasonably informed of all actions relevant to the Licensee’s rights and allow Licensee the opportunity to comment on any such actions and/or filings.

If the Licensor wishes to take any action in derogation of the obligations above, it shall provide the Licensee with [30] days’ prior notice giving the Licensee the option to take over the prosecution or maintenance of the relevant Licensed IP Rights.

If the Licensor wishes to abandon any Licensed IP Right, Licensee will have a right of first refusal to take on that Licensed IP Right.

**Boilerplate**

The Purchaser Intellectual Property Licence Agreement boilerplate provisions shall be conformed to those of the Put Option Deed, including variation and waiver; costs; notarial fees, registration, stamp and transfer taxes and duties; notices; invalidity or conflict; counterparts; and governing law and submission to jurisdiction.



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**Execution Version**

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Execution Version

Schedule 2  
Option 2 Assets

- 3 Following entry into this Deed, the parties shall discuss and agree, in good faith and acting reasonably, the amendments that are necessary to Schedule 1 to reflect that the Option 2 Assets that are being bought and sold rather than the Business (the “**Option 2 Changes**”) (recognising that the Option 2 Changes to Schedule 1 may be required in addition to other changes pursuant to Schedule 4).
- 3.1 Set-out in paragraph 2 of this Schedule 2 is a non-exhaustive list of the Option 2 Changes. If the parties reach agreement on the Option 2 Changes, a document signed by each party setting out Option 2 Changes shall be supplementary to this Schedule 2 and treated as though it were set out in paragraph 2 of this Schedule 2. If, following appropriate escalation to their respective senior management, the parties do not reach agreement within 60 Business Days following 29 May 2014, any remaining dispute as to the Option 2 Changes may be referred (on the application of either party) for determination by such independent commercial Queen’s Counsel (based in London and who has been a Queen’s Counsel for at least five years) as the parties shall agree or, failing agreement, such Queen’s Counsel as is appointed on application by either party by the Chairman of the Bar Council in London from time to time (the “**QC**”). The QC shall be requested to make his/her decision within 30 Business Days of confirmation and acknowledgement by the QC of his/her appointment (or such later date as the parties and the QC agree in writing). The following provisions shall apply once the QC has been appointed:
- 3.1.1 the QC shall be instructed that, in making his/her determination, no inference should be drawn from the fact that amendments/additions that are proposed by a party for inclusion were not included in this Schedule 2 at the date of this Deed;
  - 3.1.2 the parties shall each prepare a written statement within seven days of the QC’s appointment on the matters in dispute which (together with the relevant supporting documents) shall be submitted to the QC for determination and copied at the same time to the other;
  - 3.1.3 following delivery of their respective submissions, the parties shall each have the opportunity to comment once only on the other’s submission by written comment delivered to the QC not later than seven days after receipt of the other’s submission and, thereafter, neither party shall be entitled to make further statements or submissions except insofar as the QC so requests (in which case it shall, on each occasion, give the other party (unless otherwise directed) five days to respond to any statements or submission so made);
  - 3.1.4 in giving his/her determination, the QC shall state his/her reasons for his/her determination; and
  - 3.1.5 the QC shall act as an expert (and not as an arbitrator) in making his/her determination which shall, in the absence of manifest error or fraud, be final and binding on the parties and, without prejudice to any other rights which they may respectively have under this Deed, the parties expressly waive, to the extent permitted by law, any rights of recourse they may otherwise have to challenge it.
  - 3.1.6 The parties shall each be responsible for their own costs in connection with the review and agreement or determination of the contents of this Schedule 2. The fees and expenses of the QC shall be borne equally between the parties or in such other proportions as the QC shall determine.



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**Execution Version**

- 4 For the avoidance of doubt, if the Put Option is exercised in respect of the Option 2 Assets then in respect of the Option 2 Assets:

  - 4.1 the Headline Price in paragraph 3.1.1 shall be US\$80 million;
  - 4.2 the Minimum Claims figure in paragraph 10.3.1 (i) shall be US\$80,000;
  - 4.3 the Aggregate Minimum Claims figure in paragraph 10.4.1 shall be US\$800,000;
  - 4.4 the Maximum Liability in paragraph 10.5.1 shall be 30% of the Headline Price of US\$80 million;
  - 4.5 the Maximum Liability in paragraph 10.5.2 shall be US\$80 million; and
  - 4.6 paragraph 12 of Schedule 1 shall only apply from such time as Novartis no longer has any interest in the Business (and shall then apply for the stated periods).

- 5 If the Put Option is exercised in respect of the Option 2 Assets all provisions of Schedule 1 relating to intellectual property and intellectual property contracts shall be amended to achieve the following:
  - 5.1 Novartis entity(ies) shall:
    - 5.1.1 assign to the Purchaser all Intellectual Property Rights and, subject to Appendix 9 (*Transferred Contracts*), all Intellectual Property Contracts, Predominantly Related to the Business (the “**Transferred Business IPR**” and the “**Transferred Intellectual Property Contracts**” respectively.
    - 5.1.2 grant the Purchaser entity(ies) a licence on terms consistent with the following Agreed Terms.

Licence	An exclusive, irrevocable, fully paid-up, royalty-free, freely-assignable (with notification to be provided after assignment other than to Affiliates), worldwide licence or sub-licence, with a right to sub-licence (with notification to be provided after grant of sub-licence other than to Affiliates), of the Licensed IP Rights (defined in the row below): <ul style="list-style-type: none"> <li>(A) for research and development purposes; and</li> <li>(B) to use, manufacture, have manufactured, promote, distribute, market, sell, have sold, offer for sale, import, export and otherwise commercialise any products and services,</li> </ul> in relation to the Business.
Licensed IP Rights	Intellectual Property Rights not transferred under Clause 3.1.1 above, which are owned by, or licensed (to the extent it has the rights to sub-licence) to, any member of the Novartis Group as at the date of Option Closing and related to, used in or held for use in the Business excluding: (i) the Transferred Intellectual Property Rights; (ii) the Out-Licensing Programme Intellectual Property Rights; and (iii) the Novartis Marks.
Term and Termination	Perpetual



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**Execution Version**

Prosecution and maintenance

Licensor shall:

- pay renewal fees and take all reasonable actions to maintain registered Licensed IP Rights;
- not surrender or allow to lapse all registered Licensed IP Rights;
- use reasonable endeavours to prosecute to grant any applications for registered Licensed IP Rights; and
- keep Licensee reasonably informed of all actions relevant to the Licensee’s rights and allow Licensee the opportunity to comment on any such actions and/or filings.

If the Licensor wishes to take any action in derogation of the obligations above, it shall provide the Licensee with [30] days’ prior notice giving the Licensee the option to take over the prosecution or maintenance of the relevant Licensed IP Rights.

If the Licensor wishes to abandon any Licensed IP Right, Licensee will have a right of first refusal to take on that Licensed IP Right.

Boilerplate

The boilerplate provisions shall be conformed to those of the Put Option Deed, including variation and waiver; costs; notarial fees, registration, stamp and transfer taxes and duties; notices; invalidity or conflict; counterparts; and governing law and submission to jurisdiction.

**5.2** The Purchaser entity(ies) shall grant back to Novartis entity(ies) a licence on terms consistent with the following Agreed Terms.

Licence

An irrevocable, fully paid-up, royalty-free, freely-assignable (with notification to be provided after assignment other than to Affiliates), worldwide licence or sub-licence, with a right to sub-licence (with notification to be provided after grant of sub-licence other than to Affiliates), of the Licensed IP Rights (defined in the row below):

- (A) for research and development purposes; and
- (B) to use, manufacture, have manufactured, promote, distribute, market, sell, have sold, offer for sale, import, export and otherwise commercialise any products and services,

that will be:

- (i) exclusive in relation to the retained business; and
- (ii) non-exclusive in relation to the Business.

Licensed IP Rights

Transferred Business IPR and a sub-licence of the Transferred Intellectual Property Contracts (to the extent it has the rights to sub-licence) transferred under this Deed.



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**Execution Version**

Term and Termination                      Perpetual

Prosecution and maintenance            Licensor shall:

- pay renewal fees and take all reasonable actions to maintain registered Licensed IP Rights;
- not surrender or allow to lapse all registered Licensed IP Rights;
- use reasonable endeavours to prosecute to grant any applications for registered Licensed IP Rights; and
- keep Licensee reasonably informed of all actions relevant to the Licensee’s rights and allow Licensee the opportunity to comment on any such actions and/or filings.

If the Licensor wishes to take any action in derogation of the obligations above, it shall provide the Licensee with [30] days’ prior notice giving the Licensee the option to take over the prosecution or maintenance of the relevant Licensed IP Rights.

If the Licensor wishes to abandon any Licensed IP Right, Licensee will have a right of first refusal to take on that Licensed IP Right.

Boilerplate                                    The boilerplate provisions shall be conformed to those of the Put Option Deed, including variation and waiver; costs; notarial fees, registration, stamp and transfer taxes and duties; notices; invalidity or conflict; counterparts; and governing law and submission to jurisdiction.



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**Execution Version****Schedule 3  
Option 3**

- 6** Following entry into this Deed, the parties shall discuss and agree, in good faith and acting reasonably, the amendments that are necessary to Schedule 1 to reflect that the Option 3 Assets that are being bought and sold rather than the Business (the “**Option 3 Changes**”) (recognising that the Option 3 Changes to Schedule 1 may be required in addition to other changes pursuant to Schedule 4).
- Paragraph 1.1 of Schedule 2 applies *mutatis mutandis* in relation to agreeing the Option 3 Changes as if set out in this Schedule 3.
- 7** For the avoidance of doubt, if the Put Option is exercised in respect of the Option 3 Assets, then in respect of the Option 3 Assets:
- 7.1** the Headline Price in paragraph 3.1.1 shall be US\$145 million;
- 7.2** the Minimum Claims figure in paragraph 10.3.1 (i) shall be US\$145,000;
- 7.3** the Aggregate Minimum Claims figure in paragraph 10.4.1 shall be US\$1,450,000;
- 7.4** the Maximum Liability in paragraph 10.5.1 shall be 30% of the Headline Price of US\$145 million.
- 7.5** the Maximum Liability in paragraph 10.5.2 shall be US\$145 million; and
- 7.6** paragraph 12 of Schedule 1 shall only apply from such time as Novartis no longer has any interest in the Business (and shall then apply for the stated periods).
- 8** Paragraph 3 of Schedule 2 applies *mutatis mutandis* in relation to agreeing the Option 3 Changes as if set out in this Schedule 3.



**Execution Version**

**Schedule 4  
 Option 4 Products Terms**

**9 Option 4**

The following table sets out the Option 4 Assets. No other assets or liabilities shall transfer in respect of the Option 4 Assets. Where there are references to a Third Party Purchaser, Novartis shall procure that the Third Party Purchaser agrees to provide the specified services to the Purchaser in the event of an exercise of the Put Option in respect of the Option 4 Assets.

<u>Term</u>	<u>Description</u>
Products	The Option 4 Assets shall be such of the following products as Novartis shall specify:
	1. Agrippal (Europe)
	2. Agrippal (Canada)
	3. Agrippal (South Korea)
	4. Agrippal (Brazil)
	5. Agrippal (India)
	6. Agrippal (Colombia)
	7. Agrippal (Mexico)
	8. Agrippal (Australia)
	9. Agrippal (all ex-Europe and ex-Canada jurisdictions)
	10. Agrippal (global)
	11. Fluvirin (US)
	12. Fluvirin (UK)
	13. Fluvirin (global)
	14. Fluvirin (all ex-US and ex-UK jurisdictions)
	15. Fluad (US)
	16. Fluad (Europe)
	17. Fluad (Mexico)
	18. Fluad (Canada)
	19. Fluad (South Korea)
	20. Fluad (Brazil)
	21. Fluad (Colombia)
	22. Fluad (Argentina)
	23. Fluad (all ex-US and ex-Europe jurisdictions)
	24. Optaflu/Flucelvax (US)
	25. Optaflu/Flucelvax (Europe)
	26. Optaflu/Flucelvax (South Korea)
	27. Optaflu/Flucelvax (Brazil)
	28. Optaflu/Flucelvax (Australia)
	29. Optaflu/Flucelvax (all ex-US and ex-Europe discussions)



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<u>Term</u>	<u>Description</u>
	30. Optaflu/Flucelvax (Argentina)
	30b. Optaflu/Flucelvax (India)
	31. QIVc (USA)
	32. QIVc (Europe)
	33. QIVc (South Korea)
	34. QIVc (India)
	35. QIVc (China)
	36. QIVc (Brazil)
	37. QIVc (Argentina)
	38. QIVc (Chile)
	39. aQIV (US)
	40. aQIV (UK)
	41. Egg pipeline (US)
	42. Egg pipeline (Europe)
	43. Egg pipeline (all jurisdictions except US and Europe)
	44. Cell pipeline (US)
	45. Cell pipeline (Europe)
	46. Cell pipeline (all jurisdictions except US and Europe)

Headline Price US\$100 per Product

Transitional Manufacturing and Supply Agreement  
Until Purchaser can manufacture relevant Products, Novartis or Third Party Purchaser to supply Product to Purchaser on terms consistent with the Agreed Terms for the Manufacturing, Supply and Distribution Agreement (as defined in the Vaccines SAPA) (with any necessary amendment) until such time as the full form Manufacturing, Supply and Distribution Agreement (as defined in the Vaccines SAPA) is agreed, in which case, the terms that will apply will be that full form agreement (with any necessary amendments)

Transitional Services  
Novartis or Third Party Purchaser to provide transitional services to Purchaser on terms consistent with the Agreed Terms for the Transitional Services Agreement (as defined in the Vaccines SAPA) (with any necessary amendment) until such time as the full form Transitional Services Agreement (as defined in the Vaccines SAPA) is agreed, in which case, the terms that will apply will be that full form agreement (with any necessary amendments)



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<u>Term</u>	<u>Description</u>
IP	Paragraph 3 of Schedule 2 applies <i>mutatis mutandis</i> in relation to agreeing the Option 4 Changes as if set out in this Schedule 4 with references to “Business” in Paragraph 3 of Schedule 2 being read here as if these references were references to “Products” (i.e. such of the above listed products in this Schedule 4 as Novartis has specified).
Marketing Authorisation	Novartis or Third Party Purchaser to distribute Products on behalf of Purchaser until Purchaser has obtained Marketing Authorisation, on the same basis as set out in Schedule 1.
<b>10</b>	Following entry into this Deed, the parties shall discuss and agree, in good faith and acting reasonably, the amendments that are necessary to Schedule 1 to reflect that the Option 4 Assets that are being bought and sold rather than the Business (the “ <b>Option 4 Changes</b> ”) (recognising that the Option 4 Changes may be required in addition to other changes pursuant to Schedules 2 or 3).  Paragraph 1.1 of Schedule 2 applies <i>mutatis mutandis</i> in relation to agreeing the Option 4 Changes as if set out in this Schedule 4.
<b>11</b>	For the avoidance of doubt, if the Put Option is exercised in respect of the Option 4 Assets, then in respect of the Option 4 Assets:
<b>11.1</b>	the Headline Price in paragraph 3.1.1 shall be as set out in the table above (based on the number of Products in respect of which Option 4 has been exercised);
<b>11.2</b>	the Minimum Claims figure in paragraph 10.3.1 (i) shall be £100;
<b>11.3</b>	the Aggregate Minimum Claims figure in paragraph 10.4.1 shall be £1,000;
<b>11.4</b>	the Maximum Liability in paragraph 10.5.1 shall be 30% of the aggregate Headline Price for the relevant Option 4 Assets ;
<b>11.5</b>	the Maximum Liability in paragraph 10.5.2 shall be the aggregate Headline Price for the relevant Option 4 Assets; and
<b>11.6</b>	paragraph 12 of Schedule 1 shall only apply from such time as Novartis no longer has any interest in the Business (and shall then apply for the stated periods).
<b>12</b>	For the avoidance of doubt, if the Put Option is exercised in respect of the Option 4 Assets, paragraphs 8.1.2, 8.1.3 and 8.1.4 shall apply in respect of the Option 4 Assets.



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**Schedule 2**

**Amended Disclosure Letter Agreement**

[\*\*\*]

[\*\*\*\* Note: Confidential treatment has been requested with respect to the information contained within the [\*\*\*] marking. Such portions, consisting of 156 pages, have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.\*\*]



**Exhibit 12.1**

**Section 302 Certificate**

**Form of Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934**

I, Sir Andrew Witty, certify that:

1. I have reviewed this annual report on Form 20-F of GlaxoSmithKline plc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and



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- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: February 27, 2015

/s/ Sir Andrew Witty \_\_\_\_\_  
Sir Andrew Witty  
Chief Executive Officer



**Exhibit 12.2**

**Section 302 Certificate**

**Form of Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934**

I, Simon Dingemans, certify that:

1. I have reviewed this annual report on Form 20-F of GlaxoSmithKline plc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and



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- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: February 27, 2015

/s/ Simon Dingemans  
Mr Simon Dingemans  
Chief Financial Officer



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**Exhibit 13.1**

**Section 906 Certificate**

**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of GlaxoSmithKline plc, a public limited company incorporated under English law (the "company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2014 (the "Form 20-F") of the company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: February 27, 2015

/s/ Sir Andrew Witty  
Sir Andrew Witty  
Chief Executive Officer

Date: February 27, 2015

/s/ Simon Dingemans  
Mr Simon Dingemans  
Chief Financial Officer



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**Exhibit 15.1**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3 (Nos. 333-194744, 333-194744-01 and 333-194744-02) of GlaxoSmithKline plc, GlaxoSmithKline Capital plc and GlaxoSmithKline Capital Inc., and in the Registration Statements on Form S-8 (Nos. 333-88966, 333-100388 and 333-162702) of GlaxoSmithKline plc of our report dated 27 February 2015, relating to the financial statements and the effectiveness of internal control over financial reporting of GlaxoSmithKline plc, which appears in this Annual Report on Form 20-F.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
London, England

27 February 2015



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Exhibit 15.2





# 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<sup>a</sup>)

£6.6bn

Core operating profit<sup>b</sup>  
(down 6% CER<sup>a</sup>)

£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<sup>b</sup>  
(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%)

1<sup>st</sup>

2014 Access to Medicine  
Index

100%

All countries have fully  
implemented new sales force  
compensation model

1<sup>st</sup>

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 is 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 *Amuity* – 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.

### Cautionary statement regarding forward looking statements

This document should be read in conjunction with the cautionary statement set out on the inside back cover.



# 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.

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### 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](http://www.gsk.com)



# Chairman's statement

## To shareholders

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*“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 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.



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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



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*“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

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# 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<sup>a</sup>)

# 97,921

Employees

<sup>a</sup> 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<sup>b</sup> 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

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

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2006bLL7u51ZMT16M

## 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

£15.5<sup>bn</sup>

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

£3.2<sup>bn</sup>

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

£4.3<sup>bn</sup>

Total turnover

18.8%

of Group turnover

### Sales by category

£m

Wellness	1,596
Oral health	1,797
Nutrition	633
Skin health	310



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# Our global marketplace

## Opportunities and challenges

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### 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).

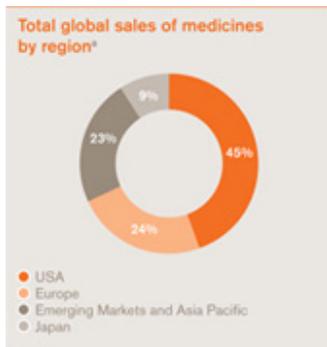
Emerging markets showed stronger economic growth than developed markets in 2014, continuing this long-term trend. China still shows robust growth, but down to 7.4% compared to 7.7% in 2013. Low income countries continued to grow at a robust pace. For example, growth in sub-Saharan Africa was 4.5%, up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

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.<sup>(a)</sup>

In 2014, the global vaccines market increased 6% to around \$25 billion.<sup>(b)</sup> The market is expected to continue growing and represent around \$38 billion by 2020.<sup>(b)</sup>



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.<sup>(c)</sup>

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.

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# 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.

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# Our strategic priorities

## How we deliver

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

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



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### Key challenges in 2014

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.

### 2014 Key performance

£23.0bn

Group turnover

£95.4p

core earnings per share\*

\* a reconciliation of core results to total results is set out on page 61

### Our priorities in 2015

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

Continue to progress mid-stage pipeline with 25 phase II/III starts expected.

Integrate proposed Novartis vaccines pipeline.

40

In Pharmaceuticals and Vaccines we have around 40 new molecular entities in phase II and III

Unanticipated supply continuity challenges in Consumer Healthcare.

Complexity of rolling out new systems at scale across many markets.

21

days increase in working capital\*

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.

£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 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

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.

84%

Dow Jones Sustainability Index score, placing us in the top 2% of our sector

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.

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### Group turnover

£23.0bn



**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.

A Reported growth CER %  
B Reported growth £ %

\* excluding divestments completed in 2013

### Turnover in our major growth areas<sup>b</sup>

£12.3bn



**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.

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

### Core operating profit and margin<sup>a</sup>

£6.6bn



**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.

A Reported growth CER %  
B Reported growth £ %

\* excluding divestments completed in 2013

### Total operating profit and margin

£3.6bn



**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.

A Reported growth CER %  
B Reported growth £ %

### Core earnings per share<sup>a</sup>

95.4p



**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.

A Reported growth CER %  
B Reported growth £ %

\* excluding divestments completed in 2013

### Total earnings per share

57.3p



**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.

A Reported growth CER %  
B Reported growth £ %



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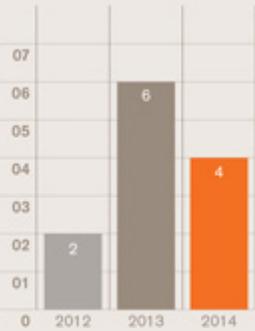
### New product approvals in major markets

# 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.



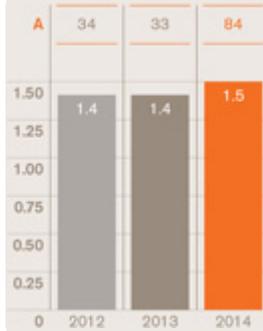
### New Pharmaceuticals and Vaccines product performance<sup>b</sup>

# £1.5bn

**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.



A Reported growth CER %

### Free cash flow<sup>b</sup>

# £2.6bn

**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.



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

### Cash returned to shareholders

# £4.1bn

**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.



A Reported growth £ %

#### 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

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### 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.

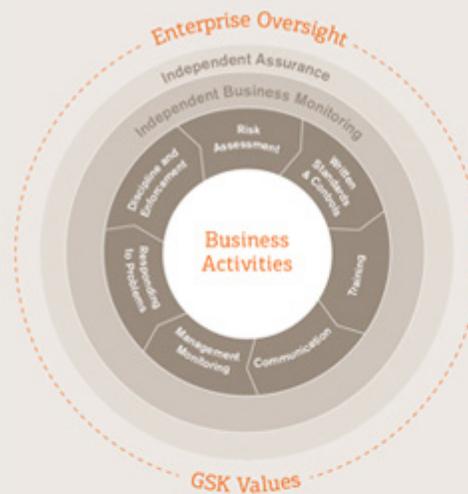
We have a central dedicated Anti-Bribery and Corruption team who provide external insight, standards, training and expertise to our business globally. In 2014, we also strengthened our internal investigations team to create three regional hubs to provide a consistent approach to investigations across 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	<b>Board of Directors</b>	Responsible for our system of corporate governance, strategy, risk management and financial performance
		<b>Audit &amp; Risk Committee</b>	Responsible for reviewing and approving the adequacy and effectiveness of our risk management and internal controls
		<b>Corporate Executive Team</b>	Supports the CEO in managing our business and activities
		<b>Risk Oversight and Compliance Council</b>	Authorised by the Board to assist the Audit & Risk Committee in overseeing the risk management and internal control activities of the Group
		<b>Business units</b>	Responsible for identifying, assessing and managing risks within their businesses
		<b>Risk Management and Compliance Boards</b>	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
<b>Patient safety</b>	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.
<b>Intellectual property</b>	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.
<b>Product quality</b>	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.
<b>Supply chain continuity</b>	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.
<b>Financial reporting and disclosure</b>	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.
<b>Tax and treasury</b>	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.
<b>Anti-Bribery and Corruption(ABAC)</b>	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.
<b>Commercial practices and scientific engagement</b>	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.
<b>Research practices</b>	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.
<b>Environment, health &amp; safety and sustainability (EHSS)</b>	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.
<b>Information protection</b>	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.
<b>Crisis and continuity management</b>	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.
<b>Third-party oversight</b>	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.

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# 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.



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# Pharmaceuticals and Vaccines

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## 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<sub>2</sub> 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.

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# Pharmaceuticals and Vaccines

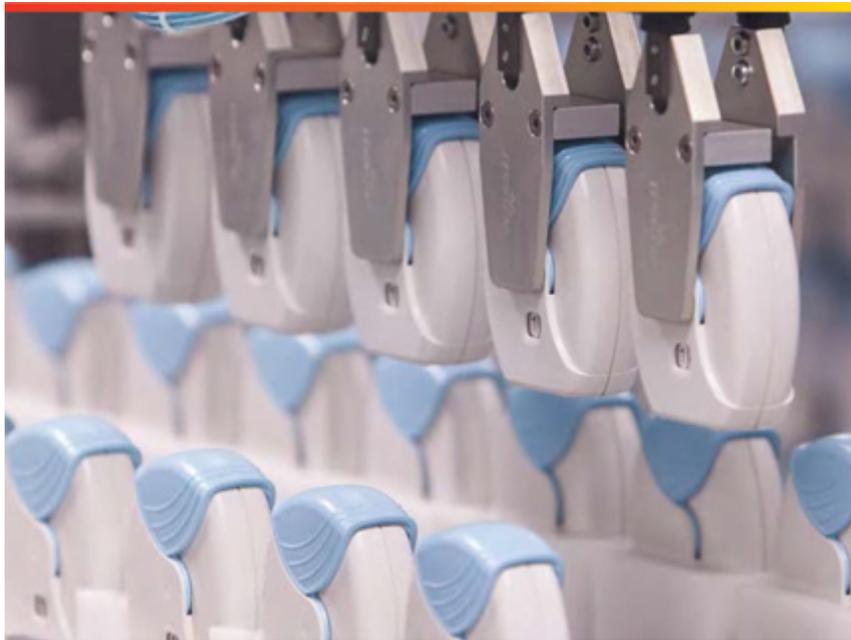
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In Japan, Pharmaceuticals and Vaccines turnover grew 1% to £937 million, with Pharmaceuticals sales up 2%, while Vaccines were down 14%. Pharmaceuticals sales benefited from strong growth of our Oncology products and *Avodart*, which were up 17% and 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.

## 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 *Amvuity 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.

### 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 *Adair*, 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.

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## 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<sub>2</sub> 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<sub>2</sub> 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.

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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.

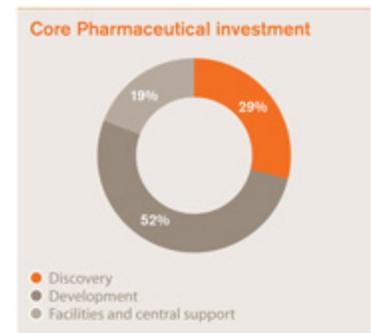
Collaborating with external partners has become a critical component of our R&D strategy in recent years. We are now involved in more partnerships with external companies, individuals and academics than ever before, which enables us to access and increase our understanding of new areas of science and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

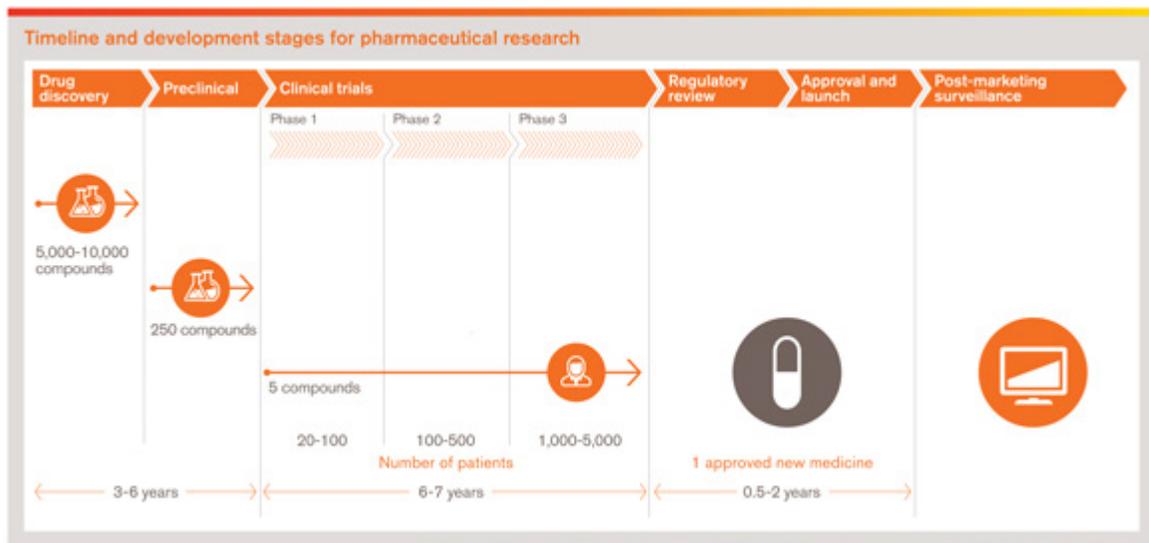
Our Discovery Performance Units (DPUs) are responsible for discovery and development of potential new medicines through to early-stage clinical trials (up to the completion of phase IIa). We have over 30 DPUs, each with between 5 and 70 scientists working on a particular disease pathway or area of science.



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.





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.

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## 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.





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# Pharmaceuticals and Vaccines

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### 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
<b>Respiratory</b>			
<i>Relvar/Breo Ellipta</i> (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
<b>Vaccines</b>			
<i>Nimenrix</i> (MenACWY)	MenACWY prophylaxis	Ph II	Approved Apr 2012
MAGE-A3	Melanoma	Ph III	Ph III
Herpes zoster	Shingles prophylaxis	Ph III	Ph III
<i>Mosquirix</i> (RTS,S)	Malaria prophylaxis	n/a	Filed July 2014
<b>Oncology</b>			
<i>Azerra</i> (ofatumumab)	CLL (relapsed/relapsed maintenance)	Ph III	Ph III
	NHL (FL)	Ph III	Ph III
<i>Mekinist</i> (trametinib) + <i>Tafinlar</i> (dabrafenib) in combination use	Metastatic melanoma	Approved Jan 2014	Ph III
	Adjuvant melanoma	Ph III	Ph III
<i>Promacta/Revolade</i>	Myelodysplastic syndrome (MDS)	Ph III	Ph III
	Severe aplastic anaemia	Approved Aug 2014	Filed Nov 2014
<b>Cardiovascular and Metabolic</b>			
retosiban	Threatened pre-term labour	Ph III	Ph III
losmapimod	Acute coronary syndrome (ACS)	Ph III	Ph III
<b>Immuno-inflammation</b>			
<i>Benlysta</i> (s.c.)	Systemic lupus erythematosus	Ph III	Ph III
<i>Benlysta</i> (i.v.)	Vasculitis	Ph III	Ph III
sirukumab	Rheumatoid arthritis	Ph III	Ph III
<b>Rare Diseases</b>			
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
<b>Infectious Diseases</b>			
tafenoquine	Treatment and relapse prevention of <i>Plasmodium vivax</i> malaria	Ph III	n/a
<b>Dermatology</b>			
ofatumumab (s.c.)	Pemphigus vulgaris	Ph III	Ph III

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### 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



Photo: Kely 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.

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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.





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# Pharmaceuticals and Vaccines

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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.

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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 through this programme.

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# 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.



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Photo: Aubrey Williams for GSK

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# Responsible business

## Our approach

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

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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 macroeconomic 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](http://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](http://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.



## 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.

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# Access to healthcare *continued*

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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.

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.

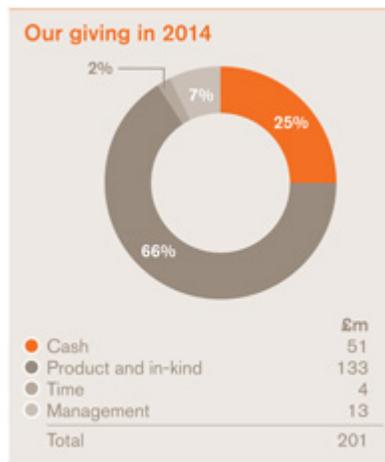
Since the last Index in 2012, we have taken further steps to help widen access to our medicines. These include filing our malaria vaccine candidate for regulatory approval; forming a groundbreaking five-year partnership with Save the Children; launching an Africa NCD Open Lab; and putting patients at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





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## 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

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### 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



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.

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# 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.

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### 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.



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## 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 <sup>a</sup>	9,899	7,201	17,100
Total	55,620	42,301	97,921

<sup>a</sup> 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<sub>2</sub>e. 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<sup>3</sup> 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.



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



Our supply chain, particularly where we are sourcing raw materials, uses an estimated 1,200 million m<sup>3</sup> 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 <sub>2</sub> e <sup>a</sup>	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 <sub>2</sub> e/£m)	69.6	70.0	67.9	68.2	69.7
Scope 1 and 2/FTE (tonnes CO <sub>2</sub> e/FTE)	20.5	19.7	18.0	18.2	16.4

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



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**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.

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# 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.



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# Group financial review

## CFO's statement

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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

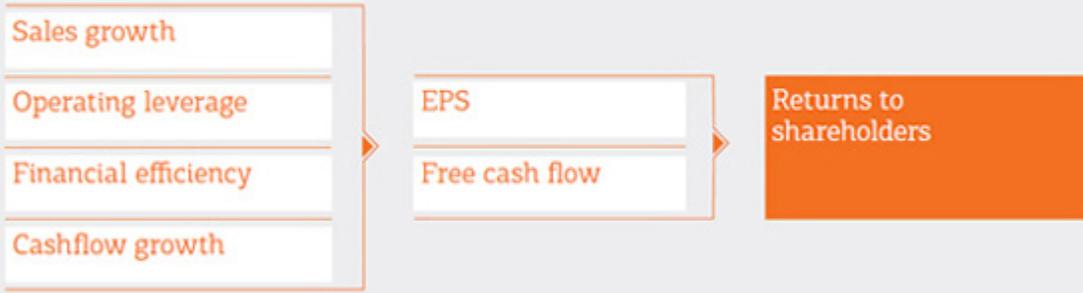
Our ability to deliver operating leverage or improved profitability is heavily impacted by the overall trend in sales, but it is particularly affected by changes in the mix of regional or product contributions. These were a significant factor in 2014, with the sales decline driven primarily by higher 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

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# 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.

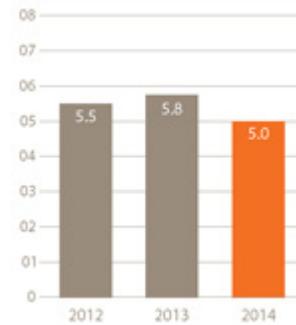
### Group turnover by segment

	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



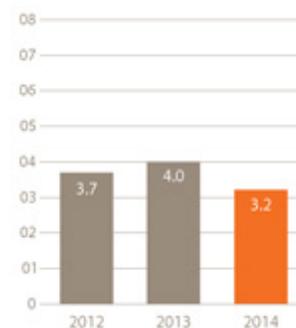
22%

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.



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# Group financial review

## continued

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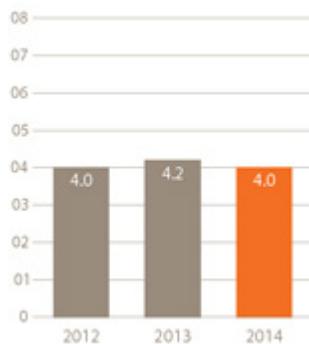
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### Pharmaceuticals and Vaccines – Europe

#### Turnover £bn

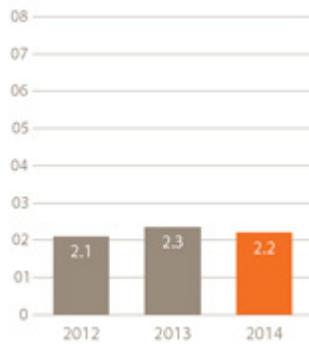
**18%**

of Group turnover

**Flat**

CER growth

#### Operating profit £bn

**£2.2bn**

Operating profit

**2%**

CER growth

#### Breakdown of turnover

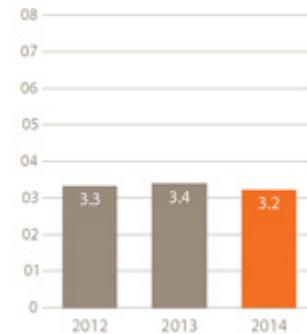
	£m	Growth CER %
Respiratory	1,675	(3)
Oncology	417	29
Cardiovascular, metabolic and urology	293	–
Immuno-inflammation	12	63
Other pharmaceuticals	660	(4)
Vaccines	978	(2)

#### 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

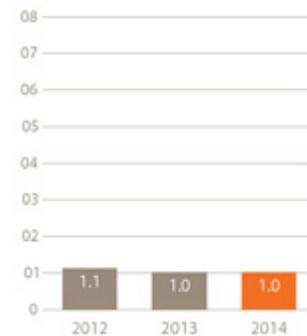
**14%**

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

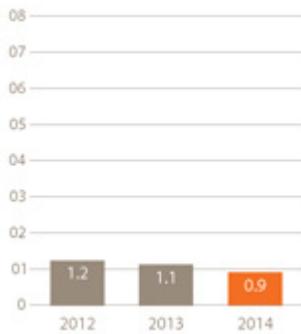
#### Performance

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

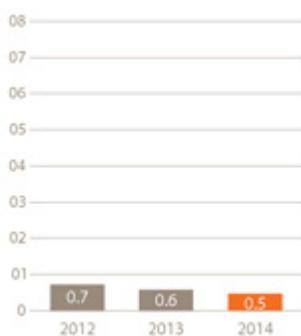
**4%**

of Group turnover

**1%**

CER growth

### Operating profit £bn

**£0.5bn**

Operating profit

**(2)%**

CER growth

### Breakdown of turnover

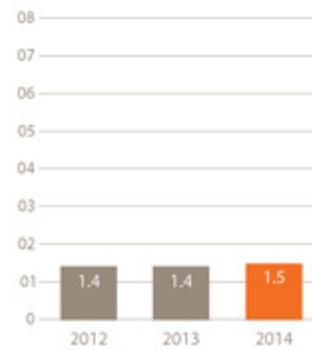
	£m	Growth CER %
Respiratory	475	(2)
Oncology	65	17
Cardiovascular, metabolic and urology	114	14
Other pharmaceuticals	256	1
Vaccines	27	(14)

### 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

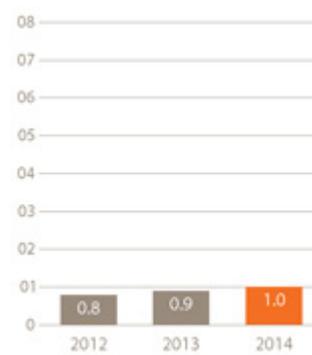
**7%**

of Group turnover

**15%**

CER growth

### Operating profit £bn

**£1.0bn**

Operating profit

**20%**

CER growth

### Breakdown of turnover

	£m	Growth CER %
<i>Combivir</i>	59	(46)
<i>Epzicom/Kivexa</i>	768	8
<i>Lexiva/Agenerase</i>	87	(17)
<i>Selzentry</i>	136	–
<i>Tivicay</i>	282	>100
<i>Triumeq</i>	57	–
<i>Trizivir</i>	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*.



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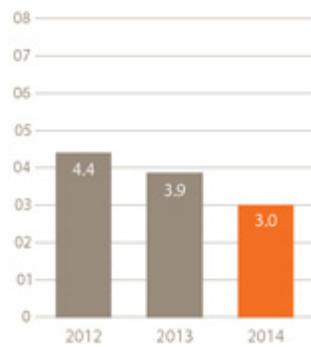
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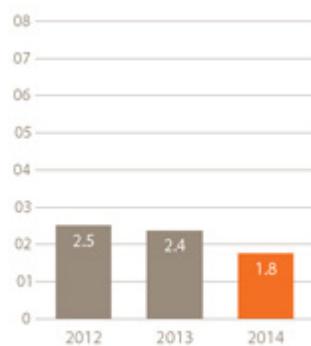
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### Established Products

#### 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 %
<i>Imigran/Imitrex</i>	172	(4)
<i>Lamictal</i>	531	3
<i>Lovaza</i>	240	(57)
<i>Seroxat/Paxil</i>	210	(19)
<i>Valtrex</i>	154	(24)
<i>Zeffix</i>	166	(3)
Other products	1,538	(11)

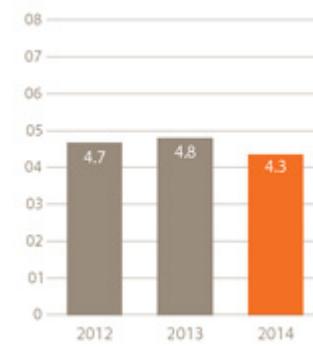
#### Performance

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.

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### Vaccines turnover

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

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

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)
	<b>4,336</b>	<b>4,756</b>	<b>(1)</b>	<b>(9)</b>

	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)
	<b>4,336</b>	<b>4,756</b>	<b>(1)</b>	<b>(9)</b>

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 on 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.



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### 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.

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### Net finance costs

	2014 £m	2013 £m
Finance income		
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.



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**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

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### 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**

	2014 £m	2013 £m
Finance income		
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.

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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
<b>Assets</b>		
<b>Non-current assets</b>		
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
<b>Total non-current assets</b>	<b>25,973</b>	<b>26,859</b>
<b>Current assets</b>		
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
<b>Total current assets</b>	<b>14,678</b>	<b>15,227</b>
<b>Total assets</b>	<b>40,651</b>	<b>42,086</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
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)
<b>Total current liabilities</b>	<b>(13,295)</b>	<b>(13,677)</b>
<b>Non-current liabilities</b>		
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)
<b>Total non-current liabilities</b>	<b>(22,420)</b>	<b>(20,597)</b>
<b>Total liabilities</b>	<b>(35,715)</b>	<b>(34,274)</b>
<b>Net assets</b>	<b>4,936</b>	<b>7,812</b>
<b>Equity</b>		
Share capital	1,339	1,336
Share premium account	2,759	2,595
Retained earnings	(2,074)	913
Other reserves	2,239	2,153
<b>Shareholders' equity</b>	<b>4,263</b>	<b>6,997</b>
Non-controlling interests	673	815
<b>Total equity</b>	<b>4,936</b>	<b>7,812</b>

## 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.



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### 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
<b>Total</b>	<b>37,952</b>	<b>4,744</b>	<b>6,137</b>	<b>5,300</b>	<b>21,771</b>

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
<b>Total</b>	<b>185</b>	<b>87</b>	<b>29</b>	<b>12</b>	<b>57</b>

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

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### 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.

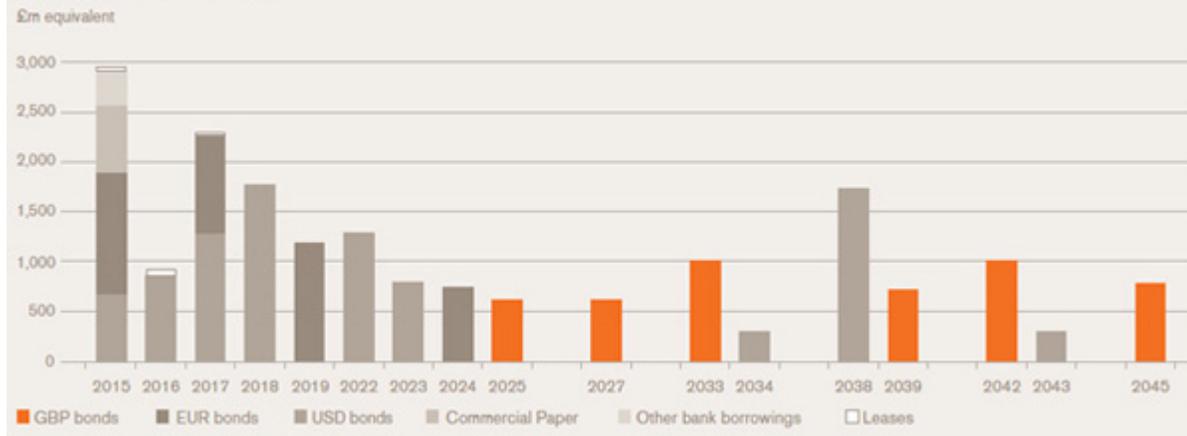
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### Maturity profile of gross debt



### 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
	<b>4,407</b>	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	<b>(14,377)</b>	(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.

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### 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



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# Governance & remuneration

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# Our Board

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Diversity Experience	
Scientific	19%
Finance	31%
Industry	50%

International experience	
Global	75%
USA	100%
Europe	94%
EMAP	63%

Composition	
Executive	19%
Non-Executive	81%
Male	69%
Female	31%

Tenure (Non-Executives)	
Up to 3 years	39%
3-6 years	15%
7-9 years	23%
Over 9 years	23%

Governance &amp; remuneration



**Sir Christopher Gent 66**  
Chairman

**Nationality**  
British

**Appointment date**  
1 June 2004 and as Chairman on 1 January 2005

**Committee membership**  
Corporate Responsibility Committee Chairman, Nominations, Remuneration and Finance

**Skills and experience**

Sir Christopher has many years of experience of leading global businesses and a track record of delivering outstanding performance in highly competitive industries. He was appointed Managing Director of Vodafone plc in 1985 and then became its Chief Executive Officer in 1997 until his retirement in 2003. Sir Christopher was also a Non-Executive Director of Ferrari SpA and a member of the British Airways International Business Advisory Board.

**External appointments**

Sir Christopher is a Senior Adviser at Bain & Co.

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**Sir Philip Hampton 61**  
Chairman Designate

**Nationality**  
British

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

**Committee membership**  
Nominations Committee Chairman, Finance

**Skills and experience**

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

**External appointments**

Sir Philip is currently Chairman of The Royal Bank of Scotland Group plc. He is also the Senior Independent Director of Anglo American Plc, Chairman of its Remuneration Committee and member of its Audit Committee.

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**Sir Andrew Witty 50**  
Chief Executive Officer

**Nationality**  
British

**Appointment date**  
31 January 2008 and as Chief Executive Officer on 21 May 2008

**Committee membership**  
Finance

**Skills and experience**

Sir Andrew joined GSK in 1985. He has worked in the UK, South Africa, the USA and Singapore in various senior roles. In 2003, he was appointed President of Europe and joined GSK's Corporate Executive Team. Sir Andrew served as the Lead Non-Executive Board member for the Department for Business, Innovation and Skills to December 2013. He was also President of the European Federation of Pharmaceutical Industries and Associations until July 2013.

**External appointments**

Sir Andrew is a member of the Prime Minister's Business Advisory Group and the Institute of Global Health Innovation Advisory Board (IGHI) at Imperial College, London. He is also appointed to the UK Business Ambassador Group and School of Economics & Management Advisory Board (SEM), Tsinghua University, Beijing, China. Sir Andrew is Chancellor of the University of Nottingham.



**Simon Dingemans 51**  
Chief Financial Officer

**Nationality**  
British

**Appointment date**  
4 January 2011 and as Chief Financial Officer on 1 April 2011

**Committee membership**  
Finance

**Skills and experience**

Prior to joining GSK, Simon has over 25 years of experience in investment banking at SG Warburg and Goldman Sachs. During this time, he advised a broad range of large corporates across a number of industry sectors, including pharmaceuticals and consumer healthcare. Simon advised GSK for over a decade before his appointment and was closely involved in a number of GSK's key strategic projects.

**External appointments**

Simon is Chairman of the 100 Group and a member of the Corporate Development Council for the National Theatre.

**Dr Moncef Slaoui 55**

Chairman, Global Vaccines

**Nationality**

Moroccan, Belgian &amp; American

**Appointment date**

17 May 2006

**Committee membership**

Finance

**Skills and experience**

Moncef joined GSK Vaccines in 1988 where he engineered the development of a robust vaccines pipeline. He then led Worldwide Business Development for pharmaceutical products before his appointment to lead R&D in 2006. He was given overall responsibility for GSK's Oncology Business in 2010; for GSK Vaccines in 2011; and for all Global Franchises in 2012. Moncef has advised the US President's Council of Advisors on Science and Technology and he was a member of the Board of the Agency for Science, Technology & Research (A\*STAR) until January 2011.

He has a PhD in Molecular Biology and Immunology from Université Libre de Bruxelles and has published more than 100 scientific papers and presentations. Prior to joining GSK, Moncef was Professor of Immunology at the University of Mons, Belgium.

**External appointments**

Moncef is a member of the PhRMA and the Biotechnology Industry Organization boards in the USA and a member of the Advisory Committee to the Director of National Institutes of Health. He is also an adviser to the Qatar Foundation, and a member of the Qatar Biomedical Research Institute Scientific Advisory Committee. Moncef serves as a Non-Executive Director for the International AIDS Vaccine Initiative (IAVI).

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**Sir Deryck Maughan 67**Senior Independent  
Non-Executive Director**Nationality**

British

**Appointment date**1 June 2004 and as Senior  
Independent Non-Executive  
Director on 1 May 2013**Committee membership**Audit & Risk, Nominations,  
Remuneration and Finance**Skills and experience**

Sir Deryck has a wealth of international corporate and investment banking experience, having previously served as Chairman and Chief Executive Officer of Citigroup International and of Salomon Brothers Inc. He served as Vice Chairman of the New York Stock Exchange from 1996 to 2000. Sir Deryck was a former Senior Adviser to, and Partner of, Kohlberg Kravis Roberts & Co and previously served as a Non-Executive Director of Thomson Reuters.

**External appointments**

Sir Deryck is a Non-Executive Director of BlackRock Inc, Trustee of the British Museum and of New York University Langone Medical Center.

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**Professor Sir Roy Anderson 67**Independent Non-Executive  
Director & Scientific Expert**Nationality**

British

**Appointment date**

1 October 2007

**Committee membership**

Nominations and Finance

**Skills and experience**

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

**External appointments**

Professor Sir Roy is a member of the International Advisory Board of Holdingham Group and he is a Trustee of the Natural History Museum, London. He is also a member of the Vaccine International Advisory Board (VACCIAB) of AJ Pharma Holding Sdn. Bhd in Malaysia.

**Dr Stephanie Burns 60**Independent Non-Executive  
Director**Nationality**

American

**Appointment date**

12 February 2007

**Committee membership**Corporate Responsibility,  
Remuneration and Finance**Skills and experience**

Stephanie is a recognised global business leader, having served as Chairman, President and CEO of Dow Corning Corporation until her retirement at the end of 2011. She has a strong scientific background, with a PhD in organic chemistry with an organosilicon specialty, and is an advocate for science education. Stephanie previously sat on the US President's Export Council and was an Officer of the Society of Chemical Industry, American Section, as well as the past Honorary President of the UK-based parent society. Stephanie was also an Officer and Chairman of the American



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Chemistry Council.

**External appointments**

Stephanie was appointed a Non-Executive Director of Corning Inc. in January 2012 and a Non-Executive Director of Kellogg Company, in February 2014.



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**Stacey Cartwright 51**  
Independent Non-Executive Director

**Nationality**  
British

**Appointment date**  
1 April 2011

**Committee membership**  
Audit & Risk and Finance

**Skills and experience**  
Stacey is a Chartered Accountant and has significant experience of global consumer businesses and of corporate finance. She served as Executive Vice President, Chief Financial Officer of Burberry Group plc until July 2013. Prior to joining Burberry Group plc in 2004, Stacey held the role of Chief Financial Officer at Egg plc between 1999 and 2003, and from 1988 to 1999 she worked in various finance-related positions at Granada Group plc.

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

**External appointments**  
Stacey is Chief Executive Officer of Harvey Nichols Group of Companies.



**Lynn Elsenhans 58**  
Independent Non-Executive Director

**Nationality**  
American

**Appointment date**  
1 July 2012

**Committee membership**  
Audit & Risk, Corporate Responsibility, Nominations and Finance

**Skills and experience**  
Lynn has a wealth of experience of running a global business and significant knowledge of the global markets in which GSK operates. She served as Chair, President and Chief Executive Officer of Sunoco Inc. from 2009 to 2012. Prior to joining Sunoco in 2008 as President and Chief Executive Officer, Lynn worked for Royal Dutch Shell which she joined in 1980 and where she held a number of senior roles, including Executive Vice President, Global Manufacturing from 2005 to 2008.

**External appointments**  
Lynn is a Non-Executive Director of Baker Hughes Inc. and Flowserve Corporation, a Director of the Texas Medical Center, and a Non-Executive Director of The First Tee of Greater Houston. She is also a Trustee of the United Way of Greater Houston and a Trustee of Rice University.



**Judy Lewent 66**  
Independent Non-Executive Director

**Nationality**  
American

**Appointment date**  
1 April 2011

**Committee membership**  
Audit & Risk Committee Chairman, Nominations, Remuneration and Finance

**Skills and experience**  
Judy has extensive knowledge of the global pharmaceutical industry and of corporate finance, having joined Merck & Co. in 1980 and then served as Chief Financial Officer from 1990 to 2007 when she retired. Judy was previously a Non-Executive Director of Purdue Pharma Inc, Napp Pharmaceutical Holdings Limited and certain Mundipharma International Limited companies until 31 December 2014. Judy previously served as a Non-Executive Director of Dell Inc. and Quaker Oats Company.

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

**External appointments**  
Judy is a Non-Executive Director of Thermo Fisher Scientific Inc. and Motorola Solutions Inc. She is also a Trustee of the Rockefeller Family Trust and Chairperson of the Audit Committee of Rockefeller Financial Services, a life member of the Massachusetts Institute of Technology Corporation and a member of the American Academy of Arts and Sciences.



**Dr Daniel Podolsky 61**  
Independent Non-Executive Director & Scientific Expert

**Nationality**  
American

**Appointment date**  
1 July 2006

**Committee membership**  
Audit & Risk, Corporate Responsibility and Finance

**Skills and experience**  
Daniel is a world-renowned researcher who has advanced knowledge of underlying mechanisms of disease and new therapies for gastrointestinal disorders. He was formerly Mallinckrodt Professor of Medicine and Chief of Gastroenterology at Massachusetts General Hospital and Harvard Medical School, and previously served as the Chief Academic Officer of Partners Healthcare System. Daniel's current responsibilities in leading a large academic medical centre give him relevant insight into healthcare delivery. Daniel brings scientific expertise to the Board and the Audit & Risk Committee's deliberations.

**External appointments**  
Daniel is President of the University of Texas Southwestern Medical Center and holds the Philip O'Bryan Montgomery, Jr., M.D. Distinguished



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Presidential Chair in Academic Administration, and the Doris and Bryan Wildenthal Distinguished Chair in Medical Science. He is a member of the Institute of Medicine of the US National Academy of Sciences, member of the Board of the Southwestern Medical Foundation and is a Director of Antibe Therapeutics, Inc.

He is also a member of the National Academies of Sciences Board on Army Science and Technology.

**Urs Rohner 55**

Independent Non-Executive Director

**Nationality**  
Swiss**Appointment date**  
1 January 2015**Committee membership**  
Remuneration and Finance**Skills and experience**

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

**External appointments**

Urs is currently appointed Chairman of the Board of Credit Suisse Group AG and of the Chairman's and Governance Committee. He is also appointed Chairman and member of the Board of Trustees of Credit Suisse Research Institute and Credit Suisse Foundation.

**Tom de Swaan 68**

Independent Non-Executive Director

**Nationality**  
Dutch**Appointment date**  
1 January 2006**Committee membership**  
Remuneration Committee  
Chairman, Audit & Risk,  
Nominations and Finance**Skills and experience**

Tom has had a long and distinguished career in the European banking industry, having been a member of the Managing Board and Chief Financial Officer of ABN AMRO. Tom has held various executive positions at the Dutch Central Bank and was a Non-Executive Director of the Financial Services Authority (now the Financial Conduct Authority) from 2001 to 2007. He was previously a Non-Executive Director of KPMG's Public Interest Committee and was also Vice Chairman of the Supervisory Board and Chairman of the Audit Committee of Royal Ahold.

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

**External appointments**

Tom is Chairman of the Supervisory Board of Van Lanschot Bankiers and Chairman of the Board of Directors of Zurich Insurance Group. He is also a member of the Supervisory Board of Royal DSM, and a Senior Adviser to Ondra Partners.

**Jing Ulrich 47**

Independent Non-Executive Director

**Nationality**  
American**Appointment date**  
1 July 2012**Committee membership**  
Audit & Risk and Finance**Skills and experience**

Jing is Managing Director and Vice Chairman of Asia Pacific at JPMorgan Chase. She advises the firm's most senior global clients across all asset classes, while building relationships with executives at Asia's leading enterprises. Jing is one of the most prominent advisers to large global asset management companies, sovereign wealth funds, and multinational corporations. She works with all lines of business at JPMorgan Chase to foster greater cross-border collaboration and strengthen senior client relationships in Asia Pacific and the rest of the world.

Jing was Managing Director and Chair of Global Markets, China at JPMorgan between 2005 and 2013. From 2003 to 2005, Jing worked for Deutsche Bank as Managing Director, Head of Greater China Equities. She previously held financial positions, specialising in the Asia Pacific region, with CLSA Asia Pacific Markets and the Emerging Markets Investors Corporation. She was educated at Harvard and Stanford Universities.

**External appointments**

Jing is currently an Independent Director of Ermenegildo Zegna SpA and a member of Bocconi University's International Advisory Council.

**Hans Wijers 64**

Independent Non-Executive Director

**Nationality**  
Dutch**Appointment date**  
1 April 2013**Committee membership**  
Corporate Responsibility,  
Remuneration and Finance**Skills and experience**

Hans has a broad range of business, economic and political experience, having served as Chief Executive Officer and Chairman at Akzo Nobel NV from 2002 to 2012. Hans had a long and distinguished career in academia, public service and strategy consulting. He served as Senior Partner of the Boston Consulting Group from 1998 to 2002.

**External appointments**

Hans is Chairman of the Supervisory Board of Heineken NV and also Deputy Chairman and Non-Executive Director of Royal Dutch Shell. He is Chairman of the Supervisory Board of AFC Ajax and member of the Supervisory Board of HAL Holding N.V.



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# Our Corporate Executive Team

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**Sir Andrew Witty**  
Chief Executive Officer

See 'Our Board' on page 72.



**Deirdre Connelly**  
President, North America  
Pharmaceuticals

Deirdre joined GSK and the CET as President, North America Pharmaceuticals in February 2009 after working at Eli Lilly and Company for 24 years. She held a variety of positions there including President of US Operations, Senior Vice President of Global Commercialisations for Woman's Health and Senior Vice President of Human Resources.

Deirdre holds a Bachelor's degree in Marketing and Economics from Lycoming College in Pennsylvania and graduated from Harvard University's Advanced Management Program in 1999.

She serves as a Director on the PhRMA Board, the Board of Macy's Inc. and the Harvard University Public Health Policy Council. Deirdre is a native of San Juan, Puerto Rico.

Deirdre announced her retirement from GSK and stepped down from CET in February 2015.



**Roger Connor**  
President, Global  
Manufacturing & Supply

Roger joined CET in 2012 and was appointed as President, Global Manufacturing & Supply (GMS) in 2013, after working for a year as President Designate, GMS.

Roger joined GSK in 1998 from AstraZeneca and has worked in finance and manufacturing strategy roles, including at GSK sites in Cork in Ireland and Ware in the UK. Prior to his position in GMS, Roger was Vice President, Office of the CEO and Corporate Strategy, from February 2010.

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



**Simon Dingemans**  
Chief Financial Officer

See 'Our Board' on page 72.

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**Nick Hirons**  
Senior Vice President, Global  
Ethics and Compliance

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

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

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



**Abbas Hussain**  
President, Global  
Pharmaceuticals

Abbas joined CET in 2008 and was appointed President, Global Pharmaceuticals in October 2014, having joined the company as President, Emerging Markets & Asia Pacific in June 2008. He joined the ViiV Healthcare Ltd. Board in October 2009 and the Aspen Board in December 2009.

Previously, he spent 20 years at Eli Lilly where he held positions including President, Europe and before that Vice President, Europe. He also held positions with Eli Lilly in Australia, the USA, India, Turkey and Germany in several roles including business development, sales and marketing, and management.

He has a degree in Medicinal Chemistry & Pharmacology from Loughborough University and was born in Madras, India.



**Bill Louv**  
Senior Vice President, Core  
Business Services

Bill joined CET in 2007 and was appointed in April 2010 to create and lead Core Business Services (CBS), which integrates the shared services of the global support functions.

He joined the company in 1994 as Vice President of Medical Data Sciences, and has held increasingly senior roles in R&D and IT.

Prior to joining GSK, Bill was with Marion Merrell Dow and earlier was an associate professor at the University of Alabama Medical Center.

Bill has a Bachelor of Science degree in Biology from the College of William and Mary, and Master of Science and Doctor of Philosophy degrees in Statistics from the University of Florida. He joined the Board of River Logic, Inc. in February 2015.



**David Redfern**  
Chief Strategy Officer

David joined CET as Chief Strategy Officer in May 2008 and is responsible for corporate development and strategic planning. In addition to his current role, he was made Chairman of the Board of ViiV Healthcare Ltd. in April 2011.

Previously, he was Senior Vice President, Northern Europe with responsibility for managing GSK's pharmaceutical businesses in that region and, prior to that, was Senior Vice President for Central and Eastern Europe. David joined GSK in 1994 and was Finance Director of the European business from 1999 to 2002.

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

On February 1 2015 David was appointed as non-executive director of Aspen Pharmacare Holdings Ltd, the South Africa based global generics company in which GSK holds a minority equity stake.



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**Dr Moncef Slaoui**

Chairman, Global Vaccines

See 'Our Board' on page 73.

**Claire Thomas**Senior Vice President,  
Human Resources

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

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

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

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

**Phil Thomson**Senior Vice President,  
Communications and  
Government Affairs

Phil joined CET in 2011 and was appointed Senior Vice President, Communications and Government Affairs in 2014. He has responsibility for Media Relations, Investor Relations, Corporate Responsibility, Internal Communications, Product Communications and Government Affairs.

He joined Glaxo Wellcome as a trainee in 1996, moving from pharmaceutical brand marketing to product communications. In 1999, he became Director of Media Relations for Glaxo Wellcome plc and was then Director, Investor Relations from 2001 to 2004, when he returned to Corporate Media Relations as Vice President. Phil has worked on numerous corporate, product and reputational matters at GSK.

Phil earned his degree in English and History from Durham University.

**Dan Troy**Senior Vice President  
& General Counsel

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

He was previously a Partner at the Washington law firm Sidley Austin LLP, where he represented mainly pharmaceutical companies and trade associations on matters related to the US Food and Drug Administration (FDA) and government regulations. Dan was formerly Chief Counsel for the FDA, where he served as a primary liaison to the White House and the US Department of Health and Human Services.

Dan is a graduate from Cornell University's School of Industrial and Labor Relations, and earned his law degree from Columbia University School of Law. Dan was named a 'Legend in the Law' at the Burton Awards.

**Patrick Vallance**President, Pharmaceuticals  
R&D

Patrick joined CET in 2010 and was appointed President, Pharmaceuticals R&D, in January 2012. Prior to this he was Senior Vice President, Medicines Discovery and Development.

Patrick joined the company in 2006 as Head of Drug Discovery. He has focused the organisation on science that has the best chance of leading to new medicines, and created small, multidisciplinary teams called Discovery Performance Units. He is transforming GSK's approach to late stage clinical trial design and execution.

Before joining GSK Patrick was a clinical academic at University College London. He is a director of Genome Research Limited.

**Emma Walmsley**President, Consumer  
Healthcare

Emma joined GSK in May 2010, and was appointed to CET as President of the Consumer Healthcare business in October 2011. Under Emma's leadership the business has a new strategy to become the leading Fast Moving Consumer Healthcare company.

On 22 April 2014, GSK announced an inter-conditional deal with Novartis, which includes a proposal to create a joint venture for both companies' consumer healthcare businesses. If this provisional deal is completed, Emma would be CEO of the joint venture and a member of its Board.

Prior to joining GSK, Emma worked with L'Oreal for 17 years. She has a degree in Classics and Modern Languages from Oxford University.

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# Corporate governance

## Letter to shareholders

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### Dear Shareholder

As Chairman of the Board, I am committed to GSK seeking to operate to the highest standards of corporate governance. We believe that it is our governance structure that underpins our ability to deliver our strategy to grow a diversified business, deliver more products of value and simplify our operating model, and in doing so create additional long-term value for our shareholders.

No less important for myself and the Board is the need to firmly embed values-based conduct and behaviour of our employees into our governance structure. We want to ensure that everything that we as a Board and our employees do is guided by our commitment to our values and to being in compliance with the local laws and regulations within which we operate. The foundations of these commitments are laid out in our Code of Conduct, which we strengthened and re-issued in January 2014, and which is available in the governance area of our website. It draws together a number of key company policy principles and provides a working guide for the way in which we apply our values across our global operations.

I highlight below key corporate governance priorities that the Board has addressed during 2014.

### Board evaluation

An independent external evaluation was undertaken of the Board and our Committees and I am pleased to report that the results of Dr Tracy Long's review were positive, confirming that the Board was operating well and was effective in dealing with the various challenges it faces. This is a time of significant transition for the company and the Board and two key priorities for the Board are to:

- close our proposed three-part transaction with Novartis which is on track to complete in the week commencing 2 March 2015 and integrate Novartis' Vaccines and Consumer Healthcare businesses into our existing governance arrangements; and
- manage an orderly refreshment of the Board as a result of a number of planned retirements from the Board over the next two to three years and address several identified additional skills and experience gaps.

Sir Philip Hampton, our Chairman Designate, has succeeded me as Nominations Committee Chairman so that he can immediately focus on tailoring the refreshment of the Board to the requirements of the future reshaped Group, which he will lead through the next chapter in its development, and the evolving external landscape. I continue to serve on the Committee to provide continuity and support to Sir Philip. Further details of Dr Long's main findings and the action points that the Board has agreed to address are set out on page 81.

### Annual investor meetings

At these sessions, which were held in November, I was pleased to discuss our corporate governance practices with our largest shareholders, while Tom de Swaan, our Remuneration Committee Chairman, covered our executive remuneration arrangements.

In addition, Judy Lewent, who chairs our Audit & Risk Committee, provided an overview of the work of the Committee and Sir Deryck Maughan, our Senior Independent Director, provided his insights into the Board's culture and dynamics. Listening to the views of our shareholders and receiving their feedback at these sessions that are held in the run up to the corporate reporting season, helps us to shape key areas of our Governance & Remuneration disclosures.

### UK Corporate Governance Code

We have reviewed our responsibilities and reporting requirements against the new standards included in the Financial Reporting Council's updated UK Corporate Governance Code published in September 2014, which are effective for our 2015 financial year. The principal changes relate to going concern, "viability statements" and other internal control and risk management areas and to bring the Code up-to-date with new remuneration reporting practices. Our review indicated that we are in a strong position to comply fully with these new standards and the Board will report formally in next year's Annual Report on their implementation.

### Appointment of Chairman Designate

I welcome the appointment of Sir Philip Hampton as my designated successor. He joined the Board on 1 January 2015 and will become Deputy Chairman from 1 April 2015. Sir Philip is due to succeed me on 7 May 2015, from the end of our AGM. He has been undergoing a thorough and wide-ranging induction process, which has been tailored to his role and background, and which is detailed on page 81. This has provided him with a firm basis to make a valuable early contribution to our Board deliberations and to be fully conversant with our businesses and the environment in which we operate before he becomes Chairman. In the meantime, I am working very closely with Sir Philip, with the support of Sir Deryck Maughan, our Senior Independent Director, during this handover period to ensure a smooth and seamless transition.

### China investigations and ABAC

We reached a conclusion in the investigations of our Chinese business in September 2014, but this has been a deeply disappointing matter for GSK. We cooperated fully with the authorities and took steps to comprehensively rectify the issues identified at our operations in China. The Audit & Risk Committee, which each Board member attends, was fully apprised of developments and continues to closely monitor the Group's ABAC activities. Further details are set out by Judy Lewent on page 86.

### Audit tendering

We have regularly reviewed developments at a UK and EU level to reform the audit market, particularly in relation to regulations to govern audit contract tendering and audit firm rotation. We have also taken into consideration the views of our shareholders. As part of its overall assessment of the auditors' performance our Audit & Risk Committee reviewed the implications of tendering the external audit contract. Details of its conclusions are set out on page 90. The Committee does not intend to initiate a tender exercise during 2015 due to the significant level of change the company is experiencing. It expects, however, to initiate preparations for a tender process during the second half of 2016, in order that a new auditor could take on the audit from 2018.

The following pages outline our approach to governance and how these practices underpin the delivery of our strategy. The structure of the Corporate Governance report has been maintained, so that those statutory and risk disclosures that previously appeared in the report can continue to be referred to in the Shareholder Information section on pages 242 to 248 and the Risk Management section on pages 16 to 17 respectively.

I commend this report to all of our shareholders.

**Sir Christopher Gent**  
Chairman  
26 February 2015

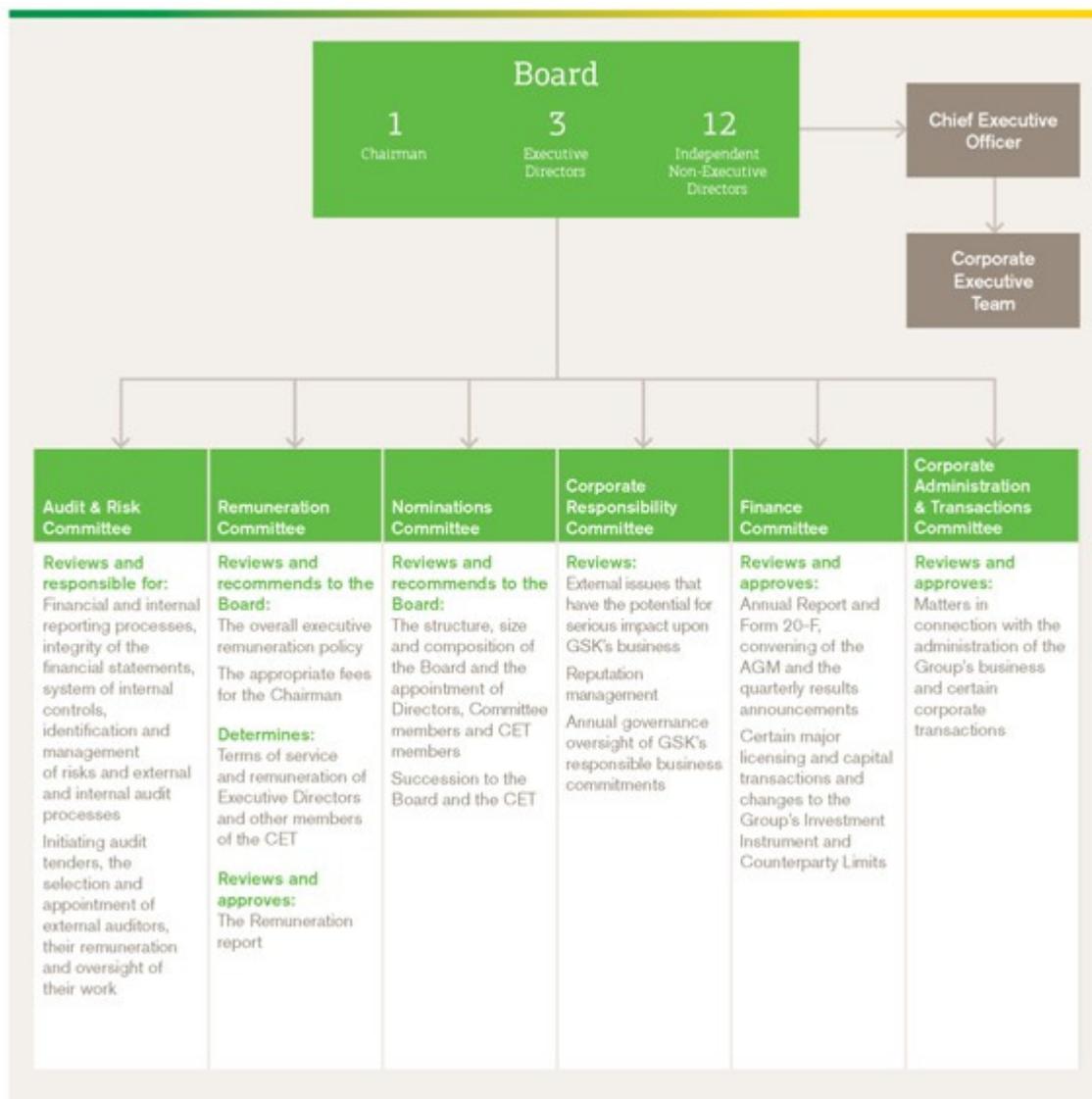


## Corporate governance framework

The Board has a coherent corporate governance framework with clearly defined responsibilities and accountabilities designed to safeguard and enhance long-term shareholder value and provide a robust platform to realise the Group's strategy to Grow, Deliver and Simplify. Our internal control and risk management arrangements, which are described on pages 84 to 85, and 16 to 17, are an integral part of GSK's governance framework.

### Board Committees

In order for the Board to operate effectively and to give full consideration to key matters, Board Committees have been established by the Board. A summary of the role of each Board Committee is set out in the table below. The full terms of reference of each Committee are available on our website and reports on the membership of, and work undertaken by, the Audit & Risk, Remuneration, Nominations and Corporate Responsibility Committees during 2014 are given on pages 86 to 95 and 108 to 109.



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# Corporate governance

## continued

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### Board report to shareholders – Oversight and stewardship in 2014 and future actions

#### The Board

The Board is pleased to report that in 2014 it was in full compliance with the requirements of the UK Corporate Governance Code. See page 87 with respect to our position on audit tendering.

The Board is responsible for the long-term success of the company, corporate governance, strategy, risk management and financial performance. It is accountable to shareholders for ensuring that the Group is appropriately managed and governed, and delivers GSK's strategy to Grow, Deliver and Simplify.

#### 2014 Board programme

The Board met six times in 2014 and each Board member attended all scheduled Board meetings.

The Board agendas were shaped to create more time for strategic discussion and debate by closely managing time allocated to routine items to ensure focused consideration of our strategic priorities. During 2014, the agendas for Board meetings included the following business:

Month	Strategy	Board and risk oversight*	Governance
January	<ul style="list-style-type: none"> <li>Approval of 2014-16 plan</li> </ul>	<ul style="list-style-type: none"> <li>Review of 2013 financial results and outlook for 2014</li> <li>Re-appointment of auditors</li> </ul>	<ul style="list-style-type: none"> <li>Review of internal 2013 Board evaluation report</li> <li>Secretary's Report (including regulatory and governance updates)</li> </ul>
March	<ul style="list-style-type: none"> <li>Review of GMS performance and strategy update</li> <li>'Deep Dive' – pipeline launches</li> </ul>		<ul style="list-style-type: none"> <li>Secretary's Report (including regulatory and governance updates)</li> </ul>
May	<ul style="list-style-type: none"> <li>'Deep Dive' – India</li> <li>Patent protection</li> </ul>	<ul style="list-style-type: none"> <li>Review of financial results for the year to date</li> </ul>	<ul style="list-style-type: none"> <li>Preparation for AGM</li> <li>Secretary's Report (including regulatory and governance updates)</li> </ul>
July	<ul style="list-style-type: none"> <li>Credit profile and distribution policy</li> <li>Review of Funding strategy and Treasury policy</li> <li>Review of Pensions strategy</li> <li>Review of Insurance strategy</li> </ul>	<ul style="list-style-type: none"> <li>Annual EMAP and Vaccines business reviews</li> <li>R&amp;D annual update</li> <li>North American Pharmaceuticals annual update</li> </ul>	<ul style="list-style-type: none"> <li>Secretary's Report (including regulatory and governance updates)</li> </ul>
October	<ul style="list-style-type: none"> <li>Review of output from the annual Board &amp; CET strategy meeting</li> <li>Review of Talent and Leadership Development strategy</li> </ul>		<ul style="list-style-type: none"> <li>Three-part Novartis transaction shareholder approval process</li> <li>Secretary's Report (including regulatory and governance updates)</li> </ul>
December	<ul style="list-style-type: none"> <li>Review of 2015-17 plan</li> </ul>	<ul style="list-style-type: none"> <li>Europe annual update</li> </ul>	<ul style="list-style-type: none"> <li>Review of external 2014 Board evaluation</li> <li>Secretary's Report (including regulatory and governance updates)</li> </ul>

\* During the year, all Board members were invited to attend the Audit & Risk Committee meetings where risk matters were routinely discussed.

#### 2014 Board performance

During 2013, the Board identified certain actions to assist in adding further value to its deliberations. The performance of the Board in 2014 against these actions is set out below:

Actions	Progress/Achievement
(i) <b>Strategy</b> The Board would look to take a longer term view (ten years) of the key strategic issues facing the company.	The proposed transformational three-part Novartis transaction and exploring an IPO of a minority interest in ViiV Healthcare to enhance future strategic flexibility in the reshaped Group demonstrate the Board's longer term strategic positioning of GSK.
(ii) <b>Board meetings</b> Time spent on routine matters would be further managed to enable strategic/business discussions to take priority, while ensuring the critical areas of oversight were maintained.	Consideration of the regular annual business unit updates by the Board was adjusted to focus principally on strategic issues, while the assurance and risk management aspects of these updates were considered at the Audit & Risk Committee meetings which were attended by the full Board.
(iii) <b>Annual Board/CET meetings</b> The structure and format of these sessions would be reviewed to ensure that they are appropriately geared to realising maximum value in terms of strategic insights and direction setting.	The format of these sessions was refined and simplified. Presentations were shortened and are now made by the CET member responsible for the proposed shape and direction of the strategic issue under consideration. This increased the time to challenge and develop strategy in greater depth and enhanced personal accountability for proposed direction setting.
(iv) <b>China review</b> All appropriate actions would be reviewed by the Board and implemented as necessary on the conclusion of the external investigation and the Ropes and Gray independent review.	Ropes and Gray's review is drawing to a conclusion and the Board remains committed to reviewing and implementing as appropriate the independent investigator's recommended actions. The actions already undertaken in China are set out on page 86.

These actions are set out in full on page 84 of GSK's 2013 Annual Report, which discusses the internally facilitated evaluation of the Board's activities by the Senior Independent Director.

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## Board report to shareholders – Oversight and stewardship in 2014 and future actions *continued*

### 2014 & 2015 AGMs – Key highlights at a glance

2014 AGM – held on 7 May 2014 at QEII Conference Centre, London	2015 AGM – to be held on 7 May 2015 at QEII Conference Centre, London
<ul style="list-style-type: none"> <li>Full Director attendance</li> <li>3.2 to 3.59 billion votes cast for each resolution (74% of issued share capital)</li> <li>Sir Robert Wilson stood down after ten years of service</li> <li>All other Directors retired and were re-elected to the Board, receiving at least 91.5% of the votes cast in favour</li> <li><b>Highest votes in favour:</b> 99.9% to re-elect a number of Directors</li> <li><b>Lowest votes in favour:</b> 89.4% to reduce the required notice for a general meeting</li> </ul>	<ul style="list-style-type: none"> <li>Sir Christopher Gent, Tom de Swaan and Jing Ulrich will stand down from the Board after ten, nine and three years of service respectively</li> <li>Sir Philip Hampton and Urs Rohner will stand for election to the Board</li> <li>All other Directors will stand for re-election to the Board</li> <li>The Board believes that each Director is effective and demonstrates commitment to his or her role</li> <li>Each Director has been formally evaluated by the Chairman before standing for re-election</li> </ul>

### Chairman designate induction programme – Sir Philip Hampton

Sir Philip's induction programme has been designed and arranged by the Chairman in consultation with the Company Secretary and the CEO. It is based on the principles used in the company's new Non-Executive Director induction programme, but has been further customised to take into account Sir Philip's designated leadership role at GSK. It seeks to build a clear and comprehensive view of the industry and GSK's strategy and positioning. The induction programme is being rolled out in phases which are set out below.

Area of understanding	Induction content
The pharmaceutical industry	Briefing on the industry from an external consultant and investors' perspectives.
Our businesses	Teach-in sessions with the Heads of Global Pharmaceuticals, Consumer Healthcare and Vaccines.
Our operating model	Teach-in sessions with the Heads of R&D and GMS.
Our Corporate operations	One-to-one meetings with the: <ul style="list-style-type: none"> <li>CFO and Heads of HR, Remuneration Corporate Strategy, Communications and Government Affairs, Legal, Global Ethics and Compliance and Core Business Services, and</li> <li>senior executives responsible for Tax, Treasury, Pensions, IR, Media, Government Affairs, Audit &amp; Assurance and Security.</li> </ul>
Shareholders and other external stakeholders and advisers	A programme of meetings is arranged.

His induction is underpinned by a thorough grounding in our corporate governance arrangements. This includes meetings with each Board Director, reviewing current and past Board evaluations and attending all meetings of Committees of which he is not a member, so that he can assess and understand our corporate governance framework, Boardroom culture and dynamics. In addition, his induction activities are being supplemented by an extensive programme of visits to our principal R&D, GMS and Vaccines sites and meeting each of our external advisers.

### Board performance action points for 2015

The main findings and agreed action points arising from the 2014 Board evaluation review, externally facilitated by Dr Tracy Long of Boardroom Review Limited, against which progress will be disclosed in GSK's 2015 Annual Report, are set out below:

Key findings	Agreed action points
The composition of the Board is due to change over the next two to three years which will require a carefully planned and thoughtfully executed refreshment programme.	The Chairman Designate, together with the Nominations Committee, will seek to enhance the governance processes relating to Board composition, tenure and size.  They will review and seek to develop objective specifications and plans for all the Board's roles in alignment with our strategy, the external landscape, and the company's evolving circumstances.
The Directors have identified gaps in the Board's current composition relating to US pricing and healthcare, emerging markets and consumer healthcare knowledge.	Closing these knowledge and experience gaps will be considered as part of the process of recruitment of new Non Executive Directors combined with the refreshment of designated specialist roles on the Board, such as medical and scientific expertise and the Senior Independent Director (SID).
Given the speed and complexity of the external landscape changes, and potential for surprises, highly experienced Non-Executive Directors are a crucial component of the Board's composition.	The critical skill sets of potential candidates, such as international markets and cultural experience, crisis and stakeholder management, will be considered and the composition choices of peer group Boards will be benchmarked.
The replacement of the current SID who is due to retire at the 2016 AGM is a priority issue.	The Chairman Designate is leading the search involving internal and external candidates for this role.  A SID specification is being developed that balances the replacement of existing knowledge with the ability to work well with the Chairman Designate, conduct robust Board evaluations, interact well with shareholders and be able to commit the necessary time to the role.
Consideration should be given to reducing the size of the Board, if it	This aspiration will be considered against a refreshed Board competence/skills matrix that is being used as part of the Board refreshment programme, and is linked to the



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is judged to have a strong enough composition and dynamic.	company's strategy.
Consideration should be given to enhancing the Non-Executive Director evaluation process.	The Chairman Designate will lead this process and consider best practice techniques, such as a combination of annual individual and peer evaluations.



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### Leadership and effectiveness

#### The Board

The Board met six times in 2014, with each member attending as follows:

	Number of meetings held whilst a Board member	Number of meetings attended
Sir Christopher Gent	6	6/6
Sir Andrew Witty	6	6/6
Simon Dingemans	6	6/6
Dr Moncef Slaoui	6	6/6
Professor Sir Roy Anderson	6	6/6
Dr Stephanie Burns	6	6/6
Stacey Cartwright	6	6/6
Lynn Elsenhans	6	6/6
Judy Lewent	6	6/6
Sir Deryck Maughan	6	6/6
Dr Daniel Podolsky	6	6/6
Tom de Swaan	6	6/6
Jing Ulrich	6	6/6
Hans Wijers	6	6/6
Sir Robert Wilson*	3	3/3

In addition to the scheduled meetings, the Board also met on a quorate basis on 13 occasions to consider corporate transactions, including the three-part Novartis transaction, and China-related developments and to approve the appointments of Sir Philip Hampton and Urs Rohner to the Board.

Sir Philip Hampton and Urs Rohner were both appointed as Non-Executive Directors with effect from 1 January 2015.

\* Sir Robert Wilson retired from the Board on 7 May 2014.

#### The Chairman

The role of the Chairman is to lead and manage the business of the Board and to provide direction and focus, while ensuring that there is a clear structure for the effective operation of the Board and its Committees. He sets the agenda for Board discussions to promote effective and constructive debate and to support a sound decision-making process, ensuring that the Board receives accurate, timely and clear information, in particular about the company's performance.

The Chairman works closely with the Chief Executive Officer, Sir Andrew Witty, to ensure that the strategies and actions agreed by the Board are effectively implemented. He also provides support and advice to Sir Andrew, while respecting his executive responsibility for managing the Group. The division of responsibilities between the Chairman and the CEO has been agreed by the Board and is set out in the governance section of our website.

The Chairman is responsible to shareholders for the performance of the Group and leads discussions and the development of relations with them.

Sir Philip Hampton, who joined the Board on 1 January 2015, will become Deputy Chairman on 1 April 2015, and will succeed Sir Christopher Gent as Chairman with effect from the end of our AGM on 7 May 2015.

#### Non-Executive Directors

The Non-Executive Directors provide a strong, independent element on the Board. They are well placed to constructively challenge and support management and to shape proposals on strategy and succession planning. Between them, they bring independent judgement and a breadth of skills and experience gained at the most senior levels of international business operations and academia.

#### Senior Independent Director

Sir Deryck Maughan has been our Senior Independent Director (SID) since 1 May 2013. Sir Deryck's role is to act as a sounding board for the Chairman and a trusted intermediary for the other Directors. He is also available as an additional point of contact for shareholders. His responsibilities include the evaluation of the performance of the Chairman and, at the request of the Chairman, evaluating the Board and its Committees (in collaboration with the Committee Chairmen) in years when the evaluation is conducted internally. The SID also works on the process for the selection of a new Chairman as appropriate, and he chairs the Nominations Committee when agreeing the recommendation to the Board for the Chairman's successor. Further details of the SID's role in the process undertaken to select Sir Philip to replace Sir Christopher as Chairman are available on page 92.

Sir Deryck maintains an understanding of the issues and concerns of our major shareholders through meetings with them and reports from our Investor Relations team and briefings from the Company Secretary on corporate governance issues.

#### CEO

Sir Andrew is responsible for the management of the business, developing the Group's strategic direction for consideration and approval by the Board and implementing the agreed strategy. He is assisted by other members of the Corporate Executive Team (CET), which meets at least 11 times a year and more often if required.

Short biographies of the members of the CET are given under 'Our Corporate Executive Team' on pages 76 and 77.

#### Company Secretary

The Company Secretary, Victoria Whyte, is a solicitor and a Fellow of the Institute of Chartered Secretaries and Administrators. Victoria was formerly Deputy Secretary and Secretary to the Remuneration Committee. She has acted as Secretary to the Board and all the Board's Committees since her appointment as Company Secretary on 1 January 2011.

Victoria supports the Chairman in designing the induction for new Directors, in the delivery of our corporate governance agenda, in particular in the planning of agendas for the annual cycle of Board and Committee meetings, and in ensuring that information is made available to Board members on a timely basis. Victoria advises the Directors on Board procedures and corporate governance matters, and arranges for the Non-Executive Directors to meet with investors to discuss aspects of our corporate governance arrangements on request. She also arranges for them to attend internal management meetings and to make visits to our business operations to enhance their knowledge and understanding of the business.

During 2014, the Company Secretary responded to various consultations on the evolving global governance and corporate reporting agenda on behalf of the Group and engaged with shareholders to ensure they fully understood GSK's governance and remuneration arrangements.

#### Independence

The Board considers all of its Non-Executive Directors to be independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of their judgement. Both Sir Christopher Gent and Sir Philip Hampton satisfied the independence test on their respective appointments to the Board.

The independence of those Non-Executive Directors who have served on the Board for over six years was subjected to a rigorous review.

In particular, the Board considered that Sir Deryck Maughan, who has served on the Board for over nine years, continued to demonstrate the characteristics of independence, such as challenging management and taking part in rigorous debate, whilst possessing outstanding knowledge of the company's business affairs.



### Board composition and diversity

We seek to build an effective and complementary Board, whose capability is appropriate for the scale, complexity and strategic positioning of our business. The process for Board appointments is led by the Nominations Committee and is described on pages 92 to 93.

We are mindful of the need to balance the composition of the Board and its Committees and to refresh them progressively over time so that we can draw upon the experience of longer serving Directors, while tapping into the new external perspectives and insights which more recent appointees bring to the Board's deliberations.

Non-Executive Directors are drawn from a wide range of industries and backgrounds, including pharmaceutical and healthcare, medical research and academia, and retail, insurance and financial services, and have appropriate experience of complex organisations with global reach. Some have considerable experience of the pharmaceutical industry and the more recent appointees bring a new approach to the Group, and to Board discussions.

The Board's diversity policy is set out on page 93 and for details of the gender diversity of GSK's global workforce, see page 45 under Responsible business.

### Board induction, business awareness and training

The Company Secretary assists the Chairman in designing and facilitating a tailored induction programme for new Directors and their ongoing training. The Chairman Designate induction programme that was devised for Sir Philip Hampton and commenced when he joined the Board is presented on page 81.

The induction programme for Non-Executive Directors typically includes meetings with members of the CET and other senior executives to explain the company's business, the commercial and regulatory environment in which we operate and an investor's perspective, as well as guidance on the duties and obligations of a Director of a listed company. Visits to our business operations are also a feature of the induction programme.

To ensure that our Non-Executive Directors develop and maintain a greater insight and understanding of the business, they are invited to attend internal management meetings, including meetings of the CET, the Research & Development Executive, the Product Executive, the Scientific Review Board, the Portfolio Investment Board, the Commercial Accountability Board and the Risk Oversight and Compliance Council. They also meet employees informally during visits to the Group's operations and at receptions held around Board meetings.

The Chairman also meets with each Director annually on a one-to-one basis to discuss his or her ongoing training and development requirements.

The Board is kept up-to-date on legal, regulatory and governance matters through regular papers from the Company Secretary and presentations by internal and external advisers.

During the year, the Board was briefed on various regulatory and corporate governance developments. This principally included the anticipated impact of the new UK and EU rules on auditing market reform and the Financial Reporting Council's consultation on, and subsequent publication of, an updated UK Corporate Governance Code and associated guidance covering going concern, internal control and risk management.

The Board members undertook specific refresher training on, and under the provisions of, the Corporate Integrity Agreement (CIA) in 2014. Each new Board member is required, as part of his or her induction programme, to receive comprehensive training on the CIA. Sir Philip Hampton and Urs Rohner have each taken part in such a training session in January 2015 as part of their induction programmes.

### Time allocation

Each Non-Executive Director has a letter of appointment which sets out the terms and conditions of his or her directorship.

The Chairman and our Non-Executive Directors are expected to devote such time as is necessary for the proper performance of their duties. No precise timings are given as this will vary from year to year depending on the company's activities. Directors are expected to attend all Board meetings, and any additional meetings as required.

They are also expected to attend meetings of the Committees of which they are members, the Audit & Risk Committee meetings (which are open to all Directors in furtherance of their risk and compliance responsibilities) and strategy sessions, and to make visits to our operational sites.

### 2014 External evaluation of the Board

The Board carries out an evaluation of its performance and that of its Committees every year and the evaluation is facilitated externally every third year. The 2014 evaluation was carried out by an independent external facilitator, Dr Tracy Long of Boardroom Review Limited, who has no other connection with the company.

The in-depth process involved Dr Long:

- conducting individual interviews with each of the current Directors (with the exception of Sir Philip Hampton and Urs Rohner who joined the Board on 1 January 2015), the Company Secretary and other key senior executives who regularly attend Board and Committee meetings;
- reviewing past papers and minutes;
- attending the Board and Committee meetings in September and October, which included the annual Board and CET strategy session; and
- compiling the output from the external evaluation into a report that contained her findings and recommendations.

She also held:

- individual feedback sessions with each Director;
- a session led by the SID with the Non-Executive Directors and the CEO without the Chairman present;
- a session with the Chairman only; and
- finally, a collective feedback session with the entire Board, during which her areas of principal focus and recommended action points were discussed in detail before they were formally considered and agreed by the Board at its December meeting.

Dr Long's report focused principally on the culture and environment of the Boardroom, together with the composition and tenure of the Board and succession planning arrangements.

The overall view of the Board's performance was positive and confirmed that the Board was effective at dealing with the challenges it faced. The quality of decision making and contribution of Board members was influenced by:

- the open culture and strong support for the Board's senior roles;
- a thoughtful and disciplined approach to the use and management of time, and
- improving risk, control and remuneration oversight.

Dr Long's report had noted that there was good engagement on issues and management interacted well with the Board and its Committees, responding positively to constructive challenge and enquiry. This was an aspect of Board dynamics that was considered to be outstanding compared to other Boards.



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However, Dr Long's report stressed that it was a time of significant transition for the company and the Board. The context within which the Board operated was changing and the Board's modus operandi would need to evolve with it. Future challenges included the Board's ability to:

- anticipate changes to the external landscape;
- manage the transition from Sir Christopher to Sir Philip; and
- refresh the composition of the Board, including some of the most senior roles on the Board.

The agreed action points from Dr Long's report focused mainly on addressing these challenges and they are disclosed on page 81.

### Chairman and Non-Executive Director evaluation

The Non-Executive Directors, led by Sir Deryck, met separately, without Sir Christopher being present, to discuss his performance. They considered his leadership, performance and overall contribution to be of a high standard and he continues to have their full support.

The Chairman met with each Non-Executive Director to discuss individual contributions and performance, together with training and development needs.

In addition, the Chairman met with all the Non-Executive Directors independently of the Executive Directors.

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## Relations with shareholders

We work to engage effectively with shareholders through our regular communications, the AGM and other investor relations activities.

We announce our financial results on a quarterly basis. The annual results are included in our Annual Report. All shareholders receive an Annual Summary which advises them that our Annual Report and Notice of our Annual General Meeting are available on our website.

During the year, Sir Andrew Witty and Simon Dingemans gave presentations to institutional investors, analysts and the media on the full year results, which are also available via webcast and teleconference. After the first, second and third quarter results, we hold webcast teleconferences for the same audience. Our results are available on our website.

Our Investor Relations department, with offices in London and Philadelphia, acts as a focal point for communications with investors. The CEO, CFO and the Chairman maintain a continuous dialogue with institutional shareholders on performance, plans and objectives through a programme of regular meetings. During the year they held over 66 individual meetings with investors and they have also hosted approximately 20 group meetings with investors and potential investors.

The Company Secretary acts as a focal point for communications on corporate governance matters. We also have a small central Corporate Responsibility (CR) team which co-ordinates strategy, policy development and reporting specifically with respect to CR matters. The team communicates with socially responsible investors and other stakeholders.

The Chairman also meets regularly with institutional shareholders to hear their views and discuss issues of mutual importance, and communicates their views to the other members of the Board. The SID and all the Non-Executive Directors are available to meet with shareholders.

The Chairman, Remuneration and Audit & Risk Committee Chairmen, the SID, Company Secretary and the Head of Human Resources held their annual meetings with major shareholders in November 2014 to discuss executive remuneration and corporate governance matters.

We have a briefing process in place for Non-Executive Directors, managed by the Chairman, to focus on sector specific issues and general shareholder preferences.

During the year, those aspects of our corporate governance arrangements that have been raised by investors and discussed with relevant Board Directors included;

- Board composition and refreshment, including the process used to search for Sir Christopher's replacement as Chairman;
- China and the company's ABAC procedures and practices;
- External audit contract tendering arrangements; and
- Reporting of annual bonus performance and the description/ operation of our malus/clawback mechanism.

## Accountability

### Internal control framework

The Board recognises its responsibilities to present a fair, balanced and understandable assessment of the Group's position and prospects.

The Board has accountability for reviewing and approving the effectiveness of internal controls operated by the Group, including financial, operational and compliance controls, and risk management.

The GSK Internal Control Framework (the Framework) is the means by which GSK assures compliance with laws and regulations, the reliability of financial reporting and the effectiveness of risk management. The Framework assists in the identification, evaluation, and management of principal risks as required by the UK Corporate Governance Code (the UK Code), and is designed to manage rather than eliminate the risk of not achieving business objectives. A fit-for-purpose internal control framework, in conjunction with embedding the GSK Values and our 'Speak Up' reporting lines, ensures that our Principal Risks are actively and effectively controlled. For more information see 'Risk Management' on pages 16 to 17.

The Framework is designed to ensure the risks associated with conducting our business activities are effectively controlled in line with GSK's risk appetite. We believe the Framework provides reasonable, but not absolute, assurance against material misstatement or loss.

To ensure effective governance and an ethical culture, GSK has established the Risk Oversight and Compliance Council (ROCC). This team of senior leaders is authorised by the Board to assist the Audit & Risk Committee (the Committee) in overseeing risk management and internal control activities. It also provides the business with a framework for risk management, upward reporting of significant risks, GSK Values and policies. Reporting upwards to the ROCC is a risk board structure within each business unit and global support function. These Risk Management and Compliance Boards (RMCB) are responsible for local "tone from the top", risk management and internal controls.

The ROCC and the RMCBs are assisted by Global Ethics and Compliance (GEC), which is responsible for supporting risk management and the development and implementation of practices that facilitate employees' compliance with laws and policy. GEC also provides assistance to help employees meet high ethical standards by operating in accordance with our Values, and to comply with applicable laws and regulations and corporate responsibility.



GSK's Audit & Assurance (A&A) provides an objective view (i.e. assurance) to senior management and the Board of how risk is being managed across the Group in line with an agreed Assurance Plan. This assurance helps them meet their oversight and advisory responsibilities in fulfilling our strategic and operational ambitions and building trust with our patients and other stakeholders. A&A has a dual reporting line into the CFO and the Committee.

The Committee receives reports from Business Unit Heads, GEC and A&A on areas of significant risk to the Group and on related internal controls. Following consideration of these reports, the Committee reports annually to the Board on the effectiveness of controls.

The Board, through the Committee, has reviewed the assessment of risks and the Framework, and has considered the effectiveness of the system of internal controls in operation across the Group for the year covered by this Annual Report and up to the date of its approval by the Board. The Board's review focuses on the company and its subsidiaries and does not extend to material associated undertakings, joint ventures or other investments, although it considers the risk of the company's participation in these activities. There are established procedures and controls in place to identify entities whose results must be consolidated with the Group's results.

We believe the process followed by the Board in reviewing the system of internal controls accords with the guidance on internal control issued by the Turnbull Committee. This is in accordance with the provisions of the UK Code, which provide that the Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board provides oversight to help ensure that the Group maintains sound risk management and internal control systems. The Framework has been in operation for the whole year and continues to operate up to the date of the approval of this Annual Report.

A review of the Group's risk management approach is further discussed in the Risk Management section of the Strategic Report on pages 16 to 17. Our management of each Principal Risk is explained in the Risk Factors section of the Financial Report on pages 232 to 241.

### Committee reports

The reports of the Audit & Risk, Nominations and Corporate Responsibility Committees, describing the activities of those Committees during the year, are set out on pages 86 to 95.

### Remuneration report

Our Remuneration report comprises the Remuneration Committee Chairman's annual statement and the annual report on remuneration and is set out on pages 96 to 118. In addition, we have reproduced for convenience the 2014 Remuneration policy report, which is set out on pages 119 to 128.



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### Audit & Risk Committee Report



#### Dear Shareholder

In last year's Committee report, I stressed the importance of vigilance and continuous improvements to our internal control, financial reporting and risk management processes and systems. However, the Committee has also been focused on a number of activities associated with, and beyond, its core remit, in order to review the risk environment and exposures across the Group comprehensively. In doing so, it has overseen the implementation of a number of planned changes and further enhancements to our governance. This is principally around our compliance and risk management policies and procedures as well as close monitoring of the ongoing transformation of our finance processes and control environment, including the very extensive upgrades and updating of our IT systems. We have also considered the implications of the changes in the US market environment, particularly pricing dynamics, and the implementation of our ongoing cyber protection programme, Infoprotect.

#### Refocusing of the ROCC and the inclusion of Enterprise risks

The Committee has strengthened key areas of our risk management structure. Following a review of the Risk Oversight and Compliance Council's (ROCC) purpose, practices and membership, representation from our business units was adjusted to ensure that its membership was more appropriately aligned with the changing shape of the business. In particular, CET representation was increased, providing a much stronger strategic direction to the ROCC's deliberations and increasing its ability to consider cross enterprise risk exposures alongside its existing reviews of GSK's Principal risks.

To reinforce this approach, the Committee agreed with the ROCC to implement the designation of six Enterprise risks that specifically consider, for a particular risk, the potential exposures across GSK as a whole, as well as within individual business units and functions. The ROCC and the Committee have been especially focused on assessing and managing compounding or consequential factors.

#### In-country risk oversight

At an operational level, the Committee also approved the establishment of Country Executive Risk Boards (CERBs) to provide a means for our different business units operating in a particular country to manage the Principal risks which might impact on more than one business unit more effectively from a country perspective. Their work complements the work of our existing Risk Management and Compliance Boards (RMCBs) that are now well-embedded in each of our major business units. CERBs and RMCBs report into the ROCC on a regular review cycle.

#### Further enhancing our ABAC arrangements

These have remained a high priority for the Committee in 2014. We continue to review the lessons learned from recent investigations, particularly those at our Chinese operations in 2013, and ask how we can improve the effectiveness of our Anti-Bribery and Corruption (ABAC) approach. Significant steps that the Committee has taken to further strengthen our ABAC capabilities and controls across the Group include:

- a detailed review of our operations and ongoing presence in higher risk territories;
- enhancing the ongoing monitoring of compliance with ABAC-related controls in targeted emerging market territories to help identify and implement further enhanced controls where appropriate;
- our Emerging Markets and European General Managers completing reviews of their key controls and documenting adherence to GSK's values, policies and procedures as well as applicable local laws and regulations. Specific improvement plans have also been identified and are in the process of being implemented in a number of countries:
- creation of a specialist ABAC Centre of Excellence to provide training, due diligence and expert guidance capabilities for senior management across the Group;
- expanding the footprint and capabilities of our Global Ethics and Compliance (GEC) organisation in designated higher risk and emerging markets;
- ensuring that the resources and capabilities of our ABAC investigations team were strengthened;
- further increasing the oversight of our third party suppliers with the initiation of a new risk assessment and monitoring framework that is now being rolled out across the Group; and
- review of the progress of external and internal independent China investigations, which have now been ongoing for over a year and a half, and continued to be a standing agenda item at Committee meetings throughout 2014. The independent investigation that the international law firm, Ropes and Gray, led for the Committee is now drawing to an end. We are committed to implementing their conclusions. Many actions have already been implemented by a new management team, including enhanced procedures for monitoring the use of third party suppliers and local financial transactions. The Committee will continue to monitor progress in the related investigations closely until they are concluded.

#### Leadership of Global Compliance and Audit & Assurance

Our risk management boards are supported by our Global Compliance operations, which have been reorganised as Global Ethics and Compliance under the leadership of Nick Hiron, who had previously been Head of Audit & Assurance.

Our Audit & Assurance (A&A) function has also been reorganised under new leadership and the function now reports to the CFO, but is directly accountable to this Committee for providing it and the Board with effective assurance. Recent external benchmarking confirmed that the A&A team provided such assurance but also identified a number of areas for enhancements, including more local coverage and more frequent, shorter audit reviews, alongside the regular more detailed reviews, to enhance flexibility and improve visibility. I believe these changes will improve the Committee's ability to identify emerging risks proactively.



### Finance transformation

The Committee continued to focus on the ongoing enhancement programme for our finance processes, including the creation of stronger shared service capabilities within our Core Business Services (CBS) operation. This programme is targeted at improving our control environment by standardising our finance policies and processes and updating them for the changing shape of the business. The programme includes a substantial upgrading of our IT platforms and, in particular, our enterprise resource planning (ERP) systems to create common platforms across each of our business units. Together, these improvements will deliver more consistent processes and controls and allow the business to manage its financial risks more effectively.

Implementation of this programme has created significant change in the business. The Committee has reviewed its progress in detail with input from our external auditors to ensure that effective controls remain in place during and after this transition. Year end reviews have not identified any material concerns.

### US pricing

In light of the significant changes we have seen during the year in the US market place, the Committee has reviewed the implications of these changes for our Principal risks. In particular, we carry significant provisions for returns and rebates offered to US customers and in times of significant change these need to be especially carefully monitored to ensure they are aligned with current experience. Investments in new IT platforms in recent years have allowed us to remain responsive during the year despite often rapid change in the external environment and the Committee believes our provisioning in this area remains appropriate and adequate.

### Infoprotect

The company is well underway with a multi-year programme to enhance and strengthen our cyber security defences. The Committee reviewed progress of this programme in detail with the recently appointed Chief Information Security Officer. We have made significant progress despite an increasing level of threat. Additional investments have been agreed to support this effort.

### Proposed three-part Novartis transaction

In preparation for this transformative transaction, the Committee has reviewed the ROCC's assessments of the risk profile of the Novartis businesses that will become part of the Group. This review has utilised our Principal and Enterprise risks as a framework. Detailed mitigation plans are in place for risk issues identified and to ensure the incoming Novartis businesses can be successfully incorporated into the GSK risk monitoring framework. None of the risks identified was expected to give rise to material exposures, although this position is being monitored closely by the transaction integration planning teams. The ROCC has in place plans to review progress in managing these risks on a regular basis and the Committee will review these shortly after closing to ensure that our standards, values and culture are properly embedded into the reshaped and enlarged organisation.

### External auditors

I would also like to assure shareholders how seriously the Committee takes its role and responsibility in appointing, assessing and monitoring the performance of the company's auditors. The Committee has, as usual, reviewed PwC's performance during the year and the audit process that they undertook and believes they continue to provide a high quality service to the company and its shareholders. The Committee has therefore recommended their reappointment for a further year. Given the current level of change in the business, the Committee concluded that it was not appropriate to put the audit out to tender in 2015. However, having reviewed the relative merits of conducting a tender and the recent changes in regulations in this area, the Committee has concluded that we should move towards a tender for new Auditors but that we should target the new firm taking over the audit for the 2018 financial year. To deliver this, we expect that we will start to prepare for a tender in the second half of 2016.

### My role

Finally, in my role as the Chair of the Committee, I continue to widen and deepen my knowledge and understanding of the Group and the external environment in which GSK operates, together with best practice developments. In addition to holding regular meetings with key senior executives and attending a range of management meetings, including the CET, ROCC and Finance Leadership Team meetings, I have also attended briefing meetings with our external auditors, discussed aspects of the Committee's work with our shareholders and networked with audit committee chairmen at our peers to exchange views on regulatory and market developments, principally in the risk management and compliance arena.

### Judy Lewent Audit & Risk Committee Chairman 26 February 2015

### Membership and attendance

The membership of the Committee, together with appointment dates and attendance at meetings, is set out below:

Members	Committee member since	Attendance at full meetings during 2014
Judy Lewent (Chairman from 1 January 2013)	1 April 2011	6/6
Lynn Eisenhans	1 January 2014	6/6
Stacey Cartwright	1 April 2011	6/6
Sir Deryck Maughan	21 January 2005	6/6
Dr Daniel Podolsky	1 January 2007	6/6
Tom de Swaan	1 January 2006	6/6
Jing Ulrich	1 May 2013	6/6

In addition to the six scheduled meetings, the Committee also met on a quorate basis on five occasions to review or approve matters associated with the Annual Report and Form 20-F, and preliminary and quarterly results announcements.

Details of the members' financial, accounting or scientific experience are given in their biographies under 'Our Board' on pages 72 to 75.

The entire Board is invited to attend the Committee meetings and other attendees include:

Attendee	Regular attendee	Attends as required
Chairman	✓	
CEO	✓	
CFO	✓	
General Counsel	✓	
Financial Controller	✓	
Head of Audit & Assurance	✓	
Company Secretary – Secretary to the Committee	✓	
Chairman, Global Vaccines	✓	
Head of Global Ethics and Compliance	✓	
Chief Medical Officer	✓	
Chief Product Quality Officer		✓
External auditor	✓	

In accordance with the UK Code, the Board has determined that Stacey Cartwright, Judy Lewent and Tom de Swaan all have recent and relevant financial experience. The Board has also agreed that they each have the appropriate qualifications and background to be audit committee financial experts as defined by the US Sarbanes-Oxley Act of 2002 and has determined that each is independent within the meaning of the US Securities Exchange Act of 1934, as amended.

In addition, Judy Lewent, Sir Deryck Maughan and Tom de Swaan are also members of the Remuneration Committee, which allows them to provide input on the Committee's review of the Group's performance and oversight on any risk factors relevant to remuneration matters.



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### Work undertaken by the Committee during 2014

The Committee has worked largely to a recurring and structured programme of activities agreed in conjunction with the Committee Chair, management and the external auditors at the start of the financial year. This programme comprised standing items that the Committee was required to consider at each meeting and other matters timed to coincide with key events of the annual financial reporting cycle and other business events.

The Committee considered, discussed and made decisions in relation to a number of matters during the year, the most significant of which are set out below.

Month	Financial reporting	Global internal control & compliance	External auditors	Risk	Governance and other matters
<b>January</b>	<ul style="list-style-type: none"> <li>Integrity of draft financial statements and appropriateness of accounting policies</li> <li>Draft 2013 Annual Report and 20-F and Annual Summary leaflet</li> <li>Directors' expenses</li> </ul>	<ul style="list-style-type: none"> <li>Annual Internal Control and Compliance report</li> <li>Litigation report</li> <li>Corporate Integrity Agreement (CIA) update</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of external auditors, effectiveness of external audit process</li> <li>Re-appointment of auditors proposed for approval at AGM</li> <li>External auditor year-end audit findings</li> </ul>	<ul style="list-style-type: none"> <li>China investigations and ABAC update</li> <li>Emerging risk review</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with UK Corporate Governance Code</li> <li>Latest Annual Report regulations</li> <li>Corporate governance update</li> <li>Private meeting with the external auditors</li> </ul>
<b>February</b>	<ul style="list-style-type: none"> <li>Going concern assumption</li> <li>Preliminary results announcement</li> <li>Approval of 2013 Annual Report and Form 20-F and Annual Summary leaflet</li> </ul>	<ul style="list-style-type: none"> <li>Sarbanes-Oxley confirmation</li> </ul>	<ul style="list-style-type: none"> <li>Audit/non-audit expenditure during 2013</li> <li>External auditor Sarbanes-Oxley control findings</li> <li>External auditor Annual Report and Form 20-F findings</li> </ul>		
<b>March</b>		<ul style="list-style-type: none"> <li>Approach on Sarbanes-Oxley compliance for 2014</li> <li>GMS business unit report</li> <li>Audit &amp; Assurance (A&amp;A) work during 2013 and plan for 2014</li> <li>Litigation report</li> </ul>	<ul style="list-style-type: none"> <li>Performance expectations for external auditors</li> </ul>	<ul style="list-style-type: none"> <li>China investigations and ABAC update</li> <li>Emerging risk review</li> <li>ROCC meeting update</li> </ul>	<ul style="list-style-type: none"> <li>Private meeting with the external auditors</li> </ul>
<b>April</b>	<ul style="list-style-type: none"> <li>1st Quarter results announcement</li> </ul>		<ul style="list-style-type: none"> <li>External auditor 1st Quarter results review findings</li> </ul>		
<b>May</b>		<ul style="list-style-type: none"> <li>CIA compliance</li> <li>Litigation report</li> </ul>	<ul style="list-style-type: none"> <li>External audit plan and fee proposal for 2014</li> </ul>	<ul style="list-style-type: none"> <li>China investigations and ABAC update</li> <li>Product Quality Enterprise Risk</li> <li>Vaccines and Emerging Markets business unit risks</li> <li>Emerging risk review</li> <li>ROCC meeting update</li> </ul>	<ul style="list-style-type: none"> <li>Private meeting with the external auditors</li> </ul>
<b>July</b>	<ul style="list-style-type: none"> <li>Going concern assumptions</li> <li>2nd Quarter results announcement</li> </ul>	<ul style="list-style-type: none"> <li>Controls at GSK listed and JV subsidiaries</li> <li>Litigation report</li> <li>R&amp;D Pharmaceuticals and North American Pharmaceuticals business unit reports</li> </ul>	<ul style="list-style-type: none"> <li>External auditor 2nd Quarter results review findings</li> </ul>	<ul style="list-style-type: none"> <li>China investigations and ABAC update</li> <li>Patient Safety Enterprise Risk</li> <li>Emerging risk review</li> <li>ROCC meeting update</li> </ul>	<ul style="list-style-type: none"> <li>Corporate governance update</li> <li>Private meeting with the external auditors</li> </ul>
<b>September</b>		<ul style="list-style-type: none"> <li>Japan and Consumer Healthcare business unit reports</li> <li>External independent review of A&amp;A</li> <li>Evolution of Emerging Markets compliance model</li> <li>CIA update reports</li> </ul>		<ul style="list-style-type: none"> <li>China investigations and ABAC update</li> <li>EHSS Enterprise Risk</li> <li>Emerging risk review</li> <li>ROCC meeting update</li> </ul>	<ul style="list-style-type: none"> <li>Private meeting with the external auditors</li> </ul>
<b>October</b>	<ul style="list-style-type: none"> <li>3rd Quarter results announcement</li> </ul>	<ul style="list-style-type: none"> <li>Litigation report</li> </ul>	<ul style="list-style-type: none"> <li>External auditor 3rd Quarter results review findings</li> </ul>		

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Month	Financial reporting	Global internal control & compliance	External auditors	Risk	Governance and other matters
December	<ul style="list-style-type: none"> <li>Key accounting issues and appropriateness of accounting policies</li> </ul>	<ul style="list-style-type: none"> <li>Europe business unit report</li> <li>Global Support Functions business unit report</li> <li>Litigation report</li> </ul>	<ul style="list-style-type: none"> <li>External auditor Phase One findings</li> <li>Pre-approval of budget for auditors to provide Non-Audit Services for 2015 and update on 2014 budget</li> </ul>	<ul style="list-style-type: none"> <li>China investigations and ABAC update</li> <li>ABAC and Commercial Practices &amp; Scientific Engagement Enterprise Risks</li> <li>Infoprotect review</li> <li>Operational Excellence programme review</li> <li>Emerging risk review</li> </ul>	<ul style="list-style-type: none"> <li>Corporate governance update</li> <li>Tax strategy review</li> <li>External committee evaluation</li> <li>Private meeting with external auditors</li> <li>Collective meeting with Heads of A&amp;A and GEC</li> <li>Individual meetings with Heads of A&amp;A and GEC</li> </ul>

In respect of financial reporting activities, the Committee reviews and recommends to the Finance Committee for its approval all financial results announcements. In considering the quarterly financial results announcements and the annual financial results contained in the 2014 Annual Report, the Committee reviewed the significant issues and judgements made by management in determining those results. The Committee reviewed papers prepared by management setting out the key areas of risk, the actions undertaken to quantify the effects of the relevant issues and the judgements made by management on the appropriate accounting required to address those issues in the financial statements.

**Significant issues relating to the financial statements**

The significant issues considered in relation to the financial statements for the year ended 31 December 2014 are set out in the following table, together with a summary of the financial outcomes where appropriate. In addition, the Committee and the external auditors have discussed the significant issues addressed by the Committee during the year and the areas of particular audit focus, as described in the Independent Auditor's Report on pages 131 to 135.

Significant issues considered by the Committee in relation to the financial statements	How the issue was addressed by the Committee
<b>Going concern basis for the preparation of the financial statements</b>	The Committee considered the outcome of management's half-yearly reviews of current and forecast net debt positions and the various financing facilities and options available to the Group. Following a review of the risk and potential impact of unforeseen events, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate.
<b>Revenue recognition, including returns and rebates (RAR) accruals</b>	The Committee reviewed management's approach to the timing of recognition of revenue and accruals for customer returns and rebates. The US Pharmaceuticals and Vaccines accrual for returns and rebates was £1.3 billion at 31 December 2014 and the Committee reviewed the basis on which the accrual had been made and concurred with management's judgements on the amounts involved. A fuller description of the process operated in the US Pharmaceuticals and Vaccines business in determining the level of accrual necessary is set out in 'Critical accounting policies' on page 63.
<b>Provisions for legal matters, including recent government investigations in relation to China to the extent that they can be determined</b>	The Committee received detailed reports on actual and potential litigation from both internal and external legal counsel, together with a number of detailed updates concerning the government investigations in relation to China. Management outlined the levels of provision and corresponding disclosure considered necessary in respect of potential adverse litigation outcomes and also those areas where it was not yet possible to determine if a provision was necessary, or its amount. At 31 December 2014, the provision for legal matters was £0.5 billion, as set out in Note 29 to the financial statements, 'Other provisions'.
<b>Provisions for tax issues</b>	The Committee considered current tax disputes and areas of potential risk and concurred with management's judgement on the levels of tax contingencies required. At 31 December 2014, the Group's balance sheet included a tax payable liability of £0.9 billion.
<b>Impairments of intangible assets</b>	The Committee reviewed management's process for reviewing and testing goodwill and other intangible assets for potential impairment. The Committee accepted management's judgements on the intangible assets that required writing down and the resulting impairment charge of £157 million in 2014. See Note 19 to the financial statements, 'Other intangible assets' for more details.
<b>Provisions for pension and other post-employment obligations</b>	The Committee reviewed the significant assumptions adopted by management for the valuations of obligations for the Group's largest pension and post-retirement healthcare schemes in the UK and the US, together with the resultant net obligation amounts, as calculated by external actuaries. The Group's net deficit at 31 December 2014 amounted to £3.1 billion as set out in Note 28 to the financial statements, 'Pensions and other post-employment benefits'.
<b>US Branded Prescription Drug fee</b>	The Committee reviewed and concurred with management's assessment of the additional charge necessary to account for a further year of the fee in accordance with the final regulations issued by the US IRS in the year.
<b>Valuation of contingent consideration</b>	The Committee considered management's judgement that following the improved sales performance of <i>Tivicay</i> and <i>Triumeq</i> , it was necessary to increase the liability to pay contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture. At 31 December 2014, the Group's balance sheet included a net contingent consideration liability of £1.7 billion. See Note 38 to the financial statements, 'Acquisitions and disposals' for more details.

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### Effectiveness of external audit process

In evaluating the effectiveness of the audit process prior to making a recommendation on the re-appointment of the external auditors, the Committee reviews the effectiveness of their performance against criteria which it agrees, in conjunction with management, at the beginning of each year's audit.

In undertaking this review the Committee considers the overall quality of the audit, the independence of the auditors and whether they have exhibited an appropriate level of challenge and scepticism in their work.

The annual Committee evaluation seeks feedback from Committee members independently on the relationship with the auditors, the quality of insight they provide to the Committee on their work and whether the Committee has sufficient access to the auditors without executive management.

Finally, the Committee considers feedback on the prior year's external audit through a survey that seeks views from the financial management team at corporate and business unit level. It covers four key areas:

- robustness of the audit process;
- quality of the delivery;
- quality of the people; and
- quality of the service.

Having reviewed all this feedback provided through the mechanisms outlined above, and noted any areas of improvement to be implemented in respect of the team or the following year's audit, provided the Committee:

- is satisfied with the effectiveness of the auditors and the external audit process;
- is satisfied with the auditors' independence, appropriate level of qualifications, expertise and resources; and
- has considered whether it is in the best interests of shareholders and the company to initiate or defer a tender.

it will then consider recommending to the Board the re-appointment of the auditors at the forthcoming AGM.

The detailed criteria the Committee uses for judging the effectiveness of the external auditors and their overriding responsibility to deliver a smooth running, thorough and efficiently executed audit are set out below:

Performance expectations for GSK's external auditor	
Specific auditor responsibilities	Wider auditor responsibilities
<ul style="list-style-type: none"> <li>▪ Discuss approach and areas of focus in advance with early engagement on understanding the implications of GSK's new operating model</li> <li>▪ Ensure Sarbanes-Oxley scope and additional procedures are discussed and endorsed by management and communicated on a timely basis within GSK and PricewaterhouseCoopers LLP (PwC)</li> <li>▪ Avoid surprises through timely reporting of issues at all levels within the Group</li> <li>▪ Ensure there is clarity of roles and responsibilities between the auditors and local management</li> <li>▪ Respond to any issues raised by management on a timely basis</li> <li>▪ Meet agreed deadlines</li> <li>▪ Provide continuity and succession planning of key employees of the auditors</li> <li>▪ Provide sufficient time for management to consider draft auditor reports and respond to requests and queries</li> <li>▪ Employ consistent communication between local and central audit teams.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provide up-to-date knowledge of technical issues, providing accurate and timely advice</li> <li>▪ Serve as an industry resource; communicating best practice and industry trends in reporting</li> <li>▪ Adhere to all independence policies (including GSK's policies, the Financial Reporting Council's IAS 240 and applicable Securities and Exchange Commission standards)</li> <li>▪ Deliver a focused and consistent audit approach globally that reflects local risks and materiality</li> <li>▪ Liaise with GSK's Audit &amp; Assurance team to avoid duplication of work and Global Ethics and Compliance team to ensure common understanding of audit outcomes</li> <li>▪ Provide consistency of advice at all levels of the organisation.</li> </ul>

### Audit firm tendering

PwC has remained in place as auditors since the Group's inception in December 2000. Their performance has been reviewed annually and audit partner rotation requirements have been observed since that time. However, the audit contract has not been put out to tender in that period.

We observe the Financial Reporting Council's current transitional arrangements where an audit tender is tied to the end of the cycle of the current rotating audit partner. Our current audit partner has held the position for two years. The implications of the transitional arrangements for both the Competition and Markets Authority's audit contract tender regulations and the EU audit firm rotation requirements were also assessed when the Committee considered putting the audit contract out to tender.

In addition, as part of the Committee's review, evolving market and the changing expectations of shareholders on listed companies tendering their audit contract were also noted.

However, given the integration challenges of the three-part Novartis transaction, the ongoing finance transformation, further service enhancements made by PwC, and having received competitive audit fee proposals from PwC, the Committee agreed there was currently a preference not to distract management and the Committee by undertaking a tender at this stage. However, the Committee also concluded that it would plan to undertake a tender process in the second half of 2016 with a view to appointing the new firm with effect from 1 January 2018.

### Non-audit services

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



All non-audit services over £50,000 are put out to competitive tender with financial service providers other than the external auditors, in line with the Group's procurement process, unless the skills and experience of the external auditors make them the most suitable supplier of the non-audit service under consideration, in which case a request for proposal is submitted by the relevant CET member to the CFO for approval.

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

- ascertaining that the skills and experience of the external auditors make them a suitable supplier of the non-audit services;
- ensuring adequate safeguards are in place so that the objectivity and independence of the Group audit are not threatened or compromised; and
- ensure that the total fee levels do not exceed 50% of the annual audit fee, except in special circumstances where there would be a clear advantage in the company's auditors undertaking such additional work.

During the year, fees for the non-audit service work carried out by PwC were 73% of the annual audit fee. This exceptional level reflects the considerable services PwC has provided relating to the reporting accountant role in connection with the Class 1 Circular for the three-part Novartis transaction. Excluding the Novartis work, PwC's non-audit service fees would have represented 28% of the annual audit fee. The Committee considered that hiring PwC to undertake the Class 1 Circular work was in the best interests of shareholders because:

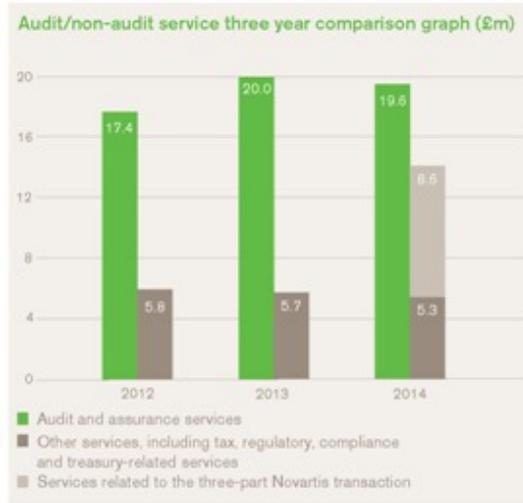
- PwC possessed the type of expertise, experience, size and international scope required to handle a major Class 1 transaction of this scale and complexity;
- the company benefited specifically from PwC's in-depth knowledge and understanding of our Vaccines, Consumer Healthcare and Oncology businesses and their processes and compliance environment;
- management time, that would otherwise have been devoted to educating another firm on the company's business and operations, could instead be spent on delivering a transaction that will substantially strengthen two of the Group's core businesses and create significant new options to increase value for shareholders; and
- the Committee could leverage PwC's capabilities to negotiate the most advantageous and cost-effective price.

In addition, it should be noted that £3.6 million of the Novartis-related fees due to PwC arose from work done by Novartis' auditors who are also PwC.

To maintain the external auditors' independence and objectivity, for those Class 1 Circular workstreams where a self review threat was identified, an independent partner not involved in the audit was appointed to lead them. Management reviewed and considered PwC's findings and PwC did not make any decisions on behalf of management. Additionally, PwC had no input in respect of the production of financial information subsequently used by the audit team.

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

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



### Code of Conduct and reporting lines

We also have a number of well established policies, including a Code of Conduct, which is available on the governance section of our website, and confidential 'Speak Up' reporting lines for the reporting and investigation of unlawful conduct. An updated version of the Code of Conduct was published in January 2014.

### Fair, balanced and understandable assessment

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

The Committee received a summary of the approach taken by management in the preparation of GSK's 2014 Annual Report to ensure that it met the requirements of the UK Code. This enabled the Committee, and then the Board, to confirm that GSK's 2014 Annual Report taken as a whole is fair, balanced and understandable.

### Committee evaluation

The Committee's annual evaluation was externally facilitated by Dr Tracy Long of Boardroom Review Limited, and supplemented by a questionnaire circulated to Committee members by the Committee Chairman. It was concluded that the Committee continued to operate effectively. In terms of enhancements to the Committee's deliberations, it was agreed that the following areas will be considered further to underpin the Committee's effectiveness:

- More regular updates on new or emerging issues and anticipating, through a streamlined reporting process, potential risk and audit issues;
- Increase focus on setting, monitoring and adjusting risk appetite;
- Widening and deepening the Committee's exposure to certain areas of the business and the external landscape to further increase understanding of potential threats and opportunities;
- Further enhance training requirements for Committee members; and
- Consider the division of focus on risk areas between the Board and the Committee.

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### Nominations Committee Report



**Sir Philip Hampton**  
Nominations Committee  
Chairman

#### Membership

The membership of the Nominations Committee (the Committee), together with appointment dates and attendance at meetings, is set out below:

Members	Committee member since	Attendance at full meetings during 2014
Sir Philip Hampton (Chairman from 27 January 2015)	27 January 2015	0/0
Professor Sir Roy Anderson	1 October 2012	4/4
Lynn Elsenhans	27 January 2015	0/0
Sir Christopher Gent (Chairman from 1 January 2005 to 26 January 2015)	9 December 2004	4/4
Judy Lewent	8 May 2014	3/3
Sir Deryck Maughan	9 July 2009	4/4
Tom de Swaan	1 October 2012	4/4
Sir Robert Wilson*	28 March 2008	1/1

\* Sir Robert Wilson retired from the Board on 7 May 2014.

In addition to the scheduled meetings, the Committee also met on a quorate basis on two occasions to consider and recommend to the Board the appointments of Sir Philip Hampton and Urs Rohner as Chairman Designate and a Non-Executive Director.

Other attendees at Committee meetings may include:

Attendee	Regular attendee	Attends as required
Chief Executive Officer	✓	
Head of Human Resources	✓	
Company Secretary – Secretary to the Committee	✓	
Appropriate external advisers		✓

#### Chairman succession

In 2010, it was unanimously agreed to extend Sir Christopher Gent's appointment as Chairman for a further five years with effect from 1 January 2011, subject to annual re-election by shareholders. At that time, the Board was about to enter a programme of progressive refreshment and this ensured continuity of Board leadership during a period when several Non-Executive Directors were approaching the end of their tenure. It also reflected the Committee's desire to plan and shape the composition and balance of the Board over the longer term.

In 2012, the Committee commenced its search for Sir Christopher's successor with the intention that he would step down as Chairman by the end of 2015.

At the start of the search process, the Committee drew up a job specification for the role of Chairman. The job specification was drafted to emphasise the importance that the Board and Committee placed on the Chairman in overseeing the company's strategy at a time when the industry continued to evolve at pace.

The following key attributes were identified:

- having experience of running a listed global organisation in a highly regulated industry with a clear and collegiate style of leadership;
- possessing a comprehensive knowledge and understanding of UK corporate governance arrangements;
- having a deep appreciation of UK shareholder and media perspectives; and
- treating the role as his or her primary commitment with a view to serving in the role over the medium to long-term.

These criteria were deemed key to the success of the new appointee and MWM, who specialises in the recruitment of high calibre Board Directors, was engaged to ensure that the widest possible pool of candidates was available to select from. MWM only provides recruitment consultancy services to the Committee. Their work was validated from time-to-time to ensure that there were no gaps in the search process and that the Committee was receiving the best possible market advice for this key appointment. The search was initiated by the Chairman and Senior Independent Director (SID) with support from the Head of Human Resources and the Company Secretary. As the search progressed and drew to a conclusion, it was led by the SID. Regular oversight of the process was exercised by the Committee and shareholders were briefed on the search criteria used and progress made by the Committee in identifying suitable candidates.

The pool of suitable candidates was reduced to a short-list. Briefing reports on the shortlisted candidates were reviewed and candidates met with key Board members. It became clear to the Board and the Committee that Sir Philip Hampton was the most suitable candidate to succeed Sir Christopher as Chairman.

On 24 September 2014, in accordance with the Committee's terms of reference, Sir Deryck Maughan, our SID, chaired the meeting of the Nominations Committee that recommended Sir Philip's appointment as a Non-Executive Director and successor to Sir Christopher.

Feedback from investors was then sought before the Committee made its recommendations to the Board. This positively supported Sir Philip's appointment.

The subsequent appointment recommendation received unanimous Board approval on 25 September 2014 it was announced that Sir Philip would join the Board as a Non-Executive Director with effect from 1 January 2015 and would become Deputy Chairman with effect from 1 April 2015. He will succeed Sir Christopher as Non-Executive Chairman with effect from the end of the AGM on 7 May 2015.

Sir Philip met the independence requirements set out in the UK Corporate Governance Code on appointment and will be able to dedicate the requisite time to the role.

#### New Non-Executive Director appointment

During 2014, in addition to the search for a successor to Sir Christopher as Chairman, the Committee searched for another Non-Executive Director as part of the phased refreshment of the Board.

During the search process, broad selection criteria were used which focused on achieving a balance between Continental European, UK, US and Emerging Markets experience, and having individuals with expertise and capabilities developed in various sectors and specialities.

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MWM, Egon Zehnder and Korn Ferry were engaged to conduct the search and dossiers of potential Non-Executive appointees were considered by the Committee. Egon Zehnder and Korn Ferry only provide recruitment consultancy services to the Committee. Candidates were shortlisted for interview on merit, after assessing their relevant qualifications and time commitments.

After interviewing selected candidates, the Committee was pleased to recommend to the Board Urs Rohner as a Non-Executive Director. He was appointed to the Board with effect from 1 January 2015. The Board considered that his broad business background and extensive senior-level experience at multinational companies achieved the aim of appointing a candidate who has experience of running a highly regulated organisation with an understanding of investor perspectives, and who would bring fresh insights to the Board's deliberations.

### Board and Committee changes

The refreshment of the Board has resulted in orderly changes to the composition of the Board and its Committees as set out below.

Sir Robert Wilson did not stand for re-election at the AGM in May after ten years of service. Sir Christopher Gent, Tom de Swaan and Jing Ulrich will not stand for re-election at the AGM in 2015 after ten, nine and three years of service respectively. Given the current stage of the Board refreshment programme and that three Board members will have stepped down from the Board by May 2015, Sir Deryck Maughan has agreed to stand for re-election by shareholders for one further year before stepping down from the Board at the 2016 AGM. He will provide continuity and balance to the composition of the Board, given his significant knowledge of, and experience in, GSK's business affairs. Sir Deryck has brought his own style to the role of SID and has discharged the responsibilities of the role with great diligence. He will also play an important part in the smooth transition between Sir Christopher and Sir Philip during 2015.

The Board has confirmed that Sir Deryck continues to demonstrate the characteristics of independence in carrying out his role on the Board. A search for a replacement SID to succeed him is currently being conducted by the Committee.

Sir Philip succeeded Sir Christopher as Chairman of the Nominations Committee on 27 January 2015. Sir Christopher will continue to serve as a member of the Committee for the remainder of his tenure on the Board. A successor to Tom de Swaan as Chairman of the Remuneration Committee, when he retires from the Board at the 2015 AGM, will be appointed from the membership of the Remuneration Committee.

Other appointments recommended by the Committee include: Lynn Elsenhans joining the Audit & Risk Committee with effect from 1 January 2014 and the Nominations Committee with effect from 27 January 2015. Judy Lewent was also appointed to the Nominations Committee with effect from 8 May 2014, the day after Sir Robert Wilson stepped down from the Committee.

### Board diversity

We are committed to the diversity of our boardroom and we are similarly committed to equal opportunities for all our employees at all levels of the organisation. The diversity and inclusiveness of our workforce are promoted throughout GSK.

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

The Committee is responsible for developing measurable objectives to support the implementation of the Board's diversity policy, including gender, and monitoring progress towards the achievement of these objectives. In terms of gender diversity, we exceeded the target of at least 25% by 2013 that we had set ourselves in May 2011 and we are pleased to have maintained female Board level representation at over 30%. We will seek to at least maintain this level going forward.

We also have a good representation of women in management positions which is illustrated on page 45 as part of the gender diversity of GSK's global workforce. We will continue to support efforts to further increase the pipeline of women into senior positions within GSK. We also support the engagement of executive search firms such as MWM, Egon Zehnder and Korn Ferry, who have signed up to the Voluntary Code of Conduct on gender diversity and best practice.

### CET changes

In terms of Executive succession planning, the Committee also recommended the appointment of Nick Hiron to the CET in September 2014 as Senior Vice President, Global Ethics and Compliance. Nick joined the company in 1994 as an Internal Auditor in the UK, taking on roles of increasing seniority until he was appointed Head of Audit & Assurance in 2009. In June 2013, he took up a role in China, where he was responsible for establishing a new governance model for our China business.

As part of ensuring more focused management of the company's Consumer Healthcare, Vaccines, and Pharmaceuticals businesses in advance of the completion of the three-part transaction with Novartis, the Nominations Committee recommended:

- in April 2014, that Emma Walmsley, who is currently President, Consumer Healthcare, will be appointed CEO of the Consumer Healthcare Joint Venture business and be a member of its Board if the transaction is successfully completed;
- the appointments in October 2014 of Dr Moncef Slaoui and Abbas Hussain as Chairman, Global Vaccines and Head of Global Pharmaceuticals respectively. Abbas subsequently assumed responsibility for US Pharmaceuticals as part of his role in February 2015. Moncef was previously Chairman, Global R&D & Vaccines, and he continues to provide scientific counsel on pharmaceuticals R&D activities to the CEO and Board. Abbas was previously President, Europe, Japan and EMAP; and
- following the announcement by Deirdre Connelly, President North America Pharmaceuticals, in February 2015 of her intention to retire from GSK and given the recent change to Global Pharmaceuticals, that her role will not be replaced on the CET.

### Committee evaluation

The Committee's annual evaluation was externally facilitated by Dr Tracy Long of Boardroom Review Limited and concluded that the Committee continued to operate effectively. A key finding from Dr Long's evaluation concerned the tenure of the Committee members. Committee accountability is safeguarded when the majority of the Committee members will serve alongside the new Board appointees in the medium to long-term. The Committee agreed that it should continue to refresh its membership so that there was a suitable balance of longer serving Directors and more recent appointees to support the new Committee Chairman in shaping the Board.



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### Corporate Responsibility Committee Report



**Sir Christopher Gent**  
Corporate Responsibility  
Committee Chairman

#### Membership

The membership of the Corporate Responsibility Committee (the Committee), together with appointment dates and attendance at meetings, is set out below:

Members	Committee member since	Attendance at full meetings during 2014
Sir Christopher Gent (Chairman from 1 January 2005)	9 December 2004	5/5
Dr Stephanie Burns	6 December 2007	5/5
Lynn Elsenhans	1 October 2012	5/5
Dr Daniel Podolsky	1 July 2006	5/5
Hans Wijers	10 October 2013	4/5
Sir Robert Wilson*	1 May 2013	2/2

\* Sir Robert Wilson retired from the Board on 7 May 2014.

Hans Wijers was unable to attend one Committee meeting due to a prior business commitment.

Other attendees at Committee meetings may include:

Attendee	Regular attendee	Attends as required
Chief Executive Officer	✓	
Chairman, Global Vaccines	✓	
General Counsel	✓	
Head of Governance, Ethics & Assurance	✓	
Head of Global Communications and Government Affairs	✓	
Head of Global Corporate Responsibility	✓	
Company Secretary – Secretary to the Committee	✓	
Other Executives		✓
Independent external corporate responsibility adviser	✓	

#### Independent external corporate responsibility adviser

To augment GSK's engagement with stakeholder opinion, in May 2013, Sophia Tickell was appointed as an independent external adviser to the Committee, a position that she had held previously from March 2009 to July 2011. Ms Tickell has extensive experience in the pharmaceuticals industry in improving health systems productivity, sustainability in energy supply and distribution, climate change policy and short-termism in financial markets.

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

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

#### Main responsibilities

The main responsibilities of the Corporate Responsibility Committee are set out below.

The Committee has a rolling agenda and receives reports from members of the CET and senior managers to ensure that progress in meeting GSK's Corporate Responsibility commitments, which were set in 2012, is reviewed on an annual basis. These commitments are grouped across four areas:

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

The Committee also reviews and approves the Responsible Business Supplement which is available for reference on [www.gsk.com/responsibility](http://www.gsk.com/responsibility).

#### Work of the Committee during 2014

During 2014, the Committee focused its attention on several issues including:

CR Focus area	Committee's area of focus during 2014
<b>Health for all</b>	<ul style="list-style-type: none"> <li>▪ Flexible and open R&amp;D approach for diseases of the developing world and other areas of great medical need, such as antibiotics and dementia</li> <li>▪ Strategic partnerships to address access and child mortality e.g. Save the Children and Neglected Tropical Diseases</li> <li>▪ Strategic approach to drive access to medicines in Africa, including pricing, capacity building and health system strengthening</li> <li>▪ Vaccines strategy to support global public health priorities, including pricing models, Malaria vaccine and Ebola response</li> <li>▪ ViiV Healthcare Ltd's strategy to drive innovation and access to HIV medicines</li> </ul>
<b>Our behaviour</b>	<ul style="list-style-type: none"> <li>▪ Global incentive compensation programme and selling competency model</li> <li>▪ Changes to how GSK engages with healthcare professionals</li> <li>▪ Further embedding values-based decision making in the organisation, including training and compliance</li> <li>▪ Progress on addressing human rights</li> <li>▪ Conduct and public disclosure of clinical research, transparency of detailed data behind trial results and patient safety</li> <li>▪ Replacement, refinement and reduction in use of animals in research and development</li> </ul>
<b>Our people</b>	<ul style="list-style-type: none"> <li>▪ Organisational change and employee relations</li> <li>▪ Inclusion and diversity</li> <li>▪ Leadership, development and approach to performance management</li> <li>▪ Employee health, safety and wellbeing</li> <li>▪ Volunteering</li> </ul>
<b>Our planet</b>	<ul style="list-style-type: none"> <li>▪ Environmental performance across carbon, water and waste impacts</li> </ul>



### Committee evaluation

The Committee's annual evaluation was externally facilitated by Dr Tracy Long of Boardroom Review Limited and concluded that the Committee continued to operate effectively. As part of the review, it was noted that the Nominations Committee would identify and recommend a new Committee Chairman to succeed Sir Christopher Gent when he retires from the Board at the end by the AGM on 7 May 2015.

## Directors' Report

For the purposes of the UK Companies Act 2006, the Directors' Report of GlaxoSmithKline plc for the year ended 31 December 2014 comprises pages 71 to 95 of the Corporate Governance Report, the Directors' Responsibility Statements on pages 130 and 211, and pages 232 to 248 of Investor Information. As it is entitled to do by the Companies Act 2006, the Board has chosen to set out in the Strategic report those matters required to be disclosed in the Directors' Report which it considers to be of strategic importance to the company, as follows:

- risk management objectives and policies (pages 16, 17, 69 and 70)
- likely future developments of the company (throughout the Strategic report)
- research and development activities (pages 24 to 34)
- inclusion and diversity (pages 44 to 45)
- provision of information to, and consultation with, employees (pages 44 to 45)
- carbon emissions (pages 46 to 47)

In addition, the disclosures relating to the appointment or replacement of Directors and Directors' Powers at year end as required by the UK Corporate Governance Code are disclosed on page 246. The information in the following table is also incorporated into the Directors' Report:

	Location of details in 2014 Annual Report
Interest capitalised	Financial statements, Notes 17 and 19
Publication of unaudited financial information	Group Financial Review, page 60
Details of any long-term incentive schemes	Remuneration report
Waiver of emoluments by a Director	Remuneration report
Waiver of future emoluments by a Director	Not applicable
Non pre-emptive issues of equity for cash	Not applicable
Non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	Not applicable
Parent company participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Shareholder information
Provision of services by a controlling shareholder	Not applicable
Shareholder waiver of dividends	Financial statements, Notes 15 and 42
Shareholder waiver of future dividends	Financial statements, Notes 15 and 42
Agreements with controlling shareholders	Not applicable

The Directors' Report has been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law. The Directors' Report was approved by a duly authorised Committee of the Board of Directors on 26 February 2015 and signed on its behalf by:

**Sir Christopher Gent**  
Chairman  
26 February 2015



# Remuneration report

## Chairman's Annual Statement

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### Dear Shareholder

As the Chairman of the Remuneration Committee (the Committee), I am pleased to present our Remuneration report for 2014.

Following a year of change in 2013 with the new remuneration reporting regulations, 2014 has been a year of stability. During the year, the Committee has operated our binding remuneration policy, which received overwhelming shareholder support at our 2014 AGM. For ease of reference for shareholders, we have included a copy of our approved Remuneration policy report at the end of this document. I can confirm that the structure of our incentive plans remains unchanged, with the exception of the extension of the time horizons of the PSP awards granted to Executive Directors in 2015, which now include a three year performance period and a five year vesting period.

At our AGM on 7 May 2015, shareholders will be asked to show their support for our annual report on remuneration for 2014.

#### Remuneration outcomes in respect of 2014

From a financial perspective, total turnover for 2014 was down 3% to £23 billion, with challenging trading conditions faced by the Group, particularly in the US primary care market. Core operating profit and core Group PBIT were down 6% at CER. Cost savings and financial efficiencies offset a substantial proportion of the impact from the top line pressures during the year and helped deliver the core EPS (down 1%), while also protecting investments in the business. The dividend for the year was increased by 3%.

Although 2014 has been a challenging year for GSK, there have been notable examples where the company has delivered positive outcomes, including great progress on key product launches and improved formulary positioning, as well as the continued progress in our respiratory pipeline. Our newly launched products, including *Tivicay* and *Triumeq* from ViiV Healthcare, *Tafinlar*, *Mekinist* and *Tanzeum* have contributed £1.5 billion in turnover, up 84% CER, and now represent 8% of Pharmaceutical and Vaccine sales. Furthermore, in responding to the Ebola crisis, GSK has been a clear leader in developing a vaccine. All of this has happened alongside our efforts to complete the transformational three-part transaction with Novartis.

Against this background, the key decisions made in respect of performance in 2014 by the Committee are highlighted below:

- The bonus outcome for the Executive Directors was determined by Group Operating Profit and Group PBIT, which achieved performance between threshold and target. This delivered significantly reduced bonus payments for the CEO and CFO, compared with those of 2013. Vaccines performance and the R&D value driver delivered on-target performance, which also resulted in a reduced bonus payment for Dr Slaoui when compared to the strong performance in 2013. Further details of these bonus awards are given on pages 99 to 101.

- Vesting of the 2012 PSP and DABP (Deferred Annual Bonus Plan) matching awards was impacted by TSR and adjusted free cash flow performance being below the thresholds set. On a positive note, key investments for the long-term success of the Group were not sacrificed. The overall vesting level of 13.5% was achieved by above threshold performance against the R&D new products and business diversification performance measures.

I am pleased to report that the executives continue to align their personal interests with those of shareholders. Sir Andrew has elected again this year to defer the maximum permitted amount under our DABP. His share ownership requirement (SOR) is to hold four times his base salary in GSK shares. He currently holds over 11 times his base salary in GSK shares, i.e. between two and three times the level required.

Further details of 2014 remuneration for executives and related performance under the annual bonus and long-term incentives (PSP awards and DABP matching awards) are given on pages 99 to 103.

#### Executive remuneration for 2015

The key changes to the structure of 2015 remuneration were disclosed in last year's report. For the 2015 awards, the time horizon for PSP awards to Executive Directors has been revised with the extension of the vesting period to five years. The awards continue to be subject to a three-year performance period. As we have already implemented malus and clawback provisions in prior years, no further changes are required in this regard to comply with the most recent updates to the UK Corporate Governance Code.

#### Agenda for 2015

No other structural changes are proposed for this year. The Committee decided that salary levels for Executive Directors would not be increased for 2015, although management have awarded a 1% average increase for employees in the UK and USA below the level of the CET.

The three-part transaction with Novartis is expected to be completed in the week commencing 2 March 2015 and will have wide-ranging implications for executive remuneration at GSK. It is anticipated that our adjusted free cash flow and R&D new product targets for the 2013, 2014 and 2015 PSP and DABP awards, and our business diversification target for the 2013 award, will need to be revised to reflect the nature of the business after the transaction. The Committee is aware of the potential challenges of making such adjustments and will appropriately engage with shareholders regarding each of these points in due course.

During 2015, the Committee will keep executive remuneration arrangements under review to ensure that they continue to meet the needs of the business. The Committee is proud of its track record of listening to the views of our shareholders. We will continue to engage with shareholders on executive remuneration matters to ensure that our remuneration policy is operated in their long-term interests. During 2014, we held our annual meeting with GSK's largest investors to listen to their views and feedback on corporate governance matters, and we will once again take this approach later in 2015.

Finally, I will be retiring as a Non-Executive Director of GSK at the 2015 AGM and consequently I am presenting my final report as Chairman of the Committee. A successor will be appointed from the Committee to take the work forward. I would like to take this opportunity to thank both my fellow Committee members and shareholders for their support during my tenure as Chairman of the Committee.

We look forward to receiving your support for our annual report on remuneration at our AGM. As always, we would also welcome all shareholders' feedback on this report.

**Tom de Swaan**  
Remuneration Committee Chairman  
26 February 2015



# Annual report on remuneration

## Total remuneration for 2014 (audited)



The total remuneration for 2014 for each Executive Director is set out in the table below:

	Sir Andrew Witty, CEO				Simon Dingemans, CFO				Dr Moncef Slaoui, Chairman, Global Vaccines			
	2014 £000	% of total	2013 £000	% of total	2014 £000	% of total	2013 £000	% of total	2014 \$000	% of total	2013 \$000	% of total
<b>A. Fixed pay</b>												
Salary	1,087		1,059		718		699		1,212		1,180	
Benefits <sup>(1)</sup>	70		67		79		65		571		747	
Total fixed pay	1,157	30%	1,126	16%	797	43%	764	23%	1,783	41%	1,927	23%
<b>B. Pay for performance</b>												
Annual bonus – including the amount deferred	917		1,875		446		886		1,108		1,973	
<b>Value earned from LTI awards<sup>(2)</sup>:</b>												
Matching awards under Deferred												
Annual Bonus Plan	111		249		65		n/a		138		485	
Performance Share Plan	1,035		3,250		398		1,502		939		3,763	
<b>Total value earned from LTI awards</b>	1,146		3,499		463		1,502		1,077		4,248	
Total pay for performance	2,063	53%	5,374	74%	909	49%	2,388	73%	2,185	51%	6,221	74%
<b>C. Pension<sup>(3)</sup></b>	671	17%	707	10%	144	8%	140	4%	365	8%	266	3%
<b>Total remuneration<sup>(4)</sup></b>	<b>3,891</b>		<b>7,207</b>		<b>1,850</b>		<b>3,292</b>		<b>4,333</b>		<b>8,414</b>	

Notes:

- (1) Certain expenses incurred in the normal course of business are considered to be taxable benefits by UK HM Revenue & Customs and as such the table above includes these figures for 2013 and 2014. Further details are provided on page 98.
- (2) An analysis of the value of LTIs earned by Sir Andrew Witty, Simon Dingemans and Dr Moncef Slaoui is set out on pages 113 to 116.
- (3) Full details of the pension contributions and pensions accrued to date for the Executive Directors are given on page 106.
- (4) The Committee may in specific circumstances, and in line with stated principles, apply clawback/malus, as it determines appropriate. Following due consideration by the Committee, there has been no reduction of outstanding awards or vesting levels (malus) applied during 2014 in respect of any of the Executive Directors.

The following sections provide details of each element of 'Total remuneration', including how we implemented the remuneration policy approved by shareholders in May 2014 and how it will be applied in 2015.

- Strategic report
- Governance & remuneration
- Financial statements
- Investor information



# Annual report on remuneration

## continued

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### Comparator groups for pay and performance

The Committee uses two primary pay comparator groups when considering executive pay:

UK cross-industry comparator group	Global pharmaceutical comparator group
Anglo American	France Sanofi
AstraZeneca	Switzerland Novartis
BG Group	Roche Holdings
BHP Billiton	UK AstraZeneca
BP	USA AbbVie*
British American Tobacco	Amgen*
Diageo	Bristol-Myers Squibb
Reckitt Benckiser	Eli Lilly
Rio Tinto	Johnson & Johnson
Royal Dutch Shell	Merck & Co
SAB Miller	Pfizer
Tesco	
Unilever	
Vodafone	

\* Amgen and AbbVie are included for remuneration benchmarking, but are not included in the TSR comparator group.

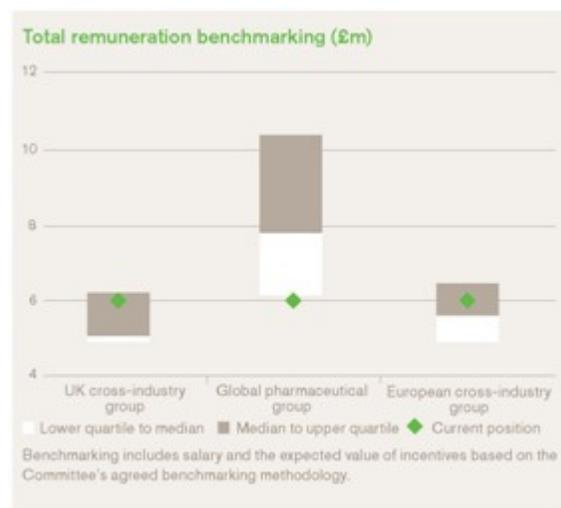
The global pharmaceutical comparator group is also used as the basis for the TSR comparator group which features in our long-term incentive awards.

The primary pay comparator group for each of the Executive Directors is shown in the table below:

Director	Primary pay comparator group	
	UK cross-industry	Global pharmaceutical
Sir Andrew Witty	✓	
Simon Dingemans	✓	
Dr Moncef Slaoui		✓

When reviewing the CEO's remuneration, the Committee also references pay for a group of leading European companies whose selection is based on their size and complexity.

### Summary of total package competitive positioning for the CEO



### Salary

For 2015, the average salary increase budget for employees below the level of the CET will be approximately 1.0% in both the UK and USA.

The Committee decided not to increase the Executive Directors' salaries for 2015.

The table below sets out the base salaries of the Executive Directors over the last two years and for 2015.

	% change	2015	2014	Base salary 2013
Sir Andrew Witty	0%	£1,087,300	£1,087,300	£1,060,800
Simon Dingemans	0%	£717,700	£717,700	£700,150
Dr Moncef Slaoui	0%	\$1,211,800	\$1,211,800	\$1,182,200

### Benefits (audited)

The following table shows a breakdown of the grossed up cash value of the benefits received by the Executive Directors in 2014 and 2013.

	Sir Andrew Witty	Simon Dingemans	Dr Moncef Slaoui
<b>2014 benefits</b>	<b>£000</b>	<b>£000</b>	<b>\$000</b>
Employee benefits <sup>(1)</sup>	20	24	136
Travel <sup>(2)</sup>	42	42	105
Other benefits <sup>(3)</sup>	8	13	330
<b>Total 2014 benefits</b>	<b>70</b>	<b>79</b>	<b>571</b>
<b>2013 benefits</b>	<b>£000</b>	<b>£000</b>	<b>\$000</b>
Employee benefits <sup>(1)</sup>	17	22	157
Travel <sup>(2)</sup>	36	30	82
Other benefits <sup>(3)</sup>	14	13	7
International assignment <sup>(4)</sup>	–	–	501
<b>Total 2013 benefits</b>	<b>67</b>	<b>65</b>	<b>747</b>

<sup>(1)</sup> Employee benefits include healthcare, car allowance, personal financial advice and life assurance/death in service.

<sup>(2)</sup> Travel expenses include car, travel and family, spouse and partner costs associated with accompanying the director on GSK business, which are deemed to be taxable benefits on the individual.

<sup>(3)</sup> Other benefits comprise expenses incurred in the ordinary course of business, which are deemed to be taxable benefits on the individual and, as such, have been included in the table above. For Dr. Slaoui in 2014, this includes UK accommodation of \$326,610.

<sup>(4)</sup> Dr Moncef Slaoui was seconded to the UK in November 2010 in order to enable him to be closer to the Vaccines business as he assumed operational responsibility for that part of the Group. The secondment ended on 31 December 2013. In line with other senior GSK expatriates, he received appropriate assignment expenses, including accommodation, location allowance, relocation specific financial advice and tax equalisation.

No significant changes to the provision of benefits are proposed for 2015. For further details, please refer to the Policy report (see page 119).



## Pay for performance (audited)

### Annual bonus

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 (IPM).

For the financial measures, the bonus threshold is 90% of target, with the maximum being payable for achievement of 110% of target. The bonus threshold of 90% reflects the stretching nature of the bonus targets.

The IPM is set by the Committee taking into account performance against individual objectives. The multiplier may be set between 0% and 150%. Generally, in a year when an Executive Director has performed strongly against all their objectives, it would be expected that they would receive an IPM towards the top of that range.

### 2014 performance against targets

For 2014, the annual bonus was based on the following financial performance measures and weightings.

	Core Group operating profit	Core Group PBIT	Vaccines performance	R&D value driver
Sir Andrew Witty	75%	25%	–	–
Simon Dingemans	75%	25%	–	–
Dr Moncef Slaoui	–	25%	25%	50%

As the actual financial targets are linked to the company's financial and strategic plan, the Committee believes that the targets remain commercially sensitive. The specific 2014 targets are therefore not disclosed. However, the following illustrates the performance achieved in the year against the target for each of the four measures. Individual performance multipliers set for 2014 were also substantially lower than 2013.

Performance measure	Performance below threshold	Performance between threshold and target	Target performance	Performance between target and range maximum	Performance above range maximum
Core Group operating profit	←	█	█	█	→
Core Group PBIT	←	█	█	█	→
Vaccines performance	←	█	█	█	→
R&D value driver	←	█	█	█	→

### Financial performance

#### Core Group operating profit and core Group profit before interest and tax

In the face of some major headwinds impacting the Group, the performance in 2014, both in terms of core Group operating profit and core Group profit before interest and tax was resilient. Strong sales performances were delivered in several important parts of the business, including Emerging Markets (+5%), Japan (+1%), ViiV Healthcare (+15%) and oncology (+33%). Europe, helped by the benefits of refocusing the commercial organisation, delivered another relatively stable performance despite ongoing government and competitive pressures. In addition, a tight rein on costs added to the delivery of incremental savings in 2014 from restructuring and structural initiatives (approximately £400 million), helped to offset a substantial portion of the impact from top line pressures while, importantly, protecting key investments required for the long-term success of the Group.

#### Vaccines performance and R&D value drivers

Targets for the year around pipeline growth and value were achieved.

This reflects four important approvals in 2014 (*Incruse Ellipta* and *Arnuity Ellipta* in respiratory, *Triumeq* in HIV and *Tanzeum* for Type 2 diabetes), two very important regulatory filings (*Breo Ellipta* for use in asthma in the US and mepolizumab, our first-in-class anti-IL5 treatment, for severe asthma, filed in the US and Europe) and the start of three major phase III programmes (our triple combination therapy for COPD, mepolizumab for COPD and *losmapimod* for Acute coronary syndrome). Global sales of vaccines were down 1% as several strong performances (*Boostrix*, *Rotarix*, *Synflorix*, *Infanrix/Pediarix*) offset most of the impact of the ongoing suspension of HPV vaccines in Japan, the return to the market of competing vaccines and supply constraints. The business also delivered exciting phase III data for the Group's vaccine to prevent shingles and achieved major milestones in the programmes for Malaria and Ebola.



# Annual report on remuneration

## *continued*

The table below sets out the matters which the Committee considered in respect of the individual objectives set for each Executive Director.

Personal performance	
<b>Sir Andrew Witty</b>	<p>Sir Andrew's bonus reflects financial performance, developments that offer the opportunity to positively re-shape the Group's business and management's response to issues and challenges faced in the course of the year. These included:</p> <p>The Group's financial performance and response to challenging trading conditions in the year, which included greater than expected contracting and competitive pressures to the US respiratory business, the launch of <i>Lovaza</i> generics and supply disruptions in Consumer Healthcare. Sales were down 3% to £23 billion and core EPS was down 1% CER to 95.4p, helped by delivery of cost and financial efficiencies.</p> <p>Initiation of the innovative proposed three-part transaction with Novartis, which accelerates the Group's strategy to re-shape its business and provide a better balance and broader range of growth drivers; synergy and operating leverage opportunities; further financial efficiencies and increased balance and sustainability of cash flow.</p> <p>The commencement of a new restructuring programme to simplify GSK's global Pharmaceuticals Business. Approximately £1 billion of annual cost savings are expected to be delivered over the next 3 years. £400 million of net incremental cost savings were delivered from existing restructuring programmes and structural savings in 2014.</p> <p>The establishment of a new executive management structure to simplify the organisation and ensure focus across three core global businesses (Global Pharmaceuticals, Consumer Healthcare and Vaccines). The Group also continued to restructure its ways of working, with global roll-out of measures to modernise GSK's commercial model and interaction with healthcare professionals.</p> <p>Sustained delivery in R&amp;D, with 16 approvals and 11 filings for key products in major markets in 2014, including continued build of new products in core pharmaceutical areas of respiratory and HIV. Sustained progress of assets in the advanced pipeline (7 advanced assets viewed with high potential: a closed triple combination in respiratory, losmapimod for acute coronary syndrome, mepolizumab for severe asthma and COPD, sirukumab for RA, a vaccine to prevent shingles, cabotegravir for HIV and '863 for anaemia).</p> <p>Further strengthening of GSK's business and contribution to public health in middle-income/developing countries. During the year, the company filed its candidate vaccine to prevent malaria, developed a candidate Ebola vaccine to help respond to the crisis in West Africa, launched a new long-term Africa strategy of investment and launched new pricing approaches for vaccines. GSK was placed 1st in the Access to Medicine Index for the fourth consecutive year.</p> <p>The Group's response to the China investigation, both in reform of its subsidiary business and implementation of steps to further strengthen ABAC monitoring, controls and procedures in other markets. The impact of the investigation was also considered in the evaluation of Sir Andrew's remuneration in 2013.</p> <p>Overall evaluation of Sir Andrew's performance and leadership of the Group in 2014 led the Committee to award a bonus of £917,000 for 2014. This represents a reduction of £958,000 (51%) compared to the bonus award for 2013 (£1,875,000).</p>
<b>Simon Dingemans</b>	<p>GSK delivered core EPS down 1%, in line with the revised financial guidance provided in July 2014, while also protecting ongoing investments in new launches, additional manufacturing capabilities and capacity for the long-term success of the Group. Simon continued to drive operating and financial efficiencies and helped lead the planning for the new restructuring programme that is expected to deliver £1 billion of annual savings by 2017 and 50% in 2016. GSK was able to return £4.1 billion of cash to shareholders in 2014.</p> <p>The roll out of GSK's ERP system and the establishment of Core Business Services to bring together support functions in order to streamline and standardise functional support to the business has continued at a significant pace.</p>
<b>Dr Moncef Slaoui</b>	<p>Dr Moncef Slaoui delivered a year of good performance for R&amp;D. The number of candidate selections, commit to medicines development and files approved were in line with or ahead of R&amp;D's fill and flow targets. First time in human submissions were slightly below target. New product sales were encouraging. Dr Slaoui transitioned leadership of R&amp;D to Dr Vallance following a planned period of development. Under Dr Slaoui's leadership, the Vaccines business delivered strong performance in 2014 in line with plan.</p>



The following table shows actual bonuses earned compared to opportunity for 2014 and 2013.

	Base salary £/\$000	Bonus opportunity		Total bonus		Bonus paid	
		Target (% of salary)	Maximum (% of salary)	2014 (% of salary)	2013 (% of salary)	2014 £/\$000	2013 £/\$000
<b>Sir Andrew Witty</b>	£1,087	125%	200%	84%	177%	£917	£1,875
<b>Simon Dingemans</b>	£718	80%	180%	62%	127%	£446	£886
<b>Dr Moncef Slaoui</b>	\$1,212	85%	200%	91%	167%	\$1,108	\$1,973

**2015 operation of annual bonus plan**

In line with the policy that performance measures should be based on relevant business unit performance and given the change to Dr Moncef Slaoui's responsibilities during 2014, for 2015 Dr Slaoui's financial performance measures and weightings will be as follows:

	Core Group operating profit	Core Group PBIT	Vaccines performance	R&D value driver
<b>Dr Moncef Slaoui – 2015</b>	–	25%	75%	–

No other changes are proposed to the operation of the annual bonus plan for 2015. Inevitably, targets linked directly to the financial and strategic plan are commercially sensitive and the Committee does not consider it appropriate to disclose annual bonus targets during the year. However, details of performance achieved will be disclosed in the 2015 Annual Report.

**Long-term incentive plans (audited)**

**Deferred Annual Bonus Plan and matching awards**

The levels of participation in respect of 2013 and 2014 for the Executive Directors are shown in the table below, together with the maximum matching awards granted in 2015 in respect of the deferrals of 2014 bonuses.

	2015 Matching award	% of total bonus deferred into shares or ADS	
		2014	2013
<b>Sir Andrew Witty</b>	30,172 shares	50%	50%
<b>Simon Dingemans</b>	14,680 shares	50%	35%
<b>Dr Moncef Slaoui</b>	11,973 ADS	50%	50%

Vesting of matching awards with a performance period ended 31 December 2014 is shown on pages 113 and 114.

Performance conditions for matching awards made in 2015 under the Deferred Annual Bonus Plan (DABP) are the same as for the Performance Share Plan and are described on page 104.

**Performance Share Plan**

The table below shows Performance Share Plan (PSP) award levels for 2014 and 2015 for each Executive Director:

	2015 Award	2015	2014
		Award level as % of base salary	Award level as % of base salary
<b>Sir Andrew Witty</b>	429,338 shares	600%	600%
<b>Simon Dingemans</b>	188,930 shares	400%	400%
<b>Dr Moncef Slaoui</b>	131,005 ADS	500%	500%

25% of Sir Andrew Witty's 2014 PSP award is subject to a further two-year vesting period (five years in total). The PSP awards made to all of the Executive Directors in 2015 are subject to a three year performance period and a five year vesting period.

PSP and DABP matching awards are both subject to performance and continued employment.



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### 2012 awards with a performance period ended 31 December 2014 (audited)

The Committee reviewed the performance of the PSP and DABP matching awards granted to Executive Directors against targets set in 2012. The performance achieved in the three years to 31 December 2014 and the actual vesting levels are set out in the table below. The Committee previously provided estimates of vesting for 2012 awards in GSK's 2012 and 2013 Annual Reports. Those estimates were based on performance achieved at that time and the following reflects performance achieved over the course of the whole performance period. No discretion was exercised in determining their vesting levels.

Due to commercial sensitivities, the targets for R&D new products and business diversification were not disclosed at the time of grant and the Committee committed to disclosing them at the time of vesting. These targets are shown in the table below.

Performance measures and relative weighting	Performance targets and performance achieved	Vesting	
		% of maximum	% of award
<b>Business diversification performance (25%)</b>	The business diversification measure was based on an aggregate three-year revenue target for Vaccines, Consumer Healthcare, Dermatology and Emerging Markets, Asia Pacific and Japan. The vesting schedule is shown below. Aggregate sales for the period were £44.96 billion.	27%	6.75%
	<b>Target</b>		
	<b>Maximum</b>	£51.23 billion	100%
	<b>Threshold</b>	£44.77 billion	25%
<b>R&amp;D new product performance (25%)</b>	The R&D new product performance measure was based on an aggregate three-year revenue target for New Product sales. New Products are defined as products launched in the performance period and the two preceding years. Therefore products launched in the years 2010 to 2014 were included. The vesting schedule is shown below. Aggregate sales for the period were £6.33 billion.	27%	6.75%
	<b>Target</b>		
	<b>Maximum</b>	£7.70 billion	100%
	<b>Threshold</b>	£6.30 billion	25%
<b>Adjusted free cash flow performance (25%)</b>	Adjusted free cash flow (AFCF) for the three years was £14.40 billion which, in line with the Committee's agreed principles, included adjustments for a number of material distorting items, including legal settlements, exchange rate movements and special pension contributions.  The AFCF vesting schedule was disclosed at the time of grant. 25% (threshold) of the award vests for achieving AFCF of £17.30 billion, 50% for achieving £17.84 billion, 75% for achieving £19.62 billion and 100% (maximum) for achieving £20.52 billion, with straight-line vesting between these points.	0%	0%
<b>Relative TSR performance (25%)</b>	GSK's TSR rank position was 10th in the comparator group of ten pharmaceutical companies (GSK and nine other companies). The vesting schedule and comparator group is as set out for the 2015 awards on page 104.	0%	0%
<b>Total vesting in respect of 2014</b>			<b>13.5%</b>

\* Straight-line vesting applies between these points.

### Use of malus and clawback

The company's policy on malus and clawback is set out in the 2014 Remuneration policy report on page 121.

The Committee has jurisdiction on malus and clawback in respect of the executives. The Recoupment Committee exercises this authority for the wider employee base. It is comprised of senior executives with relevant oversight and appropriate experience, including the Senior Vice President, Global Ethics and Compliance, and the Senior Vice President & General Counsel.

From 1 January 2015, in respect of each financial year, the Committee will disclose whether it (or the Recoupment Committee) has exercised clawback or malus.

Disclosure will only be made when the matter has been the subject of public reports of misconduct, where it has been fully resolved, where it is legally permissible to disclose and where it can be made without unduly prejudicing the company and therefore shareholders.

The Committee has determined that the release of some shares under the LTI plans may be delayed in the case of leavers, to reinforce the implementation of the malus and clawback policy. Also, in the case of deferred bonus awards under the DABP granted to executives who then retire or are made redundant, the vesting of those awards will normally be delayed so that they vest on their original timescales rather than vesting earlier at the end of the year in which the termination date falls.



## Update on performance of ongoing awards

The Committee reviewed the performance of the PSP and DABP matching awards granted to Executive Directors in 2013 and 2014. The following tables provide an estimate of vesting to date taking into account performance to date. Actual vesting levels will only be determined based on performance over the full three-year performance periods. The indications below should therefore not be regarded as predictions of the final vesting levels. It is also noted that in relation to some measures, adjustments may be required following the close of the three-part transaction with Novartis, which is expected to complete during the week commencing 2 March 2015, to reflect the impact of the transaction on the business.

### 2013 awards with a performance period ending 31 December 2015

Performance measures and relative weighting	Performance update
<b>Business diversification performance (25%)</b>	Business diversification performance for the 2013 awards measures aggregate three-year sales across Vaccines, Consumer Healthcare and Emerging Markets, Asia Pacific and Japan. Threshold performance results in 25% vesting and maximum performance (114% of threshold) results in 100% vesting.  There were good sales for the two years for these business areas. Based on aggregate sales for the period and based on performance measure definitions, vesting is currently estimated to be between 25% and 50% of the maximum for this element.
<b>R&amp;D new product performance (25%)</b>	R&D new product sales performance measures aggregate three-year sales for new products launched in the three-year performance period and preceding two years, i.e. 2011-2015. Threshold performance results in 25% vesting and maximum performance (122% of threshold) results in 100% vesting.  There were strong sales of new products in the two years. Based on aggregate sales of new products for the two years, and based on performance measure definitions, vesting is currently estimated to be between 75% and 100%.
<b>Adjusted free cash flow performance (25%)</b>	The AFCF vesting schedule for the 2013 awards was disclosed at the time of grant.  25% (threshold) of the award vests for achieving AFCF of £14.06 billion, 50% for achieving £14.49 billion, 75% for achieving £15.94 billion and 100% (maximum) for achieving £16.66 billion, with straight-line vesting between these points.  Based on AFCF for the two years, and on performance measure definitions, vesting is currently estimated to be below threshold.
<b>Relative TSR performance (25%)</b>	For the period 1 January 2013 to 31 December 2014, GSK's TSR rank position was 10th in the comparator group of ten pharmaceutical companies (GSK and nine other companies). The vesting schedule and comparator group are as set out for the 2015 awards on page 104. If the ranking position remains at this level, vesting would be below threshold.
<b>Current estimate of potential total vesting for 2013 awards</b> <span style="float: right;"><b>Between 25% and 50% vesting</b></span>	

### 2014 awards with a performance period ending 31 December 2016

Performance measures and relative weighting	Performance update
<b>R&amp;D new product performance (1/3rd)</b>	R&D new product sales performance measures aggregate three-year sales for new products launched in the three-year performance period and preceding two years, i.e. 2012-16. Threshold performance results in 25% vesting and maximum performance (122% of threshold) results in 100% vesting.  There were strong sales of new products in the year. Based on aggregate sales of new products for the year, and based on performance measure definitions, performance is currently estimated to be above the maximum vesting level (i.e. 100%) for this element.
<b>Adjusted free cash flow performance (1/3rd)</b>	The adjusted free cash flow (AFCF) vesting schedule for the 2014 awards was disclosed at the time of grant.  25% (threshold) of the award vests for achieving AFCF of £13.68 billion, 50% for achieving £14.10 billion, 75% for achieving £15.51 billion and 100% (maximum) for achieving £16.22 billion, with straight-line vesting between these points.  Based on AFCF for the year, and on performance measure definitions, vesting is currently estimated to be below threshold.
<b>Relative TSR performance (1/3rd)</b>	For the period 1 January 2014 to 31 January 2014, GSK's TSR rank position was 10th in the comparator group of ten pharmaceutical companies (GSK and nine other companies). The vesting schedule and comparator group are as set out for the 2015 awards on page 104. If the ranking position remains at this level, vesting would be below threshold.
<b>Current estimate of potential total vesting for 2014 awards</b> <span style="float: right;"><b>Between 25% and 50% vesting</b></span>	



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### Performance targets for 2015 awards

Inevitably, measures linked directly to strategy are commercially sensitive. In particular, the Committee does not consider it appropriate to disclose the targets for R&D new product performance at grant, as it may result in competitive harm. However, the targets will be disclosed in full in GSK's 2017 Annual Report at the end of the performance period, together with details of the extent to which they have been met. The Committee will provide updates on estimated vesting against the targets during the performance period. The 2015 performance targets and vesting schedules are set out in the table below.

#### 2015 awards with a performance period ending 31 December 2017

Performance measures and relative weighting	Link to strategy	Vesting schedule															
<b>R&amp;D new product performance (1/3rd)</b>	<p>Recognises importance of R&amp;D to future business growth.</p> <p>Revenue target based on new product sales to incentivise better R&amp;D performance. New products defined as products launched in the performance period and the two preceding years. Therefore, for the 2015-2017 performance period, products launched in the years 2013-2017 will be included in the measurement.</p> <p>Aggregate three-year revenue target for 2015 awards for new product sales should reflect growth on historic performance of new product sales.</p>	<table border="1"> <thead> <tr> <th></th> <th>Performance (% of threshold)</th> <th>% vesting</th> </tr> </thead> <tbody> <tr> <td><b>Maximum</b></td> <td>122%</td> <td>100%</td> </tr> <tr> <td><b>Threshold</b></td> <td>100%</td> <td>25%</td> </tr> </tbody> </table>		Performance (% of threshold)	% vesting	<b>Maximum</b>	122%	100%	<b>Threshold</b>	100%	25%						
	Performance (% of threshold)	% vesting															
<b>Maximum</b>	122%	100%															
<b>Threshold</b>	100%	25%															
<b>Adjusted free cash flow performance (1/3rd)</b>	Recognises importance of effective working capital and cash management.	The performance targets for this measure will be determined and communicated following the close and implementation of the three-part transaction with Novartis, which is expected to complete in the week commencing 2 March 2015. It is anticipated that these will be communicated by the end of July 2015.															
<b>Relative TSR performance (1/3rd)</b>	<p>Focuses on delivery of value to shareholders. Relative TSR using a comparator group comprising GSK and nine other global pharmaceutical companies.</p> <p>Relative TSR is measured over three years, using a twelve-month averaging period. TSR is measured in local currency.</p>	<table border="1"> <thead> <tr> <th></th> <th>TSR ranking within comparator group<sup>1</sup></th> <th>% vesting</th> </tr> </thead> <tbody> <tr> <td><b>Maximum</b></td> <td>1st, 2nd, 3rd</td> <td>100%</td> </tr> <tr> <td rowspan="4"><b>Threshold<sup>2</sup></b></td> <td>4th</td> <td>72%</td> </tr> <tr> <td>5th</td> <td>44%</td> </tr> <tr> <td>Median</td> <td>30%</td> </tr> <tr> <td>6th to 10th</td> <td>0%</td> </tr> </tbody> </table> <p><sup>1</sup> TSR comparator group: AstraZeneca, Bristol-Myers Squibb, Eli Lilly, GSK, Johnson &amp; Johnson, Merck &amp; Co, Novartis, Pfizer, Roche Holdings and Sanofi.</p> <p><sup>2</sup> The vesting schedule is based on delivering 30% vesting for median performance. In a comparator group of ten companies, median falls between two companies. Threshold vesting is therefore for achieving above median performance.</p>		TSR ranking within comparator group <sup>1</sup>	% vesting	<b>Maximum</b>	1st, 2nd, 3rd	100%	<b>Threshold<sup>2</sup></b>	4th	72%	5th	44%	Median	30%	6th to 10th	0%
	TSR ranking within comparator group <sup>1</sup>	% vesting															
<b>Maximum</b>	1st, 2nd, 3rd	100%															
<b>Threshold<sup>2</sup></b>	4th	72%															
	5th	44%															
	Median	30%															
	6th to 10th	0%															

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**Historical vesting for GSK's LTIs**

The following table shows historical vesting levels under the company's long-term incentive plans (Deferred Annual Bonus Plan matching awards, Performance Share Plan and Share Option Plan) in respect of awards made to executives since 2004.

Year of grant	Deferred Annual Bonus Plan		Performance Share Plan				Share Option Plan	
	Performance period	Total vesting %	Vesting under TSR %	Vesting under adjusted free cash flow %	Vesting under R&D new product %	Vesting under business diversification %	Total vesting %	Vesting under EPS %
2004	2005-2007	n/a	38.5	n/a	n/a	n/a	38.5	100
2006	2006-2008	n/a	0	n/a	n/a	n/a	0	50.7
2007	2007-2009	n/a	35	n/a	n/a	n/a	35	0
2008	2008-2010	n/a	35	n/a	n/a	n/a	35	0
2009	2009-2011/12	n/a	9	40	n/a	n/a	49	0
2010	2010-2012/13	30	9	16	n/a	n/a	25	n/a
2011	2011-2013	40	0	13	16	11	40	n/a
2012	2012-2014	13.5	0	0	6.75	6.75	13.5	n/a

For the DABP, the 2010 awards were subject wholly to TSR performance and from 2011 awards were subject to the same performance measures as PSP awards.

**Other all-employee share plans**

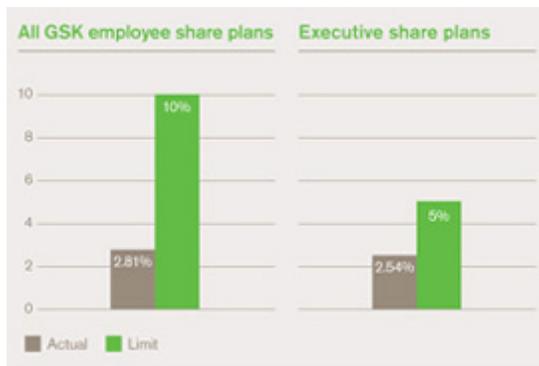
The Executive Directors participate in various all-employee share plans, including ShareSave and ShareReward.

The ShareSave Plan is an HM Revenue & Customs approved plan open to all UK employees. Participants may save up to £250 a month from their net salaries for a fixed term of three years and at the end of the savings period they have the option to buy GSK shares at a discount of up to 20% of the market price set at the launch of each savings contract. Sir Andrew Witty and Simon Dingemans each contribute £250 a month into the ShareSave Plan.

The ShareReward Plan is an HM Revenue & Customs approved plan open to all UK employees on the same terms. Participants contribute up to £125 a month from their gross salaries to purchase GSK shares and the company matches the number of GSK shares bought each month under this arrangement. Sir Andrew Witty and Simon Dingemans each contribute £125 a month to buy shares under the ShareReward Plan.

**Dilution limits**

All awards are made under plans which incorporate dilution limits consistent with the guidelines provided by the Investment Association (formerly provided by the Association of British Insurers). These limits are 10% in any rolling ten year period for all plans and 5% in any rolling ten year period for executive share plans. Estimated dilution from existing awards made over the last ten years up to 31 December 2014 is as follows:



**Payments to past directors during 2014 (audited)**

There were no payments to past directors during 2014.

**Payments for loss of office during 2014 (audited)**

There were no payments for loss of office to directors during 2014.

**Share ownership requirements**

To align the interests of executives with those of shareholders, executives are required to build up and maintain significant holdings of shares in GSK over time.

Executives are required to continue to satisfy these shareholding requirements for a minimum of 12 months following retirement from the company.

Current share ownership requirements (SOR) are set out in the table below:

	Share ownership requirement
CEO	4x base salary
Other Executive Directors	3x base salary
Other CET members	2x base salary

Executive Directors' shareholdings for the purpose of SOR as at 19 February 2015 and achievement of SOR, based upon an average share price for the 90 working days preceding that date, were as set out in the following table (audited):

	Holdings for SOR purposes as at		Increase in shareholding %	Achievement of SOR %
	19 February 2015	31 December 2013		
Sir Andrew Witty	846,470	566,142	50%	279%
Simon Dingemans	187,722	84,872	121%	125%
Dr Moncef Slaoui	488,978	383,079	28%	300%

Any outstanding share awards still subject to performance criteria or continued employment are not included in the shareholdings for the purpose of SOR.

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### Pension (audited)

The arrangements for the current Executive Directors are set out in the table below.

Pension arrangements	
<b>Sir Andrew Witty</b>	Sir Andrew Witty is a member of the Glaxo Wellcome defined benefit pension plan with an accrual rate of 1/30th of final pensionable salary. This plan has been closed to new entrants since 2001. The section of the plan that Sir Andrew is a member of provides for a normal retirement age of 60 and a maximum pension value of 2/3rds of pensionable salary. Since 1 April 2013, pensionable earnings increases are limited to 2% per annum for all members, including Sir Andrew.
<b>Simon Dingemans</b>	Simon Dingemans is not a member of any GSK pension plan for pension contributions and instead receives a cash payment in lieu of pension of 20% of base salary in line with GSK's defined contribution pension plan rates.  Simon Dingemans receives death in service and ill-health insurance that is provided as part of the pension plan. This has been included in his employee benefits on page 98.
<b>Dr Moncef Slaoui</b>	Dr Slaoui is a member of the US Cash Balance Pension Plan and the Supplemental Cash Balance Pension Plan which provides for an Executive Pension Credit. GSK makes annual contributions to Dr Slaoui's pension plans of 38% of his base salary. The plans provide a cash sum at retirement and the fund increases at an interest rate set annually in advance, based on the 30 year US Treasury bond rate. The plan has no entitlement to a spouse's pension or to pension increases.  Dr Slaoui was an active member of the Belgium AG Insurance (ex-Fortis) Plan until 31 May 2006 and has been a deferred member since. This plan is a defined benefit plan with a lump sum payable at a normal retirement age of 60. There are no further company contributions to this plan.  Dr Slaoui is also a member of the GSK 401(k) savings scheme open to all US employees and the Executive Supplemental Savings Plan (ESSP), a savings scheme open to executives to accrue benefits above US government limits imposed on the GSK 401(k) plan. Contributions to both plans are invested in a range of funds. The combined contribution rate under the plans is up to 6% (2% core contributions plus a match of up to 4%) of total base salary and bonus, less any bonus deferred under the Deferred Annual Bonus Plan.

The following table shows the breakdown of the pension values set out on page 97.

Pension remuneration values	Sir Andrew Witty		Simon Dingemans		Dr Moncef Slaoui	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 000	2013 000
UK defined benefit	703	739	-	-	-	-
US defined benefit	-	-	-	-	\$157	-
Belgian defined benefit	-	-	-	-	€58	€101
Employer cash contributions	-	-	144	140	\$131	\$127
Member contributions to defined benefit plans	(32)	(32)	-	-	-	-
<b>Total pension remuneration value</b>	<b>671</b>	<b>707</b>	<b>144</b>	<b>140</b>	<b>\$365</b>	<b>\$266</b>

- a) The pension remuneration figures have been calculated in accordance with the methodology set out in the Remuneration Regulations. In calculating the defined benefit pension values for 2014, the difference between the accrued pension as at 31 December 2014 and the accrued pension as at 31 December 2013 increased by inflation (2.7% for UK defined benefit, 1.3% for US defined benefit, 1.3% for Belgium defined benefit) has been multiplied by 20. Where this results in a negative value, this has been deemed to be zero. In calculating total values, amounts have been translated from Euros into US dollars using an exchange rate of 1.33 for 2014 and 1.38 for 2013.
- b) For Sir Andrew, further details regarding the 2014 pension values are set out in the table below.

Sir Andrew Witty	Accrued pension as at 31 December 2014 (£ p.a.)	Accrued pension as at 31 December 2013 (£ p.a.)	Pension remuneration value for 2014 (£000)
UK – Funded	70,810	68,913	1
UK – Unfunded	613,521	563,193	702
<b>Total</b>	<b>684,331</b>	<b>632,106</b>	<b>703</b>

Sir Andrew joined GSK predecessor companies in 1991 and progressed through roles of increasing seniority within GSK until he was appointed CEO in May 2008. During this time, he built up pensionable service through the different tiers of the Glaxo Wellcome Pension Plan. His current pension entitlement is a product of his service and progression within GSK. Please note that the 2013 figures have had a small adjustment made to them, following a change to the inflationary measure used to value the Funded pension; the Total Pension number is unchanged.

- c) For Dr Moncef Slaoui, further details regarding the 2014 pension values are set out in the table below.

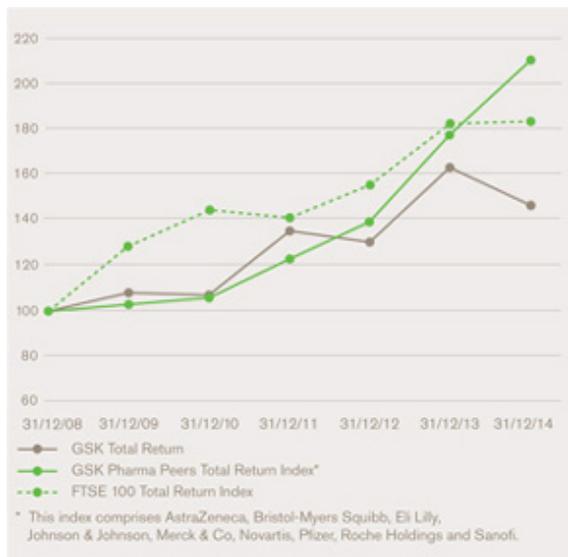
Dr Moncef Slaoui	Accrued pension as at 31 December 2014 (p.a.)	Accrued pension as at 31 December 2013 (p.a.)	Pension remuneration value for 2014 (000)
US – Funded	\$12,310	\$12,200	-
US – Unfunded	\$337,157	\$325,080	\$157
Belgium – Funded	€88,000	€84,000	€58
US – 401(k) & ESSP	-	-	\$131
<b>Total</b>			<b>\$365</b>

Dr Slaoui joined GSK predecessor companies in 1988 and he progressed through a number of senior roles within GSK until he was appointed Chairman, Research & Development in June 2006 and then Chairman, Global Vaccines in October 2014. During this time, he has built up pensionable service in the Belgium AG Insurance (ex-Fortis) Plan and US Cash Balance Plan and Supplemental Pension Plan. Annual employer cash contributions were made to the 401(k) plan and Executive Supplemental Savings Plan (ESSP). His current pension entitlement is a product of his service and progression within GSK.



## Performance graph and table

The following graph sets out the performance of the company relative to the FTSE 100 index, and to the pharmaceutical performance comparator group for the six-year period to 31 December 2014. The graph has been prepared in accordance with the Remuneration Regulations and is not an indication of the likely vesting of awards granted under any of the company's incentive plans. These indices were selected for comparison purposes as they reflect both the index of which GSK is a constituent and the industry in which it operates.



## Remuneration table

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
CEO (Sir Andrew Witty)						
CEO single figure of remuneration	3,891	7,207	4,386	6,807	4,562	5,790
Annual bonus award <sup>(1)</sup> (% of maximum)	42%	88%	44%	100%	59%	100%
Vesting of LTI awards (% of maximum)	<sup>(7)</sup> 13.5%	<sup>(6)</sup> 31%	<sup>(5)</sup> 24%	<sup>(4)</sup> 70%	<sup>(3)</sup> 35%	<sup>(2)</sup> 35%

- (1) 2009 and 2010 bonus amounts include amounts paid under the Operational Efficiency Bonus in place for those years. The overall maximum bonus receivable was subject to a limit of 200% of base salary.
- (2) In respect of the 2007 PSP award. Sir Andrew also had an outstanding award over 195,500 share options, granted in 2007, which lapsed in full. These have not been included in the total vesting percentage due to the distorting effect of aggregating conditional shares and share options.
- (3) In respect of the 2008 PSP award. Sir Andrew also had an outstanding award over 525,000 share options, granted in 2008, which lapsed in full. These have not been included in the total vesting percentage due to the distorting effect of aggregating conditional shares and share options.
- (4) In respect of the three-year element of the 2009 PSP award.
- (5) In respect of the four-year element of the 2009 PSP award, the three-year element of the 2010 PSP award and the 2010 DABP matching award.
- (6) In respect of the four-year element of the 2010 PSP award, the three-year element of the 2011 PSP award and the 2011 DABP matching award.
- (7) In respect of the 2012 PSP and DABP matching awards.

## Percentage change in remuneration of CEO

	Sir Andrew Witty		UK Employees	
	2014 £m	% change	2014 £m	% change
Salary	1,087	2.7%		2.5%
Benefits	70	5.5%		0%
Annual bonus	917	(51)%		(19)%

This reflects salary earned in, benefits received in and annual bonus earned in respect of 2014 compared with 2013. For the wider UK employee population, the salary increase includes the annual salary review as well as any additional changes in the year, e.g. on promotion. The 0% increase for benefits for UK employees reflects there being no change to benefits policies or levels during the year. It does not reflect any changes to the level of benefits an individual may have received as a result of a change in role, e.g. promotion. The UK population was considered to be the most relevant comparison as it most closely reflects the economic environment encountered by the CEO.

## Relative importance of pay

The following table sets out the percentage changes in the Group's dividends paid to shareholders, share buyback and total employee pay.

	2014 £m	2013 £m	% change
Total employee pay	7,520	7,591	(2)%
Dividends	3,843	3,680	4.4%
Share buyback	238	1,504	(85)%

The figures in the table above are as set out on pages 139 and 153. Dividends declared in respect of 2014 were £3,865 million (2013: £3,754 million), i.e. an increase of 2.95%. In determining specific share repurchase levels, the company considers the development of free cash flow during the year. Given the impact of the sustained strength of Sterling on free cash flow, the company suspended its share repurchase programme during 2014. Following the completion of the three-part 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.

Total employee pay is for all Group employees globally.

## External appointments for Executive Directors

The Board encourages Executive Directors to hold one external directorship once they have become established in their role, to broaden their experience and development, and help increase the pool of Non-Executive Director candidates. Any outside appointments are considered by the Nominations Committee to ensure they would not cause a conflict of interest and are then approved by the Chairman on behalf of the Board. It is the company's policy that remuneration earned from such appointments may be kept by the individual Executive Director.

During 2014, Dr Moncef Slaoui received \$12,000 in relation to his membership of the Qatar Biomedical Research Institute Scientific Advisory Committee. He also earned a \$400 honorarium for attending a board meeting of the Advisory Committee to the Director of National Institute of Health. There are no other external appointments for which he receives any remuneration. During 2014, Sir Andrew Witty and Simon Dingemans did not hold any external appointments for which they were remunerated.



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### The Remuneration Committee

#### Role of the Committee

The role of the Committee is to set the company's remuneration policy so that GSK is able to recruit, retain and motivate its executives. The remuneration policy is regularly reviewed to ensure that it is consistent with the company's scale and scope of operations, supports the business strategy and growth plans and helps drive the creation of shareholder value.

#### Terms of reference

The Committee's full terms of reference are available on the company's website. The terms of reference, which are reviewed at least annually, were last revised in December 2014 to reflect best practice and corporate governance developments.

#### Governance

The Board considers all of the members of the Committee to be independent Non-Executive Directors in accordance with the UK Corporate Governance Code, with the exception of Sir Christopher Gent, Chairman of the company, who was considered independent on appointment.

The Committee met six times in scheduled meetings during 2014, with each member attending as follows:

Members	Committee member since	Attendance at full meetings during 2014
Tom de Swaan	20 May 2009	6/6
Dr Stephanie Burns	1 May 2013	6/6
Sir Christopher Gent	1 January 2007	6/6
Judy Lewent	1 January 2013	6/6
Sir Deryck Maughan	1 July 2012	5/6
Hans Wijers	10 October 2013	6/6

Sir Deryck Maughan was unable to attend one Committee meeting due to prior business commitments. Urs Rohner was appointed to the Committee on 1 January 2015, so did not attend any meetings during 2014.

In addition to the six scheduled meetings, the Committee met on a quorate basis on four occasions to approve the formal grant of long-term incentive awards to employees below the Corporate Executive Team, Deferred Investment awards, Share Value Plan awards and materials for use at the annual investor meetings.

Committee meetings usually include a closed session, during which only members of the Committee are present. Other individuals may also be invited to attend Committee meetings during the year. Executives and other Committee attendees are not involved in any decisions, and are not present at any discussions regarding their own remuneration.

Other attendees at Committee meetings include:

Attendee	Regular attendee	Attends as required
CEO		✓
CFO		✓
Head of Human Resources		✓
Head of Reward		✓
Company Secretary – Secretary to the Committee	✓	
Committee Adviser – Deloitte LLP	✓	

#### Adviser to the Committee

The Committee has access to external advice as required. The Committee carried out a formal review of the independent advisers to the Committee in 2013. As a result of this review, the Committee reappointed Deloitte LLP to provide it with independent advice on executive remuneration. The Committee Chairman agrees the protocols under which Deloitte provides advice and the Committee is satisfied that the advice they have received from Deloitte has been objective and independent.

Deloitte is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com).

Deloitte provided independent commentary on matters under consideration by the Committee and updates on market practice and legislative requirements. Deloitte's fees for advice provided to the Committee in 2014 were £139,865. Fees were charged on a time and materials basis. Deloitte LLP also provided other consulting, tax and assurance services to GSK during the year. However, the Committee is satisfied that this does not compromise the independence of the advice they have received from Deloitte.

Towers Watson provided additional market data to the Committee.

#### Commitment to shareholders

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. In particular, the Committee discusses any significant changes to the policy or the measures used to assess performance.

#### Shareholder votes on remuneration matters

2014 AGM	Total votes cast (Billion)	Total votes for (%)	Total votes against (%)	Votes withheld (Million)
Remuneration report	3.4	98.5	1.5	171
Remuneration policy	3.5	97.4	2.6	100



**Principal activities and matters addressed during 2014**

The Committee's principal activities and matters addressed during 2014 are set out below:

Month	Remuneration		Governance and other matters
	Overall	Items specific to: Annual bonus LTIs	
January	<ul style="list-style-type: none"> <li>Approve executives' 2014 remuneration, including salaries of CET members and executives' 2014 LTI award levels</li> <li>Remuneration environment update</li> </ul>	<ul style="list-style-type: none"> <li>Review and approve executives' 2013 bonuses</li> <li>Set CEO 2014 bonus objectives</li> </ul>	<ul style="list-style-type: none"> <li>Review draft 2013 Remuneration report, New Remuneration Policy Statement and shareholder feedback</li> <li>Private session for Committee members only</li> </ul>
February			<ul style="list-style-type: none"> <li>Approve 2013 Remuneration report</li> </ul>
March	<ul style="list-style-type: none"> <li>Remuneration environment update, including consideration of new reporting regulations</li> </ul>	<ul style="list-style-type: none"> <li>Overview of bonuses for employees below CET</li> </ul>	<ul style="list-style-type: none"> <li>Review shareholder feedback</li> <li>Set Committee's agenda for 2014</li> <li>Private session for Committee members only</li> </ul>
July	<ul style="list-style-type: none"> <li>Update on new remuneration reporting regulations, including early drafting for 2014 Remuneration report</li> <li>CET remuneration review</li> <li>Review of Executive Directors' pay competitiveness</li> <li>Review of Chairman and Deputy Chairman fees</li> </ul>		<ul style="list-style-type: none"> <li>Review of LTI design (performance measures, comparator group and time horizons)</li> <li>Grant interim 2014 LTI awards (below executives)</li> </ul>
September			<ul style="list-style-type: none"> <li>Review AGM feedback and external environment</li> <li>Approve Committee evaluation process</li> <li>Review implications of three-part Novartis transaction</li> <li>Private session for Committee members only</li> </ul>
October	<ul style="list-style-type: none"> <li>Update on Remuneration report disclosures</li> </ul>		<ul style="list-style-type: none"> <li>Grant interim 2014 Share Value Plan awards (below executives)</li> </ul>
November	<ul style="list-style-type: none"> <li>Update on LTI vesting for 2012 awards (2012-2014)</li> </ul>		<ul style="list-style-type: none"> <li>Update on Remuneration report disclosures</li> <li>Agree key messages for annual investor meeting</li> </ul>
December	<ul style="list-style-type: none"> <li>Draft messages and disclosures for 2014 performance pay</li> </ul>		
Annual meeting with investors			
December	<ul style="list-style-type: none"> <li>Annual benchmarking and competitiveness review</li> <li>Approve Executive Directors' salaries for 2015</li> <li>Consider CET remuneration changes</li> <li>Papers provided to the Committee examining how the equivalent remuneration elements operate for employees below the CET</li> </ul>	<ul style="list-style-type: none"> <li>Administrative changes to DABP</li> </ul>	<ul style="list-style-type: none"> <li>Review feedback from investor meetings</li> <li>Review findings from Committee evaluation</li> <li>Review draft 2014 Remuneration report</li> <li>Update on implications of three-part Novartis transaction</li> <li>Corporate Governance update</li> <li>Private session for Committee members only</li> </ul>

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### Non-Executive Directors

#### Chairman and other Non-Executive Directors

The company aims to provide the Chairman and other Non-Executive Directors with fees that are competitive with those paid by other companies of equivalent size and complexity, subject to the limits contained in GSK's Articles of Association.

#### Chairman's fees

Sir Christopher Gent took up the role of Chairman in January 2005. The Chairman's fees were last increased in January 2013 from £675,000 to £710,000. £250,000 (or approximately 35%) of Sir Christopher's total fees for 2014 were delivered in shares, which are deferred until he steps down from the Board later in 2015.

Chairman Designate Sir Philip Hampton was appointed a Non-Executive Director with effect from 1 January 2015. Until he takes on the role of Deputy Chairman on 1 April 2015, he will receive the standard annual cash retainer for a Non-Executive Director of £85,000. When he becomes Deputy Chairman on 1 April 2015, he will receive fees of £350,000 per annum. On his appointment as Chairman from 1 September 2015 at the latest, he will receive fees of £700,000 per annum. He has elected to take 25% of his fees as GSK shares.

#### Non-Executive Director fees

Non-Executive Director fees were last increased in January 2013. There were no increases to the supplemental fees. A minimum of 25% of fees will continue to be delivered as shares deferred until the Non-Executive Director steps down from the Board.

The Non-Executive Directors' fees applying since 1 January 2013 are set out below:

	Per annum
Standard annual cash retainer fee	£85,000
<b>Supplemental fees</b>	
Chairman of the Audit & Risk Committee	£80,000
Senior Independent Director and Scientific/Medical Experts	£30,000
Chairmen of the Remuneration and Corporate Responsibility Committees <sup>†</sup>	£20,000
Non-Executive Director undertaking intercontinental travel to meetings	£7,500 per meeting

<sup>†</sup> Sir Christopher Gent is the Chairman of the Corporate Responsibility Committee, but does not receive the additional fee listed above.

#### Letters of appointment

The terms of engagement of the Non-Executive Directors are set out in letters of appointment which are available for inspection at the company's registered office and at the AGM. For each Non-Executive Director, his or her initial appointment and any subsequent re-appointment are subject to election and, thereafter, periodic re-election by shareholders.

The Non-Executive Directors' letters of appointment do not contain provision for notice periods or for compensation if their appointments are terminated.

The following table shows the date of the initial letter of appointment of each Non-Executive Director:

Non-Executive Director	Date of letter of appointment
Sir Christopher Gent	26 May 2004
Sir Philip Hampton	25 September 2014
Professor Sir Roy Anderson	28 September 2007
Dr Stephanie Burns	12 February 2007
Stacey Cartwright	3 March 2011
Lynn Elsenhans	3 May 2012
Judy Lewent	3 March 2011
Sir Deryck Maughan	26 May 2004
Dr Daniel Podolsky	3 July 2008
Urs Rohner	3 October 2014
Tom de Swaan	21 December 2005
Jing Ulrich	3 May 2012
Hans Wijers	29 January 2013

The table below (audited) sets out the value of fees and benefits received by the Non-Executive Directors in the form of cash and shares or ADS. Further details of the Non-Executive Directors' share allocation plan are set out on page 117.

Non-Executive Directors' emoluments (000) (audited)	2014				2013			
	Fees			Total	Fees			Total
	Cash	Shares/ADS	Benefits		Cash	Shares/ADS	Benefits	
Professor Sir Roy Anderson	£98	£32	£11	£141	£103	£34	£15	£152
Dr Stephanie Burns	\$105	\$105	\$134	\$344	\$86	\$86	\$72	\$244
Stacey Cartwright	£75	£25	£6	£106	£81	£27	£5	£113
Lynn Elsenhans	£13	£110	£90	£213	£11	£104	£71	£186
Sir Christopher Gent <sup>(c)</sup>	£460	£250	£67	£777	£540	£170	£40	£750
Judy Lewent	\$255	\$85	\$262	\$602	\$235	\$78	\$124	\$437
Sir Deryck Maughan	–	\$247	\$149	\$396	–	\$205	\$114	\$319
Dr Daniel Podolsky	\$65	\$194	\$220	\$479	\$58	\$175	\$119	\$352
Tom de Swaan	£84	£28	£30	£142	£90	£30	£38	£158
Jing Ulrich	\$167	\$56	\$190	\$413	\$157	\$52	\$182	\$391
Hans Wijers <sup>(d)</sup>	£75	£25	£19	£119	£53	£18	£11	£82
Sir Robert Wilson <sup>(d)</sup>	£22	£23	£10	£55	£88	£29	£16	£133
Sir Crispin Davis <sup>(d)</sup>	–	–	–	–	–	£44	£11	£55

- a) Benefits primarily consist of travel and subsistence costs incurred in the normal course of business, in relation to meetings on Board and Committee matters and other GSK-hosted events which are considered to be taxable. For overseas-based Non-Executive Directors, this includes travel to meetings in the UK.
- b) Non-Executive Directors fees that are paid other than in GBP are converted using an exchange rate that is set annually based on the average rate for the last quarter of the year prior to payment. The rate is reviewed if it moves significantly during the year.
- c) The amounts for benefits and total emoluments in respect of 2013 for Sir Christopher Gent have been restated, resulting in an increase of £16,000 over the amounts recorded in the 2013 Remuneration report.
- d) Sir Crispin Davis retired from the Board on 1 May 2013 and Hans Wijers joined the Board from 1 April 2013. Sir Robert Wilson retired from the Board on 7 May 2014.



## Directors' interests in shares (audited)

The following interests of the Directors of the company in office at 31 December 2014 and their connected persons are shown below.

	Total directors' interests as at			Total share plan interests as at 31 December 2014					
	19 February 2015	31 December 2014	1 January 2014	Unvested and not subject to performance	Shares/ADS Unvested and subject to performance	Unvested and not subject to performance	Unvested and subject to performance	Vested but not exercised	Options Exercised in the year
<b>Executive Directors</b>									
<b>Shares</b>									
Sir Andrew Witty <sup>(b, c, d, f, g)</sup>	846,470	<b>760,988</b>	566,142	–	1,400,056	151,264	150,488	89,993	229,481
Simon Dingemans <sup>(b, c, d, f)</sup>	187,722	<b>157,208</b>	84,872	–	588,050	67,021	66,257	–	–
Dr Moncef Slaoui <sup>(g)</sup>	27,806	<b>27,657</b>	53,089	–	–	–	–	68,520	26,800
<b>ADS</b>									
Dr Moncef Slaoui <sup>(c, d, e, h)</sup>	230,586	<b>196,133</b>	164,995	66,359	476,335	–	–	4,235	–
<b>Non-Executive Directors</b>									
<b>Shares<sup>(i)</sup></b>									
Professor Sir Roy Anderson	20,424	<b>20,424</b>	17,254	–	20,424	–	–	–	–
Dr Stephanie Burns	44	<b>44</b>	44	–	–	–	–	–	–
Stacey Cartwright	6,286	<b>6,286</b>	4,367	–	6,165	–	–	–	–
Tom de Swaan	27,331	<b>27,331</b>	24,059	–	27,331	–	–	–	–
Sir Christopher Gent	132,575	<b>132,575</b>	109,404	–	132,575	–	–	–	–
Hans Wijers	2,852	<b>2,852</b>	1,113	–	2,852	–	–	–	–
<b>ADS<sup>(i)</sup></b>									
Dr Stephanie Burns	17,355	<b>17,355</b>	14,284	–	17,290	–	–	–	–
Lynn Elsenhans	9,657	<b>9,657</b>	5,620	–	8,657	–	–	–	–
Judy Lewent	15,332	<b>15,332</b>	13,200	–	5,166	–	–	–	–
Sir Deryck Maughan	43,537	<b>43,537</b>	36,198	–	43,537	–	–	–	–
Dr Daniel Podolsky	31,515	<b>31,515</b>	25,876	–	31,515	–	–	–	–
Jing Ulrich	3,056	<b>3,056</b>	1,809	–	2,718	–	–	–	–

- a) Unvested shares and ADS and unvested options held by Executive Directors which are not subject to performance reflect bonus deferrals under the DABP, ShareSave and Share Value Plan (SVP) awards.
- b) Total interests include shares purchased through the GlaxoSmithKline ShareReward Plan. During 2014, Sir Andrew Witty and Simon Dingemans were each awarded 99 shares under the plan. The balance of shares within the plan is as follows:

ShareReward Plan (Shares)	19 February 2015	31 December 2014	1 January 2014
Sir Andrew Witty	2,828	<b>2,758</b>	2,429
Simon Dingemans	882	<b>837</b>	604

Dr Moncef Slaoui is not eligible to participate in the ShareReward Plan.

- c) Total directors' interests includes shares or ADS resulting from the deferral of bonus (and the subsequent re-investment of dividends) under the DABP. The totals shown in the table below include bonus deferrals, but exclude any unvested matching awards which are subject to ongoing performance criteria. The amounts represent the gross share and ADS balances prior to the sale of any shares or ADS to satisfy tax liabilities.

Deferred Annual Bonus Plan (Bonus deferrals)	19 February 2015	31 December 2014	1 January 2014
Sir Andrew Witty (Shares)	182,732	<b>150,488</b>	123,262
Simon Dingemans (Shares)	81,849	<b>66,257</b>	44,268
Dr Moncef Slaoui (ADS)	71,595	<b>58,769</b>	59,424

- d) Total directors' interests at 19 February 2015 include any shares or ADS which vested due to performance under elements of the PSP (2012-2014 awards), less those sold to satisfy tax liabilities on the vested amounts (see pages 113 to 116 for further details).
- e) For Dr Moncef Slaoui, total interests include ADS purchased within the 401(k) Plan and the US Executive Supplemental Savings Plan (ESSP), and ADS awarded to Dr Slaoui's connected person under the SVP. The relevant balances are as follows:

Dr Moncef Slaoui (ADS)	19 February 2015	31 December 2014	1 January 2014
US Retirement Savings Plans	13,340	<b>13,045</b>	10,241
Share Value Plan	5,290	<b>7,590</b>	7,740

As an Executive Director, Dr Moncef Slaoui is not eligible to receive awards under the SVP. The SVP awards shown above reflect the holdings of Dr Slaoui's connected person, who is also an employee of GSK. The awards are subject to three-year vesting periods and vesting is contingent on continued employment within GSK. Any gains arising on vesting are not included in Dr Moncef Slaoui's total remuneration figures. During the year, his connected person was granted 2,300 ADS on 24 September 2014 at a grant price of \$47.03 (face value of \$108,169). Dr Slaoui's total interests in shares also include PSP awards held by his connected person. These awards are subject to performance criteria relevant to employees below the CET. As at 31 December 2014, his connected person held 6,218 ADS under the PSP, comprising awards made in 2012 (1,891 ADS), 2013 (2,214 ADS) and 2014 (2,113 ADS), all amounts including dividend re-investment.



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### ShareSave Plan

- f) For Sir Andrew Witty and Simon Dingemans, the unvested options not subject to performance include holdings of 776 and 764 respectively in the ShareSave Plan, in which they participate on the same terms as all other employees. No ShareSave awards were granted to Sir Andrew Witty during 2014. Simon Dingemans was granted 238 options under the plan on 29 October 2014. The remainder of unvested options not subject to performance relate to bonus deferrals structured as nil-cost options under the DABP.

### Share Option Plan

- g) For the Executive Directors, the following table provides details of vested but unexercised options as at 31 December 2014 under the Share Option Plan (SOP). GSK granted options under this plan to Executive Directors on an annual basis until 2009.

Date of grant	Lapse date	Exercise price	Number of shares under option	
			Sir Andrew Witty	Dr Moncef Slaoui
21.02.06	20.02.16	£14.68	89,993	68,520
			89,993	68,520

- h) The ADS vested but unexercised options totalling 4,235 for Dr Moncef Slaoui represents the ADS options held by Dr Moncef Slaoui's connected person.
- i) The following table sets out details of options (including nil-cost options under the DABP) exercised during 2014 by Executive Directors. Simon Dingemans did not exercise any options during the year (his first nil-cost options under the DABP will become exercisable in 2015).

Type of award	Date of grant	Number of shares under option	Date of exercise	Grant price	Market price at exercise	Gain on exercise (£000)
Sir Andrew Witty						
SOP	02.12.04	100,000	01.05.14	£11.23	£16.39	£516
SOP	02.12.04	77,500	23.10.14	£11.23	£13.85	£203
DABP – deferral	24.02.11	37,182	01.05.14	–	£16.27	£605
DABP – matching	24.02.11	14,799	01.05.14	–	£16.27	£241
		229,481				£1,565
Dr Moncef Slaoui						
SOP	02.12.04	26,800	24.10.14	£11.23	£14.17	£79

In respect of options under the SOP and the ShareSave plans, the remuneration receivable by an Executive Director is calculated on the date that the options first vest. The remuneration is the difference between the amount the Executive Director is required to pay to buy the shares or ADS and the total value of the shares or ADS on the vesting date. If the Executive Director chooses not to exercise the options on the vesting date, any subsequent increase or decrease in the amount realised will be due to movements in the share or ADS price between the vesting date and the date of exercise. This increase or decrease in value is the result of an investment decision by the Executive Director and, as such, is not recorded as remuneration. No options vested for Executive Directors during 2014.

In respect of nil-cost options under the DABP, the bonus which is deferred by the Director is recorded as remuneration (under annual bonus) for the year to which it relates. The gain recorded on exercise of the nil-cost option comprises this remuneration, the total of the amounts received in re-invested dividends prior to vesting and the gains or losses resulting from movements in the share price between the dates of grant and exercise for the initial bonus amount deferred and the dates of dividend reinvestment and exercise for the re-invested dividends.

For the matching element of the DABP, the remuneration of the Director is recorded in the year that the performance criteria end and represents the number of vested shares multiplied by the price at vesting. The gain recorded on exercise of the nil-cost option comprises the total of this remuneration and the gain or loss resulting from the movement in the share price between vesting and exercise.

For Sir Andrew Witty:

- The total gain of £719,050 following the exercise of 177,500 options granted under the SOP comprises remuneration of £nil in respect of 2007 (the share options granted on 2 December 2004 were subject to performance criteria for a three year period ended 2007 and vested on 20 February 2008 with a vesting price of £11.23) and an investment gain of £719,050.
- The gain of £604,951 recorded following the exercise of the 37,182 nil-cost options relating to the deferral of bonus earned in respect of 2010 comprises remuneration of £376,668 recorded in 2010 as annual bonus and a net gain of £228,283 relating to the re-investment of dividends prior to vesting and movements in the share price between grant and dividend re-investment dates and the exercise date.
- The gain of £240,780 recorded following the exercise of the 14,799 nil-cost options relating to the DABP matching award comprises remuneration of £249,067 recorded in 2013 in relation to the DABP (see page 113) and an investment loss of £8,287 relating to the movement in the share price between the vesting and exercise dates.

For Dr Moncef Slaoui:

- The total gain of £78,792 following the exercise of 26,800 options granted under the SOP comprises remuneration of £45,828 in respect of 2007 (these options vested in 2007) and an investment gain of £32,964.

- j) For Non-Executive Directors, total interests include shares or ADS received as part or all of their fees under the Non-Executive Director Share Allocation Plan (see page 117 for further details and balances). Note that dividends received on shares or ADS under the plan during 2014 were converted into shares or ADS as at 31 December 2014.

**Deferred Annual Bonus Plan matching awards**

Deferred Annual Bonus Plan (DABP) matching awards are made annually to Executive Directors, based on the individual's mandatory deferral and voluntary bonus deferral election. The company will match shares or ADS up to one-for-one depending on the company's performance during a three-year performance period. Performance conditions and vesting levels are described on pages 102 to 104 of this report.

Awards to UK-based Executive Directors are made in the form of nil-cost options. Once an award vests, the UK-based Executive Director may choose to exercise the award at any time up to 10 years from the date of grant. Awards to US-based Executive Directors are made as conditional awards of ADS. The amount of remuneration receivable in respect of the matching shares or ADS is calculated using the share or ADS price on the date the relevant award vests. If the award vests after the date of the Remuneration report, the calculation is performed using the average share or ADS price over the last quarter of the financial year. If an Executive Director chooses not to exercise the nil-cost options on the vesting date, any subsequent increase or decrease in the amount realised will be due to movements in the share price between the vesting date and the date of exercise. This increase or decrease in value is the result of an investment decision and, as such, is not recorded as remuneration.

Dividends are reinvested on the nil-cost options or conditional awards of shares or ADS made to Executive Directors up to the date of vesting.

The following tables provide details for each Executive Director in respect of DABP matching awards. Market price at grant and at vesting represent the closing share prices on those dates.

Sir Andrew Witty – Shares	Performance period				
	2011-2013	2012-2014	2013-2015	2014-2016	2015-2017
Market price at grant	£11.80	£14.12	£14.54	£16.43	£15.20
<b>Unvested at 31 December 2013</b>	36,746	54,266	32,250	–	–
Granted	–	–	–	57,060	–
Face value at grant (000)	–	–	–	£937	–
Dividends reinvested	436	2,879	1,711	2,322	–
Vested	(14,799)	–	–	–	–
Lapsed	(22,383)	–	–	–	–
<b>Unvested at 31 December 2014</b>	–	<b>57,145</b>	<b>33,961</b>	<b>59,382</b>	–
Granted	–	–	–	–	30,172
Face value at grant (000)	–	–	–	–	£459
Dividends reinvested	–	787	467	818	–
Vested*	–	–	–	–	–
Lapsed*	–	(50,111)	–	–	–
<b>Unvested at 19 February 2015</b>	–	<b>7,821</b>	<b>34,428</b>	<b>60,200</b>	<b>30,172</b>
<b>Vested shares</b>					
Number of shares	<b>14,799</b>	<b>7,821</b>			
Market price at vesting	£16.83	£14.14			
Gain:	000	000			
Remuneration for 2013	£249	–			
Remuneration for 2014*	–	£111			

\* Due to vest on 9 March 2014. An estimated vesting price of £14.14 has been used for calculating the remuneration for 2014. The actual vesting price will be reported in the 2015 Remuneration report.



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### Deferred Annual Bonus Plan matching awards continued

Simon Dingemans – Shares	Performance period			
	2012-2014	2013-2015	2014-2016	2015-2017
Market price at grant	£14.12	£14.54	£16.43	£15.20
<b>Unvested at 31 December 2013</b>	32,056	12,212	–	–
Granted	–	–	18,876	–
Face value at grant (000)	–	–	£310	–
Dividends reinvested	1,699	647	767	–
<b>Unvested at 31 December 2014</b>	<b>33,755</b>	<b>12,859</b>	<b>19,643</b>	–
Granted	–	–	–	14,680
Face value at grant (000)	–	–	–	£223
Dividends reinvested	465	177	270	–
Vested*	–	–	–	–
Lapsed	(29,600)	–	–	–
<b>Unvested at 19 February 2015</b>	<b>4,620</b>	<b>13,036</b>	<b>19,913</b>	<b>14,680</b>
<b>Vested shares</b>				
Number of shares	4,620			
Market price at vesting	£14.14			
Gain:		000		
Remuneration for 2014*		£65		

\* Due to vest on 9 March 2014. An estimated vesting price of £14.14 has been used for calculating the remuneration for 2014. The actual vesting price will be reported in the 2015 Remuneration report.

Dr Moncef Slaoui – ADS	Performance period				
	2011-2013	2012-2014	2013-2015	2014-2016	2015-2017
Market price at grant	\$38.22	\$44.68	\$44.27	\$54.17	\$46.25
<b>Unvested at 31 December 2013</b>	21,596	21,393	16,435	–	–
Granted	–	–	–	18,214	–
Face value at grant (000)	–	–	–	\$987	–
Dividends reinvested	252	1,125	865	737	–
Vested	(8,696)	–	–	–	–
Lapsed	(13,152)	–	–	–	–
<b>Unvested at 31 December 2014</b>	–	<b>22,518</b>	<b>17,300</b>	<b>18,951</b>	–
Granted	–	–	–	–	11,973
Face value at grant (000)	–	–	–	–	\$554
Dividends reinvested	–	327	251	275	–
Vested*	–	–	–	–	–
Lapsed	–	(19,760)	–	–	–
<b>Unvested at 19 February 2015</b>	–	<b>3,085</b>	<b>17,551</b>	<b>19,266</b>	<b>11,973</b>
<b>Vested ADS</b>					
Number of ADS	8,696	3,085			
Market price at vesting	\$55.75	\$44.76			
Gain:		000	000		
Remuneration for 2013	\$485	–			
Remuneration for 2014*	–	\$138			

\* Due to vest on 9 March 2014. An estimated vesting price of \$44.76 has been used for calculating the remuneration for 2014. The actual vesting price will be reported in the 2015 Remuneration report.

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**Performance Share Plan awards**

Performance Share Plan (PSP) awards are made to Executive Directors on an annual basis. Under the terms of the PSP, the number of shares or ADS vesting is determined following the end of the relevant performance period and is dependent on GSK's performance during that period. Performance conditions and vesting levels are described on pages 102 to 104.

Dividends are reinvested on the performance shares or ADS awarded to executives throughout the performance period and up to the date of vesting. At vesting, UK participants receive the relevant number of shares and US participants may defer receipt of all or part of their vested awards. The amount of remuneration receivable in respect of performance shares is calculated using the share or ADS price on the date the relevant PSP award vests.

The PSP awards made to Sir Andrew Witty in 2012, 2013 and 2014 have three year performance periods. However, the deeds of award specify that 25% of the awards will be subject to a further two year vesting period (five years in total). During this two year period, there are no additional performance criteria and the awards will only lapse if Sir Andrew is dismissed for cause. The remuneration in respect of these awards will therefore be considered to be realised in full following the determination by the Remuneration Committee of the vesting levels of the initial 75% of the awards (i.e. full remuneration will be recognised at the end of the three-year performance period). For the 2015 awards, the whole of the award made to each Executive Director has a three year performance period, but will vest after five years. During the final two years of the vesting period, the award for each Director will only lapse if he is dismissed for cause. The remuneration in respect of the awards will therefore be recognised at the end of the three year performance period (i.e. in the 2017 Remuneration report).

The following tables provide details for each Executive Director in respect of PSP awards. Market price at grant and at vesting represent the closing share prices on those dates.

Sir Andrew Witty – Shares	Performance period					
	2010-2013	2011-2013	2012-2014	2013-2015	2014-2016	2015-2017
Market price at grant	£12.04	£11.78	£14.12	£14.54	£16.43	£15.20
<b>Unvested at 31 December 2013</b>	150,919	488,247	483,464	453,620	–	–
Granted	–	–	–	–	397,066	–
Face value at grant (000)	–	–	–	–	£6,524	–
Dividends reinvested	1,795	5,808	25,664	24,079	16,163	–
Vested	–	(196,634)	–	–	–	–
Lapsed	(152,714)	(297,421)	–	–	–	–
<b>Unvested at 31 December 2014</b>	–	–	509,128	477,699	413,229	–
Granted	–	–	–	–	–	429,338
Face value at grant (000)	–	–	–	–	–	£6,526
Dividends reinvested	–	–	6,777	6,359	5,500	–
Vested	–	–	(69,650)	–	–	–
Lapsed	–	–	(446,255)	–	–	–
<b>Unvested at 19 February 2015</b>	–	–	–	484,058	418,729	429,338
<b>Vested shares:</b>						
Number of shares	–	196,634	69,650			
Market price at vesting	£16.53	£16.53	£14.86			
Gain:	000	000	000			
Remuneration for 2013	–	£3,250	–			
Remuneration for 2014	–	–	£1,035			



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# Annual report on remuneration

## continued

Strategic report

### Performance Share Plan awards continued

Simon Dingemans – Shares	Performance period				
	2011-2013	2012-2014	2013-2015	2014-2016	2015-2017
Market price at grant	£11.78	£14.12	£14.54	£16.43	£15.20
<b>Unvested at 31 December 2013</b>	225,570	186,133	199,598	–	–
Granted	–	–	–	174,729	–
Face value at grant (000)	–	–	–	£2,871	–
Dividends reinvested	2,683	9,881	10,596	7,113	–
Vested	(90,845)	–	–	–	–
Lapsed	(137,408)	–	–	–	–
<b>Unvested at 31 December 2014</b>	–	196,014	210,194	181,842	–
Granted	–	–	–	–	188,930
Face value at grant (000)	–	–	–	–	£2,872
Dividends reinvested	–	2,609	2,798	2,420	–
Vested	–	(26,815)	–	–	–
Lapsed	–	(171,808)	–	–	–
<b>Unvested at 19 February 2015</b>	–	–	212,992	184,262	188,930
<b>Vested shares:</b>					
Number of shares	90,845	26,815			
Market price at vesting	£16.53	£14.86			
Gain:	000	000			
Remuneration for 2013	£1,502	–			
Remuneration for 2014	–	£398			

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Dr Moncef Slaoui – ADS	Performance period					
	2010-2013	2011-2013	2012-2014	2013-2015	2015-2017	2015-2017
Market price at grant	\$37.32	\$38.13	\$44.68	\$44.27	\$54.17	\$46.25
<b>Unvested at 31 December 2013</b>	47,483	169,742	141,799	138,315	–	–
Granted	–	–	–	–	111,851	–
Face value at grant (000)	–	–	–	–	\$6,059	–
Dividends reinvested	554	1,979	7,503	7,319	4,561	–
Vested	–	(68,345)	–	–	–	–
Lapsed	(48,037)	(103,376)	–	–	–	–
<b>Unvested at 31 December 2014</b>	–	–	149,302	145,634	116,412	–
Granted	–	–	–	–	–	131,005
Face value at grant (000)	–	–	–	–	–	\$6,059
Dividends reinvested	–	–	2,119	2,067	1,652	–
Vested	–	–	(20,443)	–	–	–
Lapsed	–	–	(130,978)	–	–	–
<b>Unvested at 19 February 2015</b>	–	–	–	147,701	118,064	131,005
<b>Vested ADS</b>						
Number of ADS	–	68,345	20,443			
Market price at vesting	\$55.06	\$55.06	\$45.95			
Gain:	000	000	000			
Remuneration for 2013	–	\$3,763	–			
Remuneration for 2014	–	–	\$939			

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**Non-Executive Directors' Share Allocation Plan**

The table below sets out the accumulated number of shares or ADS held by the Non-Executive Directors as at 31 December 2013 and 2014 under the share allocation plan in relation to their fees received as Board members, together with movements in their accounts during the year.

Share allocation plan for Non-Executive Directors	Footnote	Number of shares or ADS				
		31 December 2014	Paid out	Dividends reinvested	Allocated & elected	31 December 2013
<b>Shares</b>						
Professor Sir Roy Anderson		20,424	–	1,003	2,167	17,254
Stacey Cartwright		6,165	–	256	1,663	4,246
Sir Christopher Gent		132,575	–	6,385	16,786	109,404
Tom de Swaan		27,331	–	1,390	1,882	24,059
Hans Wijers		2,852	–	76	1,663	1,113
Sir Robert Wilson	a	–	(26,151)	–	1,437	24,714
<b>ADS</b>						
Dr Stephanie Burns		17,290	–	886	2,185	14,219
Lynn Elsenhans		8,657	–	308	3,729	4,620
Judy Lewent		5,166	–	209	1,757	3,200
Sir Deryck Maughan		43,537	–	2,255	5,084	36,198
Dr Daniel Podolsky		31,515	–	1,614	4,025	25,876
Jing Ulrich		2,718	–	98	1,149	1,471

a) Sir Robert Wilson retired from the Board on 7 May 2014. He elected to receive his shares from the Non-Executive Directors' Share Allocation Plan immediately upon retiring from the Board. Dividend entitlements in respect of the Q3 and Q4 2013 and the Q1 2014 dividends were paid in cash in accordance with the plan rules.



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# Annual report on remuneration

## continued

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### Directors and Senior Management

Further information is provided on compensation and interests of Directors and Senior Management as a group ('the group'). For this purpose, the group is defined as the Non-Executive and Executive Directors, other members of the Corporate Executive Team and the Company Secretary. For the financial year 2014, the following table sets out aggregate remuneration for the group for the periods during which they served in that capacity.

#### Remuneration for 2014

	(£)
Total compensation paid	18,507,965
Aggregate increase in accrued pension benefits (net of inflation)	67,434
Aggregate payments to defined contribution schemes	808,286

During 2014, members of the group were awarded shares and ADS under the company's various share plans, as set out in the table below.

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Awarded during 2014	Awards		Dividend reinvestment awards	
	Shares	ADS	Shares	ADS
Deferred Annual Bonus Plan	156,848	36,024	20,417	5,730
Performance Share Plan	1,287,752	269,757	221,990	53,093
Deferred Investment Awards <sup>(a) (b)</sup>	199,482	—	8,190	—
Share Value Plan <sup>(b)</sup>	12,265	2,300	—	—

At 19 February 2015, the group had the following interests in shares and ADS of the company. Holdings issued under the various executive share plans are described in Note 42 to the financial statements, 'Employee share schemes' on page 200.

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Interests at 19 February 2015	Shares	ADS	Notes
Owned	1,560,796	368,017	
Unexercised options	490,740	40,115	
Deferred Annual Bonus Plan	1,088,308	245,182	
Performance Share Plan	4,557,469	830,845	
Deferred Investment Awards	240,974	—	(a), (b)
Share Value Plan	30,246	11,030	(b)

a) Notional shares and ADS.

b) Executive Directors are not eligible to receive Deferred Investment Awards or participate in the Share Value Plan.

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### Basis of preparation

The 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 135. The remaining sections of the Remuneration report are not subject to audit nor are the pages referred to from within the audited sections.

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

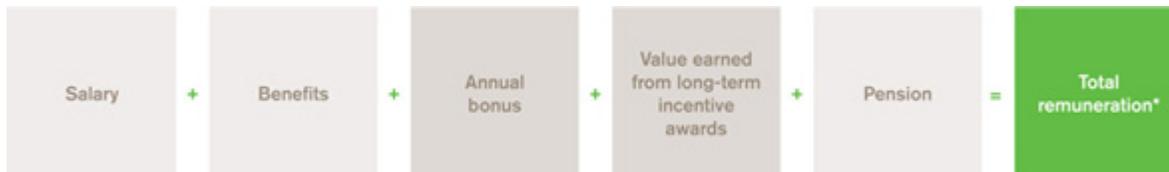
**Tom de Swaan**  
Remuneration Committee Chairman  
26 February 2015



# 2014 Remuneration policy report

The company's Remuneration policy report was approved on 7 May 2014 at GSK's Annual General Meeting and received an overwhelming vote in favour from shareholders. It will remain in place until another policy is presented to and approved by shareholders. No changes have been made to the policy, however, certain confirmatory statements on how we operate the policy have been made public which are described on pages 121 and 123 of this report. The Committee is satisfied that the refinements would not provide for any additional payments above that permitted by the approved policy, and are in line with best practice and in the interests of shareholders. A copy of the shareholder approved policy is available at [www.gsk.com](http://www.gsk.com) in the Investors section.

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



\* 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	Benefits	International assignment policy
<p><b>Purpose and link to strategy</b> To provide a core reward for the role.</p> <p>Set at a level appropriate to secure and retain high calibre individuals needed to deliver the Group's strategic priorities.</p> <p><b>Operation</b> Individual's role, experience and performance and independently sourced data for relevant comparator groups considered when determining salary levels.</p> <p>Salary increases typically take effect in the first quarter of each year.</p> <p>Salaries are normally paid in the currency of the Executive Director's home country.</p> <p><b>Opportunity</b> There is no formal maximum limit, however, ordinarily, salary increases will be broadly in line with the average increases for the wider GSK workforce.</p> <p>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.</p> <p>Salary levels for 2014 are set out on page 98 of the 2013 Annual Report.</p> <p><b>Performance measures</b> The overall performance of the individual is a key consideration when determining salary increases.</p>	<p><b>Purpose and link to strategy</b> Levels are set to recruit and retain high calibre individuals to execute the business strategy.</p> <p><b>Operation</b> 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.</p> <p>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.</p> <p>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.</p> <p><b>Opportunity</b> There is no formal maximum limit as benefits costs can fluctuate depending on changes in provider cost and individual circumstances.</p> <p>Details of current benefits and costs are set out in the Annual Report on Remuneration.</p> <p><b>Performance measures</b> None</p>	<p><b>Purpose and link to strategy</b> GSK may require Executive Directors to relocate in order to meet business requirements.</p> <p><b>Operation</b> 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.</p> <p>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.</p> <p><b>Opportunity</b> Relocation benefits are dependent on a number of factors such as home and host country, family size and duration of the assignment.</p> <p>It is therefore not possible to provide typical values or limits.</p> <p><b>Performance measures</b> None</p>



# 2014 Remuneration policy report

*continued*

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## 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 of the 2013 Annual Report.

### 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

A confirmatory statement was issued in April 2014 to state that the flexibility in exceptional circumstances, will only be used in relation to external recruits. Further details are set out in the approach to recruitment section below.

### 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 of the 2013 Annual Report.

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## 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.



# 2014 Remuneration policy report

## *continued*

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### 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 2013 Annual Report on Remuneration):

Performance measure	Rationale	Calculation methodology
<b>R&amp;D new product performance</b>	<p><b>Recognises the importance of R&amp;D to future business growth</b></p> <p>One of the key indicators used to assess performance in the pharmaceutical industry is the strength of a company's product pipeline. The R&amp;D new product performance measure recognises the importance of R&amp;D to future business growth and has been included as a measure in order to incentivise R&amp;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.</p>	<p>The target is based on sales of new products launched in the performance period and the preceding two years.</p> <p>The aggregate three-year revenue target should reflect growth on historic performance.</p> <p>Vesting may be reduced if insufficient progress has been made during the performance period towards GSK's target return on R&amp;D investment.</p> <p>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.</p>
<b>Adjusted free cash flow performance</b>	<p><b>Recognises the importance of effective working capital and cash management</b></p> <p>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.</p>	<p>Aggregate three-year adjusted free cash flow target.</p> <p>Adjustments may be made for materially distorting items which may include exchange rate movements, major legal and taxation settlements and special pension contributions.</p>
<b>Relative TSR performance</b>	<p><b>Focuses on delivery of value to shareholders</b></p> <p>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.</p> <p>The Committee regularly reviews the composition of the TSR comparator group.</p>	<p>Relative TSR is measured over three years, using a 12-month averaging period. TSR is measured in local currency.</p>

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## 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
<p>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.</p> <p>Bonus measures for R&amp;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&amp;D productivity and performance.</p> <p>To recognise Dr Moncef Slaoui's current dual responsibility for Global R&amp;D &amp; 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.</p>	<p><b>CEO</b></p> <p>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.</p> <p><b>Other Executive Directors</b></p> <p>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.</p>

## 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.

A confirmatory statement was issued in April 2014 to state that the Committee 'anticipates that the ability to grant awards under the PSP of more than six times salary in exceptional circumstances would only be used for the recruitment of an Executive Director from outside GSK'. The limit is as set out above (i.e. PSP awards of up to a maximum of nine times salary).

Pension arrangements for external appointments as an Executive Director will be as set out in the remuneration policy table on page 118 of the 2013 Annual Report.

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.

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# 2014 Remuneration policy report

## *continued*

Strategic report

### 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	
<b>Duration of contracts</b>	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.  Contracts for existing Executive Directors will expire on the dates shown on page 123 of the 2013 Annual Report.
<b>Notice period</b>	Notice period on termination by employing company or Executive Director is 12 calendar months.
<b>Mitigation</b>	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. In light of this, the Committee believes that it would not be appropriate to provide for mitigation in the contracts.

Governance &amp; remuneration

### 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
<b>Termination payment</b>	<b>Termination by notice:</b> 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.  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.  <b>Redundancy:</b> As above, for termination by notice. In the UK, only statutory redundancy pay will apply. In the US, general severance policy does not apply.  <b>Retirement, death and ill-health, injury or disability:</b> No termination payment.
<b>LTI awards</b>	PSP and DABP matching awards are governed by the Plan Rules as approved by shareholders.  <b>Termination by notice:</b> Unvested awards lapse.  <b>Redundancy and retirement:</b> Generally, awards vest over the original timescales, subject to the original performance conditions. Awards made in the last 12 months are forfeited.  <b>Death and ill-health, injury or disability:</b> 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.  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.
<b>Annual bonus</b>	<b>Termination by notice by individual:</b> If an individual serves notice and the termination date falls before 31 December, the bonus is forfeited.  <b>Termination by notice by the company, redundancy, retirement, death and ill-health, injury or disability:</b> 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).
<b>DABP deferred bonus awards</b>	<b>Termination by notice:</b> Deferred shares vest in full on the date of termination.  <b>Redundancy, retirement, death and ill-health, injury or disability:</b> Generally, deferred shares vest in full at the end of the financial year in which the termination date falls.
<b>Benefits</b>	Generally, benefits will continue to apply until the termination date.  <b>Termination by notice by the company and retirement (US executives):</b> 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.

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**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.



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 of the 2013 Annual Report), 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
<b>Sir Andrew Witty</b>	18.06.08	22.05.08	31.08.24	Contract amended on 04.02.10 to remove entitlement to bonus on termination
<b>Simon Dingemans</b>	08.09.10	04.01.11	30.04.28	
<b>Dr Moncef Slaoui</b>	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.



# 2014 Remuneration policy report

## continued

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### 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:

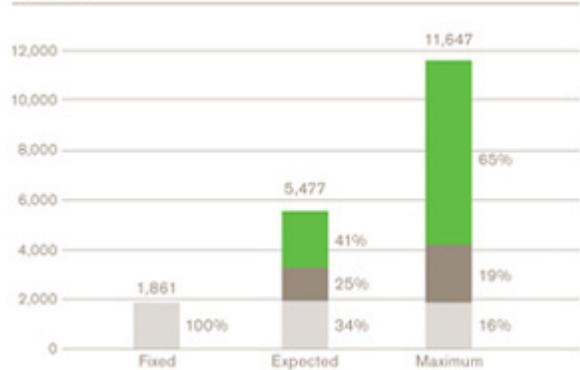
- For the annual bonus, it is assumed that target financial performance is achieved, and the performance of each Executive Director would result in an individual performance multiplier of 100% (i.e. no increase to the financial performance element of the bonus has been applied). This results in an assumed 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.

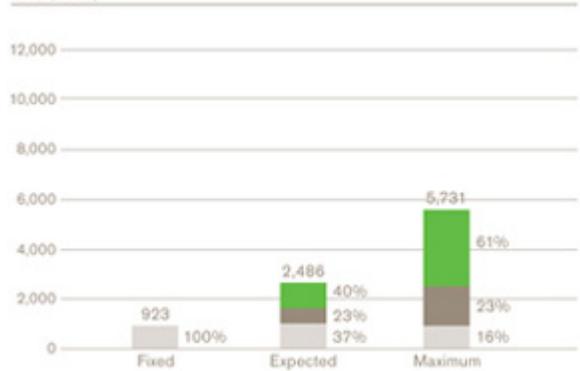
#### Maximum:

- 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.

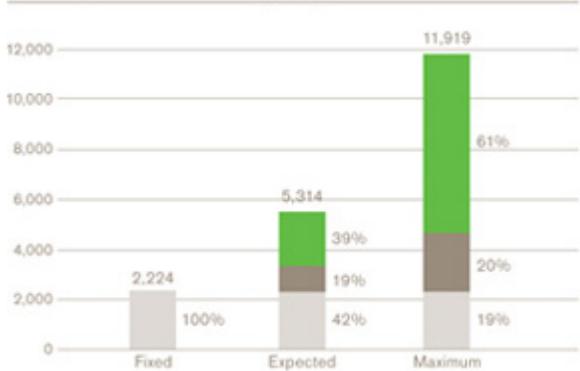
CEO (£000)



CFO (£000)



Chairman, Global R&D & Vaccines (£000)



■ Long-term variable remuneration ■ Annual variable remuneration ■ Fixed remuneration



## Non-Executive Director remuneration policy

Element	Purpose and link to strategy	Overview
<b>Chairman's fee</b>	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.	<p>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.</p> <p>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.</p> <p>Fees can be paid in a combination of cash and/or GSK shares or ADS.</p> <p>See further details of GSK's Non-Executive Director's share allocation plan below.</p>
<b>Basic fee</b>		<p>There is no formal maximum, however, fees are reviewed annually and set by reference to independently sourced market data.</p> <p>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.</p> <p>A minimum of 25% is delivered in the form of GSK shares or ADS.</p> <p>See further details of GSK's Non-Executive Director's share allocation plan below.</p>
<b>Supplemental fees</b>	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 2013 Annual Report on Remuneration.
<b>Benefits</b>	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.
<b>Non-Executive Directors' share allocation plan</b>	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.	<p>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.</p> <p>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.</p> <p>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 of the 2013 Annual Report and are included in the Directors' interests table on page 110 of the 2013 Annual Report.</p> <p>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.</p>
<b>Letter of appointment</b>	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 of the 2013 Annual Report.	<p>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.</p> <p>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.</p>

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### Operation and scope of Remuneration policy

The current Remuneration policy (the Policy) is set out on pages 117 to 125 of the 2013 Annual Report 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.



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# Directors' statement *of responsibilities*

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The Directors are responsible for preparing the Annual Report, the Remuneration report and the Group financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In preparing the Group financial statements, the Directors have also elected to comply with IFRS, as issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRS as adopted by the European Union and IFRS as issued by the IASB, subject to any material departures disclosed and explained in the Group financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the Group financial statements and the Remuneration report comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Group financial statements for the year ended 31 December 2014, comprising principal statements and supporting notes, are set out in 'Financial statements' on pages 136 to 210 of this report. The responsibilities of the auditors in relation to the Group financial statements are set out in the Independent Auditors' report on pages 131 to 135.

The Group financial statements for the year ended 31 December 2014 are included in the Annual Report, which is published in printed form and made available on our website. The Directors are responsible for the maintenance and integrity of the Annual Report on our website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Each of the current Directors, whose names and functions are listed in the Corporate Governance section of the Annual Report 2014 confirms that, to the best of his or her knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and risk sections of the Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

## Disclosure of information to auditors

The Directors in office at the date of this Annual Report have each confirmed that:

- so far as he or she is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

## Going concern basis

Pages 48 to 70 contain information on the performance of the Group, its financial position, cash flows, net debt position and borrowing facilities. Further information, including Treasury risk management policies, exposures to market and credit risk and hedging activities, is given in Note 41 to the financial statements, 'Financial instruments and related disclosures'. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Internal control

The Board, through the Audit & Risk Committee, has reviewed the assessment of risks and the internal control framework that operates in GSK and has considered the effectiveness of the system of internal control in operation in the Group for the year covered by this Annual Report and up to the date of its approval by the Board of Directors.

## The UK Corporate Governance Code

The Board considers that GlaxoSmithKline plc applies the principles and provisions of the UK Corporate Governance Code maintained by the Financial Reporting Council, as described in the Corporate Governance section on pages 78 to 95, and has complied with its provisions. The Board further considers that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

As required by the Financial Conduct Authority's Listing Rules, the auditors have considered the Directors' statement of compliance in relation to those points of the UK Corporate Governance Code which are specified for their review.

## Annual Report

The Annual Report for the year ended 31 December 2014, comprising the Report of the Directors, the Remuneration report, the Financial statements and additional information for investors, has been approved by the Board of Directors and signed on its behalf by

**Sir Christopher Gent**  
Chairman  
26 February 2015



# Independent Auditors' report

## to the members of GlaxoSmithKline plc

### Report on the Group financial statements

#### Our opinion

In our opinion, the Group financial statements defined below:

- give a true and fair view of the state of the Group's affairs at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

#### Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the Group financial statements, in addition to applying IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (the 'IASB').

In our opinion, the Group financial statements comply with IFRSs as issued by the IASB.

#### What we have audited

GlaxoSmithKline plc's Group financial statements comprise:

- the consolidated balance sheet at 31 December 2014;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group financial statements comprises applicable law and IFRSs as adopted by the European Union.

#### Our audit approach

Overview:

#### Materiality

- Overall group materiality: £215 million which represents 4% of profit before tax, adding back certain non-recurring items.

#### Audit scope

- Our audit included full scope audits of 24 reporting components with specific audit procedures performed at a further 32 reporting components.
- Taken together, the components at which audit work was performed accounted for 68% of consolidated revenue and 74% of consolidated profit before tax and covered all components that individually contributed more than 2% of revenue and profit before tax.

#### Areas of focus

- Rebates, discounts, allowances and returns in the US Pharmaceuticals and Vaccines business
- Transformation of the Group's finance processes
- Potential implications of alleged illegal acts
- Litigation
- Carrying value of goodwill and intangible assets
- Uncertain tax positions

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the Group financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as areas of focus in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the Group financial statements as a whole. Any comments we make on the results of our procedures should be read in this context. For each area of focus below, where appropriate, we evaluated the design and tested the operating effectiveness of key internal controls over financial reporting, including testing the operation of IT systems from which financial information is generated. This is not a complete list of all risks identified by our audit.

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Area of focus	How our audit addressed the area of focus
<p><b>Rebates, discounts, allowances and returns in the US Pharmaceuticals and Vaccines business</b> Refer to Note 3 in the Group financial statements</p> <p>The Group makes sales to various customers in the US that fall under certain commercial and government mandated contracts and reimbursement arrangements, of which the most significant are Medicaid and Medicare. The Group also provides a right of return to its customers for certain products.</p> <p>These arrangements result in deductions to gross sales in arriving at turnover and give rise to obligations for the Group to provide customers with rebates, discounts, allowances and the right of return, which for unsettled amounts are recognised as an accrual.</p> <p>We focused on this area because rebates, discounts, allowances and returns arrangements are complex and because establishing an appropriate accrual requires significant judgement and estimation by the Directors. The Directors have determined an accrual of £1.3 billion to be necessary at 31 December 2014.</p>	<p>We obtained management's calculations for accruals under applicable schemes and validated the assumptions used by reference to the Group's stated commercial policies, the terms of the applicable contracts, third party data related to patient enrolment in US government funded benefit schemes and historical levels of product returns.</p> <p>We compared the assumptions to contracted prices, historical rebates, discounts, allowances and returns levels (where relevant) and to current payment trends. We also considered the historical accuracy of the Group's estimates in previous years, including an evaluation of releases of accruals in 2014 following payments or settlements with US state authorities.</p> <p>We formed an independent expectation of the largest elements of the accrual at 31 December 2014 using third party data and compared this expectation to the actual accrual recognised by the Group. In undertaking this work, we considered the impact of the decrease in revenue for certain respiratory products, principally <i>Advair</i>, and relevant changes in pricing and billing arrangements in 2015 with commercial and government healthcare providers.</p> <p>Based on the procedures performed, we did not identify any material differences between our independent expectations and the accrual.</p>
<p><b>Transformation of the Group's finance processes</b></p> <p>The Group continues to rationalise and simplify its finance processes including the roll-out of an enterprise-wide resource planning system (ERP) through Core Business Services. In addition, financial transaction processes have continued to migrate to third party business process outsourcing locations (BPOs) and related accounting services have been centralised at in-house business service centres (BSCs).</p> <p>These changes represent a financial reporting risk while migrations are happening as controls and processes that have been established and embedded over a number of years are updated and migrated into the new ERP environment. There is an increased risk of breakdown in internal financial controls during the transition and an increased risk of inaccurate or incomplete migration of financial data, which would in turn increase risk of material misstatements in the Group financial statements.</p>	<p>We centrally managed the work performed by component audit teams at BPOs and BSCs, which consisted of controls and substantive testing, and conducted oversight visits to all of the BSC and BPO sites in Group audit scope (namely India, Malaysia, the US and the UK) to direct the work performed.</p> <p>We evaluated the design and tested the operating effectiveness of key automated and manual controls both before and after the migration to the centralised processing environment, including IT general controls and controls in respect of data migration between ERP systems. We also substantively tested the accuracy and completeness of data migration into the new ERP along with the controls over this process and we did not note any significant exceptions.</p>
<p><b>Potential implications of alleged illegal acts</b> Refer to Notes 3 and 45 in the Group financial statements</p> <p>We incorporated this risk as an area of focus in our 2013 audit as a result of allegations of illegal acts carried out by the Group's Chinese Pharmaceuticals business. In addition, the Group is conducting investigations in a number of other markets. The Group has continued to co-operate with enquiries by the Department of Justice ('DoJ') in the US and by the Serious Fraud Office ('SFO') in the UK. The SFO announced in 2014 that it had commenced a criminal investigation into the Group's commercial practices. In addition, the Group announced in 2014 that it had paid a £301 million fine to the Chinese government in connection with these allegations.</p> <p>We focused on the following risks, which might have a material impact on the Group financial statements:</p> <ul style="list-style-type: none"> <li>▪ That illegal acts similar to those previously alleged in China have occurred elsewhere in the Group; and</li> <li>▪ That further fines and penalties might be forthcoming in respect of ongoing investigations into the Group's commercial practices that could give rise to the need for additional provisions or asset impairments outside of China.</li> </ul>	<p>We inspected the ruling from the Changsha Intermediate People's Court in Hunan Province, China in respect of the allegations of bribery in China. We validated that the amounts paid in the final settlement of this liability were consistent with the ruling.</p> <p>Using our specialist forensic knowledge, we independently assessed the scope and findings of the investigative work performed by the Group's external legal counsel in respect of the allegations in China. We considered the output of this assessment in determining our audit approach. We met with the component audit team in Shanghai, China to understand and evaluate the steps taken by the Group to address the allegations.</p> <p>We met with the Directors, management, in-house legal counsel and the Group's external advisors to assess the risk of occurrence of similar acts outside of China, the status of ongoing investigations and the potential for further fines and penalties. This included understanding and evaluating the Group's internal investigations processes, which consider risks and allegations reported through various channels including whistle-blowing hotlines. We also evaluated the enhancements and changes that have been made to other control processes and business practices since 2013.</p> <p>To supplement these centralised procedures, we selected 15 territories (including certain markets not otherwise included in Group audit scope) where the country-specific risk of corruption and bribery was deemed high. For these territories, we obtained specific reporting from the component audit teams to provide us with evidence that each had appropriately designed and performed audit procedures to address the audit risk that the Group financial statements might be materially misstated due to the potential financial impact of illegal acts.</p> <p>We discussed the status of investigations opened by the DoJ and SFO with the Audit &amp; Risk Committee, the Board of Directors, management and in-house general counsel. In addition, we engaged directly with the Group's external advisors to corroborate our understanding. We were satisfied with the Group's provisioning decisions at 31 December 2014 and with the adequacy of disclosures given the status of these investigations.</p>



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Area of focus	How our audit addressed the area of focus
<p><b>Litigation</b> Refer to Notes 3 and 45 in the Group financial statements</p> <p>The pharmaceuticals industry is heavily regulated which increases inherent litigation risk. The Group is engaged in a number of legal actions, including product liability, anti-trust and related private litigation, of which the most significant are disclosed in Note 45.</p> <p>We focused on this area as the eventual outcome of claims is uncertain and the positions taken by the Directors are based on the application of material judgement and estimation. Accordingly, unexpected adverse outcomes could significantly impact the Group's reported profit and balance sheet position.</p> <p>At 31 December 2014, the Group held provisions of £520 million in respect of legal actions.</p>	<p>We discussed the status of significant known actual and potential litigation with in-house legal counsel. We obtained and substantively tested evidence to support the decisions and rationale for provisions held or decisions not to recognise provisions, including correspondence with legal counsel and other counter-parties to litigation. We also monitored and considered external information sources to identify potential legal actions.</p> <p>We developed an independent expectation of the litigation provisions based on product litigation history and other available evidence to challenge the valuation and completeness of the provisions recognised by the Group. We obtained confirmations from external legal counsel to confirm our understanding of settled and outstanding litigation and asserted claims. We evaluated significant adjustments to legal reserves recorded during the year to determine if they were indicative of management bias.</p> <p>As disclosed in Note 45 to the Group financial statements, the eventual outcome of legal proceedings is dependent on the outcome of future events and therefore the position taken by the Group is inherently judgemental. We found that in the context of the Group financial statements taken as a whole the judgements made by management were reasonable and the disclosures made in respect of these provisions and contingent liabilities were appropriate.</p>
<p><b>Carrying value of goodwill and intangible assets</b> Refer to Notes 18 and 19 in the Group financial statements</p> <p>The Group has £7.8 billion of intangible assets, including significant licenses, patents and acquired brands, and £3.6 billion of goodwill at 31 December 2014. The Group recognised impairments of intangible assets totalling £157 million during the year.</p> <p>We have focused on acquired intangible assets, as these are the most significant individually and in aggregate, and a number have indefinite lives. The Group has also recognised goodwill from a number of acquisitions.</p> <p>The carrying values of goodwill and intangible assets are contingent on future cash flows and there is risk that if these cash flows do not meet the Group's expectations that the assets will be impaired. The impairment reviews performed by the Group contain a number of significant judgements and estimates including revenue growth, the success of new product launches, profit margins, cash conversion and discount rate. Changes in these assumptions might lead to a change in the carrying value of intangible assets and goodwill. The risk is greater for the US and Emerging Markets Pharmaceuticals and Vaccines cash generating units ('CGUs') where valuation headroom compared to carrying value is lower than in previous years.</p>	<p>Leveraging our specialist valuations knowledge, we obtained the Group's impairment analyses and tested the reasonableness of key assumptions, including profit and cash flow growth, terminal values, the impact of the expiry of patents, potential product obsolescence and the selection of discount rates. We challenged management to substantiate its assumptions, including comparing relevant assumptions to industry and economic forecasts.</p> <p>We interrogated the integrity of supporting calculations and we corroborated certain information with third party sources, including expectations of performance of certain assets and components of the business.</p> <p>We obtained and evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes and we performed our own independent sensitivity calculations to quantify the downside changes to management's models required to result in impairment, focusing in particular on Emerging Markets which is more sensitive to change than the other CGUs.</p> <p>As a result of our work, we determined that the quantum of impairment recognised in 2014 was appropriate. For those intangible assets, including goodwill, where management determined that no impairment was required, we found that these judgements were supported by reasonable assumptions that would require significant downside changes before any additional material impairment was necessary.</p>
<p><b>Uncertain tax positions</b> Refer to Note 14 in the Group financial statements</p> <p>The Group operates in a complex multinational tax environment and there are open tax and transfer pricing matters with UK and overseas tax authorities. In addition, from time to time the Group enters into transactions with complicated accounting and tax consequences. Judgement is required in assessing the level of provisions required in respect of uncertain tax positions. At 31 December 2014, the Group has recognised provisions for uncertain tax provisions, offset by current tax assets, included within the current tax payable of £945 million (2013 – £1,452 million).</p>	<p>Using our specialist UK, US, international tax and transfer pricing knowledge, we evaluated and challenged management's judgements in respect of estimates of tax exposures and contingencies in order to assess the adequacy of the Group's tax provisions. This includes obtaining and evaluating certain third party tax opinions that the Group has obtained to assess the appropriateness of any assumptions used, including in respect of steps taken in advance of the proposed three-part transaction with Novartis AG.</p> <p>In understanding and evaluating management's judgements, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgemental positions taken in tax returns and current year estimates and developments in the tax environment.</p> <p>From the evidence obtained, we considered the level of provisioning to be acceptable in the context of the Group financial statements taken as a whole. However, we noted that the assumptions and judgements that are required to formulate the provisions mean that the range of possible outcomes is broad.</p>

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# Independent Auditors' report

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### How we tailored the audit scope

In identifying these areas of focus, we tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the Group financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls and the industry in which the Group operates.

The Group financial statements are a consolidation of over 400 reporting units, each of which is considered to be a component. We identified 24 reporting component units that, in our view, required an audit of their complete financial information due to their size or risk characteristics. Specific audit procedures over significant balances and transactions were performed at a further 32 reporting component units to give appropriate coverage of all material balances. Where these reporting units are supported by shared financial service centres, these centres were also included in Group audit scope. None of the reporting units not included in our Group audit scope individually contributed more than 2% to consolidated revenue or profit before tax.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting component units. As a result, eight overseas components were visited by senior members of the Group audit team, including all of the Group's significant components in the US (which are visited at least annually) alongside Belgium, China, France, Germany and Italy. In addition, each of the five shared service centres supporting reporting components in Group audit scope was visited. For those components in Group audit scope where a site visit was not undertaken, our involvement included review of component auditor work papers and attendance at certain component audit clearance meetings.

Further specific audit procedures over central functions, the Group consolidation and areas of significant judgement (including taxation, goodwill, intangible assets, treasury, post-retirement benefits, litigation and the elimination of unrealised intercompany profit in inventory) were directly led by the Group audit team.

Taken together, the territories and functions where we performed our audit work accounted for 68% of consolidated revenue and 74% of consolidated profit before tax. This was before considering the contribution to our audit evidence from performing audit work at the divisional and Group levels, including testing of monitoring controls and disaggregated analytical review procedures, which covers a significant portion of the Group's smaller and lower risk components that were not directly included in our Group audit scope. In addition, we obtained audit evidence over certain out-of-scope components through the procedures we undertook at the Group's shared service centres, encompassing BPOs and BSCs, and over centralised IT infrastructure where these processes are standardised.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the Group financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole as follows:

<b>Overall group materiality</b>	£215 million (2013 – £332 million)
<b>How we determined it</b>	4% of profit before tax (£2,968 million) adding back non-recurring items including the remeasurement charge for the Shionogi-ViiV Healthcare contingent consideration (£768 million), major restructuring costs (£755 million), legal costs including the fine paid in China (£548 million), items of income and expense relating to major acquisition and disposal activity (net £8 million), incremental costs of the change in timing of recognition of the US Branded Prescription Drug Fee (£115 million) and impairment of intangible assets (£157 million).
<b>Rationale for benchmark applied</b>	The Group's principal measure of earnings comprises core results, which adds back to statutory results a number of items of income and expenditure including those detailed above. Management uses this measure as it believes that it eliminates the volatility inherent in one-off items. We have taken this measure into account in determining our materiality, except that we have not adjusted profit before tax to add back amortisation of intangible assets and certain other smaller non-core items as in our view these are recurring items which do not introduce volatility to the Group's earnings. Materiality is lower than last year primarily due to the effect of lower profitability in 2014.

We agreed with the Audit & Risk Committee that we would report to it misstatements above £10 million (2013 – £10 million) identified during our audit as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules, we are required to review the Directors' statement, set out on page 130, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Group financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend for it to do so, for at least one year from the date the Group financial statements are signed. As part of our audit, we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee of the Group's ability to continue as a going concern.

### Other required reporting

#### Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 78 to 95 with respect to internal control and risk management systems and about share capital structures is consistent with the Group financial statements.



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**ISAs (UK & Ireland) reporting**

<ul style="list-style-type: none"> <li>■ information in the Annual Report is: <ul style="list-style-type: none"> <li>- materially inconsistent with the information in the audited Group financial statements; or</li> <li>- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li> <li>- otherwise misleading</li> </ul> </li> </ul>	We have no exceptions to report arising from this responsibility
<ul style="list-style-type: none"> <li>■ the statement given by the Directors on page 130 in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code") that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.</li> </ul>	We have no exceptions to report arising from this responsibility
<ul style="list-style-type: none"> <li>■ the section of the Annual Report on page 86, as required by provision C.3.8 of the Code, describing the work of the Audit &amp; Risk Committee does not appropriately address matters communicated by us to the Audit &amp; Risk Committee.</li> </ul>	We have no exceptions to report arising from this responsibility

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**Adequacy of information and explanations received**

Under the Companies Act 2006, we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

**Directors' remuneration**

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

**Corporate governance statement**

Under the Listing Rules, we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Under the Companies Act 2006, we are required to report to you if, in our opinion, a Corporate Governance Statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

**Responsibilities for the financial statements and the audit****Our responsibilities and those of the Directors**

As explained more fully in the Directors' statement of responsibilities set out on page 130, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the Group financial statements sufficient to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;

- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Group financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Group financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Group financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

**Other matters**

We have reported separately on the parent company financial statements of GlaxoSmithKline plc for the year ended 31 December 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

The company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the senior statutory auditor's name should not be stated.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**London**  
**26 February 2015**

**Notes:**

- (a) The maintenance and integrity of the GlaxoSmithKline plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Group financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# Financial statements

## Consolidated income statement for the year ended 31 December 2014

	Notes	2014 £m	2013 £m	2012 £m
Turnover	6	23,006	26,505	26,431
Cost of sales		(7,323)	(8,585)	(7,925)
Gross profit		15,683	17,920	18,506
Selling, general and administration		(8,246)	(8,480)	(8,789)
Research and development		(3,450)	(3,923)	(3,979)
Royalty income		310	387	306
Other operating income	7	(700)	1,124	1,256
<b>Operating profit</b>	8	<b>3,597</b>	7,028	7,300
Finance income	11	68	61	79
Finance expense	12	(727)	(767)	(808)
Profit on disposal of interest in associates		—	282	—
Share of after tax profits of associates and joint ventures	13	30	43	29
<b>Profit before taxation</b>		<b>2,968</b>	6,647	6,600
Taxation	14	(137)	(1,019)	(1,922)
<b>Profit after taxation for the year</b>		<b>2,831</b>	5,628	4,678
Profit attributable to non-controlling interests		75	192	179
Profit attributable to shareholders		2,756	5,436	4,499
		2,831	5,628	4,678
<b>Basic earnings per share (pence)</b>	15	<b>57.3p</b>	112.5p	91.6p
<b>Diluted earnings per share (pence)</b>	15	<b>56.7p</b>	110.5p	90.2p

## Consolidated statement of comprehensive income for the year ended 31 December 2014

		2014 £m	2013 £m	2012 £m
Profit for the year		2,831	5,628	4,678
Items that may be subsequently reclassified to income statement:				
Exchange movements on overseas net assets and net investment hedges	34	(497)	(255)	(226)
Reclassification of exchange on liquidation or disposal of overseas subsidiaries	34	(219)	—	—
Deferred tax on exchange movements		(2)	—	—
Fair value movements on available-for-sale investments		29	367	77
Deferred tax on fair value movements on available-for-sale investments		(78)	(29)	(10)
Reclassification of fair value movements on available-for-sale investments		(155)	(38)	(19)
Deferred tax reversed on reclassification of available-for-sale investments		58	7	10
Fair value movements on cash flow hedges		5	(9)	(6)
Deferred tax on fair value movements on cash flow hedges		(1)	1	—
Reclassification of cash flow hedges to income statement		(5)	2	2
Share of other comprehensive income of associates and joint ventures		18	15	30
		(847)	61	(142)
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests		16	(35)	(30)
Remeasurement (losses)/gains on defined benefit plans		(1,181)	847	(685)
Deferred tax on actuarial movements in defined benefit plans		262	(286)	193
		(903)	526	(522)
<b>Other comprehensive (expense)/income for the year</b>	34	<b>(1,750)</b>	587	(664)
<b>Total comprehensive income for the year</b>		<b>1,081</b>	6,215	4,014
Total comprehensive income for the year attributable to:				
Shareholders		990	6,058	3,865
Non-controlling interests		91	157	149
<b>Total comprehensive income for the year</b>		<b>1,081</b>	6,215	4,014



## Consolidated balance sheet as at 31 December 2014

	Notes	2014 £m	2013 £m
<b>Non-current assets</b>			
Property, plant and equipment	17	9,052	8,872
Goodwill	18	3,724	4,205
Other intangible assets	19	8,320	9,283
Investments in associates and joint ventures	20	340	323
Other investments	21	1,114	1,202
Deferred tax assets	14	2,688	2,084
Derivative financial instruments	41	–	1
Other non-current assets	22	735	889
<b>Total non-current assets</b>		<b>25,973</b>	26,859
<b>Current assets</b>			
Inventories	23	4,231	3,900
Current tax recoverable	14	138	129
Trade and other receivables	24	4,600	5,442
Derivative financial instruments	41	146	155
Liquid investments	32	69	66
Cash and cash equivalents	25	4,338	5,534
Assets held for sale	26	1,156	1
<b>Total current assets</b>		<b>14,678</b>	15,227
<b>Total assets</b>		<b>40,651</b>	42,086
<b>Current liabilities</b>			
Short-term borrowings	32	(2,943)	(2,789)
Trade and other payables	27	(7,958)	(8,317)
Derivative financial instruments	41	(404)	(127)
Current tax payable	14	(945)	(1,452)
Short-term provisions	29	(1,045)	(992)
<b>Total current liabilities</b>		<b>(13,295)</b>	(13,677)
<b>Non-current liabilities</b>			
Long-term borrowings	32	(15,841)	(15,456)
Deferred tax liabilities	14	(445)	(693)
Pensions and other post-employment benefits	28	(3,179)	(2,189)
Other provisions	29	(545)	(552)
Derivative financial instruments	41	(9)	(3)
Other non-current liabilities	30	(2,401)	(1,704)
<b>Total non-current liabilities</b>		<b>(22,420)</b>	(20,597)
<b>Total liabilities</b>		<b>(35,715)</b>	(34,274)
<b>Net assets</b>		<b>4,936</b>	7,812
<b>Equity</b>			
Share capital	33	1,339	1,336
Share premium account	33	2,759	2,595
Retained earnings	34	(2,074)	913
Other reserves	34	2,239	2,153
<b>Shareholders' equity</b>		<b>4,263</b>	6,997
Non-controlling interests		673	815
<b>Total equity</b>		<b>4,936</b>	7,812

The financial statements on pages 136 to 210 were approved by the Board on 26 February 2015 and signed on its behalf by

**Sir Christopher Gent**  
Chairman

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## Consolidated statement of changes in equity for the year ended 31 December 2014

	Shareholders' equity					Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m		
At 1 January 2012	1,387	1,673	3,357	1,602	8,019	795	<b>8,814</b>
Profit for the year	–	–	4,499	–	4,499	179	<b>4,678</b>
Other comprehensive (expense)/income for the year	–	–	(665)	31	(634)	(30)	<b>(664)</b>
Total comprehensive income for the year	–	–	3,834	31	3,865	149	<b>4,014</b>
Distributions to non-controlling interests	–	–	–	–	–	(171)	<b>(171)</b>
Dividends to shareholders	–	–	(3,814)	–	(3,814)	–	<b>(3,814)</b>
Changes in non-controlling interests	–	–	(382)	–	(382)	164	<b>(218)</b>
Forward contract relating to non-controlling interest	–	–	–	8	8	–	<b>8</b>
Ordinary Shares issued	7	349	–	–	356	–	<b>356</b>
Ordinary Shares purchased and cancelled or held as Treasury shares	(45)	–	(2,493)	45	(2,493)	–	<b>(2,493)</b>
Ordinary Shares acquired by ESOP Trusts	–	–	–	(37)	(37)	–	<b>(37)</b>
Ordinary Shares transferred by ESOP Trusts	–	–	–	58	58	–	<b>58</b>
Write-down of shares held by ESOP Trusts	–	–	(80)	80	–	–	<b>–</b>
Share-based incentive plans	–	–	211	–	211	–	<b>211</b>
Tax on share-based incentive plans	–	–	9	–	9	–	<b>9</b>
At 31 December 2012	1,349	2,022	642	1,787	5,800	937	<b>6,737</b>
Profit for the year	–	–	5,436	–	5,436	192	<b>5,628</b>
Other comprehensive income/(expense) for the year	–	–	316	306	622	(35)	<b>587</b>
Total comprehensive income for the year	–	–	5,752	306	6,058	157	<b>6,215</b>
Distributions to non-controlling interests	–	–	–	–	–	(238)	<b>(238)</b>
Dividends to shareholders	–	–	(3,680)	–	(3,680)	–	<b>(3,680)</b>
Changes in non-controlling interests	–	–	(584)	–	(584)	(41)	<b>(625)</b>
Ordinary Shares issued	12	573	–	–	585	–	<b>585</b>
Ordinary Shares purchased and cancelled or held as Treasury shares	(25)	–	(1,504)	25	(1,504)	–	<b>(1,504)</b>
Ordinary Shares acquired by ESOP Trusts	–	–	–	(45)	(45)	–	<b>(45)</b>
Write-down of shares held by ESOP Trusts	–	–	(80)	80	–	–	<b>–</b>
Share-based incentive plans	–	–	294	–	294	–	<b>294</b>
Tax on share-based incentive plans	–	–	73	–	73	–	<b>73</b>
At 31 December 2013	1,336	2,595	913	2,153	6,997	815	<b>7,812</b>
Profit for the year	–	–	2,756	–	2,756	75	<b>2,831</b>
Other comprehensive (expense)/income for the year	–	–	(1,626)	(140)	(1,766)	16	<b>(1,750)</b>
Total comprehensive income/(expense) for the year	–	–	1,130	(140)	990	91	<b>1,081</b>
Distributions to non-controlling interests	–	–	–	–	–	(205)	<b>(205)</b>
Dividends to shareholders	–	–	(3,843)	–	(3,843)	–	<b>(3,843)</b>
Changes in non-controlling interests	–	–	(58)	–	(58)	(28)	<b>(86)</b>
Forward contract relating to non-controlling interest	–	–	–	21	21	–	<b>21</b>
Ordinary Shares issued	3	164	–	–	167	–	<b>167</b>
Ordinary Shares purchased and cancelled or held as Treasury shares	–	–	(238)	–	(238)	–	<b>(238)</b>
Ordinary Shares acquired by ESOP Trusts	–	–	150	(245)	(95)	–	<b>(95)</b>
Write-down of shares held by ESOP Trusts	–	–	(450)	450	–	–	<b>–</b>
Share-based incentive plans	–	–	326	–	326	–	<b>326</b>
Tax on share-based incentive plans	–	–	(4)	–	(4)	–	<b>(4)</b>
At 31 December 2014	1,339	2,759	(2,074)	2,239	4,263	673	<b>4,936</b>



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## Consolidated cash flow statement for the year ended 31 December 2014

	Notes	2014 £m	2013 £m	2012 £m
<b>Cash flow from operating activities</b>				
Profit after taxation for the year		2,831	5,628	4,678
Adjustments reconciling profit after tax to operating cash flows	36	3,453	2,871	1,370
Cash generated from operations		6,284	8,499	6,048
Taxation paid		(1,108)	(1,277)	(1,673)
Net cash inflow from operating activities		5,176	7,222	4,375
<b>Cash flow from investing activities</b>				
Purchase of property, plant and equipment		(1,188)	(1,188)	(1,051)
Proceeds from sale of property, plant and equipment		39	46	68
Purchase of intangible assets		(563)	(513)	(469)
Proceeds from sale of intangible assets		330	136	1,056
Purchase of equity investments		(83)	(133)	(229)
Proceeds from sale of equity investments		205	59	28
Purchase of businesses, net of cash acquired	38	(104)	(247)	(2,235)
Disposal of businesses	38	225	1,851	–
Investments in associates and joint ventures	20	(9)	(8)	(99)
Proceeds from disposal of subsidiary and interest in associate		1	429	–
Decrease in liquid investments		1	15	224
Interest received		63	59	30
Dividends from associates and joint ventures		5	18	46
Net cash (outflow)/inflow from investing activities		(1,078)	524	(2,631)
<b>Cash flow from financing activities</b>				
Proceeds from own shares for employee share options		–	–	58
Shares acquired by ESOP Trusts		(95)	(45)	(37)
Issue of share capital	33	167	585	356
Purchase of own shares for cancellation or to be held as Treasury shares		(238)	(1,504)	(2,493)
Purchase of non-controlling interests		(679)	(588)	(14)
Increase in long-term loans		1,960	1,913	4,430
Increase in short-term loans		–	–	1,743
Repayment of short-term loans		(1,709)	(1,872)	(2,559)
Net repayment of obligations under finance leases		(23)	(31)	(35)
Interest paid		(707)	(749)	(779)
Dividends paid to shareholders		(3,843)	(3,680)	(3,814)
Distributions to non-controlling interests		(205)	(238)	(171)
Other financing cash flows		(13)	(64)	(36)
Net cash outflow from financing activities		(5,385)	(6,273)	(3,351)
(Decrease)/increase in cash and bank overdrafts	37	(1,287)	1,473	(1,607)
Cash and bank overdrafts at beginning of year		5,231	3,906	5,605
Exchange adjustments		84	(148)	(92)
(Decrease)/increase in cash and bank overdrafts		(1,287)	1,473	(1,607)
Cash and bank overdrafts at end of year		4,028	5,231	3,906
Cash and bank overdrafts at end of year comprise:				
Cash and cash equivalents		4,338	5,534	4,184
Overdrafts		(310)	(303)	(278)
		4,028	5,231	3,906

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# Notes to the financial statements

## 1 Presentation of the financial statements

### Description of business

GlaxoSmithKline is a major global healthcare group which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products including vaccines, over-the-counter (OTC) medicines and health-related consumer products. GSK's principal pharmaceutical products include medicines in the following therapeutic areas: respiratory, antivirals, central nervous system, cardiovascular and urogenital, metabolic, anti-bacterials, oncology and emesis, dermatology, rare diseases, immuno-inflammation, vaccines and HIV.

### Compliance with applicable law and IFRS

The financial statements have been prepared in accordance with the Companies Act 2006, Article 4 of the IAS Regulation and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations, as adopted by the European Union.

The financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board.

### Composition of financial statements

The consolidated financial statements are drawn up in Sterling, the functional currency of GlaxoSmithKline plc, and in accordance with IFRS accounting presentation. The financial statements comprise:

- Consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated balance sheet
- Consolidated statement of changes in equity
- Consolidated cash flow statement
- Notes to the financial statements.

### Composition of the Group

A list of the subsidiary and associated undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in Note 44, 'Principal Group companies'.

### Accounting principles and policies

The financial statements have been prepared using the historical cost convention modified by the revaluation of certain items, as stated in the accounting policies, and on a going concern basis.

The financial statements have been prepared in accordance with the Group's accounting policies approved by the Board and described in Note 2, 'Accounting principles and policies'. Information on the application of these accounting policies, including areas of estimation and judgement is given in Note 3, 'Key accounting judgements and estimates'.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Implementation of new accounting standards

An amendment to IAS 32 'Offsetting financial assets and financial liabilities' was issued in December 2011 and was implemented by GSK from 1 January 2014. The amendment provides additional guidance on when financial assets and financial liabilities may be offset and has no material impact on the current period.

### Financial period

These financial statements cover the financial year from 1 January to 31 December 2014, with comparative figures for the financial years from 1 January to 31 December 2013 and, where appropriate, from 1 January to 31 December 2012.

### Parent company financial statements

The financial statements of the parent company, GlaxoSmithKline plc, have been prepared in accordance with UK GAAP and with UK accounting presentation. The company balance sheet is presented on page 213 and the accounting policies are given on page 214.

## 2 Accounting principles and policies

### Consolidation

The consolidated financial statements include:

- the assets and liabilities, and the results and cash flows, of the company and its subsidiaries, including ESOP Trusts
- the Group's share of the results and net assets of associates and joint ventures
- the Group's share of assets, liabilities, revenue and expenses of joint operations.

The financial statements of entities consolidated are made up to 31 December each year.



## 2 Accounting principles and policies continued

Entities over which the Group has the power to direct the relevant activities so as to affect the returns to the Group, generally through control over the financial and operating policies, are accounted for as subsidiaries. Where the Group has the ability to exercise joint control over, and rights to the net assets of, entities, the entities are accounted for as joint ventures. Where the Group has the ability to exercise joint control over an arrangement, but has rights to specified assets and obligations for specified liabilities of the arrangement, the arrangement is accounted for as a joint operation. Where the Group has the ability to exercise significant influence over entities, they are accounted for as associates. The results and assets and liabilities of associates and joint ventures are incorporated into the consolidated financial statements using the equity method of accounting. The Group's rights to assets, liabilities, revenue and expenses of joint operations are included in the consolidated financial statements in accordance with those rights and obligations.

Interests acquired in entities are consolidated from the date the Group acquires control and interests sold are de-consolidated from the date control ceases.

Transactions and balances between subsidiaries are eliminated and no profit before tax is taken on sales between subsidiaries until the products are sold to customers outside the Group. The relevant proportion of profits on transactions with joint ventures, joint operations and associates is also deferred until the products are sold to third parties. Transactions with non-controlling interests are recorded directly in equity. Deferred tax relief on unrealised intra-Group profit is accounted for only to the extent that it is considered recoverable.

Goodwill is capitalised as a separate item in the case of subsidiaries and as part of the cost of investment in the case of joint ventures and associates. Goodwill is denominated in the currency of the operation acquired.

Where the cost of acquisition is below the fair value of the net assets acquired, the difference is recognised directly in the income statement.

### Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. Where the consideration transferred, together with the non-controlling interest, exceeds the fair value of the net assets, liabilities and contingent liabilities acquired, the excess is recorded as goodwill. The costs of acquisition are charged to the income statement in the period in which they are incurred.

Where not all of the equity of a subsidiary is acquired the non-controlling interest is recognised either at fair value or at the non-controlling interest's share of the net assets of the subsidiary, on a case-by-case basis. Changes in the Group's ownership percentage of subsidiaries are accounted for within equity.

### Foreign currency translation

Foreign currency transactions are booked in the functional currency of the Group company at the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities are retranslated into the functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement.

On consolidation, assets and liabilities, including related goodwill, of overseas subsidiaries, associates and joint ventures, are translated into Sterling at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries, associates and joint ventures are translated into Sterling using average rates of exchange.

Exchange adjustments arising when the opening net assets and the profits for the year retained by overseas subsidiaries, associates and joint ventures are translated into Sterling, less exchange differences arising on related foreign currency borrowings which hedge the Group's net investment in these operations, are taken to a separate component of equity.

When translating into Sterling the assets, liabilities, results and cash flows of overseas subsidiaries, associates and joint ventures which are reported in currencies of hyper-inflationary economies, adjustments are made where material to reflect current price levels. Any loss on net monetary assets is charged to the consolidated income statement.

### Revenue

Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received, title and risk of loss is passed to the customer, reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete.

Turnover represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Value added tax and other sales taxes are excluded from revenue.

Where the Group co-promotes a product and the counterparty records the sale, the Group records its share of revenue as co-promotion income within turnover. The nature of co-promotion activities is such that the Group records no costs of sales. Pharmaceutical turnover includes co-promotion revenue of £22 million (2013 – £37 million; 2012 – £234 million). In addition, initial or event-based milestone income (excluding royalty income) arising on development or marketing collaborations of the Group's compounds or products with other parties is recognised in turnover. Milestone income of £57 million is included in turnover (2013 – £78 million).

Royalty income is recognised on an accruals basis in accordance with the terms of the relevant licensing agreements.

### Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Manufacturing start-up costs between validation and the achievement of normal production are expensed as incurred. Advertising and promotion expenditure is charged to the income statement as incurred. Shipment costs on inter-company transfers are charged to cost of sales; distribution costs on sales to customers are included in selling, general and administrative expenditure.

Restructuring costs are recognised and provided for, where appropriate, in respect of the direct expenditure of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken.



# Notes to the financial statements

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## 2 Accounting principles and policies continued

### Research and development

Research and development expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is capitalised when the criteria for recognising an asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable. Property, plant and equipment used for research and development is capitalised and depreciated in accordance with the Group's policy.

### Environmental expenditure

Environmental expenditure related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible is charged to the income statement. The Group recognises its liability on a site-by-site basis when it can be reliably estimated. This liability includes the Group's portion of the total costs and also a portion of other potentially responsible parties' costs when it is probable that they will not be able to satisfy their respective shares of the clean-up obligation. Recoveries of reimbursements are recorded as assets when virtually certain.

### Legal and other disputes

Provision is made for the anticipated settlement costs of legal or other disputes against the Group where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome. In addition, provision is made for legal or other expenses arising from claims received or other disputes. In respect of product liability claims related to certain products, there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. In certain cases, an incurred but not reported (IBNR) actuarial technique is used to determine this estimate.

The Group may become involved in 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 but no provision would be made. Costs associated with claims made by the Group against third parties are charged to the income statement as they are incurred.

### Pensions and other post-employment benefits

The costs of providing pensions under defined benefit schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employees' services, consistent with the advice of qualified actuaries. Pension obligations are measured as the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds. Pension scheme assets are measured at fair value at the balance sheet date.

The costs of other post-employment liabilities are calculated in a similar way to defined benefit pension schemes and spread over the period during which benefit is expected to be derived from the employees' services, in accordance with the advice of qualified actuaries.

Actuarial gains and losses and the effect of changes in actuarial assumptions, are recognised in the statement of comprehensive income in the year in which they arise.

The Group's contributions to defined contribution plans are charged to the income statement as incurred.

### Employee share plans

Incentives in the form of shares are provided to employees under share option and share award schemes.

The fair values of these options and awards are calculated at their grant dates using a Black-Scholes option pricing model and charged to the income statement over the relevant vesting periods.

The Group provides finance to ESOP Trusts to purchase company shares on the open market to meet the obligation to provide shares when employees exercise their options or awards. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves. A transfer is made between other reserves and retained earnings over the vesting periods of the related share options or awards to reflect the ultimate proceeds receivable from employees on exercise.

### Property, plant and equipment

Property, plant and equipment (PP&E) is stated at the cost of purchase or construction less provisions for depreciation and impairment. Financing costs are capitalised within the cost of qualifying assets in construction.

Depreciation is calculated to write off the cost less residual value of PP&E, excluding freehold land, using the straight-line basis over the expected useful life. Residual values and lives are reviewed, and where appropriate adjusted, annually. The normal expected useful lives of the major categories of PP&E are:

Freehold buildings	20 to 50 years
Leasehold land and buildings	Lease term or 20 to 50 years
Plant and machinery	10 to 20 years
Equipment and vehicles	3 to 10 years

On disposal of PP&E, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is taken to the income statement.

### Leases

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. The assets are included in PP&E or computer software and the capital elements of the leasing commitments are shown as obligations under finance leases. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement. All other leases are operating leases and the rental costs are charged to the income statement on a straight-line basis over the lease term.

### Goodwill

Goodwill is stated at cost less impairments. Goodwill is deemed to have an indefinite useful life and is tested for impairment at least annually.

Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid, this excess is recognised immediately as a gain in the income statement.



## 2 Accounting principles and policies continued

### Other intangible assets

Intangible assets are stated at cost less provisions for amortisation and impairments.

Licences, patents, know-how and marketing rights separately acquired or acquired as part of a business combination are amortised over their estimated useful lives, generally not exceeding 20 years, using the straight-line basis, from the time they are available for use. The estimated useful lives for determining the amortisation charge take into account patent lives, where applicable, as well as the value obtained from periods of non-exclusivity. Asset lives are reviewed, and where appropriate adjusted, annually. Contingent milestone payments are recognised at the point that the contingent event becomes probable. Any development costs incurred by the Group and associated with acquired licences, patents, know-how or marketing rights are written off to the income statement when incurred, unless the criteria for recognition of an internally generated intangible asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

Acquired brands are valued independently as part of the fair value of businesses acquired from third parties where the brand has a value which is substantial and long-term and where the brands either are contractual or legal in nature or can be sold separately from the rest of the businesses acquired. Brands are amortised over their estimated useful lives of up to 20 years, except where it is considered that the useful economic life is indefinite.

The costs of acquiring and developing computer software for internal use and internet sites for external use are capitalised as intangible fixed assets where the software or site supports a significant business system and the expenditure leads to the creation of a durable asset. ERP systems software is amortised over seven to ten years and other computer software over three to five years.

### Impairment of non-current assets

The carrying values of all non-current assets are reviewed for impairment, either on a stand-alone basis or as part of a larger cash generating unit, when there is an indication that the assets might be impaired. Additionally, goodwill, intangible assets with indefinite useful lives and intangible assets which are not yet available for use are tested for impairment annually. Any provision for impairment is charged to the income statement in the year concerned.

Impairments of goodwill are not reversed. Impairment losses on other non-current assets are only reversed if there has been a change in estimates used to determine recoverable amounts and only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortisation, had no impairments been recognised.

### Investments in associates, joint ventures and joint operations

Investments in associates and joint ventures are carried in the consolidated balance sheet at the Group's share of their net assets at date of acquisition and of their post-acquisition retained profits or losses together with any goodwill arising on the acquisition. The Group recognises its rights to assets, liabilities, revenue and expenses of joint operations.

### Available-for-sale investments

Liquid investments and other investments are classified as available-for-sale investments and are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses on available-for-sale investments are recognised directly in other comprehensive income. Impairments arising from the significant or prolonged decline in fair value of an equity investment reduce the carrying amount of the asset directly and are charged to the income statement.

On disposal or impairment of the investments, any gains and losses that have been deferred in other comprehensive income are reclassified to the income statement. Dividends on equity investments are recognised in the income statement when the Group's right to receive payment is established. Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Purchases and sales of equity investments are accounted for on the trade date and purchases and sales of other available-for-sale investments are accounted for on settlement date.

### Inventories

Inventories are included in the financial statements at the lower of cost (including raw materials, direct labour, other direct costs and related production overheads) and net realisable value. Cost is generally determined on a first in, first out basis. Pre-launch inventory is held as an asset when there is a high probability of regulatory approval for the product. Before that point a provision is made against the carrying value to its recoverable amount; the provision is then reversed at the point when a high probability of regulatory approval is determined.

### Trade receivables

Trade receivables are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade receivable is determined to be uncollectable it is written off, firstly against any provision available and then to the income statement.

Subsequent recoveries of amounts previously provided for are credited to the income statement. Long-term receivables are discounted where the effect is material.

### Trade payables

Trade payables are initially recognised at fair value and then held at amortised cost which equates to nominal value. Long-term payables are discounted where the effect is material.

### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and highly liquid investments with maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

### Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.



# Notes to the financial statements

## *continued*

## 2 Accounting principles and policies continued

### Taxation

Current tax is provided at the amounts expected to be paid applying tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### Derivative financial instruments and hedging

Derivative financial instruments are used to manage exposure to market risks. The principal derivative instruments used by GSK are foreign currency swaps, interest rate swaps, foreign exchange forward contracts and options. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are classified as held-for-trading and are carried in the balance sheet at fair value. Derivatives designated as hedging instruments are classified on inception as cash flow hedges, net investment hedges or fair value hedges.

Changes in the fair value of derivatives designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedges are effective. Ineffective portions are recognised in profit or loss immediately. Amounts deferred in other comprehensive income are reclassified to the income statement when the hedged item affects profit or loss.

Net investment hedges are accounted for in a similar way to cash flow hedges.

Changes in the fair value of derivatives designated as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

### Discounting

Where the time value of money is material, balances are discounted to current values using appropriate rates of interest. The unwinding of the discounts is recorded in finance income and finance expense.

## 3 Key accounting judgements and estimates

In preparing the financial statements, management is 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 following are considered to be the key accounting judgements and estimates made.

### Turnover

Revenue is recognised when title and risk of loss is passed to the customer, reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete.

Gross turnover is reduced by rebates, discounts, allowances and product returns given or expected to be given, which vary by product arrangements and buying groups. These arrangements with purchasing organisations are dependent upon the submission of claims some time after the initial recognition of the sale. Accruals are made at the time of sale for the estimated rebates, discounts or allowances payable or returns to be made, based on available market information and historical experience.

Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix.

The level of accrual is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group.

### Taxation

Current tax is provided at the amounts expected to be paid, and deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts, at the rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised, based on management's assumptions relating to the amounts and timing of future taxable profits. Factors affecting the tax charge in future years are set out in Note 14, 'Taxation'. A 1% change in the Group's effective tax rate in 2014 would have changed the total tax charge for the year by approximately £30 million.

The Group has open tax issues with a number of revenue authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice, are inherently judgemental and could change substantially over time as new facts emerge and each dispute progresses. GSK continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments. Where open issues exist the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations with the relevant tax authorities or, if necessary, litigation proceedings.



### 3 Key accounting judgements and estimates continued

#### Legal and other disputes

The Group provides 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. These estimates take into account the specific circumstances of each dispute and relevant external advice, are inherently judgmental and could change substantially over time as new facts emerge and each dispute progresses. Details of the status and various uncertainties involved in the significant unresolved disputes are set out in Note 45, 'Legal proceedings'.

The company's Directors, having taken legal advice, have established provisions after taking into account the relevant facts and circumstances of each matter and in accordance with accounting requirements. In respect of product liability claims related to certain products there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. The Group may become involved in legal proceedings, in respect of which it is not possible to make a reliable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. In these cases, appropriate disclosure about such cases would be included, but no provision would be made and no contingent liability can be quantified. At 31 December 2014 provisions for legal and other disputes amounted to £0.5 billion (2013 – £0.6 billion).

The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations. The 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 the amount of the provisions reported in the Group's financial statements by a material amount.

#### Goodwill and other intangible asset impairments

Goodwill is deemed to have an indefinite life and so is not amortised. Annual impairment tests of the cash generating units to which goodwill is allocated are performed. Impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. The assumptions used in these impairment tests are set out in Note 18, 'Goodwill'.

In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

Impairment tests on other intangible assets are undertaken if events occur which call into question the carrying values of the assets. Where brands and other intangible assets which are not yet available for use are not amortised, they are subject to annual impairment tests. Valuations for impairment tests are based on established market multiples or risk-adjusted future cash flows over the estimated useful life of the asset, where limited, discounted using appropriate interest rates as set out in Note 19, 'Other intangible assets'.

The assumptions relating to future cash flows, estimated useful lives and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment tests to change with a consequent adverse effect on the future results of the Group.

#### Business combinations

Any contingent consideration included in the consideration payable for a business combination is recorded at fair value at the date of acquisition. These fair values are generally based on risk-adjusted future cash flows discounted using appropriate interest rates. The fair values are reviewed on a regular basis, at least annually, and any changes are reflected in the income statement.

At 31 December 2014, the net liability for contingent consideration amounted to £1,724 million (see Note 38, Acquisitions and disposals). Of this amount, £1,684 million arose on the acquisition of the former Shionogi-ViiV Healthcare joint venture in 2012.

The assumptions relating to future cash flows and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these projections to change with a consequent adverse effect on the future results of the Group.

#### Pensions and other post-employment benefits

The costs of providing pensions and other post-employment benefits are charged to the income statement in accordance with IAS 19 'Employee benefits' over the period during which benefit is derived from the employee's services. The costs are assessed on the basis of assumptions selected by management. These assumptions include future earnings and pension increases, discount rates, expected long-term rates of return on assets and mortality rates, and are disclosed in Note 28, 'Pensions and other post-employment benefits'. Where a surplus on a defined benefit scheme arises, or there is potential for a surplus to arise from committed future contributions, the rights of the Trustees to prevent the Group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised.

The expected long-term rates of return on bonds are determined based on the portfolio mix of index-linked, government and corporate bonds. An equity risk premium is added to this for equities.

Discount rates are derived from AA rated corporate bond yields except in countries where there is no deep market in corporate bonds where government bond yields are used. Sensitivity analysis is provided in Note 28, 'Pensions and other post-employment benefits', but a 0.25% reduction in the discount rate would lead to an increase in the net pension deficit of approximately £645 million and an increase in the annual pension cost of approximately £32 million. The selection of different assumptions could affect the future results of the Group.



# Notes to the financial statements

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### 4 New accounting requirements

The following new and amended accounting standards have been issued by the IASB and are likely to affect future Annual Reports. With the exception of the amendment to IAS 19, the impact on the results and financial position of the Group is currently being assessed.

An amendment to IAS 19 'Defined benefit plans: Employee contribution' was issued in November 2013 and will be implemented by the Group from 1 January 2015. The amendment provides additional guidance on the treatment of contributions to defined benefit plans from employees and third parties and is not expected to have a material impact on the results or financial position of the Group.

An amendment to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' was issued in September 2014 and will be implemented by the Group from 1 January 2016. The amendment requires recognition of the full gain or loss arising on the sale or contribution of a business to an associate or joint venture, but only the investor's share of the gain or loss if assets that do not constitute a business are sold or contributed to an associate or joint venture.

An amendment to IFRS 11 'Joint arrangements' was issued in May 2014 and will be implemented by the Group from 1 January 2016. The amendment requires the acquisition of a joint operation that meets the definition of a business to be accounted for in accordance with IFRS 3 'Business combinations'.

IFRS 15 'Revenue from contracts with customers' was issued in May 2014 and will be implemented by the Group from 1 January 2017. The Standard provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied.

IFRS 9 'Financial instruments' was issued in its final form in July 2014 and will be implemented by the Group from 1 January 2018. The Standard will replace the majority of IAS 39 and covers the classification, measurement and derecognition of financial assets and financial liabilities, impairment of financial assets and provides a new hedge accounting model.

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### 5 Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of overseas subsidiaries, joint ventures and associated undertakings into Sterling and period end rates to translate the net assets of those undertakings. The currencies which most influence these translations and the relevant exchange rates were:

	2014	2013	2012
Average rates:			
US\$/£	1.65	1.57	1.59
Euro/£	1.24	1.18	1.23
Yen/£	175	153	127
Period end rates:			
US\$/£	1.56	1.66	1.63
Euro/£	1.29	1.20	1.23
Yen/£	187	174	141



## 6 Segment information

The Group's operating segments are reported based on the financial information provided to the Chief Executive Officer and the responsibilities of the Corporate Executive Team (CET). Individual members of the CET are responsible for each geographic segment of the Pharmaceuticals and Vaccines business, ViiV Healthcare, Established Products and the Consumer Healthcare business as a whole, respectively. The Established Products segment has been created and certain product reclassifications, principally the OTC dermatology brands acquired with the Stiefel business, have been made between Pharmaceuticals and Vaccines segments and the Consumer Healthcare segment, with effect from 1 January 2014. Comparative information has been restated accordingly. In addition, the 2013 and 2012 segment turnover and profit have been restated to exclude the divestments completed in 2013.

R&D investment is essential for the sustainability of the pharmaceutical businesses. However, for segment reporting, the US, Europe, Emerging Markets, Japan and Established Products Pharmaceuticals and Vaccines segment profits exclude allocations of globally funded R&D as well as central costs, principally corporate functions and unallocated manufacturing costs. ViiV Healthcare and Consumer Healthcare operating profits include R&D costs. The Group's management reporting process allocates intra-Group profit on a product sale to the market in which that sale is recorded, and the profit analyses below have been presented on that basis.

Other trading and unallocated pharmaceuticals and vaccines includes Canada, Puerto Rico, Australasia, central vaccine tender sales and contract manufacturing sales, together with costs such as vaccines R&D, central dermatology costs and central manufacturing costs not attributed to other segments.

Pharmaceuticals R&D is reported as a separate segment. Corporate and other unallocated costs represent the costs of corporate functions.

Working capital in relation to Established Products is managed within the other Pharmaceutical and Vaccines segments.

	2014 £m	2013 (restated) £m	2012 (restated) £m
<b>Turnover by segment</b>			
Pharmaceuticals and Vaccines			
USA	4,980	5,817	5,508
Europe	4,035	4,226	3,956
Emerging Markets	3,203	3,370	3,309
Japan	937	1,058	1,203
ViiV Healthcare	1,498	1,386	1,374
Established Products	3,011	3,874	4,351
Other trading and unallocated	1,006	1,115	1,035
Pharmaceuticals and Vaccines turnover	18,670	20,846	20,736
Consumer Healthcare turnover	4,336	4,756	4,747
Segment turnover excluding divestments	23,006	25,602	25,483
Divestments completed in 2013	—	903	948
Turnover including divestments	23,006	26,505	26,431

	2014 £m	2013 (restated) £m	2012 (restated) £m
<b>Pharmaceuticals and Vaccines turnover by therapeutic area</b>			
Respiratory	6,181	7,289	7,044
Oncology and emesis	1,202	969	798
Cardiovascular, metabolic and urology	965	1,073	1,144
Immuno-inflammation	214	161	70
Other pharmaceuticals	2,407	2,674	2,630
Established Products	3,011	3,874	4,351
Vaccines	3,192	3,420	3,325
ViiV Healthcare (HIV)	1,498	1,386	1,374
	18,670	20,846	20,736



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### 6 Segment information continued

	2014 £m	2013 (restated) £m	2012 (restated) £m
<b>Consumer Healthcare turnover by category</b>			
Total wellness	1,596	1,865	1,991
Oral care	1,797	1,884	1,806
Nutrition	633	627	590
Skin health	310	380	360
	<b>4,336</b>	<b>4,756</b>	<b>4,747</b>

During 2014, US Pharmaceuticals and Vaccines and the US element of ViiV Healthcare and Established Products made sales to three wholesalers of approximately £1,478 million (2013 – £2,071 million; 2012 – £2,303 million), £2,315 million (2013 – £2,658 million; 2012 – £2,447 million) and £1,627 million (2013 – £1,695 million; 2012 – £1,318 million) respectively, after allocating final-customer discounts to the wholesalers.

	2014 £m	2013 (restated) £m	2012 (restated) £m
<b>Segment profit</b>			
Pharmaceuticals and Vaccines			
USA	3,173	3,955	3,706
Europe	2,205	2,277	2,088
Emerging Markets	993	986	1,054
Japan	466	568	657
ViiV Healthcare	977	885	849
Established Products	1,793	2,352	2,521
Pharmaceuticals R&D	(2,708)	(2,823)	(2,778)
Other trading and unallocated costs	(402)	(631)	(488)
Pharmaceuticals and Vaccines segment profit	6,497	7,569	7,609
Consumer Healthcare segment profit	657	829	856
Segment profit	7,154	8,398	8,465
Corporate and other unallocated costs	(560)	(627)	(491)
Other reconciling items between segment profit and operating profit	(2,997)	(743)	(674)
Operating profit	3,597	7,028	7,300
Finance income	68	61	79
Finance costs	(727)	(767)	(808)
Profit on disposal of interest in associates	–	282	–
Share of after tax profits of associates and joint ventures	30	43	29
Profit before taxation	2,968	6,647	6,600
Taxation	(137)	(1,019)	(1,922)
Profit after taxation for the year	2,831	5,628	4,678

Other reconciling items between segment profit and operating profit comprise items not specifically allocated to segment profit. These include impairment and amortisation of intangible assets, major restructuring charges, legal charges and expenses on the settlement of litigation and government investigations and certain other items related to major acquisition and disposal activity.

	2014 £m	2013 (restated) £m	2012 (restated) £m
<b>Depreciation and amortisation by segment</b>			
Pharmaceuticals and Vaccines			
USA	9	14	16
Europe	16	21	24
Emerging Markets	27	30	28
Japan	5	6	7
ViiV Healthcare	4	2	2
Established Products	–	–	–
Pharmaceuticals R&D	161	171	178
Other trading and unallocated costs	465	436	478
Pharmaceuticals and Vaccines depreciation and amortisation	687	680	733
Consumer Healthcare depreciation and amortisation	105	74	127
Segment depreciation and amortisation	792	754	860
Corporate and other unallocated depreciation and amortisation	112	109	108
Other reconciling items between segment depreciation and amortisation and total depreciation and amortisation	580	551	477
Total depreciation and amortisation	1,484	1,414	1,445



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## 6 Segment information continued

PP&E, intangible asset and goodwill impairment by segment	2014 £m	2013 (restated) £m	2012 (restated) £m
Pharmaceuticals and Vaccines			
USA	1	1	1
Europe	3	2	1
Emerging Markets	–	1	1
Japan	–	–	–
ViiV Healthcare	2	–	–
Established Products	–	–	–
Pharmaceuticals R&D	24	22	2
Other trading and unallocated costs	49	33	30
Pharmaceuticals and Vaccines impairment	79	59	35
Consumer Healthcare impairment	16	11	1
Segment impairment	95	70	36
Corporate and other unallocated impairment	3	–	18
Other reconciling items between segment impairment and total impairment	153	799	700
Total impairment	251	869	754

PP&E and intangible asset impairment reversals by segment	2014 £m	2013 (restated) £m	2012 (restated) £m
Pharmaceuticals and Vaccines			
USA	(1)	–	–
Europe	(1)	(2)	–
Emerging Markets	–	–	–
Japan	–	–	–
ViiV Healthcare	–	–	–
Established Products	–	–	–
Pharmaceuticals R&D	(23)	(2)	(4)
Other trading and unallocated costs	(37)	(16)	(60)
Pharmaceuticals and Vaccines impairment reversals	(62)	(20)	(64)
Consumer Healthcare impairment reversals	(14)	(4)	–
Segment impairment reversals	(76)	(24)	(64)
Corporate and other unallocated impairment reversals	–	–	(3)
Other reconciling items between segment impairment reversals and total impairment reversals	–	–	(59)
Total impairment reversals	(76)	(24)	(126)

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### 6 Segment information continued

	2014 £m	2013 (restated) £m
<b>Net assets by segment</b>		
Pharmaceuticals and Vaccines		
USA	(86)	43
Europe	532	779
Emerging Markets	1,744	2,097
Japan	268	362
ViiV Healthcare	301	1,267
Established Products	43	114
Pharmaceuticals R&D	542	590
Other trading and unallocated assets	13,396	14,578
Pharmaceuticals and Vaccines net operating assets	16,740	19,830
Consumer Healthcare net operating assets	3,036	2,856
Segment net operating assets	19,776	22,686
Corporate and other unallocated net operating assets	(3,128)	(2,647)
Net operating assets	16,648	20,039
Net debt	(14,377)	(12,645)
Investments in associates and joint ventures	340	323
Derivative financial instruments	(267)	26
Current and deferred taxation	1,436	68
Assets held for sale	1,156	1
Net assets	4,936	7,812

The US Pharmaceuticals and Vaccines segment was in a net liability position as at 31 December 2014 principally as a result of an accrual of £115 million for an additional year of the US Branded Prescription Drug fee.

The other trading and unallocated Pharmaceuticals and Consumer Healthcare segments include assets for the centrally managed Pharmaceutical, Vaccine and Consumer Healthcare manufacturing operations, the depreciation on which, totalling £594 million (2013 – £521 million; 2012 – £601 million) is recovered through the standard cost of product charged to businesses.

#### Geographical information

The UK is regarded as being the Group's country of domicile.

	2014 £m	2013 £m	2012 £m
<b>Turnover by location of customer</b>			
UK	1,116	1,541	1,525
USA	7,359	8,730	8,476
Rest of World	14,531	16,234	16,430
External turnover	23,006	26,505	26,431

	2014 £m	2013 £m	2012 £m
<b>Turnover by location of subsidiary</b>			
UK	3,518	4,174	3,738
USA	10,768	11,684	11,250
Rest of World	17,227	18,515	19,719
Turnover including inter-segment turnover	31,513	34,373	34,707
UK	1,994	1,772	1,508
USA	3,432	3,026	2,886
Rest of World	3,081	3,070	3,882
Inter-segment turnover	8,507	7,868	8,276
UK	1,524	2,402	2,230
USA	7,336	8,658	8,364
Rest of World	14,146	15,445	15,837
External turnover	23,006	26,505	26,431



## 6 Segment information continued

Operating profit by location	2014 £m	2013 £m	2012 £m
UK	414	568	1,454
USA	1,375	3,063	1,391
Rest of World	1,808	3,397	4,455
Total operating profit	3,597	7,028	7,300

Net operating assets by location	2014 £m	2013 (restated) £m
UK	4,597	6,314
USA	3,654	3,975
Rest of World	8,397	9,750
Net operating assets	16,648	20,039

Non-current assets by location	2014 £m	2013 (restated) £m
UK	6,688	6,565
USA	6,512	6,675
Rest of World	8,431	9,607
Non-current assets	21,631	22,847

Non-current assets by location excludes amounts relating to other investments, deferred tax assets, derivative financial instruments, pension assets, amounts receivable under insurance contracts and certain other non-current receivables.

## 7 Other operating income

	2014 £m	2013 £m	2012 £m
Impairment of equity investments	(25)	(70)	(26)
Disposal of equity investments	155	38	19
Disposal of businesses and assets	244	1,413	661
Gain on settlement of pre-existing collaborations on acquisition of HGS	—	—	233
Gain on acquisition of the Shionogi-ViiV Healthcare joint venture	—	—	349
Fair value remeasurements on contingent consideration recognised in business combinations	(770)	(251)	(13)
Fair value adjustments on derivative financial instruments	(313)	12	3
Other income/(expense)	9	(18)	30
	(700)	1,124	1,256

Disposal of businesses and other assets in 2014 included a gain on disposal of *Treximet* and in 2013 included the gain on disposal of the Lucozade and Ribena business to Suntory of £1,057 million and the gain on the sale of the worldwide intellectual property rights (excluding certain emerging markets) of the anti-coagulant products business to Aspen Group of £274 million. Fair value remeasurements on contingent consideration recognised in business combinations included £768 million related to the contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture.

Fair value adjustments on derivative financial instruments related to foreign exchange forward contracts and options taken out to hedge against foreign currency movements when sales and purchases are denominated in foreign currencies (see Note 41, 'Financial instruments and related disclosures'). In 2014 this included an unrealised loss of £299 million arising from the loss position of a number of forward exchange contracts entered into following announcement of the proposed Novartis transaction to protect the Sterling value of the net US Dollar proceeds due to the Group on completion of the transaction. 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.



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### 8 Operating profit

	2014 £m	2013 £m	2012 £m
<b>The following items have been included in operating profit:</b>			
Employee costs (Note 9)	7,520	7,591	6,935
Advertising	671	808	839
Distribution costs	325	371	386
Depreciation of property, plant and equipment	780	732	871
Impairment of property, plant and equipment, net of reversals	18	100	(68)
Amortisation of intangible assets	704	682	574
Impairment of intangible assets and goodwill, net of reversals	157	745	696
Net foreign exchange (gains)/losses	(18)	41	61
Inventories:			
Cost of inventories included in cost of sales	6,334	7,290	6,851
Write-down of inventories	389	338	302
Reversal of prior year write-down of inventories	(169)	(43)	(61)
Operating lease rentals:			
Minimum lease payments	133	127	156
Contingent rents	8	12	14
Sub-lease payments	5	2	3
Fees payable to the company's auditor and its associates in relation to the Group (see below)	33.2	24.9	23.2

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The reversals of prior year write-downs of inventories principally arise from the reassessment of usage or demand expectations prior to inventory expiration.

Included within operating profit are major restructuring charges of £750 million (2013 – £517 million; 2012 – £557 million), see Note 10, 'Major restructuring costs'.

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	2014 £m	2013 £m	2012 £m
<b>Fees payable to the company's auditor and its associates:</b>			
Audit of parent company and consolidated financial statements	4.9	5.1	4.0
Audit of the company's subsidiaries	10.7	11.0	10.1
Audit-related assurance services, including attestation under s.404 of Sarbanes-Oxley Act 2002	4.0	3.9	3.3
Audit and audit-related services	19.6	20.0	17.4
Taxation compliance	0.6	0.6	0.4
Taxation advice	4.5	3.3	3.2
Other assurance services	8.0	1.5	1.7
All other services	0.5	0.3	0.5
	33.2	25.7	23.2

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In addition to the above, fees paid in respect of the GSK pension schemes were:

	2014 £m	2013 £m	2012 £m
Audit	0.3	0.4	0.6
Other services	–	–	–



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## 9 Employee costs

	2014 £m	2013 £m	2012 £m
Wages and salaries	5,879	6,262	5,846
Social security costs	639	685	643
Pension and other post-employment costs, including augmentations (Note 28)	403	170	95
Cost of share-based incentive plans	346	319	220
Severance and other costs from integration and restructuring activities	253	155	131
	<b>7,520</b>	<b>7,591</b>	<b>6,935</b>

The Group provides benefits to employees, commensurate with local practice in individual countries, including, in some markets, healthcare insurance, subsidised car schemes and personal life assurance.

The charge for pension and other post-employment costs in 2013 includes a credit of £279 million following a restructuring of US post-retirement medical obligations. The charge in 2012 includes a credit of £395 million following a change in policy relating to discretionary pension increases under certain UK pension schemes and the introduction of a limit on future pensionable pay increases in all UK schemes. These are set out in Note 28, 'Pensions and other post-employment benefits'.

The cost of share-based incentive plans is analysed as follows:

	2014 £m	2013 £m	2012 £m
Share Value Plan	302	243	156
Performance Share Plan	20	47	45
Share option plans	3	4	11
Other plans	21	25	8
	<b>346</b>	<b>319</b>	<b>220</b>

The average number of persons employed by the Group (including Directors) during the year was:

	2014 Number	2013 Number	2012 Number
Manufacturing	31,726	31,586	31,033
Selling, general and administration	54,618	55,660	54,803
Research and development	12,358	12,571	12,845
	<b>98,702</b>	<b>99,817</b>	<b>98,681</b>

The average number of Group employees excludes temporary and contract staff. The numbers of Group employees at the end of each financial year are given in the financial record on page 224. The average number of persons employed by GlaxoSmithKline plc in 2014 was nil (2013 – nil).

The compensation of the Directors and Senior Management (members of the CET) in aggregate, was as follows:

	2014 £m	2013 £m	2012 £m
Wages and salaries	19	23	20
Social security costs	3	3	2
Pension and other post-employment costs	3	3	3
Cost of share-based incentive plans	13	13	13
	<b>38</b>	<b>42</b>	<b>38</b>

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### 10 Major restructuring costs

Major restructuring costs charged in arriving at operating profit include restructuring costs arising under the Operational Excellence programme, initiated in 2007 and expanded in 2009, 2010 and 2011, under the Major Change programme initiated in 2013, under the Pharmaceuticals Restructuring Programme announced in October 2014 and following the proposed Novartis transaction, announced in 2014.

Of the total restructuring costs of £750 million incurred in 2014, £101 million was incurred under the Operational Excellence programme, £334 million under the Major Change programme, £243 million under the Pharmaceuticals Restructuring Programme and £67 million on Pre-Integration Planning on the proposed Novartis transaction in the following areas:

- Restructuring of the Pharmaceuticals business in North America, Emerging Markets and Europe leading to staff reductions in sales force and administration.
- Projects to rationalise Core Business Services and to simplify or eliminate processes leading to staff reduction in support functions.
- Transformation of the Manufacturing and Vaccines businesses to deliver a step change in quality, cost and productivity.
- The rationalisation of the Consumer Healthcare business.

The remaining costs of £5 million were incurred under the restructuring programmes related to the integration of the Stiefel and HGS (Human Genome Sciences Inc.) businesses.

The analysis of the costs charged to operating profit under these programmes is as follows:

	2014 £m	2013 £m	2012 £m
Increase in provision for major restructuring programmes (see Note 29)	(267)	(179)	(268)
Amount of provision reversed unused (see Note 29)	4	11	12
Impairment losses recognised	–	(60)	(7)
Other non-cash charges	(15)	(5)	(18)
Other cash costs	(472)	(284)	(276)
	<b>(750)</b>	<b>(517)</b>	<b>(557)</b>

Asset impairments of £nil (2013 – £60 million; 2012 – £7 million) and other non-cash charges totalling £15 million (2013 – £5 million; 2012 – £18 million) are non-cash items, principally accelerated depreciation where asset lives have been shortened as a result of the major restructuring programmes. All other charges have been or will be settled in cash and include the termination of leases, site closure costs, consultancy and project management fees.

### 11 Finance income

	2014 £m	2013 £m	2012 £m
Interest income arising from:			
cash and cash equivalents	56	55	59
available-for-sale investments	1	2	5
loans and receivables	9	2	9
Realised gains on liquid investments	–	–	4
Fair value adjustments on derivatives at fair value through profit or loss	2	2	2
	<b>68</b>	<b>61</b>	<b>79</b>

All derivatives at fair value through profit or loss other than designated and effective hedging instruments (see Note 41, 'Financial instruments and related disclosures') are classified as held-for-trading financial instruments under IAS 39.

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## 12 Finance expense

	2014 £m	2013 £m	2012 £m
Interest expense arising on:			
financial liabilities at amortised cost	(665)	(708)	(731)
derivatives at fair value through profit or loss	(23)	(18)	(14)
Fair value hedges:			
fair value movements on derivatives designated as hedging instruments	10	(37)	(28)
fair value adjustments on hedged items	(5)	36	27
Fair value movements on other derivatives at fair value through profit or loss	(15)	(2)	(13)
Unwinding of discounts on provisions	(15)	(14)	(15)
Movements on amounts owed to non-controlling interests	-	(2)	(10)
Other finance expense	(14)	(22)	(24)
	<b>(727)</b>	<b>(767)</b>	<b>(808)</b>

All derivatives at fair value through profit or loss other than designated and effective hedging instruments (see Note 41, 'Financial instruments and related disclosures') are classified as held-for-trading financial instruments under IAS 39. Interest expense arising on derivatives at fair value through profit or loss relates to swap interest expense.

## 13 Associates and joint ventures

At 31 December 2014, the Group held one significant associate, Aspen Pharmacare Holdings Limited (Aspen). Summarised income statement information in respect of Aspen is set out below:

	2014 £m	2013 £m	2012 £m
Turnover	<b>1,823</b>	1,485	1,280
Profit after taxation	<b>313</b>	247	313
Comprehensive income	<b>148</b>	192	163
Total comprehensive income	<b>461</b>	439	476

The results of Aspen included in the summarised income statement information above represent the estimated earnings of the Aspen group in the year, adjusted for transactions between GSK and Aspen.

Amounts relating to joint ventures principally arise from a 50% interest in one joint venture, Japan Vaccine Co., Ltd., with Daiichi Sankyo Co., Ltd. Aggregated financial information in respect of other associated undertakings and joint ventures is set out below:

	2014 £m	2013 £m	2012 £m
Associates:			
Share of turnover	<b>24</b>	26	27
Share of after tax (losses)/profits	<b>(1)</b>	-	1
Share of other comprehensive income	-	-	-
Share of total comprehensive income	<b>(1)</b>	-	1
Joint ventures:			
Share of turnover	<b>163</b>	199	203
Share of after tax losses	<b>(8)</b>	(2)	(30)
Share of other comprehensive income	-	-	-
Share of total comprehensive income	<b>(8)</b>	(2)	(30)
Sales to joint ventures and associates	<b>85</b>	103	124



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### 14 Taxation

	2014 £m	2013 £m	2012 £m
<b>Taxation charge based on profits for the year</b>			
UK current taxation	(251)	265	170
Overseas current taxation	993	1,284	1,510
Total current taxation	742	1,549	1,680
Total deferred taxation	(605)	(530)	242
	137	1,019	1,922

The recognition of a deferred tax asset on tax losses expected to be used on completion of the Novartis transaction is included in the net deferred tax credit. In 2013 the deferred tax credit arose predominantly as a result of non cash items related to the continuing restructuring of our supply chain and intellectual property ownership.

The following table reconciles the tax charge calculated at the UK statutory rate on the Group profit before tax with the actual tax charge for the year. Information for 2013 and 2012 has been re-analysed and is presented on a comparable basis.

	2014 £m	2014 %	2013 £m	2013 %	2012 £m	2012 %
<b>Reconciliation of taxation on Group profits</b>						
Profit before tax	2,968		6,647		6,600	
UK statutory rate of taxation	638	21.5	1,545	23.3	1,617	24.5
Differences in overseas taxation rates	406	13.7	196	2.9	278	4.2
Benefit of intellectual property incentives	(323)	(10.9)	(189)	(2.8)	(158)	(2.4)
R&D credits	(72)	(2.4)	(88)	(1.3)	(73)	(1.1)
Inter-company inventory profit	(27)	(0.9)	(121)	(1.8)	73	1.1
Impact of share-based payments	31	1.1	(2)	—	—	—
Benefit of previously unrecognised losses	(205)	(6.9)	(18)	(0.3)	(40)	(0.6)
Permanent differences on disposals and acquisitions	23	0.8	(227)	(3.4)	(9)	(0.1)
Other permanent differences	264	8.8	301	4.4	(103)	(1.6)
Re-assessments of prior year estimates	(617)	(20.8)	(197)	(3.0)	(145)	(2.2)
Disposal of associate	—	—	(67)	(1.0)	—	—
Tax on unremitted earnings	19	0.6	20	0.3	26	0.4
Deferred tax and other adjustments on restructuring	—	—	(134)	(2.0)	456	6.9
Tax charge / tax rate	137	4.6	1,019	15.3	1,922	29.1

The Group operates in countries where the tax rate differs from the UK tax rate and the taxable profits earned and tax rates in those countries vary from year to year. In 2013, a £234 million deferred tax charge related to the unwinding of deferred profit in inventory arising from reorganisations of intellectual property ownership and supply chain restructuring was presented within differences in overseas tax rates. This impact has now been presented as restructuring for 2013 as this better reflects the nature of this item. The Group qualifies for intellectual property incentives such as patent box regimes in a number of countries. The permanent differences associated with disposals and acquisitions have been presented separately and in 2013 included the benefit of lower tax rates applied to the disposal of the Lucozade and Ribena business. The recognition of the deferred tax asset on tax losses expected to be used on completion of the Novartis transaction is shown in the benefit of previously unrecognised losses. Other permanent differences include non tax deductible legal settlements. Re-assessments of prior year estimates include a benefit of £478 million from the resolution of a number of tax matters in various countries.

Future tax charges may be affected by factors such as acquisitions, disposals, restructurings, the location of research and development activity, tax regime reforms, and agreements with tax authorities.

	2014 £m	2013 £m	2012 £m
<b>Tax on items charged to equity and statement of comprehensive income</b>			
Current taxation			
Share based payments	55	31	34
	55	31	34
Deferred taxation			
Share-based payments	(59)	42	(25)
Defined benefit plans	262	(286)	193
Exchange movements	(2)	—	—
Fair value movements on cash flow hedges	(1)	1	—
Fair value movements on available-for-sale investments	(20)	(22)	—
	180	(265)	168
Total credit/(charge) to equity and statement of comprehensive income	235	(234)	202

All of the above items have been charged to the statement of comprehensive income except for tax on share based payments.



## 14 Taxation continued

### Issues relating to taxation

The integrated nature of the Group's worldwide operations involves significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets. This gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Resolution of such issues is an ongoing requirement for GSK.

The Group continues to believe that it has made adequate provision for the liabilities likely to arise from periods which are open and not yet agreed by tax authorities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with relevant tax authorities or litigation where appropriate.

The aggregate amount of unremitted profits at the balance sheet date was approximately £20 billion (2013 – £14 billion). UK legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions. Provision for deferred tax liabilities of £147 million (2013 – £129 million) has been made in respect of withholding taxation that would arise on the distribution of profits by certain overseas subsidiaries. The unprovided deferred tax on unremitted earnings at 31 December 2014 is estimated to be £600 million (2013 – £500 million), which relates to taxes payable on repatriation levied by overseas tax jurisdictions. No further provision is made on the grounds that the Group is able to control the timing of the reversal of the remaining temporary differences and it is probable that they will not reverse in the foreseeable future.

### Movement in deferred tax assets and liabilities

	Accelerated capital allowances £m	Intangibles £m	Contingent consideration £m	Intra-group profit £m	Pensions & other post employment benefits £m	Tax losses £m	Share option and award schemes £m	Other net temporary differences £m	Total £m
At 1 January 2014	(432)	(1,437)	270	641	778	112	189	1,270	1,391
Exchange adjustments	12	(18)	–	19	21	4	6	23	67
(Charge)/credit to income statement	(26)	399	134	24	8	299	(12)	(221)	605
(Charge)/credit to equity statement of comprehensive income	–	–	–	–	–	–	(59)	–	(59)
	–	–	–	–	262	–	–	(23)	239
At 31 December 2014	(446)	(1,056)	404	684	1,069	415	124	1,049	2,243

Recognised tax losses comprises £205 million (2013 – £nil) capital losses and £210 million (2013 – £112 million) trading losses.

Other net temporary differences include accrued expenses for which a tax deduction is only available on a paid basis.

After offsetting deferred tax assets and liabilities where appropriate within territories, the net deferred tax asset comprises:

	2014 £m	2013 £m
Deferred tax assets	2,688	2,084
Deferred tax liabilities	(445)	(693)
	2,243	1,391

### Unrecognised tax losses

	2014 £m	2013 £m
Trading losses expiring:		
Within 10 years	186	131
More than 10 years	723	680
Available indefinitely	–	3,908
At 31 December	909	4,719
Capital losses	2,210	3,180
As 31 December	2,210	3,180

Deferred tax assets are recognised where it is probable that future taxable profit will be available to utilise losses.



# Notes to the financial statements

## continued

Strategic report

### 15 Earnings per share

	2014 pence	2013 pence	2012 pence
Basic earnings per share	57.3	112.5	91.6
Diluted earnings per share	56.7	110.5	90.2

Basic earnings per share has been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period after deducting shares held by the ESOP Trusts and Treasury shares. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

Diluted earnings per share has been calculated after adjusting the weighted average number of shares used in the basic calculation to assume the conversion of all potentially dilutive shares. A potentially dilutive share forms part of the employee share schemes where its exercise price is below the average market price of GSK shares during the period and any performance conditions attaching to the scheme have been met at the balance sheet date.

The numbers of shares used in calculating basic and diluted earnings per share are reconciled below.

	2014 millions	2013 millions	2012 millions
Weighted average number of shares in issue			
Basic	4,808	4,831	4,912
Dilution for share options and awards	57	88	77
Diluted	4,865	4,919	4,989

Governance &amp; remuneration

### 16 Dividends

	2014			2013			2012		
	Paid/payable	Dividend per share (pence)	Total dividend £m	Paid/payable	Dividend per share (pence)	Total dividend £m	Paid/payable	Dividend per share (pence)	Total dividend £m
First interim	10 July 2014	19	916	11 July 2013	18	878	5 July 2012	17	846
Second interim	2 October 2014	19	918	3 October 2013	18	864	4 October 2012	17	830
Third interim	8 January 2015	19	924	9 January 2014	19	910	3 January 2013	18	870
Fourth interim	9 April 2015	23	1,107	10 April 2014	23	1,099	11 April 2013	22	1,068
Total		80	3,865		78	3,751		74	3,614

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Under IFRS interim dividends are only recognised in the financial statements when paid and not when declared. GSK normally pays a dividend two quarters after the quarter to which it relates and one quarter after it is declared. The 2014 financial statements recognise those dividends paid in 2014, namely the third and fourth interim dividends for 2013, and the first and second interim dividends for 2014.

The amounts recognised in each year are as follows:

	2014 £m	2013 £m	2012 £m
Dividends to shareholders	3,843	3,680	3,814

Investor information

### 17 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Cost at 1 January 2013	6,632	10,169	1,941	18,742
Exchange adjustments	(68)	(105)	(29)	(202)
Additions	57	230	948	1,235
Additions through business combinations	12	11	–	23
Capitalised borrowing costs	–	–	16	16
Disposals and write-offs	(77)	(516)	(2)	(595)
Reclassifications	107	233	(340)	–
Transfer to assets held for sale	(53)	(296)	(17)	(366)
Cost at 31 December 2013	6,610	9,726	2,517	18,853
Exchange adjustments	(104)	(142)	(3)	(249)
Additions	38	252	971	1,261
Capitalised borrowing costs	–	–	16	16
Disposals and write-offs	(62)	(322)	(3)	(387)
Reclassifications	73	344	(429)	(12)
Transfer to assets held for sale	(91)	(36)	–	(127)
Cost at 31 December 2014	6,464	9,822	3,069	19,355



# Notes to the financial statements

## continued

### 17 Property, plant and equipment continued

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Depreciation at 1 January 2013	(2,437)	(7,049)	–	(9,486)
Exchange adjustments	38	80	–	118
Charge for the year	(214)	(518)	–	(732)
Disposals and write-offs	51	422	–	473
Transfer to assets held for sale	20	139	–	159
Depreciation at 31 December 2013	(2,542)	(6,926)	–	(9,468)
Exchange adjustments	28	70	–	98
Charge for the year	(212)	(568)	–	(780)
Disposals and write-offs	27	250	–	277
Transfer to assets held for sale	18	23	–	41
Depreciation at 31 December 2014	(2,681)	(7,151)	–	(9,832)
Impairment at 1 January 2013	(152)	(266)	(62)	(480)
Exchange adjustments	1	8	–	9
Disposals and write-offs	14	44	–	58
Impairment losses	(23)	(100)	(1)	(124)
Reversal of impairments	2	22	–	24
Transfer (from)/to assets held for sale	(1)	1	–	–
Impairment at 31 December 2013	(159)	(291)	(63)	(513)
Exchange adjustments	–	4	–	4
Disposals and write-offs	30	25	1	56
Impairment losses	(34)	(45)	(15)	(94)
Reversal of impairments	47	28	1	76
Transfer (from)/to assets held for sale	–	–	–	–
Impairment at 31 December 2014	(116)	(279)	(76)	(471)
Total depreciation and impairment at 31 December 2013	(2,701)	(7,217)	(63)	(9,981)
Total depreciation and impairment at 31 December 2014	(2,797)	(7,430)	(76)	(10,303)
Net book value at 1 January 2013	4,043	2,854	1,879	8,776
Net book value at 31 December 2013	3,909	2,509	2,454	8,872
<b>Net book value at 31 December 2014</b>	<b>3,667</b>	<b>2,392</b>	<b>2,993</b>	<b>9,052</b>

The net book value at 31 December 2014 of the Group's land and buildings comprises freehold properties £3,160 million (2013 – £3,478 million), properties with leases of 50 years or more £336 million (2013 – £366 million) and properties with leases of less than 50 years £162 million (2013 – £65 million).

Included in land and buildings at 31 December 2014 are leased assets with a cost of £733 million (2013 – £784 million), accumulated depreciation of £226 million (2013 – £313 million), impairment of £9 million (2013 – £40 million) and a net book value of £498 million (2013 – £431 million). Included in plant, equipment and vehicles at 31 December 2014 are leased assets with a cost of £68 million (2013 – £99 million), accumulated depreciation of £17 million (2013 – £47 million), impairment of £2 million (2013 – £10 million) and a net book value of £49 million (2013 – £42 million). Some lease agreements include renewal or purchase options or escalation clauses.

The impairment losses principally arise from decisions to rationalise facilities and are calculated based on either fair value less costs of disposal or value in use. The fair value less costs of disposal valuation methodology uses significant inputs which are not based on observable market data, and therefore this valuation technique is classified as level 3 of the fair value hierarchy. These calculations determine the net present value of the projected risk-adjusted, post-tax cash flows of the relevant asset or cash generating unit, applying a discount rate of the Group post-tax weighted average cost of capital (WACC) of 7%, adjusted where appropriate for relevant specific risks. For value in use calculations, where an impairment is indicated and a pre-tax cash flow calculation is expected to give a materially different result, the test would be reperformed using pre-tax cash flows and a pre-tax discount rate. The Group WACC is equivalent to a pre-tax discount rate of approximately 9%. The impairment losses have been charged to cost of sales £36 million (2013 – £32 million), R&D £11 million (2013 – £14 million) and SG&A £47 million (2013 – £78 million), and include £nil (2013 – £62 million) arising from the major restructuring programmes.

Reversals of impairment arise from subsequent reviews of the impaired assets where the conditions which gave rise to the original impairments are deemed no longer to apply. All of the reversals have been credited to cost of sales.

The carrying value at 31 December 2014 of assets for which impairments have been charged or reversed in the year was £225 million (2013 – £6 million).



## 18 Goodwill

	2014 £m	2013 £m
Cost at 1 January	4,205	4,359
Exchange adjustments	34	(134)
Additions through business combinations (Note 38)	—	53
Transfer to assets held for sale	(511)	(55)
Movements in contingent consideration balances	(4)	(18)
Cost at 31 December	3,724	4,205
Net book value at 1 January	4,205	4,359
Net book value at 31 December	3,724	4,205

During 2013, GSK completed the acquisition of three business, resulting in the recognition of £53 million of goodwill. The majority of this goodwill related to the acquisition of Okairos AG. This goodwill was allocated to the US, Europe, Emerging Markets and Japan Pharmaceuticals and Vaccines cash generating units for impairment testing purposes as the benefits of the acquired business are split between these cash generating units.

The transfer to assets held for sale in 2014 arose on the anticipated sale of GSK's Oncology business as part of the proposed three-part transaction with Novartis.

The carrying value of goodwill, translated at year-end exchange rates, is allocated to the following cash generated units:

Cash generating unit	2014 £m	2013 £m
US Pharmaceuticals and Vaccines	1,734	2,013
Europe Pharmaceuticals and Vaccines	458	628
Emerging Markets Pharmaceuticals and Vaccines	501	786
Established Products	338	—
Other	354	446
Pharmaceuticals and Vaccines	3,385	3,873
Consumer Healthcare	339	332
	3,724	4,205

The amounts allocated to Japan Pharmaceuticals and Vaccines, Other Pharmaceuticals and Vaccines and ViiV Healthcare are not significant relative to the total balance.



# Notes to the financial statements

## continued

### 18 Goodwill continued

The recoverable amounts of the cash generating units are assessed using either a fair value less costs of disposal model or a value in use model. Value in use is calculated as the net present value of the projected risk-adjusted post-tax cash flows plus a terminal value of the cash generating unit to which the goodwill is allocated. Initially a post-tax discount rate is applied to calculate the net present value of the post-tax cash flows. The discount rate used is based on the Group WACC of 7%, as most cash generating units have integrated operations across large parts of the Group. The discount rate is adjusted where appropriate for specific country or currency risks.

Fair value less costs of disposal is calculated using a similar discounted cash flow approach. A post-tax discount rate is applied to the projected risk-adjusted post-tax cash flows and terminal value. The valuation methodology uses significant inputs which are not based on observable market data, therefore, this valuation technique is classified as level 3 in the fair value hierarchy.

Details relating to the discounted cash flow models used in the impairment tests of the Pharmaceuticals and Vaccines and Consumer Healthcare cash generating units are as follows:

Valuation basis	Higher of fair value less costs of disposal and value in use		
Key assumptions	Sales growth rates Profit margins Terminal growth rate Discount rate Taxation rate		
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Terminal growth rates based on management's estimate of future long-term average growth rates. Discount rates based on Group WACC, adjusted where appropriate. Taxation rates based on appropriate rates for each region.		
Period of specific projected cash flows	5 years		
Terminal growth rate and discount rate		Terminal growth rate	Discount rate
	US Pharmaceuticals and Vaccines	1% p.a.	7%
	Europe Pharmaceuticals and Vaccines	1% p.a.	7%
	Emerging Markets Pharmaceuticals and Vaccines	3.0% p.a.	10%
	Japan Pharmaceuticals and Vaccines	0.5% p.a.	6%
	ViiV Healthcare	2.5% p.a.	10%
	Established Products	0% p.a.	7%
	Other Pharmaceuticals and Vaccines	1% p.a.	7%
	Consumer Healthcare	3% p.a.	7%

The terminal growth rates do not exceed the long-term projected growth rates for the relevant markets. The terminal growth rates used in the fair value less costs of disposal calculations for the cash generating units reflect the impact of future generic competition and take account of new product launches.

In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

The Pharmaceutical and Vaccines cash generating units comprise a collection of smaller cash generating units including assets with indefinite lives with a carrying value of £595 million (2013 – £599 million). The Consumer Healthcare cash generating unit also comprises a collection of smaller cash generating units including brands with indefinite lives with a carrying value of £1.48 billion (2013 – £1.52 billion).

Details of indefinite life brands are given in Note 19 'Other intangible assets'.



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# Notes to the financial statements

## continued

### 19 Other intangible assets

	Computer software £m	Licences, patents, etc. £m	Amortised brands £m	Indefinite life brands £m	Total £m
Cost at 1 January 2013	1,501	10,604	412	2,184	14,701
Exchange adjustments	(27)	(143)	–	(37)	(207)
Capitalised development costs	79	246	–	–	325
Additions through business combinations	–	191	7	–	198
Capitalised borrowing costs	5	1	–	–	6
Other additions	99	141	–	–	240
Disposals and asset write-offs	(26)	(346)	–	–	(372)
Transfer (to)/from assets held for sale	–	(222)	–	44	(178)
Cost at 31 December 2013	1,631	10,472	419	2,191	14,713
Exchange adjustments	11	52	3	(6)	60
Capitalised development costs	–	242	–	–	242
Capitalised borrowing costs	6	3	–	–	9
Other additions	179	108	–	–	287
Reclassifications	12	–	–	–	12
Disposals and asset write-offs	(21)	(9)	–	–	(30)
Transfer to assets held for sale	–	(587)	–	(30)	(617)
Cost at 31 December 2014	1,818	10,281	422	2,155	14,676
Amortisation at 1 January 2013	(1,012)	(2,473)	(106)	–	(3,591)
Exchange adjustments	17	65	1	–	83
Charge for the year	(128)	(536)	(18)	–	(682)
Disposals and asset write-offs	21	2	–	–	23
Transfer to assets held for sale	–	85	–	–	85
Amortisation at 31 December 2013	(1,102)	(2,857)	(123)	–	(4,082)
Exchange adjustments	(13)	(63)	–	–	(76)
Charge for the year	(115)	(578)	(11)	–	(704)
Disposals and asset write-offs	17	6	–	–	23
Amortisation at 31 December 2014	(1,213)	(3,492)	(134)	–	(4,839)
Impairment at 1 January 2013	(39)	(729)	(129)	(52)	(949)
Exchange adjustments	–	9	–	1	10
Impairment losses	(6)	(702)	(11)	(26)	(745)
Disposals and asset write-offs	4	332	–	–	336
Impairment at 31 December 2013	(41)	(1,090)	(140)	(77)	(1,348)
Exchange adjustments	2	(18)	–	–	(16)
Impairment losses	(7)	(131)	(14)	(5)	(157)
Disposals and asset write-offs	4	–	–	–	4
Impairment at 31 December 2014	(42)	(1,239)	(154)	(82)	(1,517)
Total amortisation and impairment at 31 December 2013	(1,143)	(3,947)	(263)	(77)	(5,430)
Total amortisation and impairment at 31 December 2014	(1,255)	(4,731)	(288)	(82)	(6,356)
Net book value at 1 January 2013	450	7,402	177	2,132	10,161
Net book value at 31 December 2013	488	6,525	156	2,114	9,283
<b>Net book value at 31 December 2014</b>	<b>563</b>	<b>5,550</b>	<b>134</b>	<b>2,073</b>	<b>8,320</b>

The net book value of computer software includes £82 million (2013 – £247 million) of internally generated costs.

The charge for impairments in the year includes the impairments of *Lovaza*, reflecting a reassessment of the Group's expectations on the likelihood of potential generic competition; Galapagos, Nanjing Meirui, Retigabine and BMS Middle East. The carrying value at 31 December 2014 of intangible assets, for which impairments have been charged or reversed in the year, following those impairments or reversals, was £121 million (2013 – £290 million).



## 19 Other intangible assets continued

Amortisation and impairment losses, net of reversals, have been charged in the income statement as follows:

	Amortisation		Net impairment losses	
	2014 £m	2013 (restated) £m	2014 £m	2013 (restated) £m
Cost of sales	503	451	78	408
Selling, general and administration	86	128	7	6
Research and development	115	103	72	331
	<b>704</b>	682	<b>157</b>	745

Licences, patents, etc. includes a large number of acquired licences, patents, know-how agreements and marketing rights, which are either marketed or in use, or still in development. Note 38, 'Acquisitions and disposals' gives details of additions through business combinations in the year. The book values of the largest individual items are as follows:

	2014 £m	2013 £m
dolutegravir	1,680	1,769
Benlysta	1,104	1,142
FluLaval/Fluviral	415	466
Selzentry	217	235
Arzerra	–	271
Okairos technology platform	177	190
Lovaza	41	123
Duac	112	120
Toctino	91	110
Others	1,713	2,099
	<b>5,550</b>	6,525

Indefinite life brands comprise a portfolio of Consumer Healthcare products primarily acquired with the acquisitions of Sterling Winthrop, Inc. in 1994, Block Drug Company, Inc. in 2001 and CNS, Inc. in 2006, together with a number of pharmaceutical brands from the acquisition of Stiefel Laboratories, Inc. in 2009. The book values of the major brands are as follows:

	2014 £m	2013 £m
Panadol	393	393
Sensodyne	260	257
Stiefel trade name	200	199
Breathe Right	204	192
Physiogel	155	166
Polident	110	109
Biotene	67	106
Corega	98	97
Poligrip	68	67
Others	518	528
	<b>2,073</b>	2,114

Each of these brands is considered to have an indefinite life, given the strength and durability of the brand and the level of marketing support. The brands are in relatively similar stable and profitable market sectors, with similar risk profiles, and their size, diversification and market shares mean that the risk of market-related factors causing a reduction in the lives of the brands is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives. Accordingly, they are not amortised.

Each brand is tested annually for impairment and other amortised intangible assets are tested when indicators of impairment arise. This testing applies a fair value less costs of disposal methodology, generally using post-tax cash flow forecasts with a terminal value calculation and a discount rate equal to the Group post-tax WACC of 7%, adjusted where appropriate for country and currency specific risks. This valuation methodology uses significant inputs which are not based on observable market data, and therefore this valuation technique is classified as level 3 of the fair value hierarchy. The main assumptions include future sales price and volume growth, product contribution and the future expenditure required to maintain the product's marketability and registration in the relevant jurisdictions. These assumptions are based on past experience and are reviewed as part of management's budgeting and strategic planning cycle for changes in market conditions and sales erosion through competition. The terminal growth rates applied of between nil and 3% are management's estimates of future long-term average growth rates of the relevant markets. In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of these intangible assets.



# Notes to the financial statements

## *continued*

### 20 Investments in associates and joint ventures

	Joint ventures £m	Associates £m	2014 Total £m	Joint ventures £m	Associates £m	2013 Total £m
At 1 January	15	308	<b>323</b>	22	557	579
Exchange adjustments	(1)	(18)	<b>(19)</b>	(3)	(109)	(112)
Additions	2	7	<b>9</b>	1	7	8
Disposals	–	(1)	<b>(1)</b>	(1)	(139)	(140)
Transfer to other investments	–	(13)	<b>(13)</b>	–	(37)	(37)
Distributions received	–	(5)	<b>(5)</b>	(2)	(16)	(18)
Other movements	–	16	<b>16</b>	–	–	–
(Loss)/profit after tax recognised in the consolidated income statement	(8)	38	<b>30</b>	(2)	45	43
At 31 December	8	332	<b>340</b>	15	308	323

Investments in joint ventures principally arise from a 50% interest in one joint venture, Japan Vaccine Co., Ltd., with Daiichi Sankyo Co., Ltd. The joint venture holds the development and commercial rights for existing preventative vaccines from both parent companies. It will supply vaccines including Human Papillomavirus (HPV) vaccine, Rotavirus vaccine, Seasonal flu vaccine, Mumps vaccine, Diphtheria Pertussis (DTP) vaccine and Measles Rubella vaccine (MRV) in Japan.

The Group held one significant associate at 31 December 2014, Aspen Pharmacare Holdings Limited. At 31 December 2014, the Group owned 56.5 million shares or 12.4% of Aspen. Aspen, listed on the Johannesburg Stock Exchange, is Africa's largest pharmaceutical manufacturer and a major supplier of branded and generic pharmaceutical, healthcare and nutritional products to the southern African and selected international markets. The investment had a market value of £1,274 million (2013 – £872 million). Although the Group holds less than 20% of the ownership interest and voting control of Aspen, the Group has the ability to exercise significant influence through both its shareholding and its nominated director's active participation on the Aspen Board of Directors.

Summarised balance sheet information in respect of Aspen is set out below:

	2014 £m	2013 £m
Non-current assets	<b>2,336</b>	1,442
Current assets	<b>1,791</b>	968
Current liabilities	<b>(909)</b>	(869)
Non-current liabilities	<b>(1,955)</b>	(672)
Net assets	<b>1,263</b>	869

The summarised balance sheet information in respect of Aspen is based on preliminary results information and analyst forecasts available at 31 December 2014 with adjustments for transactions between GSK and Aspen.

A reconciliation of the summarised financial information to the carrying amount of the Aspen investment is set out below:

	2014 £m	2013 £m
At 1 January	<b>869</b>	973
Profit for the year	<b>313</b>	247
Other comprehensive income	<b>148</b>	192
Exchange adjustments	<b>(75)</b>	(289)
Dividends paid	<b>(44)</b>	(45)
Other movements	<b>52</b>	(209)
At 31 December	<b>1,263</b>	869
Interest in associated undertaking at 12.4% (2013 – 12.4%)	<b>157</b>	108
Goodwill	<b>117</b>	121
Carrying value at 31 December	<b>274</b>	229



## 21 Other investments

	2014 £m	2013 £m
At 1 January	1,202	787
Exchange adjustments	63	(25)
Additions	95	132
Net fair value movements	(16)	379
Impairment losses	(25)	(71)
Transfer from investments in associates and joint ventures	–	58
Disposals	(205)	(58)
At 31 December	1,114	1,202

Other investments comprise non-current equity investments which are available-for-sale investments recorded at fair value at each balance sheet date. For investments traded in an active market, the fair value is determined by reference to the relevant stock exchange quoted bid price. For other investments, the fair value is estimated by management with reference to relevant available information, including the current market value of similar instruments and discounted cash flows of the underlying net assets. The Group holds a number of equity investments in entities where the Group has entered into research collaborations. Other investments include listed investments of £892 million (2013 – £1,000 million), the decrease arising from both disposals and fair value adjustments.

During 2014, one of the companies in which the Group holds an equity investment, Theravance, Inc. (Theravance), separated certain of its activities into a new biopharmaceutical company, Theravance Biopharma, Inc. (Theravance Biopharma). Theravance's ongoing activities are focused on maximising the potential value of the respiratory assets partnered with the Group, including *Relvar/Breo Ellipta* and *Anoro Ellipta*. Theravance is eligible to receive royalty revenues from *Relvar/Breo Ellipta* and *Anoro Ellipta* and, if approved and commercialised, vilanterol monotherapy. Theravance Biopharma will carry on all of the other pre-separation activities of Theravance, including development of its pipeline (other than development assets partnered with GSK) and marketing of its one approved medicine.

At 31 December 2014, the Group held 27% of the common stock of Theravance and 26% of the common stock of Theravance Biopharma. Both are accounted for as equity investments as the Group does not have the power to exert significant influence over the activities of either company.

In 2004, the Group and Theravance entered into a governance agreement related to the Group's investment in the company. Under the terms of this governance agreement, the Group does not have the right to appoint a director to the Theravance board, unless the Group's holding in Theravance exceeds 50%, and must (with certain limited exceptions) vote its shares either in support of the recommendation of the independent directors of the board or in proportion to other shareholders' votes cast. The governance agreement with Theravance expires in September 2015.

On the creation of Theravance Biopharma in 2014, the Group and Theravance Biopharma entered into a governance agreement similar in its terms to the agreement already in place with Theravance, but which expires in 2017. Under this agreement, the Group does not have the right to appoint a director to the Theravance Biopharma board and must (with certain limited exceptions) vote its shares either in support of the recommendation of the independent directors of the board or in proportion to other shareholders' votes cast.

Net fair value movements include decreases in the value of the investments in Theravance of £280 million and Theravance Biopharma of £62 million.

On disposal of investments, fair value movements are reclassified from equity to the income statement based on average cost for shares acquired at different times.

The impairment losses recorded above have been recognised in the income statement for the year within Other operating income, together with amounts reclassified from the fair value reserve on recognition of the impairments. These impairments initially result from prolonged or significant declines in the fair value of the equity investments below acquisition cost, subsequent to which any further declines in fair value are immediately taken to the income statement.

The carrying value at 31 December of Other investments which have been impaired is as follows:

	2014 £m	2013 £m
Original cost	558	555
Cumulative impairments recognised in the income statement	(420)	(410)
Subsequent fair value increases	268	147
Carrying value at 31 December	406	292

## 22 Other non-current assets

	2014 £m	2013 £m
Amounts receivable under insurance contracts	447	396
Pension schemes in surplus	93	330
Other receivables	195	163
	735	889



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# Notes to the financial statements

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### 23 Inventories

	2014 £m	2013 £m
Raw materials and consumables	1,156	937
Work in progress	1,604	1,450
Finished goods	1,471	1,513
	<b>4,231</b>	<b>3,900</b>

Governance &amp; remuneration

### 24 Trade and other receivables

	2014 £m	2013 £m
Trade receivables, net of provision for bad and doubtful debts	3,556	3,966
Other prepayments and accrued income	289	290
Interest receivable	9	9
Employee loans and advances	28	37
Other receivables	718	1,140
	<b>4,600</b>	<b>5,442</b>

Trade receivables include £134 million (2013 – £262 million) after provision for bad and doubtful debts (£162 million before provision, 2013 – £294 million) due from state hospital authorities in Greece, Ireland, Italy, Portugal and Spain. Trade receivables also include £28 million (2013 – £19 million) due from associates and joint ventures. Other receivables includes £8 million (2013 – £233 million) due from associates and joint ventures.

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#### Bad and doubtful debt provision

	2014 £m	2013 £m
At 1 January	137	165
Exchange adjustments	(3)	(2)
Charge for the year	22	29
Subsequent recoveries of amounts provided for	(13)	(48)
Utilised	(1)	(7)
At 31 December	<b>142</b>	<b>137</b>

Investor information

### 25 Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	1,313	2,549
Short-term deposits	3,025	2,985
	<b>4,338</b>	<b>5,534</b>

### 26 Assets held for sale

	2014 £m	2013 £m
Plant, equipment and vehicles	60	–
Goodwill	511	–
Other intangibles	543	1
Inventory	42	–
	<b>1,156</b>	<b>1</b>

Non-current assets are transferred to assets held for sale when it is expected that their carrying amounts will be recovered principally through disposal and a sale is considered highly probable. They are held at the lower of carrying amount and fair value less costs to sell.

As discussed in Note 43 Proposed Novartis transaction, GSK has announced that it will divest its marketed Oncology portfolio, related R&D activities and rights to its AKT inhibitors to Novartis AG, subject to approvals, as part of a three-part interconditional transaction. Assets associated with the Oncology business divestment have been classified as held for sale.

Included within Assets held for sale are assets which were written down to fair value less costs to sell of £26 million (2013 – £nil). The valuation methodology uses significant inputs which are not based on observable market data, therefore, this valuation is classified as level 3 in the fair value hierarchy.



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## 27 Trade and other payables

	2014 £m	2013 £m
Trade payables	2,790	2,739
Wages and salaries	957	1,049
Social security	91	109
Other payables	301	906
Deferred income	62	167
Customer return and rebate accruals	1,774	1,599
Contingent consideration	105	3
Other accruals	1,878	1,745
	<b>7,958</b>	<b>8,317</b>

Customer return and rebate accruals are provided for by the Group at the point of sale in respect of the estimated rebates, discounts or allowances payable to customers, including £1,308 million (2013 – £1,188 million) in respect of US Pharmaceuticals and Vaccines. Accruals are made at the time of sale but the actual amounts paid are based on claims made some time after the initial recognition of the sale. As the amounts are estimated they may not fully reflect the final outcome and are subject to change dependent upon, amongst other things, the types of buying group and product sales mix. The level of accrual is reviewed and adjusted quarterly in the light of historical experience of actual rebates, discounts or allowances given and returns made and any changes in arrangements. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group.

At 31 December 2013, Other payables include £620 million in respect of the maximum potential amount payable to non-controlling shareholders in GlaxoSmithKline Pharmaceuticals Ltd, the Group's pharmaceuticals subsidiary in India. This amount was an estimate in the prior year and was settled in March 2014 for £625 million (see Note 39).

Trade and other payables include £9 million (2013 – £9 million) due to associates and joint ventures.

## 28 Pensions and other post-employment benefits

	2014 £m	2013 £m	2012 £m
Pension and other post-employment costs			
UK pension schemes	125	139	(230)
US pension schemes	85	95	92
Other overseas pensions schemes	123	111	129
Unfunded post-retirement healthcare schemes	70	(175)	104
	<b>403</b>	<b>170</b>	<b>95</b>
Analysed as:			
Funded defined benefit/hybrid pension schemes	267	283	(67)
Unfunded defined benefit pension schemes	34	30	14
Unfunded post-retirement healthcare schemes	70	(175)	104
Defined benefit schemes	371	138	51
Defined contribution pension schemes	32	32	44
	<b>403</b>	<b>170</b>	<b>95</b>

The net reduction in the post-retirement healthcare schemes cost in 2013 arises from the restructuring of US post-retirement medical obligations. The reduction in the UK pension scheme cost in 2012 relates to the one-off adjustments arising from the capping of future pensionable salary increases and a change in the basis of future discretionary pension increased from RPI to CPI in certain legacy plans. For further details see page 168.

The costs of the defined benefit pension and post-retirement healthcare schemes are charged in the income statement as follows:

	2014 £m	2013 £m	2012 £m
Cost of sales	117	104	(2)
Selling, general and administration	194	27	114
Research and development	60	7	(61)
	<b>371</b>	<b>138</b>	<b>51</b>

GSK entities operate pension arrangements which cover the Group's material obligations to provide pensions to retired employees. These arrangements have been developed in accordance with local practices in the countries concerned. Pension benefits can be provided by state schemes; by defined contribution schemes, whereby retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee; or by defined benefit schemes, whereby retirement benefits are based on employee pensionable remuneration and length of service. Some 'hybrid' defined benefit schemes also include defined contribution sections.



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### 28 Pensions and other post-employment benefits continued

Pension costs of defined benefit schemes for accounting purposes have been calculated using the projected unit method. In certain countries pension benefits are provided on an unfunded basis, some administered by trustee companies. Formal, independent, actuarial valuations of the Group's main plans are undertaken regularly, normally at least every three years.

Actuarial movements in the year are recognised through the statement of comprehensive income. Discount rates are derived from AA rated corporate bond yields except in countries where there is no deep market in corporate bonds where government bond yields are used. Discount rates are selected to reflect the term of the expected benefit payments. Projected inflation rate and pension increases are long-term predictions based on the yield gap between long-term index-linked and fixed interest Gilts. In the UK, mortality rates are determined by adjusting the SAPS standard mortality tables to reflect recent scheme experience. These rates are then projected to reflect improvements in life expectancy in line with the CMI projections with a long-term rate of improvement of 1.25% per year for both males and females. In the USA, mortality rates are calculated using the RP2014 white collar table adjusted to reflect recent experience. These rates are projected using scale BB-2D to allow for future improvements in life expectancy.

The average life expectancy assumed now for an individual at the age of 60 and projected to apply in 2034 for an individual then at the age of 60 is as follows:

	UK		USA	
	Male Years	Female Years	Male Years	Female Years
Current	28.0	30.2	27.0	28.7
Projected for 2034	30.1	32.2	28.7	30.4

The assets of funded schemes are generally held in separately administered trusts, either as specific assets or as a proportion of a general fund, or are insurance contracts. Assets are invested in different classes in order to maintain a balance between risk and return. Investments are diversified to limit the financial effect of the failure of any individual investment. The Group reviewed the investment strategy of the UK plans in 2011 and the asset allocation for the UK plans has been adjusted to approximately 55% return seeking assets and 45% liability matching assets. In 2013, the target asset allocation of the US plans was also updated to 55% return seeking assets and 45% liability matching assets.

The Pension Plans are exposed to risk that arises because the estimated market value of the Plans' assets might decline, the investment returns might reduce, or the estimated value of the Plans' liabilities might increase.

In line with the agreed mix of return seeking assets to generate future returns and liability matching assets to better match future pension obligations, the Group has defined an overall long-term investment strategy for the Plans, with investments across a broad range of assets. The main market risks within the asset and hedging portfolio are against credit risk, interest rates, long-term inflation, equities, property, and bank counterparty risk.

The Plan liabilities are a series of future cash flows with relatively long duration. On an IAS 19R basis, these cash flows are sensitive to changes in the expected long-term inflation rate and the discount rate (AA corporate bond yield curve) where an increase in long-term inflation corresponds with an increase in the liabilities, and an increase in the discount rate corresponds with a decrease in the liabilities.

In the UK the defined benefit pension schemes operated for the benefit of former Glaxo Wellcome employees and former SmithKline Beecham employees remain separate. These schemes were closed to new entrants in 2001 and subsequent UK employees are entitled to join a defined contribution scheme. In the USA the former Glaxo Wellcome and SmithKline Beecham defined benefit schemes were merged during 2001. In addition, the Group operates a number of post-retirement healthcare schemes, the principal one of which is in the USA.

During 2013, the Group restructured US post-retirement medical obligations for both active and retired members under the age of 65. The prior plan for participants over 65, paid for medical expenses in excess of those covered by Medicare Part A and Part B as well as for prescription drugs. Under the new arrangement these participants will instead be eligible to receive an amount, from age 65, from a health reimbursement account, based on years of service, subject to an inflation linked maximum of \$1,500 per year. Those already retired and over the age of 65 have also been given the option to switch to this new arrangement. The impact of this change in 2013 is a credit to the income statement of £279 million and a similar reduction in the post-retirement obligation.

During 2012, the Group changed its policy towards granting discretionary pension increases in the SmithKline Beecham defined benefit schemes. In the year, the Group also introduced a limit for all UK defined benefit schemes of 2% per year on the rate at which pensionable pay may increase.

The Group has applied the following financial assumptions in assessing the defined benefit liabilities:

	UK			USA			Rest of World		
	2014 % pa	2013 % pa	2012 % pa	2014 % pa	2013 % pa	2012 % pa	2014 % pa	2013 % pa	2012 % pa
Rate of increase of future earnings	2.00	2.00	2.00	4.00	4.00	4.00	2.60	2.80	3.00
Discount rate	3.60	4.50	4.40	3.80	4.60	3.80	2.00	3.40	3.30
Expected pension increases	3.00	3.40	3.00	n/a	n/a	n/a	2.00	2.10	1.90
Cash balance credit/conversion rate	n/a	n/a	n/a	3.00	4.20	3.35	0.50	0.90	1.30
Inflation rate	3.00	3.40	3.00	2.25	2.25	2.25	1.40	1.80	1.70



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## 28 Pensions and other post-employment benefits continued

The amounts recorded in the income statement and statement of comprehensive income for the three years ended 31 December 2014 in relation to the defined benefit pension and post-retirement healthcare schemes were as follows:

				Pensions	Post-retirement benefits
	UK £m	USA £m	Rest of World £m	Group £m	Group £m
<b>2014</b>					
Amounts charged to operating profit					
Current service cost	119	66	90	275	24
Past service cost/(credit)	7	1	(11)	(3)	(8)
Net interest (credit)/cost	(7)	14	14	21	54
Gains from settlements	–	–	(4)	(4)	–
Expenses	6	4	2	12	–
	125	85	91	301	70
Remeasurements recorded in the statement of comprehensive income	(629)	(223)	(244)	(1,096)	(85)
<b>2013</b>					
Amounts charged to operating profit					
Current service cost	117	74	89	280	37
Past service cost/(credit)	4	–	(31)	(27)	(273)
Net interest cost	12	17	17	46	61
Expenses	6	4	4	14	–
	139	95	79	313	(175)
Remeasurements recorded in the statement of comprehensive income	349	257	74	680	167
<b>2012</b>					
Amounts charged to operating profit					
Current service cost	130	66	75	271	36
Past service (credit)/cost	(391)	–	–	(391)	2
Net interest cost	31	26	10	67	66
	(230)	92	85	(53)	104
Remeasurements recorded in the statement of comprehensive income	(384)	48	(230)	(566)	(119)

The past service credit of £273 million in 2013 includes an amount of £279 million in relation to the restructuring of the US post-retirement medical obligations. The past service credit of £391 million in 2012 reflects the adjustments of £395 million related to the capping of future pensionable salary increases and a change in the basis of future discretionary pension increases from RPI to CPI in certain legacy plans. For further details see page 168.

The amounts included within past service costs include £7 million (2013 – £nil; 2012 – £4 million) of augmentation costs arising from major restructuring programmes (see Note 29, 'Other provisions').



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### 28 Pensions and other post-employment benefits continued

A summarised balance sheet presentation of the Group defined benefit pension schemes and other post-retirement benefits is set out in the table below:

	2014 £m	2013 £m	2012 £m
Recognised in Other non-current assets:			
Pension schemes in surplus	93	330	124
Recognised in Pensions and other post-employment benefits:			
Pension schemes in deficit	(1,782)	(943)	(1,436)
Post-retirement benefits	(1,397)	(1,246)	(1,685)
	<b>(3,179)</b>	<b>(2,189)</b>	<b>(3,121)</b>

The fair values of the assets and liabilities of the UK and US defined benefit pension schemes, together with aggregated data for other defined benefit pension schemes in the Group are as follows:

	UK £m	USA £m	Rest of World £m	Group £m
<b>At 31 December 2014</b>				
Equities:				
– listed	6,734	1,203	325	<b>8,262</b>
– unlisted	247	–	9	<b>256</b>
Property:				
– unlisted	256	146	4	<b>406</b>
Corporate bonds:				
– listed	1,403	921	97	<b>2,421</b>
– unlisted	247	–	25	<b>272</b>
Government bonds:				
– listed	2,489	152	603	<b>3,244</b>
Insurance contracts	803	–	378	<b>1,181</b>
Other assets	(127)	109	88	<b>70</b>
Fair value of assets	12,052	2,531	1,529	<b>16,112</b>
Present value of scheme obligations	(12,492)	(3,133)	(2,176)	<b>(17,801)</b>
Recognised on the balance sheet	(440)	(602)	(647)	<b>(1,689)</b>
Included in other non-current assets	72	–	21	<b>93</b>
Included in pensions and other post-employment benefits	(512)	(602)	(668)	<b>(1,782)</b>
	(440)	(602)	(647)	<b>(1,689)</b>
Actual return on plan assets	977	99	181	<b>1,257</b>

In October 2013, the UK schemes entered into repurchase agreements to gain exposure to index-linked gilts. The related loan is also included within 'Other assets' at a value of £(537) million (2013 – £(407) million; 2012 – £nil).

	UK £m	USA £m	Rest of World £m	Group £m
<b>At 31 December 2013</b>				
Equities:				
– listed	6,474	1,202	422	8,098
– unlisted	–	–	9	9
Property:				
– unlisted	254	131	5	390
Corporate bonds:				
– listed	1,484	531	57	2,072
– unlisted	–	–	20	20
Government bonds:				
– listed	2,376	320	517	3,213
Insurance contracts	775	–	366	1,141
Other assets	(119)	330	71	282
Fair value of assets	11,244	2,514	1,467	15,225
Present value of scheme obligations	(11,132)	(2,793)	(1,913)	(15,838)
Recognised on the balance sheet	112	(279)	(446)	(613)
Included in other non-current assets	292	–	38	330
Included in pensions and other post-employment benefits	(180)	(279)	(484)	(943)
	112	(279)	(446)	(613)
Actual return on plan assets	1,383	218	98	1,699



## 28 Pensions and other post-employment benefits continued

	UK £m	USA £m	Rest of World £m	Group £m
<b>At 31 December 2012</b>				
Equities: – listed	5,270	1,018	276	6,564
Property: – unlisted	265	116	5	386
Corporate bonds: – listed	1,439	586	19	2,044
Government bonds: – listed	2,054	427	657	3,138
Insurance contracts	751	–	327	1,078
Other assets	202	374	93	669
Fair value of assets	9,981	2,521	1,377	13,879
Present value of scheme obligations	(10,298)	(2,979)	(1,914)	(15,191)
Recognised on the balance sheet	(317)	(458)	(537)	(1,312)
Included in other non-current assets	103	–	21	124
Included in pensions and other post-employment benefits	(420)	(458)	(558)	(1,436)
	(317)	(458)	(537)	(1,312)
Actual return on plan assets	665	308	118	1,091

	UK £m	USA £m	Rest of World £m	Pensions		Post-retirement benefits	
				Group £m	Group £m		
Movements in fair values of assets							
Assets at 1 January 2012	9,119	2,455	1,284	<b>12,858</b>	–	–	–
Exchange adjustments	–	(125)	(56)	<b>(181)</b>	–	–	–
Interest income	381	97	55	<b>533</b>	–	–	–
Remeasurement	284	211	63	<b>558</b>	–	–	–
Employer contributions	497	52	86	<b>635</b>	<b>76</b>	–	–
Scheme participants' contributions	33	–	9	<b>42</b>	<b>15</b>	–	–
Benefits paid	(333)	(169)	(58)	<b>(560)</b>	<b>(91)</b>	–	–
Settlements and curtailments	–	–	(6)	<b>(6)</b>	–	–	–
Assets at 31 December 2012	9,981	2,521	1,377	<b>13,879</b>	–	–	–
Exchange adjustments	–	(49)	(45)	<b>(94)</b>	–	–	–
Interest income	385	96	45	<b>526</b>	–	–	–
Expenses	(6)	(4)	(4)	<b>(14)</b>	–	–	–
Remeasurement	998	122	53	<b>1,173</b>	–	–	–
Employer contributions	219	20	104	<b>343</b>	<b>76</b>	–	–
Scheme participants' contributions	26	–	10	<b>36</b>	<b>15</b>	–	–
Benefits paid	(359)	(192)	(73)	<b>(624)</b>	<b>(91)</b>	–	–
Assets at 31 December 2013	11,244	2,514	1,467	<b>15,225</b>	–	–	–
Exchange adjustments	–	154	(101)	<b>53</b>	–	–	–
Interest income	437	112	47	<b>596</b>	–	–	–
Expenses	(6)	(4)	(2)	<b>(12)</b>	–	–	–
Settlements and curtailments	–	–	(65)	<b>(65)</b>	–	–	–
Remeasurement	540	(13)	134	<b>661</b>	–	–	–
Employer contributions	202	19	102	<b>323</b>	<b>70</b>	–	–
Scheme participants' contributions	34	–	10	<b>44</b>	<b>10</b>	–	–
Benefits paid	(399)	(251)	(63)	<b>(713)</b>	<b>(80)</b>	–	–
Assets at 31 December 2014	12,052	2,531	1,529	<b>16,112</b>	–	–	–

The UK defined benefit schemes include defined contribution sections with account balances totalling £1,501 million at 31 December 2014 (2013 – £1,366 million; 2012 – £1,112 million).

During 2014, the Group made special funding contributions to the UK pension schemes totalling £85 million (2013 – £93 million; 2012 – £366 million) and £nil (2013 – £nil; 2012 – £32 million) to the US scheme. In 2013, GSK reached an agreement with the trustees of the UK pension schemes to make additional contributions to eliminate the pension deficit identified at the 31 December 2011 actuarial funding valuation. Based on the funding agreements following the 2011 valuation, the additional contributions are expected to be £85 million in 2015. The contributions were based on a government bond yield curve approach to selecting the discount rate; the rate chosen included an allowance for expected investment returns which reflected the asset mix of the schemes.

Employer contributions for 2015, including special funding contributions, are estimated to be approximately £320 million in respect of defined benefit pension schemes and £70 million in respect of post-retirement benefits.



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## continued

### 28 Pensions and other post-employment benefits continued

Movements in defined benefit obligations	UK £m	USA £m	Rest of World £m	Pensions	Post-retirement benefits
				Group £m	Group £m
Obligations at 1 January 2012	(9,779)	(2,945)	(1,610)	<b>(14,334)</b>	<b>(1,616)</b>
Exchange adjustments	–	149	74	<b>223</b>	<b>78</b>
Service cost	(130)	(66)	(75)	<b>(271)</b>	<b>(36)</b>
Past service cost	391	–	–	<b>391</b>	<b>(2)</b>
Interest cost	(412)	(123)	(65)	<b>(600)</b>	<b>(66)</b>
Settlements and curtailments	–	–	6	<b>6</b>	<b>–</b>
Remeasurement	(668)	(163)	(293)	<b>(1,124)</b>	<b>(119)</b>
Scheme participants' contributions	(33)	–	(9)	<b>(42)</b>	<b>(15)</b>
Benefits paid	333	169	58	<b>560</b>	<b>91</b>
Obligations at 31 December 2012	(10,298)	(2,979)	(1,914)	<b>(15,191)</b>	<b>(1,685)</b>
Exchange adjustments	–	46	37	<b>83</b>	<b>9</b>
Service cost	(117)	(74)	(89)	<b>(280)</b>	<b>(37)</b>
Past service cost	(4)	–	31	<b>27</b>	<b>273</b>
Interest cost	(397)	(113)	(62)	<b>(572)</b>	<b>(61)</b>
Other movements	–	–	–	<b>–</b>	<b>12</b>
Remeasurement	(649)	135	21	<b>(493)</b>	<b>167</b>
Scheme participants' contributions	(26)	–	(10)	<b>(36)</b>	<b>(15)</b>
Benefits paid	359	192	73	<b>624</b>	<b>91</b>
Obligations at 31 December 2013	(11,132)	(2,793)	(1,913)	<b>(15,838)</b>	<b>(1,246)</b>
Exchange adjustments	–	(188)	139	<b>(49)</b>	<b>(68)</b>
Service cost	(119)	(66)	(90)	<b>(275)</b>	<b>(24)</b>
Past service cost	(7)	(1)	11	<b>3</b>	<b>8</b>
Interest cost	(430)	(126)	(61)	<b>(617)</b>	<b>(54)</b>
Settlements and curtailments	–	–	69	<b>69</b>	<b>–</b>
Other movements	–	–	(6)	<b>(6)</b>	<b>2</b>
Remeasurement	(1,169)	(210)	(378)	<b>(1,757)</b>	<b>(85)</b>
Scheme participants' contributions	(34)	–	(10)	<b>(44)</b>	<b>(10)</b>
Benefits paid	399	251	63	<b>713</b>	<b>80</b>
Obligations at 31 December 2014	(12,492)	(3,133)	(2,176)	<b>(17,801)</b>	<b>(1,397)</b>

The UK defined benefit schemes include defined contribution sections with obligations totalling £1,501 million at 31 December 2014 (2013 – £1,366 million; 2012 – £1,112 million).

The defined benefit pension obligation is analysed as follows:

	2014 £m	2013 £m	2012 £m
Funded	<b>(17,350)</b>	(15,432)	(14,789)
Unfunded	<b>(451)</b>	(406)	(402)
	<b>(17,801)</b>	(15,838)	(15,191)

The liability for the US post-retirement healthcare scheme has been assessed using the same assumptions as for the US pension scheme, together with the assumption for future medical inflation of 6.75% (2013 – 6.5%), grading down to 5.0% in 2022 and thereafter. During 2013, the US post-retirement healthcare scheme was amended (see page 168 for further details). The impact of this change is a one-off reduction in the post-retirement obligation of £279 million. At 31 December 2014, the US post-retirement healthcare scheme obligation was £1,191 million (2013 – £1,066 million; 2012 – £1,504 million).

Post-retirement benefits are unfunded.



## 28 Pensions and other post-employment benefits continued

The movement in the net defined benefit liability is as follows:

	Fair value of assets £m	Present value of obligation £m	Net total £m
At 1 January 2012	12,858	(14,334)	<b>(1,476)</b>
Exchange adjustments	(181)	223	<b>42</b>
Service cost	–	(271)	<b>(271)</b>
Past service cost	–	391	<b>391</b>
Interest income/(cost)	533	(600)	<b>(67)</b>
Settlements and curtailments	(6)	6	<b>–</b>
Remeasurements:			
Return on plan assets, excluding amounts included in interest	558	–	<b>558</b>
Gain from change in demographic assumptions	–	55	<b>55</b>
Loss from change in financial assumptions	–	(1,071)	<b>(1,071)</b>
Experience losses	–	(108)	<b>(108)</b>
Employers contributions	635	–	<b>635</b>
Scheme participants' contributions	42	(42)	<b>–</b>
Benefits paid	(560)	560	<b>–</b>
At 31 December 2012	13,879	(15,191)	<b>(1,312)</b>
Exchange adjustments	(94)	83	<b>(11)</b>
Service cost	–	(280)	<b>(280)</b>
Past service cost	–	27	<b>27</b>
Interest income/(cost)	526	(572)	<b>(46)</b>
Remeasurements:			
Return on plan assets, excluding amounts included in interest	1,173	–	<b>1,173</b>
Loss from change in demographic assumptions	–	(89)	<b>(89)</b>
Loss from change in financial assumptions	–	(118)	<b>(118)</b>
Experience losses	–	(286)	<b>(286)</b>
Employers contributions	343	–	<b>343</b>
Scheme participants' contributions	36	(36)	<b>–</b>
Benefits paid	(624)	624	<b>–</b>
Expenses/other movements	(14)	–	<b>(14)</b>
At 31 December 2013	15,225	(15,838)	<b>(613)</b>
Exchange adjustments	53	(49)	<b>4</b>
Service cost	–	(275)	<b>(275)</b>
Past service cost	–	3	<b>3</b>
Interest income/(cost)	596	(617)	<b>(21)</b>
Settlements and curtailments	(65)	69	<b>4</b>
Remeasurements:			
Return on plan assets, excluding amounts included in interest	661	–	<b>661</b>
Loss from change in demographic assumptions	–	(64)	<b>(64)</b>
Loss from change in financial assumptions	–	(1,578)	<b>(1,578)</b>
Experience losses	–	(115)	<b>(115)</b>
Employers contributions	323	–	<b>323</b>
Scheme participants' contributions	44	(44)	<b>–</b>
Benefits paid	(713)	713	<b>–</b>
Expenses/other movements	(12)	(6)	<b>(18)</b>
At 31 December 2014	16,112	(17,801)	<b>(1,689)</b>

The remeasurements included within post-retirement benefits are detailed below:

	2014 £m	2013 £m	2012 £m
Gain/(loss) from change in demographic assumptions	<b>10</b>	(1)	1
(Loss)/gain from change in financial assumptions	<b>(120)</b>	143	(132)
Experience gains	<b>25</b>	25	12
	<b>(85)</b>	167	(119)



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### 28 Pensions and other post-employment benefits *continued*

The defined benefit pension obligation analysed by membership category is as follows:

	2014 £m	2013 £m	2012 £m
Active	5,422	5,053	4,695
Retired	7,967	7,137	6,930
Deferred	4,412	3,648	3,566
	<b>17,801</b>	15,838	15,191

The post-retirement benefit obligation analysed by membership category is as follows:

	2014 £m	2013 £m	2012 £m
Active	590	545	708
Retired	805	699	975
Deferred	2	2	2
	<b>1,397</b>	1,246	1,685

The weighted average duration of the defined benefit obligation is as follows:

	2014 years	2013 years	2012 years
Pension benefits	16	16	16
Post-retirement benefits	12	12	11

#### Sensitivity analysis

Effect of changes in assumptions used on the benefit obligations and on the 2015 annual defined benefit pension and post retirement costs after the revisions to IAS 19.

	£m
A 0.25% decrease in discount rate would have the following approximate effect:	
Increase in annual pension cost	32
Decrease in annual post-retirement benefits cost	(1)
Increase in pension obligation	645
Increase in post-retirement benefits obligation	43
A one year increase in life expectancy would have the following approximate effect:	
Increase in annual pension cost	20
Increase in annual post-retirement benefits cost	2
Increase in pension obligation	454
Increase in post-retirement benefits obligation	37
A 1% increase in the rate of future healthcare inflation would have the following approximate effect:	
Increase in annual post-retirement benefits cost	4
Increase in post-retirement benefits obligation	63
A 0.25% increase in inflation would have the following approximate effect:	
Increase in annual pension cost	21
Increase in pension obligation	431

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## 29 Other provisions

	Legal and other disputes £m	Major restructuring programmes £m	Employee related provisions £m	Integration and manufacturing re-organisation £m	Other provisions £m	Total £m
At 1 January 2014	646	349	260	8	281	1,544
Exchange adjustments	37	10	2	1	1	51
Charge for the year	549	267	20	–	61	897
Reversed unused	(2)	(4)	–	(5)	(9)	(20)
Unwinding of discount	(1)	5	–	–	11	15
Utilised	(709)	(110)	(31)	(4)	(35)	(889)
Reclassifications and other movements	–	3	1	–	(19)	(15)
Transfer to Pension obligations	–	7	–	–	–	7
At 31 December 2014	520	527	252	–	291	1,590
To be settled within one year	496	298	76	–	175	1,045
To be settled after one year	24	229	176	–	116	545
At 31 December 2014	520	527	252	–	291	1,590

### Legal and other disputes

The Group is involved in a substantial number of legal and other disputes, including notification of possible claims, as set out in Note 45 'Legal proceedings'. Provisions for legal and other disputes include amounts relating to product liability (principally relating to *Avandia*, and *Paxil*), anti-trust (principally relating to *Wellbutrin XL* and *Lamictal*), government investigations (principally relating to the China settlement and SEC/DOJ and SFO related investigations), contract terminations, self insurance, environmental clean-up and property rental.

The charge for the year of £549 million (£547 million net of reversals and estimated insurance recoveries) included a £301 million fine paid to the Chinese government and provisions for product liability cases regarding *Paxil* and other products, commercial disputes and various other government investigations.

The discount on the provisions decreased by £nil in 2014 (2013 – £nil) and was calculated using risk-adjusted projected cash flows and risk-free rates of return. The movement in 2014 includes an increase of £1 million (2013 – £nil) arising from a change in the discount rate in the year.

In respect of product liability claims related to certain products, there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

It is in the nature of the Group's business that a number of these matters may be the subject of negotiation and litigation over many years. Litigation proceedings, including the various appeal procedures, often take many years to reach resolution, and out-of-court settlement discussions can also often be protracted.

The Group is in potential settlement discussions in a number of the disputes for which amounts have been provided and, based on its current assessment of the progress of these disputes, estimates that £0.5 billion of the amount provided at 31 December 2014 will be settled within one year. At 31 December 2014, it was expected that £nil (2013 – £1 million) of the provision made for legal and other disputes will be reimbursed by third party insurers. This amount is included within the Other receivables balances in Note 22 'Other non-current assets' and Note 24, 'Trade and other receivables'. For a discussion of legal issues, see Note 45, 'Legal proceedings'.

### Major restructuring programmes

In October 2007 the Group announced the Operational Excellence programme to improve the effectiveness and productivity of its operations (see Note 10, 'Major restructuring costs'). This was substantially complete at the end of 2014. In addition, in 2013, the Group initiated the Major Change restructuring programme focused on opportunities to simplify supply chain processes, build the Group's capabilities in manufacturing and R&D and restructure the European Pharmaceuticals business.

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.

Provisions for staff severance payments are made when management has made a formal decision to eliminate certain positions and this has been communicated to the groups of employees affected and appropriate consultation procedures completed, where appropriate.

No provision is made for staff severance payments that are made immediately.

Pension augmentations arising from staff redundancies of £7 million (2013 – £nil) have been charged during the year and then transferred to the pension obligations provision as shown in Note 28, 'Pensions and other post-employment benefits'. Asset write-downs have been recognised as impairments of property, plant and equipment in Note 17, 'Property, plant and equipment'. The majority of the amounts provided are expected to be utilised in the next two years.

### Employee related provisions

Employee related provisions include obligations for certain medical benefits to disabled employees and their spouses in the USA. At 31 December 2014, the provision for these benefits amounted to £114 million (2013 – £111 million). Other employee benefits reflect a variety of provisions for severance costs, jubilee awards and other long-service benefits.

### Other provisions

Included in other provisions are insurance provisions of £83 million (2013 – £31 million), onerous property lease provisions of £33 million (2013 – £33 million) and a number of other provisions including vehicle insurance and regulatory matters.



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# Notes to the financial statements

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### 30 Other non-current liabilities

	2014 £m	2013 £m
Accruals and deferred income	92	101
Contingent consideration	1,619	958
Other payables	690	645
	<b>2,401</b>	1,704

The contingent consideration primarily relates to the acquisition of the 50% share of the Shionogi-ViiV Healthcare joint venture previously held by Shionogi & Co Ltd in 2012.

### 31 Contingent liabilities

At 31 December 2014, contingent liabilities, comprising guarantees, discounted bills and other items arising in the normal course of business, amounted to £185 million (2013 – £198 million). At 31 December 2014, £nil (2013 – £nil) of financial assets were pledged as collateral for contingent liabilities. Provision is made for the outcome of tax, legal and other disputes where it is both probable that the Group will suffer an outflow of funds and it is possible to make a reliable estimate of that outflow. 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. Descriptions of the significant tax, legal and other disputes to which the Group is a party are set out in Note 14, 'Taxation' and Note 45, 'Legal proceedings'.

### 32 Net debt

	Listing exchange	2014 £m	2013 £m
Current assets:			
Liquid investments		69	66
Cash and cash equivalents		4,338	5,534
		<b>4,407</b>	5,600
Short-term borrowings:			
Commercial paper		(656)	(1,491)
Bank loans and overdrafts		(379)	(352)
Obligations under finance leases		(28)	(27)
4.375% US\$ US Medium Term Note 2014	London Stock Exchange	–	(919)
0.75% US\$ US Medium Term Note 2015	New York Stock Exchange	(641)	–
3.875% € European Medium Term Note 2015	London Stock Exchange	(1,239)	–
		<b>(2,943)</b>	(2,789)
Long-term borrowings:			
0.75% US\$ US Medium Term Note 2015	New York Stock Exchange	–	(601)
3.875% € European Medium Term Note 2015	London Stock Exchange	–	(1,330)
0.7% US\$ US Medium Term Note 2016	New York Stock Exchange	(800)	(751)
1.50% US\$ US Medium Term Note 2017	New York Stock Exchange	(1,278)	(1,199)
5.625% € European Medium Term Note 2017	London Stock Exchange	(967)	(1,038)
5.65% US\$ US Medium Term Note 2018	New York Stock Exchange	(1,760)	(1,653)
0.625% € European Medium Term Note 2019	London Stock Exchange	(1,154)	–
2.85% US\$ US Medium Term Note 2022	New York Stock Exchange	(1,271)	(1,193)
2.8% US\$ US Medium Term Note 2023	New York Stock Exchange	(792)	(743)
1.375% € European Medium Term Note 2024	London Stock Exchange	(764)	–
4.00% € European Medium Term Note 2025	London Stock Exchange	(575)	(618)
3.375% £ European Medium Term Note 2027	London Stock Exchange	(591)	(591)
5.25% £ European Medium Term Note 2033	London Stock Exchange	(984)	(983)
5.375% US\$ US Medium Term Note 2034	London Stock Exchange	(318)	(299)
6.375% US\$ US Medium Term Note 2038	New York Stock Exchange	(1,747)	(1,641)
6.375% £ European Medium Term Note 2039	London Stock Exchange	(695)	(694)
5.25% £ European Medium Term Note 2042	London Stock Exchange	(987)	(987)
4.2% US\$ US Medium Term Note 2043	New York Stock Exchange	(313)	(294)
4.25% £ European Medium Term Note 2045	London Stock Exchange	(788)	(788)
Obligations under finance leases		(57)	(53)
		<b>(15,841)</b>	(15,456)
Net debt		<b>(14,377)</b>	(12,645)



## 32 Net debt continued

### Current assets

Liquid investments are classified as available-for-sale investments. At 31 December 2014, they included US Treasury Notes and other government bonds. The effective interest rate on liquid investments at 31 December 2014 was approximately 0.3% (2013 – approximately 0.5%). Liquid investment balances at 31 December 2014 earning interest at floating rates amount to £69 million (2013 – £65 million). Liquid investment balances at 31 December 2014 earning interest at fixed rates are immaterial (2013 – £1 million).

The effective interest rate on cash and cash equivalents at 31 December 2014 was approximately 1.6% (2013 – approximately 1.3%). Cash and cash equivalents at 31 December 2014 earning interest at floating and fixed rates amount to £4,243 million and £1 million respectively (2013 – £5,298 million and £1 million).

GSK's policy regarding the credit quality of cash and cash equivalents is referred to in Note 41, 'Financial instruments and related disclosures'.

### Short-term borrowings

GSK has a \$10 billion (£6.4 billion) US commercial paper programme, of which \$1.0 billion (£0.7 billion) was in issue at 31 December 2014 (2013 – \$2.5 billion (£1.5 billion)). GSK also has £1.9 billion of five year committed medium-term facilities and \$2.5 billion (£1.6 billion) of 364 day committed facilities. These facilities were put in place in September 2012 and September 2014 respectively and were undrawn at 31 December 2014. Liquid investments, cash and cash equivalents were as shown in the table on page 176.

The weighted average interest rate on current bank loans and overdrafts at 31 December 2014 was 4.28% (2013 – 3.7%). The weighted average interest rate on commercial paper borrowings at 31 December 2014 was 0.22% (2013 – 0.18%).

### Long-term borrowings

At the year-end, GSK had long-term borrowings of £15.8 billion (2013 – £15.5 billion) of which £9.8 billion (2013 – £8.8 billion) falls due in more than five years. The average effective pre-swap interest rate of all notes in issue at 31 December 2014 was approximately 3.8% (2013 – approximately 4.5%).

Long-term borrowings repayable after five years carry interest at effective rates between 1.55% and 6.41%. The repayment dates range from 2022 to 2045.

### Pledged assets

The Group has pledged investments in US Treasury Notes with a par value of \$105 million (£67 million), (2013 – \$105 million (£63 million)) as security against irrevocable letters of credit issued on the Group's behalf in respect of the Group's self-insurance activity. Provisions in respect of self-insurance are included within the provisions for legal and other disputes discussed in Note 29, 'Other provisions'. In addition, £32 million (2013 – £48 million) of assets included in Note 22, 'Other non-current assets', which do not form part of Net debt, were pledged as collateral against future rental payments under operating lease arrangements entered into by Human Genome Sciences, Inc. prior to its acquisition by the Group.

	2014 £m	2013 £m
<b>Finance lease obligations</b>		
Rental payments due within one year	31	29
Rental payments due between one and two years	23	24
Rental payments due between two and three years	19	16
Rental payments due between three and four years	13	9
Rental payments due between four and five years	3	4
Rental payments due after five years	2	5
Total future rental payments	91	87
Future finance charges	(6)	(7)
<b>Total finance lease obligations</b>	<b>85</b>	<b>80</b>



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# Notes to the financial statements

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### 33 Share capital and share premium account

	Ordinary Shares of 25p each		Share premium
	Number	£m	£m
<b>Share capital authorised</b>			
At 31 December 2012	10,000,000,000	2,500	
At 31 December 2013	10,000,000,000	2,500	
At 31 December 2014	10,000,000,000	2,500	
<b>Share capital issued and fully paid</b>			
At 1 January 2012	5,550,203,098	1,387	1,673
Issued under employee share schemes	28,045,821	7	349
Share capital cancelled	(180,652,950)	(45)	–
At 31 December 2012	5,397,595,969	1,349	2,022
Issued under employee share schemes	44,610,727	12	573
Share capital cancelled	(100,000,000)	(25)	–
At 31 December 2013	5,342,206,696	1,336	2,595
Issued under employee share schemes	13,090,536	3	164
At 31 December 2014	5,355,297,232	1,339	2,759
	<b>31 December 2014</b>		<b>31 December 2013</b>
	<b>000</b>		<b>000</b>
Number of shares issuable under employee share schemes (Note 42)	<b>88,801</b>		91,303
Number of unissued shares not under option	<b>4,555,902</b>		4,566,351

At 31 December 2014, of the issued share capital, 52,734,605 shares were held in the ESOP Trusts, 491,515,950 shares were held as Treasury shares and 4,811,046,677 shares were in free issue. All issued shares are fully paid. The nominal, carrying and market values of the shares held in the ESOP Trusts are disclosed in Note 42, 'Employee share schemes'.

A total of 15 million shares were purchased by the company during 2014 at a cost of £238 million.

Monthly purchases of shares during 2014 were as follows:

	Number of shares 000	Average share price excluding commission and stamp duty £
February	1,741,006	16.27
May	6,718,745	16.21
June	6,245,765	15.90
Total	14,705,516	16.09

For details of substantial shareholdings refer to page 242



### 34 Movements in equity

Retained earnings and other reserves amounted to £165 million at 31 December 2014 (2013 – £3,066 million; 2012 – £2,429 million) of which £337 million (2013 – £307 million; 2012 – £372 million) relates to joint ventures and associated undertakings. The cumulative translation exchange in equity is as follows:

	Net translation exchange included in:			Total translation exchange £m
	Retained earnings £m	Fair value reserve £m	Non-controlling interests £m	
At 1 January 2012	1,049	15	(68)	996
Exchange movements on overseas net assets	(203)	(23)	(30)	(256)
At 31 December 2012	846	(8)	(98)	740
Exchange movements on overseas net assets	(260)	5	(35)	(290)
At 31 December 2013	586	(3)	(133)	450
Exchange movements on overseas net assets	(504)	7	16	(481)
Reclassification of exchange on liquidation or disposal of overseas subsidiaries	(219)	–	–	(219)
At 31 December 2014	(137)	4	(117)	(250)

The analysis of other comprehensive income by equity category is as follows:

	Retained earnings £m	Other reserves £m	Non-controlling interests £m	Total £m
<b>2014</b>				
Items that may be subsequently reclassified to income statement:				
Exchange movements on overseas net assets and net investment hedges	(504)	7	–	(497)
Reclassification of exchange on liquidation or disposal of overseas subsidiaries	(219)	–	–	(219)
Deferred tax on exchange movements	(2)	–	–	(2)
Fair value movements on available-for-sale investments	–	29	–	29
Deferred tax on fair value movements on available-for-sale investments	–	(78)	–	(78)
Reclassification of fair value movements on available-for-sale investments	–	(155)	–	(155)
Deferred tax on reclassification of fair value movements on available-for-sale investments	–	58	–	58
Reclassification of cash flow hedges to income statement	–	(5)	–	(5)
Fair value movements on cash flow hedges	–	5	–	5
Deferred tax on fair value movements on cash flow hedges	–	(1)	–	(1)
Share of other comprehensive income of associates and joint ventures	18	–	–	18
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	16	16
Actuarial losses on defined benefit plans	(1,181)	–	–	(1,181)
Deferred tax on actuarial movements in defined benefit plans	262	–	–	262
Other comprehensive (expense)/income for the year	(1,626)	(140)	16	(1,750)

	Retained earnings £m	Other reserves £m	Non-controlling interests £m	Total £m
<b>2013</b>				
Items that may be subsequently reclassified to income statement:				
Exchange movements on overseas net assets and net investment hedges	(260)	5	–	(255)
Fair value movements on available-for-sale investments	–	367	–	367
Deferred tax on fair value movements on available-for-sale investments	–	(29)	–	(29)
Reclassification of fair value movements on available-for-sale investments	–	(38)	–	(38)
Deferred tax on reclassification of fair value movements on available-for-sale investments	–	7	–	7
Reclassification of cash flow hedges to income statement	–	2	–	2
Fair value movements on cash flow hedges	–	(9)	–	(9)
Deferred tax on fair value movements on cash flow hedges	–	1	–	1
Share of other comprehensive income of associates and joint ventures	15	–	–	15
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	(35)	(35)
Actuarial gains on defined benefit plans	847	–	–	847
Deferred tax on actuarial movements in defined benefit plans	(286)	–	–	(286)
Other comprehensive income/(expense) for the year	316	306	(35)	587



# Notes to the financial statements

## continued

### 34 Movements in equity continued

	Retained earnings £m	Other reserves £m	Non-controlling interests £m	Total £m
<b>2012</b>				
Items that may be subsequently reclassified to income statement:				
Exchange movements on overseas net assets and net investment hedges	(203)	(23)	–	(226)
Fair value movements on available-for-sale investments	–	77	–	77
Deferred tax on fair value movements on available-for-sale investments	–	(10)	–	(10)
Reclassification of fair value movements on available-for-sale investments	–	(19)	–	(19)
Deferred tax on reclassification of fair value movements on available-for-sale investments	–	10	–	10
Reclassification of cash flow hedges to income statement	–	2	–	2
Fair value movements on cash flow hedges	–	(6)	–	(6)
Share of other comprehensive income of associates and joint ventures	30	–	–	30
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	(30)	(30)
Actuarial losses on defined benefit plans	(685)	–	–	(685)
Deferred tax on actuarial movements in defined benefit plans	193	–	–	193
<b>Other comprehensive (expense)/income for the year</b>	<b>(665)</b>	<b>31</b>	<b>(30)</b>	<b>(664)</b>

The analysis of other reserves is as follows:

	ESOP Trust shares £m	Fair value reserve £m	Cash flow hedge reserve £m	Other reserves £m	Total £m
At 1 January 2012	(492)	70	(6)	2,030	<b>1,602</b>
Transferred to income and expense in the year on disposals	–	(18)	2	–	<b>(16)</b>
Transferred to income and expense in the year on impairment	–	(1)	–	–	<b>(1)</b>
Net fair value movement in the year	–	54	(6)	–	<b>48</b>
Ordinary Shares purchased and cancelled	–	–	–	45	<b>45</b>
Ordinary Shares acquired by ESOP Trusts	(37)	–	–	–	<b>(37)</b>
Ordinary Shares transferred by ESOP Trusts	58	–	–	–	<b>58</b>
Write-down of shares held by ESOP Trusts	80	–	–	–	<b>80</b>
Forward contract on non-controlling interest	–	–	–	8	<b>8</b>
At 31 December 2012	(391)	105	(10)	2,083	<b>1,787</b>
Transferred to income and expense in the year on disposals	–	(38)	2	–	<b>(36)</b>
Transferred to income and expense in the year on impairment	–	(1)	–	–	<b>(1)</b>
Net fair value movement in the year	–	347	(4)	–	<b>343</b>
Ordinary Shares purchased and cancelled	–	–	–	25	<b>25</b>
Ordinary Shares acquired by ESOP Trusts	(45)	–	–	–	<b>(45)</b>
Write-down of shares held by ESOP Trusts	80	–	–	–	<b>80</b>
At 31 December 2013	(356)	413	(12)	2,108	<b>2,153</b>
Transferred to income and expense in the year on disposals	–	(155)	(5)	–	<b>(160)</b>
Net fair value movement in the year	–	16	4	–	<b>20</b>
Ordinary Shares acquired by ESOP Trusts	(245)	–	–	–	<b>(245)</b>
Write-down of shares held by ESOP Trusts	450	–	–	–	<b>450</b>
Forward contract on non-controlling interest	–	–	–	21	<b>21</b>
At 31 December 2014	(151)	274	(13)	2,129	<b>2,239</b>

Other reserves include various non-distributable merger and pre-merger reserves amounting to £1,849 million at 31 December 2014 (2013 – £1,849 million; 2012 – £1,849 million). Other reserves also include the capital redemption reserve created as a result of the share buy-back programme amounting to £280 million at 31 December 2014 (2013 – £280 million; 2012 – £256 million).



## 35 Related party transactions

GSK held a 12.4% interest in Aspen Pharmacare Holdings Limited at 31 December 2014 (2013 – 12.4%).

During 2014, GSK distributed £52 million (2013 – £64 million) of its products through Aspen's extensive distribution network. At 31 December 2014, the balance due to GSK from Aspen was £22 million (2013 – £11 million) and the balance payable by GSK to Aspen was £9 million (2013 – £9 million). In addition, a further £8 million was due to GSK relating to the consideration of the sale of worldwide intellectual property rights of the anti-coagulant products business to the Aspen Group in 2013 (2013 – £233 million).

At 31 December 2014, GSK held a 50% interest in Japan Vaccine Co. Ltd (JVC) through its subsidiary GlaxoSmithKline K.K. This joint venture with Daiichi Sankyo Co., Ltd is primarily responsible for the development and marketing of certain prophylactic vaccines in Japan. During 2014, GSK sold £27 million (2013 – £36 million) of its vaccine products into the joint venture. At 31 December 2014, the balance due to GSK from JVC was £6 million and the balance payable by GSK to JVC was £nil.

The aggregate compensation of the Directors and CET is given in Note 9, 'Employee Costs'.

## 36 Adjustments reconciling profit after tax to operating cash flows

	2014 £m	2013 £m	2012 £m
Profit after tax	<b>2,831</b>	5,628	4,678
Tax on profits	<b>137</b>	1,019	1,922
Share of after tax profits of associates and joint ventures	<b>(30)</b>	(43)	(29)
Finance income net of finance expense	<b>659</b>	706	729
Depreciation	<b>780</b>	732	871
Amortisation of intangible assets	<b>704</b>	682	574
Impairment and assets written off	<b>205</b>	928	654
Profit on sale of businesses	<b>–</b>	(1,331)	–
Profit on sale of intangible assets	<b>(255)</b>	(78)	(652)
Profit on sale of investments in associates	<b>–</b>	(282)	–
Profit on sale of equity investments	<b>(149)</b>	(36)	(16)
Changes in working capital:			
(Increase)/decrease in inventories	<b>(529)</b>	(95)	37
Decrease in trade receivables	<b>347</b>	16	183
Decrease/(increase) in other receivables	<b>95</b>	(218)	(27)
Increase in trade payables	<b>91</b>	125	177
Increase in other payables	<b>698</b>	393	132
Decrease in pension and other provisions	<b>(41)</b>	(165)	(2,839)
Share-based incentive plans	<b>332</b>	319	220
Fair value adjustments	<b>313</b>	(12)	(575)
Other	<b>96</b>	211	9
	<b>3,453</b>	2,871	1,370
Cash generated from operations	<b>6,284</b>	8,499	6,048



# Notes to the financial statements

## *continued*

### 37 Reconciliation of net cash flow to movement in net debt

	2014 £m	2013 £m	2012 £m
Net debt at beginning of year	(12,645)	(14,037)	(9,003)
(Decrease)/increase in cash and bank overdrafts	(1,287)	1,473	(1,607)
Decrease in liquid investments	(1)	(15)	(224)
Net increase in long-term loans	(1,960)	(1,913)	(4,430)
Net repayment of short-term loans	1,709	1,872	816
Net repayment of obligations under finance leases	23	31	35
Net non-cash funds of subsidiary undertakings acquired	–	(6)	(3)
Exchange adjustments	(193)	(34)	385
Other non-cash movements	(23)	(16)	(6)
Movement in net debt	(1,732)	1,392	(5,034)
Net debt at end of year	(14,377)	(12,645)	(14,037)

	At 1 January 2014 £m	Exchange £m	Other £m	Reclass- ifications £m	Cash flow £m	At 31 December 2014 £m
Analysis of changes in net debt						
Liquid investments	66	4	–	–	(1)	69
Cash and cash equivalents	5,534	78	–	–	(1,274)	4,338
Overdrafts	(303)	6	–	–	(13)	(310)
	5,231	84	–	–	(1,287)	4,028
Debt due within one year:						
Commercial paper	(1,491)	–	–	–	835	(656)
European and US Medium Term Notes	(919)	55	16	(1,931)	899	(1,880)
Other	(76)	–	(1)	(18)	(2)	(97)
	(2,486)	55	15	(1,949)	1,732	(2,633)
Debt due after one year:						
European and US Medium Term Notes	(15,403)	(334)	(18)	1,931	(1,960)	(15,784)
Other	(53)	(2)	(20)	18	–	(57)
	(15,456)	(336)	(38)	1,949	(1,960)	(15,841)
Net debt	(12,645)	(193)	(23)	–	(1,516)	(14,377)

For further information on significant changes in net debt see Note 32, 'Net debt'.



## 38 Acquisitions and disposals

Details of the acquisition and disposal of significant subsidiaries and associates, joint ventures and other businesses are given below:

### 2014 Acquisitions

There were no acquisitions in 2014.

Acquisition and integration costs of £141 million arising on the proposed three-part inter-conditional transaction with Novartis AG discussed in Note 43 'Proposed Novartis transaction' were expensed in 2014, of which £104 million has been paid in cash.

A number of acquisitions made in previous years include contingent consideration payable in the future, as follows:

	2014 £m	2013 £m
<b>Contingent consideration payable</b>		
At 1 January	924	697
Additions	–	1
Remeasurement through goodwill	(4)	(18)
Remeasurement through income statement	770	251
Settlement	34	(7)
At 31 December	1,724	924

Contingent consideration is included within Trade and other payables and Other non-current liabilities. It includes contingent consideration of £1,684 million (2013 – £923 million) payable for the acquisition in 2012 of the former Shionogi-ViiV Healthcare joint venture. Remeasurements through the income statement include £768 million (2013 – £253 million) in respect of an increase in this liability. The consideration is expected to be paid over a number of years and will vary in line with sales of dolutegravir.

### Disposals

During the year, £225 million was received as deferred consideration from the sale of the anti-coagulant business completed in 2013 and £1 million from the disposal of an associate.

GSK also made cash investments of £9 million into associates.

### Cash flows

	Business acquisitions and disposals £m	Associates and joint ventures £m	Total £m
Cash consideration paid	–	9	9
Transaction costs paid	104	–	104
Purchases of businesses and associates	104	9	113
Net cash proceeds from disposals	225	1	226

### 2013 Acquisitions

During 2013, GSK completed the acquisition of three businesses for cash, including Okairos AG, a European based biopharmaceutical company focused on the development of a specific vaccine technology in the prophylactic and therapeutic fields, which was acquired in May. The total purchase price for these businesses of £255 million included £7 million of cash acquired and £1 million of contingent consideration.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangibles	–	198	198
Property, plant and equipment	20	3	23
Inventory	6	–	6
Trade and other receivables	16	–	16
Other assets including cash and cash equivalents	8	–	8
Deferred tax provision	–	(23)	(23)
Trade and other payables	(26)	–	(26)
	24	178	202
Goodwill	–	53	53
	24	231	255
Cash consideration paid			254
Contingent consideration			1
Total consideration			255



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### 38 Acquisitions and disposals *continued*

If the acquisitions had been made at the beginning of the year, it is estimated that Group turnover would have increased by approximately £50 million for the year. Okairos has been fully integrated into the GSK business and it is not practicable to separately identify the impact on the Group profit for the year. The other acquisitions occurred shortly before the end of the year and had no material impact on the Group profit for the year.

The goodwill arising on the acquisitions reflects potential for business synergies and the value of workforce acquired. The majority of this goodwill is not expected to be deductible for income tax purposes.

The results of the acquisitions are reported within the US, Europe, Emerging Markets, Japan, Other trading and unallocated Pharmaceuticals and Vaccines and Consumer Healthcare operating segments. The transactions were accounted for using the acquisition accounting method.

Acquisition costs expensed in 2013 totalled £2 million.

#### Disposals

##### Lucozade and Ribena

On 31 December 2013, GSK completed the sale of the Lucozade and Ribena business including a manufacturing site and related inventory to Suntory Beverage and Food Ltd for £1,352 million in cash and recognised a profit on disposal in Other operating income of £1,057 million. Lucozade and Ribena sales, excluding retained markets, totalled £527 million for the year ending 31 December 2013.

	£m
Cash consideration	1,352
Net assets sold	
Inventory	(45)
Property, plant and equipment	(149)
Goodwill	(24)
	(218)
Disposal costs	(77)
Profit on disposal	1,057

##### Anti-coagulant business

On 31 December 2013, GSK completed the sale of the anti-coagulant business comprising of worldwide intellectual property rights (excluding China, India and Pakistan) of Fraxiparine and Arixtra together with related inventory and a manufacturing site to the Aspen Group for consideration of £732 million, of which £499 million was received in cash and £233 million was deferred.

Profit on disposal of £274 million was recognised in Other operating income. Worldwide sales of Fraxiparine and Arixtra, excluding retained markets, were £345 million for the year ending 31 December 2013.

	£m
Cash consideration	499
Cash consideration receivable	233
	732
Net assets sold	
Inventory	(138)
Property, plant and equipment	(91)
Intangible assets	(80)
Goodwill	(31)
	(340)
Disposal costs	(79)
Total profit on disposal	313
Deferral of profit	(39)
Profit recognised in year	274

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## 38 Acquisitions and disposals continued

### Investments in associates and joint ventures

In November 2013, GSK sold one third of its shareholding in Aspen, representing 6.2% of the issued share capital of the company, for £429 million in cash. At 31 December 2013, GSK held 12.4% of Aspen and continued to recognise its investment in Aspen as an associate.

	£m
Cash consideration	429
Net book value of shares	(132)
Reclassification of exchange from other comprehensive income	(42)
Reclassification of fair value movements from other comprehensive income	19
Profit on disposal	274

	Business acquisitions and disposals £m	Associates and joint ventures £m	Total £m
<b>Cash flows</b>			
Cash consideration paid	254	8	262
Cash and cash equivalents acquired	(7)	–	(7)
Cash consideration paid, net of cash acquired	247	8	255
Total cash consideration payable, net of cash acquired	248	8	256
Contingent consideration	(1)	–	(1)
Cash consideration paid, net of cash acquired	247	8	255
Total cash proceeds receivable	2,084	429	2,513
Cash proceeds deferred	(233)	–	(233)
Net cash proceeds from disposals	1,851	429	2,280

## 2012

### Acquisitions

#### Human Genome Sciences, Inc.

On 3 August 2012, GSK completed the acquisition of 100% of the issued share capital of Human Genome Sciences, Inc. (HGS), a US based biopharmaceutical company focused on the development of protein and anti-body drugs for the treatment of immuno-inflammation diseases, for cash. The goodwill arising on the acquisition of this business reflected the potential business synergies and realisation of the full value of *Benlysta*, *albiglutide*, *darapladib* and other assets by simplifying and optimising R&D, commercial and manufacturing operations through complete ownership of the assets. The goodwill recognised is not expected to be deductible for income tax purposes.

The results of the acquired business are reported as part of the US, Europe, Emerging Markets, Japan and Other trading and unallocated costs operating segments. The transaction was accounted for using the acquisition accounting method.

The pro-forma turnover for the HGS business for the full year 2012 was £154 million. During 2012, GSK recorded turnover of £69 million from HGS products. As the HGS products had been fully integrated into the GSK business, it was not practicable to separately identify the impact of the acquisition on the Group profit for the year.



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### 38 Acquisitions and disposals continued

Acquisition costs expensed in 2012 arising on this acquisition amounted to £28 million.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	–	1,249	1,249
Property, plant and equipment	21	10	31
Trade and other receivables	33	–	33
Other assets including cash and cash equivalents	431	83	514
Deferred tax asset	–	156	156
Trade and other liabilities	(86)	(173)	(259)
	399	1,325	1,724
Goodwill	–	791	791
	399	2,116	2,515
Cash consideration paid			2,282
Gain on settlement of pre-existing collaborations			233
Total consideration			2,515

Governance &amp; remuneration

#### Shionogi-ViiV Healthcare joint venture

On 29 October 2012, GSK acquired the 50% share of the Shionogi-ViiV Healthcare joint venture previously held by Shionogi & Co, Ltd. The assets acquired included the investigational medicine dolutegravir and early stage integrase inhibitor compounds in development.

Total consideration comprised a 10% equity stake in ViiV Healthcare, GSK's existing 50% investment in the joint venture and contingent consideration payable in cash in the future, together with a deferred tax asset and a loss on settlement of pre-existing relationships. The contingent consideration is payable based on a percentage of the future sales performance of compounds developed by the joint venture, if they become marketed products, and so the total amount payable is unlimited.

The results of the acquired business are reported as part of ViiV Healthcare. The transaction was accounted for using the acquisition accounting method.

Acquisition costs expensed in 2012 arising on this acquisition amounted to £2 million.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	–	1,777	1,777
Deferred tax provision	–	(628)	(628)
	–	1,149	1,149
Negative goodwill	–	(124)	(124)
	–	1,025	1,025
Consideration settled by shares in ViiV Healthcare			377
Contingent consideration			659
Deferred tax on contingent consideration			(236)
Fair value of investment in joint venture converted into subsidiary			256
Loss on settlement of pre-existing relationships			(31)
Total consideration			1,025

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## 38 Acquisitions and disposals continued

### Other acquisitions

During 2012, GSK completed two smaller acquisitions for cash. The total cash consideration paid of £206 million included £2 million of cash acquired.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	–	232	232
Property, plant and equipment	2	–	2
Trade and other receivables	2	–	2
Other assets including cash and cash equivalents	2	–	2
Deferred tax provision	–	(14)	(14)
Trade and other liabilities	(8)	4	(4)
	(2)	222	220
Goodwill	–	82	82
	(2)	304	302
Cash consideration paid			206
Contingent consideration			37
Fair value of equity investment converted into subsidiary			23
Gain on settlement of pre-existing relationships			36
Total consideration			302

If the other acquisitions had been made at the beginning of the year, it is estimated that Group turnover would have increased by £27 million for the year. As some of the acquisitions had been fully integrated into the GSK business it was not practicable to separately identify the impact of the acquisitions on the Group profit for the year.

The goodwill arising on the acquisitions reflects the potential for business synergies and further sales growth through the increase in GSK's market presence following the acquisitions of these market participants. None of the goodwill recognised is expected to be deductible for income tax purposes.

The results of the acquisitions are reported as part of the Europe Pharma and Research & Development reportable operating segments.

The Group recognised a settlement gain of £36 million as a result of measuring at fair value relationships that had existed prior to the acquisition date. The gain was recognised in Other operating income on the income statement.

Acquisition costs expensed in 2012 arising on other acquisitions totalled £9 million.

### Investments in associates and joint ventures

GSK made cash contributions of £39 million into the Shionogi-ViiV Healthcare joint venture prior to its acquisition as a subsidiary and made cash investments of £19 million into a new joint venture in which the Group held a share of 50%. GSK also made cash investments of £41 million into associates.

	Human Genome Sciences £m	Shionogi- ViiV joint venture £m	Other acquisitions £m	Total business acquisitions £m	Associates and joint ventures £m	Total £m
Cash consideration paid	2,282	–	206	2,488	99	2,587
Cash and cash equivalents acquired	(251)	–	(2)	(253)	–	(253)
Cash consideration paid, net of cash acquired	2,031	–	204	2,235	99	2,334
Total cash consideration payable, net of cash acquired	2,031	659	241	2,931	99	3,030
Contingent consideration	–	(659)	(37)	(696)	–	(696)
Cash consideration paid, net of cash acquired	2,031	–	204	2,235	99	2,334



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### 39 Non-controlling interests

The Group has one subgroup that has material non-controlling interests, ViiV Healthcare Limited and its subsidiaries. The ViiV Healthcare group is focused on the research, development and worldwide commercialisation of HIV medicines. Summarised financial information in respect of the ViiV Healthcare group is set out below:

	2014 £m	2013 £m	2012 £m
Turnover	1,466	1,371	1,337
(Loss)/profit after taxation	(606)	190	492
Other comprehensive income/(expense)	8	(9)	(12)
Total comprehensive (expense)/income	(598)	181	480
Total comprehensive (expense)/income for the year attributable to non-controlling interests	(16)	76	(4)
Dividends paid to non-controlling interests	120	106	51

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	2014 £m	2013 £m
Non-current assets	2,245	2,273
Current assets	1,308	997
Total assets	3,553	3,270
Current liabilities	(815)	(463)
Non-current liabilities	(3,253)	(2,253)
Total liabilities	(4,068)	(2,716)
Net assets	(515)	554
Non-controlling interests attributable to the subgroup	374	530

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	2014 £m	2013 £m	2012 £m
Net cash inflow from operating activities	765	637	620
Net cash outflow from investing activities	(25)	(27)	(31)
Net cash outflow from financing activities	(540)	(662)	(350)
Increase/(decrease) in cash and bank overdrafts in the year	200	(52)	239

The above financial information relates to the ViiV Healthcare group on a stand-alone basis, before the impact of Group-related adjustments. The loss after taxation of £606 million (2013 – profit after taxation of £190 million) is stated after a charge of £768 million (2013 – £253 million) for remeasurement of the contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture. This consideration is expected to be paid over a number of years and will vary in line with sales of products that contain dolutegravir.

#### Acquisitions of non-controlling interests

On 20 March 2014, GSK increased its shareholding in GlaxoSmithKline Pharmaceuticals Limited, its pharmaceuticals subsidiary in India, from 50.7% to 75% (representing an increase in shares held of 20,609,774 at a price of INR 3,100 per share) for £625 million. The carrying amount of non-controlling interests acquired was £61 million. On 5 February 2013, GSK increased its shareholding in GlaxoSmithKline Consumer Healthcare Ltd (India) from 43.2% to 72.5% for £588 million.

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## 40 Commitments

<b>Contractual obligations and commitments</b>	<b>2014 £m</b>	<b>2013 £m</b>
Contracted for but not provided in the financial statements:		
Intangible assets	<b>7,079</b>	7,056
Property, plant and equipment	<b>359</b>	443
Investments	<b>100</b>	111
Purchase commitments	<b>428</b>	614
Pensions	<b>425</b>	510
Other commitments	<b>186</b>	233
Interest on loans	<b>9,744</b>	10,063
Finance lease charges	<b>6</b>	7
	<b>18,327</b>	19,037

The commitments related to intangible assets include milestone payments, which are dependent on successful clinical development or on meeting specified sales targets, and which represent the maximum that would be paid if all milestones, however unlikely, are achieved. The amounts are not risk-adjusted or discounted. A number of commitments were made in 2014 under licensing and other agreements, including an arrangement with Adaptimmune Ltd. These new arrangements were offset by reduced commitments due on prior year transactions including amendments to the agreement with Prosensa N.V.

In 2013, GSK reached an agreement with the trustees of the UK pension schemes to make additional contributions to eliminate the pension deficit identified at the 31 December 2011 actuarial funding valuation. A payment of £85 million is due in 2015. Future payments will be based on the deficit position of the scheme, up to a maximum of £340 million. The table above includes this commitment, but excludes the normal ongoing annual funding requirement in the UK of approximately £100 million.

The Group also has other commitments which principally relate to revenue payments to be made under licences and other alliances.

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

Commitments under non-cancellable operating leases are disclosed below. £310 million (2013 – £322 million) is provided against these commitments on the Group's balance sheet.

<b>Commitments under non-cancellable operating leases</b>	<b>2014 £m</b>	<b>2013 £m</b>
Rental payments due within one year	<b>138</b>	134
Rental payments due between one and two years	<b>91</b>	97
Rental payments due between two and three years	<b>73</b>	73
Rental payments due between three and four years	<b>54</b>	58
Rental payments due between four and five years	<b>48</b>	52
Rental payments due after five years	<b>297</b>	363
Total commitments under non-cancellable operating leases	<b>701</b>	777

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# Notes to the financial statements

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### 41 Financial instruments and related disclosures

GSK reports in Sterling and pays dividends out of Sterling profits. The role of Corporate Treasury is to monitor and manage the external and internal funding requirements and financial risks in support of the strategic objectives. GSK operates on a global basis, primarily through subsidiary companies and manages its capital to ensure that 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 the Chief Financial Officer, takes place on a monthly basis to review treasury activities. Its members receive management information relating to these activities. Internal audit reviews the Treasury internal control environment regularly.

GSK uses a variety of financial instruments to finance its operations and derivative financial instruments to manage market risks from these operations. These derivatives, principally comprising forward foreign currency contracts, foreign exchange 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.

GSK does not hold or issue derivatives for speculative purposes and the 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.

#### Capital management

GSK's financial strategy supports the Group's strategic priorities and is regularly reviewed by the Board. GSK manages the capital structure of the Group through an appropriate mix of debt and equity. GSK's financial architecture is designed to ensure we are maximising the returns from our sales. There are four key priorities: sustainable sales growth, operating leverage, financial efficiency and converting more of our earnings into cash. The free cash flow generated can then be returned to shareholders or reinvested in the business, wherever the returns look most attractive.

GSK's capital allocation decisions are rigorously benchmarked using a Cash Flow Return on Investment framework.

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 the Group's Indian pharmaceutical subsidiary from 50.7% to 75% and for the acquisition of the remaining 30% of GSK's Indonesian Consumer Healthcare business held by a third party, GSK's net debt increased from £12.6 billion at 31 December 2013 to £14.4 billion at 31 December 2014.

The capital structure of the Group consists of net debt of £14.4 billion (see Note 32, 'Net debt') and shareholders' equity of £4.3 billion (see 'Consolidated statement of changes in equity' on page 138). Total capital, including that provided by non-controlling interests, is £19.3 billion.

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

#### Liquidity risk

GSK's 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. The strategy is to diversify liquidity sources using a range of facilities and to maintain broad access to funding markets.

At 31 December 2014, GSK had £2.9 billion of borrowings repayable within one year and held £4.4 billion of cash and cash equivalents and liquid investments of which £2.0 billion was held centrally. GSK also has access to short-term finance under a \$10 billion (£6.4 billion) US commercial paper programme and \$1.0 billion (£0.7 billion) was in issue under this programme at 31 December 2014. GSK has £1.9 billion five year committed medium-term facilities and \$2.5 billion (£1.6 billion) of 364 day committed facilities. These facilities were put in place in September 2012 and September 2014 respectively and were undrawn at 31 December 2014. GSK considers this level of committed facilities to be adequate given current liquidity requirements.

GSK has a £15 billion European Medium Term Note programme and at 31 December 2014, £8.9 billion of notes were in issue under this programme. The Group also has a US shelf registration statement and at 31 December 2014, had \$14.0 billion (£9.0 billion) of notes in issue under this programme. GSK's long-term borrowings mature at dates between 2016 and 2045.

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

#### Market risk

##### Interest rate risk management

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

GSK used interest rate swaps to redenominate one of its 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. The Group's objective is to minimise the exposure of overseas operating subsidiaries to transaction risk by matching local currency income with local currency costs where possible. GSK's internal trading transactions are matched centrally and inter-company payment terms are managed to reduce foreign currency risk. Foreign currency cash flows can be hedged selectively under the management of Treasury and the TMG. These include hedges of the foreign exchange risk arising from acquisitions and disposals of assets.



## 41 Financial instruments and related disclosures continued

Where possible, GSK manages 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, the Group seeks to denominate borrowings in the currencies of the 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 Group overseas assets may be treated as a hedge against the relevant assets. Forward contracts in major currencies are also used to reduce exposure to the Group's investment in overseas assets (see 'Net investment hedges' section of this note for further details). The TMG reviews the ratio of borrowings to assets for major currencies monthly.

### Credit risk

The Group considers its maximum credit risk at 31 December 2014 to be £9,054 million (31 December 2013 – £10,922 million) which is the total of the Group's financial assets with the exception of 'Other investments' (comprising equity investments) which bear equity risk rather than credit risk. See page 193 for details on the Group's total financial assets. At 31 December 2014, GSK's greatest concentration of credit risk was £0.9 billion (2013 – £2.6 billion) with HSBC (Aa3/AA-).

### Treasury-related credit risk

GSK sets global counterparty limits for each of GSK's 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.

GSK actively manages its exposure to credit risk, reducing surplus cash balances wherever possible. This is part of the Treasury strategy to regionalise cash management and to concentrate cash centrally as much as possible. GSK has continued to maintain its conservative approach to counterparty risk throughout the period. The table below sets out the credit exposure to counterparties by rating for liquid investments, cash and cash equivalents and derivatives. The gross asset position on each derivative contract is considered for the purpose of this table, although, under ISDA agreements, the amount at risk is the net position with each counterparty. Table (e) on page 197 sets out the Group's financial assets and liabilities on an offset basis.

The £1.5 billion of bank balances and deposits invested in Aa3/ AA- rated counterparties at 31 December 2014 is significantly lower than the equivalent at 31 December 2013 as a result of the disposal proceeds received at the end of December 2013. Compared to last year, there is a significantly higher amount of bank balances and deposits held with A3/A- rated counterparties as a result of GSK's increased bank balances and deposits held with Deutsche Bank (as a result of introducing more countries into the European cash pool), which was downgraded to A3/A- during 2014.

The £116 million of cash held with Baa3/BBB- rated counterparties includes bank balances or deposits with HDFC Bank, State Bank of India, Halk Bank and Emirates Bank. These counterparties are used either for local cash management purposes or for local investment purposes where GSK is not the sole shareholder.

The £1 million held with a Ba1/BB+ rated counterparty relates to Islandsbanki, which is used for cash management purposes in Iceland, and the £3 million of cash held with a Ba2/BB rated counterparty relates to GSK's bank balances and deposits held with Banque Marocaine du Commerce Extérieur.

2014	Aa1/AA+ £m	Aa3/AA- £m	A1/A+ £m	A2/A £m	A3/A- £m	Baa1/BBB+ £m	Baa3/BBB- £m	Ba1/BB+ £m	Ba2/BB £m	Unrated	Total £m
Bank balances and deposits	–	1,514	606	848	438	1	116	1	3	–	<b>3,527</b>
US Treasury and Treasury repo only money market funds	811	–	–	–	–	–	–	–	–	–	<b>811</b>
Government securities	69	–	–	–	–	–	–	–	–	–	<b>69</b>
3rd party financial derivatives	–	45	44	19	26	4	–	–	–	–	<b>138</b>
<b>Total</b>	<b>880</b>	<b>1,559</b>	<b>650</b>	<b>867</b>	<b>464</b>	<b>5</b>	<b>116</b>	<b>1</b>	<b>3</b>	<b>–</b>	<b>4,545</b>

2013	Aa1/AA+ £m	Aa3/AA- £m	A1/A+ £m	A2/A £m	A3/A- £m	Baa1/BBB+ £m	Baa3/BBB- £m	Ba1/BB+ £m	Ba2/BB £m	Unrated	Total £m
Bank balances and deposits	–	2,823	637	967	48	8	157	–	–	1	4,641
US Treasury and Treasury repo only money market funds	893	–	–	–	–	–	–	–	–	–	893
Corporate debt instruments	–	1	–	–	–	–	–	–	–	–	1
Government securities	64	–	–	–	–	–	–	–	1	–	65
3rd party financial derivatives	–	66	11	54	17	–	–	–	–	–	148
<b>Total</b>	<b>957</b>	<b>2,890</b>	<b>648</b>	<b>1,021</b>	<b>65</b>	<b>8</b>	<b>157</b>	<b>–</b>	<b>1</b>	<b>1</b>	<b>5,748</b>

The credit ratings in the above tables are as assigned by Moody's and Standard and Poor's respectively. Where the opinion of the two rating agencies differ, GSK assigns the lower rating of the two to the counterparty. Where local rating agency data is the only source available, the ratings are converted to global ratings equivalent to those of Moody's or Standard and Poor's using published conversion tables.



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### 41 Financial instruments and related disclosures *continued*

GSK's centrally managed cash reserves amounted to £2.0 billion at 31 December 2014, all available within 3 months. This excludes £0.8 billion centrally managed cash held by ViiV Healthcare, a 78.3% owned subsidiary. The Group has invested centrally managed liquid assets in bank deposits and Aaa/AAA rated US Treasury and Treasury repo only money market funds (which bear credit exposure to the US Government (Aaa/AA+ rated)).

#### Wholesale and retail credit risk

Outside the USA, no customer accounts for more than 5% of the Group's trade receivables balance.

In the USA, in line with other pharmaceutical companies, the Group sells its products through a small number of wholesalers in addition to hospitals, pharmacies, physicians and other groups. Sales to the three largest wholesalers amount to approximately 83% of the turnover of the US Pharmaceuticals and Vaccines segment and the US elements of the ViiV Healthcare and Established Products segments. At 31 December 2014, the Group had trade receivables due from these three wholesalers totalling £908 million (2013 – £835 million). The Group is exposed to a concentration of credit risk in respect of these wholesalers such that, if one or more of them encounters financial difficulty, it could materially and adversely affect the Group's financial results.

The Group's credit risk monitoring activities relating to these wholesalers include a review of their quarterly financial information and Standard & Poor's credit ratings, development of GSK internal risk ratings, and establishment and periodic review of credit limits. However, the Group believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful debts (see Note 24, 'Trade and other receivables').

#### Fair value of financial assets and liabilities

The table on page 193 presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 31 December 2014 and 31 December 2013.

The fair values of the financial assets and liabilities are included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount
- Liquid investments – based on quoted market prices or calculated based on observable inputs in the case of marketable securities; based on principal amounts in the case of non-marketable securities because of their short repricing periods
- Other investments – equity investments traded in an active market determined by reference to the relevant stock exchange quoted bid price; other equity investments determined by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets
- Short-term loans, overdrafts and commercial paper – approximates to the carrying amount because of the short maturity of these instruments
- Long-term loans – based on quoted market prices in the case of European and US Medium term notes and other fixed rate borrowings (a level 1 fair value measurement); approximates to the carrying amount in the case of floating rate bank loans and other loans
- Contingent consideration for business acquisitions after 1 January 2010 – based on present values of expected future cash flows
- Interest rate swaps, foreign exchange forward contracts and options – based on the present value of contractual cash flows or option valuation models using market sourced data (exchange rates or interest rates) at the balance sheet date
- Receivables and payables – approximates to the carrying amount
- Company-owned life insurance policies – based on cash surrender value
- Lease obligations – approximates to the carrying amount.

#### Fair value of investments in GSK shares

At 31 December 2014, the Employee Share Ownership Plan (ESOP) Trusts held GSK shares with a carrying value of £151 million (2013 – £355 million) and a fair value of £726 million (2013 – £1,025 million) based on quoted market price. The shares represent purchases by the ESOP Trusts to satisfy future exercises of options and awards under employee incentive schemes. In 2014, Treasury shares with a fair value of £150 million were transferred into the UK ESOP Trust to satisfy future awards under the shareholder approved Performance Share Plan (see Note 42, 'Employee share schemes'). The carrying value, which is the lower of cost or expected proceeds, of these shares has been recognised as a deduction from other reserves. At 31 December 2014, GSK held Treasury shares at a cost of £6,917 million (2013 – £6,829 million) which has been deducted from retained earnings.



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**41 Financial instruments and related disclosures** continued

	Notes	2014		2013	
		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	e	4,338	4,338	5,534	5,534
Available-for-sale investments:					
Liquid investments:					
– Government bonds		69	69	65	65
– other		–	–	1	1
Total liquid investments	a	69	69	66	66
Other investments	a	1,114	1,114	1,202	1,202
Loans and receivables:					
Trade and other receivables and certain Other non-current assets in scope of IAS 39	b	4,232	4,232	4,932	4,932
Financial assets at fair value through profit or loss:					
Other non-current assets in scope of IAS 39	a,b	269	269	234	234
Derivatives designated as at fair value through profit or loss	a,d,e	76	76	76	76
Derivatives classified as held for trading under IAS 39	a,d,e	70	70	80	80
<b>Total financial assets</b>		<b>10,168</b>	<b>10,168</b>	12,124	12,124
Financial liabilities measured at amortised cost:					
Borrowings excluding obligations under finance leases:					
– bonds in a designated hedging relationship	d	(4,124)	(4,349)	(3,288)	(3,531)
– other bonds		(13,540)	(15,706)	(13,034)	(14,163)
– bank loans and overdrafts	e	(379)	(379)	(352)	(352)
– commercial paper		(656)	(656)	(1,491)	(1,491)
Total borrowings excluding obligations under finance leases	f	(18,699)	(21,090)	(18,165)	(19,537)
Obligations under finance leases		(85)	(85)	(80)	(80)
Total borrowings		(18,784)	(21,175)	(18,245)	(19,617)
Trade and other payables, Other provisions and certain Other non-current liabilities in scope of IAS 39	c	(7,566)	(7,566)	(7,989)	(7,989)
Financial liabilities at fair value through profit or loss:					
Trade and other payables, Other provisions and certain Other non-current liabilities in scope of IAS 39	a,c	(1,724)	(1,724)	(961)	(961)
Derivatives designated as at fair value through profit or loss	a,d,e	(3)	(3)	(5)	(5)
Derivatives classified as held for trading under IAS 39	a,d,e	(410)	(410)	(125)	(125)
<b>Total financial liabilities</b>		<b>(28,487)</b>	<b>(30,878)</b>	(27,325)	(28,697)
<b>Net financial assets and financial liabilities</b>		<b>(18,319)</b>	<b>(20,710)</b>	(15,201)	(16,573)

The valuation methodology used to measure fair value in the above table is described and categorised on page 192. Trade and other receivables, Other non-current assets, Trade and other payables, Other provisions and Other non-current liabilities are reconciled to the relevant Notes on page 195.

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### 41 Financial instruments and related disclosures continued

#### (a) Financial instruments held at fair value

The following tables categorise the Group's financial assets and liabilities held at fair value by the valuation methodology applied in determining their fair value. Where possible, quoted prices in active markets are used (Level 1). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data. If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3. Other investments classified as Level 3 in the tables below comprise equity investments in unlisted entities with which the Group has entered into research collaborations and also investments in emerging life science companies. Trade and other payables and Other non-current liabilities classified as level 3 comprise contingent consideration for business acquisitions.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>At 31 December 2014</b>				
<b>Financial assets at fair value</b>				
Available-for-sale financial assets:				
Liquid investments	67	2	–	69
Other investments	892	–	222	1,114
Financial assets at fair value through profit or loss:				
Other non-current assets	–	264	5	269
Derivatives designated as at fair value through profit or loss	–	76	–	76
Derivatives classified as held for trading under IAS 39	–	69	1	70
	959	411	228	1,598

#### Financial liabilities at fair value

Financial liabilities at fair value through profit or loss:				
Trade and other payables	–	–	(105)	(105)
Other non-current liabilities	–	–	(1,619)	(1,619)
Derivatives designated as at fair value through profit or loss	–	(3)	–	(3)
Derivatives classified as held for trading under IAS 39	–	(402)	(8)	(410)
	–	(405)	(1,732)	(2,137)

#### At 31 December 2013

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets at fair value</b>				
Available-for-sale financial assets:				
Liquid investments	65	1	–	66
Other investments	1,000	–	202	1,202
Financial assets at fair value through profit or loss:				
Other non-current assets	–	232	2	234
Derivatives designated as at fair value through profit or loss	–	76	–	76
Derivatives classified as held for trading under IAS 39	–	79	1	80
	1,065	388	205	1,658

#### Financial liabilities at fair value

Financial liabilities at fair value through profit or loss:				
Trade and other payables	–	–	(3)	(3)
Other non-current liabilities	–	–	(958)	(958)
Derivatives designated as at fair value through profit or loss	–	(5)	–	(5)
Derivatives classified as held for trading under IAS 39	–	(124)	(1)	(125)
	–	(129)	(962)	(1,091)

Movements in the year for financial instruments measured using Level 3 valuation methods are presented below:

	2014 £m	2013 £m
At 1 January	(757)	(512)
Net losses recognised in the income statement	(775)	(262)
Net gains recognised in other comprehensive income	155	2
Contingent consideration liabilities for businesses acquired during the year	–	(1)
Payment of contingent consideration liabilities	7	–
Additions	55	45
Disposals	(153)	(10)
Transfers from Level 3	(47)	(17)
Exchange	11	(2)
At 31 December	(1,504)	(757)

Net losses of £775 million (2013 – £251 million) attributable to Level 3 financial instruments held at the end of the year were reported in Other operating income, of which £768 million (2013 – £253 million) arose from remeasurement of the contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture. Net gains of £nil (2013 – £1 million) were reported in Selling, general and administration. Net gains attributable to Level 3 equity investments reported in Other comprehensive income as Fair value movements on available-for-sale investments included £32 million (2013 – £nil) in respect of equity investments held at the end of the year.



## 41 Financial instruments and related disclosures continued

The net liability position of £1,504 million (2013 – £757 million) in respect of financial instruments measured using Level 3 valuation methods at 31 December includes £1,684 million (2013 – £923 million) in respect of contingent consideration payable for the acquisition in 2012 of the former Shionogi-ViiV Healthcare joint venture. This consideration is expected to be paid over a number of years and will vary in line with sales of products that contain dolutegravir. Regulatory approval for this product was obtained in the USA and Canada during 2013 and in the European Union in 2014. The table below shows on an indicative basis the income statement and balance sheet sensitivity to reasonably possible changes in key inputs to the valuation of this liability.

Increase/(decrease) in financial liability and loss/(gain) in Income statement from change in key inputs	2014 £m
10% increase in sales forecasts	186
10% decrease in sales forecasts	(187)
1% increase in market interest rates	(82)
1% decrease in market interest rates	88

### (b) Trade and other receivables and Other non-current assets in scope of IAS 39

The following table reconciles financial instruments within Trade and other receivables and Other non-current assets which fall within the scope of IAS 39 to the relevant balance sheet amounts. The financial assets are predominantly non-interest earning. Financial instruments within the Other non-current assets balance include company-owned life insurance policies. Non-financial instruments includes tax receivables, pension surplus balances and prepayments, which are outside the scope of IAS 39.

	2014					2013				
	At fair value through profit or loss £m	Loans and receivables £m	Financial instruments £m	Non-financial instruments £m	Total £m	At fair value through profit or loss £m	Loans and receivables £m	Financial instruments £m	Non-financial instruments £m	Total £m
Trade and other receivables (Note 24)	–	3,921	3,921	679	4,600	–	4,664	4,664	778	5,442
Other non-current assets (Note 22)	269	311	580	155	735	234	268	502	387	889
	269	4,232	4,501	834	5,335	234	4,932	5,166	1,165	6,331

The following table shows the age of such financial assets which are past due and for which no provision for bad or doubtful debts has been made:

	2014 £m	2013 £m
Past due by 1–30 days	116	142
Past due by 31–90 days	130	152
Past due by 91–180 days	110	89
Past due by 181–365 days	67	64
Past due by more than 365 days	41	79
	464	526

Amounts past due by greater than 90 days and for which no provision for bad or doubtful debts has been made total £218 million (2013 – £232 million). Of this balance, £45 million (2013 – £133 million) relates to receivables due from state hospital authorities in Greece, Ireland, Italy, Portugal and Spain. The total receivables due from state hospital authorities in these countries (current and past due, net of provisions) is £134 million (2013 – £262 million).

### (c) Trade and other payables, Other provisions and Other non-current liabilities in scope of IAS 39

The following table reconciles financial instruments within Trade and other payables, Other provisions and Other non-current liabilities which fall within the scope of IAS 39 to the relevant balance sheet amounts. The financial liabilities are predominantly non-interest bearing. Accrued wages and salaries are included within financial liabilities. Non-financial instruments includes payments on account, tax and social security payables and provisions which do not arise from contractual obligations to deliver cash or another financial asset, which are outside the scope of IAS 39.

	2014					2013				
	At fair value through profit or loss £m	Other liabilities £m	Financial instruments £m	Non-financial instruments £m	Total £m	At fair value through profit or loss £m	Other liabilities £m	Financial instruments £m	Non-financial instruments £m	Total £m
Trade and other payables (Note 27)	(105)	(7,345)	(7,450)	(508)	(7,958)	(3)	(7,798)	(7,801)	(516)	(8,317)
Other provisions (Note 29)	–	(158)	(158)	(1,432)	(1,590)	–	(148)	(148)	(1,396)	(1,544)
Other non-current liabilities (Note 30)	(1,619)	(63)	(1,682)	(719)	(2,401)	(958)	(43)	(1,001)	(703)	(1,704)
	(1,724)	(7,566)	(9,290)	(2,659)	(11,949)	(961)	(7,989)	(8,950)	(2,615)	(11,565)



# Notes to the financial statements

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### 41 Financial instruments and related disclosures continued

#### (d) Derivative financial instruments and hedging programmes

The following table sets out the fair values of derivatives held by GSK.

	2014 Fair value		2013 Fair value	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges – Interest rate swaps (principal amount – £nil (2013 – £904 million))	–	–	18	–
Net investment hedges – Foreign exchange contracts (principal amount – £5,365 million (2013 – £7,221 million))	74	(1)	58	(1)
Cash flow hedges – Foreign exchange contracts (principal amount – £133 million (2013 – £92 million))	2	(2)	–	(4)
Derivatives designated as at fair value through profit or loss	76	(3)	76	(5)
Foreign exchange contracts (principal amount – £15,851 million (2013 – £11,651 million))	68	(399)	74	(120)
Embedded and other derivatives	2	(11)	6	(5)
Derivatives classified as held for trading under IAS 39	70	(410)	80	(125)
Total derivative instruments	146	(413)	156	(130)
Analysed as:				
Current	146	(404)	155	(127)
Non-current	–	(9)	1	(3)
Total	146	(413)	156	(130)

#### Foreign exchange contracts classified as held for trading under IAS 39

The principal amount on foreign exchange contracts is the absolute total of outstanding positions at the balance sheet date. The Group's foreign exchange contracts are for periods of 12 months or less. At 31 December 2014, the Group held outstanding foreign exchange contracts with a net liability fair value of £331 million (£68 million asset less £399 million liability). At December 2013, the fair value was £46 million net liability (£74 million asset less £120 million liability).

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 a liability of £264 million and the recognition of an unrealised loss in the year of £299 million. 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.

The rest of the increase in the liability has been due to additional hedging of inter-company loans and deposits, external debt and legal provisions that are not designated as accounting hedges. Fair value movements are taken to the income statement in the period to offset the exchange gains and losses on the related inter-company lending and borrowing, external debt and legal provisions.

#### Fair value hedges

The Group had designated a series of interest rate swaps as a fair value hedge. The risk being hedged was the variability of the fair value of the bond arising from interest rate fluctuations. Gains and losses on fair value hedges are disclosed in Note 12, 'Finance expense'.

Both the bond and the swaps matured in April 2014. In 2013, the carrying value of bonds in that designated fair value hedging relationship was £919 million.

#### Net investment hedges

During the year, certain foreign exchange contracts were designated as net investment hedges in respect of the foreign currency translation risk arising on consolidation of the Group's net investment in its European (Euro) and Japanese (Yen) foreign operations as shown in the table above.

The carrying value of bonds in a designated hedging relationship on page 193 includes £4,124 million (2013 – £2,369 million) that is designated a hedging instrument in a net investment hedge relationship.

#### Cash flow hedges

During 2014, the Group continued entering into forward foreign exchange contracts which it designated as cash flow hedges of its foreign exchange exposure arising on Euro and US dollar denominated coupon payments relating to the Group's European and US medium term notes. This is a continuation of the initial hedging put in place in 2013.

In addition, the Group carries a balance in reserves that arose from pre-hedging fluctuations in long-term interest rates when pricing bonds issued during the year as disclosed in Note 32. Hedging transactions of this nature have been carried out during 2014 and 2013. The balance is reclassified to finance costs over the life of these bonds.



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## 41 Financial instruments and related disclosures continued

### (e) Offsetting of financial assets and liabilities

The following tables set out the financial assets and financial liabilities which are subject to offsetting, enforceable master netting arrangements and similar agreements. Amounts which are set off against financial assets and liabilities in the Group's balance sheet are set out below. For Trade and other receivables, Trade and other payables, Derivative financial assets and Derivative financial liabilities, amounts not offset in the balance sheet but which could be offset under certain circumstances are also set out.

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per balance sheet £m	Related amounts not set off in the balance sheet £m	Net £m
<b>At 31 December 2014</b>					
Trade and other receivables	3,926	(5)	<b>3,921</b>	(22)	3,899
Derivative financial assets	146	–	<b>146</b>	(134)	12
Cash and cash equivalents	4,570	(232)	<b>4,338</b>		
	8,642	(237)	<b>8,405</b>		
Trade and other payables	(7,455)	5	<b>(7,450)</b>	22	(7,428)
Derivative financial liabilities	(413)	–	<b>(413)</b>	134	(279)
Bank loans and overdrafts	(611)	232	<b>(379)</b>		
	(8,479)	237	<b>(8,242)</b>		

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per balance sheet £m	Related amounts not set off in the balance sheet £m	Net £m
<b>At 31 December 2013</b>					
Trade and other receivables	4,698	(34)	4,664	(25)	4,639
Derivative financial assets	156	–	156	(96)	60
Cash and cash equivalents	6,039	(505)	5,534		
	10,893	(539)	10,354		
Trade and other payables	(7,835)	34	(7,801)	25	(7,776)
Derivative financial liabilities	(130)	–	(130)	96	(34)
Bank loans and overdrafts	(857)	505	(352)		
	(8,822)	539	(8,283)		

The gross financial assets and liabilities set off in the balance sheet primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.



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### 41 Financial instruments and related disclosures continued

#### (f) Debt interest rate repricing table

The following table sets out the exposure of the Group to interest rates on debt, including commercial paper, before and after the effect of interest rate swaps. The maturity analysis of fixed rate debt is stated by contractual maturity and of floating rate debt by interest rate repricing dates. For the purpose of this table, debt is defined as all classes of borrowings other than obligations under finance leases.

	2014			2013		
	Debt £m	Effect of interest rate swaps £m	Total £m	Debt £m	Effect of interest rate swaps £m	Total £m
Floating and fixed rate debt less than one year	(2,915)	–	<b>(2,915)</b>	(2,762)	–	(2,762)
Between one and two years	(800)	–	<b>(800)</b>	(1,932)	–	(1,932)
Between two and three years	(2,244)	–	<b>(2,244)</b>	(751)	–	(751)
Between three and four years	(1,760)	–	<b>(1,760)</b>	(2,237)	–	(2,237)
Between four and five years	(1,154)	–	<b>(1,154)</b>	(1,653)	–	(1,653)
Between five and ten years	(2,827)	–	<b>(2,827)</b>	(1,936)	–	(1,936)
Greater than ten years	(6,999)	–	<b>(6,999)</b>	(6,894)	–	(6,894)
<b>Total</b>	<b>(18,699)</b>	<b>–</b>	<b>(18,699)</b>	<b>(18,165)</b>	<b>–</b>	<b>(18,165)</b>
Original issuance profile:						
Fixed rate interest	(17,665)	–	<b>(17,665)</b>	(16,432)	919	(15,513)
Floating rate interest	(1,033)	–	<b>(1,033)</b>	(1,732)	(919)	(2,651)
<b>Total interest bearing</b>	<b>(18,698)</b>	<b>–</b>	<b>(18,698)</b>	<b>(18,164)</b>	<b>–</b>	<b>(18,164)</b>
Non-interest bearing	(1)	–	<b>(1)</b>	(1)	–	(1)
	<b>(18,699)</b>	<b>–</b>	<b>(18,699)</b>	<b>(18,165)</b>	<b>–</b>	<b>(18,165)</b>

The Group no longer holds interest rate swaps, designated as fair value hedges, to convert fixed rate debt into floating. In 2013, £919 million of fixed rate debt with a maturity of less than one year were hedged in this manner.

#### (g) Sensitivity analysis

Foreign exchange and interest rate sensitivity analysis has been prepared on the assumption that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations as at 31 December. Financial instruments affected by market risk include cash and cash equivalents, borrowings, trade receivables and payables and derivative financial instruments.

The following analyses are intended to illustrate the sensitivity of such financial instruments to changes in foreign exchange and interest rates.

#### Foreign exchange sensitivity

The table below shows on an indicative basis only the Group's sensitivity to foreign exchange rates on its US dollar, Euro and Yen financial instruments.

These three currencies are the major foreign currencies in which GSK's financial instruments are denominated. GSK has considered movements in these currencies and has concluded that a 10 cent or 10 yen movement in rates against Sterling is reasonable.

In this analysis, financial instruments are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. Obligations under finance leases, inter-company loans that are fully hedged to maturity and certain non-derivative financial instruments not in net debt are excluded as they do not present a material exposure. Foreign exchange sensitivity on Group assets and liabilities other than financial instruments is not included in the calculation.

For US dollar denominated financial instruments, the movement in the income statement in the table below relates primarily to hedges of foreign exchange risk on acquisitions and disposals. Cash and cash equivalents, inter-company loans and deposits, inter-company trading balances, hedging instruments for legal provisions and trade receivables and payables which are not denominated in the functional currency of the entity that holds them are impacted when the spot rate changes. Whilst the hedging instruments provide economic hedges, the related remeasurement of legal provisions is not included in the calculation.



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	2014	2013
<b>Income statement impact of non-functional currency foreign exchange exposures</b>	<b>Increase/(decrease) in income £m</b>	<b>Increase in income £m</b>
10 cent appreciation of the US dollar (2013: 10 cent)	(263)	40
10 cent appreciation of the Euro (2013: 10 cent)	11	8
10 yen appreciation of the Yen (2013: 10 yen)	-	1

An equivalent depreciation in the above currencies would cause the following increase/(decrease) in income £169 million, £(10) million and £nil million for US dollar, Euro and Yen exchange rates respectively. (For 2013 it was a decrease in income of £35 million, £6 million and £1 million).



## 41 Financial instruments and related disclosures continued

The movements in equity in the table below relate to hedging instruments (foreign exchange derivatives and external debt) designated as a net investment hedge to hedge the Group assets denominated in Euro and Yen and cash flow hedges.

	2014	2013
Equity impact of non-functional currency foreign exchange exposures	Increase/(decrease) in equity £m	(Decrease) in equity £m
10 cent appreciation of the US dollar (2013: 10 cent)	2	–
10 cent appreciation of the Euro (2013: 10 cent)	(762)	(840)
10 yen appreciation of the Yen (2013: 10 yen)	(18)	(21)

An equivalent depreciation in the above currencies would cause the following increase/(decrease) in equity: £(2) million, £652 million and £16 million for US dollar, Euro and Yen exchange rates respectively (2013 – £nil, £711 million and £19 million).

The table below presents the Group's sensitivity to foreign exchange rates based on the composition of net debt as shown in Note 32 adjusting for the effects of foreign exchange derivatives that are not part of net debt but affect future foreign currency cash flows.

	2014	2013
Impact of foreign exchange movements on net debt	(Increase)/decrease in net debt £m	(Increase)/decrease in net debt £m
10 cent appreciation of the US dollar (2013: 10 cent)	(446)	(447)
10 cent appreciation of the Euro (2013: 10 cent)	227	289
10 yen appreciation of the Yen (2013: 10 yen)	11	10

An equivalent depreciation in the above currencies would have the following impact on net debt: £392 million, £(195) million and £(9) million for US dollar, Euro and Yen exchange rates respectively (2013 – £396 million, £(244) million and £(9) million).

### Interest rate sensitivity

The table below shows on an indicative basis only the Group's sensitivity to interest rates on its floating rate Sterling, US dollar and Euro financial instruments, being issued debt, bank borrowings, cash and cash equivalents and liquid investments. GSK has considered movements in these interest rates over the last three years and has concluded that a 1% (100 basis points) increase is a reasonable benchmark. Debt and bank borrowings with a maturity of less than one year is floating rate for this calculation. In 2013, interest rate movements on derivative financial instruments designated as fair value hedges were deemed to have an immaterial effect on the Group Income Statement due to compensating amounts in the carrying value of debt. These hedges and the hedged bond matured in 2014. A 1% (100 basis points) movement in interest rates is not deemed to have a material effect on equity.

	2014	2013
Income statement impact of interest rate movements	Increase/(decrease) in income £m	Increase/(decrease) in income £m
1% (100 basis points) increase in Sterling interest rates (2013: 1%)	(19)	13
1% (100 basis points) increase in US dollar interest rates (2013: 1%)	19	16
1% (100 basis points) increase in Euro interest rates (2013: 1%)	5	(8)

These interest rates could not be decreased by 1% as they are currently less than 1.0%. The maximum increase/(decrease) in income would therefore be limited to £9 million, £1 million and £1 million for Sterling, US Dollar and Euro interest rates respectively (2013 – (£5) million, £nil and £2 million). The decrease in interest income is due to lower levels of cash at the balance sheet date and less Euro net investment hedging activity with foreign exchange forward contracts.

### (h) Contractual cash flows for non-derivative financial liabilities and derivative instruments

The following tables provides an analysis of the anticipated contractual cash flows including interest payable for the Group's non-derivative financial liabilities on an undiscounted basis. The impact of interest rate swaps has been excluded. For the purpose of this table, debt is defined as all classes of borrowings except for obligations under finance leases. Interest is calculated based on debt held at 31 December without taking account of future issuance. Floating rate interest is estimated using the prevailing interest rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at 31 December. Contractual cash flows in respect of operating lease vacant space provisions are excluded from the table below as they are included in the Commitments under non-cancellable operating leases table in Note 40, 'Commitments'.

	Debt £m	Interest on debt £m	Obligations under finance leases £m	Finance charge on obligations under finance leases £m	Trade payables and other liabilities not in net debt £m	Total £m
<b>At 31 December 2014</b>						
Due in less than one year	(2,917)	(678)	(29)	(2)	(7,489)	(11,115)
Between one and two years	(801)	(623)	(21)	(2)	(251)	(1,698)
Between two and three years	(2,251)	(611)	(18)	(1)	(219)	(3,100)
Between three and four years	(1,763)	(497)	(12)	(1)	(273)	(2,546)
Between four and five years	(1,163)	(447)	(3)	–	(324)	(1,937)
Between five and ten years	(2,859)	(2,074)	(2)	–	(1,969)	(6,904)
Greater than ten years	(7,085)	(4,814)	–	–	(1,734)	(13,633)
Gross contractual cash flows	(18,839)	(9,744)	(85)	(6)	(12,259)	(40,933)



# Notes to the financial statements

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### 41 Financial instruments and related disclosures continued

#### Contractual cash flows for non-derivative financial liabilities and derivative instruments

At 31 December 2013	Debt £m	Interest on debt £m	Obligations under finance leases £m	Finance charge on obligations under finance leases £m	Trade payables and other liabilities not in net debt £m	Total £m
Due in less than one year	(2,747)	(674)	(27)	(2)	(7,797)	(11,247)
Between one and two years	(1,936)	(650)	(22)	(2)	(108)	(2,718)
Between two and three years	(753)	(594)	(14)	(2)	(85)	(1,448)
Between three and four years	(2,246)	(582)	(8)	(1)	(116)	(2,953)
Between four and five years	(1,657)	(467)	(4)	–	(149)	(2,277)
Between five and ten years	(1,958)	(2,032)	(5)	–	(1,282)	(5,277)
Greater than ten years	(6,984)	(5,064)	–	–	(1,440)	(13,488)
Gross contractual cash flows	(18,281)	(10,063)	(80)	(7)	(10,977)	(39,408)

The increase in contractual cash flows for non-derivative financial liabilities of £1.5 billion over the year results principally from an increase of £1.7 billion in forecast future cash flows in respect of contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture in 2012.

The table below provides an analysis of the anticipated contractual cash flows for the Group's derivative instruments, excluding embedded derivatives and equity options which are not material, using undiscounted cash flows. Cash flows in foreign currencies are translated using spot rates at 31 December. The gross cash flows of foreign exchange contracts are presented for the purposes of this table, though, in practice, the Group uses standard settlement arrangements to reduce its liquidity requirements on these instruments.

The amounts receivable and payable in less than one year have increased compared to 31 December 2013 due to higher levels of hedging of inter-company loans, hedging of acquisitions and disposals denominated in foreign currency and external debt. This is reflected in the increased principal amounts shown in the table below. All contractual cash flows for derivative instruments are due in less than one year.

	2014		2013	
	Receivables £m	Payables £m	Receivables £m	Payables £m
Gross contractual cash flows due in less than one year	21,586	(21,841)	18,890	(18,871)

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### 42 Employee share schemes

The Group operates share option schemes, whereby options are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at the grant price, savings-related share option schemes and share award schemes. In addition, GSK operates the Performance Share Plan, whereby awards are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at no cost, subject to the achievement by the Group of specified performance targets and the Share Value Plan, whereby awards are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at no cost after a three year vesting period. The granting of restricted share awards has replaced the granting of options to employees as the cost of the scheme more readily equates to the potential gain to be made by the employee.

Grants under share option schemes are normally exercisable between three and ten years from the date of grant. Grants of restricted shares and share awards are normally exercisable at the end of the three year vesting/performance period. Grants under savings-related share option schemes are normally exercisable after three years' saving. Grants under share option schemes and awards under the Performance Share Plan are normally granted to employees to acquire shares or ADS in GlaxoSmithKline plc but in some circumstances will be settled in cash. Options under the share option schemes were granted at the market price ruling at the date of grant. In accordance with UK practice, the majority of options under the savings-related share option schemes are granted at a price 20% below the market price ruling at the date of grant.

#### Option pricing

For the purposes of valuing options to arrive at the share based payment charge, the Black-Scholes option pricing model has been used. The assumptions used in the model for 2012, 2013 and 2014 are as follows:

	2014	2013	2012
Risk-free interest rate	0.7%	0.7%	0.1% – 0.5%
Dividend yield*	5.8%	5.3%	5.2%
Volatility	19%	20%	18% – 23%
Expected lives of savings-related share options and share award schemes	3-4 years	3-4 years	3-4 years
Weighted average share price for grants in the year:			
Shares	£14.14	£15.59	£14.49

\* 0% for those plans where dividends are reinvested.



## 42 Employee share schemes continued

Volatility is determined based on the three and five year share price history where appropriate. The fair value of performance share plan grants take into account market conditions. Expected lives of options were determined based on weighted average historic exercises of options.

Options outstanding	Share option schemes – shares			Share option schemes – ADS			Savings-related share option schemes		
	Number 000	Weighted exercise price	Weighted fair value	Number 000	Weighted exercise price	Weighted fair value	Number 000	Weighted exercise price	Weighted fair value
At 1 January 2012	60,370	£12.62		44,890	\$43.50		1,570	£9.68	
Options granted	–	–	–	–	–	–	4,210	£11.59	£1.76
Options exercised	(12,473)	£11.97		(9,698)	\$39.33		(1,230)	£9.67	
Options lapsed	(5,168)	£13.28		(4,593)	\$45.99		(89)	£9.82	
At 31 December 2012	42,729	£12.72		30,599	\$44.36		4,461	£11.48	
Options granted	–	–	–	–	–	–	1,092	£12.47	£2.33
Options exercised	(20,355)	£12.78		(12,099)	\$41.62		(241)	£9.79	
Options lapsed	(2,112)	£12.63		(1,192)	\$42.94		(210)	£11.34	
At 31 December 2013	20,262	£12.68		17,308	\$46.37		5,102	£11.78	
Options granted	–	–	–	–	–	–	1,181	£11.31	£1.92
Options exercised	(3,907)	£12.14		(4,548)	\$43.11		(126)	£11.65	
Options lapsed	(591)	£12.33		(520)	\$48.13		(547)	£11.97	
At 31 December 2014	15,764	£12.82		12,240	\$47.50		5,610	£11.66	
Range of exercise prices on options outstanding at year end	£11.47 –	£14.93		\$33.42 –	\$58.00		£11.31 –	£12.47	
Weighted average market price on exercise		£15.44			\$51.61			£15.67	
Weighted average remaining contractual life		3.2 years			2.7 years			2.0 years	

Options outstanding at 31 December 2014	Share option schemes – shares			Share option schemes – ADS			Savings-related share option schemes		
	Number 000	Weighted exercise price	Latest exercise date	Number 000	Weighted exercise price	Latest exercise date	Number 000	Weighted exercise price	Latest exercise date
Year of grant									
2005	50	£13.05	01.11.15	134	\$47.40	01.11.15	–	–	–
2006	2,453	£14.69	28.07.16	2,575	\$51.40	28.07.16	–	–	–
2007	2,937	£14.80	26.07.17	3,814	\$57.59	26.07.17	–	–	–
2008	2,444	£11.49	23.07.18	1,961	\$45.05	23.07.18	–	–	–
2009	3,286	£11.76	22.07.19	1,479	\$33.72	22.07.19	–	–	–
2010	4,594	£12.03	22.07.20	2,277	\$37.28	22.07.20	–	–	–
2011	–	–	–	–	–	–	–	–	–
2012	–	–	–	–	–	–	3,586	£11.59	01.06.16
2013	–	–	–	–	–	–	845	£12.47	01.06.17
2014	–	–	–	–	–	–	1,179	£11.31	01.06.18
Total	15,764	£12.82		12,240	\$47.50		5,610	£11.66	

Options normally become exercisable from three years from the date of grant but may, under certain circumstances, vest earlier as set out within the various scheme rules.

There has been no change in the effective exercise price of any outstanding options during the year.

Options exercisable	Share option schemes – shares		Share option schemes – ADS		Savings-related share option schemes	
	Number 000	Weighted exercise price	Number 000	Weighted exercise price	Number 000	Weighted exercise price
At 31 December 2012	33,930	£12.90	24,706	\$46.10	261	£9.72
At 31 December 2013	20,262	£12.68	17,308	\$46.37	–	–
At 31 December 2014	15,764	£12.82	12,240	\$47.50	–	–



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# Notes to the financial statements

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### 42 Employee share schemes continued

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#### GlaxoSmithKline share award schemes

##### Performance Share Plan

The Group operates a Performance Share Plan whereby awards are granted to Directors and senior executives at no cost. The percentage of each award that vests is based upon the performance of the Group over a defined measurement period with dividends reinvested during the same period. For awards granted in 2012 and 2013 to Directors and members of the CET, the performance conditions are based on four equally weighted measures over a three year performance period. The first measure is based on the achievement of adjusted free cash flow targets. The second measure is based on relative TSR performance against a comparator group. The remaining two measures are based on business-specific performance measures on business diversification and R&D new product performance. For details on the calculation of these measures, see the Remuneration report on pages 96 to 128.

For awards granted in 2014 onwards, the performance conditions are based on three equally weighted measures over a three year performance period. These are adjusted free cashflow, TSR and R&D new product performance.

For those awards made to all other eligible employees the performance conditions are based on GSK's EPS growth to the increase in the UK Retail Prices Index over the three year measurement period and adjusted free cashflow. In addition, some businesses have an element of their award based on a strategic or operational business measure, over a three year measurement period, specific to the employee's business area.

The fair value of the awards is determined based on the closing share price on the day of grant. For TSR performance elements, this is adjusted by the likelihood of that condition being met, as assessed at the time of grant.

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Number of shares and ADS issuable	Shares Number (000)	Weighted fair value	ADS Number (000)	Weighted fair value
At 1 January 2012	10,541		3,926	
Awards granted	4,268	£11.43	1,420	\$37.63
Dividends reinvested	529		225	
Awards exercised	(1,388)		(485)	
Awards cancelled	(1,794)		(710)	
At 31 December 2012	12,156		4,376	
Awards granted	4,483	£13.36	1,352	\$42.41
Dividends reinvested	722		251	
Awards exercised	(1,022)		(453)	
Awards cancelled	(2,977)		(1,041)	
At 31 December 2013	13,362		4,485	
Awards granted	4,147	£15.48	1,251	\$52.40
Dividends reinvested	673		211	
Awards exercised	(2,654)		(1,059)	
Awards cancelled	(2,734)		(929)	
At 31 December 2014	12,794		3,959	

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#### Share Value Plan

The Group operates a Share Value Plan whereby awards are granted, in the form of shares, to certain employees at no cost. The awards vest after two and a half to three years and there are no performance criteria attached. The fair value of these awards is determined based on the closing share price on the day of grant, after deducting the expected future dividend yield over the duration of the award.

Number of shares and ADS issuable	Shares Number (000)	Weighted fair value	ADS Number (000)	Weighted fair value
At 1 January 2012	19,458		14,081	
Awards granted	11,411	£11.96	7,595	\$38.51
Awards exercised	(4,650)		(3,410)	
Awards cancelled	(901)		(478)	
At 31 December 2012	25,318		17,788	
Awards granted	12,011	£14.76	7,681	\$46.04
Awards exercised	(5,324)		(4,009)	
Awards cancelled	(938)		(622)	
At 31 December 2013	31,067		20,838	
Awards granted	12,410	£12.65	7,842	\$41.56
Awards exercised	(9,642)		(6,787)	
Awards cancelled	(923)		(666)	
At 31 December 2014	32,912		21,227	



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## 42 Employee share schemes continued

### Employee Share Ownership Plan Trusts

The Group sponsors Employee Share Ownership Plan (ESOP) Trusts to acquire and hold shares in GlaxoSmithKline plc to satisfy awards made under employee incentive plans and options granted under employee share option schemes. The trustees of the ESOP Trusts purchase shares with finance provided by the Group by way of loans or contributions. In 2014, Treasury shares with a fair value of £150 million were transferred into the UK ESOP Trust to satisfy future awards under the shareholder approved Performance Share Plan. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves and held at the value of proceeds receivable from employees on exercise. If there is deemed to be a permanent diminution in value this is reflected by a transfer to retained earnings. The Trusts also acquire and hold shares to meet notional dividends re-invested on deferred awards under the SmithKline Beecham Mid-Term Incentive Plan. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

Shares held for share award schemes	2014	2013
Number of shares (000)	<b>52,595</b>	63,613
	<b>£m</b>	£m
Nominal value	<b>13</b>	16
Carrying value	<b>150</b>	354
Market value	<b>724</b>	1,024

Shares held for share option schemes	2014	2013
Number of shares (000)	<b>139</b>	139
	<b>£m</b>	£m
Nominal value	<b>–</b>	–
Carrying value	<b>1</b>	1
Market value	<b>2</b>	1

## 43 Proposed Novartis transaction

On 22 April 2014, GSK announced a three-part inter-conditional transaction with Novartis AG involving its Consumer Healthcare, Vaccines and Oncology businesses.

As part of this proposed transaction, GSK and Novartis will create a new Consumer Healthcare business over which GSK will have majority control, with an equity interest of 63.5%. In addition, GSK will acquire Novartis' global Vaccines business (excluding influenza vaccines) for an initial cash consideration of \$5.25 billion with subsequent potential milestone payments of up to \$1.8 billion and ongoing royalties.

GSK will also divest its marketed Oncology portfolio, related R&D activities and rights to its AKT inhibitors and also grant commercialisation partner rights for future oncology products to Novartis for an aggregate cash consideration of \$16 billion. Under the terms of the transaction, up to £1.5 billion of the purchase price may have to be returned to Novartis if certain conditions relating to the COMBI-d trial are not met. Following the positive outcome from this study announced on 6 February 2015, GSK believes these conditions will be satisfied.

The transaction is expected to be completed in the week commencing 2 March 2015.



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### 44 Principal Group companies

The following represent the principal subsidiaries and associates of the GlaxoSmithKline Group at 31 December 2014. Details are given of the principal country of operation, the location of the headquarters, the business sector and the business activities. The equity share capital of these entities is wholly owned by the Group except where its percentage interest is shown otherwise. All companies are incorporated in their principal country of operation except where stated.

Europe	Location	Subsidiary	Sector	Activity	%
England	Brentford	GlaxoSmithKline Holdings Limited *	Ph,CH	h	
	Brentford	GlaxoSmithKline Services Unlimited *	Ph,CH	s	
	Brentford	GlaxoSmithKline Mercury Limited *	Ph	h	
	Brentford	GlaxoSmithKline Finance plc	Ph,CH	f	
	Brentford	GlaxoSmithKline Capital plc	Ph,CH	f	
	Brentford	SmithKline Beecham Limited	Ph,CH	d e h m p r	
	Brentford	Wellcome Limited	Ph,CH	h	
	Brentford	Glaxo Group Limited	Ph	h	
	Brentford	Glaxo Operations UK Limited	Ph	p	
	Brentford	GlaxoSmithKline Export Limited	Ph	e	
	Brentford	GlaxoSmithKline Research & Development Limited	Ph	d r	
	Brentford	GlaxoSmithKline UK Limited	Ph	m p	
	Brentford	Setfirst Limited	Ph,CH	h	
	Brentford	GlaxoSmithKline Trading Services Limited (i) (iv)	Ph	e	
	Brentford	ViiV Healthcare Limited	Ph	h	78
	Brentford	ViiV Healthcare UK Limited	Ph	m s	78
Austria	Vienna	GlaxoSmithKline Pharma GmbH	Ph	m	
Belgium	Wavre	GlaxoSmithKline Pharmaceuticals S.A.	Ph	d m	
	Rixensart	GlaxoSmithKline Biologicals S.A.	Ph	d e m p r	
Czech Republic	Prague	GlaxoSmithKline s.r.o.	Ph,CH	m	
Finland	Espoo	GlaxoSmithKline Oy	Ph	m	
France	Marly le Roi	Groupe GlaxoSmithKline S.A.S.	Ph	h	
	Marly le Roi	Laboratoire GlaxoSmithKline S.A.S.	Ph	m r d	
	Marly le Roi	GlaxoSmithKline Sante Grand Public S.A.S.	CH	e m	
	Marly le Roi	ViiV Healthcare S.A.S.	Ph	m	78
	St. Amand Les Eaux	GlaxoSmithKline Biologicals S.A.S.	Ph	p	
Germany	Buehl	GlaxoSmithKline Consumer Healthcare GmbH & Co. KG	CH	m s	
	Munich	GlaxoSmithKline GmbH & Co. KG	Ph	d h m s	
Greece	Athens	GlaxoSmithKline A.E.B.E	Ph,CH	m	
Italy	Verona	GlaxoSmithKline S.p.A.	Ph	d m	
	Milan	GlaxoSmithKline Consumer Healthcare S.p.A.	CH	m	
Netherlands	Zeist	GlaxoSmithKline B.V.	Ph	m	
	Zeist	GlaxoSmithKline Far East B.V.	Ph,CH	h	
Poland	Poznan	GSK Services Sp.z o.o.	Ph	m s	
Republic of Ireland	Carrigaline	SmithKline Beecham (Cork) Limited (i)	Ph	d p r	
	Dublin	GlaxoSmithKline Consumer Healthcare (Ireland) Limited (i)	CH	m	
	Dublin	GlaxoSmithKline (Ireland) Limited (i)	Ph	m	
	Dungarvan	Stafford Miller (Ireland) Limited (i)	CH	p	
	Dungarvan	GlaxoSmithKline Dungarvan Limited (i)	CH	p	
	Sligo	Stiefel Laboratories (Ireland) Limited (i)	Ph	p	
Romania	Brasov	Europharm Holding S.A.	Ph,CH	m s	
Russian Federation	Moscow	GlaxoSmithKline Trading ZAO	Ph	m	
Spain	Madrid	GlaxoSmithKline S.A.	Ph	m	
Switzerland	Muenchenbuchsee	GlaxoSmithKline AG	Ph	m	
<b>USA</b>					
USA	Research Triangle Park	Stiefel Laboratories, Inc.	Ph	h m p	
	Marietta	Corixa Corporation	Ph	p	
	Philadelphia	GlaxoSmithKline LLC	Ph,CH	d e h m p r s	
	Pittsburgh	GlaxoSmithKline Consumer Healthcare, L.P.	CH	m	88
	Pittsburgh	Block Drug Company, Inc.	CH	h m	
	Wilmington	GlaxoSmithKline Holdings (Americas) Inc.	Ph,CH	h	
	Wilmington	GlaxoSmithKline Capital Inc.	Ph,CH	f	
	Research Triangle Park	ViiV Healthcare Company	Ph	m	78
	Rockville	Human Genome Sciences, Inc.	Ph	p	



## 44 Principal Group companies continued

Americas	Location	Subsidiary	Sector	Activity	%
Canada	Mississauga	GlaxoSmithKline Inc.	Ph	m p	
	Mississauga	GlaxoSmithKline Consumer Healthcare Inc.	CH	m	
	Laval	ID Biomedical Corporation of Quebec	Ph	d e p r	
Mexico	Mexico City	GlaxoSmithKline Mexico S.A. de C.V.	Ph,CH	e m p	

## Asia Pacific

Australia	Boronia	GlaxoSmithKline Australia Pty Ltd	Ph,CH	d e m p r	
China	Beijing	GlaxoSmithKline (China) Investment Co. Ltd	Ph,CH	d h m r s	
	Hong Kong	GlaxoSmithKline Limited	Ph,CH	m	
	Tianjin	Sino-American Tianjin Smith Kline & French Laboratories Ltd	CH	e m p	55
India	Mumbai	GlaxoSmithKline Pharmaceuticals Limited	Ph	d m p	75
	Gurgaon	GlaxoSmithKline Consumer Healthcare Limited	CH	d e m p r s	72
Malaysia	Selangor	GlaxoSmithKline Consumer Healthcare Sdn Bhd	CH	m	
Pakistan	Karachi	GlaxoSmithKline Pakistan Limited	Ph,CH	e m p r	83
Philippines	Makati	GlaxoSmithKline Philippines Inc	Ph,CH	d e m	
Singapore	Singapore	Glaxo Wellcome Manufacturing Pte Ltd	Ph	d e p r s	
	Singapore	GlaxoSmithKline Pte Ltd	Ph,CH	d e m s	
South Korea	Seoul	GlaxoSmithKline Korea Limited	Ph,CH	m r	
Thailand	Bangkok	GlaxoSmithKline (Thailand) Limited	Ph,CH	m	

## Japan

Japan	Tokyo	GlaxoSmithKline K.K.	Ph,CH	d m p	
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## Latin America

Argentina	Buenos Aires	GlaxoSmithKline Argentina S.A.	Ph,CH	e m p r	
Brazil	Rio de Janeiro	GlaxoSmithKline Brasil Limitada	Ph,CH	d e m p	
Colombia	Bogota	GlaxoSmithKline Colombia S.A.	Ph,CH	m	
Venezuela	Caracas	GlaxoSmithKline Venezuela, C.A.	Ph,CH	m	

## Middle East &amp; Africa

Nigeria	Lagos	GlaxoSmithKline Consumer Nigeria plc (ii)	Ph,CH	e m p	46
Saudi Arabia	Jeddah	Glaxo Saudi Arabia Limited	Ph	p	49
South Africa	Johannesburg	GlaxoSmithKline South Africa (Pty) Limited	Ph,CH	d e m p	
Turkey	Istanbul	GlaxoSmithKline Ilaclari Sanayi ve Ticaret A.S.	Ph,CH	m	

## Middle East &amp; Africa

Location	Associate	Sector	Activity	%	
South Africa	Johannesburg	Aspen Pharmacare Holdings Limited (iii)	Ph,CH	m p r	12

- (i) Exempt from the provisions of section 7 of the Companies (Amendment) Act 1986 (Ireland). In addition to those subsidiary companies scheduled in the table above, Stiefel Distributors (Ireland) Limited; SmithKline Beecham (Manufacturing) Limited; GlaxoSmithKline Consumer Healthcare Investments (Ireland) Limited; GlaxoSmithKline Consumer Healthcare Investments (Ireland) (No. 2); GlaxoSmithKline Investments (Ireland) Limited and GlaxoSmithKline Consumer Healthcare Ireland IP Limited are also exempt from these provisions as they are consolidated in the group financial statements.
- (ii) Consolidated as a subsidiary in accordance with section 1162 (4)(a) of the Companies Act 2006 on the grounds of dominant influence.
- (iii) Equity accounted on the grounds of significant influence.
- (iv) Incorporated in Ireland.

\* Directly held wholly owned subsidiary of GlaxoSmithKline plc.

## Key

Business sector: Ph Pharmaceuticals, CH Consumer Healthcare  
 Business activity: d development, e exporting, f finance, h holding company, i insurance, m marketing, p production, r research, s service

Full details of all Group subsidiaries and associates will be attached to the company's Annual Return to be filed with the UK Registrar of Companies. Each of GlaxoSmithKline Capital Inc. and GlaxoSmithKline Capital plc is a wholly-owned finance subsidiary of the company, and the company has fully and unconditionally guaranteed the securities issued by each of GlaxoSmithKline Capital Inc. and GlaxoSmithKline Capital plc.



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### 45 Legal proceedings

The Group is involved in significant legal and administrative proceedings, principally product liability, intellectual property, tax, anti-trust and governmental investigations, as well as related private litigation. The Group makes provision for these proceedings on a regular basis as summarised in Note 2, 'Accounting principles and policies' and Note 29, 'Other provisions'. The Group 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 disclosures about such cases would be included, but no provision would be made.

With respect to each of the legal proceedings described below, other than those for which a provision has been made, the Group is unable to make a reliable estimate of the expected financial effect at this stage. The Group does not believe that information about the amount sought by the plaintiffs, if that is known, would be meaningful with respect to those legal proceedings. This is due to a number of factors, including, but not limited to, the stage of proceedings, the entitlement of parties to appeal a decision and clarity as to theories of liability, damages and governing law. Intellectual property claims include challenges to the validity and enforceability of the Group's patents on various products or processes as well as assertions of non-infringement of those patents. A loss in any of these cases could result in loss of patent protection for the product at issue. The consequences of any such loss could be a significant decrease in sales of that product and could materially affect future results of operations for the Group.

Legal expenses incurred and provisions related to legal claims are charged to selling, general and administration costs. Provisions are made, after taking appropriate legal and other specialist advice, where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome of the dispute. For certain product liability claims, the Group will make a provision where there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. At 31 December 2014, the Group's aggregate provision for legal and other disputes (not including tax matters described in Note 14, 'Taxation') was £0.5 billion. The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

The Group's 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. If this were to happen, it could have a material adverse impact on the results of operations of the Group in the reporting period in which the judgments are incurred or the settlements entered into. The most significant of these matters are described below.

#### Intellectual property

##### Avodart/Jalyn

On 29 November 2010, Banner Pharmacaps, Inc. (Banner) notified the Group that it had filed an Abbreviated New Drug Application (ANDA) to market a generic version of *Avodart* (dutasteride) in the USA. Banner's notification contained a Paragraph IV certification alleging that two patents expiring in 2013 and one patent expiring in 2015 (the '467 patent) covering the compound dutasteride were invalid or not infringed by Banner's proposed generic dutasteride product. The Group subsequently received similar notices from Anchen Pharmaceuticals (Anchen), Apotex (Apotex), Roxane Laboratories (Roxane), Watson Laboratories, Inc (Watson), and Mylan

On 29 December 2010, Anchen notified the Group that it had filed an ANDA for *Jalyn* with a Paragraph IV certification alleging that the '467 patent was invalid, unenforceable or not infringed. *Jalyn*, a combination of dutasteride and tamsulosin, is covered by the same three patents that cover *Avodart*. Subsequently, the Group received similar notices from Impax Laboratories, Inc. (Impax) and Watson challenging one or more of the patents covering *Jalyn*.

The Group filed suit against Anchen, Banner, Impax, Mylan, Roxane and Watson in the United States District Court for the District of Delaware for infringement of the *Avodart* and *Jalyn* patents, as applicable, and the cases were consolidated for trial. On 31 August 2012, the Group filed a separate suit against Apotex in the same court for infringement of the '467 patent. This case was not consolidated with the original case against the other generic defendants. On 31 May 2013, the Court ordered that the Apotex case would be stayed pending the entry of judgment in the Banner et al case, and Apotex subsequently agreed to be bound by the outcome of the consolidated cases. On 17 January 2013, the Group and Anchen settled the litigation on terms that would allow Anchen to enter the market for *Jalyn* in the fourth quarter of 2015 or earlier under certain circumstances. The Group previously had settled an earlier patent challenge against *Avodart* by Teva Pharmaceuticals (Teva) on terms that will allow Teva to launch its generic dutasteride product in the fourth quarter of 2015 or earlier under certain circumstances. Teva's generic dutasteride product was approved by the FDA on 21 December 2010.

A trial on the consolidated case against the generic defendants was held on 28 January 2013. On 13 August 2013, the District Court upheld the validity of the '467 patent. Banner, Impax, Mylan, Roxane and Watson appealed the decision in favour of the Group to the United States Court of Appeals for the Federal Circuit on 27 August 2013. On 24 February 2014, the Federal Circuit entered a decision in favour of the Group affirming the decision of the District Court and concluding the matter.

##### Benlysta

Human Genome Sciences, Inc. (HGS), a Group company, holds a European Patent covering 18 countries, including the UK, which covers antibodies that bind to BLYS, defined in functional terms. Eli Lilly and Company (Eli Lilly) previously had challenged the validity of this patent, but the patent has been upheld by the European Patent Office and the UK courts, and these validity challenges have concluded.

Eli Lilly also had requested a declaration that any Supplementary Protection Certificate (SPC) filed by HGS to extend the term of this patent for five years, based upon Eli Lilly's future Marketing Authorisation (MA) for an anti-BLYS antibody, will be invalid. The UK High Court denied Lilly's motion in July 2014. On 2 October 2014, Eli Lilly announced that it was ceasing the development of its anti-BLYS antibody. HGS applied to have the appeal dismissed and, on 14 November 2014, Eli Lilly consented not to appeal the Court's decision, thus ending the litigation.

##### Epzicom/Trizivir/Kivexa

On 30 November 2007, the Group's affiliate, ViiV Healthcare, received notice that Teva Pharmaceuticals USA, Inc. (Teva) had filed an ANDA with a Paragraph IV certification for *Epzicom* (the combination of lamivudine and abacavir). The certification challenged only the patent covering the hemisulfate salt of abacavir, which expires in 2018. ViiV Healthcare did not sue Teva under this patent. On 27 June 2011, ViiV Healthcare received notice that Teva had amended its ANDA for *Epzicom* to contain a Paragraph IV certification for two additional patents listed in the Orange Book, alleging the patents were invalid, unenforceable or not infringed.

The patents challenged in this new certification relate



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Pharmaceuticals, Inc. (Mylan) each variously challenging either the '467 patent or all three patents.

to a method of treating HIV using the combination (expiring in 2016), and a certain crystal form of lamivudine (expiring in 2016). On 5 August 2011, ViiV Healthcare filed suit against Teva under the combination patent in the United States District Court for the District of Delaware.



## 45 Legal proceedings continued

On 18 May 2011, ViiV Healthcare received notice that Lupin Ltd. (Lupin) had filed an ANDA containing a Paragraph IV certification for *Trizivir* (the triple combination of lamivudine, abacavir and zidovudine) alleging that three patents listed in the Orange Book for *Trizivir* were invalid, unenforceable or not infringed. These patents relate to a method of treating HIV using the triple combination (expiring in 2016), the hemisulfate salt of abacavir (expiring in 2018), and a certain crystal form of lamivudine (expiring in 2016). On 29 June 2011, ViiV Healthcare filed suit against Lupin under the patent covering the triple combination in the United States District Court for the District of Delaware. The District Court consolidated the case relating to Epzicom with the case relating to *Trizivir*.

On 17 December 2013, the United States District Court for the District of Delaware upheld the validity of the US patent with an expiry date in March 2016 which covers the combination of lamivudine and abacavir (*Epzicom*) and the triple combination of lamivudine, abacavir and zidovudine (*Trizivir*). In a separate component to the decision, the judge ruled that the Lupin generic version of *Trizivir* did not infringe the patent. Lupin subsequently launched its generic version of *Trizivir*. Teva earlier had stipulated that its generic version of Epzicom would infringe the patent, and the District Court enjoined Teva from launching its generic version of *Epzicom* until the expiration of the patent. The parties appealed the judgments. On 12 February 2015, the United States Court of Appeals for the Federal Circuit affirmed the decision of the District Court.

On 6 February 2014, ViiV Healthcare received notice that Lupin had filed an ANDA containing a Paragraph IV certification for *Epzicom*, alleging that the three patents listed in the Orange Book for *Epzicom* are either invalid, unenforceable or not infringed. ViiV Healthcare filed suit against Lupin on 3 March 2014, alleging infringement of both the patent covering the combination of lamivudine and abacavir and the patent covering the hemisulfate salt of abacavir. A trial date has been set for 18 April 2016.

On 2 June 2014, Apotex filed a Petition requesting Inter Partes Review (IPR) of the combination patent covering Epzicom and *Trizivir*. The United States Patent and Trademark Office (USPTO) granted the petition on 8 December 2014 which initiates an IPR of the patent by the USPTO. On 8 January 2015, Teva filed a petition with the USPTO to join the proceedings.

Teva Canada and Apotex have each challenged patents for Kivexa (lamivudine/abacavir) listed on the Canadian Patent Register. ViiV Healthcare filed suit for infringement against each party under the patent covering the combination of lamivudine and abacavir and the patent covering the hemisulfate salt of abacavir. A ruling that the hemisulfate salt patent was improperly listed has resulted in the de-listing of such patent from the Canadian Patent Register. ViiV Healthcare has appealed this ruling. Notwithstanding this ruling, the infringement cases against Teva Canada and Apotex relating to the validity of the combination and hemisulfate salt patents will proceed; a hearing on the infringement case against Teva Canada has been scheduled for 27 April 2015, and a hearing on the infringement case against Apotex has been scheduled for December 2015.

In addition, Teva has challenged the claims of the combination patent covering Kivexa in Germany, France and Italy. There is also related litigation ongoing in the United Kingdom. The combination patent litigation involving ViiV Healthcare and Teva commenced in Germany in December 2013, in France in June 2014, and in Italy in September 2014. The combination patent expires across Europe in 2016. In addition, ViiV Healthcare has a corresponding Supplementary Protection Certificate (SPC) for Kivexa (but not *Trizivir*) that does not expire until late 2019.

As well as challenging the validity of the underlying patents, Teva is challenging the SPCs on the basis that they are invalid due to a failure to comply with the requirements of Article 3(d) of Regulation (EC) No. 469/2009 (the SPC Regulation) ('Teva's Article 3(d) contention'). These cases are pending. In Germany, oral hearing has been set for 19 May 2015, and in France, oral hearing has been set for 15 December 2015. A final hearing date has yet to be set in Italy.

On 26 November 2014, ViiV Healthcare commenced an action in the UK against Teva for a declaration that Teva's Article 3(d) contention concerning the Kivexa SPC is incorrect. An interim hearing is scheduled for 25 March 2015 to determine whether questions regarding the SPC Regulation should be referred to the Court of Justice for the European Union.

### Lexiva

On 23 April 2012, Ranbaxy Laboratories Limited (Ranbaxy) notified ViiV Healthcare that it had filed a Paragraph IV certification alleging that a patent claiming a polymorphic form of fosamprenavir calcium, the active ingredient in *Lexiva*, was invalid or not infringed. The patent expires in 2020. ViiV Healthcare did not sue under this patent.

On 30 July 2012, Mylan Pharmaceuticals, Inc. (Mylan) notified ViiV Healthcare that it had filed an ANDA for *Lexiva* with a Paragraph IV certification asserting that patents claiming (i) the active ingredient (expiring in 2018) and (ii) a polymorphic form of the active ingredient (expiring 2020), are invalid, unenforceable, or not infringed. Mylan is the second generic company to file an ANDA for *Lexiva*, but the first generic company to challenge the basic compound patent on the active ingredient. On 23 August 2012, ViiV Healthcare and its licensor, Vertex Pharmaceuticals Incorporated, filed a patent infringement suit against Mylan on the patent claiming the active ingredient (but not the patent claiming the polymorph) in the United States District Court for the District of Delaware. On 26 May 2014, the parties settled the case on terms that are confidential.

On 18 October 2012, Ranbaxy filed a petition for an Inter Partes Review (IPR) alleging that the patent claiming the active ingredient for *Lexiva* is invalid. On 5 March 2013, the USPTO granted Ranbaxy's petition. The IPR was settled October 2014 on terms that are confidential.

On 10 December 2014, Lupin Limited filed a petition with the USPTO for an IPR alleging that the compound patent covering the active ingredient for *Lexiva* is invalid. The USPTO has not yet ruled on whether the petition for the IPR will be granted.

### Product liability

Pre-clinical and clinical trials are conducted during the development of potential products to determine the safety and efficacy of products for use by humans following approval by regulatory bodies. Notwithstanding these efforts, when drugs and vaccines are introduced into the marketplace, unanticipated safety issues may become, or be claimed by some to be, evident. The Group is currently a defendant in a number of product liability lawsuits related to the Group's Pharmaceutical, Vaccine and Consumer Healthcare products. The most significant of those matters are described below.

The Group has been able to make a reliable estimate of the expected financial effect of the matters discussed in this category and has included a provision, as appropriate, for the matters below in the provision for legal and other disputes. Matters for which the Group has made a provision are also noted in Note 29, 'Other provisions'.

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#### *Avandia*

The Group has been named in product liability lawsuits on behalf of individuals asserting personal injury claims arising out of the use of *Avandia*. The federal cases filed against the Group are part of a multi-district litigation proceeding pending in the United States District Court for the Eastern District of Pennsylvania (the 'MDL Court'). Cases have also been filed in a number of state courts.

As of February 2015, the Group has reached agreements to settle the substantial majority of federal and state cases pending in the US. 15 purported class actions on *Avandia* are pending in Canada. The Group has reached an agreement in principle to resolve the single purported consumer class action in Israel, which has now been approved by the Court. In the UK, litigation against the Group has ended following the formal discontinuance of the claims of the majority of the claimants and a court order striking the claims of the remaining claimants.

There are four purported class actions seeking economic damages on behalf of third party payers asserting claims arising under various state and federal laws, including the Racketeer Influenced and Corrupt Organizations Act (RICO), state unfair trade practices and/or consumer protection laws. The MDL Court denied the Group's motion to dismiss three of the third party payer actions, and the fourth action has been stayed. The Group has appealed the decision to the United States Court of Appeals for the Third Circuit. One consumer class action brought on behalf of Missouri residents remains pending in the MDL Court. Humana Medical Group (Humana) has brought two separate subrogation actions, one as a purported class action in the MDL Court. The MDL Court has denied class certification. United Health Group, Inc. has brought a separate subrogation action against the Group.

#### *Paxil/Seroxat and Paxil CR*

The Group has received numerous lawsuits and claims alleging that use of *Paxil* (paroxetine) has caused a variety of injuries. Most of these lawsuits in recent years have alleged that the use of *Paxil* during pregnancy resulted in the birth of a child with birth defects or health issues. Other lawsuits and claims have alleged that patients who took *Paxil* committed or attempted to commit suicide or acts of violence or that patients suffered symptoms on discontinuing treatment with *Paxil*.

#### ■ Pregnancy

The Group has reached agreements to settle the substantial majority of the US claims relating to the use of *Paxil* during pregnancy as of February 2015, but a number of claims related to use during pregnancy are still pending in various courts in the US. Other matters have been dismissed without payment. Currently, there are three trials scheduled in 2015.

There are two proposed, and one certified, class actions in Canada. The action that has been certified as a national class action is in British Columbia and relates to cardiovascular defects. An appeal from that certification decision was dismissed in October 2013, and the case is scheduled to be tried in October 2016.

#### ■ Acts of violence

As of February 2015, there were eight pending matters, including one lawsuit on appeal (pending in the United States Court of Appeals for the Ninth Circuit) concerning allegations that patients who took *Paxil* committed or attempted to commit suicide or acts of violence. Currently, there are no trials scheduled for 2015.

#### ■ Discontinuance

In the UK, in late 2010, public funding was withdrawn from the claimants who had received funding to pursue litigation alleging that *Paxil/Seroxat* had caused them to suffer from withdrawal reactions and dependency. The majority of the claimants discontinued their claims.

In June 2013, the Group was informed that the Legal Aid Agency (LAA) (formerly the Legal Services Commission) was considering whether to discharge the public funding certificate following the recommendation of its Special Cases Review Panel that the case has poor prospects of success. On 29 January 2015, the LAA discharged the public certificate, effectively ending the group action.

#### *Poligrip*

Beginning in 2005, a number of product liability lawsuits and claims were filed against the Group in both state and federal courts in the USA, including purported class actions, alleging that the zinc in *Super Poligrip* causes copper depletion and permanent neurologic injury. The federal cases were consolidated in the Denture Cream Adhesive multi-district litigation (MDL) in the United States District Court for the Southern District of Florida which was established in June 2009. The original four putative class actions in the MDL have been dismissed. In 2013, a putative class action was filed in Puerto Rico, which was removed to federal court and transferred to the MDL where it remains pending as of February 2015.

With two current exceptions (one state court case in Pennsylvania, and one state court case in small claims court in Tennessee), all other state court cases were consolidated in the Philadelphia state court Mass Tort Program (MTP). As of February 2015, there are no cases currently pending against GSK in the Philadelphia MTP. The vast majority of individual cases have been dismissed, with seven active individual cases and one putative class action in the MDL, and two state court cases, still pending against the Group in the USA.

In Canada, one individual lawsuit and five purported class actions asserting consumer fraud claims have also been filed. Of those, the individual lawsuit and one putative class action have been dismissed. In addition, there are a few filed and unfiled claims in Turkey, the UK and elsewhere. The Group voluntarily withdrew all zinc-containing formulations of *Super Poligrip* from the market in early 2010.

#### Sales and marketing and regulation

The Group has been able to make a reliable estimate of the expected financial effect of the matters discussed in this category, and has included a provision for such matters in the provision for legal and other disputes, except as noted below. Matters for which the Group has made a provision are also noted in Note 29, 'Other provisions'.

#### China investigation

On 19 September 2014, the Group announced that the Changsha Intermediate People's Court in Hunan Province, China ruled that according to Chinese law, GSK China Investment Co. Ltd (GSKCI) had offered money or property to non-government personnel in order to obtain improper commercial gains, and been found guilty of bribing non-government personnel. The verdict followed investigations initiated by China's Ministry of Public Security in June 2013. As a result of the Court's verdict, GSKCI paid a fine of RMB 3 billion (£301 million) to the Chinese government.

#### SEC/DOJ and SFO Anti-Corruption enquiries

The US Securities and Exchange Commission (SEC) and the US Department of Justice (DOJ) initiated an industry-wide enquiry in 2010 into whether pharmaceutical companies may have engaged in violations of the US Foreign Corrupt Practices Act (FCPA) relating to the sale of pharmaceuticals, including in Argentina, Brazil, Canada, China, Germany, Italy, Poland, Russia and Saudi Arabia. The Group is one of the companies that has been asked to respond to this enquiry and is cooperating with the SEC and DOJ. The Group has informed the DOJ and SEC about the investigation of its China operations by the Chinese government that was initiated in 2013 and the outcome of that investigation.



## 45 Legal proceedings continued

The Group also has advised the UK Serious Fraud Office (SFO) regarding the investigation of its China operations by the Chinese government and the outcome of that investigation. The SFO has requested information from the Group on its commercial operations in a number of countries. On 27 May 2014, the SFO informed the Group that it had formally opened a criminal investigation into the Group's practices. The Group is responding to the SFO's requests. The Group is unable to make a reliable estimate of the expected financial effect of these investigations, and no provision has been made for them.

### US State Sales and Marketing Investigations

After the Group concluded an agreement in 2012 with the United States Government, multiple states and the District of Columbia to conclude the Group's most significant ongoing United States federal government investigations, the Group was notified by a consortium of US state attorneys general that they were investigating the conduct underlying the Group's 2012 federal and state settlements related to products other than *Avandia* to determine if the Group violated state unfair and deceptive trade practices statutes. The Group has resolved these allegations with 47 states and the District of Columbia through civil settlement agreements. No other state attorney general actions are pending related to this matter.

#### *Avandia*

The Group is defending an action by the County of Santa Clara, California, which was brought under California's consumer protection laws seeking civil penalties and restitution as a result of the Group's marketing of *Avandia*. Pre-trial activities are continuing. If the case proceeds to trial, the MDL Court will send the case back to California federal court for a bench trial.

Seven lawsuits were filed on behalf of Native American tribes relating to the sale and marketing of *Avandia* and other Group products. The Group resolved all claims by and against these groups in December 2014.

### Average wholesale price

A number of states through their respective Attorneys General, and most of the counties in New York State, filed civil lawsuits in state and federal courts against the Group and many other pharmaceutical companies claiming damages and restitution due to average wholesale price (AWP) and/or wholesale acquisition cost (WAC) price reporting for pharmaceutical products covered by the states' Medicaid programmes. These cases alleged that the Group reported or caused to be reported false AWP and WAC prices, which, in turn, allegedly caused state Medicaid agencies to reimburse providers more money for covered medicines than the agencies intended. The states have sought recovery on behalf of the states as payers and, in some cases, on behalf of in-state patients as consumers. The Group has resolved AWP claims by state Medicaid programmes in almost all of the states through the Group's settlement agreement with the federal government announced in September 2005 and in multiple additional settlements since then. Litigation concerning AWP issues is continuing with two states, Illinois and Wisconsin. No trial involving the Group is scheduled for 2015.

### Cidra third-party payer litigation

On 25 July 2013, a number of major US healthcare insurers filed suit against the Group in the Philadelphia, Pennsylvania County Court of Common Pleas seeking compensation for reimbursements they made for medicines manufactured at the Group's former Cidra plant in Puerto Rico. These insurers claim that the Group knowingly and illegally marketed and sold adulterated drugs manufactured under conditions non-compliant with cGMP and that they, as third-party insurers, were unlawfully induced to pay for them. The suit alleges both US federal and various state law causes of action.

On 12 August 2013, the Group removed the case to the United States District Court for the Eastern District of Pennsylvania and has moved to dismiss the complaint. Oral argument on the motion to dismiss was held on 4 February 2013. The case has been stayed pending the decision of the United States Court of Appeals for the Third Circuit on an overlapping, potentially dispositive issue in the Group's third-party payer litigation regarding *Avandia*. The Group has made no provision for this matter.

The manufacturing issues at the Group's plant at Cidra were the subject of federal and state claims that the Group resolved with the US federal Government in 2010 and for which the Group has compliance obligations under a Corporate Integrity Agreement with the US Government.

#### *Paxil/Seroxat*

In 2004, the Group settled a lawsuit filed by the New York State Attorney General's office alleging that the Group failed to disclose data on the use of *Paxil* in children and adolescents. In 2007 and 2008, the Group made class settlements of lawsuits brought by consumers and third-party payers, respectively, for economic damages allegedly resulting from prescriptions of *Paxil* to children and adolescents. The Group denied liability in these settlements. In 2010, plaintiffs voluntarily dismissed a similar purported class action filed on behalf of governmental entities that paid for prescriptions of *Paxil* to minors.

There remains a similar purported class action in Canada seeking economic damages on behalf of individuals who purchased *Paxil* for use by patients under the age of 18. The certification application as part of this purported class action was adjourned in 2012 to permit the filing of further evidence and is likely to resume in 2015.

### Anti-trust/competition

The Group has been able to make a reliable estimate of the expected financial effect of the matters discussed in this category and has included a provision for such matters in the provision for legal and other disputes, except as noted below. Matters for which the Group has made a provision are also noted in Note 29, 'Other provisions'.

### EU sector enquiry

In 2008, the European Commission launched an enquiry to investigate possible anti-competitive conditions in the pharmaceutical sector. The Final Report of the Pharmaceutical Sector Inquiry was published on 8 July 2009. As announced in the Final Report, the Commission decided to continue monitoring patent settlement agreements between originator and generic companies relating to EU markets. As a result, the Group has provided input to the reports published in 2010, 2011, 2012, 2013 and 2014. No provision has been made for this matter.

### UK Competition and Markets Authority investigation

On 12 August 2011, the UK Office of Fair Trading (now known as the Competition and Markets Authority (CMA)) launched a formal investigation of the Group and other pharmaceutical companies for potential infringement of the Competition Act. The investigation focuses on whether: (i) litigation settlements between the Group and potential suppliers of generic paroxetine formulations, entered between 2001 and 2003, had as their object or effect the prevention, restriction, or distortion of competition in the UK, and (ii) the Group has infringed its dominant position by making payments to potential suppliers of generic paroxetine with the aim of restricting the development of full generic competition in the UK. The Group terminated the agreements at issue in 2004. The CMA investigation covers issues that were also investigated by the European Commission in 2005 – 2006 in respect of paroxetine in the European Union, and also in 2008, as part of the European Commission Pharmaceutical Sector enquiry.



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On 2 March 2012, the Commission announced that it had formally concluded its enquiry with no further action. In March 2012, the CMA decided to focus its investigation on potential anti-competitive aspects of the paroxetine settlement agreements and dropped the investigation in relation to potential abuse of dominance. However, in February 2013, the CMA decided to re-open the dominance aspects of the matter.

The Group has cooperated with the CMA in its investigations since the outset. On 19 April 2013, the CMA issued its Statement of Objections (SO) setting out the decision that the CMA would propose to make and allowing the affected parties to make representations on the proposed decision. In the SO, the CMA states that it would propose a fine on the Group, but no details were provided on how any fine might be calculated. On 7 August 2013, the Group submitted its response to the SO, rebutting the CMA's arguments. On 21 October 2014, the CMA issued a Secondary Statement of Objections, amending its "theory of harm". The Group responded on 2 December 2014. At a "State of Play" meeting on 22 January 2015, the CMA informed the Group that no final decision has been made, but that it will continue its investigation. The CMA's website indicates that a final decision will be made in late spring 2015. If the CMA decides to fine the Group, the CMA's decision may be appealed to the Competition Appeal Tribunal.

#### Lamictal

Purported direct and indirect purchaser class actions were filed in the United States District Court for the District of New Jersey alleging that the Group and Teva Pharmaceuticals unlawfully conspired to delay generic competition for *Lamictal*, resulting in their being overcharged. A separate count accuses the Group of monopolising the market. The District Court denied the motion of the purported direct purchaser class for reconsideration of the order granting the Group's motion to dismiss in December 2012. The plaintiffs have appealed this decision to the United States Court of Appeals for the Third Circuit, and oral argument was heard on 18 November 2014. We await decision by the Third Circuit. The action by the purported indirect purchase class has been suspended pending a decision on the direct purchasers' appeal.

#### Wellbutrin XL

Actions have been filed against Biovail Corporation (Biovail) and the Group in the United States District Court for the Eastern District of Pennsylvania by purported classes of direct and indirect purchasers who allege unlawful monopolisation and other anti-trust violations related to the enforcement of Biovail's patents for *Wellbutrin XL* and the filing, by Biovail, of citizen petitions. Both direct and indirect purchaser classes have been certified, although a motion to decertify the indirect purchaser class remains pending. The District Court granted the Group's motion for partial summary judgment primarily on immunity grounds.

The sole remaining claim relates to plaintiffs' allegations that the Group entered into an anti-competitive reverse payment settlement to resolve the patent infringement litigation. Dispositive motions in connection with the remaining issue in the case are due on 20 March 2015.

#### Commercial and corporate

Where the Group is able to make a reliable estimate of the expected financial effect, if any, for the matters discussed in this category, it has included a provision in respect of such matters in the provision for legal and other disputes as set out in Note 29, 'Other provisions'.

#### Securities/ERISA class actions – Stiefel

On 6 July 2009, a class action suit brought on behalf of current and former employees of Stiefel Laboratories, Inc. (Stiefel), a Group company, was filed in the United States District Court for the Southern District of Florida.

The complaint alleges that Stiefel and its officers and directors violated the US Employee Retirement Income Security Act (ERISA) and federal and state securities laws by inducing Stiefel employees to sell their shares in the employee stock plan back to Stiefel at a greatly undervalued price and without disclosing to employees that Stiefel was about to be sold to the Group. On 21 July 2011, the District Court denied plaintiffs' motion for class certification.

In October 2011, the District Court granted the defendants' motions for summary judgment, dismissing all but one of the remaining plaintiffs in the litigation. Trial of claims of that one plaintiff, Timothy Finnerty, took place in May 2012 and resulted in a \$1.5 million jury verdict in favour of Mr. Finnerty on his securities claims (separately, the Group settled Mr. Finnerty's ERISA claims). The Group appealed the verdict, but the Court of Appeals for the Eleventh Circuit affirmed the verdict on 30 June 2014. A petition for certiorari has been filed with the US Supreme Court. Additionally, Stiefel won a complete defence verdict in the Fried case, tried in federal court in Florida in October 2013. Plaintiff appealed that verdict to the Eleventh Circuit, and a decision from that Court is pending. Two other Stiefel cases pending in Florida now have been dismissed: the Bacon case, settled by the Group in January 2015, and MacKay (in which summary judgment was granted in favour of the Group, a ruling that was later upheld by the 11th Circuit). The remaining case in Florida (Martinolich) is scheduled for trial in August 2015. Discovery continues in the Georgia and New York suits. All of these lawsuits involve claims similar to those brought in Finnerty.

In addition to the private litigant suits, on 12 December 2011, the US Securities and Exchange Commission (SEC) filed a formal complaint against Stiefel and Charles Stiefel in the United States District Court for the District of Florida alleging that Stiefel and its principals violated federal securities laws by inducing Stiefel employees to sell their shares in the employee stock plan back to the company at a greatly undervalued price and without disclosing to employees that the company was about to be sold. This matter has been stayed pending a final ruling on the Finnerty appeal. The Group has made a provision for the Stiefel litigation.

#### Environmental matters

The Group has been notified of its potential responsibility relating to past operations and its past waste disposal practices at certain sites, primarily in the USA. Some of these matters are the subject of litigation, including proceedings initiated by the US federal or state governments for waste disposal, site remediation costs and tort actions brought by private parties.

The Group has been advised that it may be a responsible party at approximately 22 sites, of which 11 appear on the National Priority List created by the Comprehensive Environmental Response Compensation and Liability Act (Superfund). These proceedings seek to require the operators of hazardous waste facilities, transporters of waste to the sites and generators of hazardous waste disposed of at the sites to clean up the sites or to reimburse the US Government for cleanup costs. In most instances, the Group is involved as an alleged generator of hazardous waste.

Although Superfund provides that the defendants are jointly and severally liable for clean up costs, these proceedings are frequently resolved on the basis of the nature and quantity of waste disposed of by the generator at the site. The Group's proportionate liability for cleanup costs has been substantially determined for 18 of the sites referred to above.

The Group's potential liability varies greatly from site to site. While the cost of investigation, study and remediation at such sites could, over time, be significant, the Group routinely accrues amounts related to its share of the liability for such matters.



# Financial statements of GlaxoSmithKline plc

*prepared under UK GAAP*

## Directors' statement of responsibilities in relation to the company's financial statements

The Directors are responsible for preparing the parent company, GlaxoSmithKline plc, financial statements and the Remuneration Report in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice). Under company law the Directors must not approve the parent company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the parent company financial statements and Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The parent company financial statements for the year ended 31 December 2014, comprising the balance sheet for the year ended 31 December 2014 and supporting notes, are set out on pages 213 to 216 of this report.

The responsibilities of the auditors in relation to the parent company financial statements are set out in the Independent Auditors' report on page 212.

The financial statements for the year ended 31 December 2014 are included in the Annual Report, which is published in printed form and made available on our website. The Directors are responsible for the maintenance and integrity of the Annual Report on our website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

The Strategic Report and risk sections of the Annual Report include a fair review of the development and performance of the business and the position of the company and the Group taken as a whole, together with a description of the principal risks and uncertainties that it faces.

## Disclosure of information to auditors

The Directors in office at the date of this Annual Report have each confirmed that:

- so far as he or she is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

## Going concern basis

After making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## The UK Corporate Governance Code

The Board considers that GlaxoSmithKline plc applies the principles and provisions of the UK Corporate Governance Code maintained by the Financial Reporting Council, as described in the Corporate Governance section on pages 78 to 95, and has complied with its provisions. The Board further considers that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

As required by the Financial Conduct Authority's Listing Rules, the auditors have considered the Directors' statement of compliance in relation to those points of the UK Corporate Governance Code which are specified for their review.

**Sir Christopher Gent**  
Chairman  
26 February 2015

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# Independent Auditor's report

*to the members of GlaxoSmithKline plc*

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## Report on the parent company financial statements

### Our Opinion

In our opinion, the parent company financial statements defined below:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

GlaxoSmithKline plc's financial statements comprise:

- the Company balance sheet as at 31 December 2014; and
- the notes to the Company balance sheet, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Other required reporting

### Consistency of other information Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

#### Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Directors' statement of responsibilities set out on page 211, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Other matter

We have reported separately on the group financial statements of GlaxoSmithKline plc for the year ended 31 December 2014.

The company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the senior statutory auditor's name should not be stated.

### PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
London  
26 February 2015



## Company balance sheet – UK GAAP at 31 December 2014

	Notes	2014 £m	2013 £m
Fixed assets – investments	E	19,691	19,691
Debtors	F	10,900	3,358
Cash at bank		2	12
Current assets		10,902	3,370
Creditors: amounts due within one year	G	(1,799)	(531)
Net current assets		9,103	2,839
Total assets less current liabilities		28,794	22,530
Provisions for liabilities	H	(25)	–
Net assets		28,769	22,530
<b>Capital and reserves</b>			
Called up share capital	I	1,339	1,336
Share premium account	I	2,759	2,595
Other reserves	J	1,420	1,420
Profit and loss account	J	23,251	17,179
Equity shareholders' funds		28,769	22,530

The financial statements on pages 213 to 216 were approved by the Board on 26 February 2015 and signed on its behalf by

**Sir Christopher Gent**  
Chairman

GlaxoSmithKline plc  
Registered number: 3888792

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## Notes to the company balance sheet – UK GAAP

### A) Presentation of the financial statements

#### Description of business

GlaxoSmithKline plc is the parent company of GSK, a major global healthcare group which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products, including vaccines, over-the-counter (OTC) medicines and health-related consumer products.

#### Preparation of financial statements

The financial statements, which are prepared on a going concern basis, are drawn up in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and with UK accounting presentation as at 31 December 2014, with comparative figures as at 31 December 2013. Where appropriate, comparative figures are reclassified to ensure a consistent presentation with current year information.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the company is not presented in this Annual Report.

The company is included in the Group financial statements of GlaxoSmithKline plc, which are publicly available. Advantage has been taken of the exemption provided by FRS 1 'Cash flow statements (revised 1996)' not to prepare a cash flow statement and of the exemption provided by FRS 8 'Related party disclosures' not to disclose any related party transactions within the Group.

#### Accounting convention and standards

The balance sheet has been prepared using the historical cost convention and complies with applicable UK accounting standards.

#### Accounting principles and policies

The preparation of the balance sheet in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual amounts could differ from those estimates.

The balance sheet has been prepared in accordance with the company's accounting policies approved by the Board and described in Note B.

### B) Accounting policies

#### Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction, or at the forward rate if hedged by a forward exchange contract. Foreign currency assets and liabilities are translated at rates of exchange ruling at the balance sheet date, or at the forward rate.

#### Dividends paid and received

Dividends paid and received are included in the financial statements in the period in which the related dividends are actually paid or received.

### Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.

### Investments in subsidiary companies

Investments in subsidiary companies are held at cost less any provision for impairment.

### Impairment of investments

The carrying value of investments are reviewed for impairment when there is an indication that the investment might be impaired. Any provision resulting from an impairment review is charged to the income statement in the year concerned.

### Share based payments

The issuance by the company to its subsidiaries of a grant over the company's shares, represents additional capital contributions by the company in its subsidiaries. An additional investment in subsidiaries results in a corresponding increase in shareholders' equity. The additional capital contribution is based on the fair value of the grant issued, allocated over the underlying grant's vesting period.

### Taxation

Current tax is provided at the amounts expected to be paid applying tax rates that have been enacted or substantively enacted by the balance sheet date.

The company accounts for taxation which is deferred or accelerated by reason of timing differences which have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax liabilities and assets are not discounted.

### Financial guarantees

Liabilities relating to guarantees issued by the company on behalf of its subsidiaries are initially recognised at fair value and amortised over the life of the guarantee.

### Legal and other disputes

The company provides 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 company.

### C) Operating profit

A fee of £11,523 (2013 – £10,299) relating to the audit of the company has been charged in operating profit.

### D) Dividends

The directors declared four interim dividends resulting in a dividend for the year of 80 pence, a 2 pence increase on the dividend for 2013. For further details, see Note 16 to the Group financial statements, 'Dividends'.



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## Notes to the company balance sheet – UK GAAP continued

### E) Fixed assets – investments

	2014 £m	2013 £m
Shares in GlaxoSmithKline Services Unlimited	613	613
Shares in GlaxoSmithKline Holdings (One) Limited	18	18
Shares in GlaxoSmithKline Holdings Limited	17,888	17,888
Shares in GlaxoSmithKline Mercury Limited	33	33
	<b>18,552</b>	18,552
Capital contribution relating to share based payments	1,139	1,139
	<b>19,691</b>	19,691

### F) Debtors

	2014 £m	2013 £m
Amounts due within one year:		
UK Corporation tax recoverable	205	203
Other receivables	3	–
Deferred tax recoverable	205	–
Amounts owed by Group undertakings	10,055	2,761
	<b>10,468</b>	2,964
Amounts due after more than one year:		
Amounts owed by Group undertakings	432	394
	<b>10,900</b>	3,358

The deferred tax asset arises as a result of the recognition of deferred tax on tax losses expected to be used on completion of the Novartis transaction.

### G) Creditors

	2014 £m	2013 £m
Amounts due within one year:		
Bank overdraft	–	10
Other creditors	497	460
Amounts owed to Group undertakings	1,302	61
	<b>1,799</b>	531

The company has guaranteed debt issued by one of its subsidiary companies for which it receives an annual fee from the subsidiary. In aggregate, the company has outstanding guarantees over \$9 billion of debt instruments.

The amounts due from the subsidiary companies in relation to these guarantee fees will be recovered over the life of the bonds and are disclosed within debtors (see Note F).

### H) Provisions for liabilities

	2014 £m	2013 £m
At 1 January	–	–
Charge for the year	148	–
Utilised	(138)	–
Other movements	15	–
At 31 December	<b>25</b>	–

The provisions for liabilities relate to a number of legal and other disputes in which the company is currently involved.



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**Notes to the company balance sheet – UK GAAP** continued**I) Called up share capital and share premium account**

	Ordinary Shares of 25p each		Share premium account £m
	Number	£m	
<b>Share capital authorised</b>			
At 31 December 2013	10,000,000,000	2,500	
At 31 December 2014	10,000,000,000	2,500	
<b>Share capital issued and fully paid</b>			
At 1 January 2013	5,397,595,969	1,349	2,022
Issued under employee share schemes	44,610,727	12	573
Share capital cancelled	(100,000,000)	(25)	–
At 31 December 2013	5,342,206,696	1,336	2,595
Issued under employee share schemes	13,090,536	3	164
At 31 December 2014	5,355,297,232	1,339	2,759
	<b>31 December 2014</b>		<b>31 December 2013</b>
	<b>000</b>		<b>000</b>
Number of shares issuable under outstanding options	<b>88,801</b>		91,303
Number of unissued shares not under option	<b>4,555,902</b>		4,566,351

At 31 December 2014, of the issued share capital, 52,734,605 shares were held in the ESOP Trusts, 491,515,950 shares were held as Treasury shares and 4,811,046,677 shares were in free issue. All issued shares are fully paid. The nominal, carrying and market values of the shares held in the ESOP Trusts are disclosed in Note 42, 'Employee share schemes'.

A total of 15 million shares were purchased by the company during 2014 at a cost of £238 million.

**J) Reserves**

	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2013	1,393	22,401	<b>23,794</b>
Profit attributable to shareholders	–	(38)	<b>(38)</b>
Dividends to shareholders	–	(3,680)	<b>(3,680)</b>
Shares purchased and cancelled or held as Treasury shares	25	(1,504)	<b>(1,479)</b>
Capital contribution relating to share based payments	2	–	<b>2</b>
At 31 December 2013	1,420	17,179	<b>18,599</b>
Profit attributable to shareholders	–	10,003	<b>10,003</b>
Dividends to shareholders	–	(3,843)	<b>(3,843)</b>
Shares purchased and held as Treasury shares	–	(238)	<b>(238)</b>
Treasury shares transferred to the ESOT held by a subsidiary company	–	150	<b>150</b>
At 31 December 2014	1,420	23,251	<b>24,671</b>

The profit of GlaxoSmithKline plc for the year was £10,003 million (2013 – £38 million loss), which after dividends of £3,843 million (2013 – £3,680 million), gave a retained profit of £6,160 million (2013 – £3,718 million loss). After the cost of shares purchased and held as Treasury shares of £238 million (2013 – £1,504 million) and the effect of the £150 million Treasury shares transferred to a subsidiary company (2013 – £nil), the profit and loss account reserve at 31 December 2014 stood at £23,251 million (2013 – £17,179 million), of which £4,096 million is unrealised (2013 – £4,096 million).

**K) Adoption of Financial Reporting Standard (FRS) 101 'Reduced Disclosure Framework'**

Following the publication of FRS 100 'Application of Financial Reporting Requirements', GlaxoSmithKline plc is required to change its accounting framework for its entity financial statements, which is currently UK GAAP, for its financial year commencing 1 January 2015. It considers that it is in the best interests of the Group for GlaxoSmithKline plc to adopt FRS 101. No disclosures in the current financial statements would be omitted on adoption of FRS 101.



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# Financial record

## Quarterly trend

An unaudited analysis of the Group results is provided by quarter in Sterling for the financial year 2014.

### Income statement – total

	12 months 2014			Q4 2014		
	£m	CER%	£%	£m	CER%	£%
Turnover – Pharmaceuticals and Vaccines	18,670	(6)	(12)	5,070	(7)	(10)
– Consumer Healthcare	4,336	(11)	(18)	1,116	(7)	(10)
Total turnover	23,006	(7)	(13)	6,186	(7)	(10)
Cost of sales	(7,323)	(11)	(15)	(2,029)	(18)	(20)
Selling, general and administration	(8,246)	4	(3)	(2,207)	4	–
Research and development	(3,450)	(8)	(12)	(979)	(7)	(9)
Royalty income	310	(18)	(20)	67	(31)	(32)
Other operating income	(700)			(347)		
Operating profit	3,597	(40)	(49)	691	(69)	(72)
Net finance costs	(659)			(171)		
Profit on disposal of interest in associates and joint ventures	–			–		
Share of after tax profits of associates and joint ventures	30			11		
Profit before taxation	2,968	(46)	(55)	531	(77)	(79)
Taxation	(137)			494		
Tax rate %	4.6%			(93.0)%		
Profit after taxation for the period	2,831	(41)	(50)	1,025	(56)	(59)
Profit attributable to non-controlling interests	75			(8)		
Profit attributable to shareholders	2,756			1,033		
Basic earnings per share (pence)	57.3p	(40)	(49)	21.5p	(55)	(58)
Diluted earnings per share (pence)	56.7p			21.3p		

### Income statement – core

Total turnover	23,006	(3)	(10)	6,186	(5)	(8)
Cost of sales	(6,535)	(3)	(8)	(1,798)	(3)	(6)
Selling, general and administration	(7,074)	(2)	(9)	(1,864)	(2)	(5)
Research and development	(3,113)	(4)	(8)	(821)	(8)	(9)
Royalty income	310	(18)	(20)	67	(31)	(32)
Operating profit	6,594	(6)	(15)	1,770	(9)	(12)
Net finance costs	(646)			(168)		
Share of after tax profits of associates and joint ventures	30			11		
Profit before taxation	5,978	(6)	(16)	1,613	(10)	(14)
Taxation	(1,172)			(246)		
Tax rate %	19.6%			15.3%		
Profit after taxation for the period	4,806	(2)	(12)	1,367	(2)	(6)
Profit attributable to non-controlling interests	222			52		
Profit attributable to shareholders	4,584			1,315		
Adjusted earnings per share (pence)	95.4p	(1)	(12)	27.3p	(1)	(6)

The calculation of core results is described on page 52.



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Q3 2014			Q2 2014			Q1 2014		
£m	CER%	£%	£m	CER%	£%	£m	CER%	£%
4,575	(4)	(12)	4,539	(6)	(14)	4,486	(5)	(12)
1,071	(13)	(20)	1,022	(14)	(23)	1,127	(9)	(18)
5,646	(6)	(13)	5,561	(8)	(16)	5,613	(6)	(13)
(1,829)	(9)	(13)	(1,722)	(7)	(13)	(1,743)	(7)	(12)
(2,013)	15	1	(2,055)	1	(7)	(1,971)	(3)	(5)
(803)	(6)	(11)	(809)	(18)	(23)	(859)	(1)	(5)
101	11	7	72	(10)	(12)	70	(36)	(38)
(399)			90			(44)		
703	(52)	(55)	1,137	(8)	(21)	1,066	(12)	(33)
(165)			(159)			(164)		
-			-			-		
10			8			1		
548	(58)	(61)	986	(9)	(23)	903	(13)	(36)
(163)			(284)			(184)		
29.7%			28.8%			20.4%		
385	(59)	(62)	702	(22)	(35)	719	(6)	(30)
(16)			48			51		
401			654			668		
8.3p	(56)	(59)	13.6p	(23)	(37)	13.9p	(4)	(30)
8.2p			13.4p			13.7p		

5,646	(3)	(10)	5,561	(4)	(13)	5,613	(2)	(10)
(1,641)	(1)	(6)	(1,538)	(3)	(9)	(1,558)	(5)	(10)
(1,477)	(6)	(19)	(1,922)	3	(6)	(1,811)	(3)	(5)
(742)	(1)	(6)	(766)	(3)	(9)	(784)	(4)	(8)
101	11	7	72	(10)	(12)	70	(36)	(38)
1,887	(1)	(6)	1,407	(14)	(25)	1,530	-	(18)
(161)			(156)			(161)		
10			8			1		
1,736	(1)	(5)	1,259	(14)	(26)	1,370	-	(20)
(348)			(277)			(301)		
20.0%			22.0%			22.0%		
1,388	4	(1)	982	(12)	(24)	1,069	1	(20)
47			61			62		
1,341			921			1,007		
27.9p	5	-	19.1p	(12)	(25)	21.0p	2	(20)

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# Financial record

## continued

### Pharmaceuticals and Vaccines turnover by therapeutic area 2014

Therapeutic area/ major products	Total				USA				Europe				Emerging Markets				Japan			
	2013		Growth		2014		Growth		2014		Growth		2014		Growth		2014		Growth	
	£m	£m	CER%	£%	£m	CER%	£%	£m	CER%	£%	£m	CER%	£%	£m	CER%	£%	£m	CER%	£%	
<b>Respiratory</b>	<b>6,181</b>	<b>7,289</b>	<b>(10)</b>	<b>(15)</b>	<b>2,810</b>	<b>(18)</b>	<b>(22)</b>	<b>1,675</b>	<b>(3)</b>	<b>(7)</b>	<b>777</b>	<b>3</b>	<b>(7)</b>	<b>475</b>	<b>(2)</b>	<b>(14)</b>				
Avamys/Veramyst	238	249	5	(4)	31	(21)	(26)	69	4	-	73	15	3	48	10	(2)				
Flixotide/Flovent	702	796	(6)	(12)	432	(6)	(10)	102	(9)	(13)	55	9	(5)	28	(24)	(33)				
Relvar/Breo Ellipta	67	8	>100	>100	29	>100	>100	18	-	-	2	-	-	17	>100	>100				
Seretide/Advair	4,229	5,274	(15)	(20)	1,972	(25)	(29)	1,330	(5)	(9)	400	3	(7)	228	(6)	(18)				
Ventolin	665	642	11	4	328	18	13	124	2	(2)	165	8	(4)	7	(11)	(22)				
Other	280	320	(3)	(13)	18	>100	>100	32	10	3	82	(18)	(24)	147	(3)	(16)				
<b>Oncology</b>	<b>1,202</b>	<b>969</b>	<b>33</b>	<b>24</b>	<b>509</b>	<b>41</b>	<b>34</b>	<b>417</b>	<b>29</b>	<b>23</b>	<b>169</b>	<b>30</b>	<b>13</b>	<b>65</b>	<b>17</b>	<b>3</b>				
Arzerra	54	75	(24)	(28)	28	(35)	(39)	23	(11)	(15)	1	-	-	3	>100	>100				
Mekinist	68	10	>100	>100	67	>100	>100	-	-	-	-	-	-	-	-	-				
Promacta	231	186	34	24	91	32	25	71	36	29	29	50	32	33	27	10				
Tafinlar	135	16	>100	>100	58	>100	>100	67	>100	>100	-	-	-	-	-	-				
Tyverb/Tykerb	171	207	(11)	(17)	45	(15)	(18)	67	(15)	(18)	47	13	-	8	(41)	(53)				
Votrient	410	331	33	24	181	32	26	153	23	18	46	49	24	17	>100	89				
Other	133	144	(1)	(8)	39	-	(5)	36	(10)	(12)	46	19	7	4	(33)	(33)				
<b>Cardiovascular, metabolic and urology (CVMU)</b>	<b>965</b>	<b>1,073</b>	<b>(3)</b>	<b>(10)</b>	<b>364</b>	<b>(16)</b>	<b>(20)</b>	<b>293</b>	<b>-</b>	<b>(5)</b>	<b>145</b>	<b>20</b>	<b>7</b>	<b>114</b>	<b>14</b>	<b>-</b>				
Avodart	805	857	1	(6)	258	(13)	(17)	280	8	3	113	20	9	114	14	-				
Other	160	216	(21)	(26)	106	(23)	(26)	13	(63)	(63)	32	19	3	-	-	-				
<b>Immuno-inflammation</b>	<b>214</b>	<b>161</b>	<b>40</b>	<b>33</b>	<b>196</b>	<b>39</b>	<b>32</b>	<b>12</b>	<b>63</b>	<b>50</b>	<b>3</b>	<b>&gt;100</b>	<b>&gt;100</b>	<b>-</b>	<b>-</b>	<b>-</b>				
Benlysta	173	146	25	18	155	22	16	12	63	50	3	>100	>100	-	-	-				
Other	41	15	>100	>100	41	>100	>100	-	-	-	-	-	-	-	-	-				
<b>Other pharmaceuticals</b>	<b>2,407</b>	<b>2,674</b>	<b>(2)</b>	<b>(10)</b>	<b>171</b>	<b>(31)</b>	<b>(34)</b>	<b>660</b>	<b>(4)</b>	<b>(8)</b>	<b>1,053</b>	<b>5</b>	<b>(6)</b>	<b>256</b>	<b>1</b>	<b>(12)</b>				
Dermatology	481	631	(18)	(24)	49	(56)	(57)	150	(8)	(12)	240	(9)	(17)	22	(7)	(21)				
Augmentin	573	630	(2)	(9)	1	-	-	189	(2)	(7)	356	(1)	(9)	11	-	(15)				
Other anti-bacterials	215	224	3	(4)	6	(14)	(14)	61	(3)	(8)	145	6	(2)	2	(33)	(33)				
Rare diseases	417	495	(8)	(16)	67	(38)	(41)	134	9	4	40	(6)	(17)	157	(3)	(15)				
Other	721	694	15	4	48	>100	92	126	(12)	(17)	272	30	(11)	64	16	2				
<b>Innovative Pharmaceuticals</b>	<b>10,969</b>	<b>12,166</b>	<b>(3)</b>	<b>(10)</b>	<b>4,050</b>	<b>(12)</b>	<b>(16)</b>	<b>3,057</b>	<b>-</b>	<b>(4)</b>	<b>2,147</b>	<b>7</b>	<b>(4)</b>	<b>910</b>	<b>2</b>	<b>(11)</b>				
<b>Vaccines</b>	<b>3,192</b>	<b>3,420</b>	<b>(1)</b>	<b>(7)</b>	<b>930</b>	<b>-</b>	<b>(5)</b>	<b>978</b>	<b>(2)</b>	<b>(7)</b>	<b>1,056</b>	<b>1</b>	<b>(6)</b>	<b>27</b>	<b>(14)</b>	<b>(25)</b>				
Boostrix	317	288	16	10	163	(7)	(11)	78	26	20	55	>100	>100	-	-	-				
Cervarix	118	172	(26)	(31)	5	(17)	(17)	48	(16)	(21)	63	(24)	(32)	-	(100)	(100)				
Fluarix, FluLaval	215	251	(9)	(14)	142	2	(3)	22	(34)	(37)	30	(23)	(30)	-	-	-				
Hepatitis	558	629	(6)	(11)	234	(6)	(11)	186	(2)	(6)	97	(15)	(21)	-	-	-				
Infanrix, Pediarix	828	862	2	(4)	297	15	10	369	(3)	(7)	104	(12)	(21)	-	-	-				
Rotarix	376	375	7	-	86	(16)	(20)	67	19	14	179	18	9	28	28	12				
Synflorix	398	405	4	(2)	-	-	-	40	(13)	(17)	355	7	1	-	-	-				
Other	382	438	(6)	(13)	3	>100	>100	168	(5)	(9)	173	(6)	(14)	(1)	<(100)	<(100)				
<b>Innovative Pharmaceuticals and Vaccines</b>	<b>14,161</b>	<b>15,586</b>	<b>(3)</b>	<b>(9)</b>	<b>4,980</b>	<b>(10)</b>	<b>(14)</b>	<b>4,035</b>	<b>-</b>	<b>(5)</b>	<b>3,203</b>	<b>5</b>	<b>(5)</b>	<b>937</b>	<b>1</b>	<b>(11)</b>				
<b>ViiV Healthcare (HIV)</b>	<b>1,498</b>	<b>1,386</b>	<b>15</b>	<b>8</b>	<b>670</b>	<b>28</b>	<b>21</b>	<b>534</b>	<b>6</b>	<b>2</b>	<b>142</b>	<b>(4)</b>	<b>(17)</b>	<b>63</b>	<b>35</b>	<b>18</b>				
Combivir	59	116	(46)	(49)	11	(67)	(68)	18	(52)	(54)	25	(20)	(27)	2	(15)	(26)				
Epzicom/Kivexa	768	763	8	1	274	7	2	335	7	2	71	7	(9)	36	14	-				
Lexiva/Agenerase	87	113	(17)	(23)	45	(24)	(27)	20	(25)	(28)	18	22	1	2	(27)	(36)				
Selzentry	136	143	-	(5)	53	(4)	(9)	58	(3)	(7)	7	37	16	2	(16)	(26)				
Tivicay	282	19	>100	>100	200	>100	>100	56	>100	>100	1	-	-	14	-	-				
Trizivir	36	97	(61)	(63)	10	(81)	(82)	22	(28)	(31)	1	(53)	(61)	-	-	-				
Other	130	135	5	(4)	77	55	51	25	(30)	(32)	19	(33)	(37)	7	(22)	(22)				
<b>Established Products</b>	<b>3,011</b>	<b>3,874</b>	<b>(16)</b>	<b>(22)</b>	<b>854</b>	<b>(31)</b>	<b>(34)</b>	<b>601</b>	<b>(13)</b>	<b>(16)</b>	<b>1,050</b>	<b>(1)</b>	<b>(9)</b>	<b>444</b>	<b>(15)</b>	<b>(25)</b>				
Coreg	124	131	(1)	(5)	123	(1)	(5)	-	-	-	-	-	-	-	-	-				
Hepsera	85	96	(5)	(11)	-	-	-	-	-	-	64	(3)	(9)	20	(8)	(20)				
Imigran/Imitrex	172	188	(4)	(9)	83	5	4	61	2	(3)	6	-	(14)	17	(21)	(29)				
Lamictal	531	557	3	(5)	253	(4)	(8)	106	1	(4)	78	10	-	89	22	7				
Lovaza	240	584	(57)	(59)	238	(57)	(59)	-	-	-	-	-	-	-	-	-				
Requip	109	125	(4)	(13)	7	-	-	39	(19)	(25)	14	14	-	48	6	(6)				
Serevent	108	129	(12)	(16)	43	(12)	(16)	48	(9)	(13)	3	(25)	(25)	9	(23)	(31)				
Seroxat/Paxil	210	285	(19)	(26)	-	-	-	43	(15)	(19)	62	(13)	(22)	98	(19)	(29)				
Valtrex	154	224	(24)	(31)	26	(40)	(42)	27	(3)	(7)	33	(3)	(18)	50	(45)	(53)				
Zeffix	166	182	(3)	(9)	3	(77)	(77)	8	(25)	(33)	141	7	1	13	(13)	(19)				
Other	1,112	1,373	(12)	(19)	78	(28)	(33)	269	(19)	(22)	649	(3)	(10)	100	(17)	(28)				
	<b>18,670</b>	<b>20,846</b>	<b>(4)</b>	<b>(10)</b>																

The table above includes the sales by product reported in the Other trading and unallocated pharmaceuticals segment (which includes Canada, Puerto Rico, Australasia, central vaccine tender sales and contract manufacturing sales) in the total column only.

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



Pharmaceuticals and Vaccines turnover by therapeutic area 2013

Therapeutic area/ major products	Total				USA				Europe				Emerging Markets				Japan			
	2012		Growth		2013		Growth		2013		Growth		2013		Growth		2013		Growth	
	£m	£m	CER%	£%	£m	CER%	£m	CER%	£m	CER%	£m	CER%	£m	CER%	£m	CER%	£m	CER%	£m	CER%
<b>Respiratory</b>	<b>7,289</b>	7,044	4	3	<b>3,594</b>	7	8	<b>1,802</b>	(2)	1	<b>837</b>	4	3	<b>554</b>	10	(8)				
Avamys/Veramyst	249	246	5	1	42	(29)	(29)	69	8	11	71	16	13	49	28	7				
Flixotide/Flovent	796	779	2	2	482	6	8	117	(7)	(4)	58	7	5	42	(7)	(24)				
Relvar/Breo Ellipta	8	-	-	-	5	-	-	-	-	-	-	-	-	3	-	-				
Seretide/Advair	5,274	5,046	4	5	2,769	8	9	1,458	(2)	1	429	4	3	277	8	(10)				
Ventolin	642	631	2	2	291	4	5	127	(2)	1	171	2	-	9	-	(18)				
Other	320	342	4	(6)	5	(69)	(69)	31	(6)	(3)	108	(1)	(1)	174	14	(5)				
<b>Oncology</b>	<b>969</b>	798	22	21	<b>380</b>	17	18	<b>339</b>	28	32	<b>149</b>	18	14	<b>63</b>	36	13				
Arzerra	75	60	23	25	46	18	21	27	29	29	-	-	-	1	-	-				
Mekinist	10	-	-	-	10	-	-	-	-	-	-	-	-	-	-	-				
Promacta	186	130	46	43	73	33	35	55	47	53	22	92	83	30	44	20				
Tafinlar	16	-	-	-	11	-	-	4	-	-	-	-	-	-	-	-				
Tyverb/Tykerb	207	239	(13)	(13)	55	(21)	(19)	82	(9)	(6)	47	(9)	(13)	17	(5)	(23)				
Votrient	331	183	80	81	144	56	58	130	91	97	37	77	68	9	>100	>100				
Other	144	186	(23)	(23)	41	(40)	(41)	41	(17)	(11)	43	2	-	6	(25)	(25)				
<b>Cardiovascular, metabolic and urology (CVMU)</b>	<b>1,073</b>	1,144	(5)	(6)	<b>456</b>	(27)	(26)	<b>308</b>	18	23	<b>135</b>	27	24	<b>114</b>	25	4				
Avodart	857	790	10	8	312	(3)	(2)	273	15	20	104	27	24	114	25	4				
Other	216	354	(40)	(39)	144	(53)	(53)	35	48	52	31	24	24	-	-	-				
<b>Immuno-inflammation</b>	<b>161</b>	70	>100	>100	<b>148</b>	>100	>100	<b>8</b>	100	100	<b>1</b>	-	-	-	-	-				
Benlysta	146	70	>100	>100	134	>100	>100	8	100	100	1	-	-	-	-	-				
Other	15	-	-	-	14	-	-	-	-	-	-	-	-	-	-	-				
<b>Other pharmaceuticals</b>	<b>2,674</b>	2,630	5	2	<b>261</b>	(25)	(24)	<b>720</b>	2	7	<b>1,124</b>	2	(2)	<b>291</b>	36	13				
Dermatology	631	680	(5)	(7)	115	(37)	(36)	170	6	10	289	8	4	28	3	(15)				
Augmentin	630	608	5	4	1	-	-	203	(3)	-	393	11	7	13	(6)	(19)				
Other anti-bacterials	224	233	(4)	(4)	7	-	-	66	5	10	148	(4)	(6)	3	-	-				
Rare diseases	495	495	7	-	113	(4)	(3)	129	1	5	48	2	-	184	18	(2)				
Other	694	614	18	13	25	(37)	(36)	152	6	12	246	(12)	(16)	63	>100	>100				
<b>Innovative Pharmaceuticals</b>	<b>12,166</b>	11,686	2	4	<b>4,839</b>	2	3	<b>3,177</b>	2	7	<b>2,246</b>	2	2	<b>1,022</b>	2	(1)				
<b>Vaccines</b>	<b>3,420</b>	3,325	2	3	<b>978</b>	17	18	<b>1,049</b>	3	7	<b>1,124</b>	1	2	<b>36</b>	(76)	(80)				
Boostrix	288	238	19	21	183	23	24	65	19	23	20	25	25	-	-	-				
Cervarix	172	270	(37)	(36)	6	-	-	61	11	15	92	23	23	10	(90)	(92)				
Fluarix, FluLaval	251	200	25	26	146	65	66	35	(21)	(19)	43	(2)	(2)	-	-	-				
Hepatitis	629	646	(4)	(3)	263	(3)	(1)	198	(3)	1	123	(2)	(4)	-	-	-				
Infanrix, Pediarix	862	775	9	11	271	23	24	398	2	6	132	11	10	-	-	-				
Rotarix	375	360	5	4	108	7	8	59	49	51	164	3	3	25	(30)	(43)				
Synflorix	405	385	2	5	-	-	-	48	2	7	350	1	5	-	-	-				
Other	438	451	(4)	(3)	1	(100)	-	185	2	6	200	(14)	(13)	1	-	-				
<b>Innovative Pharmaceuticals and Vaccines</b>	<b>15,586</b>	15,011	4	4	<b>5,817</b>	4	6	<b>4,226</b>	3	7	<b>3,370</b>	3	2	<b>1,058</b>	6	(12)				
<b>ViiV Healthcare (HIV)</b>	<b>1,386</b>	1,374	-	1	<b>552</b>	5	6	<b>526</b>	(3)	-	<b>171</b>	(12)	(14)	<b>54</b>	14	(6)				
Combivir	116	179	(36)	(35)	35	46	48	39	(41)	(39)	35	(56)	(56)	3	(11)	(26)				
Epzicom/Kivexa	763	665	14	15	269	9	10	328	11	15	78	38	37	36	21	1				
Lexiva/Agenerase	113	127	(11)	(11)	62	(10)	(9)	27	(22)	(18)	18	(1)	(6)	3	(7)	(23)				
Selzentry	143	128	10	12	58	1	2	63	8	13	6	67	60	3	49	23				
Tivicay	19	-	-	-	19	-	-	-	-	-	-	-	-	-	-	-				
Trizivir	97	107	(10)	(9)	58	(6)	(4)	32	(17)	(14)	4	(26)	(30)	-	-	-				
Other	135	168	(20)	(20)	51	(25)	(24)	37	(26)	(23)	30	(8)	(8)	9	(5)	(21)				
<b>Established Products</b>	<b>3,874</b>	4,351	(8)	(11)	<b>1,300</b>	(7)	(6)	<b>718</b>	(14)	(11)	<b>1,157</b>	(5)	(7)	<b>595</b>	(5)	(22)				
Coreg	131	133	(2)	(2)	130	(2)	(2)	-	-	-	-	-	-	-	-	-				
Hepsera	96	126	(21)	(24)	-	-	-	-	-	-	70	(28)	(26)	25	(3)	(19)				
Imigran/Imitrex	188	190	1	(1)	80	11	11	63	(7)	(6)	7	-	-	24	(13)	(25)				
Lamictal	557	610	(7)	(9)	276	(18)	(17)	110	(4)	(2)	78	8	4	83	28	6				
Lovaza	584	607	(5)	(4)	581	(5)	(4)	-	-	-	-	-	-	-	-	-				
Requip	125	164	(18)	(24)	7	(63)	(63)	52	(33)	(32)	14	-	-	51	11	(7)				
Serevent	129	145	(10)	(11)	51	(2)	-	55	(17)	(14)	4	33	33	13	(20)	(35)				
Seroxat/Paxil	285	374	(16)	(24)	-	-	-	53	(11)	(7)	79	(4)	(6)	138	(22)	(36)				
Valtrex	224	252	(2)	(11)	45	26	29	29	(15)	(12)	40	11	8	106	(2)	(18)				
Zeffix	182	243	(26)	(25)	13	(13)	(13)	12	(25)	(25)	140	(28)	(26)	16	(5)	(20)				
Other	1,373	1,507	(6)	(9)	117	(5)	(1)	344	(14)	(10)	725	2	(3)	139	(5)	(23)				
	<b>20,846</b>	20,736	1	1																

The table above includes the sales by product reported in the Other trading and unallocated pharmaceuticals segment (which includes Canada, Puerto Rico, Australasia, central vaccine tender sales and contract manufacturing sales) in the total column only.

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



2006bLL7u50u216

# Financial record

## continued

Strategic report

### Five year record

A record of financial performance is provided, analysed in accordance with current reporting practice. The information included in the Five year record is prepared in accordance with IFRS as adopted by the European Union and also with IFRS as issued by the International Accounting Standards Board.

The Established Products segment has been created and certain product reclassifications, principally the OTC dermatology brands acquired with the Stiefel business, have been made between Pharmaceuticals and Vaccines segments and the Consumer Healthcare segment, with effect from 1 January 2014. Comparative information in all four years has been restated accordingly. In addition, the 2013 and 2012 segment turnover and core results have been restated to exclude the divestments completed in 2013.

Comparative information for 2012 is also reported including the effect of the divestments completed in 2013.

	2014 £m	2013 (restated) £m	2012 (restated) £m	2012 (restated) £m	2011 (restated) £m	2010 (restated) £m
<b>Turnover by division</b>						
Pharmaceuticals	15,478	17,426	17,411	17,838	18,474	18,890
Vaccines	3,192	3,420	3,325	3,325	3,497	4,326
Pharmaceuticals and Vaccines	18,670	20,846	20,736	21,163	21,971	23,216
Consumer Healthcare	4,336	4,756	4,747	5,268	5,416	5,176
	23,006	25,602	25,483	26,431	27,387	28,392
Divestments	–	903	948	–	–	–
<b>Total turnover including divestments</b>	<b>23,006</b>	<b>26,505</b>	<b>26,431</b>	<b>26,431</b>	<b>27,387</b>	<b>28,392</b>

### Group turnover by geographic region

	2014 £m	2013 (restated) £m	2012 (restated) £m	2012 (restated) £m	2011 (restated) £m	2010 (restated) £m
USA	7,340	8,620	8,330	8,476	8,696	9,346
Europe	6,412	6,862	6,675	7,330	8,276	9,097
Emerging Markets	6,193	6,579	6,629	6,784	6,407	6,078
Japan	1,608	1,886	2,219	2,225	2,318	2,155
Other	1,453	1,655	1,630	1,616	1,690	1,716
	23,006	25,602	25,483	26,431	27,387	28,392
Divestments	–	903	948	–	–	–
<b>Total turnover including divestments</b>	<b>23,006</b>	<b>26,505</b>	<b>26,431</b>	<b>26,431</b>	<b>27,387</b>	<b>28,392</b>

### Group turnover by segment

	2014 £m	2013 (restated) £m	2012 (restated) £m	2012 (restated) £m	2011 (restated) £m	2010 (restated) £m
USA	4,980	5,817	5,508	5,556	5,338	5,430
Europe	4,035	4,226	3,956	3,956	4,374	4,899
Emerging Markets	3,203	3,370	3,309	3,309	3,067	3,287
Japan	937	1,058	1,203	1,203	1,257	1,182
ViiV Healthcare (HIV)	1,498	1,386	1,374	1,374	1,569	1,566
Established Products	3,011	3,874	4,351	4,730	5,325	6,069
Other trading and unallocated pharmaceuticals	1,006	1,115	1,035	1,035	1,041	783
Pharmaceuticals and Vaccines	18,670	20,846	20,736	21,163	21,971	23,216
Consumer Healthcare	4,336	4,756	4,747	5,268	5,416	5,176
	23,006	25,602	25,483	26,431	27,387	28,392
Divestments	–	903	948	–	–	–
<b>Total turnover including divestments</b>	<b>23,006</b>	<b>26,505</b>	<b>26,431</b>	<b>26,431</b>	<b>27,387</b>	<b>28,392</b>

### Pharmaceuticals and Vaccines turnover by therapeutic area

	2014 £m	2013 (restated) £m	2012 (restated) £m	2012 (restated) £m	2011 (restated) £m	2010 (restated) £m
Respiratory	6,181	7,289	7,044	7,044	7,012	6,930
Oncology and emesis	1,202	969	798	798	683	679
Cardiovascular, Metabolic and urogenital	965	1,073	1,144	1,144	1,108	946
Immuno-inflammation	214	161	70	70	15	–
Other pharmaceuticals	2,407	2,674	2,630	2,678	2,762	2,700
Established Products	3,011	3,874	4,351	4,730	5,325	6,069
Vaccines	3,192	3,420	3,325	3,325	3,497	4,326
ViiV Healthcare (HIV)	1,498	1,386	1,374	1,374	1,569	1,566
	18,670	20,846	20,736	21,163	21,971	23,216

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## Five year record continued

Consumer Healthcare turnover	2014 £m	2013 (restated) £m	2012 (restated) £m	2012 (restated) £m	2011 (restated) £m	2010 (restated) £m
Wellness	1,596	1,865	1,991	1,998	2,310	2,217
Oral care	1,797	1,884	1,806	1,806	1,722	1,596
Nutrition	633	627	590	1,104	1,025	953
Skin health	310	380	360	360	359	410
	<b>4,336</b>	4,756	4,747	5,268	5,416	5,176

Financial results – total	2014 £m	2013 £m	2012 £m	2012 £m	2011 £m	2010 £m
Turnover	23,006	26,505	26,431	26,431	27,387	28,392
Operating profit	3,597	7,028	7,300	7,300	7,734	3,715
Profit before taxation	2,968	6,647	6,600	6,600	7,625	3,089
Profit after taxation	2,831	5,628	4,678	4,678	5,405	1,806

	pence	pence	pence	pence	pence	pence
Basic earnings per share	57.3	112.5	91.6	91.6	103.6	31.2
Diluted earnings per share	56.7	110.5	90.2	90.2	102.1	30.9

	2014 millions	2013 millions	2012 millions	2012 millions	2011 millions	2010 millions
Weighted average number of shares in issue:						
Basic	4,808	4,831	4,912	4,912	5,028	5,085
Diluted	4,865	4,919	4,989	4,989	5,099	5,128

Financial results – core	2014 £m	2013 (restated) £m	2012 (restated) £m	2012 £m	2011 £m	2010 £m
Turnover	23,006	25,602	25,483	26,431	27,387	28,392
Operating profit	6,594	7,771	7,974	8,238	8,730	9,429
Profit before taxation	5,978	7,122	7,279	7,543	8,038	8,798
Profit after taxation	4,806	5,487	5,511	5,705	5,954	6,553

	pence	pence	pence	pence	pence	pence
Core earnings per share	95.4	108.4	107.4	111.4	114.5	124.6

	%	%	%	%	%	%
Return on capital employed	46.6	91.4	84.9	84.9	82.3	30.2

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



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# Financial record

## continued

### Five year record continued

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
<b>Balance sheet</b>					
Non-current assets	25,973	26,859	27,789	24,921	26,207
Current assets	14,678	15,227	13,692	16,167	16,036
Total assets	40,651	42,086	41,481	41,088	42,243
Current liabilities	(13,295)	(13,677)	(13,815)	(15,010)	(12,794)
Non-current liabilities	(22,420)	(20,597)	(20,929)	(17,264)	(19,724)
Total liabilities	(35,715)	(34,274)	(34,744)	(32,274)	(32,518)
Net assets	4,936	7,812	6,737	8,814	9,725
Shareholders' equity	4,263	6,997	5,800	8,019	8,867
Non-controlling interests	673	815	937	795	858
Total equity	4,936	7,812	6,737	8,814	9,725
<b>Number of employees</b>					
	2014	2013	2012	2011	2010
USA	16,579	16,530	17,201	16,707	17,555
Europe	37,899	38,367	38,788	38,696	39,910
Emerging Markets	36,730	37,747	36,738	35,080	31,992
Japan	3,560	3,531	3,515	3,573	3,461
Other	3,153	3,276	3,246	3,333	3,543
	97,921	99,451	99,488	97,389	96,461
Manufacturing	32,171	31,502	31,369	30,664	30,611
Selling	42,785	45,397	45,601	45,155	43,918
Administration	10,630	10,232	9,607	8,883	8,850
Research and development	12,335	12,320	12,911	12,687	13,082
	97,921	99,451	99,488	97,389	96,461

The geographic distribution of employees in the table above is based on the location of GSK's subsidiary companies. The number of employees is the number of permanent employed staff at the end of the financial period. It excludes those employees who are employed and managed by GSK on a contract basis.

#### Exchange rates

As a guide to holders of ADS, the following tables set out, for the periods indicated, information on the exchange rate of US dollars for Sterling as reported by the Bank of England (4pm buying rate).

	2014	2013	2012	2011	2010
Average	1.65	1.56	1.59	1.60	1.55

The average rate for the year is calculated as the average of the 4pm buying rates for each day of the year.

	2015 Feb	2015 Jan	2014 Dec	2014 Nov	2014 Oct	2014 Sep
High	1.54	1.54	1.57	1.60	1.62	1.66
Low	1.50	1.50	1.55	1.56	1.59	1.61

The 4pm buying rate on 19 February 2015 was £1= US\$1.54.



# Pipeline, products and competition

## Pharmaceuticals and Vaccines product development pipeline

### Key

†	In-licence or other alliance relationship with third party	Phase I	Evaluation of clinical pharmacology, usually conducted in volunteers
*	Also being developed for indications in another therapeutic area	Phase II	Determination of dose and initial evaluation of efficacy, conducted in a small number of patients
S	Month of first submission	Phase III	Large comparative study (compound versus placebo and/or established treatment) in patients to establish clinical benefit and safety
A	Month of first regulatory approval (for MAA, this is the first EU approval letter)		
BLA	Biological Licence Application		
MAA	Marketing Authorisation Application (Europe)		
NDA	New Drug Application (USA)		

MAA and NDA/BLA regulatory review milestones shown in the table below are those that have been achieved. Future filing dates are not included in this list.

Compound	Type	Indication	Phase	Achieved regulatory review milestones	
				MAA	NDA/BLA
<b>Respiratory</b>					
2126458	phosphoinositide 3 kinase (PI3K) inhibitor	idiopathic pulmonary fibrosis	I		
2256294	soluble epoxide hydrolase (sEH) inhibitor	chronic obstructive pulmonary disease (COPD)	I		
2862277	tumour necrosis factor receptor-1 (TNFR1) domain antibody	acute lung injury	I		
961081† + fluticasone furoate	muscarinic acetylcholine antagonist, beta2 agonist (MABA) + glucocorticoid agonist	COPD	I		
961081†	MABA	COPD	II		
2245035	toll-like receptor 7 agonist	asthma	II		
2269557	PI3K inhibitor	asthma & COPD	II		
258688†	recombinant human angiotensin converting enzyme 2	acute lung injury	II		
danirixin	CXCR2 chemokine receptor antagonist	COPD	II		
fluticasone furoate + umeclidinium	glucocorticoid agonist + muscarinic acetylcholine antagonist	asthma COPD overlap syndrome	II		
losmapimod	p38 kinase inhibitor (oral)	COPD*	II		
mepolizumab	IL5 monoclonal antibody	nasal polyposis*	II		
fluticasone furoate + vilanterol† + umeclidinium	glucocorticoid agonist + long-acting beta2 agonist + muscarinic acetylcholine antagonist	COPD	III		
mepolizumab	IL5 monoclonal antibody	COPD*	III		
Relvar/Breo Ellipta (vilanterol† + fluticasone furoate)	long-acting beta2 agonist + glucocorticoid agonist	COPD – mortality outcomes	III		
vilanterol†	long-acting beta2 agonist	COPD	III		
mepolizumab	IL5 monoclonal antibody	severe eosinophilic asthma*	Submitted	S: Nov14	S: Nov14
Anoro Ellipta (umeclidinium + vilanterol†)	muscarinic acetylcholine antagonist + long-acting beta2 agonist	COPD	Approved	A: May14	A: Dec13
Arnuity Ellipta (fluticasone furoate)	glucocorticoid agonist	asthma	Approved	N/A	A: Aug14
Incruse Ellipta (umeclidinium)	muscarinic acetylcholine antagonist	COPD*	Approved	A: Apr14	A: Apr14
Relvar/Breo Ellipta (vilanterol† + fluticasone furoate)	long-acting beta2 agonist + glucocorticoid agonist	asthma	Approved	A: Nov13	S: Jun14
<b>Paediatric Vaccines</b>					
RSV	recombinant	respiratory syncytial virus prophylaxis (maternal immunisation)	I		
RSV	recombinant viral vector	respiratory syncytial virus prophylaxis	I		
S. pneumoniae next generation†	recombinant – conjugated	Streptococcus pneumoniae disease prophylaxis	II		
MMR	live attenuated	measles, mumps, rubella prophylaxis	III (US)	N/A	
Mosquirix (Malaria RTS,S)†	recombinant	malaria prophylaxis (Plasmodium falciparum)	Submitted	S: Jun14	N/A
DTPa-HBV-IPV/Hib†	conjugated	diphtheria, tetanus, pertussis, poliomyelitis, hepatitis B, haemophilus influenza	Approved	N/A	
Nimenrix (MenACWY-TT)	conjugated	Neisseria meningitis groups A, C, W & Y disease prophylaxis	II (US)	Approved	A: Apr12

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# Pipeline, products and competition

*continued*

## Pharmaceuticals and Vaccines product development pipeline continued

Compound	Type	Indication	Phase	Achieved regulatory review milestones	
				MAA	NDA/BLA
<b>Other Vaccines</b>					
Malaria next generation†	recombinant	malaria prophylaxis (Plasmodium falciparum)	II		
NTHi†	recombinant	non-typeable Haemophilus influenzae prophylaxis	II		
Tuberculosis†	recombinant	tuberculosis prophylaxis	II		
Hepatitis C	recombinant viral vector	hepatitis C virus prophylaxis	II		
Ebola†	recombinant viral vector	prevention of filovirus haemorrhagic fevers caused by Ebola Zaire virus	III		
Zoster†	recombinant	Herpes Zoster prophylaxis	III		
<b>Antigen-Specific Cancer Immunotherapeutic</b>					
MAGE-A3 immunotherapeutic†	recombinant	treatment of melanoma	III		
<b>HIV (ViiV Healthcare)</b>					
cabotegravir (1265744)	HIV integrase inhibitor (long-acting parenteral formulation)	HIV infections	II		
cabotegravir (1265744)	HIV integrase inhibitor (long-acting parenteral formulation)	HIV pre-exposure prophylaxis	II		
Triumeq (dolutegravir + abacavir sulphate + lamivudine)	HIV integrase inhibitor + reverse transcriptase inhibitors (fixed dose combination)	HIV infections – fixed dose combination	Approved	A: Sep14	A: Aug14
<b>Oncology</b>					
525762	bromodomain inhibitor	cancer	I		
2256098	focal adhesion kinase inhibitor	cancer	I		
2636771	PI3K inhibitor	cancer	I		
2816126	enhancer of zeste homologue2 (EZH2) inhibitor	cancer	I		
2849330	ErbB3 monoclonal antibody	cancer	I		
2857916	beta cell maturation antigen antibody drug conjugate	multiple myeloma	I		
2879552	lysine-specific demethylase 1 (LSD1) inhibitor	cancer	I		
3052230†	fibroblast growth factor ligand trap	cancer	I		
afuresertib (2110183)	AKT protein kinase inhibitor	multiple myeloma	I		
Votrient (pazopanib) + MK-3475†	multi-kinase angiogenesis inhibitor + PD-1 monoclonal antibody	renal cell cancer	I		
afuresertib (2110183)	AKT protein kinase inhibitor	ovarian cancer	II		
Mekinist (trametinib)† + Tafinlar (dabrafenib)	MEK1/2 inhibitor + BRAF protein kinase inhibitor	non-small cell lung cancer	II		
Mekinist (trametinib)† + Tafinlar (dabrafenib)	MEK1/2 inhibitor + BRAF protein kinase inhibitor	rare cancers	II		
Mekinist (trametinib)† + Tafinlar (dabrafenib) + panitumumab†	MEK1/2 inhibitor + BRAF protein kinase inhibitor + human anti-EGFR monoclonal antibody	colorectal cancer	II		
Revolade/Promacta (eltrombopag)†	thrombopoietin receptor agonist	acute myeloid leukaemia	II		
Arzerra (ofatumumab)†	CD20 human monoclonal antibody	chronic lymphocytic leukaemia, use in relapsed patients	III		
Arzerra (ofatumumab)†	CD20 human monoclonal antibody	follicular lymphoma (refractory & relapsed patients)	III		
Mekinist (trametinib)† + Tafinlar (dabrafenib)	MEK1/2 inhibitor + BRAF protein kinase inhibitor	metastatic melanoma, adjuvant therapy	III		
Revolade/Promacta (eltrombopag)†	thrombopoietin receptor agonist	myelodysplastic syndromes	III		
Votrient (pazopanib)	multi-kinase angiogenesis inhibitor	renal cell cancer, adjuvant therapy	III		
Arzerra (ofatumumab)†	CD20 human monoclonal antibody	chronic lymphocytic leukaemia, first line therapy	Approved	A: Jun14	A: Apr14
Mekinist (trametinib)†	MEK1/2 inhibitor	metastatic melanoma	Approved	A: Jul14	A: May13
Mekinist (trametinib)† + Tafinlar (dabrafenib)	MEK1/2 inhibitor + BRAF protein kinase inhibitor	metastatic melanoma	Approved	A: Jan 14	
Revolade/Promacta (eltrombopag)†	thrombopoietin receptor agonist	aplastic anaemia	Approved	S: Nov14	A: Aug14



## Pharmaceuticals and Vaccines product development pipeline continued

Compound	Type	Indication	Phase	Achieved regulatory review milestones	
				MAA	NDA/BLA
<b>Cardiovascular &amp; Metabolic</b>					
1278863	prolyl hydroxylase inhibitor (topical)	wound healing	I		
2798745	transient receptor potential cation channel V4 (TRPV4) antagonist	heart failure	I		
2881078	selective androgen receptor modulator	muscle wasting	I		
1278863	prolyl hydroxylase inhibitor	anaemia associated with chronic renal disease	II		
2330672	ileal bile acid transport inhibitor	type 2 diabetes & cholestatic pruritus	II		
camicalin	motilin receptor agonist	delayed gastric emptying	II		
Eperzan/Tanzeum (albiglutide)	GLP 1 agonist	type 1 diabetes	II		
losmapimod	p38 kinase inhibitor	focal segmental glomerular sclerosis*	II		
otelixizumab	CD3 monoclonal antibody	new onset type 1 diabetes	II		
losmapimod	p38 kinase inhibitor	acute coronary syndrome*	III		
retosiban	oxytocin antagonist	threatened pre-term labour	III		
Eperzan/Tanzeum (albiglutide)	GLP 1 agonist	type 2 diabetes	Approved	A: Mar14	A: Apr14
<b>Immuno-inflammation</b>					
2618960	IL7 receptor monoclonal antibody	autoimmune disease	I		
2646264	spleen tyrosine kinase (Syk) inhibitor (topical)	chronic urticaria	I		
2831781†	LAG3 monoclonal antibody	autoimmune disease	I		
2982772	RIP1 kinase inhibitor	autoimmune disease	I		
3050002†	CCL20 monoclonal antibody	autoimmune disease	I		
3117391†	macrophage targeted histone deacetylase inhibitor	rheumatoid arthritis	I		
3196165 (MOR103)†	granulocyte macrophage colony-stimulating factor monoclonal antibody	rheumatoid arthritis	II		
Benlysta (belimumab)	B lymphocyte stimulator monoclonal antibody (i.v.)	transplant rejection*	II		
Benlysta (belimumab)	B lymphocyte stimulator monoclonal antibody (s.c.)	systemic lupus erythematosus*	III		
Benlysta (belimumab)	B lymphocyte stimulator monoclonal antibody (i.v.)	vasculitis*	III		
sirukumab†	IL6 human monoclonal antibody (s.c.)	rheumatoid arthritis	III		
<b>Rare Diseases</b>					
2398852† + 23156898†	SAP monoclonal antibody + SAP depleter (CPHPC)	amyloidosis	I		
2696274†	ex-vivo stem cell gene therapy	metachromatic leukodystrophy	II		
2696275†	ex-vivo stem cell gene therapy	Wiscott-Aldrich syndrome	II		
ozanezumab	neurite outgrowth inhibitor (NOGO-A) monoclonal antibody	amyotrophic lateral sclerosis	II		
2696273†	ex-vivo stem cell gene therapy	adenosine deaminase severe combined immune deficiency (ADA-SCID)	III		
mepolizumab	IL5 monoclonal antibody (s.c.)	eosinophilic granulomatosis with polyangiitis*	III		
Volibris (ambrisentan)†	endothelin A antagonist	chronic thromboembolic pulmonary hypertension	III		
<b>Infectious Diseases</b>					
2838232	antiviral maturation inhibitor	HIV infections	I		
2878175	NS5B polymerase inhibitor	hepatitis C	I		
2140944	type 2 topoisomerase inhibitor	bacterial infections	II		
tafenoquine†	8-aminoquinoline	Plasmodium vivax malaria	III		
Relenza i.v. (zanamivir)†	neuraminidase inhibitor (i.v.)	influenza	III		
<b>Neurosciences</b>					
ofatumumab†	CD20 human monoclonal antibody (s.c.)	neuromyelitis optica*	II		
Benlysta (belimumab)	B lymphocyte stimulator monoclonal antibody (i.v.)	myasthenia gravis*	II		
ofatumumab†	CD20 human monoclonal antibody (s.c.)	multiple sclerosis*	II		
rilapladib	Lp-PLA2 inhibitor	Alzheimer's disease	II		

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# Pipeline, products and competition

## *continued*

### Pharmaceuticals and Vaccines product development pipeline continued

Compound	Type	Indication	Phase	Achieved regulatory review milestones	
				MAA	NDA/BLA
<b>Ophthalmology</b>					
933776	beta amyloid monoclonal antibody	geographic retinal atrophy	II		
<b>Dermatology</b>					
1940029	stearoyl CoA desaturase 1 inhibitor (topical)	acne vulgaris	I		
umeclidinium	muscarinic acetylcholine antagonist (topical)	hyperhidrosis*	I		
2894512†	non-steroidal anti-inflammatory	atopic dermatitis & psoriasis	II		
chlorhexidine	cationic polybiguanide (topical)	umbilical cord care	III		
ofatumumab†	CD20 human monoclonal antibody (s.c.)	pemphigus vulgaris*	III		
<i>Toctino</i> (alitretinoin)†	retinoic acid receptor modulator	chronic hand eczema	III	N/A	

Brand names appearing in italics are trade marks either owned by and/or licensed to GSK or associated companies.

Option-based alliances with third parties that include assets in phase I and phase III development:

Company	Disease Area	Phase
Adaptimmune	cancer	I
Cancer Research UK	cancer	I
ISIS Pharmaceuticals	hepatitis B transthyretin-mediated amyloidosis	I III
OncoMed Pharmaceuticals	oncology	I
	oncology	II
Shionogi	bacterial infection	I

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## Pharmaceutical products, competition and intellectual property

Products	Compounds	Indication(s)	Major competitor brands	Patent expiry dates	
				USA	EU
<b>Respiratory</b>					
<i>Anoro Ellipta</i>	umeclidinium bromide/ vilanterol terfenatate	COPD	Spiriva, Onbrez	2025 (NCE) 2016-2030 (device/ formulation)	2025 (NCE) 2016-2026 (device/ formulation)
<i>Arnuity Ellipta</i>	fluticasone furoate	asthma	Qvar, Pulmicort Asmanex, Alvesco	2021 (NCE) 2016-2030 (device/ formulation)	2023 (NCE) 2016-2026 (device/ formulation)
<i>Avamys/Veramyst</i>	fluticasone furoate	rhinitis	Nasonex	2021 <sup>3</sup>	2023
<i>Flixotide/Flovent</i>	fluticasone propionate	asthma/COPD	Qvar, Singulair	2016 (Diskus device) 2015-2025 (HFA-device)	expired (Diskus device) 2017 (HFA-device)
<i>Incruse Ellipta</i>	umeclidinium bromide	COPD	Spiriva, Seebri	2025 (NCE) 2016-2030 (device/ formulation)	2025 (NCE) 2016-2026 (device/ formulation)
<i>Relvar/Breo Ellipta</i>	fluticasone furoate/ vilanterol terfenatate	asthma/COPD (US – COPD only)	Symbicort, Foster, Flutiform, Dulera	2022 (NCE) 2016-2030 (device/ formulation)	2022 (NCE) 2016-2026 (device/ formulation)
<i>Seretide/Advair*</i>	salmeterol xinafoate/ fluticasone propionate	asthma/COPD	Symbicort, Foster, Flutiform, Dulera	2016 (Diskus device) 2015-2026 (HFA-device)	expired (Diskus device) 2017 (HFA-device)
<i>Serevent</i>	salmeterol xinafoate	asthma/COPD	Foradil, Spiriva, Onbrez	2016 (Diskus device)	expired (Diskus device) 2019 (HFA-device)
<i>Ventolin HFA</i>	albuterol sulphate	asthma/COPD	generic companies	2015-2025 (HFA-device)	2015-2017 (HFA-device)
<b>Anti-virals</b>					
<i>Relenza</i>	zanamivir	influenza	Tamiflu	expired	expired
<i>Valtrex</i>	valaciclovir	genital herpes, coldsore, shingles	Famvir	expired	expired
<i>Zeffix/Epivir-HBV</i>	lamivudine	chronic hepatitis B	Hepsera	expired	expired
<b>Central nervous system</b>					
<i>Lamictal</i>	lamotrigine	epilepsy, bipolar disorder	Keppra, Dilantin	expired	expired
<i>Imigran/Imitrex</i>	sumatriptan	migraine	Zomig, Maxalt, Relpax	expired	expired
<i>Requip XL</i>	ropinirole	Parkinson's disease	Mirapex	expired	expired
<i>Seroxat/Paxil</i>	paroxetine	depression, various anxiety disorders	Effexor, Cymbalta, Lexapro	expired	expired
<b>Cardiovascular and urogenital</b>					
<i>Eperzan/Tanzeum</i>	albiglutide	Type 2 diabetes	Victoza, Byetta Bydureon, Lyxumia Trulicity	2022	2022
<i>Avodart</i>	dutasteride	benign prostatic hyperplasia	Proscar, Flomax, finasteride	2015 <sup>1</sup>	2017
<i>Coreg CR</i>	carvedilol phosphate	mild-to-severe heart failure, hypertension, left ventricular dysfunction post MI	Toprol XL	2016 <sup>2</sup> (formulation)	NA
<i>Lovaza</i>	omega-3 acid ethyl esters	very high triglycerides	Tricor	expired	NA

\* See 'Risk factors' on page 233 for details of uncertainty on the timing of follow-on competition.

<sup>1</sup> See Note 45 to the financial statements, 'Legal proceedings'.

<sup>2</sup> Generic competition possible in 2015.

<sup>3</sup> Generic competition possible in 2016.

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# Pipeline, products and competition

## continued

### Pharmaceutical products, competition and intellectual property continued

Products	Compounds	Indication(s)	Major competitor brands	Patent expiry dates	
				USA	EU
<b>Anti-bacterials</b>					
<i>Augmentin</i>	amoxicillin/clavulanate potassium	common bacterial infections	generic products	NA	expired
<b>Oncology</b>					
<i>Arzerra</i>	ofatumumab	refractory chronic lymphocytic leukaemia	MabThera/Rituxan, Imbruvica	2030	2023
<i>Mekinist</i>	trametinib	BRAF V600+ metastatic melanoma	Yervoy, Opdivo, Keytruda	2025	NA
<i>Promacta/Revolade</i>	eltrombopag	idiopathic thrombocytopenic purpura, hepatitis C associated thrombocytopenia	Nplate, MabThera/Rituxan	2022	2025
<i>Tafinlar</i>	dabrafenib	BRAF V600+ metastatic melanoma	Yervoy, Zelboraf Opdivo, Keytruda	2030	not yet granted
<i>Tykerb/Tyverb</i>	lapatanib	advanced and metastatic breast cancer in HER2 positive patients	Herceptin, Kadcyla	2020	2023
<i>Votrient</i>	pazopanib	soft tissue sarcoma metastatic renal cell carcinoma	Yondelis, Sutent, Nexavar, Afinitor Temezirolimus	2023	2025
<b>Rare diseases</b>					
<i>Volibris</i>	ambrisentan	pulmonary hypertension	Tracleer, Revatio	NA	2020
<b>Immuno-inflammation</b>					
<i>Benlysta</i>	belimumab	systemic lupus erythematosus		2023	2021
<b>Vaccines</b>					
<i>Boostrix</i>	diphtheria, tetanus, acellular pertussis	booster vaccination	Adacel	2017	2017
<i>Infanrix/Pediarix</i>	diphtheria, tetanus, pertussis, polio, hepatitis B, Haemophilus influenzae type B	diphtheria, tetanus, pertussis, polio, hepatitis B, Haemophilus influenzae type B	Pentacel, Pediacel, Pentaxim, Pentavac, Hexaxim	NA	2016
<i>Cervarix</i>	HPV 16 & 18 virus like particles (VLPs), AS04 adjuvant (MPL + aluminium hydroxide)	human papilloma virus type 16 and 18	Gardasil (Silgard)	2020	2020
<i>Fluarix</i>	split inactivated influenza virus subtypes A and subtype B antigens	seasonal influenza	Vaxigrip, Mutagrip, Fluzone, Influvac, Aggripal, Fluad, Intenza, Flumist	2022	2022
<i>Fluarix Tetra</i>	split inactivated influenza virus subtypes A and subtype B antigens	seasonal influenza	Intenza, Flumist QIV, Vaxigrip QIV, Fluzone QIV, Fluzone High Dose	2022	2022
<i>FluLaval</i>	split inactivated influenza virus subtypes A and subtype B antigens	seasonal influenza	Vaxigrip, Mutagrip, Fluzone, Influvac, Aggripal, Fluad, Intenza, Flumist	none	none
<i>Pandemrix</i>	derived split inactivated influenza virus antigen, AS03 adjuvant	A(H1N1)v2009 influenza prophylaxis	Focetria, Celvapan,	NA	2020
<i>Prepandrix</i>	derived split inactivated influenza virus antigen, AS03 adjuvant	pandemic H5N1 influenza prophylaxis	Aflunov, Vepacel	not yet granted	2026
<i>Synflorix</i>	conjugated pneumococcal polysaccharide	invasive pneumococcal disease, pneumonia acute otitis media	Prevenar (Prevnar)	NA	2021

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## Pharmaceutical products, competition and intellectual property continued

Products	Compounds	Indication(s)	Major competitor brands	Patent expiry dates <sup>3</sup>	
				USA	EU
<b>HIV</b> <i>Epzicom/Kivexa</i>	lamivudine and abacavir	HIV/AIDS	Truvada, Atripla Stribild Complera/Eviplera	2016 <sup>1</sup> (combination)	2019 <sup>1</sup> (combination)
<i>Lexiva/Telzir</i>	fosamprenavir	HIV/AIDS	Prezista, Kaletra, Reyataz	2018 <sup>1</sup>	2019
<i>Selzentry</i>	maraviroc	HIV/AIDS	Isentress, Intelence, Prezista	2021	2022
<i>Tivicay</i>	dolutegravir	HIV/AIDS	Isentress, Prezista Reyataz, Kaletra	2027	2026
<i>Triumeq</i>	dolutegravir, lamivudine and abacavir	HIV/AIDS	Truvada, Atripla Stribild Complera/Eviplera	2027	2026
<i>Trizivir</i>	lamivudine, zidovudine and abacavir	HIV/AIDS	Truvada, Atripla Stribild Complera/Eviplera	2016 <sup>1,2</sup> (combination)	2016 (combination)

<sup>1</sup> See Note 45 to the financial statements, 'Legal proceedings'.

<sup>2</sup> Generic competition commenced in 2014.

<sup>3</sup> Includes Supplementary Protection Certificates and other patent term extensions, where granted.

## Consumer Healthcare products and competition

Brand	Products	Application	Markets	Competition
<b>Wellness</b> <i>Panadol and Panadol Cold &amp; Flu</i>	tablets, caplets, infant drops	paracetamol-based treatment for headache, joint pain, fever, cold symptoms	global (except US)	Reckitt-Benckiser's Nurofen Bayer's Aspirin Johnson & Johnson's Tylenol Retailer own label
<i>ENO</i>	effervescent	immediate relief antacid	global (except US)	Hypermarcas' Estomazil Pfizer's Gelusil
<i>Tums</i>	chewable tablets	immediate relief antacid	US	Sanofi's Roloids Bayer's Alka-Seltzer Retailer own label
<i>Nicorette (US), Nicoderm, NiQuitin CQ and Nicabate</i>	lozenges, gum and trans-dermal patch	treatment of nicotine withdrawal as an aid to smoking reduction and cessation	global	Novartis's Nicotinell Johnson & Johnson's Nicorette (except US) Retailer own label
<b>Oral health</b> <i>Sensodyne</i>	toothpastes, toothbrushes mouth rinse	treat and prevent dental sensitivity and acid erosion	global	Colgate-Palmolive's Colgate Sensitive Pro Relief Procter and Gamble's Crest Sensi-Relief and Crest Sensi-Stop Strips
<i>Polident Poligrip Corega</i>	denture adhesive, denture cleanser	improve comfort of fitted dentures and to clean dentures	global	Procter & Gamble's Fixodent Reckitt-Benckiser's Kukident and Steradent
<i>Aquafresh</i>	toothpastes, toothbrushes mouthwashes	prevention of caries, gum disease and bad breath	global	Colgate-Palmolive's Colgate Procter & Gamble's Crest and Oral-B
<b>Nutrition</b> <i>Horlicks</i>	malted drinks and foods	nutritional beverages & food	Indian sub continent, UK, Ireland	Mondelez's Bournvita Nestle's Milo
<b>Skin health</b> <i>Physiogel</i>	moisturising, creams, lotions and cleansers	face and body care for dry, sensitive and irritated skin	Germany, France, Italy, Poland, Spain	L'Oreal's La Roche Posay Beiersdorf's Eucerin Pierre Fabre's Avène
<i>Zovirax Abreva</i>	topical cream	lip care to treat and prevent the onset of cold sores	global	Johnson & Johnson's Compeed Carma Labs Carmex Blistex Incorporated's Blistex Retailer own label



# Principal risks and uncertainties

## Risk factors

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The principal risks discussed below are the risks and uncertainties relevant to our business, financial condition and results of operations that may affect our performance and ability to achieve our objectives. The factors below are those that we believe could cause our actual results to differ materially from expected and historical results.

We operate on a global basis in an industry that is both highly competitive and highly regulated. Our competitors may make significant product innovations and technical advances and may intensify price competition. In light of this competitive environment, continued development of commercially viable new products and the development of additional uses for existing products are critical to our ability to maintain or increase overall sales.

Developing new pharmaceutical, vaccine and consumer healthcare products is a costly, lengthy and uncertain process, however, and a product candidate may fail at any stage, including after significant Group economic and human resources have been invested. Our competitors' products or pricing strategies or any failure on our part to develop commercially successful products, or to develop additional uses for existing products, could materially and adversely affect our financial results.

We must also adapt to and comply with a broad range of laws and regulations. These requirements apply to research and development, manufacturing, testing, approval, distribution, sales and marketing of Pharmaceutical, Vaccine and Consumer

Healthcare Products, and affect not only the cost of product development but also the time required to reach the market and the uncertainty of successfully doing so.

Moreover, as rules and regulations change, and governmental interpretation of those rules and regulations evolves, the nature of a particular risk may change. Changes to certain regulatory regimes may be substantial. Any change in, and any failure to comply with, applicable law and regulation could materially and adversely affect our financial results.

Similarly, our business exposes us to litigation and government investigations, including but not limited to product liability litigation, patent and antitrust litigation and sales and marketing litigation. Litigation and government investigations, including related provisions we may make for unfavourable outcomes and increases in related costs such as insurance premiums, could materially and adversely affect our financial results. More detail on the status and various uncertainties involved in the significant unresolved disputes and potential litigation is set out in Note 45, 'Legal proceedings,' on page 206.

UK regulations require a discussion of the mitigating activities a company takes to address principal risks and uncertainties. A summary of the activities that the Group takes to manage each of our principal risks accompanies the description of each principal risk below. The principal risk factors and uncertainties are not listed in order of significance.

### Patient safety

#### Risk definition

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.

#### Risk impact

The impact of this risk is potentially to compromise our ability to conduct robust safety signal detection and interpretation and to ensure that appropriate decisions are taken with respect to the risk/benefit profile of our products, including the completeness and accuracy of product labels and the pursuit of additional studies/analyses, as appropriate. This could lead to potential harm to patients, reputational damage, product liability claims or other litigation, governmental investigation, regulatory action such as fines, penalties or loss of product authorisation.

#### Context

Pre-clinical and clinical trials are conducted during the development of investigational Pharmaceutical, Vaccine and Consumer Healthcare Products to determine the safety and efficacy of the products for use by humans. Notwithstanding the efforts we make to determine the safety of our products through appropriate pre-clinical and clinical trials, unanticipated side effects may become evident only when products are widely introduced into the marketplace. Questions may be raised not only by our ongoing safety surveillance and post-marketing studies but also by governmental agencies and third-parties that may analyse publicly available clinical trial results.

The Group is currently a defendant in a number of product liability lawsuits, including class actions, that involve significant claims for damages related to our products. Litigation, particularly in the US, is inherently unpredictable. Class actions that seek to sweep together all persons who were prescribed our products increase the potential liability. Claims for pain and suffering and punitive damages are frequently asserted in product liability actions and, if allowed, can represent potentially open-ended exposure and thus, could materially and adversely affect the Group's financial results.

#### Mitigating activities

The Chief Medical Officer (CMO) is responsible for medical governance for the Group under a global policy. Under that policy, safeguarding human subjects in our clinical trials and patients who take our products is

of paramount importance, and the CMO has the authoritative role for evaluating and addressing matters of human safety. Individual Medical Officers and the Group's substantial Global Safety and Pharmacovigilance organisation keep track of any adverse issues reported for our products during the course of clinical studies.

Once a Group product is approved for marketing, the Group has an extensive post-marketing surveillance and signal detection system. Information on possible side effects of medicines is received from several sources including unsolicited reports from health professionals and patients, regulatory authorities, medical and scientific literature and the media. It is our policy that employees are required to report immediately any issues relating to the safety or quality of its medicines. Each of our country managers is responsible for monitoring, exception tracking and training that helps assure the collection of safety information and reporting the information to the relevant central safety department, in accordance with Group policy and legal requirements.

Information that changes the benefit/risk profile of one of the Group's medicines will result in certain actions to characterise, communicate and minimise the risk. Proposed actions are discussed with regulatory authorities and can include modifying the prescribing information, communications to physicians and other healthcare providers, restrictions on product prescribing/availability to help assure safe use, and sometimes carrying out further clinical trials. In certain cases, it may be appropriate to stop clinical trials or to withdraw the medicine from the market. The Group's Global Safety Board (GSB), comprising senior physicians and representatives of supporting functions, is an integral component of the system. The GSB (including subsidiary boards dedicated to Consumer Healthcare Products and Vaccines) reviews the safety of investigational and marketed products across the Group and has the authority to stop a clinical trial if continued conduct of such trial is not ethically or scientifically justified in light of information that has emerged since the start of the trial.

In addition to the medical governance framework within the Group as described above, the Group uses several mechanisms to foster the early evaluation, mitigation, and resolution of disputes as they arise and of potential claims even before they arise. The goal of the programmes is to create a culture of early identification and evaluation of risks and claims (actual or potential), in order to minimise liability and litigation.



## Intellectual property

### Risk definition

Failure to appropriately secure and protect intellectual property rights.

### Risk impact

Any failure to obtain or subsequent loss of patent protection, including reducing the availability or scope of patent rights or compulsory licensing (in which a government forces a manufacturer to license its patents for specific products to a competitor), could materially and adversely affect our financial results in those markets. Absence of adequate patent or data exclusivity protection could limit the opportunity to rely on such markets for future sales growth for our products, which could also materially and adversely affect our financial results.

### Context

As an innovative Pharmaceutical, Vaccine and Consumer Healthcare Products company, we seek to obtain appropriate intellectual property protection for our products. Our ability to obtain and enforce patents and other proprietary rights with regard to our products is critical to our business strategy and success. Pharmaceutical and Vaccine products are usually only protected from being copied by generic manufacturers during the period of exclusivity provided by an issued patent or related intellectual property rights such as Regulatory Data Protection or Orphan Drug status. Following expiration of certain intellectual property rights, a generic manufacturer may lawfully produce a generic version of the product.

We operate in markets where intellectual property laws and patent offices are still developing and where governments may be unwilling to grant or enforce intellectual property rights in a fashion similar to more developed regions such as the EU, Japan and the US. Some developing countries have limited, or threatened to limit, effective patent protection for pharmaceutical products generally, or in particular therapeutic areas, in order to facilitate early competition within their markets from generic manufacturers.

We face competition from manufacturers of proprietary and generic pharmaceutical products in all of our major markets. Introduction of generic products, particularly in the US where we have our highest turnover and margins, typically leads to a rapid and dramatic loss of sales and reduces our revenues and margins for our proprietary products. In 2014, we had nine Pharmaceutical and Vaccine products with over £500 million in annual global sales. For certain of these products, there is generic competition in the US and some markets in Europe. We may also experience an impact on sales of one of our products due to the expiry or loss of patent protection for a product marketed by a competitor in a similar product class or for treatment of a similar disease condition.

We depend on certain key products for a significant portion of our sales. One such product is our respiratory pharmaceutical product *Seretide/Advair* which accounts for 18% of Group sales worldwide. The timing and impact of entry in the US for a generic product containing the same combination of active substances as *Seretide/ Advair* is uncertain. The US patent for compositions containing the combination of active substances in *Seretide/Advair* expired during 2010 although the US patent on a component of the Advair Diskus device continues until August 2016. Generic products containing the same combination of active substances as *Seretide/Advair* (in both metered dose inhalers and dry powder inhalers) have been launched by several manufacturers in a number of European markets. The timing and impact of entry in the US and major markets in Europe for a 'follow-on' product to *Seretide/Advair* is uncertain.

Generic drug manufacturers have also exhibited a readiness to market generic versions of many of our most important products prior to the expiration of our patents. Their efforts may involve challenges to the validity or enforceability of a patent or assertions that their generic product does not infringe our patents. As a result, we are and may continue to be involved in legal proceedings involving patent challenges, which may materially and adversely affect our financial results. Moreover, in the US, it has become increasingly common for patent infringement actions to prompt claims that anti-trust laws have been violated during the prosecution of the patent or during litigation involving the defence of that patent. Such claims by direct and indirect purchasers and other payers are typically filed as class actions. The relief sought may include treble damages and restitution claims. Similarly, anti-trust claims may be brought by government entities or private parties following settlement of patent litigation, alleging that such settlements are anti-competitive and in violation of anti-trust laws. A successful anti-trust claim by a private party or government entity could materially and adversely affect our financial results.

The expiration dates for patents for our major products which may affect the dates on which generic versions of our products may be introduced are set out on pages 229 to 231. Legal proceedings involving patent challenges are set out in Note 45 to the financial statements, 'Legal proceedings'.

### Mitigating activities

Our Global Patents group focuses on securing and protecting our patent rights. This global group maintains internal processes designed to help ensure successful procurement, enforcement and defence of our patents with the goal of maintaining exclusive rights in markets for our products.

The Global Patents group monitors new developments in international patent law to help ensure appropriate protection of our assets. Sometimes acting through trade associations, we work with local governments to seek to secure effective and balanced intellectual property protection designed to meet the needs of patients and payers while supporting long-term investment in innovation.

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### Product quality

#### Risk definition

Failure to comply with current Good Manufacturing Practice (cGMP) requirements in commercial manufacture, through the distribution chain, by GSK, its contractors or suppliers; or through inadequate controls and governance of quality through product development, and in supporting regulated activities.

#### Risk impact

A failure to ensure product quality could have far reaching implications in terms of patient and consumer safety, delays in launching new products, drug shortages, product recalls, potential damage to our reputation and that of the relevant product, as well as regulatory, legal, and financial consequences, which could materially and adversely affect our reputation and financial results.

#### Context

Patients, consumers and healthcare professionals trust the quality of our products. A failure to ensure product quality is an enterprise risk which is applicable across all of our business activities. Product quality may be influenced by many factors including product and process understanding, supply chain security, consistency of manufacturing components, compliance with GMP, accuracy of labeling, reliability of the external supply chain, and the embodiment of an overarching quality culture. The internal and external environment continues to evolve as new products, new markets and new legislation are introduced, particularly around security of supply, good distribution practice and product standards. Inspectional trending from national authorities during 2014 has highlighted a focus on issues relating to data integrity, contamination and the robustness of quality investigations.

#### Mitigating activities

In medicines development, scientists adopt the principles of quality by design for new products and devise control strategies to be deployed throughout the product lifecycle to help ensure consistency and reliability in their performance and supply.

We have adopted a single Quality Management System (QMS) that defines our quality standards and systems for our businesses associated with Pharmaceuticals, Vaccines and Consumer Healthcare Products and R&D investigational materials. The QMS has a broad scope, covering the end-to-end supply chain from starting materials to distributed product, and is applicable throughout the complete lifecycle of products from R&D to mature commercial supply.

The QMS is periodically updated based on experience, evolving regulatory agency expectations and requirements and improved scientific understanding to help ensure that operations comply with cGMP requirements globally, and support the delivery of consistent and reliable products. A large network of quality and compliance professionals is aligned with each business unit to provide oversight and assist the delivery of quality performance and operational compliance. Management oversight of those activities is accomplished through a hierarchy of quality council meetings. Staff are trained to help ensure that standards, as well as expected behaviours based on our values, are followed. Refresher training on cGMP issues includes a focus on the issues raised in inspectional trends.

We have implemented a risk-based approach to assessing and managing our third-party suppliers that provide materials used in finished products. Contract manufacturers making our products are expected to comply with standards identified by the Group and are audited to help provide assurance that expected standards are met.

The Chief Product Quality Officer oversees the activities of the GSK Quality Council which serves as a forum to escalate emerging risks, share experiences of handling quality issues from all of our businesses and help ensure that lessons learned are assessed and deployed globally. The preparation for and implementation of new legislation is regularly reviewed by the GSK Quality Council and advocacy and communication programmes are used to maintain awareness of the external environment and convey consistent messages across the Group. There is emphasis on quality performance metrics and a culture of 'right first time'.



## Supply chain continuity

### Risk definition

Failure to deliver a continuous supply of compliant finished product.

### Risk impact

A material interruption of supply or exclusion from healthcare programmes could impact patient access to our products, expose us to litigation or regulatory action and materially and adversely affect our financial results. In particular, the incurring of fines or disgorgement as a result of noncompliance with manufacturing practice regulations could also materially and adversely affect the Group's financial results and result in reputational damage.

### Context

Our supply chain operations are subject to review and approval by various regulatory agencies that effectively provide our licence to operate. Failure by our manufacturing and distribution facilities or by suppliers of key services and materials could lead to litigation or regulatory action such as product recalls and seizures, interruption of supply, delays in the approval of new products, and suspension of manufacturing operations pending resolution of manufacturing or logistics issues. In 2014, our Consumer Healthcare business, particularly our Smokers' Health products, *alli* and *Bactroban*, were impacted by various supply issues and our Vaccines business, particularly our hepatitis vaccines and *Boostrix*, were impacted by supply constraints.

Materials and services provided by third-party suppliers are necessary for the commercial production of our products, including active pharmaceutical ingredients (API), antigens, intermediates, commodities and components necessary for the manufacture and packaging of many of our Pharmaceutical, Vaccine and Consumer Healthcare Products. Some of the third-party services procured, such as services provided by contract manufacturing organizations and clinical research organisations to support development of key products, are important to ensure continuous operation of our businesses. Although we undertake business continuity planning, single sourcing of certain components, bulk API, finished products, and services creates a risk of failure of supply in the event of regulatory non-compliance or physical disruption at the manufacturing sites or logistics system.

The failure of a small number of single-source, third-party suppliers or service providers to fulfill their contractual obligations in a timely manner or as a result of regulatory non-compliance or physical disruption of logistics and manufacturing sites may result in delays or service interruptions.

### Mitigating activities

Our supply chain model is designed to help ensure the supply, quality and security of our products globally. We closely monitor, through the Supply Chain Governance Committees, the inventory status and delivery of our products to help ensure that our customers have the medicines, vaccines and products they need. Safety stocks and backup supply arrangements for high revenue and medically-critical products are in place, where practical, to help mitigate this risk. In addition, the compliance of manufacturing external suppliers is routinely monitored in order to identify and manage supply base risks.

Where practical, dependencies on single sources of critical items are removed. Our reliance on single source components was reduced in 2014 for some key products through qualification of alternative materials that will help improve supply chain robustness. In cases, where dual sourcing is not possible, an inventory strategy has been developed to protect the supply chain from unanticipated disruption.

In 2014, we continued to implement anti-counterfeit systems such as product serialization in accordance with emerging requirements to mitigate this risk.

Throughout 2014, our supply chain operating model was improved to strengthen the link between commercial forecasting and manufacturing by implementation of the Core Commercial Cycle methodology. This action will over time, decrease the risk associated with demand fluctuations impacting ability to supply or write-offs associated with product exceeding expiry dating. Under the new model, each node of the supply chain is being optimised to help ensure adequate safety stock while balancing working capital associated with the end-to-end supply chain.

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## Financial reporting and disclosure

### Risk definition

Failure to report accurate financial information and material events in compliance with accounting standards and applicable legislation.

### Risk impact

Non-compliance with existing or new financial reporting and disclosure requirements, or changes to the recognition of income and expenses, could expose us to litigation and regulatory action and could materially and adversely affect our financial results.

### Context

New or revised accounting standards, rules and interpretations issued from time to time by the International Accounting Standards Board could result in changes to the recognition of income and expense that may materially and adversely affect our financial results.

The Group is also required by the laws of various jurisdictions to disclose publicly its financial results and events that could materially affect the financial results of the Group. Regulators routinely review the financial statements of listed companies for compliance with accounting and regulatory requirements. The Group believes that it complies with the appropriate regulatory requirements concerning our financial statements and disclosure of material information. However, should we be subject to an investigation into potential non-compliance with accounting and disclosure requirements, there is potential for restatements of previously reported results and we could be subject to significant penalties.

### Mitigating activities

The Group maintains a control environment designed to identify material errors in financial reporting and disclosure. The design and operating effectiveness of key financial reporting controls is periodically tested. This provides us with the assurance that controls over key financial reporting and disclosure processes have operated effectively.

We keep up-to-date with the latest developments in financial reporting requirements by working with our external auditors and legal advisors to help ensure adherence to relevant reporting and disclosure requirements.

There is shared accountability for financial results across our businesses. Financial results are reviewed and approved by regional management and then reviewed with the Financial Controller and the Chief Financial Officer (CFO). This allows our Financial Controller and our CFO to assess the evolution of the business over time, and to evaluate performance to plan. Significant judgments are reviewed and confirmed by senior management.

The Group maintains a Disclosure Committee which reports to the Board which reviews the Group's quarterly results and Annual Report and determines throughout the year, in consultation with its legal advisors, whether it is necessary to disclose publicly information about the Group through Stock Exchange announcements.



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### Tax and treasury

#### Risk definition

Failure to comply with current tax law, or react to the rapidly evolving tax environment. Incurring significant losses due to treasury activities.

#### Risk impact

Changes in tax laws or in their application with respect to matters such as transfer pricing, foreign dividends, controlled companies, R&D tax credits, taxation of intellectual property or a restriction in tax relief allowed on the interest on intra-group debt, could impact our effective tax rate. Significant losses may arise from Treasury activities through inconsistent application of Treasury policies, dealing or settlement errors, or counterparty defaults. Any such changes in tax laws or their application, failure to comply with tax law or significant losses due to treasury activities could materially and adversely affect our financial results.

#### Context

Our Treasury group deals in high value transactions, mostly foreign exchange and cash management transactions, on a daily basis. The Group's effective tax rate is driven by rates of tax in jurisdictions that are both higher and lower than the UK. In addition, many jurisdictions currently offer regimes that encourage innovation and investment in science by providing tax incentives, such as R&D tax credits and lower tax rates on income derived from patents. Furthermore, as an international business, we face risks associated with intra-group transfer pricing.

The tax charge included in our financial statements is our best estimate of tax liability pending audits by tax authorities. We submit tax returns according to statutory time limits and engage tax authorities to help ensure our tax affairs are current. In exceptional cases where matters cannot be settled by agreement with tax authorities, we may have to resolve disputes through formal appeals or other proceedings. As an international business, we are also subject to a range of other duties and taxes carrying similar types of risk.

There is an increased focus on the tax position of multinational businesses, as a consequence of the challenging economic environment and the priority placed by the G20 on addressing allegations of unlawful tax avoidance. We have seen some increase in audits as governments seek to raise revenues, both from corporate taxes and above the line taxes such as customs duties. Such audits regardless of their merit or outcomes can be costly, divert management attention and may adversely impact our reputation. In addition, there are an increasing number of changes to the international tax framework which could lead to an increase or decrease in our tax costs.

#### Mitigating activities

The Group's Treasury function does not operate as a profit centre and does not enter into financial derivative transactions for speculative purposes. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities. Treasury activities are governed by policies approved by the Board of Directors and compliance is regularly reviewed by the Treasury Management Group (TMG), which is chaired by the CFO.

Liquidity risk is managed by diversifying our liquidity sources using a range of facilities and by maintaining broad access to funding markets in order to meet anticipated future funding requirements. We also hold significant amounts of cash and investments which are invested in line with strict investment guidelines.

Interest rate risk is managed by limiting the amount of floating rate interest payments to a prescribed percentage of operating profit, and the mix of debt at fixed and floating interest rates is monitored regularly by the TMG.

Foreign currency transaction risk arising on internal and external trade flows is not generally hedged. 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 Treasury and the TMG. Where possible, we manage the cash surpluses or borrowing requirements of subsidiary companies centrally. In order to reduce foreign currency translation exposure, we seek to denominate borrowings in the currencies of our principal assets and cash flows. The TMG reviews the ratio of borrowings to assets for the major currencies monthly.

Counterparty risk is managed by setting global counterparty limits for each of our banking and investment counterparties based on long-term credit ratings from Moody's and Standard and Poor's. Treasury's usage of these limits is monitored daily by a Corporate Compliance Officer (CCO) who operates independently of Corporate Treasury. The CCO also monitors the credit rating of these counterparties and, when changes in ratings occur, notifies Treasury so that changes can be made to investment levels or to authority limits as appropriate.

Further details on mitigation of Treasury Risks can be found on page 190, Note 41, 'Financial instruments'.

We monitor government debate on tax policy in our key jurisdictions to deal proactively with any potential future changes in tax law. Tax risk is managed by a set of policies and procedures to help ensure consistency and compliance with tax legislation. We engage advisors and legal counsel to review tax legislation and applicability to our business.

We attempt to mitigate the risk of more aggressive tax authority audits by being as up to date as possible with our tax affairs and working proactively with tax authorities where possible. We have also moved to a more centralised and simplified intellectual property ownership and trading model. The model centralises our Pharmaceutical intellectual property in the UK, reducing the complexity of our inter-company arrangements and enabling us to drive more bilateral Advance Pricing Agreements (APAs) between the UK and other jurisdictions where we operate. APAs give greater certainty to the application of transfer pricing and our direct tax affairs and hence reduce risks. A centralised team of dedicated specialists are responsible for managing transactional tax reporting and compliance.



## Anti-bribery and corruption

### Risk definition

There is a risk that GSK personnel, or third parties acting on our behalf, seek to induce improper performance of someone's role in order to gain or retain GSK a business advantage through the offer, promise or giving of a bribe. This goes against our ethical standards and is contrary to the laws by which we are bound.

### Risk impact

Failure to mitigate this risk could expose the Group and associated persons to governmental investigation, regulatory action and civil and criminal liability, as well as damage the Group's reputation, shareholder value, and our licence to operate in particular jurisdictions, all of which could materially and adversely affect our financial results.

### Context

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.

As has previously been disclosed, the Group in 2014 has been subject to regulatory action and media focus with regard to bribery investigations in China and other markets. On 19 September 2014, the Group announced that the Changsha Intermediate People's Court in Hunan Province, China ruled that, according to Chinese law, GSK China Investment Co. Ltd ("GSKCI") had offered money or property to non-government personnel in order to obtain improper commercial gains, and been found guilty of bribing non-government personnel. The verdict followed investigations initiated by China's Ministry of Public Security in June 2013. As a result of the Court's verdict, GSKCI has paid a fine of RMB 3 billion (£301 million) to the Chinese government.

The US and UK authorities are leading extra-territorial ABAC inquires into certain of the Group's operations. These investigations are further discussed in Note 45 'Legal Proceedings'.

### Mitigating activities

Our Code of Conduct, values and behaviours and commitment to zero tolerance are integral to how we mitigate this risk. In light of the complexity and geographic breadth of this risk, we constantly enhance our oversight of activities and data, reinforce to our employees and contractors clear expectations regarding acceptable behaviours, and maintain on-going communications between the Group centre headquarters and local markets.

The Group has an enterprise-wide ABAC programme designed to respond to the threat and risk of bribery and corruption. It builds on the Group's values and existing standards to form a comprehensive and practical approach to compliance. Our ABAC programme is supported by: top-level commitment from the Group Board of Directors and leadership throughout the business; ongoing risk assessment; a global policy; control documents that address commercial and other practices that give rise to ABAC risk; due diligence of high risk third parties; ongoing training and communications; a confidential reporting line; monitoring of compliance and an investigations team. In addition, the programme mandates enhanced controls over interactions with government officials and when undertaking business development transactions. Programme governance is provided by the Group's ABAC Oversight Committee which includes representation from key functional areas and business units.

Additionally, we have a dedicated ABAC team responsible for the implementation and evolution of the programme in response to developments in the internal and external environment. This is complemented with ABAC investigations and ABAC Audit teams which have separate reporting lines.

We continually benchmark our ABAC programme against other large multi-national companies and use external expertise to review and help improve elements of our ABAC programme. As a result of the China and other country investigations, the Group has increased resources in both its centrally located ABAC team as well as regional ABAC teams.

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### Commercial practices and scientific engagement

#### Risk definition

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 associated therapeutic areas; appropriate interactions with healthcare professionals (HCPs) and patients; and legitimate and transparent transfer of value.

#### Risk impact

Failure to comply with applicable laws, rules and regulations may result in governmental investigation, regulatory action and legal proceedings brought against the Group by governmental and private plaintiffs. Failure to provide accurate and complete information related to our products may result in incomplete awareness of the benefit:risk profile of our medicines and possibly suboptimal treatment of patients. Any of these consequences could materially and adversely affect our financial results. Any practices that are found to be misaligned with our values could also result in reputational damage and dilute trust established with key stakeholders. In 2012, we paid \$3 billion to resolve government investigations in the US focused in large part on promotional practices.

#### Context

We are committed to legitimate Scientific Engagement and the ethical and responsible commercialisation of medicines to support our mission to improve the quality of human life by enabling people to do more, feel better, and live longer. To accomplish this mission, we engage the healthcare community in various ways to advance our scientific knowledge as well as to provide important information about our medicines.

The Group disseminates information about its products through both non-promotional Scientific Engagement and promotional activities. The former is the interaction and exchange of information between the Group and partners and external communities in order to advance scientific and medical understanding including the appropriate development and use of our products; the management of disease; and patient care. It is distinct from promotional activities which may take place only after authorisation of a new product or indication, and must be conducted strictly in accordance with promotional laws, codes and the Group's Policy.

Promotion of approved medicines helps ensure that HCPs globally have access to information they need, that patients have access to the medicines they need and that medicines are prescribed and used in a manner that provides the maximum healthcare benefit to patients. We are committed to communicating information related to our approved products in a responsible, legal, and ethical manner.

At times, researchers, HCPs, healthcare organisations (HCOs) and other external experts that we engage may be compensated for services and expertise provided. However, payments must not be excessive and must never be or be perceived to be an inducement or reward for prescribing our products. Consistent with our ABAC policies, they also must comply with a market's ABAC laws if the recipient of any payment is a government official.

#### Mitigating activities

We have taken action at all levels of the Group to enhance and improve standards and procedures for Scientific Engagement and promotional interactions, based on our values of transparency, respect, integrity and patient focus. We have policies and standards governing promotional activities and Scientific Engagement undertaken by the Group or on its behalf. All of these activities we conduct worldwide must conform to high ethical, medical, and scientific standards. Where local standards differ from global standards, the more stringent of the two applies.

The Group has harmonized policies and procedures to guide above country Commercial Practices and Scientific Engagement processes as well as clarified applicable standards when engaging in the markets. Specific accountability and authorisation for Scientific Engagement resides within the Medical Governance framework that is overseen by the Medical Governance Executive Committee (MGEC), accountable to the Chief Medical Officer. MGEC is responsible for oversight of applicable Policies and ensuring the highest level of integrity and continuous development of Scientific Engagement at GSK. Commercial Practices activities have oversight from both business unit Risk Management and Compliance Boards (RMCBs) and Country Executive Boards (CEBs) that manage risks across in-country business activities.

All promotional materials and activities must be reviewed and approved according to the Group's policies and standards, and conducted in accordance with local laws and regulations, to help ensure that these materials and activities fairly represent the products or services of the Group. When necessary, we have disciplined (up to and including termination) employees who have engaged in misconduct and have broadened our ability to claw back remuneration from senior management in the event of misconduct.

During 2014, we took further proactive risk mitigation steps to assure our operations reflect our values. GSK publicly committed to stop in 2016 various payments to HCPs and Healthcare Organisations (HCOs). GSK also committed extended steps already taken in the US to changing its sales compensation model globally from one based on sales targets to an approach that individually rewards our sales force on the quality of their interactions with healthcare professionals, not on the end result.



## Research practices

### Risk definition

Failure adequately to protect and inform patients involved in human clinical trial research; conduct objective, ethical preclinical and clinical trials using sound scientific principles; guarantee the integrity of discovery, preclinical, and clinical development data; manage human biological samples according to established ethical standards and regulatory expectations; treat animals ethically and practice good animal welfare; appropriately disclose human subject research for medicinal products; and ensure the integrity of our regulatory filings and of the data that we publish.

### Risk impact

The impacts of the risk include harm to patients, reputational damage, failure to obtain the necessary regulatory approvals for our products, governmental investigation, legal proceedings (product liability suits and claims for damages), and regulatory action such as fines, penalties or loss of product authorisation, which could materially and adversely affect our financial results.

### Context

Research relating to animals can raise ethical concerns. While we attempt to proactively address this, animal studies remain a vital part of our research. In many cases, they are the only method that can be used to investigate the effects of a potential new medicine in a living body before it is tested in humans, and they are generally mandated by regulators and ethically imperative. Animal research can provide critical information about the causes of diseases and how they develop. Some countries require additional animal testing even when medicines have been approved for use elsewhere.

Clinical trials in healthy volunteers and patients are used to assess and demonstrate an investigational product's efficacy and safety or further evaluate the product once it has been approved for marketing. We also work with human biological samples. These samples are fundamental to the discovery, development and safety monitoring of our products.

The integrity of our data is essential to success in all stages of the research data lifecycle: design, generation, recording and management, analysis, reporting and storage and retrieval. Our research data is governed by legislation and regulatory requirements.

Research data and supporting documents are core components at various stages of pipeline progression decision-making and also form the content of regulatory submissions. Poor data integrity can compromise our research efforts.

There are innate complexities and interdependencies required for regulatory filings, particularly given our global research and development footprint. Rapid changes in submission requirements in developing countries continue to increase the complexity of worldwide product registration.

### Mitigating activities

We established an Office of Animal Welfare, Ethics and Strategy (OAWES), led by the Chief of Animal Welfare, Ethics and Strategy, to help ensure the humane and responsible care of animals and increase the knowledge and application of non-animal alternatives for the Group. OAWES embeds a framework of animal welfare governance, promotes application of 3Rs (replacement, refinement and reduction of animals in research), explores opportunities for cross-industry data sharing, and conducts quality assessments.

We report the results of our human subject research for our medicines and vaccines on our publicly accessible clinical study register website, on government-required repositories, and we submit human research results as manuscripts for publication in peer reviewed scientific journals. During 2014, we disclosed over 130 Clinical Study Reports of marketed and terminated medicines (once the research results were published in the scientific literature) on our register. In early 2014, the GSK online system to allow researchers to request access to anonymised patient-level data from the Group's clinical trials, was re-configured into a multi-sponsor request site, [www.clinicalstudydatarequest.com](http://www.clinicalstudydatarequest.com), to include studies conducted by other sponsors and by the end of 2014 we had listed over 1000 GSK trials available for request.

We have a Global Human Biological Samples Management (HBSM) governance framework in place to oversee the ethical and lawful acquisition and management of human biological samples. Our global HBSM network champions HBSM activities and provides an experienced group to support internal Sample Custodians on best practice.

It remains an important priority to enhance our data integrity controls. During 2014 we established plans to develop new written standards to ensure the integrity of our data across Research and Development (R&D). A Data Integrity Committee was established to provide oversight and a Data Integrity Quality Assurance team was created to provide independent business monitoring of our internal controls for R&D activities.

The Chief Regulatory Officer oversees the activities of the Regulatory Governance Board which includes promoting compliance with regulatory requirements and Group-wide standards, making regulatory services more efficient and agile, and further aligning regulatory capabilities with our international business needs at the enterprise and local levels.

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# Principal risks and uncertainties

## Risk factors – continued

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### Environment, health and safety and sustainability

#### Risk definition

Failure to manage environment, health and safety and sustainability (EHSS) risks consistent with the Group's ethics, objectives, policies and relevant laws and regulations.

#### Risk impact

Failure to manage EHSS risks could lead to significant harm to people, the environment and communities in which we operate as well as potential obligations to remediate contaminated sites. We have also been identified as a potentially responsible party under the US Comprehensive Environmental Response Compensation and Liability Act at a number of sites for remediation costs relating to our use or ownership of such sites. Failure to manage these environmental risks properly could result in litigation, regulatory action and additional remedial costs that may materially and adversely affect our financial results. See Note 45 to the financial statements, 'Legal proceedings', for a discussion of the environmental related proceedings in which we are involved. We routinely accrue amounts related to our liabilities for such matters.

#### Context

The Group is subject to health, safety and environmental laws of various jurisdictions. These laws impose duties to protect people, the environment and the communities in which we operate as well as potential obligations to remediate contaminated sites. We have also been identified as a potentially responsible party under the US Comprehensive Environmental Response Compensation and Liability Act at a number of sites for remediation costs relating to our use or ownership of such sites. Failure to manage these environmental risks properly could result in litigation, regulatory action and additional remedial costs that may materially and adversely affect our financial results. See Note 45 to the financial statements, 'Legal proceedings', for a discussion of the environmental related proceedings in which we are involved. We routinely accrue amounts related to our liabilities for such matters.

#### Mitigating activities

The Corporate Executive Team is responsible for EHSS governance for the Group under a global policy. Under that policy, the CET ensures there are systems in place to manage the risks, impacts and legal compliance issues that relate to EHSS and for assigning responsibility to senior managers for providing and maintaining those systems. Individual managers are responsible for making sure the EHSS management system is effective and well implemented in their respective business area and that it is fully compliant with all applicable laws and regulations, adequately resourced, maintained, communicated, and monitored. Additionally, each employee is personally responsible for ensuring that all applicable local standard operating procedures are followed and expected to take responsibility for EHSS matters.

Our risk-based, proactive approach is articulated in our Global EHS Standards which support our EHSS policy and objective to discover, develop, manufacture, supply and sell our products without harming people or the environment. In addition to the design and provision of safe facilities, plant and equipment, we operate rigorous procedures that help us eliminate hazards where practicable and protect employees' health and well-being. Our employment practices are designed to create a work place culture in which all employees feel valued, respected, empowered and inspired to achieve our goals.

Through our continuing efforts to improve environmental sustainability we have reduced water consumption, hazardous waste, and energy consumption. We actively manage our environmental remediation obligations to help ensure practices are environmentally sustainable and compliant.

Our EHSS performance results are shared with the public each year in our Responsible Business Supplement.

### Information protection

#### Risk definition

Risk to the Group's business activity if critical or sensitive computer systems or information are not available when needed, are accessed by those not authorised, or are deliberately changed or corrupted.

#### Risk impact

Failure to adequately protect critical and sensitive systems and information may result in our inability to maintain patent rights, loss of commercial or strategic advantage, damage to our reputation or business disruption including litigation or regulatory sanction and fines, which could materially and adversely affect our financial results.

#### Context

We rely on critical and sensitive systems and data, such as corporate strategic plans, sensitive personally identifiable information, intellectual property, manufacturing systems and trade secrets. There is the potential that malicious or careless actions expose our computer systems or information to misuse or unauthorised disclosure.

#### Mitigating activities

The Group has a global information protection policy that is supported through a dedicated programme of activity. To increase our focus on information security, the Group established the Information Protection & Privacy function to provide strategy, direction, and oversight while enhancing our global information security capabilities.

We assess changes in our information protection risk environment through briefings by government agencies, subscription to commercial threat intelligence services and knowledge sharing with other Pharmaceutical and cross-industry companies.

We aim to use industry best practices as part of our information security policies, processes and technologies and invest in strategies that are commensurate with the changing nature of the security threat landscape.

We are also subject to various laws that govern the processing of Personally Identifiable Information (PII). To help ensure compliance with cross-border PII transfer requirements, the Group's Binding Corporate Rules (BCRs) have been approved by the UK Information Commissioner's Office for human resource and research activities data. BCRs make it possible to transfer PII internationally between the Group's entities without individual privacy agreements in each European Union country.



## Crisis and continuity management

### Risk definition

Inability to recover and sustain critical operations following a disruption or to respond to a crisis incident in a timely manner.

### Risk impact

Failure to manage crisis and continuity management (CCM) effectively can lead to prolonged business disruption, greater damage to the Group's assets, and risk of supply disruption to patients of a medicine, any of which could materially and adversely affect our financial results. Delays to operational activities and delivery of our products to consumers and patients who rely on them could also expose us to litigation or regulatory action, materially and adversely affect our financial results and lead to reputational damage.

### Context

The Group's international operations, and those of its partners, maintain a vast global footprint exposing our workforce, facilities, operations and information technology to potential disruption resulting from a natural event (e.g. storm or earthquake), a man-made event (e.g. civil unrest, terrorism), or a global emergency (e.g. Ebola outbreak, Flu pandemic). Through effective crisis management and business continuity planning we are committed to providing for the health and safety of our people, minimising damage and impact to the Group, and maintaining functional operations following a natural or man-made disaster, or a public health emergency.

### Mitigating activities

CCM governance for the Group is set forth in a global policy. Under that policy, each business unit and functional area head ("BU") ensures effective crisis management and business continuity plans are in place that include authorised response and recovery strategies, key areas of responsibility and clear communication routes before a business disruption occurs. Additionally, each BU is represented on a CCM governance board which performs risk oversight and provides vital information to the CCM programme team regarding new threats, acquisitions or significant business or organisational changes.

A dedicated team of CCM experts supports the business. Their responsibilities include: chairing the governance board; coordinating crisis management and business continuity training; facilitating exercises and monitoring to provide for global consistency and alignment; and centrally storing and monitoring updates for plans supporting our critical business processes. These activities help ensure an appropriate level of readiness and response capability is maintained. We also develop and maintain partnerships with external bodies like the Business Continuity Institute and the UN International Strategy for Disaster Risk Reduction which helps improve our business continuity initiatives in disaster prone areas and supports the development of community resilience to disasters.

We continually improve our CCM risk management programme and tools based on learning from plan activations. For example, the Group has implemented a Global Disaster Monitoring tool to monitor disruptions and support local crisis teams with guidance and central support as needed. We regularly evaluate and introduce new tools to improve our CCM practices.

## Third-Party Oversight

### Risk definition

Failure to maintain adequate governance and oversight over third-party relationships; failure of third-parties to meet their contractual, regulatory, confidentiality or other obligations; failure of third-parties to comply with the law or appropriately manage their respective operations to mitigate the Principal Risks to the Group outlined above.

### Risk impact

Failure to adequately manage third-party relationships could result in business interruption and exposure to risk ranging from sub-optimal contractual terms and conditions, to severe business sanctions and/or significant reputational damage. Any of these consequences could materially and adversely affect our business operations and financial results.

### Context

Third parties are critical to our business delivery and are an integral part of the solution to improve our productivity, quality, service and innovation. We rely on third-parties, including suppliers, distributors, individual contractors, licensees, and other pharmaceutical and biotechnology collaboration partners for discovery, manufacture, and marketing of our products and important business processes.

However, these business relationships present a material risk. For example, we share critical and sensitive information such as marketing plans, clinical data, and employee data with specific third parties who are conducting the relevant outsourced business operations. Inadequate protection or misuse of this information by third parties could have significant business impact. Similarly, we use distributors and agents in a range of activities such as promotion and tendering which have inherent risks such as inappropriate promotion or corruption. Insufficient internal compliance and controls by the distributors could affect our reputation. These risks are further increased by the complexities of working with large numbers of third parties.

### Mitigating activities

It is our responsibility that all activities are performed safely and in compliance with applicable laws and GSK's values, standards and code of conduct. Each business unit leadership team retains ultimate accountability for managing third party interactions and risks, and for appropriately governing these interactions. When working with third parties, all GSK employees are expected to manage external interactions and commitments responsibly. This expectation is embedded in our values and code of conduct.

To help guide and enforce our global principles for interactions with third-parties we have in place a policy framework applicable to buying goods and services, managing our external spend, paying and working with our third-parties. This policy framework applies to all employees and complementary workers worldwide. The framework is complemented by technical and local standards designed to help ensure alignment with the nature of third party interactions, such as good manufacturing practice and adherence to local laws and regulations. Independent business monitoring of key financial and operational controls is in place and is supplemented by periodic checks from the company's independent Audit & Assurance function.

To help enhance continuous monitoring and performance of third party interactions we established in 2014 the Third Party Oversight programme. This global programme takes an enterprise view of third party related risks, and will help strengthen due diligence efforts on third parties and improve overall management of our third party risks through the lifecycle of the third-party engagement. Oversight for the programme is provided from GSK's Global Ethics and Compliance group.

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## Share capital and control

Details of our issued share capital and the number of shares held in Treasury as at 31 December 2014 can be found in Note 33 to the financial statements, 'Share capital and share premium account'.

Our Ordinary Shares are listed on the London Stock Exchange and are also quoted on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADS). Each ADS represents two Ordinary Shares. For details of listed debt and where it is listed refer to Note 32 to the financial statements, 'Net debt'.

Holders of Ordinary Shares and ADS are entitled to receive dividends (when declared), the company's Annual Report or Annual Summary, to attend and speak at general meetings of the company, to appoint proxies and to exercise voting rights.

There are no restrictions on the transfer, or limitations on the holding, of Ordinary Shares and ADS and no requirements to obtain approval prior to any transfers. No Ordinary Shares or ADS carry any special rights with regard to control of the company and there are no restrictions on voting rights. Major shareholders have the same voting rights per share as all other shareholders. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

Shares acquired through our share schemes and plans rank equally with the other shares in issue and have no special rights. The trustees of our Employee Share Ownership Plan trusts have waived their rights to dividends on shares held by those trusts.

### Exchange controls and other limitations affecting security holders

Other than certain economic sanctions, which may be in force from time to time, there are currently no applicable laws, decrees or regulations restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of the company's shares who are non-residents of the UK. Similarly, other than certain economic sanctions which may be in force from time to time, there are no limitations relating only to non-residents of the UK under English law or the company's Articles of Association on the right to be a holder of, and to vote in respect of, the company's shares.

### Interests in voting rights

Other than as stated below, as far as we are aware, there are no persons with significant direct or indirect holdings in the company. Information provided to the company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the company's website.

At 19 February 2015, the company had received notifications in accordance with the FCA's DTRs of the following notifiable interests in the voting rights in the company's issued share capital:

	No. of shares	*Percentage of issued capital (%)
BlackRock, Inc.	304,779,454	6.27%
Legal & General Group Plc	149,809,659	3.08%

\* Percentage of Ordinary Shares in issue, excluding Treasury shares.

We have not acquired or disposed of any interests in our own shares during the period under review, other than in connection with our share buy-back programme.

## Share buy-back programme

The Board has been authorised to issue and allot Ordinary Shares under Article 9 of the company's Articles of Association. The power under Article 9 and the authority for the company to make purchases of its own shares are subject to shareholder authorities which are sought on an annual basis at our Annual General Meeting (AGM). Any shares purchased by the company may be cancelled or held as Treasury shares or used for satisfying Share Options and Grants under Group Employee Share Plans.

We continued our long-term buy-back programme in 2014 and 14.7 million shares were purchased at a total cost of £238 million. The date of the final share purchase in 2014 was 24 June 2014. No shares were purchased in the period 25 June 2014 to 19 February 2015.

Our programme covers purchases of shares for cancellation or to be held as Treasury shares, in accordance with the authority renewed by shareholders at the AGM in May 2014, when the company was authorised to purchase a maximum of just under 486 million shares. Details of shares purchased, those cancelled, and those held as Treasury shares are disclosed in Note 33 to the financial statements, 'Share capital and share premium account'.

In determining specific share repurchase levels, the company considers the development of free cash flow during the year. Given the impact of the sustained strength of Sterling on free cash flow, the company suspended its share repurchase programme during 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.

## Market capitalisation

The market capitalisation, based on shares in issue excluding Treasury shares, of GSK at 31 December 2014 was £66.92 billion.

At that date, GSK was the fourth largest company by market capitalisation in the FTSE index.

## Share price

	2014 £	2013 £	2012 £
At 1 January	16.12	13.35	14.72
At 31 December	13.76	16.12	13.35
(Decrease)/increase	(14.6)%	20.7%	(9.3)%
High during the year	16.91	17.82	15.08
Low during the year	13.24	13.35	13.18

The table above sets out the middle market closing prices. The company's share price decreased by 14.6% in 2014. This compares with a decrease in the FTSE 100 index of 2.7% during the year. The share price on 19 February 2015 was £15.26.





### Nature of trading market

The following tables set out, for the periods indicated, the high and low middle market closing quotations in pence for the shares on the London Stock Exchange, and the high and low closing prices in US dollars for the ADS on the NYSE.

	Ordinary Shares		ADS	
	Pence per share		US dollars per share	
	High	Low	High	Low
February 2015*	1556	1453	47.94	43.96
January 2015	1500	1357	45.19	41.68
December 2014	1502	1327	47.14	41.30
November 2014	1485	1414	46.52	44.75
October 2014	1434	1324	45.90	42.88
September 2014	1467	1413	48.62	45.97
August 2014	1475	1377	49.10	46.35
Quarter ended 30 September 2014	1583	1377	54.52	45.97
Quarter ended 30 June 2014	1666	1543	56.39	51.55
Quarter ended 31 March 2014	1691	1554	56.66	50.90
Quarter ended 31 December 2013	1665	1546	53.68	49.31
Quarter ended 30 September 2013	1753	1558	52.96	50.17
Quarter ended 30 June 2013	1782	1520	53.59	46.79
Quarter ended 31 March 2013	1539	1359	46.91	43.93
Year ended 31 December 2012	1508	1318	47.45	41.90
Year ended 31 December 2011	1474	1312	45.74	40.53
Year ended 31 December 2010	1340	1095	42.97	32.34

\* to 19 February 2015

### Analysis of shareholdings at 31 December 2014

	Number of accounts	% of total accounts	% of total shares	Number of shares
<b>Holding of shares</b>				
Up to 1,000	99,244	71.12	0.68	36,674,916
1,001 to 5,000	32,256	23.12	1.29	68,979,416
5,001 to 100,000	6,929	4.96	1.83	98,225,447
100,001 to 1,000,000	749	0.54	4.91	262,941,428
Over 1,000,000	357	0.26	91.29	4,888,476,025
	139,535	100.00	100.00	5,355,297,232
<b>Held by</b>				
Nominee companies	7,071	5.07	64.62	3,460,457,315
Investment and trust companies	27	0.02	0.06	3,399,366
Insurance companies	5	0.00	0.00	3,648
Individuals and other corporate bodies	132,429	94.91	10.03	537,234,534
BNY (Nominees) Limited	2	0.00	16.11	862,686,419
Held as Treasury shares by GlaxoSmithKline	1	0.00	9.18	491,515,950
	139,535	100.00	100.00	5,355,297,232

BNY Mellon is the Depositary for the company's ADSs, which are listed on the NYSE. Ordinary Shares representing the company's ADR programme, which is managed by the Depositary, are registered in the name of BNY (Nominees) Limited. At 19 February 2015, BNY (Nominees) Limited held 863,571,705 Ordinary Shares representing 17.75% of the issued share capital (excluding Treasury shares) at that date.

At 19 February 2015, the number of holders of Ordinary Shares in the USA was 1,044 with holdings of 1,088,475 Ordinary Shares, and the number of registered holders of ADS was 26,022 with holdings of 431,785,852 ADS. Certain of these Ordinary Shares and ADS were held by brokers or other nominees. As a result, the number of holders of record or registered holders in the USA is not representative of the number of beneficial holders or of the residence of beneficial holders.



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*continued*

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## Dividends

The company pays dividends quarterly and continues to return cash to shareholders through its dividend policy. Dividends remain an essential component of total shareholder return and the company is committed to increasing its dividend over the long-term. Details of the dividends declared, the amounts and the payment dates are given in Note 16 to the financial statements, 'Dividends'.

### Dividends per share

The table below sets out the dividend per share and per ADS for the last five years. The dividend per ADS is translated into US dollars at applicable exchange rates.

Year	Dividend	pence	US\$
2014		80	2.59
2013		78	2.47
2012		74	2.35
2011		70	2.25
2011	Supplemental*	5	0.16
2010		65	2.04

\* The 2011 supplemental dividend related to the disposal of certain non-core OTC brands in North America. This was paid with the fourth quarter ordinary dividend for 2011.

### Dividend calendar

Quarter	ADS Ex-dividend date	Ex-dividend date	Record date	Payment date
Q4 2014	18 February 2015	19 February 2015	20 February 2015	9 April 2015
Q1 2015	13 May 2015	14 May 2015	15 May 2015	9 July 2015
Q2 2015	12 August 2015	13 August 2015	14 August 2015	1 October 2015
Q3 2015	10 November 2015	12 November 2015	13 November 2015	14 January 2016

## Tax information for shareholders

A summary of certain UK tax and US federal income tax consequences for holders of shares and ADR who are citizens of the UK or the USA is set out below. It is not a complete analysis of all the possible tax consequences of the purchase, ownership or sale of these securities. It is intended only as a general guide. Holders are advised to consult their advisers with respect to the tax consequences of the purchase, ownership or sale of their shares or ADR and the consequences under state and local tax laws in the USA and the implications of the current UK/US tax conventions.

US holders of ADR generally will be treated as the owners of the underlying shares for the purposes of the current USA/UK double taxation conventions relating to income and gains (Income Tax Convention), estate and gift taxes (Estate and Gift Tax Convention), and for purposes of the Internal Revenue Code of 1986, as amended (the Code).

## UK shareholders

This summary only applies to a UK resident shareholder that holds shares as capital assets.

### Taxation of dividends

UK resident shareholders will generally be subject to UK income tax on the full amount of dividends paid, grossed up for the amount of a tax credit. The tax credit may be set against the individual's income tax liability in respect of the gross dividend, but is not repayable to shareholders with a tax liability of less than the associated tax credit. For the tax year 2010-11 and subsequent tax years, an additional rate of income tax on dividends was imposed for taxpayers whose income is above £150,000. UK resident shareholders that are corporation taxpayers should note that dividends are generally entitled to exemption from corporation tax.

### Taxation of capital gains

UK shareholders may be liable for UK tax on gains on the disposal of shares or ADR. For disposals by individuals and subject to the availability of any exemption or relief such as the annual exempt amount, a taxable capital gain accruing on a disposal of shares or ADR will be taxed at 28% if, after all allowable deductions, such shareholders' taxable income for the tax year exceeds the basic rate income tax limit. In other cases, a taxable capital gain accruing on a disposal of shares or ADR may be taxed at 18% or 28% or at a combination of both rates. Corporation taxpayers may be entitled to an indexation allowance which applies to reduce capital gains to the extent that such gains arise due to inflation. Indexation allowance may reduce a chargeable gain but will not create an allowable loss.

### Inheritance tax

Individual shareholders may be liable to inheritance tax on the transfer of shares or ADR. Tax may be charged on the amount by which the value of the shareholder's estate is reduced as a result of any transfer by way of gift or other disposal at less than full market value. If such a gift or other disposal were subject to both UK inheritance tax and US estate or gift tax, the Estate and Gift Tax Convention would generally provide for tax paid in the USA to be credited against tax payable in the UK.

### Stamp duty

UK stamp duty or stamp duty reserve tax (SDRT) will, subject to certain exemptions, be payable on the transfer of shares at a rate of 0.5% of the consideration for the transfer.

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### US shareholders

This summary only applies to a shareholder (who is a citizen or resident of the USA or a domestic corporation or a person that is otherwise subject to US federal income tax on a net income basis in respect of the shares or ADR) that holds shares or ADR as capital assets, is not resident in the UK for UK tax purposes and does not hold shares for the purposes of a trade, profession or vocation that is carried on in the UK through a branch or agency.

The summary also does not address the tax treatment of holders that are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, persons that hold shares or ADR as part of an integrated investment (including a 'straddle') comprised of a share or ADR and one or more other positions, and persons that own (directly or indirectly) 10% or more of the voting stock of the company.

### Taxation of dividends

The gross amount of dividends received is treated as foreign source dividend income for US tax purposes. It is not eligible for the dividend received deduction allowed to US corporations. Dividends on ADR are payable in US dollars; dividends on shares are payable in pounds Sterling. Dividends paid in pounds Sterling will be included in income in the US dollar amount calculated by reference to the exchange rate on the day the dividends are received by the holder. Subject to certain exceptions for short-term or hedged positions, an individual eligible US holder will be subject to US taxation at a maximum rate of 23.8% in respect of qualified dividends.

### Taxation of capital gains

Generally, US holders will not be subject to UK capital gains tax, but will be subject to US tax on capital gains realised on the sale or other disposal of shares or ADR. Such gains will be long-term capital gains (subject to reduced rates of taxation for individual holders) if the shares or ADR were held for more than one year.

### Information reporting and backup withholding

Dividends and payments of the proceeds on a sale of shares or ADR, paid within the USA or through certain US-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the US holder is a corporation or other exempt recipient or provides a taxpayer identification number and certifies that no loss of exemption has occurred. Non-US holders generally are not subject to information reporting or backup withholding, but may be required to provide a certification of their non-US status in connection with payments received. Any amounts withheld will be allowed as a refund or credit against a holder's US federal income tax liability provided the required information is furnished to the Internal Revenue Service.

### Estate and gift taxes

Under the Estate and Gift Tax Convention, a US shareholder is not generally subject to UK inheritance tax.

### Stamp duty

UK stamp duty or SDRT will, subject to certain exemptions, be payable on any transfer of shares to the ADR custodian or depository at a rate of 1.5% of the amount of any consideration provided (if transferred on sale), or their value (if transferred for no consideration).

No SDRT would be payable on the transfer of, or agreement to transfer, an ADR. No UK stamp duty should be payable on the transfer of an ADR provided that any instrument of transfer is executed and remains at all times outside the UK. Any stamp duty on the transfer of an ADR would be payable at a rate of 0.5% of the consideration for the transfer. Any sale of the underlying shares would, subject to certain exceptions, result in liability to UK stamp duty or, as the case may be, SDRT at a rate of 0.5%.

## Annual General Meeting 2015

2.30pm (UK time) on Thursday 7 May 2015  
The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

The AGM is the company's principal forum for communication with private shareholders. In addition to the formal business, there will be a presentation by the CEO on the performance of the Group and its future development. There will be an opportunity for questions to be asked to the Board. Chairmen of the Board's Committees will take questions relating to those Committees.

Investors holding shares through a nominee service should arrange with that nominee service to be appointed as a proxy in respect of their shareholding in order to attend and vote at the meeting.

ADR holders wishing to attend the meeting must obtain a proxy from BNY Mellon, as Depository, by notifying them of your request to do so. This will enable you to attend and vote on the business to be transacted. ADR holders may instruct BNY Mellon as to the way in which the shares represented by their ADR should be voted by completing and returning the voting card provided by the Depository.

### Documents on display

The Articles of Association of the company and Directors' service contracts or, where applicable, letters of appointment between Directors and the company or any of its subsidiaries (and any side letters relating to severance terms and pension arrangements) are available for inspection at the company's registered office and will be made available for inspection at the AGM.



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## Financial calendar

Event	Date
Quarter 1 results' announcement	April/May 2015
Annual General Meeting	May 2015
Quarter 2 results' announcement	July 2015
Quarter 3 results' announcement	October 2015
Preliminary/Quarter 4 results' announcement	February 2016
Annual Report announcement	February/March 2016
Annual Report/Summary distribution	March 2016

Information about the company, including the share price, is available on our website at [www.gsk.com](http://www.gsk.com). Information made available on the website does not constitute part of this Annual Report.

## Results announcements

Results announcements are issued to the London Stock Exchange and are available on its news service. They are also sent to the US Securities and Exchange Commission and the NYSE, issued to the media and made available on our website.

## Financial reports

The company publishes an Annual Report and, for the shareholder not needing the full detail of the Annual Report, a Summary. These documents are available on our website from the date of publication. The Summary is sent to all shareholders. Shareholders may elect to receive the Annual Report by contacting the registrar. Alternatively, shareholders may elect to receive notification by email of the publication of financial reports by registering on [www.shareview.co.uk](http://www.shareview.co.uk).

Copies of previous financial reports are available on our website. Printed copies can be obtained from our registrar in the UK and from the GSK Response Center in the USA (see pages 249 and 250 for the contact details).

## Donations to political organisations and political expenditure

With effect from 1 January 2009, to ensure a consistent approach to political contributions across the Group, we introduced a global policy to stop voluntarily all corporate political contributions.

In the period from 1 January 2009 to 31 December 2014, the Group did not make any political donations to EU or non-EU organisations.

Notwithstanding the introduction of this policy, in accordance with the Federal Election Campaign Act in the USA, we continue to support an employee-operated Political Action Committee (PAC) that facilitates voluntary political donations by eligible GSK employees.

The PAC is not controlled by GSK. Decisions on the amounts and recipients of contributions are made by participating employees exercising their legal right to pool their resources and make political contributions, which are subject to strict limitations. In 2014, a total of US\$525,900 (US\$484,810 in 2013) was donated to political organisations by the GSK employee PAC.

At the AGM in May 2001, shareholders first authorised the company to make donations to EU political organisations and to incur EU political expenditure, under the provisions of the Political Parties, Elections and Referendums Act 2000, of up to £100,000 each year. This authority has since been renewed annually. The Companies Act 2006 requires companies to continue to obtain shareholder approval before they can make donations to EU political organisations or incur EU political expenditure.

However, we do not make and do not intend to make donations to political parties or independent election candidates, nor do we make any donations to EU political organisations or incur EU political expenditure.

The definitions of political donations, political expenditure and political organisations used in the legislation are very wide. In particular, the definition of EU political organisations may extend to bodies such as those concerned with policy review, law reform, the representation of the business community and special interest groups such as those concerned with the environment, which the company and its subsidiaries might wish to support. As a result, the definitions may cover legitimate business activities not in the ordinary sense considered to be political donations or political expenditure.

Such activities are not designed to support any political party or independent election candidate. The authority which the Board has sought annually is a precautionary measure to ensure that the company and its subsidiaries do not inadvertently breach the legislation.

## Directors

Our Directors' powers are determined by UK legislation and our Articles of Association, which are available on our website. The Articles may be amended by a special resolution of the members. The Directors may exercise all the company's powers provided that the Articles or applicable legislation do not stipulate that any such powers must be exercised by the members.

The rules about the appointment and replacement of Directors are contained in our Articles. They provide that Directors may be appointed by an ordinary resolution of the members or by a resolution of the Directors, provided that, in the latter instance, a Director appointed in this way retires at the first AGM following his or her appointment.

Our Articles also provide that Directors should normally be subject to re-election at the AGM at intervals of three years or annually if they have held office for a continuous period of nine years or more. However, the Board agreed in 2011 that all Directors who wish to continue as members of the Board should seek re-election annually in accordance with the UK Corporate Governance Code. Members may remove a Director by passing an ordinary resolution of which special notice has been given, or by passing a special resolution.

A Director may automatically cease to be a Director if:

- he or she becomes bankrupt or compounds with his or her creditors generally
- he or she ceases to be a Director by virtue of the Companies Act or the Articles
- he or she is suffering from mental or physical ill health and the Board resolves that he or she shall cease to be a Director
- he or she has missed Directors' meetings for a continuous period of six months without permission and the Board resolves that he or she shall cease to be a Director
- he or she is prohibited from being a Director by law
- he or she resigns
- he or she offers to resign and the Board accepts that offer
- all other Directors (being at least three in number) require him or her to resign.

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### Directors' conflicts of interest

All Directors have a duty under the Companies Act 2006 to avoid a situation in which they have, or could have, a direct or indirect conflict of interest or possible conflict with the company. The duty applies, in particular, to the exploitation of any property, information or opportunity whether or not the company could take advantage of it. Our Articles provide a general power for the Board to authorise such conflicts.

The Nominations Committee has been authorised by the Board to grant and periodically, but in any event annually, to review any potential or actual conflict authorisations. Directors are not counted in the quorum for the authorisation of their own actual or potential conflicts. Authorisations granted are recorded by the Company Secretary in a register and are noted by the Board.

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

The Nominations Committee reviewed the register of potential conflict authorisations in October 2014 and reported to the Board that the conflicts had been appropriately authorised and that the process for authorisation continues to operate effectively. Except as described in Note 35 to the financial statements, 'Related party transactions', during or at the end of the financial year no Director or connected person had any material interest in any contract of significance with a Group company.

### Independent advice

The Board recognises that there may be occasions when one or more of the Directors feel it is necessary to take independent legal and/or financial advice at the company's expense. There is an agreed procedure, which is set out on our website, to enable them to do so.

### Indemnification of Directors

Qualifying third party indemnity provisions (as defined in the Companies Act 2006) are in force for the benefit of Directors and former Directors who held office during 2014 and up to the signing of the Annual Report.

### Change of control and essential contracts

We do not have contracts or other arrangements which individually are fundamental to the ability of the business to operate effectively, nor is the company party to any material agreements that would take effect, be altered, or terminate upon a change of control following a takeover bid. We do not have agreements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the company's share plans may cause options and awards granted under such plans to vest on a takeover. Details of the termination provisions in the company's framework for contracts for Executive Directors are given on pages 124 and 125.

## US law and regulation

A number of provisions of US law and regulation apply to the company because our shares are quoted on the New York Stock Exchange (NYSE) in the form of ADSs.

### NYSE rules

In general, the NYSE rules permit the company to follow UK corporate governance practices instead of those applied in the USA, provided that we explain any significant variations. This explanation is contained in our Form 20-F, which can be accessed from the Securities and Exchange Commission's (SEC) EDGAR database or via our website. NYSE rules that came into effect in 2005 require us to file annual and interim written affirmations concerning the Audit & Risk Committee and our statement on significant differences in corporate governance.

### Sarbanes-Oxley Act of 2002

Following a number of corporate and accounting scandals in the USA, Congress passed the Sarbanes-Oxley Act of 2002. Sarbanes-Oxley is a wide-ranging piece of legislation concerned largely with financial reporting and corporate governance.

As recommended by the SEC, the company has established a Disclosure Committee. The Committee reports to the CEO, the CFO and to the Audit & Risk Committee. It is chaired by the Company Secretary and the members consist of senior managers from finance, legal, corporate communications and investor relations.

External legal counsel, the external auditors and internal experts are invited to attend its meetings periodically. It has responsibility for considering the materiality of information and, on a timely basis, determining the disclosure of that information. It has responsibility for the timely filing of reports with the SEC and the formal review of the Annual Report and Form 20-F. In 2014, the Committee met 11 times.

Sarbanes-Oxley requires that the annual report on Form 20-F contain a statement as to whether a member of our Audit & Risk Committee (ARC) is an audit committee financial expert as defined by Sarbanes-Oxley. Such a statement for each of the relevant members of the ARC (Stacey Cartwright, Judy Lewent and Tom de Swaan) is included in the Audit & Risk Committee report on page 87 and in their biographies on pages 74 and 75. Additional disclosure requirements arise under section 302 and section 404 of Sarbanes-Oxley in respect of disclosure controls and procedures and internal control over financial reporting.

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## Section 302: Corporate responsibility for financial reports

Sarbanes-Oxley also introduced a requirement for the CEO and the CFO to complete formal certifications, confirming that:

- they have each reviewed the annual report on Form 20-F
- based on their knowledge, the annual report on Form 20-F contains no material misstatements or omissions
- based on their knowledge, the financial statements and other financial information fairly present, in all material respects, the financial condition, results of operations and cash flows as of the dates, and for the periods, presented in the annual report on Form 20-F
- they are responsible for establishing and maintaining disclosure controls and procedures that ensure that material information is made known to them, and have evaluated the effectiveness of these controls and procedures as at the year-end, the results of such evaluation being contained in the annual report on Form 20-F
- they are responsible for establishing and maintaining internal control over financial reporting that provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles
- they have disclosed in the annual report on Form 20-F any changes in internal controls over financial reporting during the period covered by the annual report on Form 20-F that have materially affected, or are reasonably likely to affect materially, the company's internal control over financial reporting, and they have disclosed, based on their most recent evaluation of internal control over financial reporting, to the external auditors and the ARC, all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to affect adversely the company's ability to record, process, summarise and report financial information, and any fraud (regardless of materiality) involving persons that have a significant role in the company's internal control over financial reporting.

The Group has carried out an evaluation under the supervision and with the participation of its management, including the CEO and CFO, of the effectiveness of the design and operation of the Group's disclosure controls and procedures as at 31 December 2014.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The CEO and CFO expect to complete these certifications and report their conclusions on the effectiveness of disclosure controls and procedures in February 2015, following which the certificates will be filed with the SEC as part of our Group's Form 20-F.

## Section 404: Management's annual report on internal control over financial reporting

In accordance with the requirements of section 404 of Sarbanes-Oxley, the following report is provided by management in respect of the company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the US Securities Exchange Act of 1934):

- management is responsible for establishing and

- management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework, Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO)
- there have been no changes in the Group's internal control over financial reporting during 2014 that have materially affected, or are reasonably likely to affect materially, the Group's internal control over financial reporting
- management has assessed the effectiveness of internal control over financial reporting as at 31 December 2014 and its conclusion will be filed as part of the Group's Form 20-F, and

PricewaterhouseCoopers LLP, which has audited the consolidated financial statements of the Group for the year ended 31 December 2014, has also assessed the effectiveness of the Group's internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board (United States). Their audit report will be filed with the Group's Form 20-F.

## Section 13(r) of the US Securities Exchange Act

Section 13(r) of the US Securities Exchange Act of 1934, as amended, requires issuers to make specific disclosure in their Annual Reports of certain types of dealings with Iran, including transactions or dealings with government-owned entities, as well as dealings with entities sanctioned for activities related to terrorism or proliferation of weapons of mass destruction, even when those activities are not prohibited by US law and do not involve US persons. The Group does not have a legal entity based in Iran, but it does export certain pharmaceutical and vaccine products to Iran, via sales by non-US entities, to two privately held Iranian distributors. The Group also does business, via non-US entities, in other jurisdictions targeted by sanctions laws, including Syria, Crimea, North Korea and Sudan. We do not believe that any of the Group's direct dealings with Iran require specific disclosure under these requirements, and the Group limits sales to Iran, North Korea, Syria, Sudan and Cuba to essential medicines (determined in part using criteria set by the World Health Organization). The Group has no direct knowledge of the identity of its distributors' downstream customers in Iran, and it is possible that these customers include entities, such as government-owned hospitals and pharmacies, that are owned or controlled directly or indirectly by the Iranian government or by persons or entities sanctioned in connection with terrorism or proliferation activities. Because the Group has no direct knowledge of its distributors' customers, it cannot establish the proportion of gross revenue or sales potentially attributable to entities affiliated with the Iranian government or parties sanctioned for disclosable activities. As a result, the Group is reporting the entire gross revenues (£0.2 million) and net losses (£1.36 million) from the Group's sales to Iran in 2014.

The Group is also aware that some hospitals or other medical facilities in Lebanon may be affiliated with or controlled by Hezbollah, which is designated by the United States as a terrorist organization. Again, the Group does not deal directly with such facilities and sells through a distributor. The Group is also unable to identify with certainty the degree or nature of any affiliation of the end customers with Hezbollah, and the Group is unable to establish the proportion of gross revenue or sales potentially attributable to reportable entities. As a result, the Group is reporting the entire gross revenues (£41 million) and net profits (£16.3 million) from the Group's sales to Lebanon in 2014.



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maintaining adequate internal control over financial reporting for the Group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS



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## Shareholder services and contacts

### Registrar

The company's registrar is:  
Equiniti Limited  
Aspect House, Spencer Road, Lancing, BN99 6DA  
www.shareview.co.uk  
Tel: 0871 384 2991 (in the UK)\*  
Tel: +44(0)121 415 7067 (outside the UK)

Equiniti provides a range of services for shareholders:

Service	What it offers	How to participate
Dividend Reinvestment Plan (DRIP)	As an alternative to receiving cash dividends you may choose to reinvest your dividends to buy more GSK shares.	A DRIP election form can be downloaded from www.shareview.co.uk or requested by telephoning Equiniti.
Dividend payment direct to your bank account (Bank Mandate)	If you currently receive your dividends by cheque through the post, you can instead have them paid directly into your bank or building society account. This is quicker, more secure and avoids the risk of your cheque going astray.	A dividend bank mandate form can be downloaded from www.shareview.co.uk or requested by telephoning Equiniti.
Dividend payment direct to bank account for overseas shareholders	Instead of waiting for a sterling cheque to arrive by post, Equiniti will convert your dividend into your local currency and send it direct to your local bank account. This service is available in over 100 countries worldwide.	For more details on this service and the costs involved please contact Equiniti.
Electronic communications	Shareholders may elect to receive electronic notifications of company communications including our Annual Report, dividend payments (if paid by way of a Bank Mandate), access to electronic tax vouchers and the availability of online voting for all general meetings. Each time GSK mails out hard copy shareholder documents you will receive an email containing a link to the document or relevant website.	You can register at www.shareview.co.uk
Shareview service	This enables you to create a free online portfolio to view your share balance and movements, update your address and dividend payment instructions and register your votes for our AGM.	You can register at: www.shareview.co.uk
Duplicate publications or mailings	If you receive duplicate copies of this report or other mailings, please contact Equiniti and they will arrange for your accounts to be merged into one for your convenience and to avoid waste and unnecessary costs.	Please contact Equiniti.
Share dealing service† (please note that market trading hours are from 8.00am to 4.30pm UK time, Monday to Friday, excluding UK public holidays)	Shareholders may trade shares, either held in certificated form or held in our Corporate Sponsored Nominee, by internet, telephone or by a postal dealing service provided by Equiniti Financial Services Limited.	For internet transactions, please log on to www.shareview.co.uk/dealing.  For telephone transactions, please call 0845 603 7037 (in the UK) or +44 (0)121 415 7560 (outside the UK).  For postal transactions, please call 0871 384 2991 to request a dealing form.
Corporate Sponsored Nominee Account	This is a convenient way to manage your shares without requiring a share certificate. The service provides a facility for you to hold your shares in a nominee company sponsored by the company. You will continue to receive dividend payments, annual reports and can attend and vote at the company's general meetings. Shareholders' names do not appear on the publicly available share register and the service is free to join.	An application form can be downloaded from www.shareview.co.uk or requested by telephoning Equiniti.
Individual Savings Accounts (ISAs)†	The company has arranged for Equiniti Financial Services Limited to provide a GSK Corporate ISA to hold GSK Ordinary Shares.	Details are available from www.shareview.co.uk or can be requested by telephoning Equiniti.

\* UK lines are open from 8.30am to 5.30pm, Monday to Friday, except UK public holidays, and calls to the number are charged at 8p per minute plus network extras.

† The provision of share dealing details is not intended to be an invitation or inducement to engage in an investment activity. Advice on share dealing should be obtained from a stockbroker or independent financial adviser.

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## ADR Depository

The ADR programme is administered by The Bank of New York Mellon:

BNY Mellon Shareowner Services  
PO Box 30170  
College Station, TX 77842-3170

Overnight correspondence should be sent to:  
BNY Mellon Shareowner Services  
211 Quality Circle, Suite 210  
College Station, TX 77845

www.mybnymdr.com  
Tel: 1 877 353 1154 (US toll free)  
Tel: +1 201 680 6825 (outside the USA)  
email: shrelations@cpushareownerservices.com

The Depository also provides Global BuyDIRECT<sup>†</sup>, a direct ADS purchase/sale and dividend reinvestment plan for ADR holders. For details of how to enrol please visit [www.mybnymdr.com](http://www.mybnymdr.com) or call the above helpline number to obtain an enrolment pack.

## Glaxo Wellcome and SmithKline Beecham Corporate PEPs

The Share Centre Limited  
Oxford House, Oxford Road, Aylesbury, Bucks  
HP21 8SZ  
Tel: +44 (0)1296 414 141  
[www.share.com](http://www.share.com)

## Donating shares to Save the Children

In 2013, GSK embarked on an ambitious global partnership with Save the Children to share our expertise and resources with the aim of helping to save the lives of one million children.

Shareholders with a small number of shares, the value of which makes it uneconomical to sell, may wish to consider donating them to Save the Children. Donated shares will be aggregated and sold by Save the Children who will use the funds raised to help them reach the above goal.<sup>†</sup>

To obtain a share donation form, please contact our registrar, Equiniti, who is managing the donation and sale of UK shares to Save the Children free of charge.

<sup>†</sup> The provision of share dealing details is not intended to be an invitation or inducement to engage in an investment activity. Advice on share dealing should be obtained from a stockbroker or independent financial adviser.

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### Investor relations

Investor relations may be contacted as follows:

#### UK

980 Great West Road  
Brentford, Middlesex, TW8 9GS  
Tel: +44 (0)20 8047 5000

#### USA

Five Crescent Drive  
Philadelphia PA 19112  
Tel: 1 888 825 5249 (US toll free)  
Tel: +1 215 751 4611 (outside the USA)

### GSK Response Center

Tel: 1 888 825 5249 (US toll free)

### Share scam alert

If you receive an unsolicited telephone call offering to sell or buy your shares, please take extra care. The caller may be part of a highly organised financial scam.

If you are a UK shareholder, please contact the Financial Conduct Authority for further information on this, or other similar activities, at [www.fca.org.uk/consumers](http://www.fca.org.uk/consumers) or on its consumer helpline:

Tel: 0845 606 1234 (in the UK)  
Lines are open from 8.00am to 6.00pm, UK time, Monday to Friday, except UK public holidays.

### Responsible Business Supplement

We are publishing our Responsible Business Supplement 2014 online. This will outline GSK's approach to, and performance in, our key responsible business areas, Health for all, Our behaviour, Our people and Our planet.



## Glossary of terms

Terms used in the Annual Report	US equivalent or brief description
Accelerated capital allowances	Tax allowance in excess of depreciation arising from the purchase of fixed assets that delay the charging and payment of tax. The equivalent of tax depreciation.
American Depositary Receipt (ADR)	Receipt evidencing title to an ADS. Each GSK ADR represents two Ordinary Shares.
American Depositary Shares (ADS)	Listed on the New York Stock Exchange; represents two Ordinary Shares.
Basic earnings per share	Basic income per share.
Called up share capital	Ordinary Shares, issued and fully paid.
CER growth	Growth at constant exchange rates.
The company	GlaxoSmithKline plc.
Corporate Integrity Agreement (CIA)	In 2012, the company entered into a settlement with the US Federal Government related to past sales and marketing practices. As part of the settlement the company entered into a Corporate Integrity Agreement with the US Department of Health and Human Services, under which improvements are being built into its existing compliance programmes.
Currency swap	An exchange of two currencies, coupled with a subsequent re-exchange of those currencies, at agreed exchange rates and dates.
Defined benefit plan	Pension plan with specific employee benefits, often called 'final salary scheme'.
Defined contribution plan	Pension plan with specific contributions and a level of pension dependent upon the growth of the pension fund.
Derivative financial instrument	A financial instrument that derives its value from the price or rate of some underlying item.
Diluted earnings per share	Diluted income per share.
Employee Share Ownership Plan Trusts	Trusts established by the Group to satisfy share-based employee incentive plans.
Equity Shareholders' funds	Shareholders' equity.
Finance lease	Capital lease.
Freehold	Ownership with absolute rights in perpetuity.
The Group	GlaxoSmithKline plc and its subsidiary undertakings.
GSK	GlaxoSmithKline plc and its subsidiary undertakings.
Hedging	The reduction of risk, normally in relation to foreign currency or interest rate movements, by making off-setting commitments.
Intangible fixed assets	Assets without physical substance, such as computer software, brands, licences, patents, know-how and marketing rights purchased from outside parties.
Ordinary Share	A fully paid up ordinary share in the capital of the company.
Profit	Income.
Profit attributable to shareholders	Net income.
Share capital	Ordinary Shares, capital stock or common stock issued and fully paid.
Share option	Stock option.
Share premium account	Additional paid-up capital or paid-in surplus (not distributable).
Shares in issue	The number of shares outstanding.
Subsidiary	An entity in which GSK exercises control.
Treasury share	Treasury stock.
Turnover	Revenue.
UK Corporate Governance Code	As required by the UK Listing Authority, the company has disclosed in the Annual Report how it has applied the best practice corporate governance provisions of the Financial Reporting Council's UK Corporate Governance Code.



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# About GSK

GlaxoSmithKline plc was incorporated as an English public limited company on 6 December 1999. We were formed by a merger between Glaxo Wellcome plc and SmithKline Beecham plc. GSK acquired these two English companies on 27 December 2000 as part of the merger arrangements.

Our shares are listed on the London Stock Exchange and the New York Stock Exchange.

➔ Read more at [www.gsk.com](http://www.gsk.com)



Here you will find downloadable PDFs of:

- Annual Report 2014
- Annual Summary 2014
- Form 20-F
- Responsible Business Supplement 2014

#### Notice regarding limitations on Director Liability under English Law

Under the UK Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the Directors' Report (for which see page 95), the Strategic report and the Remuneration report. Under English law the Directors would be liable to the company, but not to any third party, if one or more of these reports contained errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would otherwise not be liable. Pages 71 to 95, 130, 211 and 232 to 248 inclusive comprise the Directors' Report, pages 2 to 70 inclusive comprise the Strategic report and pages 96 to 118 inclusive comprise the Remuneration report, each of which have been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

#### Website

GSK's website [www.gsk.com](http://www.gsk.com) gives additional information on the Group. Notwithstanding the references we make in this Annual Report to GSK's website, none of the information made available on the website constitutes part of this Annual Report or shall be deemed to be incorporated by reference herein.

#### 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.

The information in this document does not constitute an offer to sell or an invitation to buy shares in GlaxoSmithKline plc or an invitation or inducement to engage in any other investment activities. Past performance cannot be relied upon as a guide to future performance. Nothing in this Annual Report should be construed as a profit forecast.

#### Brand names

Brand names appearing in italics throughout this report are trade marks either owned by and/or licensed to GSK or associated companies, with the exception of Boniva/ Boniva, a trade mark of Roche, NicoDerm, a trade mark of Johnson & Johnson, Merrell, Novartis, Sanofi or GlaxoSmithKline, Potiga, a trade mark of Valeant, Prolia and Xgeva, trade marks of Amgen, Vesicare, a trade mark of Astellas Pharmaceuticals in many countries and of Yamanouchi Pharmaceuticals in certain countries, Volibris, a trade mark of Gilead, Xyzal, a trade mark of UCB or GSK



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and Zyrtec, a trade mark of UCB or GSK all of which are used in certain countries under licence by the Group.

**Acknowledgements**

**Design**

Salterbaxter

**Printing**

Printed at Pureprint Group, ISO 14001.  
FSC certified and CarbonNeutral.

**Paper**

This Annual Report is printed on Amadeus 100 Silk, a 100% recycled paper with full FSC certification. All pulps used are made from 100% de-inked, post-consumer waste and are elemental chlorine free. The manufacturing mill holds the ISO 14001 and EU Ecolabel certificates for environmental management.



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Doctors like Kaali (pictured) are on the frontline against malaria. He works in Ghana, where he treats children with malaria and educates families about how to prevent the disease. Along with our partners, we are committed to fighting malaria on all fronts – from improving access to medicines, to encouraging use of preventative tools like bed nets, and searching for new treatments as well as developing a potential vaccine.

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