GSK Pension Scheme ("the Scheme")
Statement of Investment Principles

This Statement of Investment Principles (SIP) covers the defined benefit and the defined contribution sections of the Scheme. It is set out in four parts:

1) Governance arrangements
2) Objectives and implementation of the defined benefit section
3) Objectives and implementation of the defined contribution section
4) The Trustee's investment policy.

1. Governance Section

The Trustee is responsible for the investment of the Scheme assets. The Trustee takes some decisions itself and delegates others (either directly or indirectly) to the Joint Investment Committee (JIC) or to external parties such as Investment Advisors or Scheme Managers. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to make an informed decision. The Trustee has established the following decision making structure.

<table>
<tr>
<td>Trustee
Set structures and processes for carrying out its role.
Determine (with assistance from the JIC) targeted allocation strategy between return seeking and liability matching assets.
Determine (with assistance as required) the investment strategy, hedging strategy and insurance solutions.
Monitor the JIC and consider proposals made by the JIC.
Review the Scheme's participation in the CIF.
Select and monitor fund managers of the DC and AVC assets.
Select and monitor investment advisers.</td>
<td>JIC
Select and monitor investment advisers and fund managers for the DB pension schemes.
Assist the Trustee with setting its targeted asset allocation.
Assist the CIF in all investment related decisions in relation to the CIF's assets.
Maintain an Investment and Hedging Strategy (IHS) document.
Set structures for implementing the IHS and make day to day decisions relevant to the operation of the IHS.
Require the fund managers to operate within the terms of this statement so far as practical.</td>
</tr>
<tr>
<td>Investment Advisers
Advise on all aspects of the investment of the Scheme assets, including implementation.
Advise on this statement.
Provide required training.
Advise the Trustee on suitability of the indices in the benchmark.</td>
<td>Fund Managers
Operate within the terms of this statement and their written contracts.
Select the individual investments within their portfolios (e.g. individual stocks, bonds, derivatives, repos, etc as applicable) with regard to their suitability, including consideration of the impact on portfolio diversification.</td>
</tr>
</table>

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect with the Government's Voluntary code of conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

2. Defined Benefit Section

2.1 Investment Objective

The Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting the planned investment strategy, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The asset allocation strategy that it has selected (the planned asset allocation strategy) is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

2.2 Strategy

The planned asset allocation strategy was determined with regard to the liability profile and funding position of the Scheme. It was based on the assumption that equities would outperform bonds over the long term. The strategy invests across a range of assets including equities, bonds and property. The balance between the assets is selected with the aim of achieving the investment objective. The Trustee considered written advice from its investment advisers when choosing the Scheme's planned asset allocation strategy. The Trustee monitors the planned asset allocation strategy on an ongoing basis.

2.3 Risk Measurement and Management

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk. These risks are discussed in this section.

The risks identified by the Trustee fall naturally into two groups; those that the Trustee manages directly itself and those whose management has been delegated to the JIC, either directly or through a sub-delegation from the GSK Common Investment Fund ('CIF').

2.4 Risks Managed Directly by the Trustee

The risks identified by the Trustee that are also directly managed by itself are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when agreeing the investment strategy with the JIC.
- The possibility of failure of the Scheme's sponsoring employer ("covenant risk"). The Trustee and its advisers considered this risk when agreeing investment strategy with the JIC and consulted with the sponsoring employer as to the suitability of the mix between return seeking and liability matching assets.

2.5 Risks Managed by the JIC

The JIC has identified a number of risks that impact the duties that have been delegated to it. These risks include investment related risks (such as non-diversification risk, asset misallocation risk, manager risk, custody risk, stocklending risk, and cash investment risk to name but a few) and hedging related risks (such as counterparty risk, roll risk, hedge ineffectiveness risk, and collateral shortfall risk), and liquidity risk. These risks are identified in the Risk Map, along with the various risk mitigation options and monitoring framework.

2.6 Management of Operational Risk

A further risk that the Trustee has identified is the risk of fraud, poor advice or acts of negligence ("operational risk"). Both the Trustee and the JIC have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

2.7 Regular Monitoring of Risks
The Trustee manages risks using both qualitative and quantitative techniques. In addition, it has a process in place to overview the way in which the JIC is managing the risks that have been delegated to it. Specific details of the risk management processes that the Trustee and the JIC have in place are detailed below.

Due to the complex and interrelated nature of the risks that the Trustee manages directly, these risks are considered in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially).

The Trustee may also review the risks directly managed by it quantitatively. For example, the Trustee regularly reviews the progress of the Scheme's funding level over time as part of its ongoing management of mismatching risk.

2.8 Monitoring of risks delegated to the JIC
The JIC regularly monitors the risks whose management has been delegated to it by the Trustee. In addition to the risk monitoring outlined in the Risk Map, the JIC's monitoring process also includes regular analysis of reports containing the following information:

- Performance versus the Scheme investment objective as measured by an independent performance measurer.
- Performance of individual fund managers versus their respective targets as measured by an independent performance measurer.
- Any significant issues with the fund managers that may impact their ability to meet their performance targets.

The Trustee regularly receives summaries of the above information and also summaries of the decisions made by the JIC. This forms part of its overall risk monitoring process.

2.9 Implementation
The Trustee invests DB Section assets both directly and indirectly through the CIF, which has an independent Trustee board (the CIF Directors). The Trustee and the CIF have delegated all investment and hedging related responsibilities to the JIC. The JIC has delegated the management of the assets to several fund managers.

The Trustee also has assets in the form of insurance policies which are held to match part of the pension in payment liabilities.

The JIC monitors the performance of all fund managers on a quarterly basis and assesses any significant issues with the fund managers that may impact on their ability to meet the performance objectives set by the Trustee.

The Trustee monitors the major decisions of the JIC, such as asset allocation and manager selection to ensure that they are consistent with the objectives of the Trustee.

The JIC is responsible for ensuring that the asset mix of the Scheme assets does not move too far from the planned asset allocation. The asset allocation is regularly monitored and rebalanced to ensure it remains within certain ranges.

The JIC is responsible for considering whether it would be appropriate to include alternative investments such as private equity and hedge funds in the overall investment strategy.

3. Defined Contribution Section (GWPP and GSKPP)

3.1 Investment Objectives
In investing the assets of the Scheme in a prudent manner, the Trustee's objectives are as follows:

1. To provide an appropriate range of investment options that is intended to satisfy the reasonable risk/return combinations appropriate for most of the Scheme's members.
2. To select appropriate investment managers, unitised funds and/or insurance companies to manage each of the investment options.

3. To inform members about their investment options, particularly in relation to the potential risks and rewards of each option.
4. To provide an investment option to members who do not select their own investment options (and who are permitted under the Scheme's rules to exercise such a default).
5. To monitor and take advice on the suitability of the investment options provided.

The DC Section's Investment Objective is implemented using a range of investment options including equity, bond and cash funds. There is also a lifecycle strategy which switches members' funds from global equity assets into bonds and cash in the period prior to retirement.

The structure of the lifecycle option was chosen so as to try to maximise expected long-term investment returns while providing some protection against changes in the amount of members' benefits as they approach retirement.

It is the Trustee's policy to provide suitable information for members so that they can make the appropriate investment decisions. The range of funds was chosen by the Trustee after taking expert advice from the Trustee's investment advisers.

The Trustee expects the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth. The long-term returns on the bond and cash options are expected to be lower than those on the predominantly equity options. However, bond funds are expected to help reduce volatility in relation to the price of annuities giving some protection in the amount of secured pension for members closer to retirement. Clearly bonds will not provide a hedge against changes in the demographic assumptions insurers use to price annuity contracts. Cash funds are expected to provide protection against changes in short-term capital values, and may be appropriate for members receiving part of their retirement benefits in the form of tax-free cash.

<u>3.2 Risk Measurement and Management</u>

The Trustee recognises the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustee considered this risk when setting the investment options and strategy for the Scheme. The Trustee's policy in respect of risk measurement methods and risk management processes is set out below.

The Trustee considers the following sources of risk:

- Risk of not meeting the reasonable expectations of members, bearing in mind members' contributions and fund choices.
- Risk of fund managers not meeting their objectives ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- Risk of the default fund being unsuitable for the requirements of some members.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review. Some aspects of the risks may be modelled explicitly.

In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks on a regular basis, usually quarterly, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

3.3 Implementation
The Trustee has selected suitable vehicles for investing the members' accounts.

4. Investment Policy

4.1 General Investment Policy for Both DB and DC Sections
The Trustee and the JIC have delegated all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract. These duties include:

- Purchase and realisation of investments.
- Taking into account social, environmental and ethical considerations in the selection, retention and realisation of investments in so far as this is consistent with their overall objectives.
- Voting and corporate governance in relation to the Scheme's assets including taking into account the Institutional Shareholders' Committee Statement of Principles on the Responsibilities of Institutional Shareholders and Agents.

The Trustee and the JIC expect the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practical. In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets.

The Trustee has appointed a global custodian. The custodian provides safekeeping for all the Scheme's assets and performs the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions. The custodian also provides unitisation of the CIF's assets to ensure that Scheme's assets are clearly identified.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

The Trustee has appointed investment advisers. The advisers operate under agreements to provide services which ensures the Trustee and JIC are fully briefed to take decisions themselves and to monitor those they delegate.

The Trustee's investment advisers have the knowledge and experience required under the Pensions Act 1995.

4.2 General Investment Policy - Defined Benefit Section
The Trustee of the Scheme will, after having taken investment advice, decide an overall planned asset allocation for the Scheme between return seeking and liability matching assets which will be communicated to the JIC. The IHS is then developed by the JIC, in conjunction with the trustees of the schemes which participate in the JIC. It is the JIC's policy to consider:

- The underlying schemes' chosen overall asset allocation;
- A full range of asset classes, including alternative asset classes such as private equity.
- The suitability of each asset class in the planned asset allocation strategy.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of the possible styles of investment management and manager diversification.
- The need for appropriate diversification both across asset classes and within asset classes.
- The viability of including risk mitigation strategies, for example by seeking to protect against equity falls using floors or other hedging mechanisms.

Having considered the above and taken advice from the investment advisers, the JIC liaises with the trustees of the schemes which participate in the JIC about the proposed asset allocation strategy for the Scheme.

The return seeking assets are contained in the CIF and the liability matching assets are segregated by the individual schemes. The Trustee reviews from time to time whether continued participation in the CIF is appropriate.

4.3 General Investment Policy - Defined Contribution Section

The members can invest in a range of fund options. It is the Trustee's policy to consider:

- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class in the lifecycle strategy.
- The suitability of the possible styles of investment management and the option of manager diversification for members.
- The need for appropriate diversification both across asset classes and within asset classes.

4.4 Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' DC contributions and AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

5. Supplementary information to the SIP

There is further information contained in the document titled "Supplementary information to the SIP_GSK Pension Scheme" on the following:

- Defined contribution section: Fund manager summary
- Defined Benefit and Defined Contribution Sections: Additional Voluntary Contribution (AVC) Fund Manager Summary
- Fee Structures for Managers and Advisers