

GSK

Tuesday, 22 April 2014

Major 3-part Transaction with Novartis

10.30 am and 3:00 pm UK time

Sir Andrew Witty: Thank you very much. Good morning and welcome to this morning's call. As you've heard, with me I have Simon Dingemans, our CFO.

I hope very much you've had a chance to read our press release and see the presentation that is available on the website, and during this call Simon and I are going to make some comments and refer to those slides. If you do have them to hand, it might be helpful. Then we will open the line for Q&A. I will take a little bit more time than normal because I am well aware how complex this transaction looks on the surface, and it's important that we take the time just to cover off the various details before we get to Q&A.

Let me start by outlining the key components of what we believe is a unique agreement with Novartis.

Transaction Highlights

If we look then at Slide 1, transaction highlights for this, there are really three key parts of the proposed transaction. Firstly, the formation of a new world-leading £6.5 billion turnover consumer healthcare company with Novartis. GSK will have majority ownership of this new business, 63.5% equity and overall control. Emma Walmsley, our current head of Consumer Healthcare at GSK, will be the CEO-designate and I'll be the Chairman. There are 11 seats on the board of which seven are held by GSK and four by Novartis.

GSK is also acquiring Novartis's global vaccine business excluding their influenza business. This business includes one of the most exciting vaccines recently developed, and by doing so we will consolidate GSK's position as the world's leading vaccine company.

Thirdly, we are divesting the GSK marketed oncology portfolio and granting certain commercialisation rights to future oncology products in Novartis for \$16 billion. Of this, up to 1.5 billion of the consideration depends on the results of the MEK/BRAF COMBI-d trial.

We're delighted with the valuation and we think it's the right decision for us to divest this portfolio as part of this three-way inter-conditional deal.

As a consequence of this transaction, we expect to be in receipt of net after-tax proceeds of \$7.8 billion and we intend to deliver to our shareholders a capital return of around £4 billion following completion, this to be done through a B share scheme.

Through this transaction we believe significant cost savings can be achieved of up to £1 billion by year five, approximately 50% of those savings to be delivered by year three.

The financial impact of this series of transactions is accretive to our core EPS from the first year, reflecting execution of a B share scheme with a growing contribution from 2017 onwards, as cost savings and new growth opportunities are delivered and accelerate.

Delivering our strategic objectives

We move now to the second slide, just very briefly, to anchor the transaction within our overall strategy, which remains unchanged. This really represents a unique opportunity for us to strengthen two of our core businesses. In fact, this gives us the chance to build greater scale in two businesses with tremendous annuity and durability factors of sales and earnings in the shape of both consumer and vaccine business. It also gives us the opportunity to realise attractive value for our oncology business which has grown well but remains small and subscale as of today, and we believe in the hands of Novartis can benefit from their substantial distribution reach and strength as the world's second biggest oncology company.

This transaction creates a stronger, higher quality earnings profile, more durability over the longer term, higher annuity value, and helped by the B share scheme programme and return of capital immediately accretive.

Transaction highlights

We go now to slide 3. This slide really shows you how the shape of the group has changed substantially and continues to change and accelerate its change through this transaction.

Major step towards sustainable, broadly sourced revenue growth

70% of the group post-close will be represented by our Respiratory, Vaccine, Consumer and HIV businesses. A further 14% is accounted for by established product portfolio and we have announced today that we are reviewing that business to determine whether or not we should take further strategic steps to potentially divest parts of that business.

You can see from this slide the focus that we are beginning to develop here at GSK and through this transaction we feel very good that we are in a position now where almost 40% of the group is represented by Consumer and Vaccines. It gives us the kind of balance we have been striving to achieve over the last six or seven years, combined with the very fresh and new product launches in HIV and the substantial annuity and durability and new product launches in Respiratory, we believe that this represents a very strong differentiation point for the group.

Our other pharma business, made up of a portfolio of different therapeutic areas, remains a key area for us to strengthen on the back of a very strong R&D performance we continue to deliver.

Strengthening our leadership positions around 4 key franchises

If you move briefly to page four this breaks down those four big areas that represent about 70% of the group into more detail. Vaccines: world leader, massive market - \$25 billion market, growing at around 10% per annum, very strong offering from GSK in the paediatric sector, which of course represents about half of the global vaccine market and we will have, post-close, around 20 vaccines in development.

Our Respiratory business: number one global position, again large market, good growth in this market. Significant transition of portfolio underway with three major approvals in the last 12 months, *Breo*, *Anoro* and, of course, *Incruse* just last week, six additional products in late stage development, including some very recent positive data on *mepolizumab* just in the last few weeks.

HIV, in the ViiV partnership with Pfizer – number two globally, benefitting from a very successful initial launch of *Tivicay*. Of course Consumer, now created in the form of this JV will, post-close, be the world biggest OTC consumer business, with 19 brands, generating \$100 million or more.

Supported by our strong R&D and innovation platforms

If we go now to slide five you will see a summary of how R&D represents the backbone of the organisation. It is R&D that drives forward the value in all three of these businesses and, of course, there is significant cross-division synergy across all three of these arenas. Our R&D commitment remains undiminished and we see a very substantial pipeline across our Pharma and Vaccine organisations to sustain future growth. In fact, around 45 new molecular entities in Phase II, III development.

Consumer – no exception; continue to be the beneficiary of a significant innovation effort.

Creating a new global-leading Consumer Healthcare company

Our Consumer business on page six, post-close, will be the largest OTC company, as I mentioned. It will also be vying with J&J as the largest consumer healthcare company in the world. As you can see it creates significant distance between our position and the rest of the pack in the consumer healthcare space.

New GSK Consumer Healthcare focused on 4 key categories

If we go to page seven this gives you a summary of how the portfolios fit together beautifully. The complementarity of these brand portfolios is really ideal and made the opportunity to combine the Novartis Consumer Healthcare with GSK our number one goal as we looked at a variety of assets. This is the one that we believe gave us best fit by combining together very strong positions in wellness, really helpful positions, particularly in skin health and also in nutrition. These businesses are complementary, but it is not just the businesses, it is also represented in geography and people.

Creating the #1 Wellness OTC franchise with £3.4bn sales

If we go to slide eight it gives you a little more detail of the subcategories of OTC for your information. Again, it just shows you the same picture of extremely nice fit and complementarity.

Combination takes us from being #1 in 14 markets to #1 in 36 markets

If we move to page nine, you will see on this slide that in addition to the portfolio fit the geographic fit also works well. In fact, post-close, GSK Consumer Health will move from being number one in 14 markets, to number one in 36 markets and we will be in the top five in 67 of the world markets. That is an extremely positive position to start to think about how we can build the premier consumer healthcare company in the world, which is exactly what we want to do.

I also want to make a point that it is a very good opportunity to bring together two populations of employees from Novartis and GSK, with significant complementary skills in the Commercial arena and the R&D arena. It will be a great opportunity to bring together the best-of-breed of excellence from these two organisations, which we believe can further enhance the quality and opportunity that this joint venture creates.

Strength in combined Vaccines portfolio, notably in the US

If we move now to Slide 11, this starts to move us into the Vaccine business. What you will see on this slide is a representation of how the strength of GSK vaccines is already

significant, as you would expect from a global market leader, and helped by the introduction of the meningitis portfolio from Novartis.

This speaks specifically to the US marketplace (this is the CDC schedule), but you will see from this particular slide that not only are we strengthened immediately in meningitis but with the Phase 3 programmes coming through, both from GSK on MMR and zoster, as well as Bexsero from Novartis and also the candidate vaccine MenABCWY, significant opportunity to further improve our position.

Strengthening global leadership in Vaccines

The very clear strategic and financial benefits to this acquisition are obvious when it comes to the Vaccine business. We strengthen our portfolio on pipeline, as I have just described, with the addition of the meningitis portfolio most obviously. We have a tremendously complementary R&D pair of organisations, with strength in bacterial research coming from Novartis to be matched and be married with the virology experts and expertise of GSK. The business will have 20 different vaccines in development, including novel vaccines to treat hospital and maternal infection and disease in developing countries, such as malaria and TB.

Strength in combined Vaccines portfolio, notably in the US

It strengthens our US market position, as typified by the information on Slide 11, and provides emerging market opportunity for Novartis' portfolio when you compare our relative strength in those geographies. It also gives us significant improvement in flexibility and competitiveness of our supply chain. It allows us to vertically integrate our existing paediatric supply line, and it gives us new medium-term (Years 3-5) optionality to broaden the manufacturing supply chain for the GSK-Novartis pipelines, and make us more flexible to respond to significant ongoing demand in this marketplace.

Realising significant value for Oncology

If we move now to Oncology, we are realising a very significant value for the GSK marketed assets in this transaction. GSK will acquire all of our current marketed portfolio, and assume ongoing responsibility for further development on these brands. They will also obtain rights to our developmental AKT inhibitor, currently in Phase 2 development, and they will have certain potential rights for commercialisation of future GSK Oncology products. I am delighted with the value of \$16 billion, of which about \$1.5 billion is contingent on the results of the data due from the Combi-D trial of the MEK BRAF combination.

Importantly, GSK will continue to invest in R&D activities in Oncology, particularly in areas of cancer immunotherapy, epigenetics, and tumor micro-environments. We believe

that we remain highly likely to see new opportunities come through from those research fields, and we believe this puts us in a very strong position to have the optionality either to work with Novartis as our distribution partner or to look at alternative approaches, such as a launch ourselves. It creates exactly the kind of optionality we want to deliver the maximum value for our shareholders, and opportunity for patients.

I will now pause for a second and pass over to Simon to take you through some of the financial details, and then I will come back just to summarise.

Simon Dingemans
Chief Financial Officer

Thank you, Andrew.

Proposed transaction delivers against financial architecture

If we turn then to Slide 16, the one headed 'financial architecture', the transaction we have agreed today delivers return well ahead of our targeted financial criteria, and significantly strengthens our ability to meet the objectives set out in that financial architecture. Firstly, the transaction builds a larger and more balanced revenue base for GSK, and one with more growth opportunities in the future, together with a significant cost savings we have identified of approximately £1 billion per annum by Year 5. The growth opportunity we have called out will drive further operating leverage into our P&L, allowing us greater flexibility to invest behind the top line in future innovation, as well as benefit the bottom line.

The substantial shift in the mix of our business will also strengthen the sustainability of our cash flows, enhancing our ability to fund future investment requirements, as well as support continued cash returns to shareholders, including our continued commitment to a growing dividend. These benefits, and the strengthening of our financial architecture that they deliver, support the return to shareholders of £4 billion of the net proceeds we will receive. We propose to implement the return by way of a B share scheme, so that all shareholders can participate or receive their share of this return. In aggregate, we would expect to retire around 5% of our share count at current prices. The B share scheme will deliver significant immediate EPS accretion post-closing that will ensure that this transaction is accreted to core EPS from the first year, with further benefits thereafter, particularly from

2017 as the delivery of cost savings and the roll-out of product launches and product re-introductions accelerates.

Overall, the transaction significantly reshapes the Group and, in doing so, brings better balance and sustainability to our revenues, earnings and cash flows, giving us greater flexibility and opportunity to deliver the objectives that we set out in the financial architecture to grow EPS faster than sales and convert more of those earnings to cash that we can either re-invest or return to shareholders, wherever the most attractive returns might be.

A better balance of revenues, profits and earnings

Turning to slide 14, the transaction will take some time to complete and so the shape of the businesses that we are acquiring will have changed somewhat from the historic numbers you will see in our press release. In particular, the Novartis Consumer business is already showing good momentum in its recovery from the disruption at its Nebraska facility in 2012, and the Vaccines business we are acquiring will be much further along in its launch programmes and the continued restructuring of its cost base.

As a result, we expect the contributions from these businesses, together with the first phases of delivery of the cost savings, to result in a pro forma position that is accretive to sales, core operating profit and core EPS from the first year post-closing. This is expected to be 2015.

Transaction provides opportunities for significant cost savings

Turning to slide 15, we have identified significant annual cost savings that are expected to deliver annual benefits of approximately £1 billion by the fifth year following completion. The delivery of these cost savings is expected to be phased so that approximately 50% will be delivered by year three and the full amount by year five. Out of the £1 billion, approximately 40% is expected to come from Consumer Healthcare, and 40% from the Vaccine combination. The balance will be delivered from savings associated with the divestment of Oncology marketed assets, mainly associated support costs including marketing and other evidence generation. Oncology and Consumer savings will contribute more quickly, particularly as a larger proportion of the Vaccines synergies are in supply chain and manufacturing, which will take longer to implement. Of the £1 billion, we plan to reinvest around 20%, with a view to supporting continued innovation and new product launches across the Group, depending on where we see the most attractive returns. The balance is expected to fall to the bottom line. These estimates are clearly subject to further detailed implementation planning between now and closing.

Total costs to achieve these savings are estimated to be around £2 billion, roughly split equally between cash and non-cash. Cash costs will be more weighted to the first few years, and non-cash probably in the later period, with approximately 75% of cash costs spent by year three.

Cost savings driven from all 3 parts of the transaction

Turning to the next slide, the cost savings we are targeting are substantial, but the fit between our respective Consumer and Vaccines businesses is exceptional, which allows us to reach these levels of savings. There are two broad categories of savings in both Consumer and Vaccines – commercial capacity and infrastructure, and supply chain. The balance in Consumer is more weighted to commercial overlap, while in Vaccines it is more towards the supply chain, but both contribute in each case. In Consumer, there are meaningful overlaps and many of the early benefits will come from streamlining commercial capability and infrastructure. Longer-term, we have also identified additional opportunities in the Consumer supply chain, especially once the restoration of capacity at Nebraska is complete. The enlarged scale of the joint venture also creates meaningful additional procurement opportunities.

For Vaccines, there are also overlapping commercial opportunities, to align the combined teams and streamline, but there are also significant benefits in the supply chain. The additional capacity we acquire creates debottlenecking and simplification opportunities that should expand supply, improve reliability and reduce wastage and write-offs. In particular, the acquisition of the Novartis Vaccines business also brings an immediate opportunity to vertically integrate our paediatric vaccines franchise as Novartis is a supplier to GSK of a number key antigens. This supply has been a material source of profit for Novartis and its integration will allow us much greater flexibility and our costs of good for that franchise and its longer term competitiveness.

If we turn to slide 17.

Financial strength delivering continued returns to shareholders

Looking at the balance sheets, we constructed the transaction to accommodate our commitment to maintaining both balance sheet efficiency and protecting our rating profile and capital markets access. This balanced approach is important, given the complexity and scale of these transactions and will enable us to maintain the necessary flexibility to optimise our integration plans and manage the integration and restructuring spend necessary to deliver the transaction benefits.

Having reviewed those requirements we have decided to return £4 billion of capital to shareholders, funded from the net proceeds of the transaction, which are expected to be around \$7.8 billion, we will retain the balance.

In addition, we do not plan to undertake any further buybacks in 2015 beyond the transaction distribution of £4 billion. We will continue with our current buyback plans for 2014 and future buybacks will be reviewed again at the beginning of 2016, in line with our normal annual cycle. Any decision on buybacks at that time will reflect our usual rating and return criteria.

We intend to return the £4 billion of capital to shareholders through a B share scheme, so that all shareholders can participate or receive their share of the return, and also so that we maximise the benefit to EPS at the same time.

As we have highlighted, the transaction will be earnings accreted from the first year, with the benefits growing over time, particularly from 2017.

Our dividend policy is unchanged, and we remain committed to a growing dividend.

Turning to cash flow, on slide 18.

Cash flow

As well as the near term focus on making sure we create sufficient investment flexibility to maximise the benefits and the transaction, the shape of GSK, post-transaction, is expected to provide a stronger, more balanced and sustainable cash generation profile. That profile is enhanced by a number of efficiency opportunities beyond the cost savings identified in working capital, capital expenditure and capital procurement, that should contribute to stronger cash flow growth in the future.

We have also structured the Consumer Joint Venture to ensure both we and Novartis have regular and full access to the cash generated. This stronger profile will be a key underpinning of our commitment to further cash returns to shareholders through the dividend and with future share buybacks as appropriate.

Turning to the transaction slide.

Transaction structure

There are a few more details in the transaction that I have highlight as they may impact the final shape of the business we acquire.

Firstly, in relation to the Oncology transaction, the consideration of \$16 billion is subject to adjustment depending on the outcome of the COMBI-d trial, a trial that is designed to evaluate the safety and efficacy of the combination of our *Tafinlar* and *Mekinist* products

versus BRAF monotherapy. This is expected to read out late this year or early 2015. Subject to the results of this trial up to \$1.5 billion could be returned to Novartis. If a repayment to Novartis does occur, the return of capital to shareholders that is part of this transaction will be adjusted by the returned amount.

Secondly, on the Vaccines element of the transaction, this includes four additional milestones over and above the initial consideration of \$5.25 billion that relate to the future delivery of pipeline and revenues. If a milestone is triggered there are also royalties payable, but only on the sales or the sales thresholds that triggered the milestone, no royalties are payable on the current portfolio or sales up to those thresholds.

Finally, there are arrangements built into the Consumer Joint Venture to provide for a mechanism by which Novartis can exit. These provide for Novartis to be able to put its shareholding to us after a three year blackout. If they choose to exercise they can only do so in tranches of either 7.5% or the entirety of the balance of their holding at that time, so that we can manage the receipt of the put with more flexibility. If they exercise the 7.5% tranche they cannot come again with a put for 18 months, at which point they would have the same choice. The value of their shares will be determined at the time of exercise, but will be based on market comparables and a fully distributed market value for the Joint Venture, as if the Venture was a public company.

Timetable and approvals

The last slide is on timetable. This is a complex transaction and it is subject to the usual regulatory processes, which are likely to take some months. This makes closing likely during the first half of 2015. It is also of a sufficient size that it is subject to approval by our shareholders and we will post a circular to seek that approval once we have sufficient clarity on the regularity position most likely in Q4.

With that, I'll hand back to Andrew.

Sir Andrew Witty: Thank you very much, Simon. Just to summarise very, very briefly, this transaction is unique. It accelerates our strategy, it reshapes the revenue base for GSK, it creates a new £6.5 billion turnover global Consumer Healthcare business, it strengthens our vaccine portfolio and increases our flexibility in that critical business. It realises very attractive value for Oncology marketed assets of \$16 billion. It significantly exceeds all of our return criteria with clear financial benefits with a crease in from year one accelerating to 2017 and it supports our goal of continued return to shareholders.

With that I would like to open up the call to questions, please if the operator could describe the instructions.

Question and Answer Session (10:30 am UK time)

James Gordon (JP Morgan): Hello, thanks for taking my questions. I had one question which was about profitability of the different divisions before cost savings. My question was say by 2017 what level of profitability would you expect for Vaccines and OTC, as in what level should we build upon when we are adding in the cost savings? Do the cost savings already reflect some of the benefit from recovery for these divisions or are these cost savings all incremental to that?

My second question was just on the Oncology divestment; what tax rate you are actually going to pay assuming you pay some tax on that and what do you think you are going to do with the remainder? Would it be fair to think that there would be some deleveraging?

And then the third and final question would be, you mentioned reviewing the established portfolio. Will you also be reviewing annually the therapy areas that you have in the innovative therapy areas, the innovative portfolio such as cardiovascular or immuno?

Sir Andrew Witty: Thanks, James. Let me take the first and the last and Simon will talk about the tax question.

The synergies are incremental to any recoveries that will come through the resupply in the Consumer networks and the like, so you should think about the synergies in the classic way you think about synergies, bringing together cost bases and seeing opportunities to eliminate overlap.

As far as the EPP is concerned, our focus is restricted to the EPP at this time. Obviously we will if it makes sense to look at different things at different times, we will but nothing at the moment, no intention to do anything at the moment.

I would reiterate though something that I have said many times before that if we have assets in our pipeline we will test whether or not we are the best commercialiser or whether somebody else would be a better commercialiser, so that is a standard kind of question we will ask ourselves but nothing beyond EPP in terms of more fundamental reshaping of the group and even the EPP outcome would of course be absolutely based on whether or not

there was a value in-house in opportunity compared to retain. That process of review will start soon and we will see how long that takes.

Simon, do you want to comment on the Oncology tax point?

Simon Dingemans: Yes, given the relatively low base cost that we have in those assets, you should assume about a 20% tax charge on disposal.

Sir Andrew Witty: Thank you. Next question.

Graham Parry (Bank of America Merrill Lynch): Thanks for taking my questions. Firstly, given the dominant position that you are achieving in Consumer that you have outlined on slide eight can you just talk to any anti-trust issues that you could see in a divestment process? There does seem to be some overlap, particularly in analgesics and smoking cessation.

Secondly, on Vaccines, what do you see that you could perhaps do better with Bexsero the meningitis B vaccine, perhaps through your due diligence? Could you give us the level of confidence you have in a US approval without a separate Phase III programme and also a comment on the competitive landscape there where it looks like Pfizer has caught up a little bit?

Also how does the issue that Menveo fits with your existing meningitis vaccine products, and then finally the reason for not taking on the flu businesses? Is that just wrong technology or is it just anti-trust and existing market share issues? Thanks.

Sir Andrew Witty: Thanks, Graham and I will try and pick those off. Consumer, we get into a very good position but if you look market by market you see there are very, very minimal overlaps. One of the reasons why we particularly like this combination is because of the very good complementarity. As far as Bexsero is concerned, it is clear that, over the last several months, the prospects for Bexsero have improved in a variety of different geographies. I believe that Novartis have done a very good job of explaining the potential benefits of this vaccine. The timing of doing this transaction, from our perspective, is absolutely perfect from the point of view of being able, even when we close this transaction, to help shape that initial launch. Of course, when you look at that US CDC set of recommendations, you can see the strength of the GSK position and the paediatric portfolio really shows how, if Bexsero can be brought to the US marketplace, that has potentially significantly more value in our hands. There are then some very exciting programmes coming behind that with further meningitis combinations and the strep programme.

Regarding 'flu, Novartis have decided to sell 'flu separately and there is nothing much that I can add to that in reality. Next question?

Tim Anderson (Sanford Bernstein): On slide 10, you show that GSK will now account for about a quarter of global vaccine sales, and on that same slide you say the vaccines market should grow at about a 10% CAGR over the next 10 years. The growth you have had in your Vaccines division has been a fair bit slower than that over the last couple of years. Can we assume that you think your business will in fact accelerate and perhaps grow at that market rate when looking forward?

My second question is on Consumer. Merck in the US has been fairly clear in saying that it is looking at disposing of its Consumer Healthcare business. Is it possible that this is a collection of assets that your new joint venture could get its hands on, or is it unlikely given the timeframe of integrating the two businesses?

Sir Andrew Witty: Tim, thank you very much for the two questions. To the Vaccines piece, if you look at our Vaccines growth rates, they have been very much influenced by things like pandemic vaccine, *Cervarix* launches. We typically have had a very strong year and then a year subsequently which has been less strong but the average is quite decent. We believe that we have a very robust future growth profile and we think this is exactly the right kind of market to be in. Our presence in Emerging Markets is where a great deal of this growth will come from in the future.

It is important to recognise that there is a great opportunity here given our relative strength in vaccine distribution in EMs compared to Novartis, so there is a significant opportunity there. Secondly, by being able to strengthen our offer in paediatrics, this is very important, as I mentioned already, vis-à-vis the US potentially. Thirdly, the whole meningitis add-in to our paediatrics globally is a significant new area for us to strengthen our platform, so all of that feels right.

One of the issues which, over the last several years, has caused our sales growth rate to be constrained is supply. As you know, on the one hand our supply base is a very significant competitive advantage but, ultimately, it is a relatively inflexible thing in the short term. One of the very significant opportunities that this transaction gives us are several new immediate additions and elements to our manufacturing network, which, over the next three or four years, we fully intend to flex to open up our supply channels. You are right, we would like to partake in more of that growth than we have been able to but this helps as it gives us more products that are critical. It will also give us more flexibility on supply.

The last thing I would mention, as you may have noticed, is that it also brings us a vaccines facility in India, which is a key part of accelerating our India strategy, which, again, is one of the places where we would expect significant growth to come from.

As far as the Cx, if I told the 500 lawyers who have been negotiating this contract for the last week that we were going to do anything else, they would probably all just faint! My belief is that we have announced this morning probably one of the most unusual and unique deals that have been announced for a very long time, which, although it is strategically straightforward, it is extremely complex to execute as a transaction. Joe and I are very happy to have been in a position to create this joint venture in Consumer between us and we are focused on executing this very well.

Mark Clark (Deutsche Bank): Good morning gentlemen. Three questions, please. Firstly I wonder why the deals are inter-conditional, given that each of them seems to make sense and neither company is financially weak.

Second question: on the accretion in year one, clearly if the deal were to go ahead very early in the year the B share scheme would equal at about 5% to earnings, but should we assume that, at least for the first period, that the Vaccines business is still struggling to move into material profitability so that it will be less than 5% accretive in year one, but clearly rising thereafter?

Thirdly, I wonder if Simon could just talk us through some of the balance sheet implications in terms of intangible assets, changes in assets, etcetera? It is clearly very difficult for us to make any assumptions there. Thank you.

Sir Andrew Witty: Thanks, Mark. I'll take the first and then ask Simon to comment on the second two. The inter-conditionality – that is what makes this a strategic and unique proposition. Obviously, each of us could have done any one of these deals; we could have done this one-by-one, involved different people, but both Joe and I were interested in really trying to step our companies forward strategically in one move.

When we look back, I have been told perhaps there was a deal in some different industry back in 1992 that looks something like this – these are very hard to do, but if you can find that match of interests where you are able to essentially swap assets, plus or minus the cash that is involved to work values through, where you are able to swap assets where two strong companies go into the transaction and both come out stronger, that is what we both wanted to achieve. Once we had seen that opportunity it became obvious that the deal needed to be inter-conditional between the three. Ultimately it wasn't just about doing one

thing, or generating a certain return on one piece of the business, the strategic opportunity was to do something nobody had ever done in the industry on anything like this scale and really allow two companies to make a big step forwards simultaneously.

Simon, could you comment on the other two, the balance sheet and the accretion?

Simon Dingemans: Yes. On your accretion point you are heading in the right direction, Mark. Clearly in the short term, so the first couple of years of the transaction, the accretion is likely to be relatively modest; positive, but relatively modest, given the transition that you are seeing in their Vaccines business and in the Consumer business and the delivery of synergies along the trend lines that I have described for you, offset by the strip-out of the Oncology earnings over that period.

When you get to 2017 that balance starts to shift and accelerate as those synergies kick in, the recovery potential in both businesses we are acquiring also kick in and that is why we have called out 2017 as the year when you see much more significant accretion. That balance, held together with the B share scheme, which covers that short term dilution from the business on their own. Hopefully that answers that question.

On the intangibles, work in progress. Clearly we would expect some significant swings; it will be through the non-core lines as we re-value assets coming and going from the group. There will be a number of write-offs and other adjustments we need to make as we complete the transactions and also over the first two or three years as we implement the synergies. We will try and give you some more guidance on that as we get a little closer to closing, when we finish doing the valuation work that will need to go with that. We will come back to you, Mark, when we have more precision on that.

Alexandra Hauber (UBS): Good morning. Thank you very much for taking my questions. Just a few follow-up questions to the accretion question. Firstly, just to confirm I understood correctly that year one is 2015 and, if so, will the accretion also be accretive to net income, or only to core EPS? The reason for asking that is the B share programme, whatever you call it, the buy-back, is probably not going to have much of an impact in 2015.

Part three of the question, if this is net income accretive in 2015, how do you get there, given that if you are looking at the numbers Novartis has given us earlier, the dilution from Oncology 2013 is a bit between 3-3.5% for 2013, and presumably bigger in 2014 and 2015, given that this business in your original business plan was probably supposed to grow in profitability?

Then I have a fourth question on the Oncology cost savings, just to check that I understand those correctly. If Novartis' numbers of the *pro forma* operating profit are roughly right for this business, which would be about £240 million for 2013, these Oncology cost savings which you are trying to get are from costs which favour the business after selling Oncology to Novartis, is that correct?

Sir Andrew Witty: Simon?

Simon Dingemans: Okay; on the accretion calculation, Alexandra, a couple of things. When we implement the return of capital we will do it by way of a B share scheme, so we get an immediate up-tick in accretion, so we will take out roughly 5% of the share capital. It applies to the whole period thereafter, so if you assume that the buyback is in 2015, so let's say January 1st 2015, you would get a full year's impact from the return of the B shares to shareholders.

That offsets the impact of the transaction, which is diluted without the B share scheme in the first year, given the recovery profile of the businesses that I have just described. It is the B share scheme that makes the transaction accretive in those first couple of years, so hopefully that squares away the maths there. It is really about the implementation of that structure that gives you the immediate effect.

On the Oncology cost savings, what we are left with as we divest the Oncology business were plans for marketing support, Phase IIb/IV trials in support of those products, and some of the associated infrastructure spend that we will not need, so we intend to recycle that spend into the synergy numbers that we have given you, and as we have highlighted in the release we will reinvest around 20% of the total – so broadly equivalent to the amount that we have saved from the Oncology disposal behind Innovation, R&D and new product launches across the Group wherever we see the best return.

Keyur Parekh (Goldman Sachs): Good morning, and thank you for taking my questions. Andrew, if you could just give us a little bit of a flavour and colour around how these transactions actually came to be put together, given how complicated they are? Was it you who approached Novartis with the view to selling the Oncology assets, or was it they who approached you with the Consumer assets? If you could just give a sense of how these transactions came together that would be great.

Secondly, as you look at the longer-term outlook for some of the other smaller parts of your business, are these the kinds of transactions that we should be expecting you to do

on those as well, or is it that from a portfolio perspective you are roughly where you would like to be from a five to ten-year perspective? Thanks.

Sir Andrew Witty: Thanks very much. Just on the first point, the origin of this really began in our Vaccine businesses. As you know Novartis has already been a long-term supplier to GSK of some of the intermediates for some of our vaccines, and it really began in a conversation which had its origin there: “How might we do something better, different, in Vaccines?”, and then essentially grew from that into the Consumer space and then into the Oncology space. That was essentially the way that it began.

No specific view on the other parts of the organisation. For me if I look at what the new GSK looks like, particularly if we are able to do something on the established product portfolio, what we are really doing here is to say “Right, the central core of the business is Respiratory, HIV, Consumer Healthcare, Vaccines, with a very vibrant R&D portfolio and engine driving 45 NMEs in Phase II/III.

We will look at each of those assets that come forward, and will take the view about whether or not we are the right commercialisation organisation, or whether somebody else should be. I have used this example before and I will reiterate it: if I look at something like P38 kinase, I think it very, very likely that we would be the commercialisation for that. If I look at some like *Retosiban* for premature labour, I think it is highly unlikely that we would see ourselves as the initial or preferred commercialisation vehicle. We are possibly at the more pragmatic end of that spectrum where we take the view that we do not want to constrain our R&D scientists by our commercial capabilities. We want them to discover in areas where the science is right, where we believe we have opportunity. We want them to get on and discover the best medicines and vaccines they can. We will then worry about how to create the most shareholder return. If that can be done through retention and building up of that particular area as I am sure it will be in areas like therapeutics or cardiology or metabolic or dermatology, then that’s what we will do, but if there are other areas, then we will at least explore whether or not there are better partners to generate return.

I think this is a great example of that where we have concluded that there is a better return for GSK shareholders by us achieving a valuation today of \$16 billion for our Oncology marketed assets and those are the alternatives. I think that is rational and pragmatic approach to managing complex opportunities with a vision of delivering shareholder value, and that is what we are going to do going forward.

Dani Saurymper (Barclays): Two questions if I may. Just firstly, with regards to the Vaccines business, we know it was a loss-making entity. I am just wondering if there is any tax loss carrying forwards or net operating losses that can be utilised. In the same vein, obviously Novartis was a very attractive tax rate. Is there any tax opportunities with regards to the domiciling of Consumer Healthcare or Vaccines?

Two very quick questions, hopefully. With regards to the \$1.5 billion contingent payment in association with the Combi-d trial outcome, can you talk us through the difference of opinion between yourselves and Novartis with regards to the outcome of that 420-patient study.

Then finally, could you provide the sales contribution from India and Nigeria Consumer Healthcare. I believe that is excluded from the JV. I just wanted to understand your thought processes behind excluding those businesses.

Sir Andrew Witty: I will ask Simon to comment on the tax position. If you look at Slide 6, you will see there that we separated out the non-JV sales element and we can give you the exact number – it's about \$0.5 billion. The reason they are separated is that those two companies are already floated companies in their respective stock markets, and as you can imagine, the complexity of this transaction was one thing; to start to bring in two floated companies in Nigeria and India would probably have been a bridge too far. So, nothing more than just sensible logistics in terms of that.

As far as the \$1.5 billion contingency, I think this is simply how, in a negotiation, people manage risk. Obviously there is an unknown outcome to that study, the results of which we don't know yet. We have a view about what we believe the probability is. I think Novartis would love it to be positive, because if it was positive, that is very good for their long term future value on these products they are buying, but they obviously want to hedge whatever small risk there might be. It has been structured in a way that we could both feel good about. As we made very clear, we see the most likely outcome for the Oncology disposal being \$16 billion. That is what we believe to be the most likely delivered payment.

Simon, perhaps you could comment on the tax question.

Simon Dingemans: Yes. In terms of how we bring the assets into the Group, we are taking a mixture of shares and assets and there may well be some opportunity to bring them in a way that gives us better optionality on the tax rate going forward. I am not sure we can be too specific about how that lands, but there is no immediate obvious quantifiable benefits. It is more about flexibility and planning and continuing to drive the efficiencies in the group's tax rate that you have seen us do elsewhere, so that is probably all we can say at this point.

Andrew Baum (Citi): Three questions if I could. Firstly, the billion sterling of cost savings you marked out, I know that you have put a lot of effort into the efficiencies with inner manufacturing of your Consumer, perhaps you could outline your level of confidence that this is actually a minimum of what could be attained, not just from that but also the broader structures?

Second, I think there was a question earlier about the tax rate, but just coming from another angle, the patent box has obviously been an area that you are focused on utilising to its full extent. To what extent does a change in product mix and the opportunities that may come with that act as a negative or positive and your ability to utilise that? One would imagine that a lot of the Oncology anticipated revenues going forward would have been beneficiaries to the patent box, is that offset by other devices?

Sir Andrew Witty: Thanks, I will ask Simon to comment on the tax.

I think as far as the synergies are concerned, we feel good about the number we are publishing today, obviously. I would not say to you today that we have a view that it will be easy to deliver significantly more than this, I think this is a sensible, assertive view of what the synergy opportunity is. We will obviously see when we really get into the businesses and my experience tells me there often is more, but it would be wrong of me to guide you that way until we have actually had a look inside.

I really don't think you should underestimate what the flexibility opportunity this creates for us by bringing together the Vaccine and the Consumer supply lines of the two companies. There is obviously a lot of complimentary manufacturing technologies by creating this extra flexibility and we expect that to give us significant advantage, but it is part of the reason why the operational synergies don't kick in in year one and two, because a lot of them are located around making best use and efficient use of the manufacturing networks. We are not going to rush that, because we want to get ownership of it, we want to run it, make sure it is stabilised and then make sensible decisions

That is why, when you think about the accretion curves going forward you initially rely on the B share scheme, as Simon has described, then you start to see the layering in of Commercial's opportunity, with the reduction, if you will, of the activity we had on Oncology and then you start to see the supply chain benefits coming in subsequently. It is a very nice series of layers of accretion which are delivered from different sources of synergy and, obviously, we will also be looking for sales opportunities by leveraging the Novartis brands and vaccines through our bigger distribution channels.

Simon, perhaps you can talk about the tax rate again?

Simon Dingemans: Yes, thanks, Andrew.

I think that clearly taking out Oncology does have some loss, if you like, of potential patent box benefit from this portfolio, but I think we feel that is more than captured in the value we realise for those assets. I think if you look at the mix going forward nothing overall changes, in terms of our objectives or the broader trajectory that we are targeting, as I have said on the previous question, the way in which we are bringing some of these assets into the group, or plan to bring them into the group, will give us additional opportunities to think about the overall mix that we are able to deliver. I am not going to get into the forward guidance on tax beyond a year ahead, as is usual when we talk about this question, but I think the objective is still intact and certainly our plans are still intact.

Sir Andrew Witty: Thank you. Next question?

Jo Walton (Credit Suisse): Thank you, just a couple of quick questions.

On the Oncology side, can you give us some idea of the level of R&D spend that you will be continuing to make in this area and when we might start to see discussions about when you have another range of assets coming up how on earth are you going to be commercialising them, because this deal only goes to, essentially, the marketed assets, but presumably you have a number of Phase I, Phase II assets?

Also on the R&D side, if we look at the Novartis details, we can see that they were spending between \$300 - \$400 million a year on Vaccine R&D. Can you give us some sense of what degree of overlap there is? Perhaps there is some basic library stuff that both companies do in vaccines that is just easy to get rid of. How much of that ongoing R&D is something you are prepared to keep going with?

On the Vaccines side, I just don't quite understand the comments about when the royalties kick in. Firstly, I have no idea what 'GBS' is, and I apologise for that. For Bexsero, that is an approved product, so does that mean that there are no royalties ever on that product in approved markets? Would it only be if that product comes into the US that you trigger milestone payments and you have a royalty-bearing product?

Sir Andrew Witty: Thanks, Jo. Just on that last point, there are no royalties on Bexsero unless the milestone on Bexsero is triggered. If it is really in a super upside scenario of Bexsero, there is a milestone and then there is a royalty triggered on the back of that. To be honest with you, if we are paying those milestones and those royalties, I will be

very, very, very happy, because that will then reflect in very substantial upsides in the opportunity.

GBS is Group B streptococcus, so this is a potential candidate maternal vaccine, which we believe is very interesting.

The Vaccine R&D level is clearly an area where there is synergy opportunity. We will look very carefully at that. We jointly have a big set of operations and there will inevitably be overlaps here, but there are also real, distinct opportunities for us to strengthen our position in a number of areas. We are keen to be thoughtful about that, but a piece of the synergy numbers are R&D.

In Oncology, we have a number of programmes coming through Phase II and earlier, so there will be a little bit of a gap but, of course, it depends how exciting individual programmes are as to how quickly they come along. I am very pleased with the three DPUs – epigenetics, tumour micro-environment and immuno-oncology. In those three areas, we have some very interesting targets so let's wait and see how they come along. I am optimistic that, in the next two or three years, we will have assets beginning to surface there in a very meaningful way. We will make our choices about how we feel around commercialising those, and that is exactly the way we set this transaction up.

With that, everybody, we are out of questions. Thank you very much for your attention. I know that this is a busy day for you all in the sector and I hope that this is one of the transactions which was in the newspapers which you were not expecting. I hope it is one that you find interesting and that you can see the compelling logic, both strategically and from a financial perspective for GSK. Thank you very much.

- *End of Call* -

Questions and Answer Session (3pm Call UK time)

Jeff Holford (Jefferies): Hi, thanks very much for taking my questions. Just a few strategic ones here. The move in Oncology here is quite surprising. Over the last couple of years I know that you have talked about the pipeline and delivery there. It is one of the areas where you have delivered a bit, so just two questions around that; are you reducing your focus on delivering through pipeline and shifting the business's assets more on to durable assets? Is that just a general theme we can expect from you?

And just as a sequel to that, is there some sort of lack of durability about those Oncology assets that is concerning to you that just is kind of implied in the way you have talked about this transaction?

And then a second point now; you obviously have these and the established Pharma businesses and there are a couple of other businesses that you have highlighted in the past that do have potential separation options going forwards. Is there one of those two businesses that you think you are more focussed on than the other in terms of restructuring? Thank you.

Sir Andrew Witty: Jeff, thanks very much. I think the Oncology decision here is really a question of where do we think the maximum value can be created for the GSK shareholder and how do we get good medicines to the patients who need them in the most efficient way.

We are absolutely 1,000% committed to our R&D agenda. We retain an activity in Oncology R&D but across our broad agenda our goal is to be a highly productive R&D businesses and I think we are showing that. Last year we delivered 19%, almost one in every five FDA approvals were from GSK. We have had seven in the last 12 months up to date today. That I think really signals the success of R&D and as you know we have a very wide range of medicines and vaccines coming through advanced development as we speak.

But we are more pragmatic about whether or not we should be the commercialisation vehicle for all of those products. Sometimes that's very straightforward, so Respiratory where we are clearly the market leader, it makes a lot of sense for us to be the custodian of Respiratory products.

In the case of Oncology we have had a great start in Oncology, but we are number 14 in the world oncology market, Novartis is number two and if there is a way of creating more value through a partnership or a disposal in the way that we are describing it, that's the pragmatic and right thing to do.

It really doesn't speak to anything about R&D and in fact our R&D agenda remains undiminished in this space. It speaks to how we create value for shareholders and how we get medicines to the patients who need them as efficiently as possible.

There is nothing special about these assets in a kind of durability perspective. They are exactly what they say on the tin. They are new medicines in the oncology space, they have had a very successful development programme and the initial acceptance into the market has been very good. That's why they commanded the value that they commanded in what is a very attractive valuation in this three-way deal.

In terms of other areas of reshaping the Group, there are really two areas where that could happen. The first is in the established products where we have made it again very clear today that we are actively looking at the potential to change our stance on some of those products. I am not convinced that we would ever dispose of the entire established product tail, but it may well be that there are further significant elements of it that we could, and that is what we are reviewing at this point in time.

The second leads to what I have been talking about, which is that as we look at medicines and vaccines, but particularly the medicines which come from Pharm R&D, we will remain open-minded as to whether we are the right custodian to take that product forward. A very good example at the moment is that we have a very exciting potential medicine in development in the obstetric field and it may very well be the case that we are not the logical or right owner for that to be commercialised. It won't stop us developing the medicine; it simply means that we will look for whatever is the best value-creating opportunity. I think that kind of pragmatism is what is really required in today's marketplace.

Seamus Fernandez (Leerink): Can you tell us whether or not there was a competitive bidding process for the oncology assets, because it does appear to be quite a full price? Or was this part and parcel of an overall transaction that you envisioned the type of swap and structure that we are seeing today that really drove the transaction overall? Again, just more on how competitive was this process, or was this an immediate tie-up that was obvious with Novartis?

Sir Andrew Witty: What this was about was first and foremost, can we achieve something which takes two very large companies forward strategically in one step, so is there one thing or a deal that we can put together where truly there is a win-win for both companies, and truly both companies can advance their strategic objectives. That was the initial part. There was then, of course, a negotiation about value, but the absolute driver of this was always the strategic interests of the two groups. As I said many times, over the last

four years, many people have asked me why couldn't we do another ViiV. People like the deal we did with Pfizer, could we see another deal like ViiV. I have always said yes, but we need the planets to align.

I think what has happened here is that we have that kind of alignment where the strategic interests of Novartis and GSK are very complementary in three very pivotal dimensions which allowed us to strike a deal where essentially a business goes to them, a business comes to us and we build a joint business in the middle, which I am delighted to say we will control and consolidate. That is really the origin of this transaction, and is exactly how it played out.

Naomi Joyce (Pharm Advisers): Thank you for taking my question. Can you tell me, do you have a leverage target going forward, and a ratings target?

Sir Andrew Witty: I will ask Simon to answer that.

Simon Dingemans: We don't have a specific leverage target. We have a rating profile that we are managing through this transaction which has a commitment to our short-term ratings of A1P1. There is no change in those as a result of the transaction.

Kathy Minor (Cowan): Just a question following up on the strategy part of it on the Consumer side. Are we likely to see more Rx to OTC switches with the combined company?

Sir Andrew Witty: Certainly there are a number of Rx to OTC switches in the pipeline defined, and then the new company will be the potential beneficiary of both parents. Of course, these things tend to come and go but there is no doubt that this creates a much richer and more fertile environment for potential Rx to OTC opportunities. We would have had either one of those as stand-alone, so yes.

I think we have no more questions. I will perhaps just give you a further 30 seconds in which to register, if you would like to do so. I will just pause for a second.

Ed Pitman (New Jersey Investors): Thank you for taking my question. Do you envision the current Oncology R&D leadership continuing on, with this new structure?

Sir Andrew Witty: Within GSK, we have an R&D leadership in our franchises, which is more at the commercial end of the organisation. Then we have R&D leadership in our Discovery and Performance Units. The Discovery and Performance Units

will carry on absolutely as is. As we go through the next six or nine months of the regulatory review, we will be working with Novartis to identify which talents ideally they would like to see go to Novartis, and which talents ideally we would like to see stay at GSK. That will be something which affects the later stage of R&D and commercialisation and it will not touch the early R&D.

Of course, exactly the mirror image will go on in the Vaccines conversation, where there will be talents that we want to take from Novartis and there will be talents that they will want to retain. That dynamic will play out over the next few months, on a very individual-by-individual basis. I am afraid there is no simple answer to that question, Ed.

Seamus Fernandez (Leerink): Thanks for the follow-up question. I just wanted to ask a quick question on the flu vaccines portion of Novartis. Would GSK have been interested in that opportunity or did you envision FTC-related issues limiting your opportunity there? Or were you simply not interested in that asset?

Sir Andrew Witty: As you know, we have a significant flu business of our own. Novartis decided to pursue a separate sale process on that piece of the business and so our focus has been on the acquisition of the non-flu business, which we are super-excited about – particularly because of the various news items around Bexsero over the last three or six months. Clearly, the opportunity is beginning to look quite exciting there, let alone all of the other benefits from combining together the two businesses.

Listen, I very much appreciate your interest on the call. Our Investor Relations Team is standing by to take any calls you would like to make. I hope very much that you have found this a useful update. I know that there is a great deal to absorb in these three elements of this transaction, but I hope you also see what we believe we have achieved here, which is to be able to expand the company; to expand two key annuity-based businesses with significant terminal value; capture attractive value for our Oncology business, and, in the process generate significant excess cash which we can return to shareholders through the B scheme after close.

Thank you very much.

- End of Conference Call -