



**GlaxoSmithKline
Core Reporting
1st December 2011**

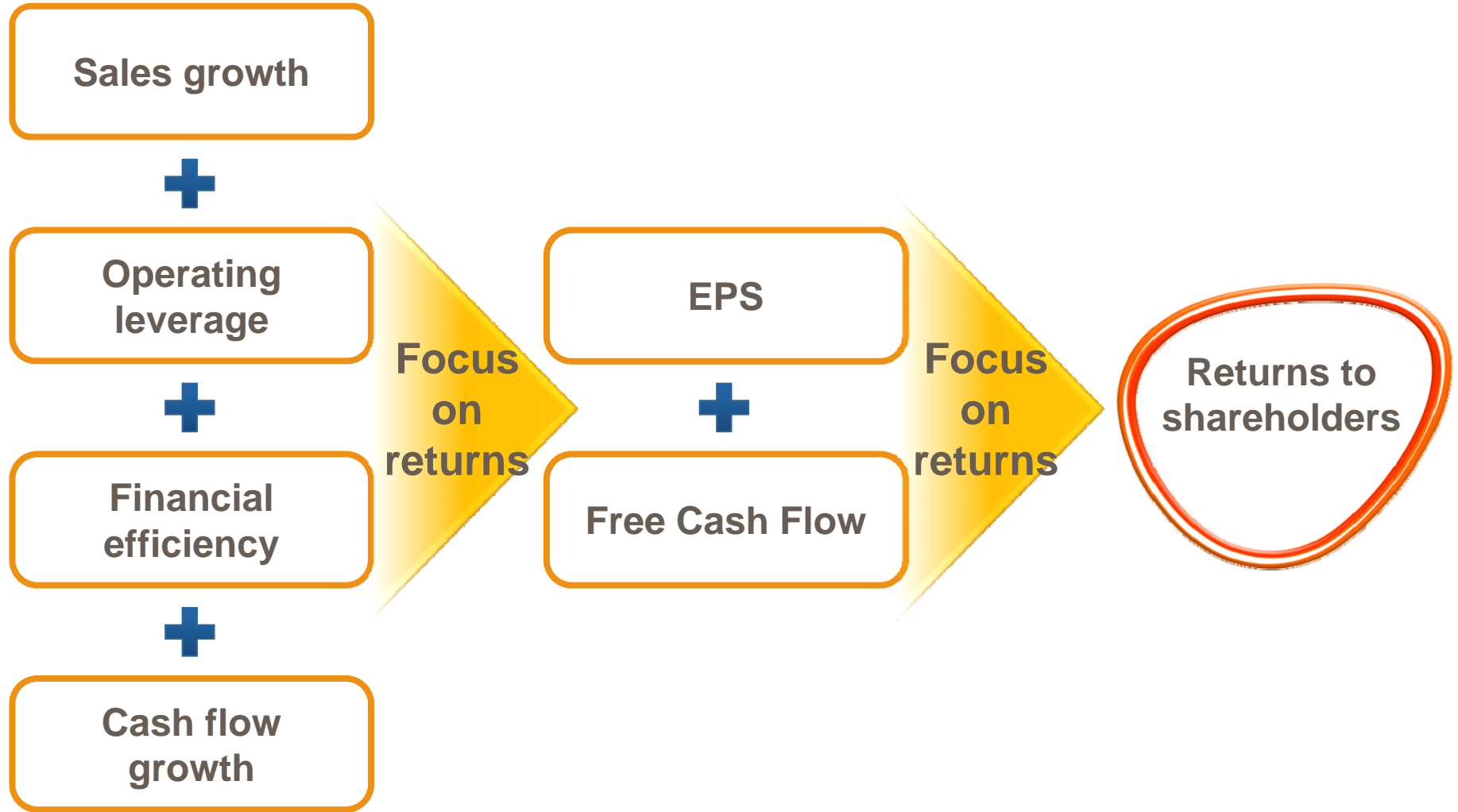
Today's agenda

- Recap on Financial Architecture and objectives of transition to core
- Core calculation
- Other reclassifications
- Summary and transition plans
- Q&A

Note:

- Historical calculations available on our website
 - For 2011: Nine months YTD 2011 plus Q1, Q2 and Q3
 - For 2010: Full year, nine months and all quarters

GSK Financial Architecture: Driving Returns



Measurement and Reporting aligned to Financial Architecture

- Simplified turnover disclosure
 - Regional
 - Business

Sales growth



Operating leverage



Financial efficiency



Cash flow growth

Focus on returns

EPS



Free Cash Flow

- Core EPS

- Free Cash Flow
- Cash Conversion

- CFROI
- IRR

- Greater visibility on R&D spend
- Focus on core operating profit and margin
- End of middle column

- Working Capital % & days (CCC)
- Cash flow from operations

Summary



- **Objectives of transitioning to ‘core earnings’ measure**
 - Greater transparency
 - Improve quality of financial reporting
 - Provide greater clarity as to ongoing trading performance
 - Improve comparability with peer companies
 - Provide more direct comparison to underlying cash earnings
- **Items not part of core will continue to be tightly managed**

Exclusions from core earnings

Summary of Adjustments

Amortisation and impairment of intangibles

Non-cash charges:

- Excluding these provides better measure of underlying cash generation.

Major restructuring

Charges can have a significant distorting impact

Legal costs

Charges can have a significant distorting impact

Other Operating Income & Profit on disposal of associates

Volatile and unrelated to underlying performance:

- Royalty income will be reported separately and included in core.

Business combination accounting adjustments for material acquisitions e.g. Stiefel and Reliant

Non-cash 'accounting adjustments'.

Amortisation and Impairment of Intangible Assets including Goodwill

- **Costs excluded from core earnings**

- Amortisation and charges related to impairment of non-computer software intangibles including goodwill
- These charges are non-cash items

- **Costs included in core earnings**

- Amortisation and charges related to impairment of computer software intangibles

Restructuring



■ **Costs excluded from core earnings**

- Only charges related to major restructuring programmes that are part of a separate announcement
- Current £4.5 billion restructuring programme charges (~£0.7bn remaining post Q3 2011)
- Costs incurred solely as a direct result of any restructuring programme that follow, and relate to, material acquisitions (e.g., Stiefel and Reliant)

■ **Costs included in core earnings**

- Ongoing regular restructuring costs
- Restructuring related to non-material acquisitions

Legal costs



- **Costs excluded from core earnings**

- All net legal charges and expenses related to the settlement of product liability, litigation, anti-trust and government investigation matters

- **Costs included in core earnings**

- Legal functions costs
- Intellectual property protection costs

Other Operating Income, Disposal of associates, Products and Businesses

- **Items to be excluded from core earnings**
 - Profits and losses from the disposal of associates, businesses, products and investments
 - Quoted and non-quoted equity investments impairment charges
 - Fair value adjustments on financial instruments

- **Items to be included in core earnings**
 - Royalty income - will be reported on a separate income statement line, there will be no OOI line in core earnings
 - Royalty income for nine months 2011 was £218m vs £222m for nine months 2010

Business Combination Accounting Adjustments for Material Acquisitions

- **Adjustments arising on material business acquisitions (e.g. Stiefel and Reliant)**
- **Items to be excluded from core earnings**
 - Fair value gains on existing holdings
 - Fair value adjustments to contingent considerations
 - Inventory step-ups
 - Acquisition costs
 - No pre-tax impact for 2010 and nine months 2011
- **Items to be included in core earnings**
 - Acquisition accounting adjustments on non-material business acquisitions

Other Reclassifications

Commencing Q1 2012

- **Will further align our external reporting with our management reporting / structure**
- **Restatements expected:**
 - EMAP excluding Australia and New Zealand to be reported in place of EM alone
 - Products for Rare Diseases (e.g., Flolan and Volibris) will be reported as a separate therapy area
 - Stiefel consumer brands will be moved from Pharma to Consumer
 - Charges for amortisation and impairment of intangible assets related to marketed products will be reported in cost of sales. (Previously these were included in SG&A).
- **Historical restatements reflecting all reclassifications will be distributed during Q1 2012, well ahead of Q1 2012 results**

* EMAP = Emerging Markets Asia Pacific (excludes Japan)
EM = Emerging Markets

Impact of transition to historical core earnings

Pence per share	Q1 10	Q2 10	Q3 10	Q4 10	2010	Q1 11	Q2 11	Q3 11	9mths YTD 11
IFRS EPS Income / (loss)	26.4	(6.0)	25.3	(13.6)	32.1	30.0	21.8	27.6	79.4
<u>Adjustments to calculate core:</u>									
Amortisation and impairments of intangibles	1.8	1.4	1.8	2.6	7.6	1.6	1.9	1.8	5.3
Major restructuring	4.3	8.6	2.9	6.1	21.8	2.2	3.2	0.9	6.4
Legal	3.5	26.4	0.8	36.2	66.9	-	1.0	0.3	1.4
OOI, gains and losses on disposals	(1.7)	(0.2)	(0.3)	(0.7)	(2.9)	(7.9)	-	-	(8.1)
Core EPS	34.3	30.2	30.5	30.6	125.5	25.9	27.9	30.6	84.4
<i>Previously reported EPS before major restructuring</i>	<i>30.7</i>	<i>2.6</i>	<i>28.2</i>	<i>(7.5)</i>	<i>53.9</i>	<i>32.2</i>	<i>25.0</i>	<i>28.5</i>	<i>85.8</i>

Note: Quarterly Core EPS in 2011 reflects lower reported sales from Avandia, Valtrex and pandemic products than in 2010
Tax on the adjustments has been calculated using the rates estimated to apply to each category

Transition to core earnings



- **No changes to financial reporting for 2011**
 - 2011 year end press release will focus on 'Results before major restructuring'
- **Core earnings will be the focus of our financial reporting beginning Q1 2012**
 - For each period, we will provide a detailed reconciliation of GSK's statutory income statement to GSK's core earnings
- **Any future guidance commentary will focus on core measures**

Historical calculations are available on gsk.com



Q&A