

Q2 and financial outlook

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Headline results



Continued sales growth and investment in the future

	Q2 2017	Reported growth %		H1 2017	Reported growth %	
	£m	AER	CER	£m	AER	CER
Turnover	7,320	12	3	14,704	15	4
Total operating (loss) / profit	(20)	87	(45)	1,698	>100	>100
Total (loss) / EPS	(3.7)	59	29	17.7p	>100	>100
Adjusted operating profit	2,083	14	0	4,062	21	4
Adjusted EPS	27.2p	12	(2)	52.1p	20	3
Free cash flow	(282)	>(100)	n/a	368	>100	n/a

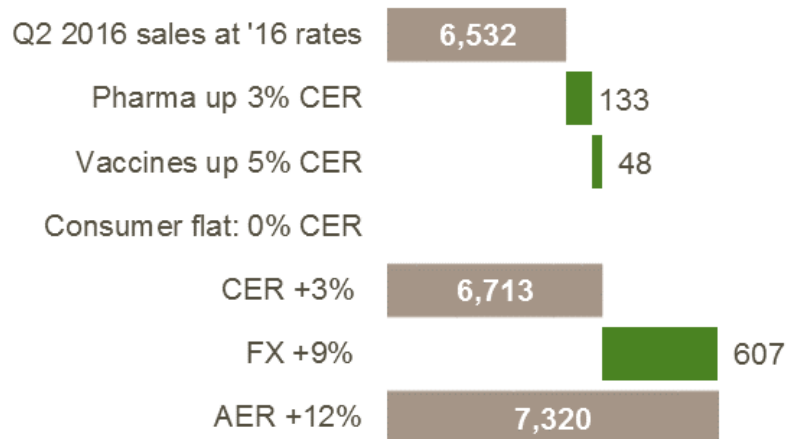
Sales growth



Another quarter of growth: +3% CER, +12% AER

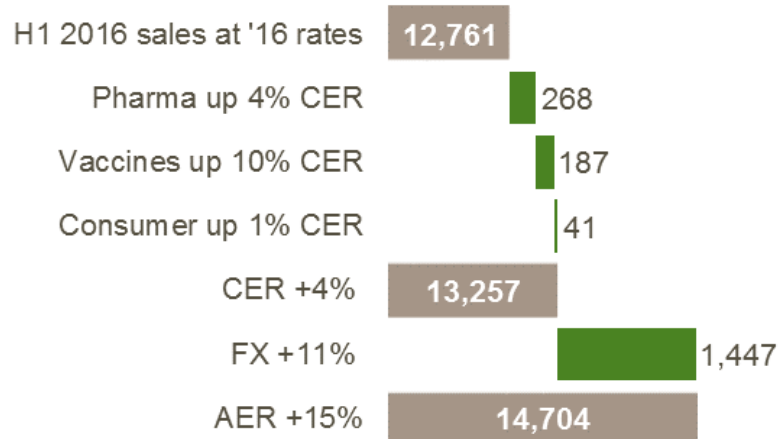
Q2 2017

All figures £m



H1 2017

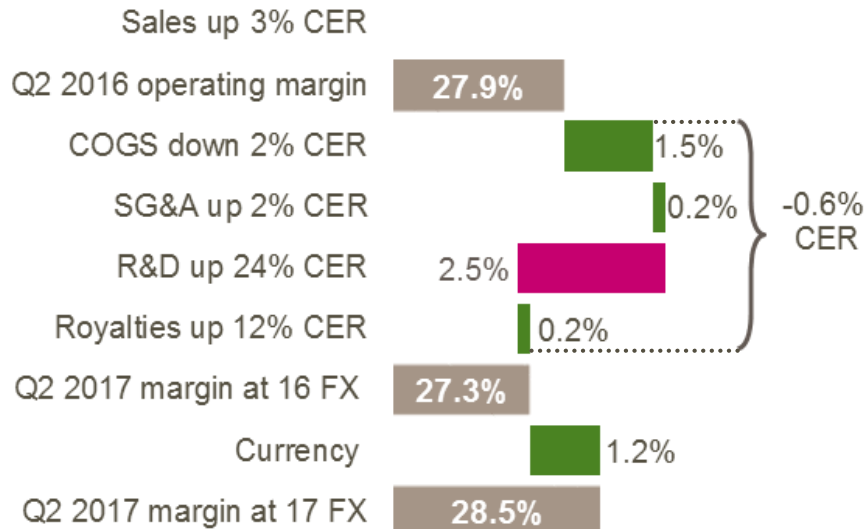
All figures £m



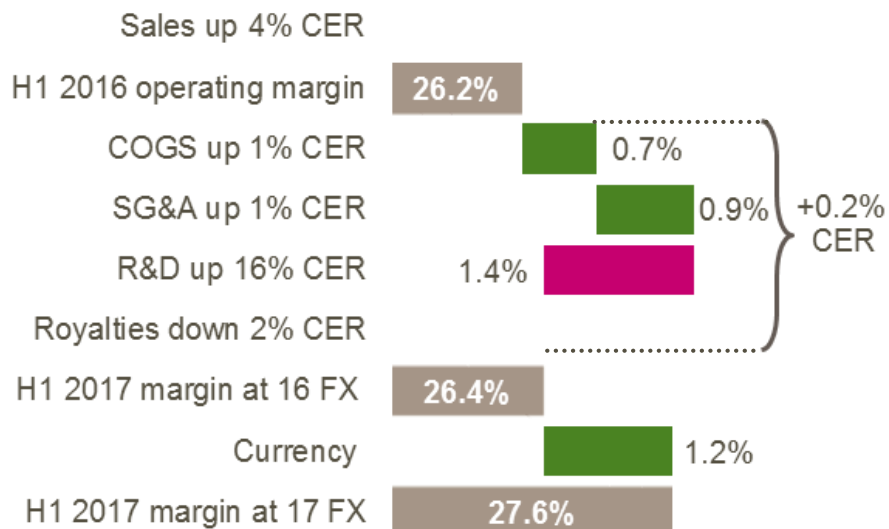
Adjusted operating margin



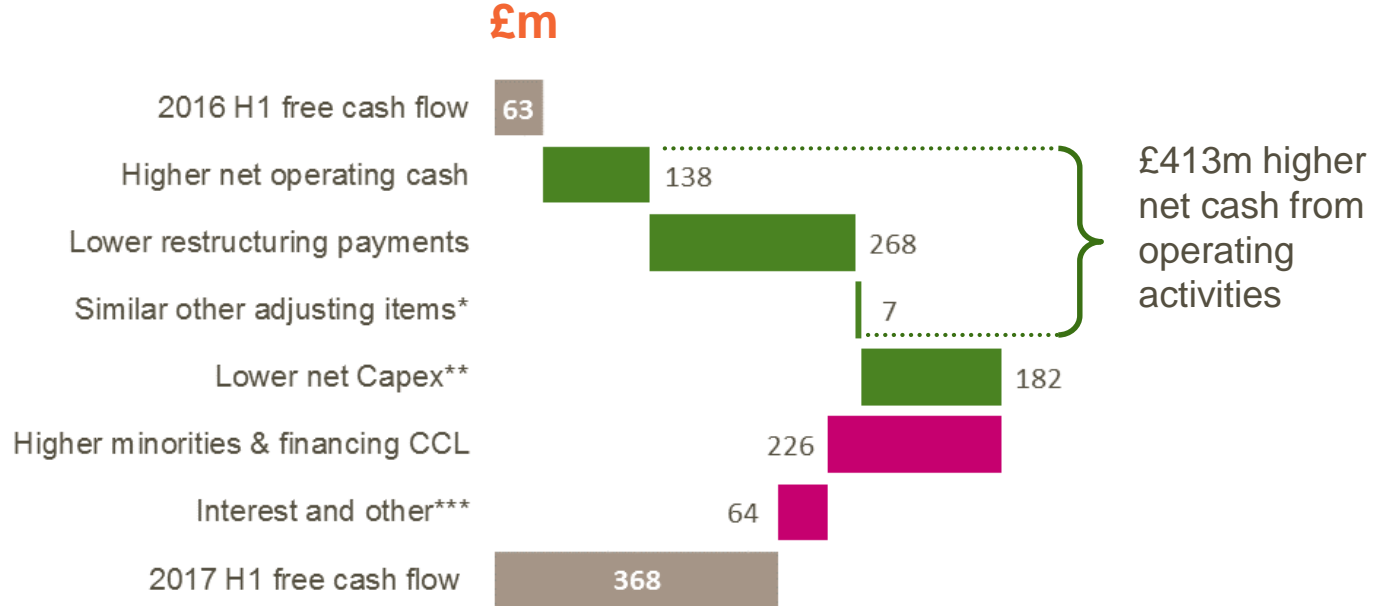
Q2 2017



H1 2017



Improving cash generation



* £7m net other adjusting items is made up of ViiV operating CCL, Vx operating CCL, 2016 tax on Oncology and Legal

** £182m difference to 2016 includes the purchase of BMS assets in 2016 for £221m, partially offset by the payment of £106m for the PRV in 2017

*** £64m includes interest being £26m higher in 2017. Net of all other items is a drag of £38m.

Updated 2017 guidance



Original guidance*

Adjusted EPS
up 5 to 7% CER



~£130m
extra investment in
PRV and accelerated
launch costs



Updated guidance

Adjusted EPS
up 3 to 5% CER

Continued pricing pressure

Investment in pipeline and new products

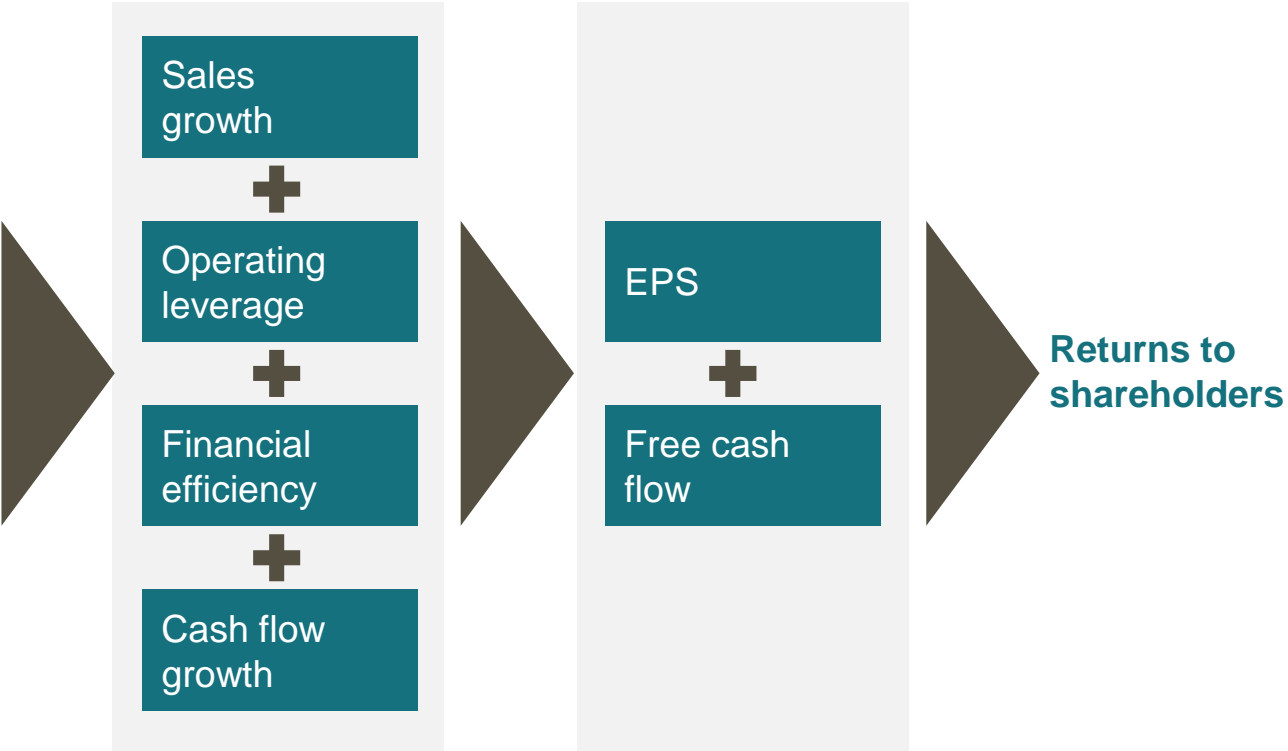
* Assuming no substitutable generic to US Advair in 2017

The financial architecture aligns our strategy to clear financial goals



Key levers

- Cost discipline
- Cash consciousness
- Capital allocation

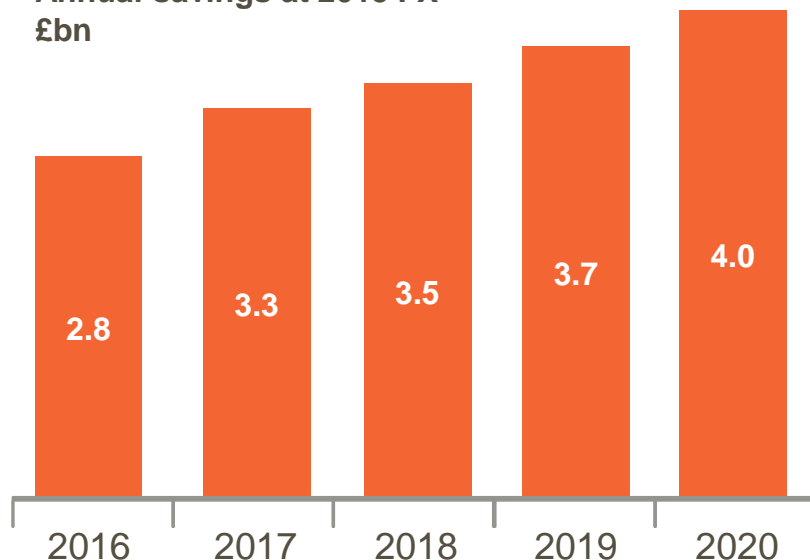


Cost discipline to fuel investment for growth



Additional £1bn of annual savings at CER

Annual savings at 2015 FX
£bn



Year	Cumulative FX benefit*
2016	0.2
2017	0.3
2018	0.4
2019	0.4
2020	0.4

* 2017-2020 cumulative FX benefit estimated using June 2017 rates.

Additional £1bn of annual savings at CER

Investing in new launches and R&D pipeline
Offsetting incremental pricing pressure

Costs of up to £5.7bn (+£0.7bn extra)

£4.1bn cash (+£0.45bn)
£1.6bn non cash (+£0.25bn)

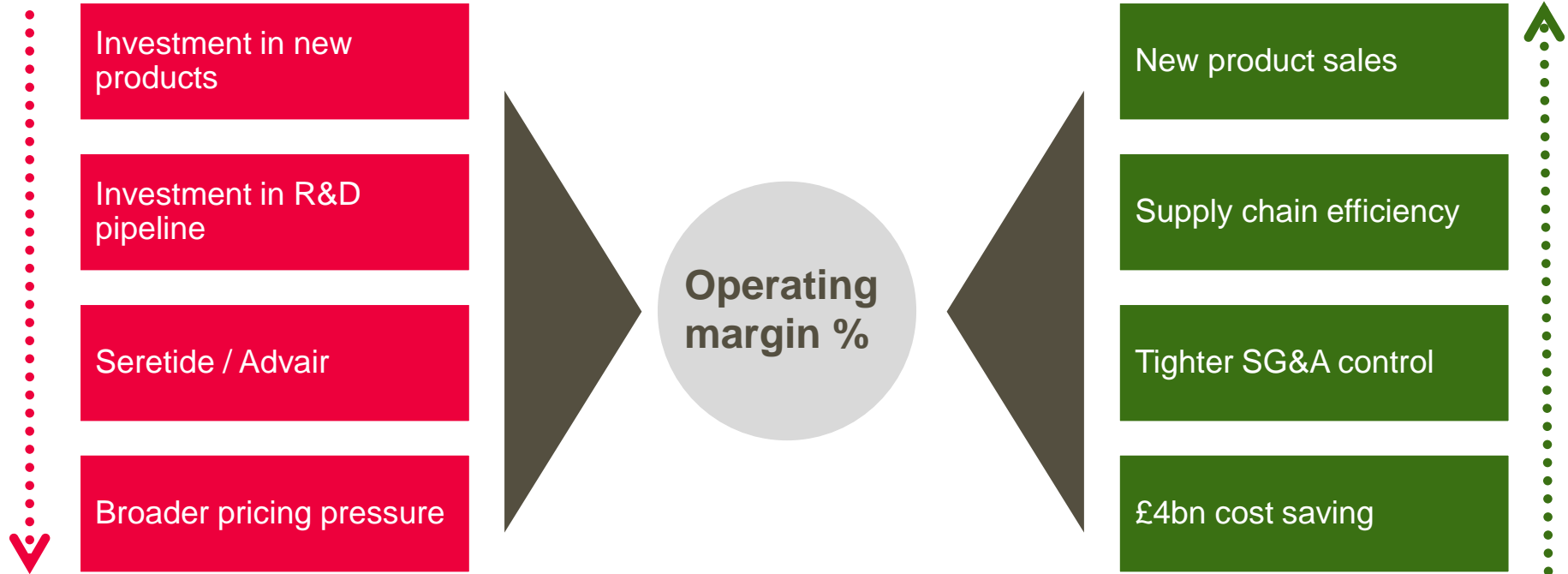
£4.3bn expensed to date (up to Q2 2017)

£3.2bn cash, £2.9bn paid
£1.1bn non cash

Cost discipline to fuel investment for growth



Funding new product launches, R&D pipeline and protecting margins



Cash consciousness



Three integrated businesses, each with one strategy, one P&L and one cash target

Retain a focus on the fundamentals

Working capital

End to end, integrated supply chains
Improved visibility from new systems
Strategic supplier relationships

Capex

More effective procurement of capital
Prioritisation to new products & pipeline

Reduced restructuring cash payments

£1.1bn in 2016
£0.7bn in 2017
£0.4bn in 2018

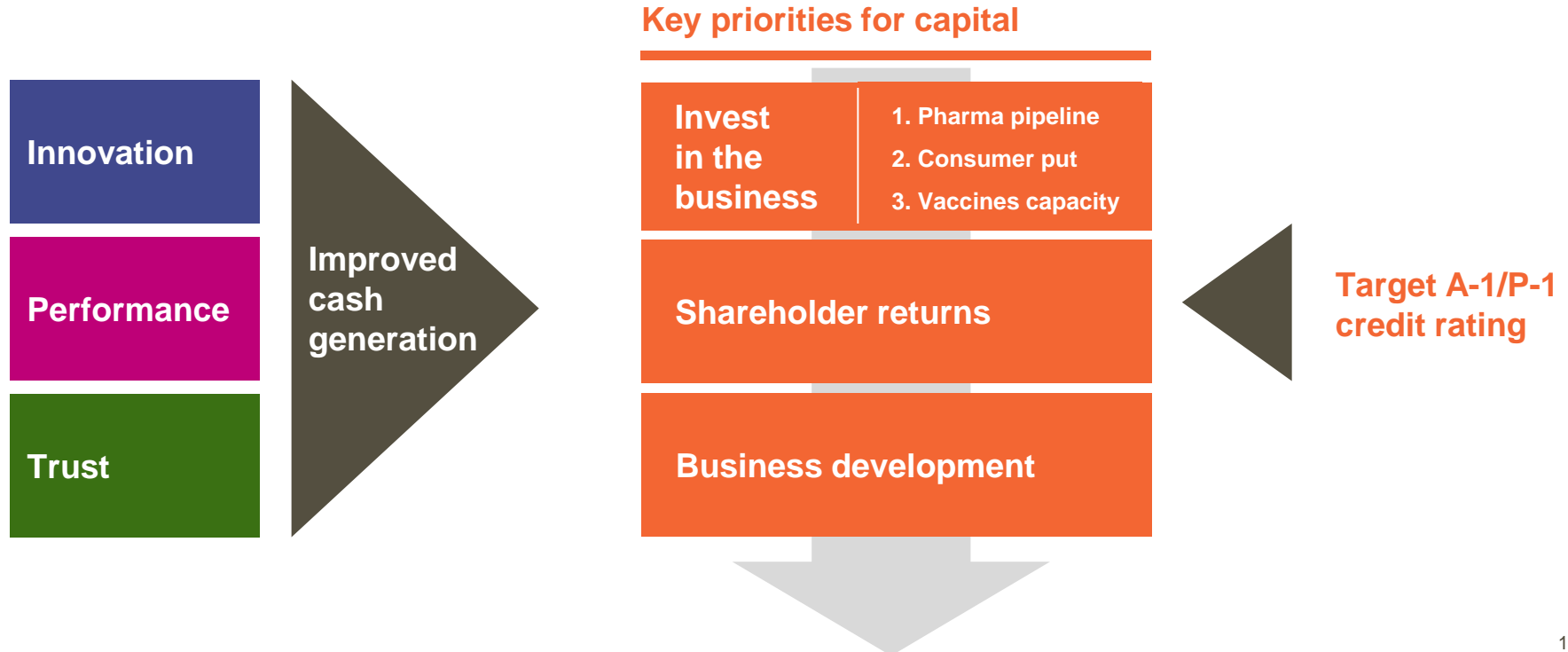


Target higher free cash flow

Capital allocation



Maximising long-term shareholder value while protecting credit rating



5-year outlook to 2020 confirmed at group level



2020 outlook from May 2015

Group Sales CAGR

Low-to-mid
single digit %

Core EPS CAGR

Mid-to-high
single digit %

What's changed

- + Stronger new product performance
- + Pharma margin increased to low 30s by 2020
- Consumer sales CAGR revised to low to mid single digit %
- Divestments
- Moderate upward pressure on tax rate
- Higher minorities

2020 outlook today

Group Sales CAGR

Low-to-mid
single digit %

Adjusted EPS CAGR

Mid-to-high
single digit %

Assumptions

Growth at CER

2015 exchange rates

£200-300m

US Advair 2020 sales

Pharma 2020 outlook



Sales

- HIV - Growth from dolutegravir, including 2 drug regimens
- Respiratory - Growth from new products
- At least as big in 2020 as 2015
- Established Pharma - Manage for cash
- Divestments ~£0.75bn**

Low single digit
CAGR at CER*

Operating margin

- ⊕ Leverage from growth of new products
- ⊕ Product and geographical mix
- ⊕ Cost efficiency
- ⊖ Investment in new products and pipeline
- ⊖ Advair
- ⊖ Broader pricing pressure

Low 30s %*

*All 2020 outlook statements are at constant, 2015 exchange rates. The CAGRs are 5 years to 2020, using 2015 pro-forma as the base for sales.

** £0.75bn of annual sales includes £0.35bn from divestments already announced, £0.4bn from expected divestments yet to come

Vaccines 2020 outlook



Sales

- Product growth - 1/3 Marketed portfolio
- 1/3 Meningitis
- 1/3 Shingrix

- Regional growth - 1/3 US
- 1/3 Europe
- 1/3 International

Mid-to-high single digit CAGR at CER*

Operating margin

- ⊕ Sales leverage & geographic mix
- ⊕ Improved supply
- ⊕ Integration benefits
- ⊖ Shingrix launch preparation
- ⊖ Supply chain investment
- ⊖ Investment in R&D pipeline

30%+*

Consumer Healthcare 2020 outlook



Sales

- Growth
 - Power brands
 - Priority markets
 - Innovation
- Macro pressures
 - Slow down in category growth
 - Emerging markets
- Divestments ~£0.15bn**
 - 2016: Nigeria
 - 2017/18: Maxi, Horlicks UK, others

Low-to-mid single digit
CAGR at CER*

Operating margin

- ⊕ Sales leverage
- ⊕ Supply chain improvement
- ⊕ Integration benefits
- ⊖ Category slow down
- ⊖ Power brand investments
- ⊖ Innovation support

20%+ by 2020

*All 2020 outlook statements are at constant, 2015 exchange rates. The CAGRs are 5 years to 2020, using 2015 pro-forma as the base for sales.

** £0.15bn of annual sales includes £0.05bn from divestments already announced, £0.1bn from expected divestments yet to come

Financial efficiencies



Net finance costs Sustained funding efficiency, with modest increase in 2017

Tax rate

- Maintain expectation for 21-22% for 2017
- Expect moderate upward pressure in the next few years due to environmental changes and regional mix

Minority interest Continue to reflect growth of Consumer and HIV

Earnings per share Grow ahead of sales, at mid-to-high single digit CAGR*

Dividend policy from 2018



Expect to rebuild dividend cover over time

We will distribute regular dividend payments determined primarily with reference to free cash flow generated after meeting investment requirements

2017

We expect to pay 80p dividend per share

2018

We expect to pay 80p dividend per share

**Free cash
flow cover**

Focus on rebuilding free cash flow cover over time

Target 1.25x to 1.5x FCF cover before returning to dividend growth

Our aim is to deliver benefits for patients, consumers and shareholders



Up to 2020 → 2020 + →

Innovation

Performance

Trust

Group sales 5-year CAGR low to mid single digit*		
Pharma  5-year sales CAGR: low single digit* Adjusted operating margin: low 30% ^{s*}	Vaccines  5-year sales CAGR: mid to high single digit* Adjusted operating margin: 30% ⁺ *	Consumer Healthcare  5 year sales CAGR: low to mid single digit* Adjusted operating margin: 20% ⁺ *
Adjusted EPS 5-year CAGR mid to high single digit*		
Rebuild dividend cover: 1.25x to 1.5x FCF		

Impact human health

Platform for future growth 2020+

Improved and sustainable returns

*All 2020 outlook statements are at constant, 2015 exchange rates. The CAGRs are 5 years to 2020, using 2015 as the base year.



15 minute break
Q&A to follow



Panel Q&A

Cautionary statement regarding forward-looking statements



This presentation 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', 'target' 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 Market Abuse Regulations, 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. Investors should, however, consult any additional disclosures that the Group may make in any documents which it publishes and/or files with the US Securities and Exchange Commission (SEC). All investors, wherever located, should take note of these disclosures. Accordingly, no assurance can be given that any particular expectation will be met and investors 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 presentation, 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 Item 3.D 'Risk factors' in the Group's Annual Report on Form 20-F for 2016. 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 presentation.

A number of adjusted measures are used to report the performance of our business. These measures are defined in our Q2 2017 earnings release and Annual Report on Form 20-F for 2016.

All expectations and targets regarding future performance should be read together with "Assumptions related to 2017 guidance and 2016-2020 outlook" on page 32 of our Q2 earnings release.