GLAXOSMITHKLINE

FULL YEAR RESULTS 2014

PRESENTATION TO ANALYSTS – 14.00 hrs

Wednesday, 4 February 2015

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Sir Andrew Witty (Chief Executive Officer): Good afternoon, and welcome to the call. With me is Simon Dingemans, CFO of GSK.

You will have seen that we have released presentations from both of us on GSK's performance in 2014 and our current strategic focus, and these are available on the website for you to use at your leisure. The purpose of this call is primarily to answer your questions but before I open up for questions, let me make a few brief points.

First, on our performance, as you know 2014 was a challenging year for GSK, particularly in the US primary care market. However, we have responded to this. In financial terms, core earnings per share for 2014 were 95.4 pence, down 1%, on turnover of £23 billion down 3%, reflecting costs and financial efficiencies. Revenues grew positively in Emerging Markets, up 5%, Japan up 1% and HIV ViiV up 15%. These helped to partly offset declines in our Established Product Portfolio down 16%, and the US business down 10%, where primary care contracting and pricing dynamics continued to present a very difficult trading environment. These headwinds, particularly in the respiratory market, will continue to impact performance during 2015. However, we are starting to see some encouraging early indications of how increased formulary coverage for *Advair*, and our new portfolio *Relvar*, *Breo* and *Anoro*, can help us regain market share and deliver improved respiratory performance.

As we have consistently said, our strategy is to develop a diversified portfolio of respiratory products, and that progression continues with several key milestones expected this year, including the launch of *Incruse* and *Arnuity* in the United States, FDA decisions for *Breo* for use in asthma and IL5 monoclonal antibody mepolizumab for severe asthma, and read-out of the *Breo* SUMMIT study for mortality and morbidity in COPD.

Outside of respiratory, new product performance in HIV was exceptional in 2014. Combined sales of *Tivicay* and *Triumeq* achieving £340 million.

In Consumer Healthcare, sales for the year were down 1% but up 2% in the fourth quarter as the business started to recover from recent manufacturing supply issues. These issues have now been resolved and we expect increasing benefit from the resumption of supply going forward.

You will also have seen today that we have announced two important events for this year. Following completion of the proposed three-part transaction with Novartis, we shall hold an Investor Day in which we shall provide 2015 earnings guidance for the enlarged Group, and profile the medium and long-term shape and opportunities for GSK. Closure of this transaction is a critical priority for us this year, we are making good progress and expect to close within H1 of 2015.

This deal will transform the shape of the company, significantly bolstering our Consumer Healthcare and Vaccines operations, and will be a major step towards fulfilling the company's strategy of creating a simpler, stronger and more balanced platform for long-term growth.

The other event we have announced today is our intention to hold an R&D Investor Day in October to give greater visibility to shareholders on our Pharmaceutical and Vaccines pipelines.

In our advanced pipeline, we see significant potential for our vaccine to prevent shingles, the closed triple combination product in COPD, sirukumab in rheumatoid arthritis, cabotegravir in HIV, losmapimod for acute coronary syndrome and H63 our prolyl hydroxylase inhibitor for anaemia.

At our R&D day, we also intend to provide greater visibility on multiple early stage assets in therapeutic areas where we see significant opportunity. These include immuno-inflammation, immuno-oncology and cardiovascular disease, as well as a number of prophylactic and therapeutic vaccine candidates.

Finally, I shall just note that 2015 represents a significant year as far as our plans for returns to shareholders, with a combination of an ordinary dividend of 80 pence expected, and the return of £4 billion from the Novartis transaction. For last year, you will have seen that we have declared a 2014 dividend of 80 pence per share, which is up 3%. With that, I shall open up to questions and I would remind you that I have Simon with me as well in the event that you want to go into more detail on any of the numbers which he described in his presentation on the website.

Question & Answer Session

James Gordon (JP Morgan): I have three questions on the pipeline please. The first is on the 10 Phase III starts: can you say how many of those could be NMEs versus potential line extensions, and whether this includes vaccines? The second pipeline question

is on immuno-oncology and I saw the three assets that you flagged: are these assets that are already in the clinic? The third question is on the gene therapy asset which I see you are filing. When I look for the incidence or the prevalence of the disease, it looks quite rare and that only five or 10 people a year in the US will get this but is that an underestimate? Could this be a meaningful commercial opportunity, or is this quite a niche indication?

Sir Andrew Witty: Thanks very much, James. On the last question, it is a rare disease but I suspect the numbers will be a little higher than you have described, although I certainly wouldn't guide you to think it will be a big product. It is a rare disease and we have extremely encouraging data. We see this as part of a platform of four or five further diseases of which you will see more in October. You should see this really as the first proof of concept of an approach we are taking for a portfolio of diseases, which are increasingly common. As you go through the next disease 2, 3, 4, you see ever increasing numbers and we believe that, overall, there is quite an interesting opportunity for that.

As you know, although we are not famous for being a rare disease business, you saw good performance this year with around £400 million of business in the portfolio of rare disease products.

As far as immuno-oncology is concerned, there is a variety of programmes there. If you look at things like the OX40, that goes into the clinic this year. When you look through the overall portfolio of immuno-oncology assets, some are in, some are about to go in, and we shall give you a lot more detail of that in October. The majority of these assets are first-in-class or certainly at the front of their class and we are obviously excited about those.

I think I've covered your questions, so next question please.

Nicolas Guyon-Gellin (Morgan Stanley): Yes, hi. Good afternoon and thanks for taking my question. I have three respiratory questions. The first one is for the US respiratory franchise. While the overall decline remains mostly unchanged, the volume erosion seems to abate to the detriment of pricing. Do you expect a similar pattern for this year and is there any upside to your minus 20 to 25% guidance?

Second as a follow-up, could you discuss the price pressure that you are facing on the rest of your respiratory portfolio in the US ex-*Advair*, and thirdly on *Anoro* how would you expect some coming new entrants like tiotropium or olodaterol or QVA to impact the market? Thank you.

Sir Andrew Witty: Thanks very much, Nicolas. In terms of a decline, what you need to understand is the pricing effect will flow through into 2015. What you need to

recognise is in 2014 we had a shift in the external environment obviously with the willingness of plans to go to class limits. That affected us initially through the ECI contract but then clearly the risk existed elsewhere.

The response we made was obviously to adjust our price point. The end point of all of that is good news for GSK in the sense that we now have higher access for all of our respiratory products in the US, *Advair* higher than it's ever been, *Breo* higher than it's ever been, *Anoro* higher than it's ever been. *Advair* right up in the high eighties, the other two in the 70-75% territory; very good for new products and compared to where we were a year ago, rather than us being excluded we are actually the beneficiary of being included in a number of class-limiting contracts with big payors. In fact, compared to our biggest competitor in this marketplace we have about a 20 percentage point advantage of access compared to where they are today which is quite a big flip around from last year.

But to achieve that, the way in which the price adjustments took place - and it is the reason why last year was so difficult for us to call exactly right at the beginning of the year and we obviously got it wrong - but the reason why it was so difficult to call was first of all we had to make some price adjustments on the lead contracts not knowing how wide a phenomena this would be. Those initial price adjustments obviously reduce your revenue on those contracts, but they also triggered best price, so what that means is that the Federal Government then automatically gets the benefit of that reduced price. That was an effect which essentially flows through, let's say from the first quarter through last year, some of which you will see in the first quarter of this year and then as we essentially repositioned our price on a broader basis, while it didn't further reduce best price, it obviously further suppresses the potential revenue because you are now giving that price to a much broader part of the marketplace.

That phenomena had a little bit of an impact during last year but largely comes into play on 1 January because a lot of the key contracts which we were negotiating critically for 2015 and very importantly running into 2016, those contracts only kick into gear essentially in November, December, January. What you then have is the effect of that price layer flowing through, so even though we are seeing market shares go up, we are seeing share volumes go up in what looks like a reasonably encouraging market in terms of market dynamic, there is no doubt you will see more price pressure during this year.

I think it's a reasonable expectation – I don't want to get carried away here – I think it's a reasonable expectation for you at this point in time to assume that it carries on like last year.

Obviously what would really change that for the better is if we see the volumes and the shares continue to grow more than you would necessarily anticipate and that's possible and that's obviously what we are focussed on, but I don't want to get ahead of my skis here. I am simply signalling to you early days that shares look very encouraging, new product access looks terrific, price contracts are all locked in but we know that price effect will flow through. The big variable is how quickly the volume comes back.

I think you will kind of just carry on for another quarter before we really call this, makes sense to me.

In terms of general price pressure elsewhere, nothing massive beyond what I've just talked about, so we continue to see a good business for *Flovent*, a good business for *Ventolin* obviously in the US so I wouldn't say there was anything massive. There is price pressure in those spaces, but obviously the main story has been around *Advair*, *Breo* and *Anoro.*

I would say it's done really in terms of what had to happen to us, but the ripples - the consequences of price - flow through, on the bright side the consequences of the volume opportunity are also flowing through.

As far as the inbound competitors, we will see how they come in but right now it looks like everybody is going to be twice a day. We feel like the *Ellipta* device is getting more and more traction. It's very interesting to watch physician reaction now because they initially saw *Ellipta* just with *Breo*. They have now seen it with *Anoro*, they have now seen it very recently with *Arnuity* and it's beginning to become obvious to physicians that they can go through monotherapies, different combinations without having to switch devices; I think that's increasingly going to become a key advantage for us as well as obviously the once a day nature.

As we move forward into this year, particularly for *Breo* with the asthma indication and the SUMMIT results, we have a lot of new news coming as well.

Don't get me wrong, it's a super-competitive space both in Europe and in America but we increasingly are feeling confident that after a slow start we are beginning to get these new products entrenched. We think every piece of new product portfolio we bring to the marketplace strengthens our overall position and we have access nailed on this portfolio in the US and that's obviously the basis on which we go into 2015.

Next question.

Alexandra Hauber (UBS): Good afternoon. Thank you for taking my questions. The first question is a couple of moving parts on *Advair* in the US; it looks to me that the fourth quarter figure included about a 15% stocking effect, the same as last year, of about £80 to £100 million stocking in the fourth quarter. I guess that means we will see a corresponding de-stock in the first quarter 2015, just as in the first quarter of 2014. The question I actually have is whether this de-stock, which would contribute about 4% to 5% decline, assuming it is not recurring – is this de-stock part of your guidance for the *Advair* 20% decline which you issued previously? I know that it is too early to call the exact *Advair* decline, based on the numbers you have just described on the previous question, but that number of 20% is in the room. I would just like to know whether that includes the 5% de-stock in the first quarter and therefore volume price is 15%, or is the volume price based on the old number, which was 20%?

My second question is one that I have asked many times before, on the Consumer supply situation. I would like to have some idea of which areas are still affected and what are the timelines for final resolution. That would be great.

Third, and I am sorry to ask a boring tax question, but I would just like to ask whether the good tax rate that you had in the fourth quarter was just a one-time thing? Or for the resulting full year tax rate, is that the outlook - the guidance and implied outlook for 2015? Or, as a third option, will the tax rate be reset for the new Co anyway and therefore is it too early to give any guidelines?

Sir Andrew Witty: Thank you, Alexandra. In terms of US *Advair* and the year-end stock movements, yes, that is included in our view of *Advair.* I would reiterate that we would expect Q1 to be particularly challenged because it has a concentration of price effects, de-stock and all of those things. Yes, it is within the frame of reference that you have previously heard.

As far as Consumer manufacture is concerned, all of the issues in the two or three product lines that we dealt with last year are dealt with. All of the factories are running manufacturing and shipping. The last ones to get back to absolutely full stock cover, which is different from supply, but full stock cover, is the smoking cessation product line – but the factories are running and everything is going fine there. Then, on the Pharmaceuticals side, the only area where we have any disruption – and we are talking about £10 million of disruption – is in Dermatology. We have one or two Dermatology lines which have had some supply disruption as well. However, you are talking tiny numbers.

As of today, to all intents and purposes, that issue is behind us. I would expect Consumer supply to be a tailwind for this year. I think it will be more pronounced in Q2, 3

and 4, only because the negative effect was largely towards the end of Q1 and then Q2 and 3. It will be a tailwind and, as we sit here today, all the plants are running very well and very busily.

Simon, would you like to talk about tax?

Simon Dingemans: On the tax rate, Alexandra, the fourth quarter number reflects the fact that a number of the settlements that we reached during the course of the year arrived in the fourth quarter, and so you should look at the full year rate as more of a guide. For the business as it is today, looking forward, around 20% is probably a reasonable estimate, although we then need to look at the combined business when we close on the Novartis transaction. We will give you specific guidance around the enlarged Group's tax rate when we get there.

Sir Andrew Witty: Great. Thanks, Simon. Next question?

Graham Parry (Bank of America): Thank you for taking my questions. First, I understand that you don't want to give 2015 guidance including the Novartis deal until they are closed. Could you quantify what your expected sales and operating profit growth would be without the Novartis deal?

Secondly, you have previously talked about a significant reset of margins in 2015, due to the headwinds from declining *Advair* and the Novartis deal. Would that still be an appropriate phrase to use?

Thirdly, in your slides you give the latest coverage of *Breo* and *Anoro* in Medicare plans. How much of that is in Tier 2, and what is the commercial coverage?

Finally, on the *Advair* declines, could you break down the expectations for volume and price components. Back of the envelope, it seems that winning back the key contracts would leave your volumes, if anything, flattish – so the 20% to 25% in sales would all be price. That is a greater price impact than overall in 2014 and hence, arguably, more margin impact from that as well. Thank you.

Sir Andrew Witty: For obvious reasons, Graham, we do not break down the tiering of our access but what we tend to look at is 'favourable position', through all the various different contracts and types of encouragement or penalty. As I described earlier, if you look, for example, at *Advair* in Part D, you would look at something like 85% or 86% favourable. If you look at *Advair* in commercial, you are looking at something in the very high seventies and up into the eighties and, at the moment, we are probably running at something like 85% to 87% favourable for commercial access of *Advair.* If you look at *Breo,*

Part D, at the moment you are probably looking at somewhere around 75% or 76%, and something around 68% or 70% for commercial. If you look at *Anoro* Part D, we are now at just a tad under 70% and, on commercial, we are just a tad under 80%. That is a very strong position there and, as I said earlier, for *Advair* in commercial, we are about 20 points ahead of our next biggest competitor in terms of commercial access.

The whole point about not giving you guidance until after the transaction is that we are not going to give you guidance until after the transaction, so I will refrain from getting into any details there. It is absolutely fair to expect, and we do expect the margins to come down a little this year, partly due to the transaction and partly due to some of the price pressures in the system, but we will obviously give you more details about that. Simon has previously given you at least a shape and feel of that in the past. We will firm that up as we get there.

The reason why we are doing this is pretty obvious: we are pretty close to this transaction closing and, first of all, we don't want to give you a set of number which then all have to change. That is the first point.

The second point is everything to do with the Novartis transaction for both companies is based on 2013 pro forma data. Particularly in the case of the Vaccines business, but also partially in the case of the Consumer business you know that is a very dynamic business of Novartis. You also will know that although we are in the process of putting these two businesses together, we are officially still competitors and by regulation we are not allowed to share all the detail of what has been going on in the companies. You also know that in the case of Novartis they don't publish and break out the Vaccine business in exactly the way we are acquiring it because we are not buying the flu business, and they don't break out the Consumer business historic in exactly the way we are requiring it because of the animal health inclusion in that sector.

As a result of all of that, it would be wrong to give you guesses or even to extrapolate the 2013 pro formas when life has moved on 15/18 months first of all, and the businesses which are coming across are not reflective of what you see in their published numbers. We really want to take the time to get that right for you and then we will publish that guidance as soon as we possibly can. Next question.

Keyur Parekh (Goldman Sachs): Good afternoon. Two questions please. Andrew, apologies if I missed this but I did not see an update on the press release regarding the IRR on your R&D spend which you historically provided for us. Given the launches for the respiratory products it could be very helpful if you can help us think about how have you

adjusted those numbers for 2014 and where do you think the outlook for that is given your assessment of the pipeline today?

Secondly, it would be great to hear some context around how you see the margin outlook for this business longer-term. I realise 2015 is a transitional year, but as we think about the transaction closing, '16, '17, '18, any flavour of that would be very helpful, thank you.

Sir Andrew Witty: Thanks very much. As far as the rate of return assessment we do that every couple of years so that will be done next year. We did it last year, we will do it next year. I don't have an update for you simply because we haven't run the numbers again. There will obviously be quite a few puts and takes in it next year, so as you look at it there will be one or two bigger late stage assets which failed last year, so darapladib and MAGE-A3, of course. There is a portfolio of new products which are moving forward. There is a shift in pricing assumption, so there will be a lot of dynamics on top of which there has been, and you will see as we run through this year, pretty substantial reduction in the amount of spend in R&D. All of that obviously needs to feed in to calculate the number.

I would say specifically to your point on respiratory my overall expectations of respiratory haven't moved a heck of a lot over the last year. Remember, this is a business which, thanks largely to a) intellectual property, but b) manufacturing hurdles, device protection and all the rest of it, we expect to have a very long-life attached to it.

Clearly the take-off of these products is running a bit slower than we have historically seen; not massively slower, a bit slower than we had expected – I know a lot slower than you had expected. A bit slower than we had expected. I have no reason to feel that the ultimate peak opportunity of these products has changed very much at all. When I think about mepolizumab and the way it is coming forward in the pipeline and the proximity of being able to get that to the market, provided we can continue to convert these market share growths that we are beginning to see, not just in America, but also in Japan and also in some of the lead European markets, if we can continue to keep that momentum going then I think our goal of delivering a respiratory business post-*Advair* decline, which is bigger than *Advair* was before we started, which is essentially what I have always strived to do, the probability of us achieving that is still absolutely game on. That is very much what we are focussed to drive towards.

As far as the margin outlook is concerned, we are definitely going to talk to that when we have the Investor Day. I would just ask your patience for a little bit longer until the transaction is done, at which point you will get guidance, not just for 2015, but over the next

several years. We are very conscious for the buy-side in particular; we think it is probably more important almost to give you a sense of the shape of the evolution of the company over the next three years than it is to absolutely focus on the short-run EPS.

We are going to talk to you about both of those things, but you are going to see all of that at the Investor Day, so I just ask you to bear with us on it. Next question, please?

Dani Saurymper (Barclays): Good afternoon. I just wanted to ask two questions: one regarding your aspiration to grow the respiratory business again in 2016; can you update us in terms of your line of sight on your generic competitor risk? Secondarily, I believe you do a triennial review of your R&D and it is meant to have taken place either at the end of 2014 or beginning of this year. In that context could you discuss a little bit about any potential pruning of R&D areas, particularly in the context of where you spend close to $4 billion on Pharmaceutical R&D.

I just also wondered if lastly, perhaps Simon, given the decision you took last year to not sell some of the Established Product Portfolio, how you are thinking about that going forwards in terms of is there perhaps some more piecemeal divestments that you are anticipating in the coming years?

Sir Andrew Witty: Great. Let me ask Simon to answer the last thing first.

Simon Dingemans: Yes. As we said at the time, we are now going to retain the business and we will manage the products in-house, but there will be likely to be some trimming of that portfolio as part of that process. Over the year the portfolio steadily improved its margin across the quarters demonstrating our ability to manage that portfolio, so it is very much an internal focus, but very much small-scale disposal is probably in the mix over the next couple of years.

Sir Andrew Witty: As far as generics are concerned it is a different picture around the world. In Europe now, as we predicted three or four years ago, we have a variety of different copies. I am not going to call them generics, but in many situations they are not viewed to be substitutable. We have branded copies in a number of markets with the exception of one or two eastern European markets, the penetration of these products is very low. It is driving a bit of price pressure, so what you see in the European number is that volumes are more or less the same, perhaps a little down in the fourth quarter but very marginal. A bit more of the decline is due to price and, so far, we have done very well at holding our volumes and our share of market but we have had to give on price a little in one or two places. Europe is still a very fragmented situation and the most recent information we

are picking up is that some of the more classic generic threats have been delayed in Europe but, again, I am not going to bet on those things as they are not within my control. However, just as we have seen many times before, generics come and then recede before they reach the market.

As far as the US is concerned, our view remains similar. We don't see a generic risk in the short run. Obviously, we see other companies talk up what they think they will be able to achieve but it is also interesting to see that they all acknowledge the very significant manufacturing challenges that they have, and how difficult it is to do. Therefore, as I have always said, this is way beyond IP. It is really about whether people can manufacture to the standard and we have to wait to see what comes along.

The reality is that, as we go through the next few years, *Advair* will become in the US a smaller and smaller proportion of the Group for the reasons we saw last year and we have talked about; the new product should start to take up that strain. The success for us is not simply to grow a product which will replace *Advair* with a new product. It has been to grow a portfolio to replace *Advair* and I believe that we are on track for that. Our statements about being able to grow in 2016 are all built on what I have just said, which is that we do not particularly expect to see a substitutable generic in 2016, and I am not sure that too many other people do either.

As far as R&D pruning, we did a review of our Discovery portfolio in the middle of last year and the pruning is taking place within the restructuring of R&D operations as we speak. There are a number of DPUs which have been brought to a close, and there are others which have been accelerated. When you look at the overall performance of the DPUs over the six or seven years we have been running this approach, it is looking extremely exciting. Eighty percent of our programmes, as we move forward now, are first in class or best in class but we believe that most are first in class, so a very significant degree of innovation. There is a very broad diversity across that portfolio but, just as we always said, there would be a few which wouldn't make it and we continue to trim those as we go along. That was decided and is being executed as we speak, and is part of the restructuring of R&D that we announced at Q3 last year. Next question?

Kerry Holford (Exane): I have three questions please. First, on the return of the £4 billion to shareholders after the Novartis deal closure. Previously, you spoke in a little more detail about the B share scheme but I saw nothing explicit in the press release today, so I wonder whether that is still your preferred option, or are you considering an alternative return of cash such as a special dividend or the like?

Secondly, on respiratory you have spoken before about the return to growth in 2016. Given you now know where you are positioned for 2015, I wonder if you can comment on the outlook for the franchise growth this year?

Lastly, going back to an earlier question, you have highlighted up to 10 Phase III starts in 2015. Can you tell us how many of those are NMEs versus line extensions?

Sir Andrew Witty: Thanks, Kerry. The majority of the Phase III starts this year in Pharma are line extensions to existing NMEs. As you look into Phase II, the majority of the Phase II starts are NMEs, and I am just talking about Pharma here. In terms of return to growth, I would expect, as we said in the release today, that global *Seretide/Advair* revenues to be down this year: exactly where that lands is all around the volume responsiveness to the price shifts we have seen in the US. Exactly how that looks, we have to wait and see but it will be worse at the front end of the year than at the back end of the year. Therefore, I would guide that we shall see a bigger impact in the first quarter or two and we would then expect that to ameliorate. Why? Because a lot of the price effect starts to annualise out and because you would expect the newer product to start to take up more of the strain. However, as to exactly what that does at the franchise level, there are many moving parts around that, and we are executing to try to get to the best performance we can achieve this year and to drive things forward into 2016.

Our assumption on 2016 is based on the assumption that we do not have a US AB rated generic in the marketplace and, given that we have already signed a whole series of contracts on pricing which carry us further forward into 2016. Those are the assumptions that underpin that judgment. Obviously, if one of those things massively changes, we would talk to you about it but, as of today, when I look at our US NRx share, and I know you hate NBRx, I told you a few months ago that the NBRx is moving the right way and NRx is following. You all know why, because the dynamic sector of this marketplace is only about 10% or 12%, so it takes eight or nine months for NBRx trends to reflect into NRx. NRx is moving and you can see that in the US and in Japan, we are now starting to see improvements in America of *Advair* and *Breo*, driving up our total share. In Japan, you are seeing that *Relvar* is taking not just a cannibalisation opportunity from *Advair* but significant share from Symbicort, net-net GSK share going up.

It is early days but, if we can maintain that and drive that kind of shift, and if we can do it in more countries, and I have no reason to believe we should not try to do that, gradually that phenomenon will counter the price phenomenon and that's why I believe we can grow next year subject to the couple of caveats I've just explained to you.

And the return of the £4 billion, Simon, do you want to comment on that?

Simon Dingemans: Yes. We announced when we originally agreed the transaction a B share scheme. As you will recall, the Government changed the rules in the Autumn Statement and we are still trying to work through how best to deliver that £4 billion to shareholders. We will give you an update when we close the transaction, so still a work in progress.

Sir Andrew Witty: Thanks, Kerry and next question.

Matthew Weston (Credit Suisse): Thank you very much. Three questions, if I can. You highlight in the statement that 2015 will be the trough year for respiratory revenue. Given the increased royalties on new products and also the launch costs, can you give us an idea when you expect the trough year in profit from the respiratory business?

Also I see recently Germany declared that *Anoro* had no incremental benefit over existing therapies. Can you tell us your strategy in that market, whether you follow other companies and withdraw the product in Germany?

And then finally, Andrew I see your comment at the press conference that you wouldn't commit to a 2016 dividend. Should we expect that you will make comments around the 2016 and medium-term dividend policy at the Q2 Investor Day after the Novartis transaction has closed?

Sir Andrew Witty: Thanks, Matthew. So no plans to withdraw *Anoro* from Germany and I think we will engage to try and reverse that decision, obviously.

We already have a medium, long-term dividend policy. It's in the release and it says we are committed to long-term growth of dividend, so it's highly unlikely that we are going to change that and it's up to the Board whether we make a commitment in the next few months to 2016. It's relatively unusual to do that. We have done it this year but whether we do it again, let's wait and see when we get there.

But certainly the dividend policy is out there. There is no mystery about what the company's dividend policy is and we have a very good track record of delivering dividend. Obviously, given that we didn't see the growth that we had originally anticipated last year we have held back the dividend growth this year because we want to make sure that the cover is rebuilt before we move back to growth but at this level of dividend, that's an entirely reasonable judgment to make. My guess is there won't be any great fireworks around any future commentary there.

In terms of the future shape of the business, again we will give you a sense when we talk to you after the Novartis transaction around all of those aspects as soon as we can.

Thank you. Next question.

Mark Clark (Deutsche Bank): Yes, good afternoon gentlemen. It's firstly a question on China. I wonder if you could just give us an update of what is happening with the organisation out there. There were some reports on the wires recently about downsizing fairly significantly, so what's happening to the organisation there and can we look forward to, in your opinion, growth from that business or is it going through a sort of transition period going forward over the next year or two?

And secondly a question for Simon. You mentioned in your pre-results video that the underlying margin was down about whatever it was, 80 or 90 bps in the year. You also mentioned that you won't have the benefit of structural gains in 2015 which added the better part of 80-plus basis points to the margin so would you encourage us to think that the underlying margin pressure in '15 that you signal would be significantly more than 100 basis points before the impact of Novartis?

Thank you.

Sir Andrew Witty: Great. I'll ask Simon to comment in a second on that, Mark.

China business was broadly flat in '14 versus '13, and has broadly stabilised which is good. We have seen an attrition of headcount in China obviously through the disruption we had last year but broadly speaking, where we are today we have the resource base in place for what we anticipate to go forward.

We are going to take it one step at a time. We have a lot of work to do to rebuild our position there, but actually if I think through over the next two or three years I am quietly optimistic about our opportunity in China. I think getting stabilisation last year is a great first step and we continue to file new products. I personally believe this is going to be an important marketplace for us and we are going to step forward on that basis.

Simon, do you want to comment on the margin?

Simon Dingemans: Yes, so Mark in terms of specifics on the margin we will get to that when we do the Investor Day for the company post the transaction. But as I flagged in the video the continuing decline in *Advair/Seretide* revenues will put some downward pressure on the margin in the year for the existing business and obviously in the absence of the structural benefit that we have seen over the last three or four years, there's an additional drag in there, but exactly where we expect that to go is something we should cover when the company comes together post the close, so we'll pick it up then.

Sir Andrew Witty: Thanks, Simon. Next question.

Andy Kocen (Redburn): Hi, thanks for taking the question. It was another strategic one relating to the shape of the business because you have sold oncology which is fast-growing, you are talking about the partial IPO of ViiV which is another growing bit of the business and last year you tried to sell EPP and Bloomberg is talking about you potentially spinning out Consumer and Vaccines.

I know nothing should be off the table when you consider your business units, but what do you really want Glaxo to look like in five years' time? What is really the core of what you do?

Sir Andrew Witty: Thanks for the question, Andy. Where I'm at in terms of this, first of all we should take very objective decisions about how to create the best long-term value proposition from the assets that we own.

I came to the very strong conclusion we were not the best owners of the Lucozade business which is why I sold it. I think it makes sense to sell the tail businesses of Consumer because it allows you to focus on the big brands, which is why I sold it.

I believe that our marketed Oncology products at $16 billion was an extraordinary valuation to be able to achieve, versus any retained position, given my view of that market place over the next five or six years, and I will come back to that in a moment.

It also allowed me to unlock what I have wanted to do for a long time, which was to find a way to take Consumer to scale and to absolutely lock-in the leadership position of the Vaccines business.

What that leaves me with, once we have closed the Novartis transaction, is the company I have been trying to create for seven years. It is a balanced business with Consumer as 25% of the business, Pharmaceuticals 60% of the business, and a huge Vaccines platform – all built on a very substantial global footprint. If you look not just at the sectoral balance that we have created, or will have created, but also the geographic balance, you see a shift from an over-dependence on the US – and clearly there is a multi-year shift taking place in the US market place on pricing. We have thus gone from an over-dependence on the US to a very good balance between US, Japan, Europe and Emerging Markets. This means that we have durable businesses in Consumer, because of brand protection; durable businesses in Vaccines, and we have durable businesses in our Pharmaceutical portfolio, not least because of the device technologies in respiratory. We

also have durable businesses in Emerging Markets, because of the nature of those market places compared to the IP-heavy Western markets.

To put that last point into crystal clear clarity, the year that *Augmentin* went off patent, we made 477 tonnes of *Augmentin*: in 2014, with almost no sales in America, we made 894 tonnes – almost double. When *Ventolin* went off patent in America, we were making 50 million cans a year; now we are making 160 million cans a year, because of the Emerging Markets. Of course, that business comes in at a lower price and with a lower margin but it is an enormous incremental opportunity.

As we have gone through the last six or seven years, you have not seen a great deal of this because we have been burning off much of the old generic portfolio, the *Avandia* portfolio and, most recently, dealing with price on *Advair*. However, as you look forward at that strong Consumer platform, that strong Vaccines platform, and the Pharma business – half of which is respiratory which is loaded up with new products and HIV which is loaded up with new products - then the rest is basically either Emerging Markets established products, which I have just touched on, or it will be supported by a very substantial pipeline. You then start to see how those three businesses can really drive growth going forward – particularly when you then step back and ask, where is the next big patent expiration for the company. Clearly, *Advair* exists as a big patent expiration but what you are seeing, partly due to price and partly due to new products, is that quite quickly now *Advair* will not be the absolute be-all and end-all of the GSK story in the way that it has dominated things for the last 10 years. As you look through that, the business looks remarkably durable.

I come back to the comment I made about oncology: $16 billion allowed me to get the deal done that I needed to do, and a very, very full valuation. It is very difficult to see how GSK could have beaten that number by retaining that business. Over the next few years, I believe that we will see more competition in oncology. There will be price competition and there is a tremendous intensity, particularly around some of the areas where we have established our business. It therefore makes a good deal of sense to crystallise our position now.

However, we also recognise that there is great opportunity for more significant innovation in this sector, which is why we have continued to prosecute our early research in epigenetics and immuno-oncology. We have every opportunity to come back into that space down the road, either directly or with a partner like Novartis, but I would remind you that we have no obligation to partner anything to Novartis. We have the option to offer it to them but we do not have the obligation to give it to them and we are perfectly at will to take things forward on our own. Oncology remains – and I know that to some of you this might freak

you out, with the idea that we could sell the current portfolio and still think that we are in the space, but the options exist very much for us for oncology to come back. We clearly have a strong position in ViiV, and we clearly have a strong position in respiratory and then, as you look at immuno-inflammation and cardiology, we have some significant bets coming through the system.

That is the business we are building. We think that is a great business and it is one which has tremendous operational synergies, a really strong global platforms and engines that can drive all of these businesses going forward, as we move out of a very prolonged period of headwinds on that organisation. Nevertheless, we should not be religious about ignoring the possibility that there is more value to be created with a different corporate construct. I have demonstrated, through the sales, through the ViiV creation and through the Novartis transaction, an unusual degree of creativity in this sector, to try to find a way to unlock assets without using enormous premium-driven transactions to do it. We will continue to be open-minded about that.

Absolutely, the core and central plan is the business that we are creating with the Novartis transaction and the R&D portfolio that we have coming through within GSK. However, we will always be thoughtful about optionality and it is obvious, a statement of fact, that the new transaction creates more optionality than we had before. I hope that that crafts all of this in a way where you can see the consistency between being committed to what we are trying to build here, but also open-minded to the reality that, if there are better options, then we will always be thoughtful about them on behalf of our shareholders.

Next question.

Jeff Holford (Jefferies): Thank you very much for taking my question. I have a follow-on on that theme. It is pretty clear that there is a strong valuation case for the company on a sum-of-the-parts basis. I just wondered what your view is when you are looking at the new construct. Are there significant dissynergies that we cannot potentially see for further separation of the businesses beyond just the IPO of ViiV?

Sir Andrew Witty: Thanks, Jeff, that is a great question, and it is fundamentally the core question to these sorts of issues. I would like to make two or three comments. First of all, I would like to remind you all that we haven't made the definitive decision on ViiV yet but we will make that in the summer. I would just highlight that we have talked about a partial IPO of ViiV, at least initially, as the case we are testing. I remind you we own nearly 80% of that business, it wouldn't take a rocket scientist to figure out that even if we did a partial IPO we would still own more than 50% of that business. Anybody who is

thinking ViiV or HIV is not going to be an important part of the GSK equity story, if they IPO it, think again, because that is not the scenario that we are planning. The scenario we are thoughtful about is to potentially IPO a piece of that business to allow a release or to allow the visibility of that value to shareholders properly, to put it into a situation where it can really drive forward as a specialist business. We don't think there are massive dissynergies there, but that is the hypothesis we are testing on the ViiV piece. If we executed on that, at least in the early years it would be a partial IPO, it would still be a very substantial part of the GSK equity story.

As far as the other three businesses, the question of dissynergy, Jeff, there are two places that you have to be really thoughtful about and it is why this isn't just so simple as to say these three businesses could be cut and pasted any which way you want. The first is the Consumer business and its position in Emerging Markets compared to the Pharmaceutical business and, obviously, the interplay between the manufacturing backbones and the R&D backbones of the two companies. Those backbones, regulators are pushing consumer companies more and more into a pharmaceutical standard of manufacture. That is something we are very good at.

Secondly, R&D, from time-to-time, will produce assets which can cross the bridge. In fact today we are shipping *Flonase* OTC in America; big switch, comes along every now and again. You know that in Novartis there is a Voltaren switch in the works; that would be terrific. There is a Consumer Healthcare company that perhaps twice within three or four years there are going to be significant US switch opportunities. That doesn't happen very often, but when they come they are very big and they drive these businesses forward.

I would also say when you look at the top performing Consumer Healthcare companies, the OTC companies, almost all the top performers are almost all owned by Pharmaceutical companies. The companies which drive good overall Consumer Healthcare growth typically which are not owned by pharma are driving that growth from their FMCG healthcare portfolios, not from their OTC healthcare portfolios. That, at a very kind of 80,000 feet perspective, speaks to the fact that there are potential dissynergies in the business model and I would argue for GSK you have to be very careful about unravelling your Emerging Market platform because of the way those markets work. You have to watch for that. I am not saying that is a killer argument, but that is the kind of analysis you want to carefully look at.

The second area to be thoughtful about is in Vaccines. Vaccines at GSK clearly is a separate R&D, separate manufacturing organisation, although the manufacturing organisations are beginning at the margin to co-mingle as the Pharma business moves more

into biologics. What is critical to understand is 100% of the distribution is merged together. On the ground, in 100 countries, it is a single Pharmaceutical Vaccine business and there are very substantial synergies around how you operate with governments, how you engage with the marketplace.

Again you have to be very thoughtful about what you are unravelling if you are going to separate it, which again is why I would reiterate that our core focus is to create this effective, global business with the three platforms I described about, supported by the very strong global geographic balance. We are not close-minded to options, we recognise what our options are more than they were, but it is not simplistic in terms of how to make those choices. I am not going to make those choices based on a quarter or a year, I am going to make those choices based on what I think is right for these businesses over a 10 or 20 year timeframe, because the life-cycles of their portfolios are obviously 10 or 20 years. We need to make those choices on that basis.

I hope that helps. I know it is a big subject and I am sorry the answers are long, but I think it is just important to try and ensure you have a clear view of our philosophy.

We are going to take the last question now.

Florent Cespedes (Sociéte Générale): Good afternoon, gentlemen, thank you very much for taking my question. A few quick products related questions in respiratory and cardio; let's start with cardiology. Losmapimod in ACS: there is a big, ongoing clinical trial with the completion date expected in 2018. Could you give us a little bit more colour on the design and if there will be an interim analysis in the coming months or quarters?

A follow-up on cardio metabolic. Could you share with us some projects which are in early phase pipeline in this area, like you did in immuno-oncology and immune-inflammation? A second area on the respiratory, *Breo*, this year will be an important year for *Breo* with the SUMMIT clinical trial results; could you refresh our memory on the main differences that exist between SUMMIT trial and TORCH? Also to double-check if this year we should have, during the second half, the final results of the Salford trial? Thank you?

Sir Andrew Witty: Florent, could you just say that last piece of the question again? I just missed the very last thing you said.

Florent Cespedes: Yes, the last part of my question on respiratory was on the Salford trial, the Salford COPD study, the real-life one that you completed the recruitment in November last year. I would just like to double-check with you if you should release the results during the second half of this year?

Sir Andrew Witty: Great, thanks very much. The SUMMIT trial, some differences to the TORCH trial, mostly around risk profile of patients who come into that. There are some subtle differences and obviously we hope we have learnt some lessons from the TORCH trial.

As far as cardio metabolic is concerned, obviously you know about the ACS programme with the P38; we are going to publish the protocols for that pretty soon, so I won't go into the detail of it. In fact, funnily enough this morning I checked in with Patrick Vallance, everything is going fine on that programme but no news, but you will see a little bit more on that in the not too distant future. We have the PHI programme which looks very exciting for anaemia and then we have the SAR muscle wasting programme, an iBAT Type 2 diabetes programme, TRPV4 in heart failure, and a programme in familial amyloid cardiomyopathy, as examples of some of the early stuff going forward.

As far as Salford is concerned, you are quite right that one of the Salford studies has completed enrolment, the other is still ongoing. My expectation at the moment is that you probably will not see the first data for that until early 2016, but we shall update you on that as time goes by. However, it is event driven and I would encourage you to think about it a little further into 2016 rather than in 2015. On respiratory, we also know that we now have the Adcom for *Breo* asthma settled, we also have the Adcom for mepolizumab in the diary, so we feel that we have a very clear pathway on a whole series of events during this year, as well as the SUMMIT data, which again I would remind you is event driven. Therefore, I cannot tell you exactly when it will come out but I would anticipate it somewhere around the Q3 window, that is what we are expecting right now. With asthma, *Breo*, mepolizumab, SUMMIT data, the very substantial increase in access that we have, the beginning of turns of market share, not just in the US but outside the US, that is why we believe that this year is a key one for respiratory. However, in the first couple of quarters, it will be suppressed because of the price flow-through from last year, so that is the picture on the respiratory story.

With that, we have unfortunately come to the end of the call. The IR team are available if you would like to follow up on anything and thank you very much for your attention.

- Ends -