

**GSK**

**Sir Andrew Witty**

Welcome to the full year results announcement for 2014 for GlaxoSmithKline. In the next few minutes I would like to just cover a few of the key points that relate to the company. First of all the external environment, how we performed during 2014 and, most importantly, the focus areas for the company as we go into 2015.

**Sharp focus on key strategic priorities**

As we think about last year, our environment was dynamic, to say the least, some of which was driven by the macroeconomic forces of changing GDP growth rates, some very specific to our sector changing very dramatically the price and environment in the US initially in the primary care categories where we were affected somewhat more than we had originally anticipated, but now obviously more broadly across the US marketplace.

Having said that I am very pleased with the position we now have in terms of our contractual cover going forward into 2015 and 2016.

On the other side we saw continued evidence of very strong emerging market volume and that demand we believe is likely to continue and represent substantial opportunity as we have built up our footprint in the emerging markets over the last five or six years.

As we think about 2015 we have a very sharp focus on the things we want to get right and we believe will drive the company forward. The first, we know is that we want to rebuild our sales growth momentum in the business. After the challenges of 2014 we have some key opportunities to do that. Firstly, and most importantly, to make sure we bring forward the sales growth opportunities of our recent launched product

portfolio, a substantial amount of opportunity just beginning to get going with some very encouraging signals as we come out of 2014 and into 2015.

Secondly, as we have remediated our supply challenges in the consumer base we have an opportunity for that business to bounce back from an improved supply performance.

In our R&D organisation, especially in pharmaceuticals, we have a very substantial advanced pipeline which I will describe in a couple of minutes, alongside a very exciting early phase pipeline rapidly moving forward in and through the clinic. Making sure that we hit all these milestones during 2015 will be critical to underpin the future growth of the company and its pharmaceutical business.

We continue to focus on our restructuring and cost reduction programmes, an area where over the last several years we have been able to take substantial cost out of the business without having to resort to extensive mergers and acquisitions to seek synergy. We continue to do that and, as we speak, we are accelerating our approach to streamlining our pharmaceutical business as a consequence of the changes which the Novartis transaction bring.

The Novartis transaction itself, once approved, will have a very substantial impact on the company. It changes the shape of the business, and I will describe again that in a few minutes, but it is really important to remember that this deal brings with it substantial financial benefits over the short, medium and long run. It delivers those benefits through financial synergies, through cost synergies and critically, as we move forward through significant revenue opportunities versus not doing the transaction. It is an important part of rebalancing the group's future.

Of course we are also focussed on making sure that we work hard to live up to society's expectations for what a pharmaceutical company like GSK should do.

## **2014 performance**

Just to summarise, as Simon Dingemans is going to go into more detail, the 2014 performance, you can see that despite the challenges we were still able to deliver a core earnings per share growth of -1%. Sales were challenged primarily due to the impact of earlier *Lovaza* competition in the United States and the effect of price reductions in particularly our respiratory business in the US.

Overall, however, I think that good cost management and the encouraging growth from a variety of our businesses and product portfolios allowed us to withstand largely the substantial headwinds that did occur during 2014.

### **Addressing challenges in US Respiratory**

The most important thing for us to get right in the short run is our Respiratory business and central to our Respiratory business is the US. This has been a business which we have guided on two fronts is likely to be different to expectations of the past. First of all we expected launches to take longer because of the environment we now operate in in primary care. It takes longer to get reimbursement coverage inside and outside of the US and, as a consequence, launch curves tend to be shallower and secondly, it is our intention to build a portfolio of respiratory medicines, not to have one medicine replace *Advair* one-for-one.

I am delighted with the progress we have made in achieving approvals of our new medicines. In addition to *Breo* and *Anoro*, the recent approvals of *Incruse* and *Arnuity*, continue to extend our portfolio and establish the *Ellipta* device as a potential key backbone for physicians who are thoughtful about treating respiratory disease.

As we think about the launch profiles, what you can see is we have made very substantial progress in coverage. Critically we have been able to extend *Breo's* Medicare Part-D coverage up to 74% of the market place and, despite the challenges of early last year we have been able to reverse and, in fact, improve our position on *Advair*. The consequence of both of those moves is we are beginning now to see

substantial progress in our overall market share of the steroid combination market, our biggest market place and we are also starting to see more dynamism in the prescription share of NRx.

All of that essentially pre-staged by the performance of NBRxs earlier last year and remember, the NBRx signals what is likely to come in eight to 10 months from now. I am very pleased to see the continued positive momentum in this category on all of our share bases and it is something which gives us very significant confidence for the continued progression of *Breo* in the US.

### **Addressing challenges in US respiratory**

If we look at *Anoro* in the US, you see also an encouraging early start. Now, once again, we have had to build our coverage from zero and we are a little bit behind *Breo* in that coverage bill, but nonetheless in a very substantial position at the beginning of 2015 and you can see the beginnings of the share take for this particular product. Now obviously this is a different market; this measures competition against products like tiotropium, but the encouraging start we have seen is one we now want to build on through focus on salesforce execution during the rest of 2015 and the introduction of DTC advertising, which has just begun.

### **Encouraging early uptake of *Relvar* in Japan**

If we move now though to Japan, one of our other major markets and a source of growth for the group, you can see also reflected a very good early performance of *Relvar*. This is the same product as *Breo* in the US, but with simply a different brand name. What you see here is after the mandatory one-year restriction on prescribing for which all products are subjected, which came off at the beginning of December, a very rapid pick-up in the amount of prescribing for *Relvar*. Now, remember, in Japan *Relvar* is indicated for asthma, whereas in America it is indicated for COPD. Nonetheless you can see here very substantial acceleration where we now see, as of the most recent data, *Relvar* is the number one product among new prescriptions in the category; the market leader for new prescriptions.

Critically also, when you combine *Relvar* to *Advair*, you can see the same picture that we are seeing in the United States where we are once again growing our total respiratory market share in the steroid combination market place.

Of course if you add to that share, the *Anoro* new business, alongside all of the other products which have been introduced, you can see the early signals of what we have said we aim to do, which is to build a broader respiratory portfolio, capable of growing our overall market share.

Now of course what we had to deal with in 2014 was an adjustment in price, so it is clear that the prices are lower than they used to be, but that adjustment took place in '14 and it will play through fully into our contracting base during '15, which is why we would expect there to be a negative price effect on our respiratory business during the year. We think that is likely to be more expressed in the first half, as those contracts annualise, but what is critical for the medium and the long run health of the company, are the signals that we are indeed able to build incremental growth and re-grow the total share of our respiratory business in the market.

### **Respiratory expected to return to growth in 2016**

If we look beyond the current portfolio, the further pipeline in respiratory re-emphasises why we believe that we are able to be optimistic about being a market leader in respiratory far into the future. In addition to all of the products which are already in roll-out phase around the world, we have a number of products in advanced development and then further back in discovery a number of first-in-class opportunities on novel targets in broader respiratory diseases. This really demonstrates the depth of our commitment to this particular franchise area and when combined with our 40 years of market leadership and our excellence in device technologies really gives us a very high degree of confidence that our commitment to the respiratory business is central to the future of our pharmaceutical business.

## **ViiV launches**

A second area where GSK has long time been a competitor, but has recently started to reinvigorate its product portfolio, is in HIV using our ViiV business. Remember the ViiV business is a joint venture between ourselves and Pfizer and Shionogi, but also remember that we own almost 80% of that business and you can see that the launches of the most recent products into the ViiV portfolio have really been spectacular.

*Tivicay* has now been on the market for a little over a year, and is already performing at the top of any competitive analogue and launched *Triumeq*, the combination product at the end of last year and you can see that initial data indicates it has launched even more successful than *Tivicay*. It is the increasingly positive performance of this portfolio that has led us to revalue the contingent liability for our Shionogi transaction, which you will see in our total results published today, that is a non-cash charge, but simply signals the increasing expectations that we have for this business. Obviously also over the next few months we will be concluding our assessment of whether or not to undertake a partial IPO of the ViiV business and we will communicate more on that later in the year.

Notwithstanding those two points what is critical is that we have here a medicine and a series of product opportunities which really give us the chance to get back to the forefront of growth in the HIV market place.

## **Sustainable R&D pipeline to support future sales growth**

R&D: in the pharmaceutical business and the vaccine business is the lifeblood of a company like GlaxoSmithKline and on this slide you can see not just the number of products we have successfully delivered into the market place, all of which are just at the beginning of their lives with substantial opportunities to generate revenue for the company, but also what is in our advanced pipeline in the central column, medicines like *mepolizumab*, where we expect to see an advisory committee this year in the US as well as a PDUFA date decision in 2015. You see new medicines in HIV, you see new medicines in cardiovascular disease and, of course, you see vaccines such as

the recently published data on our shingles vaccines, representing very substantial opportunity.

Then in the final column you see a portfolio of early to mid-stage pipeline development programmes which we will be updating you on during the year, particularly an R&D day that we plan to have in October.

## **Reshaping GSK**

As we think about the company changing there are a number of things we need to do to make sure we are fit for the future. Now the Novartis transaction is a very important influence on the shape of the business; I'll touch a little more on that in a second.

Notwithstanding the Novartis transaction it is also critical that we continue to modernise our overall business and make sure that our structure, our infrastructure, our personnel are fit for the future of our industry, are in the right places and have the right resources. It is simply a fact that company infrastructures which were built in the 1980s may not be fit for today and that is true, for example, in R&D, where the way we do R&D is very different to the way it was done when many of our facilities were first created. That is why we continue to look for substantial organic change inside the company, to streamline our infrastructure facilities, to ensure that we have resources in the right parts of our business and the track records over the last several years and over the next – what we believe we will deliver in the next few, make it clear that we are more than able to take cost out as we deliver a more efficient focussed organisation.

In fact, if you look at the total reduction in cost that our various restructuring programmes have delivered since 2008 and have projected through over the next three or four years, we deliver something like £5 billion of cost reduction against having done nothing. Now that is without having undertaken a major piece of M&A activity. It is hard work, but ultimately it is creating a much more modern organisation.

## Reshaping GSK: proposed Novartis transaction

Now if we look then at the Novartis transaction specifically what you see here is a real change in the shape of the group. First of all the consumer business becomes a really substantial number one OTC player globally with real scale. In addition, of course, it will have its fast moving consumer good business in the shape of the oral care business. It will be one of the world's biggest consumer healthcare companies; it will have a footprint across the world, it will be a market leader in over 30 countries in the world.

Our vaccine business will benefit from the new meningitis research programmes from Novartis: *Bexsero*, the meningitis B vaccine being right now a launch opportunity for the new company. It will re-assert its position as the biggest vaccine company worldwide, a business with substantial barriers to entry and a business with substantial long term durability of revenue generation.

The pharma business will have within it two tremendously strong franchises. Number one leadership position in respiratory; I have just spent some time describing, and a strong number two challenging position in the HIV business at the right time of product roll-out.

Also within that pharma business it is worth remembering we have products like *Augmentin* and *Ventolin*; you may be surprised to know that 10 years after the patent expiration of *Augmentin* in Europe and America, GSK now sells 100% more volume than we did before the patent expired.

In the case of *Ventolin* over the last 10 years we have increased by three fold the number of *Ventolin* aerosols that we sell worldwide. Why is that? Because also in this pharmaceutical business we have a very strong emerging market platform capable of developing those real classic products, established first in the west but now indispensable in many of the fastest growth markets in the world.

Of course as we look then into the pipeline I have just described you can see a number of the new products which we expect to bring forward to complement those classic HIV and respiratory brands in the pharmaceutical business.

### **Modernising the business**

We continue to challenge our business model. We have now fully implemented our commitment to stop paying our representatives short term bonuses linked to prescription generation directly by them; that has gone well. In fact, in the United States where we implemented this change two or three years ago, I was delighted to see that in 2014 we were voted by healthcare practitioners to be the number 1 salesforce, and within that, our Respiratory team out-competed all of its competitors in terms of how physicians regarded our ability to deliver information to them.

And we're in the middle right now, in 2015, of the next change of our Commercial model, where we will, over the next few months, stop payments to physicians to speak on our behalf and implement a comprehensive multi-channel communication environment which will allow us, we believe, a) to eliminate any perception of conflict of interest, and b) to make sure that the physician, the customer, feels very much at the heart of how they receive information from GSK.

These changes aren't without risk, but we are committed to making them happen, and our early indications of where we have been able to establish these changes are very positive.

### **Innovation and access**

As a business we focus on innovation and access as two watchwords for how we try and judge where to spend our time. Two good examples where innovation and access fit together perfectly are obviously malaria and Ebola, where in both cases GSK has the lead candidate vaccines for these two frightening diseases. Later in this year we should get feedback from the European regulator on the malaria vaccines and

I am pleased to say that just a couple of days ago the first patients were vaccinated with our Ebola candidate vaccine in Liberia.

We have also been recognised for the fourth time in a row as the world leader in the Access to Medicine Index, doing more than any other company to broaden the availability of medicines and vaccines to people in the developing world.

### **What to expect in 2015**

So, as we go through 2015, there is an awful lot that we want to focus on to get done. Execution of our product take-off is critical. Making sure we win in Respiratory is critical. Making sure we win in US Respiratory is critical. Delivering our R&D organisations' changes and pipeline, and making sure that the proposed Novartis transaction is a success, are the key priorities for me and my management team at GSK.

During the year, this slide simply signals to you the type of events that we expect to manage and communicate to you, and you can see within it a broad portfolio of things happening, from the Novartis close, after which we will then give guidance on the future shape of the company, not just for 2015 but beyond, all the way through to key events within our R&D portfolio as we look forward to a continued regeneration of our pharmaceutical business.

I hope that this brief presentation has given you a good summary of what to expect from GSK during 2015. The transition of the company continues apace, the balance of the business geographically has never been more even, and our opportunity to build a sustainable sales growth going forward is strong, but we also recognise that we are in a very dynamic environment where price remains challenging and where we have to be focused on making sure that our execution is excellent.

Thank you.

## Simon Dingemans

2014 was clearly a challenging year with a number of factors combining to create significant headwinds for us, particularly the greater than expected contracting and competitive pressure in our US Respiratory business, the launch of *Lovaza* generics and the supply disruption we saw in our Consumer Business through most of the year.

Despite these pressures, we saw strong performances from a number of other areas of the business, further progress in R&D delivery, multiple new product launches as well as continued delivery of operating and financial efficiencies through the restructuring of our cost base.

The increased flexibility that our restructuring programmes are delivering allowed us to offset a substantial proportion of the top line pressure during the year and deliver EPS broadly similar to last year in constant currency terms.

This was in line with the revised guidance we provided at mid-year and protected the investments we need to make across our business behind our new launches and other future growth drivers to ensure we successfully transition our product portfolio - and continue to rebalance the mix of our business between geographies and between Pharma, Vaccines and Consumer.

We need to continue these critical investments in 2015 but it is clear that several of the top line headwinds we faced in 2014 will also continue to impact the business this year.

We expect global revenues for *Advair/Seretide* to continue their decline in 2015, as the global transition of our Respiratory business moves to other markets outside the US, particularly in Europe where *Seretide* has already seen a significant step up in competitive pressure in Q4 with more expected in 2015.

As we have previously indicated, we continue also to expect US *Advair* down around 20% for the year, although given the timing of contract negotiations last year, the headwinds driving this decline are expected to be stronger in the first half which will also see tough comparators for *Lovaza*, our Japan business, which saw wholesaler stocking in Q1 last year ahead of the consumption tax increase, and vaccines with *Boostrix* and *Pediarix* both benefitting in the first half last year from the absence of a competitor from the market.

The benefits of our ongoing restructuring will offset some but not all of these pressures during the year. The latest programme, the £1 billion cost reduction effort that we announced at Q3 to reshape and improve the productivity of our pharmaceuticals business has made a good start with a number of elements announced before the end of 2014. However, its impact will not really be felt in a material way until the second half of the year with more benefit in 2016 when we expect to deliver half of the run rate and 2017 when we are targeting the full £1 billion of annual savings.

We should also see during the year a building contribution from our recent launches which, together with the return of supply to our Consumer business, should deliver a stronger second half performance as we continue to implement our strategy to rebalance our business.

The major three-part agreement with Novartis delivers a significant step forward in that strategy and will accelerate our ability to build a more resilient business with stronger and more sustainable growth prospects.

We are making good progress toward completion of the transaction and remain on track to close this during the first half of this year.

## **Headline results**

Turning to our headline results, as I have highlighted, the biggest headwinds were mainly from US respiratory, *Lovaza* and Consumer supply.

The combined sales of *Advair* and *Lovaza* in the US were down around £1.1 billion, representing a 4% headwind to our total topline growth. Both products have

higher than our average margins, so this also put substantial pressure on our operating margin.

On the positive side, we saw strong progress in several parts of the business that we have been investing in, especially ViiV, up 15%, and Emerging Markets, up 5%. Our oncology portfolio, boosted by new product launches, also grew strongly, up 33%.

The flexibility we have built into our cost base in recent years enabled us to respond quickly and effectively to these challenges during the year, so that we were able to deliver core EPS of 95.4 pence, down 1% on an ex-divestment constant currency basis despite a top line decline of 3% on the same basis.

Cash flow was significantly impacted by currency during the year but saw a materially stronger performance in the fourth quarter as sterling weakened.

As usual, the focus of all of my remarks today will be on CER comparisons, but you can see on the slide that on a Sterling basis reported core EPS included an 11% negative impact from currency, due to the strength of Sterling against most of our major trading currencies over 2014.

### **Sales growth analysis**

The next slide lays out for you very clearly the contributions of the respective businesses to the top line performance in 2014.

### **US**

In the US, sales were down 10%. *Advair* in the US was down 25% for the full year, with volume down 14% and price down 11%. We have responded to the new contracting environment and for 2015 the formulary coverage for *Advair* as well as *Breo* and *Anoro* is significantly improved over last year.

This improved coverage together with the other potential opportunities that Andrew has highlighted, including *Breo* asthma and SUMMIT, underpin our confidence in returning our total global respiratory portfolio to growth in 2016.

Excluding *Advair*, the rest of the US grew 2%, with strong growth in the oncology portfolio, up 41%, and contributions from other respiratory products, plus *Benlysta* at up 22%. These offset lower sales in dermatology due to generics, and lower sales of *Avodart*. In the US, *Avodart* is coming to the end of its patent life, and generic competition is expected to begin in Q4 this year.

Vaccines sales in the US were flat versus a tough comparator in 2013 when we were up 17% benefitting from a couple of competitors being out of the market particularly in the second half of that year.

## **Europe**

Turning to Europe, Europe was flat for a second consecutive year. The restructuring and refocusing of the region continues to pay off.

Growth from several areas (including oncology, *Avodart*, *Benlysta*, *Wellbutrin*, and *Relvar*) offset lower sales of *Seretide*, which was down 5% for the year, mainly due to pricing pressures brought on by a more competitive market place and a number of new entrants.

## **Japan**

Japan grew 1%. Respiratory products were down 2% due to a weaker allergy season earlier in 2014 and new branded competition. The launch of *Relvar* is progressing well and this broadly offset the decline in *Advair*. The *Anoro* launch is also now underway in Japan. There were no sales of *Cervarix* in 2014 due to the ongoing suspension of HPV vaccines. Growth came from *Avodart*, Oncology, *Rotarix* and *Relenza*, as well as a number of other products.

## **Emerging Markets**

Our Emerging Markets business grew 5% in 2014, with pharmaceuticals up 7% and vaccines up 1%, again against a tough comparator. Pharma saw good growth across almost all therapy areas with notable performances including *Seretide* up 3% to around £400 million and *Avodart* up 20% to £113 million.

Even though they may have slowed a little and there will always be some volatility, we continue to see the emerging markets region as a key source of growth for the company, and capable of mid to high single digit growth over the medium term.

## **ViiV**

For ViiV, healthcare sales were up strongly (up 15% to £1.5 billion) with momentum continuing to build from the ongoing roll outs around the world of *Tivicay* and *Triumeq*. Because of how quickly these products moved through the clinic they have very long patent lives. The basic molecule patent is not due to expire until 2027. With these products and a strong pipeline we remain very confident in the outlook for ViiV.

Planning for a potential IPO of a minority interest is continuing. We expect this process to highlight significant value for the business and to create greater strategic optionality for both ViiV and GSK while continuing to allow us to consolidate the revenues and earnings of ViiV in the Group numbers.

## **Established Products Portfolio**

Our Established Products Portfolio was down 16% to £3 billion for the year, primarily due to the launch of generics in Q2 in competition to *Lovaza*, down 57%. Excluding *Lovaza*, established products totalled £2.8 billion and declined 9%.

## **Consumer**

The Consumer business was down 1% in 2014, but returned to growth in Q4 when it was up 2% on the back of an improving supply position. This was despite some slowing of its emerging markets portfolio, although there was significant variation within this region as businesses such as our Indian subsidiary continued to deliver very strong growth, with *Horlicks* in particular up 11%, while others such as our China business were more impacted by supply.

As supply returns overall for the business, we continue to see strong opportunities on the back of the Consumer business's more focused category strategy

and strong emerging markets presence. We will also benefit from the OTC switch of our *Flonase* product which we are launching in the US this year.

### **Operating profit margin breakdown**

Looking to our core operating margin on the next slide - excluding the net impact of currency, which reduced the margin by 90 basis points, the core operating margin was down approximately 80bps.

This primarily reflected the impact of lower sales, particularly of higher margin US products, and lower royalty income.

R&D was down 4% overall reflecting completion of a number of clinical programmes as well as continuing cost management and productivity improvements. I am expecting further benefits in R&D from our new restructuring efforts.

As expected, royalties were lower at £310 million versus £387 million in 2013. This reflects the conclusion of a number of agreements as well as the benefit of a true up adjustment recorded in 2013. Royalties will likely see a further decline in 2015 for the same reasons and around £250 million would be a reasonable estimate - excluding any new royalty flows that may come from the proposed Novartis transaction.

### **COGS**

Looking at Cost of Goods in more detail, the change in our business mix and lower prices, including US sales of *Advair* and *Lovaza*, had a significant impact, reducing our margin by 60 bps. We also continued to invest in our manufacturing capabilities and new launch capacity as well as having to add remediation costs during the year.

However, as you can see on the chart, our ongoing restructuring efforts, particularly the 2012 programme which was especially focused on our supply chain, meant that we were able to balance the cost of our remediation efforts and investments and contain the COGS increase to just 0.2% before currency.

## **SG&A**

SG&A costs as a percent of sales were up 50bps, before a small currency benefit reflecting the benefits not only of our restructuring programmes but also our cost initiatives such as improvements in logistics costs, facilities management and procurement where in 2014 we delivered for the business savings of around 4.0% of targeted spend or approximately £350 million. We are targeting further improvements as we continue to centralise and standardise our operating model.

Aggregate cost and restructuring benefits funded net investments during the year, but were not sufficient to offset the impact of lower sales.

In 2015, we continue to expect margin pressure from lower *Advair* sales and the changing mix of our business given faster growth from our Emerging Markets and Consumer businesses than from our US and European ones.

This is before any reset that would occur as a result of the Novartis transaction.

### **Continued delivery of restructuring and structural benefits**

Responding to that pressure requires continued delivery on our cost reduction and restructuring programmes, and the next slide recaps the annual phasing of the restructuring benefits we anticipate plus the one-off structural savings we have delivered over the last few years.

As anticipated, we delivered net incremental savings of around £400 million in 2014.

Our OE programme is now complete and delivered aggregate savings of around £2.9 billion on total costs of £4.7 billion. This compares to our initial target for savings from this programme of £2.2 billion.

We will not report further on this programme.

Our 2012 Major Change effort is on track and through 2014 we delivered £600m of savings, broadly in line with our original projections for the programme. We

continue to expect to realise an additional £400 million of restructuring benefits from this Major Change programme. This should wrap up in 2016. These additional savings will help to offset the headwind in 2015 from the structural benefit of £219 million that we saw in 2014 that we do not expect to recur this year.

In 2015, we expect to realise some of the benefits of the pharmaceuticals restructuring programme we announced at Q3 results but as highlighted already, they will not contribute materially until the second half of the year.

### **Further financial efficiency gains**

We made further financial efficiency gains in 2014.

We locked in more of our debt at favourable rates and over the last few years we have lowered our net funding rate by 3 percentage points to under 5% on average despite a well-spread portfolio of maturities.

So, despite our higher net debt position, we have been able to reduce our net finance expense from £692 million in 2013 to £646 million in 2014.

We have also pre-funded a number of maturities falling due this year to lock in attractive rates and strengthen our focus on protecting our A1/P1 short term credit ratings.

I believe this target appropriately balances equity returns with the interests of other stakeholders, including our bond-holders, while optimising our access to the capital markets.

In Q4, we also resolved a number of tax matters that resulted in a lower tax rate for 2014 overall of 19.6%.

Given the restructuring activities that have been implemented over the last couple of years which has better aligned our tax position with the changing shape of the company, the patent box and the UK corporate rate, a 20% core effective tax rate is a reasonable expectation for the company's current operations, but of course we will need to see the exact details of the Novartis businesses before guiding to a rate for the full year.

We repurchased £238 million of our shares during 2014.

Given our expected dividends for 2015 and the additional £4 billion we expect to return to shareholders post the Novartis transaction, we do not expect further purchases of shares in 2015.

### **Cash generation and net debt**

At the end of 2014, net debt was £14.4 billion, compared to £12.6 billion at the end of 2013.

The £1.8 billion increase in net debt reflects £0.9 billion invested in bolt-ons, including increasing our shareholding in the Group's Indian pharmaceutical subsidiary to 75% and the acquisition of the remaining 30% of GSK's Indonesian Consumer business.

It also reflects a reduction in net cash flow generated from operations which was negatively impacted particularly by currency but also lower sales of *Advair* and *Lovaza* in the US, leaving adjusted net cash from operations down 20% at £5.9 billion for the year. Approximately £625 million of the decline was currency, nearly half of the impact.

Q4 saw a much weaker sterling which benefited our cash flow significantly. Adjusted net cash inflow from operating activities in Q4 was £2.3 billion, broadly flat on Q4 in 2013, also reflecting improvements in our working capital position at the end of the year.

Working capital did see a pick-up in days across the year as we built inventory behind new launches and in support of remediation programmes in manufacturing operations, but tight control of receivables and payables offset some of the pressure while our supply chain programmes still have significant improvements in inventory planned. Currency accounted for about seven days of the days increase.

## **Novartis transaction supports sustainable growth and improving returns**

I would usually conclude here with some more specific comments and guidance around the outlook for 2015.

However, given that we are expecting to close out the major three-part transaction with Novartis within the first half, we do not feel that we can sensibly give you guidance for 2015 at this stage given the uncertainties over timing but also those that exist before we actually own the businesses we are acquiring and have full business visibility into them.

This transaction will create some significant change for GSK and as we highlighted at the time we originally announced it back in April last year, we believe it not only significantly accelerates our strategy but also clearly meets the objectives of our financial architecture as you can see on the slide.

As a result we are very pleased that closing appears to be on track and we hope to be able to move forward with this in the near future.

When we do, we will confirm arrangements to give you a more detailed review of the new shape of GSK that will emerge over the medium term as well as more specific earnings guidance for 2015.

Thank you