GLAXOSMITHKLINE

2015 FULL YEAR RESULTS PRESENTATION TO ANALYSTS

Wednesday, 3 February 2016 @ 2 pm

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Sir Andrew Witty: Thank you very much, and welcome everybody to this Q4 and 2015 full year update. In a second or two, I'll just take you through some of the slides which are on GSK.com website under the Investor site, so just give you a second to pull them up if you want to, and then Simon will follow up after me.

So, we've announced today our Q4 results. You'll see that Group sales are up 6% at CER on a reported basis, and 1% up CER on a pro forma basis, obviously the difference being the impact of the transaction with Novartis. What you will have also seen is that the CER EPS level, earnings per share are down 15%, obviously that driven by the dilutive effect of the transaction, but importantly ahead of the guidance that we set back in May of last year.

Significant progress made in 2015

If now we go to the slide deck, may be if I direct you to the first data slide, Slide 3, really during the year, we have continued to make, I think, very substantial progress in executing our strategy. There's still a lot to do, but I'm delighted with the progress we made in 2015 in really building our three growth business. You can see the balance that we've created as a company. Importantly, significant progression of our next generation of pipeline assets that we talked about in the New York meeting, and since then I'd say, broadly speaking, everything has gone pretty well on the pipeline.

Then importantly, as you can see in the middle, probably most critically for the short to medium run of the company, very significant continued strong performance of new product sales in the Pharma and Vaccine business.

Increasing contribution from new products

If I take you then to Slide 4, the left hand side of this slide you can see and in terms of the proportion of our Pharmaceutical business made up of new products, and those are the ones we have launched just in the last two or three years, you can see that from Q3 to Q4 we continued to increase the penetration of our overall business; 16.5% of Pharma now made up of those new products.

Certainly when we look at our peer group, the companies that look like GSK, we don't see any other company with anything like that kind of new product sales performance in their Pharma business and we think this is an important step forward.

On the right-hand side of the slide, you can see how the growth of the new products has progressed over the last three years and, to some degree, you can see why in 2013 people were frustrated with GSK, because the new products weren't moving as quickly as we would have liked. I think as it has turned out and as we look at other competitor companies, we are seeing other companies struggle particularly in the primary care market place to get early traction on new products but back in 2013 we were probably at the leading edge of discovering that new reality particularly in America.

As you look through 2014 and 2015 in particular, you see really very substantial progression of our new products. As you see, we are now £682 million in the last quarter with £2 billion delivered for the full year. Obviously, if you annualise the Q4 rate, we are running now at an annualised rate of close to £3 billion, and that is why we feel confident that we are going to be able to bring forward the time at which we hit our target that we laid out in May of £6 billion. So rather than hitting that number in 2020, we think we now could hit that number up to two years earlier, maybe as early as 2018, and, of course, in addition to the products which are in the run rate, we've also got *Shingrix* to come, which we expect to file later this year in 2016. So I'm very, very pleased with the new product performance. A big piece of that, of course, is the building of access in key markets, the globalisation of access but also the commercial energy we have put behind these businesses.

I also understand that, over the last two years, as we have made leadership changes in the way in which we compete in the marketplace, where we have moved ahead of the industry on a number of dimensions, not everybody has believed that has been the right thing to do. I think the proof is in the pudding and I think the proof is evident in terms of our industry-leading penetration of new product sales and just the absolute quantum of new products now being delivered across a broad base of assets.

New commercial model directly supporting growth

If we move to slide 5, I just want to pick out a few qualitative and quantitative dimensions of what we have changed. First of all, throughout the entire 2015 financial year, our global salesforce was on the new incentive system, so all of the sales growth that you see on the previous slide for new products was driven by salesforces on our new incentive system, a completely new world, and you can see that, if anything, we accelerated in that new world, not decelerated.

We have also stopped as of 1 January 2016 all payments to healthcare practitioners to speak on our behalf. You should know that by the middle of 2015, about half of the world had already stopped, so, again, a lot of that behaviour is in the run rate. Our development of new approaches to communicate, both through digital technologies and also through the

hiring of medical professionals onto staff at GSK, has been achieved at a very industrial level and actually the qualitative feedback from customers across the world, including in the United States, is that a GSK speaker is just as likely to be impressive as a non-GSK speaker. We see no dilution in quality and, in some cases, enhancement of impact. So, from that point of view, the new model is deployed and we don't see any deleterious effect. In our biggest markets with the most deployment, so for example in the US where we have had changes in field-force compensation for the longest period of time, our most recent survey of personnel demonstrated an extraordinary level of energy, commitment and understanding of the strategy of the business, and I would say that the morale of our US salesforce has not been as high as we see it now for many, many years, possibly even going as far back as before the creation of GSK. That is all great news and it is all supportive of the progress of our new products.

The central part of slide 5 gives you a few datapoints. You can see there very large numbers of interactions. I would just draw your attention to two key themes. One is just the number of interactions. There are 4-7,000 HCPs. A very large numbers of interactions. Even more important is the dwell time that we are achieving, so typically in these interactions we are achieving contact time with physicians, Q&A time with physicians far in excess of what we would have historically seen in the old model. We are also seeing very high satisfaction scores from our customers.

On right-hand side, again now just looking for example at the Consumer business, we are seeing awards coming from very major customers, such as CVS in terms of Healthcare Vendor of the Year. We know the *Flonase* launch was highly respected by our US customer base. A very substantial number of new products launched – importantly we delivered 100% on time launch for all of our new products in all markets across the world that we scheduled for the year.

It is worth noting that we launched five times more market introductions in 2015 than we did in 2014, so a market introduction would be, for example, *Breo* in Brazil would count as one market introduction. We did that five times more frequently in ’15 than ’14 and we hit every single one on time.

As far as Consumer, just to give you a sense, as you all know in ’14 we had some supply disruptions in Consumer, both on the Novartis legacy and the GSK legacy side of the business and as we left 2015 we were running at a 96% OTIF score. For those of you who are not familiar with OTIF, “on time in full”. What on time in full means is absolute perfection on delivery so if we promised you 300 packs on February 3 and we delivered anything different to that so, for example, if we delivered you 301 packs on February 3 or 299 the

score would be zero. We are achieving a 96% OTIF score; that is a very high score. We are very pleased with the progress there, all of which has helped very much in terms of the disciplined execution of the company.

Let's go to the next slide.

Significant momentum in the respiratory portfolio

This just gives you a little bit of an update on where we are with *Breo* in term of NRx and TRx share. We have just received this morning the latest NBRx share; not on this slide, but I can tell you we had another significant jump in NBRx this morning. Importantly this market continues to grow robustly around 5 or 6% in '15. We are seeing something around 5% as the kind of continuing growth rates. We have good market growth, we are taking good share and what we are seeing is a very good stabilisation and even growth from where we were a year ago in terms of the *Advair* plus *Breo* share. Obviously that is crucial in terms of the business.

In terms of absolute volumes we are now up to more than 35,000 prescriptions a week and, as you can see from the slide, we have a good access position locked in for this year.

Significant momentum in the respiratory portfolio

If we go to slide seven you will see the similar type of data for *Anoro* and *Incruse*. Again you see very strong TRx NRx share; good market growth continued in this market. I have included NBRx – I know not everybody on the call is a fan of NBRx, but it is a very clear lead indicator of the respiratory market. You can see here extraordinary NBRx share and you can also start to see now the TRx and NRx are now beginning to track just behind the NBRx shares. As of this morning we had another very significant jump on the *Anoro Incruse* combined NBRx numbers and we are now basically just under 40% NBRx share. That would leave you to expect, all else equal, that the NRx TRx shares would get there over the next few months.

Again good formulary access position. We feel like we have got very good strong momentum in this particular business.

Significant momentum in the respiratory portfolio

Nucala on page eight was introduced into the US just in the final few days of the last financial year and just begun to be rolled out this week in Europe. We have just launched in Germany this week for example. Initial feedback on *Nucala* is extremely encouraging. It takes, like for all of these new biological products, there is a period of maybe three to four weeks of time through which people have to go through the various qualifying blood tests for

example and then insurance qualification, but most of those inquiries are coming through our hub, specialised hub which we have built on the back of what we have learnt with *Benlysta* and we are seeing very, very strong engagement from patients, we are seeing very strong engagement from customers and I think we feel as if we are off to a very good start, albeit of course in 2015 very limited sales numbers, given it was literally just a stock loading before the end of the year.

The progress here looks good, the feedback from the marketplace very resonant with the label of the product, and it is very clear that the indication of the product is in the right place. We look good for *Nucala* on top of *Anoro*, *Breo*, *Incruse*, we continue to be extremely positive about our short, medium and long run respiratory growth opportunities.

HIV growth acceleration, with pipeline to be further bolstered by BMS transactions

If we move to slide nine, HIV – a very strong positive performance for the company during the year. You see here right now the dolutegravir combinations is really vying for being one of the best ever HIV launches. Obviously we have just seen Gilead introduce a new product but as you will have heard from Gilead and we certainly would agree with it, the absolutely overwhelming majority of any switching that's going on is within the Gilead portfolio. We are continuing to see very good volume growth from the dolutegravir-based regimens.

Broad Vaccines portfolio driving growth, realising benefits from integration and ongoing investments

If we go to slide ten, simply to remind you of the progress that we have made on the meningitis portfolio. I think if ever there was a good example who is the right owner of an asset, I think us acquiring a vaccine asset like meningitis B has been very powerful. We have very quickly been able to open up national public health tender programmes and also private markets and you can see the growth that we are delivering there and of course we would expect to see that expand.

And then on the right-hand side of the slide just to remind you of the *Shingrix* data, again we feel very excited about this vaccine. We are assembling the Registration Dossiers for filing later in the year and we see this as a major opportunity.

I would just take the point that we have used the transaction with Novartis to make some very fundamental long-term investments in the business for Vaccines, particularly around R&D, so instead of R&D being just located in Belgium as it has been historically, we are maintaining the Bacterial Vaccine Research Team in Sienna in Italy which came from of course Novartis and we are commissioning a new research team in the US in Rockville, Maryland, obviously very close to FDA and NIH and BARDA. This will focus on vaccines

particularly for the US marketplace and also for Bio-preparedness which is a proposal which right now is sat in front of a number of governments.

We think that is going to be a very, very competitive long-term research network and we have been investing over the last couple of years and continuing this year and next year in proactive upgrades of our manufacturing network, that has allowed us to be able to respond much more quickly to the 'flu opportunity in '14 but it also gives us confidence for long-term supply capability against what is always a tightening regulatory environment.

Consumer business on track to deliver 2020 targets

If we go to slide 11 for Consumer, as you will have seen from the release, we delivered 6% net sales pro-forma growth. 14% of that comes from new products, so again we are keeping a very close eye on innovation. Of course *Flonase* is an important part of that.

We have gained share in the majority of our categories in which we compete. We feel very good about the performance of this business. I will give you a little more detail on that on the next slide.

In terms of integration, we are on or ahead of track actually in terms of integration. I would say that's true for all of the key businesses, so the transfer to Novartis of the Oncology business is more or less done, the Vaccine integration on track and the Consumer business integration on track, if not a little bit ahead. A very substantial proportion of appointments done and finished, I would say well into the 90-plus percent territory, 54 site consolidations behind us and we started to see at CER some very good movement in the margin. Obviously that's something we are very focussed on. We have laid out a goal to really take our margin up to at least 20% over the next five years.

At CER we made some good progress, 180 bps in 2015, some of that knocked back by currency but actually if you look in Q4, we were up I think 320 bps, so it's a very, very good real world movement in terms of margin progression, well on the way to the goal that we set ourselves in 2020. Work to do, but definitely on the way.

Focused brand strategy and innovation fuelling growth

On the next slide, that's page 12, it gives you a little bit more detail on the Consumer business. If you just look across the top you will see where the business is split by major category. Obviously there are a lot of consumer companies in the world which aren't as big as even just our Wellness Division. This is a very, very big business now, it's very substantial in all of its key divisions or, sorry, categories.

And then across the bottom I have listed out seven major brands. For your information, these seven brands account for about 40% of the Consumer revenue of the group, so these brands really are the majority and I have just listed out for you there the in-market Nielsen consumption data, so this shows you what the growth rates are for these products in the marketplace. It's not our reported sales, but it gives you a sense of competitiveness. I am sure those of you who are consumer watchers will be very familiar with this sort of data from consumer peers.

Importantly when you look across there you see with all the products significant growth. I will just call out maybe *Sensodyne* just over to slightly right of centre. *Sensodyne*, 10% growth in consumption, tracking now towards being a £1 billion brand globally and interestingly enough, if you look at Japan for example, it's the number one selling toothpaste of all toothpastes, including the more everyday commodity-type toothpaste class, but we now are the number one toothpaste in Japan and over the last 12 weeks we have been the fastest-growing toothpaste in the world across all toothpastes.

If you look then just one further to the right on India. In a very challenging world, a very difficult world for emerging markets, I have just come back from India over the weekend. If there is one country you want to be in this year in the emerging markets, it's India and when you look at the size of our Consumer business and our Pharmaceutical business and Consumer business really led by our *Horlicks* business, you can see great growth potential there as well.

So the Consumer business looks very good. We feel like we've got very strong traction around our key brands. We feel very good about the framework of expectations we've laid out both for its ability to grow the top line and expand margin over the next few years. We've got more integration work to do and to really drive out the margin benefits over this year and next year in particular, but I think we're off to a very, very good start. Morale in that organisation is excellent and we feel pretty good about it.

Pipeline delivery: Focused on long term sustainable innovation

If we move now to slide 13, this recaps a little bit what you heard from the team, inclusive of course of Patrick and Moncef at R&D Day last November. These are our focus areas, so we've essentially got R&D focussed on these six areas. We are making progress on the pipeline that we described to you. We think 80% of what we have coming is going to be first in class because we're focussed on where we believe the science is innovative and we've just updated our rate of return calculation and believe that it is still at around the 13% level. If you want to get into more detail of that, we are more than happy to but we feel pretty confident about that.

Pipeline delivery: 2016/17 key pipeline milestones

Next slide 14, really just summarises some of the statistics around our pipeline. As you know, over the last several years we have had a very significant number of products approved by FDA, the highest level in the industry. I am very proud of the fact that they have all been approved, first pass approval, which is a very strong signal of quality of research and regulatory dossier compilation. We have a very good, now, strong sales contribution from that portfolio and we have got a very significant number of assets coming through behind. We talked to you about 40 of them or so at the R&D day in November, 80% have the potential to be first-in-class and you can see, on the right hand side of slide 14, the kind of flow of milestones which we are expecting as we go through this year. Products like *Shingrix* are among that, sirukumab in RA the more advanced stages, the PI3K delta programme I think is a very interesting programme a bit further back, the RIP kinase programme is an extraordinary programme that moves into advanced development over the next year or two and we'll start to see real clinical data in psoriasis probably as early as the end of this year. In the more advanced phase, middle or early phases, I think we have got some very interesting assets coming through.

GSK is well positioned to deliver growth in 2016

If we go then to slide 15, this just really summarises a very high level, the framework that we are working towards. We have obviously given you a framework of expectations through 2020, I am very happy that 2015 has delivered ahead of our expectations within that framework, and I am very happy that we are able to confirm to you that we expect to exceed our new product sales contribution. What we have built and will continue to develop is a three growth business organisation. We actually think in the world that we are now moving into, this is more right than it has ever been in terms of the appropriateness of the various challenges that exist in the world, particularly in areas like the US where there is clearly risk around pricing over the next three to five years.

We've got a very balanced geographic exposure to the organisation and we are focused one hundred percent on finishing the execution of the transaction, driving our new product momentum and bringing more new products to market in all of our divisions but, of course, the Pharma/Vaccine division in particular. We believe, despite much commentary, that we have really established some significant leadership positions in terms of our new commercial model, and they are now beginning to clearly deliver differentiated position for us in the marketplace and helping to drive new products at an industry-leading rate and, of course, we want to continue to deliver the next wave of pipeline.

With that, I will hand over to Simon to update you more fully on some of the numbers and to confirm for you our various guidance points, which essentially haven't really changed from when we talked to you back in May as far as 2016 is concerned, which is, of course, to deliver an EPS growth rate which we expect to reach double digits at CER.

Simon Dingemans (Chief Financial Officer): Thanks, Andrew, and I've got a few slides to help illustrate the points I am going to make and some of the detail around the results, which, hopefully, should come up directly behind Andrew's slides. Before we get into those, 2015 has clearly been a year of significant transformation for the Group and I am very pleased with the progress we have made in implementing our strategy, as well as in the improved execution which has allowed us to report results today ahead of the financial guidance we gave you back in May.

The most significant contributions to this performance included closing the Novartis transaction, keeping the extensive and complex integration programme firmly on track and accelerating the restructuring programme within our Pharmaceuticals business, which has created additional flexibility for us to invest both behind our R&D pipeline and also our new products in HIV and Respiratory. These investments are now building better momentum behind our new products, a momentum that also sets us up well to return to core earnings growth in 2016.

As we outlined in May, the Group, in its new shape, is in a much better position to drive sustainable growth and, given the significant restructuring and reshaping of our cost base, we are also now much better placed to deliver against our financial architecture and drive earnings ahead of sales while continuing to support the dividend expectations we have laid out.

Our earnings release provides an extensive amount of detail about the results for both the fourth quarter and the year, so my comments today will primarily focus on the major points of those as well as our expectations for 2016 and any comparative points you might want to take note of for your modelling.

Headline results

If you turn to the first of my slides, you will see our headline results set out: Group sales up 6% on a reported basis, 1% pro forma. The Group's core EPS declined 15% mainly reflecting the short-term dilution of the Novartis transaction but also the impact of the continuing transition of our Pharmaceuticals business particularly in Respiratory. You can also see currency swings during the year resulted in a drag of 2% on sales and 6% in core

EPS. Much of the difference relates to the particular volatility and pressure that we saw in the Emerging Markets last year.

Total EPS saw a significant increase to 174.3p, primarily driven by the profits on the disposal of our Oncology business but I'll come back to these changes in a minute. The Board has approved an ordinary dividend of 80p for the year as expected, and we have also now approved the special 20 pence dividend to be paid from the proceeds of the Oncology disposal. This will be distributed in April alongside the regular fourth quarter dividend.

Results reconciliation

Turning to the results reconciliation, the Group's total results are heavily impacted by a number of significant movements which relate primarily to the Novartis transaction but also to the associated integration programme and the ongoing restructuring of our Pharmaceuticals business. The biggest impact is from the gain shown in the disposals column from the divestment of our Oncology marketed products. A number of other disposal gains, including ofatumumab and the Aspen shares we sold earlier in 2015, also appear here.

The two other more particularly significant movements are the charges for major restructuring, and those related to the acquisition elements of the Novartis transaction and the ViiV transaction with Shionogi.

Major restructuring captures the total charges booked in the year for Pharma restructuring and the Novartis programme and, as we stated back in May, we have accelerated both of these programmes and 2015 saw charges of around £1.9 billion in total, although the actual cash spent during the year was somewhat lower at £1.1 billion.

In the acquisition related column we have shown the combined adjustments to the value of the Consumer put from Novartis and to the various contingent consideration liabilities we carry related to the acquisition of the Novartis Vaccines business and the acquisition, back in 2012, of Shionogi’s rights to a share of dolutegravir containing products.

Given the strong performance of the HIV business this year we have put through a charge of £1.9 billion in this column to reflect our estimate of the increase in the total consideration that we would pay to Shionogi over the life of these products, i.e. out into the 2020s, assuming they deliver in line with our current estimates.

You will find additional detail on the ViiV arrangements in today’s press release, which hopefully will further clarify for you how these agreements work. Given the increasing importance to us of ViiV and our decision not to IPO the HIV business we have also now decided that we want to bring the liability for the put rights that Shionogi and Pfizer have onto

our balance sheet. For us to be able to do this under IFRS we had to change the terms of the puts, which we have now done, and so you should expect to see a liability of around £2 billion booked in Q1; there is no charge to the P&L as it will be recognised directly in equity.

Turning to our core results on the next slide.

Sales growth +6% reported, +1% pro-forma

For sales growth, the two bridges reconciled, 2014 reported and pro forma sales to our actual 2015 sales, which were £23.9 billion. The bridge on the left shows the sources of the 6% CER growth, obviously this is heavily influenced by the change in the mix of the group following the Novartis transaction. The bridge on the right shows the analysis the 1% pro forma growth and is the better like for like comparison.

On a pro forma basis within Pharmaceuticals the main headwinds were *Seretide*/*Advair* down 13% and our Established Products down 15%, we also began to encounter generic competition to *Avodart* in the US at the beginning of the fourth quarter.

Importantly though, 2015 saw these headwinds almost fully offset by the stronger growth of our new Pharmaceutical products, especially from HIV products *Tivicay and Triumeq* which have continued to increase market share during the year, as well as the improved uptake of our *Ellipta* Respiratory portfolio.

In the US Pharma sales, excluding HIV, were down 12% pro forma, driven by Respiratory down 10%, the tail of *Lovaza* down 64% and *Avodart* down 41%.

On the positive side, the new *Ellipta* portfolio more than doubled sales to £177 million for the year, and *Benlysta* also continued to grow steadily with full year sales just over £200 million, up 24%.

US *Advair* sales were up 2% in the fourth quarter due to a number of favourable price adjustments related to payor discounts and rebates that benefited the quarter, but the net impact of these adjustments in the quarter across the broader Respiratory portfolio in the US was neutral, once you factor in similar but negative adjustments for *Flovent* and *Ventolin.*

Going forward, based on the underlying trends over the past year or so, I continue to believe that a 20% decline for *Advair* is a reasonable expectation for 2016 for your models, factoring in continued price and competitive pressures in the marketplace, but also the impact of the transition in our new products.

In Europe Pharmaceutical sales declined 7% pro forma, the main headwind was *Seretide*, down 18%, reflecting the impact of generic competition which intensified during the second half, particularly in the UK. Based on current trends I expect *Seretide* in Europe will

continue to move down this year, 2016, at rates more in line with the second half of 2015, i.e. again around 20%.

However, we also expect a growing contribution from the new products in 2016, including the benefit of several additional market rollouts of *Anoro* and *Incruse* still to come.

Within International, sales in Emerging Markets were down 5%, in large part due to the continued impact on our China business and the reshaping of that business and significantly greater pressure within the marketplace. Capacity constraints also impacted a number of products more broadly across the Emerging Market space. Economic conditions also remain challenging, but we remain very focused on executing against these.

In Japan, sales were down 1% pro forma, Respiratory grew 5% as new product growth more than offset lower *Adoair* sales, which were down 13%. Growth from Respiratory was offset by some lower sales of *Relenza*, down 70% due to a weak flu season, but particularly reduced stockpile orders. The biannual price cuts in Japan will occur this April and are expected to be in the 5% to 7% range, and this will negatively impact the year, particularly Q1.

Looking out for 2016 as a whole we expect total Pharmaceuticals to return to growth, with contributions from new products more than offsetting the continued declines in *Seretide/Advair*, the established products and *Avodart.*

You should watch out for a couple of additional drag factors in Europe as part of the overall simplification of the business, we are in the process of divesting a distributor in Romania, which had annual sales of around £150 million. This will complete, we expect, by the end of Q2, and remember, as we have previously announced, we have disposed of the remaining rights to Prolia, which were mainly in the international region and had sales of £43 million in 2015. This was acquired by Amgen in December.

Moving to Vaccines, the business grew 19% on a reported basis, 3% pro forma, strong growth contributions across the portfolio, including *Rotarix*, *Boostrix* and our US flu vaccines which were helped by investments that we made previously, giving us the opportunity for earlier delivery of supply this year and a transition of that supply in the US to 100% quadrivalent.

We are very pleased also with the progress we are making in accelerating the meningitis portfolio, with reimbursement now in place in the US as well as a number of material European markets, including the UK, where *Bexsero* has been included in the UK national immunisation programme.

We are ramping-up *Bexsero* capacity to meet this acceleration of demand and expect a progress improvement in supply as we move through the year, but we will see some impact on *Bexsero* growth due to supply constraints in the first half, particularly in the first quarter.

These overall growth contributions were partly offset in international by the impact of higher trade inventories of the brands we acquired as well as previously identified supply constraints around the hepatitis portfolio and *Infanrix* sales. The economic slowdown that we talked about was also felt in this portfolio with demand weaker, with a number of governments cutting back funding for immunisation programmes and this is not expected to improve in the near term.

2016 as a whole, with growing contributions from the meningitis vaccines we remain confident in achieving the mid-single digit pro forma growth that we outlined back in May. In the medium term we also continue to expect to move the growth of Vaccines from mid-single digits to mid-to-high-single digits as we expand supply and deliver the *Shingrix* launch.

On Consumer, sales were up 44% reported, 6% on a pro forma basis with the business benefitting from a very strong *Flonase* OTC launch in the US, a big factor in Q1, but provides strong momentum to the US business throughout the year.

Oral care sales were also strong, with *Sensodyne* delivering another year of double-digit growth across all three regions and *Horlicks* in India also had another good year, up 8%.

While the US had a particularly good year, Europe and International both saw sales growth negatively impacted by the burndown of inherited inventories, together with a weaker flu season in Europe and a weakening economic environment in International. While this has not improved, inventories are now aligned and the integration is progressing as well, setting us up for ’16.

Overall for the current year we continue to expect pro forma growth for the Consumer business to be in the mid-single digit range. Remember though that Q1 is likely to be impacted in growth terms because of the strong and difficult comparator with the *Flonase* performance in Q1 last year.

Lastly from a modelling point of view, remember that in the corporate line we had some Consumer and Vaccines brands that we needed to dispose of as part of the clearances of the Novartis transaction. They delivered and reported sales of £72 million that were divested in Q3 2015.

Core operating profit

Moving to the next slide on core operating profit, excluding currency, the core operating margin on a reported and CER basis declined 410 basis points to 23.9%. 300 bps of this decline relates to the change mix of the group from the Novartis transaction and the inherited higher cost structures in Vaccines and Consumer.

Excluding the impact of the transaction and the £219 million structural credit we took in 2014, the pro forma core operating margin was broadly flat with pro forma operating profit up 1% in-line with sales.

Pro forma cost of goods increased 4 percentages points more than sales due primarily to the net impact of adverse price movements on *Advair* and the established products portfolio as well as the investments Andrew referred to to improve vaccine supplies.

The contribution to cost of goods from restructuring and integration benefits offsetting these pressures were relatively limited in 2015, given that this is the area where it takes longest to reshape the business, given the complexity of some of the regulated supply chains, but plans are well-advanced and particularly in Consumer where we saw the greatest cost of goods impact in the year.

Pro forma SG&A excluding the structural credit of £219 million from 2014 was up slightly with about £0.5 billion of savings from restructuring and integration contributing materially to offsetting price pressures in the older parts of the portfolio, but also adding to the cost flexibility we have been building in recent years. This has given us greater opportunities to reallocate resources behind the new products and launches across the group.

Pharmaceuticals delivered the largest savings in SG&A in 2015, but also saw the greatest price pressure in the short term, which is why we see the pro forma operating margin for total Pharma down just over 1% and pro forma operating profit down 4%.

Without the same price pressures, the same things in Vaccines drove the pro forma operating margin up nearly 1% and operating profit up 7% on a sales increase of 3%. Consumer saw similar leverage with the operating margin up nearly 2% pro forma despite significant investments behind the *Flonase* and oral care launches.

Delivery of integration and restructuring benefits

If you turn to the next slide which summarises where we are on the integration and restructuring programme, cumulatively we have delivered £1.6 billion of annual savings with £1 billion of incremental savings delivered in the year. The restructuring programmes are ahead of schedule and this has enabled us to bring forward additional savings into both

2015 and 2016. We expect another £1.4 billion of annual savings by the end of 2017 when the programmes are expected to be completed with £800 million of that falling into 2016.

Financial Efficiency – Sustained contribution from financial architecture

Turning to the bottom half of the P&L on the next slide, our core finance expenses of £636 million were £10 million lower than 2014 and while we continue to focus on financial efficiency, I am expecting finance costs to be a little bit higher in 2016 as net debt increases from using some of the cash we're holding from the transaction to fund the restructuring programmes, continue to upgrade capacity but in particular to fund the return of the £1 billion special dividend from the transaction proceeds.

The tax rate for 2015 came in at just under 20% in line with last year. I am expecting some upward pressure now given the group's momentum and change in the mix in favour of the US and so for 2016 you should plan on a tax rate in the 20-21% range.

Lastly, in 2016 we are also likely to see another step up in the minority interest due to the continued growth in ViiV and the Consumer joint venture, which remember will be in 2016 for 12 months versus the ten months in 2015.

Financial Strategy – Retained proceeds to accelerate restructuring and maintain dividend during transformation

On slide 24, Financial Strategy, looking at our capital allocation priorities, we said back in May that while we went through the transformation programme triggered by the Novartis transaction and the transition of our Pharmaceuticals business, we would prioritise two uses of available cash, whether from operations or disposals firstly, accelerating the restructuring necessary and second, supporting the dividend at 80 pence per share.

This was designed to allow us to emerge from the transition and build stronger operating cash flows more quickly while maintaining the dividend, returning the group to growth and protecting our credit profile.

To deliver on these priorities we retained proceeds from the Novartis transaction and have divested a number of other non-strategic assets including part of our Aspen shareholding and ofatumumab.

As a result, despite accelerating the restructuring and integration spend in 2015 and incurring £1.1 billion of cash costs, we paid 80 pence per share of dividend and still reduced our net debt by £3.7 billion.

Cash flow generated by the business was impacted by the transformation underway across the group with a significant further drag in '15 from the decline in *Advair* and the inherited cost base of the Novartis businesses.

We are addressing each of these elements, as you've heard and the new businesses are now beginning to contribute more meaningfully as you can see in the much reduced operating cash flow drag in Q4.

We expect both capex and restructuring spend to peak in 2016 with a major step down in the latter of over £800 million as we go into 2017 which will contribute to rebuilding the cash flow support for future investments and dividend payments.

Transformation on track to return GSK to growth

And so to conclude on the last slide, 2015 saw very material progress in delivery of our strategy and most importantly established some key foundations to return to growth this year.

Our restructuring programmes are progressing well and new product momentum is improving. Opportunities for growth across all three businesses are stronger and we remain very focussed on execution.

As a result we are re-confirming our original outlook for 2016 and continue to expect that we will return to growth in core EPS in constant currency terms at a rate that reaches double digits. The base for that growth in CER terms is the 2015 core EPS of 75.7p.

The currency impact for 2016 is clearly difficult to predict given recent volatility but on the basis of January average rates, we are presently expecting currency will be a tailwind this year of approximately 2% to the top line and 5% to core EPS growth due mostly to the impact of the stronger US dollar.

Given the Q1 comparator issues I've mentioned but also the fact that Oncology will still be in the base for the first two months of the year, the phasing of this earnings growth will be more weighted to the second half.

And with that I conclude and will hand you back to Andrew.

Sir Andrew Witty: Great, thanks very much Simon and without further ado, let's open up the call to Q&A and just for everybody's information, we have extended this call so we've got plenty of time for Q&A if we need it.

So please operator, maybe you could just remind the folks of the protocol?

Questions and Answers

Graham Parry (Bank of America Merrill Lynch): Okay, thanks for taking my questions. So the first one is on international markets particularly, emerging markets down 5% pro-forma in the year, China down 17% and it was actually worsening in the fourth quarter. Can you just talk to the outlook and the trends for that part of the world through '16 and maybe the mid-term outlook?

Second is two questions about the news that you've given up the right to withhold the consent to block the put options from Pfizer and Shionogi on ViiV. Firstly, the release from Pfizer that you did it in order that you could recognise some of the liability on the balance sheet which looks like slightly backwards logic, so are you giving up the rights because you want to book the liability or are you booking the liability because you want to signal you are basically a buyer of this asset and you have no need to block any put?

And then secondly, should we take from the £2 billion liability for 20% of the business that you are valuing ViiV at about £10 billion currently?

And then the final question on Consumer and potential spin there. There has been a lot of recent comments and speculation. I think Andrew, you said recently that perhaps one day this could have a life of its own and that seemed somewhat at odds with GSK's previous comments that you think that Pharma companies can run OTC better and there are lots of internal synergies there. To what extent is this really trying to recognise that there are some shareholders who are saying that you should do this, versus a real shift in your own strategic thinking about that division? Thank you.

Sir Andrew Witty: Thanks very much, Graham. I shall ask Simon to go into more detail on the HIV piece valuation in particular. As far as international markets, and China specifically, are concerned, international markets generally have been affected through a number of macro things like everybody else but, specifically for us in China and specifically because, as part of our Pharmaceutical restructuring, we took quite a big set of changes during the year to reduce investment in some territories and increase in others to really focus around about 10 or 12 key markets, there is quite a bit of disruption as a consequence of that. So a bit of that is self-inflicted during the year, I fully expect that to bounce back.

China and one or two other areas are affected by divestments. In China we have been focusing our business as we look to rebuild it but that has involved some divestments. That is what is really affecting the growth rate during the year plus some price cuts that we have taken during the year, which certainly the leading indicators would tell us will put us in a much better position to go forward to grow. So I think nothing super-dramatic on China but

there is a combination of price reduction - let's call them one-off price reductions - and some one-off divestment impacts on that top line. Other than that, I think the underlying signals we are getting are encouraging, I expect to come back to growth.

Overall for the Emerging Markets, excluding the impact of divestments, and Simon mentioned, for example, the Prolia effect, I would expect us to be growing again this year in international markets at least at the level of our branded peer group. Now, obviously, that's not going to be at the level we saw three or four years ago but we certainly would expect to see a recovery this year.

As far as HIV is concerned, the only thing I would say is that we are absolutely a buyer of that asset full stop, no question about it. Absolutely love that asset and, from that point of view, there is no way we would turn away that opportunity. So, yes, we are a total buyer, and Simon can talk to the valuation and methodology.

As far as the Consumer business is concerned, I have tried to be as clear and as honest as I can be around this whole scenario. First of all, I think that the strategy of the Group is the right strategy to develop a business where we have three strong platforms which have good internal synergy and good distribution synergy, and have allowed us to build sales and profit pool growth in a wide variety of geographies with a wide variety of income affordabilities of different systems, whether that be government or individual. I think that is the right strategy for the Company.

I think in certain periods where people believe the US is an unstoppable train and will pay for anything, it is probably a bit less cool than in periods where you think the world is challenging. I think, as we look forward, the world looks quite challenging actually and I think this model looks good. You have to be able to prove that you are a good owner of each component of the business. I think the 2015 numbers reflect that we are a good owner of these businesses, whether you look at who has got the best penetration of new products, who is getting the most new pharmaceutical products approved, who is performing in Vaccines and who is delivering good, strong performance in the Consumer space.

Is there work to do? Absolutely. Do we need to improve the margin structure of the Consumer business? Absolutely. Clearly, the Novartis margin was much lower than GSK and we have brought it together, which gives us a great opportunity to build and enhance margin, we have committed to do that and are well on the way to doing it. So all of that is the strategy of the Company but it would also be disingenuous to say that taking a business which, when I took over as CEO was £2-2.5 billion, and building into a business which, in the next few years, could be - I don't know - £7, 8, 9 billion of sales, it would be disingenuous to

say that doesn't change the optionality of the Group in terms of what you might choose to do with it and that's good.

I think we have created a win-win scenario for the Company and the shareholders, which is either to have a winning combined portfolio of businesses in the way I have just described, which I think is potentially a very strong response to the environment that we anticipate going forward, or to create an option where you have a Consumer business which is sufficiently big in and of its own right to fly on its own.

If I had to make that call today, I would stick to what we have, Graham, and what I have said repeatedly is that call isn't one to be made today. Why? Because we still have two, three or more years to go in terms of really demonstrating and articulating the full value of the Consumer business. It would be a little odd, I think, to make a substantial change today when we are on the track we are on and we are delivering the progress we are delivering. At CER for us to give a 320 bps bump in margin in Q4, why would you rock that boat? I mean you want that boat to just keep going forward, building that margin expansion, building that growth.

So, simply put, I believe that the strategy we embarked on in '08 remains an extremely viable strategy for the environment that we all anticipate over the next five or six years, particularly if you have any anxiety at all about US pharmaceutical pricing. I think it really emphasises the point.

Secondly, I think the evidence post the disruption of the transaction and, obviously, the new realities of dealing with product launches, I think we can show very clearly the progress we are making in all three businesses, and I wouldn't make that call - I wouldn't really ask that question for a while until we have really seen the delivery.

The last thing I would say is I think sometimes we mix up what might be causing the question. So the real issue of GSK over the last six or seven years hasn't really been whether we own Consumer or we don't own Consumer. It has been: how do we deliver sales growth when you've got a very, very significant amount of old pharmaceutical portfolio to be rotated off through genericisation? The reality is that we are well on the way to essentially rotating off almost 100 percent of what was the Pharma business in '08. That is the real story, that's the headwind of what holds back the growth of the business. What we're beginning to see and as we roll through the *Advair* story of the next three years or so, we are going to get through all of that, we are already starting to see the opportunity for the top line to grow again because of the changes we have made to the Group, and we have essentially done all of that in an organic, or certainly cash positive way for the shareholder,

in terms of deployment of resources for the company, I think that is the right thing to do, but that is really the story of what has been going on.

Simon, do you want to comment on how you came up with the valuation of the puts?

Simon Dingemans: Yes, so I think, Graham, remember – and it is spelt out in a bit more detail in the release – that the valuation that we will bring onto the balance sheet reflects the put value estimate which is after you have taken into account the adjustments the equity positions that reflect the preference shares that we, Shionogi and Pfizer hold, so you will also see there is about £200 million of value that would also accrue to Pfizer and Shionogi and that will also go onto the balance sheet in Q1, and we have significantly more valuable preference shares that give us a priority right over some of the earnings of the dolutegravir based income stream, so that is how you come up with the £2 billion number, you have got to, kind of, strip out the preference shares before you land on the number that will eventually go into the Q1 balance sheet.

Sir Andrew Witty: Great, thanks, Simon, thanks, Graham. Next question?

Richard Parks (Deutsche Bank): Hi, great, congratulations on the results. I have just got a few questions. Firstly, on the Vaccines and Consumer integrations, I know you have talked about the pace of cost savings coming through a little bit faster than you had expected, could you update us on how your thoughts on the absolute quantum of potential synergy and cost savings as evolved since completion of that transaction?

Then, secondly, on Established Products, I think they were down 15% at CER, a little bit worse than consensus was looking for, can you help us think about how that year-on-year decline might evolve going forward? And then, finally, on *Incruse.* It seems to have had a good start, I am just wondering whether that reflects any changes to the way you are going about contracting, maybe you could talk about the difference between net price between *Incruse* and *Anoro* that you are retrieving, just wondering, a bit of clarity on that?

Sir Andrew Witty: Thanks, Richard for the questions and I will let Simon address, obviously, some of that.

As far as *Incruse* is concerned, I think, you know, in reality what is very interesting in the marketplace, there are two types of country and there are at least two types of doctors prescribing, so there are certain countries where essentially the LAMA market is much more tied up with triple product prescribing, so the UK is a very good example of that. The UK tends to drive towards a steroid based combination then add in a LAMA, so you are really talking about triple, so trying to introduce *Anoro* into that mix is more difficult than introducing

Incruse into that mix. There are other markets which are much more interested in straight out bronchodilation, Germany might be an interesting example of that. If you then look at the US what you see is not so much a simplistic, it is one way of the other, but each physician has a preference, has a habit, and so by introducing *Incruse* alongside *Anoro,* essentially everybody ends up almost on the same thing, it is just how they get there, and having *Incruse* has simply made that a much easier choice for everybody. And I think we have got positioning of that well, we got a good claim that we were able to introduce in September there for essentially the add on of *Incruse*, that has been what has really driven this, and I have to say, you know, you go a long way to see a market share acquisition chart like the *Incruse* and *Anoro* chart that we showed you today, to be heading towards that kind of 30% market share is really phenomenal and we are probably helped a little bit because, I think, our competitors have destabilised their own market leader and it has given us a bit of an opportunity there as well.

So that is that, Simon will talk about Established Product trend. Vx/Cx integration before Simon gives you more detail, I think the bottom line is it is going well, it is going very well, we have had no disruption through the integration, we haven't missed a delivery, we haven't missed a deadline, we haven't seen any disruption from it, we have been able to go more quickly on most things, so we have been able to turn off, for example, transitional arrangements with Novartis, you know, on schedule or a bit ahead of schedule so far, we are well on with our market authorisations, which is we are closing commercial sites, all of those good things are going forward well. We have made, as I said earlier, about 90-plus % of the appointment decisions in the Consumer business, we are well on the way through Vaccines. So a very, very good progress.

I would say there is a lot still to do, so we have the bulk of the market applications still to go through, we have got the manufacturing shifts to go through over the next two years, we have got the massive CERPS onboarding of the Novartis business, so all of the onboarding of Novartis activity, from Novartis into our core ERP platforms, all has to happen, so there is still a lot to go, so, so far so good, but a lot still to do, particularly during this year. You know, we are tracking a little bit ahead of what we hoped, in terms of benefits, it is coming in a bit quicker than we hoped and we are spending a bit less cash than we thought we would, but I will let Simon give you any more colour on that, but generally speaking on the margin all of it is going in the right direction.

Simon, do you want to say more on that, plus Established Products?

Simon Dingemans: Yes, thanks, Richard.

I think, remember, this is the second upgrade, if you like, on the synergy delivery plan across both the restructuring and the integration programmes, you will see from the chart that is the slide deck I just walked through that the majority of the billion this year of incremental savings has come out of the Pharma restructuring and the smaller amounts out of Vaccines and Consumer, so still a lot to come from those integration programmes. But, I think as Andrew said, we are very pleased with the progress and the planning that we were able to do ahead of the transaction closing, it has stood us in very good stead and so far, you know, there have been relatively few surprises, but a lot still to do in 2016 particularly.

On established products this year we are probably at the upper end of the range that we would expect, with *Lovaza* in particular dropping out, and a 10-15% decline range is probably the right sort of thing to put in your models. We are probably at the upper end in '15, maybe a bit less in '16, but these are older products with an inherent level of decline built into them, so that is probably the right sort of assumption to make.

Sir Andrew Witty: Thanks Simon and thanks Richard. Next question?

James Gordon (JP Morgan): Hello, thanks for taking my questions. A couple of respiratory questions, please? One was just you previously guided to respiratory growth in 2016 and I can see some of the new launches are turning the corner in respiratory, they are doing a lot better, do you have confidence in that trend continuing in 2017 and maintaining growth despite the recent announcement of generic *Advair* filing in the US, or is it some growth this year and the potentially a sharp fall next year?

The second respiratory question would be on slide 8. You have the *Nucala* COPD filing listed and it looks like, from reading the slide, that is something you have a very high confidence in achieving, so do you have very high confidence in that working? Is that already in the 2020 respiratory guidance or is there still some uncertainty about how well that works? Have you seen lots of data that gives you confidence there?

Then just following up on *Incruse*; I couldn't see the US *Incruse* sales split out; are you able to give us those? Thanks.

Sir Andrew Witty: Thanks very much, James. As far as respiratory is concerned we certainly expect, as we have said previously, to come back to growth this year. We have some very, as you can see through all the data, some very good volume there. The question mark really on the degree of growth is all about what happens to the price dynamics, but certainly based on what we see today, all else equal, we expect that. I am not going to get into giving you forecasts for 2017; obviously that all really revolves

around whether or not if there is or isn't a generic in the US. As we have made clear we read what everybody else reads. It is obviously possible there is one in '17; it may come in '17, it may not come in '17 – our framework of what we have laid out over the next five years is sort of regardless of whether it is '17/'18 or not.

In terms of *Nucala* no new data to tell you about that; we will have to wait and see when the data comes through from Phase III and we haven't got a particularly big COPD number locked in for 2020 in the framework we have laid out. I think the indication we already have and we have launched with is going to drive a very substantial product and I think it would be premature to lean forward too hard in terms of confidence in COPD. We think it is a very viable indication to go after, but we don't have new data to tell you to kind of transform our view and as you also know we are looking at the same product in a number of other indications. So far so good.

Next question, please?

Andrew Baum (Citi): Thank you. I have three questions, please: firstly on your business development. Since Ian Tomlinson left last year you have reconfigured that unit. Do you have capacity and/or intent to take advantage of the lower market prices for several assets right now to augment your portfolio?

Second, with regards to *Shingrix*, there is a double-digit percentage of patients having a 10cm injection site rash, grade 3 adverse events together with pyrexia, interfering with work – how problematic do you think that is going to be from a commercial point of view?

Then finally for both Simon and Andrew, you have spoken about the optionality in two years from now for separation of the Consumer business, perhaps you could outline as of today what are the barriers to potential near-term separation, acknowledging the fact that that is not your intent, thinking from an IT, accounting, manufacturing, are there any impediments if that was a course of action that the company decided to do? Thank you.

Sir Andrew Witty: Okay, thanks very much, Andrew. As far as the business development piece is concerned, I think the evidence of us buying the HIV portfolio from Bristol Myers, the extension of the Adaptimmune transaction on NY-ESO yesterday, actions speak louder than words, right? Very clearly we have got capacity and we have got a desire to look for sensible assets. What we are not going to do is we are not going to be sucker-punched into buying an asset that is 20% cheaper than an extraordinarily overpriced price two months ago, right? We have all seen, and plenty of people have talked about, even

companies where perhaps we have found assets that we thought had failed, they have gone to companies, they have had massive valuations and six months later they have no valuations, so we are very wary of that kind of trap. We are very focussed in the areas we want to go look and we will make sensible investment decisions accordingly.

Against that backdrop you have got to remember we have 93 projects listed on our pipeline chart in the results we have issued today. 71% of them are new molecular entities; 63% of those 93 projects are in Phase II or Phase III, so bluntly the hurdle for us to spend more capital to go after another asset is quite a high hurdle, it has to fit well within our current portfolio and it has to match well against what we see coming. We have an awful lot of innovation in-house coming through, we have an awful lot of collaboration assets coming through and so I am not sat here hungry, starving or desperate, if I can put it that way, to go look for assets, but where we see things that fit really, really well, we are going to do it. As you would imagine the Bristol Myers situation was a competitive situation; I don't think it would take a rocket scientist to guess who the competitors were, and we were able to go in and win that, so I think that shows you the kind of intent.

I think this is the second or third time you have asked us about the injection site question on *Shingrix* over the last few months. I will give you the same answer. First of all, in the trial itself these were saline placebo control trials, so you can't really draw very much from the trial itself. There probably is a higher injection site reaction, probably because of the very high immune responses being generated, which is partly, probably, driving the extraordinarily high clinical protective response that we've seen in the trials.

We are doing ongoing trials to compare the injection site response to other active commonly used vaccines in older patients to give ourselves, if you will a more solid comparator, a more active comparator type of conversation, but I think ultimately this is going to boil down to as N of 1, as a 51-year-old man, if you said to me 'Can you tolerate a reaction for a day in my arm for a doubling of clinical protection against shingles?' I know what the answer would be and I think that ultimately will be the way it boils down.

As far as optionality is concerned, I certainly don't want to go through again, probably nor do you want me to go through again the strategic positioning. Of course there is a whole series of challenges to doing anything. In the short-term there is a not insignificant matter of our partner in the joint venture and all of the various contractual commitments we have with Novartis and that is a significant issue.

Secondly, and even more importantly, there is the issue of how do you maintain the momentum and performance of the company? You know, I think sometimes people think 'Oh let's just put together these two massive companies with 10,000 marketing applications

and 15,000 people in 120 countries on Monday and then on Tuesday let's do something completely different with them'.

The reality is that there is a huge amount of day-to-day activity if we want to secure the sales growth and the margin development that we've laid out and committed to for this business. We should be very thoughtful before doing anything which disrupts that, particularly when the strategic case is a strong case for what we're doing at the moment. My view is time is everybody's friend in this conversation. This is all about ensuring that we deliver the creation of a great company and then at the right moment there is a sensible discussion about whether or not it should continue to be part of this configuration or a different one, but it's not today.

It's interesting when we look back at the HIV example where when we essentially tested that question with our shareholders, actually the overwhelming majority of people at the end of that process came to the conclusion it should be retained in the company. Perhaps at the beginning they didn't have that view but by the end of the process they did.

And so that's where we have more or less come out on that whole situation.

Next question.

Alexandra Hauber (UBS): Thank you, good afternoon. I have three questions. Firstly, on the ViiV cost allocation, it looks like the minority interest is actually, like the share that you pay in minority interest is less than 21.7% minority share because of the preferential dividend GSK gets on dolutegravir.

Can you just give us some idea how sensitive the minority we see in the P&L is to that arrangement? So if dolutegravir goes from high 50s where it is right now to something like 80, can the minority share actually be something like 15%?

The second question: given that you brought your guidance for the £6 billion pipeline sell forward to 2018 is it correct to assume that that means a better outlook for 2020? I am not going to ask you to update your 2020 outlook every six months, I just wanted to get directionally whether that would be the right way of looking at it rather than assuming something on this has gone worse.

Third, a small question; when you are saying you are having a capacity bottleneck on *Bexsero*, can you still ship second half '15 levels or have you exhausted your inventory and it is actually going to decline year-on-year or at least in the first half, first half this year versus second half this year?

Sir Andrew Witty: Thanks very much. Simon, do you want to just answer on the ViiV question?

Simon Dingemans: Yes, clearly directionally you are right, Alexandra. It will move in our favour. It's not quite as sensitive as you laid out. Certainly for the foreseeable future the 80% number that we have in the press release today is a good guide and we will update it as the product shifts to give you a sense, so we will comment on that going forward. But clearly you would expect it to move a bit in our favour as dolutegravir grows.

Sir Andrew Witty: *Bexsero*, probably Q1 there might be a little effect as we go through the inventory and into more supply but I think it won't be a huge issue, Alexandra but there may be a bit of an effect in Q1.

And I think it's just a simple situation of we are selling a lot more than Novartis were anticipating to sell and obviously we have to get the supply chain revved up accordingly.

In terms of your question about the new products, your interpretation is absolutely 100% correct, so thank you for not asking us to restate our guidance for 2020, we were not going to do that, but we have given you a framework back in May.

Absolutely stand by the framework. What we are simply signalling to you is that the new products are performing much better. We fully anticipate to hit that £6 billion early. Of course that would imply that the new product number in 2020 would be higher than we had previously said. There is no offsetting negative to that. That therefore, it is not unreasonable for you to think about how you lift your 2020 numbers potentially to reflect that and the way in which that might affect your assumptions on pharma margin and all of those good things.

The only precise guidance we are giving you today is for 2016 where as you know we are reiterating the guidance we gave you back in May of last year. We feel very good about our potential to get to an EPS growth rate at constant exchange rates this year of around 10%. I think 10% this year is exactly the kind of number we are aiming for. Obviously then we've got the 5% tailwind behind that from FX if FX stays the way it is, but who knows whether that's the case or not?

So that's really the specific guidance point we are giving you. We are giving you an update on one element of the framework. I would leave it to you to work through your '19 and '20 numbers accordingly in terms of how you think that plays through but you are quite right, Alexandra, there is no offsetting negative for the positive of the uplift in new products.

Next question.

Jo Walton (Credit Suisse): Just to clarify on the last question, to the extent that the new products coming forward are due to a strong success of *Anoro* and *Breo*, that might be coming more at the expense of *Advair*, just a faster switch. It is just a question of whether you are still happy that your overall Respiratory franchise is going to be stable and to what extent the new products, or the extra sales coming from things outside of what could just be an *Advair* switch?

My second question is just on the R&D side. You talk about your very strong pipeline, 80% being first-in-class. You have given us some details on how you do your internal rate of return. I wonder if you could just tell us what sort of probability of success are you baking into your assumptions given that you have sales forecasts out to 2036? Reflecting this very high first-in-class, are you looking at stronger than historic probabilities of success?

Finally, I have more of a request than a question. Given the cash payments out to Shionogi appear in various bits and pieces of your P&L and your cash flow, I know it would not be IFRS but I wonder if, in future, you could give something whereby we can look at the cash payments out which would otherwise be ignored as being non-core in just one simple aggregated line?

Sir Andrew Witty: Okay, Simon, do you want to answer that last point?

Simon Dingemans: Jo, just to help you and I will look at it again, in the Cash Flow section we do break out precisely where the cash payments related to the contingent consideration fall in terms of how they are reported in the Cash Flow Statement, and there is a total number of what we paid in the quarter and what we paid in the year, and I intend to give you that each quarter as we go along. So if you need more than that, just let me know off line and I can certainly have a look at it but, remember, that is contingent consideration, effectively amortisation, and that doesn't flow through the P&L, because the P&L refers only to the trading performance of the ViiV business.

Sir Andrew Witty: Thanks, Simon. As far as the rate of return calculations are concerned, Jo, and thanks for the question, we use industry average attrition rates, we don't have a special GSK rose-tinted-glasses attrition rate number; we use industry average. You might be interested to know that, when we look back over what we have been doing at some of the drivers of this, obviously the fact that we get first pass approval is very important, the beginnings of the uplift of the sales is very important, the fact that we are able to crystallise absolutely what the entire value of the Oncology R&D was worth is obviously important.

I also thought you might be interested to know that, when we look at things like the CMR database, GSK is now running clinical studies 20% faster, so our execution times are 20% faster than our major Pharma competitors. Our enrolment time for studies is 20% faster than our major competitors, and we have the lowest clinical trial drop-out rate compared to major Pharma. Over the period since 2010, we have reduced R&D headcount by a third, and we have reduced our R&D footprint down to two from five global centres, all of which has taken huge amounts of fixed costs out of the organisation. At the same time, we have massively increased the number of programmes which are in the clinic and in advanced clinical development. Those are really some of the things that are driving that rate of return calculation.

As far as your first question on Respiratory is concerned, I think a couple of things just to say. Almost all the *Anoro*, *Incruse* and *Nucala* business is coming from new patients or competitor patients, so none of that business is coming from essentially *Breo* or any of the established products - sorry, from *Advair* or any of the current products. That is almost all coming from new business. *Breo* is coming from a variety of different sources, of course inclusive of *Advair* but a variety of different sources. Actually, a big chunk of the Respiratory business is bringing new business into GSK and we are competing in categories we haven't previously competed in within the Respiratory marketplace.

If I answer the question perhaps in a slightly different way to the way you asked it but, hopefully, to make the same point, Jo, if I go back to 2008, Graham Parry asked me in a full year results where I thought Respiratory was going to go, and I said that our goal was to develop a portfolio of Respiratory assets which, collectively, in addition to the residual post-generic *Seretide/Advair* number would add up to more than we - would essentially give us a new peak of Respiratory. I feel more confident about us delivering that promise than I have ever felt, and I made that commitment in 2008. I think the probability of us being sat here in four or five years, being able to say that from a number of Respiratory products together, we now have a Respiratory business bigger than we have ever had in the past is very, very high.

Will we go through some volatility in the year that there is - if there ever is - a generic *Advair*? Of course, we will but I think what is happening now is that *Seretide/Advair* now is a third down from its peak, and Simon told you we think there will be another 20% off this year. Who knows whether a generic comes in '17, '18 or '19 but whenever it comes, the impact of that is going to be relatively limited in the overall scheme of the Group. We fully anticipate being able to hold onto a reasonable proportion of *Seretide* globally, although we have signalled to you previously that we don't have particularly rose-tinted glasses on what we hold onto in America. When you take that and you add back to it all the new products, much

of which is bringing share from elsewhere, then we are very optimistic about where we land in terms of then the ongoing scale of the Respiratory business going forward. I think the progress we have made and the signals of where our share is going in the various markets for particularly *Anoro*, *Incruse* and *Breo* is obviously very encouraging. I hope that answers your question although not quite the way you asked it but I think it does answer the question.

Next question?

Keyur Parekh (Goldman Sachs): Good afternoon and thank you for taking my questions. I have three please. First, on the HIV portfolio I have seen a significant increase in ramp-up on the SG&A cost across the various businesses. Can you help us think about how comfortably you feel with the salesforce as it stands today, particularly when the Genvoya launch from Gilead and how do you feel about the need for further salesforce on the ViiV side into 2016?

Secondly, a clarification, I know that as you cannot talk about getting rid of or giving up the put option there is a statement around the fact that you will now also recognise the balance sheet liability for future preferential dividends, can I just confirm if that has any implications for core earnings as you reported today, either on the minority part of it or on the preferential dividend part of it, that may or may not go through your P&L?

And then, thirdly, Andrew, you have kind of mentioned a couple of times about this not being the right time to evaluate a potential differential structure for the business, I completely understand that, but as you think about what the right time might be can you talk about is that a particular level of revenue that you think you need, is that a particular level of margins, because obviously you laid out a margin guidance for 20%, so when Consumer reaches 20 is that the right time to think about those options? Just help us think about contextualising the timeframe for that internal debate? Thank you.

Sir Andrew Witty: Thanks, Keyur. So as far as HIV is concerned, yes, I think we feel pretty good about our current scale, as you know it is a relatively small salesforce proposition versus, for example, the Respiratory marketplace, so I think, you know, at the margin we may make some changes, but I certainly don't think there is anything very materially going to happen there.

I would say, we continue to generate further and new data, including comparative data with other key products in the marketplace. I think you will continue to see, as we go through this year, some very good new data to support the profile of the product and, as I said earlier on, what we are actually seeing the marketplace at the moment is a lot of churn

within our competitors' mix and we continue to pick up a lot of volume alongside that. So, no, don't really anticipate huge change there.

Simon, do you want to speak to the minority point?

Simon Dingemans: Yes, Keyur, the short answer is no, the preference dividends – sorry, the preference shares are carried on the balance sheet, because if they put the equity to us they are clearly going to put the preference shares as well, so it is a joint liability, but it makes no difference to the core P&L.

Sir Andrew Witty: And on your question on Group structure, I don't have a particular time in mind, I have a – I think there is a window, you know, we are just into the really heavy lifting of this transaction, we have got things off to a terrific start, very highly motivated organisation, we need to execute and focus on delivery of that and I think it would be wrong to create unnecessary disruption and distraction during that period and, I think we are in the first year of what I would regard as three years of proper heavy lifting, where obviously if there are restrictions which are quite appropriate around when you create a transaction like this, to try and prevent one party or the other from disrupting activities, so I think that is a sensible thing.

I would say though, Keyur, that, I think we also have to get which end is the nose and which end is the tail of this dog. These decisions shouldn't be made through what is an interesting transaction, these things should be done by what is right in the long run for the strategic positioning of the Group and its assets in the face of the environment in which we operate, and those things change. I mean let's be honest, if we were sat a year and a half ago you might have a very different view of the environment than we have today. A year and a half ago people were swearing black and blue to me that oil was worth $150 a barrel; today they are gasping for $32. A year and a half ago people thought US pricing was an unstoppable machine, today I am not sure anybody believes that, and so I think the question isn't – I don't think it makes a lot of sense, Keyur, to kind of pre-dial in, you know, on a certain day, a certain question is going to be asked. Surely, the right way to look at this is what let's – everybody should be thinking very thoughtfully about what the environment challenges are, what is it you believe the company can achieve and can the company demonstrate its execution at a high level versus its competitors? And I think what we are beginning to show is that we can do that in the Pharma, Vaccine and the Consumer business.

So that is kind of the way I look at this, not everybody in the world is going to look at that, I am sure a lot of, perhaps, people in banks and elsewhere love to look for the transaction point, personally I don't think that is the way we should look at it.

Next question?

Florent Cespedes (Société Générale): Good afternoon gentlemen, Florent Cespedes from Société Générale, three quick questions. The first regarding the new products. Could you tell us what has changed since last May regarding the ramp-up of these products or is the competitive environment -, and maybe a follow-up on this regarding *Nucala,* how do you see *Nucala* ramp-up going forward? You say that US pricing environments or US pricing was an unstoppable machine last year, or a couple of years ago, now it is becoming more challenging, so could we have your comments there? And the last question is regarding international sum up performance, could you come back on the comments you made regarding the capacity constraints there, how do you see these potentially impacting the 2016 performance of the international Pharma business?

Sir Andrew Witty: Good questions, Florent, thanks for those. So in terms of what has changed on new products: We have *Shingrix* in hand and it looks like a very substantial opportunity for us. HIV has clearly, as you have seen through the reset of our contingent liability with Shionogi, that has clearly performed very – at the upper end of what we would have anticipated. The performance of *Anoro*/*Incruse* has really picked up. I think the overall execution of the organisation has stepped up a gear, in terms of our execution, so I think there are a number of new products which have really come through at the upper end of our expectations and we have seen share acquisition through the last several months really accelerate as we came out of the year. And you know as well as I do when you came to the May capital markets day none of you were coming with high expectations of new products and as we come out of the year in a good shape, and if you look at the slide I showed you earlier in the call today, slide number 4, in 2014 we did £600 million of new products, 2015 we did £2 billion. That is an extraordinary degree of acceleration and, of course, that is what is driving it and if you take the £682 million of Q4, multiply it by four we are almost at £3 billion annualised and clearly that gives us confidence that we can get to that very significant level.

As far as the International Pharma business is concerned, just to give you a couple of examples, as you know we have done very well in developing the business; I'll pick one example, *Augmentin*, which has – I have said to you before, we now sell something like I think three or four times the volume of *Augmentin* we sold when the product was at the peak of its patent protected sales.

As a consequence of that we have had to expand our capacity and not shockingly new revelation, capacity doesn't always come on-stream exactly when you need it. During

2015 we had some capacity constraints in products like *Augmentin*, capacity has now opened up – we would expect that capacity to be freed-up this year, we would expect *Augmentin* to move forward this year, similarly in one or two other lines. It is really just a case in some of these older products in particular, getting the volume and as you know also in Vaccines, vaccine volume tends to come in very discrete lumps. It is very hard to expand or stretch the capacity so again, from time-to-time – hepatitis is a good example where we are busy building new facilities – sometimes you have a period where there is a bit of a flatness. I would say as we go through '16 you will see, particularly in the Pharma side, that pressure releases itself again. It is one of the reasons why we think International will improve this year and then, as we roll through into '17 and beyond a lot of the vaccine pressures starts to release itself and so that is kind of the pattern.

I think we have time for one last question.

Florian Cespedes: Excuse me, the question on *Nucala*, please?

Sir Andrew Witty: Florian your question is what? Do we have a price problem with *Nucala*?

Florian Cespedes: No, maybe, but the question was how do you see the ramp-up and the sales going forward because some of your competitors in, of course very different markets are suffering from weak patient access. Just if you could give us your view on this product.

Sir Andrew Witty: First of all, we have had an extraordinary reaction from physicians, really good resonance with what we are saying about the product, high interest. We have seen a very significant number of patients come to us through our reimbursement advisory hub so we can track these patients. They are right now going through the process of getting insurance and, although we don't have a J code assigned yet, we are seeing basically no rejections in terms of patients, so I fully expect –. Listen; it is early days, but this thing is going to move and I don't think we are going to be sat here having a conversation about this having poor access. We have got good access, we have a very engaged physician base and we have got a very engaged patient base and so, so far, all green lights.

We have time for one last question I think.

Kerry Holford (Exane BNP Paribas): Thank you. I am afraid I do have three questions, so very quickly: firstly on the tax rate – you talk about moderate pressure building over the next several years, I wonder if you can talk about what has changed here? I don't think the geographic mix shift towards the US is necessarily news; is there anything

else behind the scenes here that we need to be aware of? Anything that relates to the UK patent box, tax structure and so on and if you can quantify that moderate pressure that would be very helpful.

Secondly on *Incruse*. I am interested in your focus on the growth of that product within the franchise because as I recall from the commentary back at the Investor Day last year, *Incruse* was not an asset that is being actively detailed by your respiratory sales reps. As I recall at that stage you were looking to simplify the message and focus on *Breo*, *Anoro* and *Advair*, so has that situation now changed and is *Incruse* an active detail? If so how is that now positioned relative to *Anoro*?

Then lastly on the pipeline, just a question on prioritisation and investment. In the press release today you highlight approximately 40 assets that you state are under active clinical development and that you discussed at the R&D day. In your full pipeline list we see probably another 40 in development that don't get a mention today, so how should we interpret this difference in disclosure? Are the 40 that didn't get a mention in the press release not in active development or are they just lower priority/lower probability of success? If that is the case would you look to alternative routes for those products, considering out-licensing and so on? Thank you.

Sir Andrew Witty: Thanks, Kerry. Simon?

Simon Dingemans: Okay; we have given you specific guidance around 2016 in terms of the pick-up in the tax rate. It is primarily driven by the change in the mix and the acceleration of US sales that Andrew has been talking about and those come at a near 40% tax rate as opposed to what we can generate here in the UK, or in many other jurisdictions around the world. On the basis of the prospects we have outlined we expect that pressure to continue, so exactly what we see in 2017/2019, not ready to give you some specifics on that, but I think if you were factoring in over the two or three years thereafter, another 1% or 2% you would probably be in broadly the right territory. Hopefully that gives you a steer.

Sir Andrew Witty: Thanks, Simon. Just on the *Incruse* thing, actually if you go back to the May event, Kerry, you look at slide 42, you will see that *Incruse* was one of the products which we listed there as the kind of focus areas for respiratory.

What has also changed is we were able to get a stronger claim for *Incruse* at the end of the summer and we are certainly promoting it, but as I explained in response to the an earlier question, the simplification is more around the segmentation of the doctor audience rather than necessarily the products, so the point being that some physicians are more amenable to a pathway of treatment beginning bluntly with an *Incruse* conversation versus

Anoro and others are more amendable to it through an *Anoro* conversation. So it's more the simplification through the segmentation plus improved claim and as I said going back to May, we certainly laid that out.

As far as pipeline is concerned, you ask a good question and it's very difficult to give you a simple answer. Of course each asset is different. I would say as a general rule we have profiled the ones which have progressed beyond points of let's say substantial confidence-building proof or substantial opportunity kind of proof. That list changes all the time. Obviously all the time assets are moving forward or failing and part of the game is to try and get to that decision as quickly as possible, we try to pull out for you the things which were more advanced or more interesting and had those proof points, but I am absolutely sure that you will see a lot more.

If I had to pick one and we did talk about this one at R&D Day but we talked about it reasonably minimally, I think the RIP kinase portfolio of assets that's coming is quite extraordinary and if those programmes continue to hit their green lights over the next 12 months you are going to be hearing a lot, lot more about RIP kinase as we progress further.

So I would say that. Having said all of that, as we go through this year one of Patrick's jobs is absolutely to start to prioritise the development and the reason why we are delivering our clinical trials 20% quicker than our competitors, the reason why we get our drugs approved on first pass approval is because when we really know we've got something, we do swing behind it with our resources and we focus on it. So what you are going to see is even from that 40 which have been described to you, as they get to real crystallisation points, they will attract a certain degree of enhanced focus and as the other 40 start to progress through, they will attract a certain degree of enhanced focus.

If there are assets in there which start to fall outside of our investment parameters but for which there is no negative associated with the product, then we would always look for alternate disposal mechanisms and I am not going to predict how much of that we do, but we certainly would be open-minded to those sorts of things from time-to-time and we have talked about that in the past.

Kerry, thanks so much for your final question. Very much appreciate everybody's interest today. Obviously the IR Team are available for you to ask any further questions you might have.

Hopefully with the guidance we've given you for 2016 achieving a double digit EPS, something around 10% plus the signal around the new products we have given you what you need to start to get your models in the right place going forward and hopefully with the

strong trajectory of the new products and the strong performance of the Vaccine and Consumer business, you can start to play out how you see the next few years for GSK.

Thank you very much.

- Ends -