

GLAXOSMITHKLINE

**SECOND QUARTER 2016 RESULTS
PRESENTATION TO ANALYSTS**

Wednesday, 27 July 2016 @ 14.00

GLAXOSMITHKLINE
SECOND QUARTER 2016 RESULTS
PRESENTATION TO ANALYSTS
Wednesday, 27 July 2016 @ 14.00

Sir Andrew Witty (CEO): Good afternoon and welcome to this Q2 call. With me is our CFO Simon Dingemans, as usual.

As you can see from the results we have just published, we have delivered a strong second quarter with Group sales up 4% (CER) to £6.5 billion. Sales growth was generated across all three businesses in the Company and was particularly driven by new Pharmaceutical and Vaccine products, which, for the first time, had sales of £1 billion in the quarter; in the same quarter last year, this portfolio had sales of £446 million, so clearly a doubling over the year.

The growth delivered and demand for these new products is one of the reasons why we have today announced £275 million worth of capital investments to increase our manufacturing in the UK.

I am also very pleased with the continued progress we are making on cost control and the delivery of integration and restructuring benefits, which are tracking ahead of schedule. Taken together, for the quarter we delivered core earnings per share of 24.5 pence, up 16% on a constant currency basis. For the half year, core EPS growth was 12% at CER.

Given the momentum we have seen so far this year, we now expect to deliver core EPS at the upper end of the guidance we gave to investors in the first quarter, with 2016 core earnings per share percentage growth now expected to be 11-12% in constant currency terms. Clearly, currency has had a significant impact on our results for the quarter both in total and core reporting, and Simon will talk you through these in more detail in a second.

Moving to cash flow, net cash inflow from operating activities for the first half of the year was £1.7 billion, compared to the first half of 2015 of \$587 million. This significant improvement reflects growth in operating profits across all three businesses, as well as a currency benefit of approximately £340 million.

For Q2, the Board have set a dividend of 19p per share and expect to pay 80p a share for 2016 and 2017.

Turning to the sales line, new Pharmaceutical products now account for 23% of total Pharma sales. Sales of new HIV products such as *Tivicay* and *Triumeq* continue to be

major contributors to this growth. Overall in the quarter, sales of these HIV products were £865 million, up 44%.

In Respiratory, sales growth of our new Respiratory portfolio (*Relvar/Breo*, *Incruse*, *Anoro*, *Arnuit* and *Nucala*) more than offset the declines in *Advair/Seretide* for the first time. In the quarter, we announced that we shall accelerate the filing for our Closed Triple therapy for COPD in the US to the end of this year, two years earlier than schedule. In addition, as we have said previously, we also expect to file the same medicine in Europe this year.

We continue to strengthen our Respiratory pipeline with recent new data supporting the progression of danirixin into Phase IIb development, and with the in-licence announced today of a novel monoclonal antibody for severe asthma from Janssen.

Our Vaccines business had another good quarter with sales up 11%, driven by strong demand for our new meningitis vaccine *Bexsero*. We are very pleased with the continuing progress in this business, although clearly vaccines sales are subject to some quarter-to-quarter volatility.

Consumer Healthcare sales grew 7% in the quarter. This was driven by *Flonase* OTC in America which continued to perform well, and new innovations such as *Sensodyne True White* and a gel-tab formulation for *Excedrin*.

Turning to R&D, I was delighted to see approval in Europe for *Strimvelis*, our first in class gene therapy treatment for the rare disease ADA-SCID.

In Oncology, our pipeline is progressing well. We have been granted FDA Breakthrough Therapy designation for our T-cell therapy targeting NY-ESO in synovial sarcoma. Yesterday, this asset also received orphan drug status from European authorities. We have also received preliminary Phase I/II data to support continued development of our BET inhibitor in NUT midline carcinoma and other tumour types. During the quarter, our ICOS agonist antibody became the first asset in its class to enter human clinical trials. Altogether, we now have 10 Oncology assets in Phase I/II trials.

Looking ahead to the end of the year, we have up to six significant Phase III starts, including three in HIV which are *dolutegravir* plus lamivudine, a two-drug regimen, *cabotegravir* for treatment and the same asset for prevention of the disease. Finally, we expect to make several key filings by the end of the year. In addition to the Closed Triple I have mentioned already, this includes our shingles vaccine, *Shingrix*, *Benlysta* subcutaneous for lupus, and *sirukumab* for rheumatoid arthritis.

As you can see, we have a lot of momentum across the Group, driving our current performance and setting us up well for the second half of the year.

With that, I'll now ask Simon to take you through the financials.

Simon Dingemans (Chief Finance Officer): Thank you, Andrew.

Cautionary statement regarding forward-looking statements

GSK strategy is on track

The Group has had a strong first half with another quarter of good performance across all three businesses, driven by a sustained focus on execution. Our trading performance reflects the continued momentum of our new products, helped by the investments we are making to support the launches, as well as tight cost control and consistent delivery of benefits from the transaction and restructuring savings.

In line with our financial architecture, we grew earnings ahead of our sales growth and, excluding the investments that we have said we are funding with divestment proceeds, we have also started to see a meaningful improvement in the Group's free cash flow.

After this strong start to the year, we now expect growth for the two halves of the year to be more evenly balanced than we had previously thought. With the additional visibility that we now have, we have tightened up the range for our guidance to the higher end of the range previously provided. So, while there is still a great deal to do, we now expect core EPS growth for the full year in the 11% to 12% range on a constant currency basis.

Our earnings release provides an extensive amount of detail about our performance and you can find further detail on the slides that we have posted today on our website.

Currency

As normal, many of the comments today will be focused on CER growth and core results but, as currency has had such a significant impact on our results for the quarter, both total and core, I would like to take a little time to explain where the greatest impact has been.

Sterling was relatively stable last year, with an average rate of 1.53 to the dollar. Whilst concerns about the Brexit referendum were an issue in Q1, rates did not really move significantly until the second quarter and, most sharply and obviously, post-23 June, with the US dollar finishing the quarter at 1.33. We have seen similar declines against most of our major trading currencies. This has resulted in a tailwind over the quarter of 7% to sales and 26% to core EPS, although this also reflects the benefit to the quarter of no exchange losses on inter-company transactions which, in Q2 last year, cost us £61 million. This is about 7% of the EPS tailwind.

Free cash flow has also benefitted from a weaker pound by about £340 million in the first half. If exchange rates hold at the June month-end rates for the remainder of the year, we would expect a positive full-year impact on turnover of about 9% and we estimate a positive benefit to core EPS of approximately 19%. Free cash flow would also see additional benefit.

A weaker pound benefits our core earnings, not just through a stronger top line but also in the operating leverage across the business, as we continue to have a higher proportion of our costs in the UK than revenues. While this hurts us while sterling is stronger, it helps us when it declines, and you can see in the quarter that currency contributed approximately 2.6% in operating margin uplift in the quarter, on top of the 2.5% improvement we delivered operationally at constant exchange rates.

These currency tailwinds apply to all of our businesses to varying degrees but, importantly, also to our majority owned Consumer and HIV businesses. The decline in sterling has substantially increased the value of those businesses to GSK, given the larger sterling earnings and cash flows we would expect to receive from both, if FX rates remain at current levels.

However, as well as increasing the overall value of the businesses to us, the decline in Sterling has also increased the liability we have for the potential exercise of the Put Novartis has to us for its share of the Consumer business, and the liability for the Puts and associate preference shares Shionogi and Pfizer have in relation to their equity interests in our HIV business. The increase in the sterling value of ViiV also drives an increase in the value of the future contingent consideration payable to Shionogi, given that all of the Puts, preference shares and the contingent consideration are valued and will be settled in sterling.

With the significant shift in exchange rates that we have seen this quarter being clearly more than a short-term disruption, we have updated the currency assumptions we used to value these various liabilities to rates consistent with current market. This has given rise to a charge in the quarter of £1.8 billion – reflecting the increase in the value of the puts and contingent consideration as well as the unwind of the discount applied, given that these are future liabilities. The unwind element was approximately £200 million of that total in the quarter, similar to Q1.

The charges from these valuation adjustments have impacted our total results for the quarter materially and push our total results to a loss for the quarter of nine pence in EPS terms.

Whereas the adjustments do not relate to the group's trading performance and primarily driven by currency movements and their impact on estimates of future transaction

consideration that may be payable to our minority partners, we exclude them from core results.

Q2 2016 sales and core operating profit margin

Growth in all three businesses, combined with cost control and restructuring

Moving to our trading performance for the quarter, in constant currency terms, group sales up 4%, core EPS grew 16%, good momentum across all three businesses.

Pharmaceuticals

In Pharmaceuticals including HIV, up 2%, strong growth from new products more than offsetting lower sales of *Seretide/Advair*. HIV sales were up 44%, *Triumeq* and *Tivicay* growing strongly in all regions and we continue to expect strong momentum from both products during the second half. Remember however, *Epzicom* also goes generic in the US in Q3 and we continue to expect to see some generic activity in Europe in the second half.

US Pharma sales down 1% in the quarter as generic pressure on *Avodart* continued, but newer products in the US grew total Respiratory sales 6% as they more than offset a 7% reported decline for *Advair* which did benefit from an increase in wholesaler and retailer inventory levels in the quarter compared to a decrease we saw this time last year and there was a small favourable payer rate, a rebate adjustment.

As we've said in the past, the various pricing dynamics we are now seeing in the category are likely to lead to a bit more volatility in RAR adjustments quarter to quarter. The underlying decline for *Advair* was more in line with what we saw in the first quarter, so around 15-20% and we continue to expect US *Advair* sales to be down around 20% for the full year in part because of the tougher comparator we have with Q4 last year.

Also in the US, *Benlysta* grew 29% to £71 million and *Tanzeum* more than double to £28 million.

In Europe, Pharma sales were down 7% reflecting a 25% reduction in *Seretide* due to the impact of generics, but also the ongoing transition to our new *Ellipta* products. For the full year, partly as a result of accelerating the pace of our transition to the *Ellipta* portfolio, I continue to expect *Seretide* to be down a little more than 20%.

Within international sales and emerging markets we are down 9% with further declines in our China business as we continue the reshaping of that business.

Outside of China, emerging market sales declined 8% but this is primarily due to the sale of *Prolia* back to Amgen and the winding down of the trading in Venezuela.

In Japan, sales were down 3% primarily due to a five percentage point price cut and on the positive side, Respiratory sales grew 6% led by particularly strong growth of *Relvar/Ellipta*.

Vaccines

For Vaccines the business reported 11% growth reflecting a strong performance from our new meningitis portfolio and growing shares for several products in the US and Europe as well as the benefit of some phasing of international tenders for *Synflorix* and *Rotarix* and some improvements in *Bexsero* supply in the US which came through somewhat earlier than expected.

Consumer

Consumer Healthcare sales were up 7% in Q2 with double digit growth of *Sensodyne* in every region. The US saw continued strong performance in oral care, new innovations helped *Flonase* to grow despite increasing competition from private label.

The Consumer business in Europe was up 1%. This was expected with many integration activities proceeding during the quarter and some phasing impact as a result but many power brands also continue to grow share.

International grew 9% with *Sensodyne*, *Voltaren* and *Otrivin* all delivering strong growth.

Core operating profits

Moving to operating profit, excluding currency the operating margin improved 250 basis points. We have delivered margin improvement in all three businesses while funding new product launches and investments.

The improved margin reflects leverage from the sales growth and mix including the benefit of the continued momentum we are seeing in HIV and the substantial incremental benefits delivered from our restructuring and integration programmes as well as ongoing cost controls which more than offset the continued pricing pressures we are seeing.

Restructuring on track

£2.3 bn delivered to date, on track to deliver £3 bn in total

Restructuring and integration continue to progress well in all three businesses with incremental savings in the quarter of approximately £300 million and a total of around £700 million for the first half.

Our plans across the business are on track or ahead, but remember while there are still many initiatives underway as we move towards the later stage of the integration and the restricting programmes, the pace of incremental savings should be expected to slow, particularly when compared against the significant step-ups we saw in the second half of last year.

Financial framework

In the bottom half of the P&L core financing costs were down £15 million to £163 million, reflecting the maturing of some debt with higher interest costs last year. I continue to expect a modest increase in interest costs for the year as a whole at constant exchange rates.

The core effective tax rate was 21.3% in the quarter versus 20% last year, with the increase due, in part, to the higher levels of profits being made in the US and for the full year I continue to expect a tax rate of between 20 and 21%, although the mix of trading and currency may create some upward pressure towards the top-end of that range.

Cash generation and net debt

On cash flow for the first half of the year, excluding legal settlements of £104 million and adjusting for the tax payments on the Novartis transaction, restructuring and the costs of the BMS acquisition, all of which are being funded from retained disposal proceeds, the underlying free cash flow nearly doubled to £1.1 billion. This significant improvement reflects the growth in operating profits across all three businesses, as well as a currency benefit of approximately £340 million, and this is despite higher working capital needs in the first half as we invested behind new launches and seasonal products.

Net debt at the end of June was £14.9 billion compared to £10.7 billion at the year-end. We are moving through the peak period of net debt this year as I have described for you before and, excluding the impact of translation, net debt is in-line with our expectations.

Earnings and returns to shareholders

The increase mainly reflects the £3 billion of cash we have returned to shareholders in the first half through dividend payments, including the special dividend of £1 billion, and roughly £1.3 billion of translation effects.

Summary

In summary, we are pleased with the progress and momentum of all three businesses; we have tightened up our guidance to 11-12% on a comparable exchange rate

basis and the Board has approved a dividend of 19 pence for the quarter and we can continue to expect 80 pence for the full year.

With that, I will hand you back to Andrew.

Sir Andrew Witty: Thank you very much, Simon. We will open up the call to Q&A please. Operator, if you could take everybody through the protocol and we will start.

Question & Answer Session

Graham Parry (Bank of America): Thank you for taking my questions. The first one is on Vaccines. You have had a very strong first half in Vaccines, first half running at around 12% constant exchange rate; your guidance for the year is around mid-single digit. Could you help us understand how you expect the same thing to run through in the second half of the year, particularly how the *Bexsero* outlook is likely to progress, given that you have got better manufacturing there and also on the margin there at 28%, how sustainable is that, or is that just related to the amount of saving benefit you are going to have there?

The second point is on the FX guidance of 19% benefit for the full year. You had a 26% benefit in the second quarter before most of the Brexit effects benefit happened, so I am just wondering why that may not even be more as you go through the rest of the year?

Thirdly, a question on Gilead's pre-clinical data on GS-9883, which came out at the ASM meeting in June in Boston. They had some resistance profile data there and I just wondered if you had had time to have a look at that and had any kind of view on the possible advantages for that product over *Tivicay/Triumeq* from a resistance perspective? Thank you.

Sir Andrew Witty: Great, thanks very much, Graham. Let me take the first question and then I will ask Simon to address the currency effect and I will come back to HIV.

Vaccines: very good quarter. Good shipments of *Bexsero*; we got quite a bit of *Bexsero* away in the last few weeks of the quarter. I would expect the rest of the year to be pretty robust for the Vaccine business but, as we keep reminding you, there is some volatility around quarter-to-quarter. For example, in this quarter we got a tender away to Mexico which we were originally expecting to be in Q3; it actually came in Q2. It happens all the time. Sometimes those things net-net well for a quarter, sometimes they net-net less well for

a quarter. Year end is also always a bit strange because a number of governments manage their financial year across literally the end of the calendar year.

Having given you that caveat, we feel pretty robust around the next six month position for us. *Bexsero* growth continues very strongly across the world. We have seen a more rapid – we are at the kind of front edge of the timing of expansion of our supplies than we anticipated when we first talked to you at the beginning of the year, which is very good. We have already, as you may have seen last week, had release for flu, quadrivalent flu, in America. We are the first company to get release by Ciba and we are about six weeks earlier than we normally are in the flu cycle, that should bode well for us in the flu season, obviously that is just beginning, but if that goes well then I would continue to expect a solid performance for Vaccines the rest of the year.

As far as margin is concerned, we said we would get this business back up into close to 30% margin over the next several years, we are up in that high 20s, very close to 30%, I think we are going to bounce around there. I don't see this dramatically changing. It is quite sensitive to the sales levels, so if you have a quarter where a couple of big tenders slip out then you can see the margin affected that way and vice versa, but broadly speaking on a multi-quarter basis I think we are now getting up into the territory we would expect to be, with the inevitable quarter-to-quarter volatility.

I hand back to Simon on the exchange rate point.

Simon Dingemans: Yes, I think just on Vaccines to add, remember also we have got quite a lot of investments going through to make sure we can deliver against the top line opportunity that you can see opening up for us, so that obviously factors into the margin.

On currency, Q1 we obviously had a lot less tailwinds so, as you look at the year as a whole, you have to factor that in, we have also assumed in that calculation that we end up with the year having the same level of exchange gains and losses as we had in 2015. As you know we have to make an assumption around that. Clearly we are working hard to make sure that is not the case, and then when you look at the mix of costs over the balance of the year that does also pull the amount of currency leverage, if you like, coming into the P&L over the second half, given the mix that you have got going on there, so that is the three main reasons why it is a bit lower than what we saw in Q2.

Sir Andrew Witty: Thanks, Simon, and on the HIV, I think it is way too early for us to try and draw any conclusion based on the tiny amount of data we have seen. I think there were four patients in each arm of the study that we saw the poster on, structurally the medicine looks very similar to *dolutegravir*. I think really realistically we need to see more

clinical data to really understand what, if any, differences there might be there. I think more importantly by the time it comes along, when you look at what is happening in terms of share, particularly in the United States and elsewhere, you are seeing a lot of dynamism within the Gilead population of drugs, so interest switching within Gilead, but the *dolutegravir* share take in naïve is rock solid post- the recent introductions of Gilead. With another couple of years of that performance, GSK and *dolutegravir*-based regimens are going to be in a very, very strong position. It is not clear to me that this molecule, if it has any benefit, whether it is likely to be material, it seems relatively unlikely and we will be well advanced, at least if all goes according to plan, on our dual regimen. It is quite interesting, when you look in Europe, already some patients in Europe are on dual regimens [amended].

I think the gain is beginning to move on again and clearly our agenda is very much around, first and foremost, fully established *dolutegravir* based regimens, we are doing that, we are well on with that and we have got more time to do it, which is excellent. Secondly, to then explore the dual strategy and, thirdly, to develop the long-acting and then to go into future mechanisms with the BMS products.

I think that is really what we are focused on, Graham. Obviously we are going to keep a close eye as more data gets produced on this potential product, but I think as of today it is just too early to be definitive, you know, frankly if I owned it I wouldn't be being very definitive and if I am going to be compete against it I am certainly not going to be definitive about it.

Next question?

James Gordon (JP Morgan): Hello, thanks for taking my questions, a couple more on HIV and one on the triple. On HIV, also on bictegravir but actually not asking about the efficacy profile, but just in terms of the mixes that it would be with and whether Gilead might be able to have a cleaner combo by avoiding abacavir, which your triple contains, whether that could be a significant differentiator? Are you finding feedback from doctors that abacavir is a deterrent to using the triple therapy?

The second HIV question would be, I know you are working on a doublet with rilpivirine. With that doublet, I believe the ingredient is J&J's ingredient, so does that mean you would only have half the economics per patient that you have for *Triumeq*? Thirdly, with Epzicom generics, does that put any pricing pressure on *Triumeq* as two of the three ingredients go generic? I have one final question. Just a quick word on the triple: a lot of patients are already using the triple, how widespread is that as a three combo?

Sir Andrew Witty: Great, thanks very much. In terms of the HIV questions, let me try to do it in reverse order. When you look at the risk to pricing, there is some risk to pricing but generally speaking, at least up until now, that has been more talked about than it has been a reality, so I don't think we should be overly anxious about that. There have been many genericisations of molecules within the HIV market which are themselves within more modern combinations, and we have not seen a dramatic impact. At the margin perhaps but not a very dramatic impact. Therefore, I would not necessarily anticipate a huge effect there.

As far as abacavir is concerned, for years and years there has been the debate around the safety of abacavir. The FDA came out almost 10 years ago now, it must be, with their review and since then I would say that, in reality, it hasn't been an issue in the marketplace. It certainly hasn't held back the performance of *dolutegravir* in any way whatsoever. Equally, when you look at the alternatives, if you look at the TAF-containing regimens, as people live to a much longer age on these medicines, some of the potential risks of those medicines become more relevant. In all of these situations, there are some puts and takes, I don't think there is anything particularly important here in terms of a dynamic for *dolutegravir*. It has had absolutely no inhibition and, as you saw in the launch of *dolutegravir*, it has been far and away the most successful launch in many, many years in terms of really shaking up the market and moving share, and that is really reflected in people's confidence not just in the monotherapy but in the combination as well. As you saw in this quarter, *Triumeq* is really taking up the charge in terms of the growth of the *dolutegravir*-based regimen.

In terms of the double, you are quite right that we are looking at the combination with rilpivirine. It would be a shared set of economics but obviously our core focus is on the *dolutegravir*/lamivudine programme, which is a different situation altogether.

As far as the triple is concerned, about a third of the patients are already on an open triple regimen, James, as far as we can tell. Next question?

Richard Park (Deutsche Bank): I have a couple on pricing in Respiratory. Looking into 2017 with possible *Advair* generics, I wonder if you can update us on how contracting is going for *Advair* in terms of pricing? With the planning for the filing of the triple being brought forward, I wonder what you are thinking as to how pricing might play out there. In the past, you have said that your net price for *Breo* has been lower than *Advair*, and that has been to ensure full reimbursement access. I wonder whether the clinical benefits of the triple can help to break that cycle, or if it will be a volume game and defending your current position there?

My third question is just on the Pharma margin going into 2017. You have seen benefits from the cost savings programmes coming through but Pharma margins have also seen an improvement this year helped by ViiV. I wonder whether those positives can continue to offset the possible impact of *Advair* generics and mix effects from your lower margin new Respiratory portfolio into 2017: how should we think about Pharma margins in 2017?

Sir Andrew Witty: Thanks a lot, Richard. Like everybody else, nobody knows when and if there will be a generic and, if there is a generic, what shape is it and how complete or not will the supply be. We have to wait and see what happens. We have given guidance through to 2020 assuming a pretty fundamental generic competition some time between now and 2020 but I don't think any of us really knows when it could happen. There is obviously a front edge to the window based on potential fastest possible approvals and then there is an open-ended close to the window in terms of how long things might really take, and of course exactly how much supply is out there and whether or not all of the generics make it and whether they are all substitutable are huge questions.

That is a preamble to say to you that we are in a good position for contracting for 2017 and, while not everything is finished yet, it feels as if we are going to have just as good, if not slightly better, access for all of our Respiratory products in the US in 2017 than we currently have in 2016. Roughly, roughly, we haven't had to give too much more price, partly because we have given a lot in the last three years and we certainly wouldn't want to be giving a lot more price at this point in time. So, overall, we feel good but, of course, whenever a generic comes along, that is bound to create a kind of disturbance in the system but it all depends exactly what it is. This is probably - this is definitely going to happen after I finish as CEO of GSK, and I will therefore spend my entire career as CEO of GSK saying the same thing, which is that the genericisation of *Advair* will not be normal. It hasn't been normal so far and it will not be normal when and if it actually gets into the market place. We will have to take it step by step, to see exactly what comes to market and how it compares in terms of substitutability, and exactly how much *Advair* is left by that point. Obviously, our goal is to try to generate a very substantial alternate new respiratory business. We are now growing our respiratory products faster than we are losing *Seretide*, which is a key step, and the triple gives us another key step.

In terms of triple pricing, I don't want to front-run that conversation, not least because we will be talking about that pricing situation in the middle or end of next year in the US, depending on the regulatory timeline. A great deal can happen in the next 12 months and I do not think it would be wise for us to front-run that conversation. I believe that triple is a really exciting opportunity for GSK and I think that when, as we look at more of the data, we

have seen some very exciting exacerbation data from the triple programme now, this is potentially a product which could bring together our entire portfolio in the US. As we have built up this *Ellipta* device-based portfolio, we are gradually building greater and greater momentum in all the categories in which we operate, and the triple really brings all of that together. It could give us a tremendous opportunity.

Let me ask Simon to comment on the Pharma margin for next year.

Simon Dingemans: Clearly, given the profitability of *Advair* – and, at this stage in its lifecycle, there are relatively few support costs that we have around a product like that, and we have also optimised the cost of goods that contributes a very significant margin – if it goes quickly, then we will cushion the downside but we will obviously not be able to offset it. If it is spread over a long period of time then we will stand a better chance. Depending on what your scenario is for 2017, you should expect a down-draught on the margin, as *Advair* goes generic, as and when it does. Every quarter that goes by, however, in terms of the new products – their momentum, their development and also their improving margin as we mature those products and get to optimize again in the same way as we did with *Advair* a decade ago – the net/net effect will reduce. Short term, however, there will still be a significant impact.

Tim Anderson (Bernstein): I have some questions on emerging markets and performance still struggling. When would we expect to see your overall emerging market business return to positive growth territory? On China, I think you talked about it returning to growth in the second half: is that still on track? Is your emerging market business now, between the contraction in sales and the remedying of certain problems, a profitable business for you at the moment?

My second question is high level on Brexit. It is not about the near-term impact on things like foreign exchange, but I am really looking for what structural disruption might occur over the intermediate term – whether in supply, or hiring, or anything else to do with it that you could comment upon. That would be helpful.

Sir Andrew Witty: Thank you very much, Tim. EMs are actually improving underlying but we have had a number of disposals this year, and the Venezuela situation and the continued reshaping of China. I would expect, as we come through this year, you will start to see it much better underlying, getting us into the mid-single-digit type of territory as we move into next year. China, likewise, and we continue to expect China to move back into growth as we come through the second half and out of this year. We have just seen *Cervarix* approved in China and we have just had *Viree* put onto the pricing list and we are

seeing some very significant positives as a result of that. We were already seeing some stabilisation.

You have to remember that we decided to divest ourselves of a number of products in China in the last six months or so, and so an awful lot of the suppression that you are seeing is the structural reshaping of the company rather than anything else. Most of that is on course and this is absolutely still a profitable business for us. It is a very good business for us and we are coming through back into something where it will be a reported contributor to growth in a way that it has not been in the last year or so, because of the China issue and because of the restructuring or the divestment of various business, plus of course Venezuela.

As far as Brexit is concerned, the things to keep an eye on – at a global level, they are all slightly at the margin but probably worth having at least on page 14 of your radar. Whether or not the UK stays in the European Medicine Agency will be a big deal. Why? Because if the UK leaves, you could articulate a whole bunch of negatives, but you could articulate that the reason why Britain leaves to create its own agency is to create the best agency in the world, with the fastest and most innovative way to assess value for money. I am making it up, but just imagine that that were the scenario: that could create a very interesting, competitive dynamic in the way in which innovation is assessed globally. It would create a new voice in that system. There are clearly lots of downside risks of separating the UK out but there are lots of possible upsides.

Where UK regulatory decisions go will be a very important issue, number one. Number two, parallel trade, so will there continue to be a free movement of goods between the UK and Continental Europe? About a third of GSK products sold in Britain is product which was originally sold at lower prices in Continental Europe and re-imported and then sold in the UK. That's a net benefit to GSK if there were no parallel trade.

The change in currency has already helped a bit there but nonetheless there is still an opportunity there for companies like GSK if parallel trade were to, for whatever reason, disappear.

There is the potential for increased complexity in the supply chain if Britain were to separate from the European regulator and there is the potential in the long run, and again now I'm painting the downside scenario of a regulatory separation. You could paint a picture which says that in the long run a standalone British regulator doesn't have as much influence globally and you do less clinical research in the UK and that over time starts to have an influence on where you might want to do your long-term research which is a very long-term question, but is clearly a possibility.

I think the reality, Tim on everything I see and feel here is that much as it might frustrate everybody, I don't think we will have any clarity on any of these questions for possibly two or three more years from now. I don't think we should be anticipating all of these answers get issued quickly.

I think that this is going to take much longer than people think and it probably should because it's much better that we get the right answer than we get a quick answer, but we are going to have to live with some uncertainty during this period.

Next question.

Andrew Baum (Citigroup): Thank you – three questions, please. Number one, Abbas highlighted a pending decision that would be made to accelerate some of the high probability, high commercial potential compounds in your portfolio. I'm interested on the timing of that. Have those decisions been made? When should we expect expansion of some of the clinical trials, for example for your OX40 or ICOS, your BET or some of the potentially more promising compounds and conversely, a culling of some of the lower probability compounds?

Number two, I noted that you described the bictegavir, the Gilead molecule integrase inhibitor, as structurally similar. Do you believe there is any infringement of your *dolutegravir* intellectual property and related compounds that you have?

And then finally on China, just picking up from the last question, taking out the reshaping that you've referenced, in terms of the underlying growth of the Chinese business that you have, could you give us some sense of how that is progressing? Are the declines ameliorating and bottling out and also if you could give us a sense as a percentage what fraction of the Chinese business have you divested as part of that reshaping process?

Sir Andrew Witty: Great, thanks very much. I think on the last point yes, our underlying growth is improving quite quickly and we have probably divested or reshaped around about 25%, about a third of what we had before.

As far as the *dolutegravir* Gilead competitor concern, I don't know whether or not there is an issue there but clearly this is a class where you can see there are some similarities.

As far as the prioritisation is concerned, just to be clear, Andrew, we do prioritisation all the time so as soon as we see a programme, as you saw, ICOS is in the clinic, OX40 is now in several collaborative trials with other companies, with PD1 partners, so I just want to

disabuse you of the notion that nothing happens until some committee meets and makes a decision and then everything happens.

Everything is moved as fast as it can move once it achieves its evidence points, whatever they are, whether they are safety or efficacy or quality and similarly, as the programmes that start to move start to move, then we would start to rein back on the programmes which we have less interest in. We run, I think, a very comprehensive and very thoughtful analysis of every single asset with every single experiment in R&D force ranked against each other in terms of its potential economic value to the company, of course with a risk rating attached to it in the way that you do that. And that's what, if you will, drives our decision-making.

Now of course it has to be alive to the fact that on Monday you get some amazing news on a drug you weren't sure about that suddenly moves it up the schedule, and you have to be able to react to that very quickly.

A real example of that is the triple for America. I mean, we were on a schedule to file the triple two years from now. We got some information which gave us confidence that we could potentially move much more quickly and we reprioritised everything in the company to take two years out of the filing timeline and we told you we could file before the end of this year as a real example of exactly the way the company operates.

What Abbas was referring to is we do have an annual snapshot review which is a good chance for everybody in the company to see everything that's going on, gone on, the kind of state and if there are at that point kind of collections of products which look like they are really going to fly, then you might make a decision to say "Okay, we are now going to take a choice on the following three or four or five assets in a much later part of the development portfolio" and we do that every year, so every September time we have those reviews and if you went back six or seven years that is when we surfaced *Breo*, *Anoro*, *dolutegravir*, all of the products which are driving our sales today were essentially identified through that process. We then swung behind and we moved them forward, and we do that every single year. Every year, so last year triple really surfaced through that at the end, two years before that *Shingrix* surfaced. That is really exactly how we do it.

If I am looking at this year's review, the ones that I am watching to see how well we are doing, are the dual in HIV, *Shingrix*, the triple, obviously, as late stage, danirixin, cabotegravir, the PHI programme, the RIP kinase programme, OX40, ICOS, BET inhibitor. Those are the programmes which are now all receiving absolutely daily updates on priority and being flushed through the system as quickly as possible. When we look at the whole portfolio we will be simply doing a double-check to make sure absolutely everything that can

be being done is being done, but I will disabuse you of the notion that we don't do that on a regular basis; it is absolutely what we do all the time.

Next question?

Jo Walton (Credit Suisse): Thank you. Three quick questions, please. One just to help us with our modelling. You have told us that your assumption of the 19% improvement from FX for the full year includes an EGOL situation, the same as last year, so that was a -54 for last year. Is it likely, given the volatility of currencies going forwards, that that EGOL could develop and be more substantial by the end of this year? When we are looking at where to put this currency gain should we model it effectively mainly in cost of goods, because that seems to be where we saw it in the second quarter?

Could you also give us some more help please on the minorities? With the Consumer business growing, with ViiV growing, naturally you would have thought that minority would have been getting higher. Maybe there are some funnies in there, but if you could help us with that that would be very helpful.

Finally, pushing on *Advair* for next year, are there any opportunities for you to do long-term contracting so that you can at least retain volume, even if there is an issue of price? Can you give us any insight as to how that might be progressing? What might be realistic for us to assume in terms of your volume retention in the US?

Sir Andrew Witty: Let me take the last question, Jo, and then Simon will obviously address the other ones. Clearly we are going to explore and are actively exploring all the possible scenarios for continued business retention of a proportion, hopefully substantial proportion, of *Advair* post any generic entry. There are definitely, to your precise point, ways in which we can contract or we can compete in different ways to keep volume in the US. What I would remind you of is that there is no generic file for the MDI, so that business alone you would not anticipate being genericised.

The key to all of this is when does a generic begin and again, clearly there is a risk of it being in '17 and it may very well be in '17, but it may not be. We need to be first of all alive to that and we also need to be alive to what is the shape of the generic competition? Is it one company? Is it multiple products? Is it substitutable? Are they all substitutable? All of that plays to what kind of deal we can do, frankly, and clearly the later it is the fewer there are and the less substitutable they are the better for us – just to be obvious. In a way it is unlikely – it won't be for me to do – but I think it is unlikely that the company will be giving you very precise guidance to answer your question other than to frame it in the way that I

just have, so that you can do your own assessment of if there is only one and it doesn't come until the end of '17, and it is not substitutable then that is a certain scenario versus if three came in March of '17 that is a different scenario.

I think there is still an awful lot to play for here and when you look at our share acquisition overall we have grown our share of ICS LABA over the last 12 months with *Advair* obviously declining, but with the strong growth of *Breo*. I think we are in a decent position to continue to build a very strong ongoing revenue base there and we are certainly on track to what we have said to you before which is by 2020 we expect our respiratory business to be as big as in 2015 [amended]. This transition looks very much doable in terms of where we stand today.

With that I will ask Simon to comment on the other questions.

Simon Dingemans: Thanks, Jo. On the currency tailwinds, we have made an assumption in the 19%, as I said earlier, that we will have exactly the same EGOL this year as we had last year. This is an area that we have got a huge amount of focus on and, you are absolutely right, when currencies are volatile it is even more difficult to control, so we are pleased to have come through the second quarter with none, but over the year I think we have to expect continued currency volatility and that is why we have made the assumption that we have.

They typically show up in SG&A rather than cost of goods; the cost of goods benefit in the quarter is really more about where our costs are, i.e. in sterling relative to other currencies, so for your modelling I would assume they come in SG&A.

On the minorities, there is definitely some phasing between Q1 and Q2 and I think if you look at the half as a whole then you will see the trend more in line with what you were probably previously expecting. In Q2 we saw a number of bad debt provisions in some of the other minority interests we have around the Group, not the two big ones that we have just talked about, and obviously those create a credit in minority interests, so it is a bit lower than you would otherwise expect, but just look at the half as a whole and you will be, you know, in a more sensible place.

Sir Andrew Witty: Great, thank you. Next question?

Keyur Parekh (Goldman Sachs): Good afternoon and thank you for taking my questions. Andrew, two for you please. One is as you think about the Glaxo business over the next five/ten years how do you think the challenges and the opportunities that face

the new CEO will be different to the ones that you faced when you took over? Consequently, what would your suggestions be that creates for the new CEO?

Secondly, as we think about the progress you have made on the integration, we think about the benefits to the cash flow from the sterling being what it is, is there an opportunity for Glaxo to think about increasing the dividend, kind of, in '17 rather than it being flat in '17 and then growing post '17? Thank you.

Sir Andrew Witty: Great, thanks very much for the question. I think the last thing a new CEO wants is a kind of instruction manual from their predecessor, they want the complete opposite, they want a freedom to do what they want to do and that is exactly how it should be here at GSK. I think that though when we look at the business where we are today, versus perhaps where we were a few years ago, as we look forward one of the really big differences is *Advair* is coming down quite quickly, its relative importance to the Group is dropping very quickly, and whilst Simon is quite right, if there were to be a sharp genericisation it would hurt in the year, it is no longer strategic in the sense that it once was.

Actually, when you look beyond *Advair*, you really have no material genericisations until the second half of 2020s, that is a massive difference to the last seven or eight years, where we have had a constant stream of expiration of product. It doesn't mean there won't be other issues and other threats, but I think the new CEO has the platform to be able to build growth and focus on how to drive those elements of growth in the Vaccine, Consumer and Pharmaceutical businesses without having to always be taking two steps back before they take one step forward, because of the losses of the older products. I think for the next ten years that is a very, very attractive place to be as a company and I would argue – and you know my view on this very strongly – I would argue that we have built extremely competitive positions now in Vaccine, Consumer and in the key therapy areas in which we compete in Pharmaceuticals and that the mix of those areas give us a very, very strong, sustainable position against the likely ongoing pricing pressure in Pharmaceuticals, especially in Specialty Pharmaceuticals, which I think is coming, and we need to make sure we are ready for that.

Now, I am not saying there isn't great opportunity there and we want to play in that marketplace, but I don't believe we want to be totally exposed to that. And so I think for the new CEO they have that as a foundation to start with and then they will make good decisions about how to further develop, enhance and change the focus of the company.

I think in terms of the dividend, the Board have made it very clear they expect to pay 80p a share for 2016 and 2017 and then I am sure the Board will take a view on what its ongoing dividend approach will be for 2018 and beyond and, of course, what will inform that

is the position of ongoing cash flows and, as you rightly say, the underlying performance and the currency all help, but I don't think anybody needs to or would necessarily be well advised to make a premature decision. There is some water that has to flow under the bridge and I think then they will make a sensible decision going forward. I think one thing you know from the GSK Board is that they value their shareholders very highly, and I think we have had a long history of ensuring a good balance of return of cash to shareholders, and I think in my tenure I have paid out something like £40 billion, which is almost 100% of the market cap on the day I took over back to shareholders.

Next question?

Seamus Fernandez (Leerink): I have a couple of quick questions on the overall Respiratory franchise. Can you talk a little bit about how you feel the progress of *Nucala* is going and how you expect that franchise to continue to evolve going forward as competition emerges in that market? Secondly, on the Closed Triple, can you help me understand a little as to where do you see the incremental value-add? Obviously, superiority to Symbicort is a good and attractive start but we have seen good performances and superiority versus *Advair* with just a two agent combination from some of the other competitors. I am trying to get a better understanding of how you see that evolving on a go forward basis, how you see the success of the Closed Triple and how you will metric it? Thanks.

Sir Andrew Witty: Thanks very much for the question. *Nucala* is off to a good start actually, so we are ahead of our expectations in the US and Europe on *Nucala*. I think we now have something like 3,100 patients on drug in the US. As you probably know from other companies, I know Novartis went through exactly this when they launched *Xolair*, it is very complex to get patients on these kind of drugs. It is not particularly a clinical issue, it is a reimbursement issue, and it takes a few months to set up a process. On average, it takes us about six weeks to get a patient from the point where a physician says, "I want to prescribe" to actually being able to administer the drug, because it takes so long to go through all the various reimbursement insurance triggers. There is a real issue there in terms of complexity of the US system. It takes a few months to set something up but it works efficiently - efficient means six weeks, unfortunately - but we are in that rhythm and we are seeing quite a nice continued ramp-up. No impact at all from the competition that we have seen so far in the US and I think the subcut administration and all the other benefits of the label for *Nucala* really stands us well there, it looks very promising and feels very good.

Ex-US we are seeing very good performance, a very strong start in Germany in particular but across the board we are seeing good reports and we have just launched in Japan. I just came off the phone with our General Manager in Japan and they have had a phenomenal first couple of weeks. So far so good on *Nucala*.

As far as the triple is concerned, I would just make a couple of points. I said earlier about a third of the market was in an open triple more or less. You have to remember that GSK might only be playing in about half of those prescriptions, so let us assume that Symbicort has about half the base steroid combination and we have about half. Of course, we don't play in hardly any of the Spiriva element. When you break down that third of the current market, we are playing in a relatively small fraction of the total value of that marketplace. So the first thing, of course, is to try to capture more of that and I have a funny feeling - I was thinking the other day about triple and it reminds me a lot of when we launched 20 years ago *Fluticasone* and *Salmeterol*, both of which were highly effective medicines, competed like crazy with Budesonide from AstraZeneca and it was only when we brought *Advair* out that it really drove the dominance of GSK in that space. It took Astra another five or six years to try to catch up and they have never really been able to in terms of share.

I think this may be somewhat similar in that you have a scenario where we have introduced a series of new medicines, this time they have been doubles rather than monos but actually the thing that really clinches the market is the triple. If you can establish yourself as the triple of choice, it is a bit like the Brexit negotiation, once you have decided what the answer is, you know what your negotiation strategy is. If you decide that your triple of choice is the GSK triple, then why wouldn't you start with the double of GSK, why on earth would you start with somebody else's double?

Now, remember, in America as well there is never going to be another once-a-day double product in the marketplace. I think we start to create an extremely persuasive pathway, because the reality is in COPD that everybody knows the patients are going to progress. Patients are not going to stop at any particular level. Over time, unfortunately, their disease is going to progress and they are going to need to move on to different regimens and therefore the physician will need to establish for themselves a pathway. If we lock in the endpoint, then I think it becomes obvious where the start points are.

So I think for us there is an obvious share-take opportunity within the established open space, and I think there is the potential for this to be the absolute clincher of the whole Respiratory strategy for GSK. I have to say with the way in which the Ellipta device is now being used and welcomed, that's why we are building yet another set of production lines

announced today to keep up with demand, and the way in which the feedback on the individual molecules and doubles that we've got, I think we are simply building up a tremendous amount of energy and goodwill around these new products. When I look at what could come from the competition, it's either late or it's twice a day in the key market of the US and I think we've got a tremendous chance to really drive this market forward in the way that I've just described.

Next question – last question, I think actually.

Kerry Holford (Exane BNP Paribas): Thank you, a couple of financial questions and then a follow-up question, please.

So firstly on cost savings, target for the year remains £2.4 billion and yet you have effectively booked much of that in the first half of the year, so I wonder why you are not raising that guidance and as such why that run rate should slow so dramatically into the second half. If indeed that is the case, how is an incremental \$6 million dollar-sterling then achievable for next year, so if you could just talk about the phasing there?

And then on the operating margin, that was up around 250 basis points year-on-year, could you give us a broad guidance through the components there split between the underlying performance of the business, the restructuring benefits and the one-offs such as the *Advair* rebate reversal?

And then on triple, could you just confirm whether you would expect that product to receive a ten-month or a 12-month review in the US? Thank you.

Sir Andrew Witty: Go ahead Simon, please on the first two.

Simon Dingemans: On the cost saves, clearly as we have said in the remarks at the beginning of the call, we are well on track and in many of the programmes we are a bit ahead. There is still quite a lot to do in the second half of the year so let's get a bit further before we call where we are going to eventually end up, but as I highlighted, the second half of the year is up against significantly tougher comps in that sense in that we started to ramp up in Q3 and particularly Q4 last year, so the incremental amounts, you should expect those to be significantly smaller as we head into the second half of the year. I think direction of travel pretty clear, but a bit early to call that.

I think on the operating margin, there are no particular one-offs that I would call out. The *Advair* adjustments that we referred to are pretty small and certainly not a material driver of margin. It's much more about operating performance and the leverage from the top line. The leverage from the top line is probably delivering about 40% of the total and the rest

is coming from ongoing cost savings as well as the integration and restructuring benefits that combine in the 2.5% that we delivered in the quarter.

Sir Andrew Witty: Thanks, Simon and then just finally, Kerry on the triple, it's a ten-month review.

With that, thank you very much for your attention and your questions. The IR Team of GSK is obviously here to handle any other questions for you and thank you for your attention today.

- Ends -