GLAXOSMITHKLINE

FIRST QUARTER 2013 RESULTS ANNOUNCEMENT

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Sir Andrew Witty (Chief Executive Officer): Welcome to the first quarter conference call for GSK. I am here with Simon Dingemans, as normal. I shall make a few comments followed by Simon, and then we shall open up the call to Q&A.

The first quarter was very much in line with our expectations, with sales down just 2% and up 2% for our ongoing operations, i.e. excluding divestments such the Consumer products sale and *Vesicare* from last year. My commentary from now on will focus on our ongoing business.

I was very pleased to see, once again, broadly-based growth coming from the USA, EMAP and our Consumer Health business with Japan held back only by the *Cervarix* year on year comparison, without which it would have been up 11%, and even Europe is showing some signs of improvement, although I still believe that Europe will remain very challenging for the rest of the year.

There was good delivery in Respiratory, especially from *Seretide/Advair*, *Flovent* and *Ventolin* in the United States, our Oncology business, especially *Votrient* in the USA, and a robust Vaccines business delivery particularly from *Synflorix* in Emerging Markets.

Our European restructuring is progressing well, and we are around half way through that particular programme of change.

Our Consumer Healthcare business delivered excellent growth in all four categories: Wellness was up 8%, Oral Care up 5%, Nutrition up 6% and Skin Health up 6%. All of our regions performed well, especially the International and USA businesses, both up 7%. For our largest Consumer Healthcare product *Sensodyne*, we saw growth of 19% in the markets outside of Europe and America, which signals, once again, the very significant opportunities that exist for Consumer Healthcare in the Emerging Markets. It also underpins a lot of the opportunity we see for Rx/Cx synergy in that particular high growth part of the world.

We have also seen continued encouraging R&D progress with all of our six key assets which we previously highlighted now under review in both Europe and America.

We are starting to see the first data from the 14 read-outs on other late stage programmes in the next wave of new products: first data for darapladib and our MAGE-A3 both expected during 2013.

We have delivered strong cash flow performance in the quarter, up to £1.4 billion, led by improvements in working capital, with an overall reduction of 12 days in our cash conversion cycle down to 203 days versus first quarter of 2012.

After completion of our announced review, we are now progressing to seek the sale of the *Lucozade* and *Ribena*, subject to achieving appropriate value for our shareholders, and I hope we shall be able to conclude that process during 2013.

We have also announced today the formation of a Global Established Products portfolio, made up of over 50 of our pharmaceutical tail brands. This will allow us to focus our resources on the new product portfolio and deliver efficiency gains from our legacy non-promoted brands.

We shall crystallise and report separately this portfolio to shareholders from January 2014 onwards, giving greater visibility to another element of our business. To give you some idea, this portfolio will have a turnover of around £3 billion and, if they had been separated from the business in the first quarter of 2013, GSK overall would have grown 1% faster than we reported.

We continue actively to explore options to simplify the business further and deliver focus on our tightly synergistic portfolios, to support our growth delivery from innovation and the further very significant Emerging Market potential that we see.

We bought back relatively few shares during the quarter due to the frequency of regulatory processes in which we are involved, which precluded our involvement in trading in the market, but we continue to expect to buy back between £1-2 billion worth of shares this year.

I am pleased that we were able to increase the dividend once again, this time by 6% to 18 pence per share and our 2013 guidance remains unchanged. We remain on track to deliver sales growth of around 1% at constant exchange rates and EPS growth of 3-4% at constant exchange rates. With that, I would like to ask Simon to give you a little more detail on the results.

Simon Dingemans (Chief Financial Officer): Thank you, Andrew. While it is still early days, I am pleased with the start to the year and, after the challenges of last year, I am particularly pleased that we have been able to deliver another quarter in line with our expectations with continued momentum across all of our key growth markets. This may be less visible in the reported numbers given the already flagged comparators, but it gives us confidence, as Andrew has highlighted, that we remain on track to deliver against our guidance for the year of EPS growth in constant currency terms of 3-4% on sales growth of around 1%, again in constant currency.

Our financial architecture allows us to prioritise better the investments we need to make to drive those growth objectives, as well as to identify more clearly where we can release costs and resources and improve our efficiency.

As we flagged before, the main contribution to the leverage this year will come from financial efficiencies, and I am pleased to be able to report good progress this quarter with both financing costs and tax charges in line with where they need to be to deliver our full year objectives.

We are also using our financial architecture more rigorously to drive earnings ahead of sales over time and convert more of those earnings to cash that we can either reinvest in the business, or return to shareholders, and the 6% dividend increase this quarter is clear evidence of the progress we are making on this front.

Now let me comment on the quarterly turnover and regional highlights in a little more detail. As usual, the focus will be on CER growth rates and core results. Group sales were down 2% but, excluding the divestments made in 2012, sales grew by 2%, which is after absorbing the headwind of about 1.5% from the *Cervarix* sales drop in Japan, which I also highlighted in February.

Turning to the US, our Pharmaceuticals and Vaccines business grew 4% excluding the *Vesicare* divestment in Q1 last year. Promoted brands contributed 7 percentage points of growth with strong performances from Respiratory and Oncology, offset by a 3% headwind from generics including recent launches against *Lamictal XR* and a number of Dermatology products.

Moving to Europe, Q1 sales were down 3% benefiting from some of the operational measures we have been taking but, more significantly, from a little less pressure on price due to the annualisation of several austerity measures. Despite this pricing, with still a 3% headwind in the quarter, volumes were flat and remain under pressure, and the environment in Europe remains uncertain and challenging, and we continue to be cautious about the outlook here.

In EMAP we continue to make investments for the long term. In the quarter, total sales grew 8%, with strong contributions from the respiratory portfolio, up 8%, and *Augmentin* up 27%. EMAP vaccine sales grew 7%, which was better than we had originally expected, due to a shift in the phasing of tenders. This benefitted Q1 but will impact Q2. This shift in vaccines will also likely drag the overall reported EMAP performance meaningfully below trend for the second quarter. As we have highlighted, however, we continue to expect the majority of vaccine sales in EMAP in the second half.

Excluding Vaccines in Japan, our Pharmaceuticals business grew 12%, with strong growth from Respiratory after a strong start to the allergy season. Several new product launches also contributed meaningfully, offsetting the impact of generic erosion to *Paxil*.

Our ongoing Consumer business was up 6%, with strong growth across all regions and categories, with sales in the US up 7% and Europe up 4%, and International up 7%, after the impact of the reclassification of certain products in the China business. The star in this region, however, was clearly India, up 19%, with continuing strong growth of *Horlicks* and a growing contribution from the launch of *Sensodyne*.

Turning to the costs, on the operating side the total core operating margin for the quarter was 29.7%, which includes an £82 million net exchange gain that we took in the quarter on the settlement of inter-company transactions, driven primarily during the period when we saw rapid strengthening of the US dollar. Excluding currency, the overall margin declined 2.7 percentage points but remember, in Q1 last year, the *Vesicare* turnover and a one-off royalty adjustment, which had no costs associated with them, also disproportionately benefitted the margin in that period. Excluding these two factors, the operating margin was down approximately 4%, year on year.

Cost of goods as a percentage of sales, excluding the *Vesicare* and royalty adjustment, was up by 1.4%, reflecting 0.6% of ongoing pressure on COGs from negative geographic and product mix factors. Volume reductions and inventory write-offs drove the rest, despite being partly offset by better pricing discipline and cost management.

Total SG&A grew 2%, excluding currency, in line with ex-divestment sales, driven by continued investments in our growth businesses. Also keep in mind that we are carrying the investment here to support the new product launches.

R&D expense was down 4% in the quarter, reflecting both cost management and the phasing of projects. I continue to expect us to manage R&D spend to be broadly in line with last year, at around £3.6 billion.

Overall, we will continue to manage our margin and operating cost base aggressively, including pursuing both ongoing savings and one-off benefits. I should remind you of the one-off benefit saving we had in Q2 last year of around £100 million. We continue to pursue other one-off savings this year, but the timing of these is more likely to be in the second half.

Total incremental restructuring benefits in 2013 are expected to contribute approximately £600 million, the phasing of which will clearly vary from quarter to quarter but, again, this is likely to have a weighting in the second half, given the relatively recent start to the new Change programme.

Financial efficiencies are also contributing, with our net funding rate helping to keep net financing expense broadly in line with last year, despite the significant step-up in our net debt.

Our core income tax rate of 22.4% in the quarter is 3.5 points better than in Q1 2012, keeping us very much on track to deliver a rate of 24% for the full year. As anticipated, the Q1 tax rate included the benefit of the US R&D credit associated with 2012.

Moving to cash flow for the quarter, we continue to be highly cash generative. Cash generated from operations was over £1.4 billion before legal, which reflects good progress in our management of working capital which, as Andrew highlighted, has reduced by 12 days since Q1 last year, with particular progress in inventory management.

Net debt for the quarter increased from £14 billion to £15.4 billion: £700 million of this is due to the net impact of exchange, with the balance being the successful completion of our transaction to increase our ownership in the Indian consumer business from 43% to 72.5%.

This left the free cash flow available to fund the vast majority of cash returned to shareholders during the quarter, which totalled over £900 million, including £870 million in dividends and £47 million of share repurchases. The level of share buybacks in the quarter has been restricted by the limited windows we have had, given the current dataflow, but we are still targeting to repurchase 1 to 2 billion of our shares this year.

In summary, we knew that this was going to be a negative growth quarter because of the comparators from last year, but these complete their roll-off in Q2. Aside from the distortion of our reported numbers, our Q1 performance is very much in line with our expectations and keeps us on track to deliver our financial guidance for the full year.

With that, let me hand back to Andrew.