GLAXOSMITHKLINE

SECOND QUARTER RESULTS 2013
PRESENTATION TO ANALYSTS AND INVESTORS

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Sir Andrew Witty (Chief Executive Officer): Good afternoon everybody and welcome to this Q2 conference call. In addition to talking about the quarter, I shall make a few comments on the current situation in China, although these will be limited given the status of the investigation.

Let me start by summarising where we are for Q2 and I am pleased to say that our business is performing well. We are delivering on our strategy to improve financial performance for the Group and, during the quarter, EPS grew 4% to 26.3 pence at constant exchange rates, and we have increased our dividend by 6% to 18 pence per share.

Importantly, we continue to deliver very encouraging progress on our pipeline. This quarter alone, we saw three major new product approvals in the US: *Breo*, a new treatment for COPD, and *Tafinlar* and *Mekinist* for the treatment of metastatic melanoma. These new medicines are clear evidence of the innovation that GSK is producing in areas of high unmet medical need.

These approvals also speak to GSK's rate of R&D productivity, with further readouts expected on 13 more assets over the next 18 months. I can also let you know that the first two of those 13 have already read out positively (completed) in the last few months. We are very optimistic that we can deliver valuable new product flow and, in terms of current products, Group sales grew 2% this quarter in constant exchange rate, with strong performance across the Group.

We are very pleased with the performance of our US Pharmaceutical and Vaccines business, which was up 5%, the best performance for a long time, helped by strong growth in Respiratory, Oncology and Vaccines.

In Emerging Markets and Asia Pacific, pharmaceuticals were up 7% while vaccine sales were down 13%, reflecting the timing of vaccine tender shipments which we had previously signalled.

In Europe sales were flat and in Japan sales were down 5%, largely due to the continued generic erosion of *Paxil* sales, which is masking the good contributions we are seeing from new products. Japan remains a very positive environment for GSK with around 30 new products to launch there in the next few years.

We continue to implement measures to increase the focus of the Group by targeted divestments. We expect to reach agreement to sell *Lucozade* and *Ribena* by the end of the year, and this quarter we also received an offer of around £700 million for two anticoagulant products – *Fraxiparine* and *Arixtra* – and the related manufacturing site.

As far as our outlook, we continue to expect core EPS growth of around 3-4%, and turnover growth of around 1% on a constant exchange rate basis during 2013.

Before I pass to Simon, let me just make a few comments on the situation in China. By the way, unfortunately, there is a limit to what I can say to you now and during questions, given that the investigation is ongoing and at an early stage.

As we saw 10 days ago, our China pharmaceutical operations are the subject of an investigation by the Chinese authorities into allegations of fraudulent behaviour. From what we understand from the authorities, it appears that certain senior managers in the Chinese business have acted outside of our processes and our controls both to defraud the company and the Chinese healthcare system.

To see these allegations made about people working for GSK is, as we have said, shameful and for me personally they are deeply disappointing. The alleged activities are not what we expect of our people and are totally contrary to our values. Outside and inside the company, people rightly expect us to operate with integrity and, to be crystal clear, we have zero tolerance for this kind of behaviour. I can assure you that we are absolutely committed to rooting out corruption and we are absolutely committed to getting to the bottom of what has happened here.

We are cooperating fully with the authorities and we are looking into what has happened ourselves. We have already put in place new resources to deal with this, and we shall continue to do so. In addition, we are going to commission an independent review to investigate what has happened.

As I have said, at this stage there is still a lot that we need to find out but one thing I can guarantee you is that we will learn from this and we will make changes.

In the meantime, let me say we are committed to China. We support the efforts of the Chinese government to reform the medical sector, and we are open to looking at all ideas to improve affordability and access to our medicines, including changing our own business model in China.

We have a long history and a very large footprint in China, and we continue to see the country as a key environment for further investment. We also continue to believe that, in a country facing significant healthcare challenges and with critical needs in areas such as

Hepatitis B, respiratory disease and diabetes, GSK has many important medicines and vaccines that can potentially benefit the people of China.

With that, I shall hand over to Simon to give you a more detailed update on the quarter, and then we shall go to questions.

Simon Dingemans (Chief Financial Officer): Thank you, Andrew. Our performance for the second quarter highlights how our strategy to invest behind a range of growth drivers and build the linkages between our Pharma, Vaccines and Consumer businesses is delivering a more balanced and broadly-based set of results.

Stronger momentum is evident across the business, even though we continue to deal with the drag from a number of generics, and the contribution from new products is still relatively small. With three important approvals in place during the quarter, we are now gearing up the launches of these new products. While it is still early days, we expect them to become a meaningful additional source of growth over time, even if they may ramp up at different rates.

Our financial architecture is allowing us to leverage the whole P&L to reallocate our resources more effectively and drive efficiencies from our cost structure. This is giving us the flexibility we need to invest behind our pipeline, while also driving earnings-per-share ahead of sales growth. This quarter EPS, on a constant currency basis, was 4% on sales growth of 2%. This is after absorbing the impact of an exchange loss on inter-company transactions of £46 million and the £100 million one-off benefit to Q2 operating profit last year from changes to our pension plans.

The financial architecture is also maintaining the organisation's focus on improving our cash flow and allocating our capital to the best returning opportunities. Cash conversion remains strong and we generated approximately £3 billion in net cash inflows from operations for the first half. This is after investment behind the late-stage pipeline and the costs of our ongoing restructuring programmes. We also returned £2.3 billion of cash to shareholders over the same period via further dividend increases and continued share repurchases.

Overall, we are pleased with the progress the business has made in the first half of the year. We are where we thought we would be at this point and we are on track to deliver the guidance for the full year that we set out in February.

Turning to the results for the quarter, as usual the focus of comments will be on constant currency growth rates and core results. Group sales in the quarter were up 2%

after absorbing the impact of the £50 million headwind from divestments that I highlighted for you previously. This is primarily related to the OTC consumer products that we sold last year. For the half, reported sales were flat but, excluding divestments, the ongoing business grew 2%. The divestments I highlighted in February will only have a very minor effect on the second half of the year.

Details of the impact of the disposals under discussion with Aspen and the sale of our *Lucozade* and *Ribena* drinks businesses will be confirmed at the time final transactions are agreed. Where we can see attractive values are available, we will continue to seek opportunities to improve the Group's focus and release resources we could either reinvest or return to shareholders.

In the quarter, our US Pharma and Vaccines sales were a key driver of growth overall, with sales up 5% - the best reported quarterly growth for this business in over four years. This reflects getting past both the significant losses to generics that the business has experienced in recent years as well as the loss of *Avandia*, but it also reflects the refocusing of the US commercial organisation and its growing capabilities in our core therapy areas. Key drivers for the US in Q2 were the Respiratory portfolio, up 8%; Oncology up 10% and our Vaccines business up 14%.

In Europe, our Pharma and Vaccines Q2 sales were flat. Volume across the business was up 2%, benefitting from the restructuring of our European business and, in particular, our efforts to redirect our resources behind a more focused range of growth opportunities. *Seretide* volumes benefited, up 1%, as did Vaccines, up 5%, with a number of key tender wins, including *Rotarix* shipments into the UK helping Q2 performance.

As expected, pricing overall continues to be negative but the pressure in Q2 was less than prior quarters, due to the annualisation of severe austerity measures. Nevertheless, we continue to have a cautious outlook for Europe.

In EMAP, reported Q2 sales grew 2%. This particularly reflects the affected phasing of vaccine tenders and a tough comparator last year resulting in a 13% decline in vaccine sales in the quarter. We are expecting a better Vaccines performance overall in the second half but, as with last year, tenders will likely be weighted to Q4 relative to Q3. Remember, both quarters offer tough comparators as well.

EMAP Pharma continues to deliver well and consistently, with growth in the quarter of 7% after 8% in Q1. We saw particularly good contributions from Respiratory, up 9% and especially *Seretide*, up 14%. We expect continued, broadly-based growth from our emerging market business in the second half. The contribution from China is likely to be impacted by the current inquiries but it is too early to quantify this.

In Japan, turnover fell 5%, primarily due to the ongoing generic erosion of *Paxil*, which began in Q3 last year, and new competition to *Cervarix* and *Rotarix.* Also, our Respiratory portfolio was down 7%, as good growth from *Adoair,* which was up 8%, was offset by weaker sales in other products, reflecting an early allergy season. Remember, in Q1, respiratory products in Japan were up over 20%.

On Consumer, the ongoing business grew 5%, despite some challenges, which reflects its resilience. As we highlighted at Q1, our rest of world performance was impacted particularly by new regulations and price reductions in China. Wellness in the region was also impacted by some *Panadol* supply interruptions but other categories, especially Oral Care and Nutrition, performed very strongly, helping to more than offset these issues.

Turning to the cost lines, at the operating level the core operating margin was 29.4% in Q2 including the impact of a £46 million net exchange loss on the settlement of inter-company transactions.

You will remember we had an £82 million gain from the same source in Q1 this year and these gains and losses only arise on this scale when there are significant short-term movements in exchange rates.

Excluding currency, the overall margin declined 0.3 percentage points and you will recall from last year that we noted operating profit had benefitted by about £100 million from changes to the cost of future pension obligations.

Excluding this benefit the margin improved 1.3 percentage points versus last year, reflecting an improved mix in Q2 this year helped by growth in the US Pharma business but also the better performance in Europe as well as the benefit of ongoing cost savings in our restructuring programmes after we've funded investment in growth businesses and behind the pipeline.

As expected the cost of goods marginally increased in the quarter, even excluding the element of the pension credit attributable to manufacturing as the continued unwind of under-recoveries from 2012 more than offset the restructuring and improved mix benefits despite encouraging progress in the manufacturing restructuring programmes in recent months.

Cost of goods remains an area of pressure as we initiate commercial volumes of new products.

Restructuring benefits have had more of an impact on our SG&A expenses which remain broadly flat, excluding the one-off benefits last year and our restructuring

programmes are particularly helping us to be significantly more flexible in how we allocate our resources and how we can re-allocate them behind the pipeline in particular.

I should remind you also that during the second half of last year we had a number of similar one-off benefits that reduced our operating costs including a £290 million favourable pension adjustment recorded in Q4. I expect the combination of ongoing cost management benefits, including savings from existing programmes plus other one-off value opportunities to largely offset the comparator drag during the second half of 2013.

R&D expense was down 6% in the quarter, primarily reflecting restructuring savings coming through, productivity improvements but also the phasing of trial and study costs, particularly as a number of late-stage projects move to filing and complete their development phases.

However, I am currently expecting R&D expense to pick up again in the second half and to be higher relative to first half.

On the bottom half of the P&L we continue to leverage financial efficiencies to help drive EPS growth. We significantly lowered our net funding rate this quarter over last year and it is keeping our net financing costs broadly in line with last year, even though we have stepped up our net debt materially.

Our core income tax rate of 24% is 1.5 points better than Q2 last year and keeps us on track to deliver an overall rate for the year of 24%.

On cash flow we continue to be strongly cash-generative. Net cash inflows from operations after tax were £3 billion, up 8% and cash conversion remains strong.

We made further gains in our working capital programme and reduced cash conversion days a further day this quarter. This makes ten days since this time last year, excluding the benefits of assets being held for sale which now drop out of the calculation.

This is helping to minimise the additional cash requirements for working capital necessary to support the group's growth and reduces the impact on free cash flow.

Cash returns to shareholders for the first half were £2.3 billion, including £1.9 billion in dividends and nearly £400 million of share repurchases. We are now up to nearly £500 million including purchases since the end of the quarter and we continue to target £1-2 billion for the year.

I should remind you though that we have been out of the market for extended periods and will continue to be out at times because of the status of our regulatory files.

So in conclusion, these results are very much in line with our expectations for this stage of the year and leave us on track to deliver our financial guidance for the year of 3-4% EPS growth, on turnover growth of around 1% both on a constant currency basis.

With that, I'll turn it back to Andrew.

Sir Andrew Witty: Thanks Simon very much and I'd like to now just open the call for questions.

Question and Answer Session

Graham Parry (Bank of America Merrill Lynch): Thanks very much. Just starting off with the situation in China, I wonder if you could confirm whether the Chinese investigation is part of a parallel investigation by the US authorities, or was it prompted by an FCPA investigation in any way at all as certain blog websites might have suggested?

And then a few product questions just on the FLAMINGO data for dolutegravir, where should we expect that to be presented and when? On *Breo* there looks like there is a little bit of slippage in terms of launch timeline to the third quarter/fourth quarter rather than just third quarter. Is that just reimbursement or is there anything else going on there?

Then finally on drisapersen for Duchenne Muscular Dystrophy, I note that Sarepta has now announced that it intends to file its similar product on the back of Phase II data in 2014. Is there any reason why GSK wasn't able to file on Phase II or following this news, can you accelerate or augment your file?

Sir Andrew Witty: Thanks, Graham. As far as we are aware, the China situation is a China situation period, and the investigation is a domestic investigation. Secondly, as far as the dolutegravir/FLAMINGO data, we have not announced yet where those will be published. Obviously, we shall do that through the ViiV organisation in good time.

As far as the *Breo* timelines, everything is progressing. We are putting in place all the various steps we wanted to, we were tracking perhaps a couple of weeks behind where we initially thought. I am pretty comfortable about that as it is absolutely critical that we get this right, and we are going to take the time to make sure we get everything absolutely nailed. This is why we have signalled that it may slip out of Q3 into the beginning of Q4, no big deal or drama. Quite a lot has been done to get ready for this as far as reshaping our

US salesforce with extra focus on Respiratory as an example. We are now in the process of making sure that we have everything ready to go.

As far as the Duchenne Muscular Dystrophy is concerned, the big difference is that we believe we shall have a package that is focused on clinical endpoints rather than surrogate markers: a different strategy and we like that strategy.

James Gordon (JP Morgan): Thanks for taking my questions. I have one question on Emerging Markets. I appreciate that it is too early to comment on China but, generally, do you think the level of visibility you had on employee marketing practices in China is similar to that in other Emerging Markets? Now that these activities have come to light in China, are you investigating practices in other countries?

I have one question on *Anoro* in the US. There is Pulmonary Adcom meeting scheduled for 10 September; do you know yet whether that will be an AdCom for *Anoro*?

Sir Andrew Witty: James, thanks very much. No comment on *Anoro*, there is nothing I can tell you there.

As far as salesforce practices, what we understand from the Chinese investigators is that what happened here was that a number of managers seemed to be operating outside of our processes, systems and controls, allegedly to generate this fraud, so we are working through all of that. One of the things we want to do is to understand exactly what has happened here, which will take some time I suspect, but we need to understand exactly what has happened here. Clearly, once we understand that, we shall make sure that we have in place whatever is necessary to try to prevent it in other places where it could be potentially possible.

I would say there are many unique characteristics, to state the obvious, about China and, therefore, some of the circumstances that may exist in China simply are not replicated elsewhere. However, the general point is important, that once we understand what has gone on, we shall, of course, look to ensure that there is not a similar risk elsewhere. I should make the point that all of our group companies are subject to extensive control, audit and checking, and we have a very strong policy in the company of expecting individuals to live up to the values of the organisation.

If we find that people have broken those rules, which we do from time to time, they are dismissed or disciplined. You will see in our Annual Report that we publish those numbers. Therefore, we are very active on that front and, if it turns out that there is some

new information in this particular situation that may be pertinent elsewhere, we shall clearly act on that. Next question.

Andrew Baum (Citigroup): Good afternoon. My understanding is that, unless there is clear evidence of further fraudulent behaviour in your US operations, there is no impact on the Corporate Integrity Agreement you have with the Department of Justice, whatever happens in China. Could you confirm whether that is the correct interpretation when I am thinking about the potential risk to your Medicare programme?

Secondly, you highlighted the potential for developing new distribution models, particularly in Europe, to reflect the new economic outlook. You have obviously brought some mature products together, you have divested some products. Could you outline some of the movement and pilot programmes you are beginning to run as you think about reframing your cost base for that part of your business?

Sir Andrew Witty: Thanks, Andrew. There is nothing else I want to add on the investigations which have gone on or anything else – there is nothing that I can helpfully add. As far as Europe is concerned, we are in quite a big period of restructuring our European business. If you think about what we have done in the last eight or nine months, we have reduced the size of the cost base substantially, so a significant reduction in back office in particular. There has been a reduction in the salesforce size, less of a percentage reduction in the salesforce but a very big redeployment of the salesforce. Although we have reduced the salesforce by around 15%, we have increased the amount of resource we have behind Respiratory, Oncology and Vaccines, which are the three big growth franchises for us in Europe. That is why we are seeing an improved stabilisation and an improved relative competitive performance on volume. Data I have seen indicates that we are now the third best volume producer in Europe of our peer group competitors. That is encouraging. We also, of course, see a somewhat more benign pricing environment, as some of the annualisation phenomena roll through the system. Big changes there.

Secondly, as we created the established products, we have begun to actively look at how we might best manage these products which are not going to be drivers of growth for us in the future and where those products make sense to be exited from the group, obviously we are doing that. We are doing that with *Fraxiparine* and *Arixtra*. The majority of those businesses are sat in Europe and, of course, subject to the agreements we are divesting both the products, a substantial number of personnel, the cost of the personnel will go with those products, as will a factory. That is quite a major piece of infrastructure which is going to be exited from the organisation alongside from the brands.

We will now continue to work through that portfolio of established products and basically ask the question "What is the right solution for each of those blocks of business?" For some of them they are just going to stay in the group unchanged. For others it may be that we partner – perhaps they will be ViiV like relationships for certain elements and for others it may be we just exit them from the organisation, the way that we are doing for *Fraxi* and *Arixtra*. Very much underway. As I said to you last year we were determined to take not just a short term, but a much more strategic response to Europe. We are doing that. We are seeing the benefits of that in the short run, but of course it is fundamentally giving us a more streamlined business and then, as and when we get new products approved in Europe, even though we know that is going to be a relatively more difficult space, we should have a leaner, more focussed organisation able to take advantage of whatever opportunity we can access, despite the austere environment in which we operate.

Ira Das (Bernstein): Good morning, this is Ira Das for Bernstein. I have two questions, please. First, we are under the impression that FDA may be putting out a guidance document on generic inhalers sometime in the current year which could simplify the pathway for generic versions of *Advair* to launch in the US perhaps sometime in 2016. What are your expectations on this guidance in terms of timing and content?

The second question is on the Established Products Division that you have now created. What we would like to know is can you realistically see floating this division out into a separate, publicly traded company, for example, and how should we think about it in 2014 and beyond for this division?

Sir Andrew Witty: Thanks for the questions. I have no comment or insight with regard to any potential guidance. My overall position on the *Advair* marketplace for the US really hasn't changed. I remain of the view that a fully substitutable generic is extremely difficult. I remain of the view that it is unlikely that we are going to see anything in the next several years. Obviously the further out we go in that projection the less certainty anybody can have, including me, but my view overall hasn't materially changed. As I say, we have no insight into any potential changes.

As far as the Established Products are concerned, we have no intention at this point in time at floating this off as a separate business. I have made it very clear that what we aim to do with the creation of Established Products is essentially three things. The first is to make sure that inside the organisation we have a mechanism to allow particularly our support structures to allocate resources behind our new pipeline products, our existing promoted products and then the established products so that we create a structure in the business

which allows the appropriate, dedicated resource to be attached to those different bits of business. They have different challenges, different needs. As we now acquire new pipeline business through the R&D performance we need to make sure that we are not in any way going to lose sight of what we have to do on some of the older products. Partly it is an entirely internal management device.

Secondly, we believe that with a focus on the Established Products which, by the way, a vast majority of which over the next couple of years will be outside of the US – I'll explain why in a second - those businesses are characterised by significant complexity, lots of brands, lots of SKUs in lots of countries. There is a real opportunity for us to have a simpler focus, streamline that business, take out cost, make our manufacturing organisation's life easier, improve the margin and allow us to focus on new products and, we believe there are potentially selective tender opportunities which, by focussing in this space, we can develop.

The reason why that business increasingly becomes a non-US business of course is because the products that are in the Established Portfolio in the US are already genericising. As time goes by over the next couple of years, those products themselves will become less and less relevant in this context.

The third and final point refers to the comment I made to Andrew a couple of minutes ago, which is within that established portfolio there are clearly blocks of business which we could either sensibly sell from the company and create shareholder return quickly. *Fraxi* and *Arixtra* are a perfect example of that, or where we may find alternative ways to develop those business, perhaps through a ViiV like partnership in certain areas, which can again create enhanced value versus the way they are currently managed. That is really the story of the established product and we have no intention of floating this off as a business at this point in time. Obviously, if someone wants to come and make me an offer I can't refuse, that would be a different conversation but, in the absence of that, that is where we stand on this portfolio.

Next question.

Kerry Holford (Credit Suisse): I have three questions, please. Firstly, on *Breo,* we saw that CVS Caremark announced its 2014 Drug Exclusion List for its National Formulary last week, and *Breo* was on that list of drugs to be excluded from January next year. It is notable that Caremark made this move, even before you have launched the product in this market. Is this the first time that managed care do not buy into the benefits of

a once-daily dosed product in COPD? Are you concerned that this exclusion for *Breo* could extend more broadly across the US markets?

Secondly, on *Advair,* we saw that the year-on-year list price in the second quarter of the year was fully retained. That is in marked contrast versus previous quarters and I wonder if that represents anything new, any reduced rebate pressure on *Advair,* or is that really to be viewed as a one-off positive for this quarter?

Lastly, quickly on albiglutide, has there been any progress there on finding a partner for this product?

Sir Andrew Witty: On albiglutide, we continue to explore options there but I have no definitive answer for you.

On the *Advair* pricing piece, yes, it is good news that we were able to retain that, but largely due to various year-on-year comparisons around RAR, in terms of partly benefits this year but partly also less positive last year. There is no bad news in there but it is a little bit enhanced by the year-on-year comparator of RAR.

The *Breo* issue is not signalling. We are only just beginning to get into sensible contracting conversations with managed care companies. All of the signals we have seen from patients, physicians and payers are that there is actually quite a strong interest in the once-a-day COPD product, not least because of the sense of the cost of poor compliance with twice-a-day product and if there is anything that can be done to improve compliance and therefore reduce hospitalisation. Of course, the managed care companies have not yet seen our net pricing proposition: I am well aware that the face price is in the market place but nobody has seen the net price proposition. I don't think that should be read as in any way signalling what is going on and, over the next couple of months, we will start to see how the real conversations go.

Next question.

Keyur Parekh (Goldman Sachs): Good afternoon, and thank you for taking my questions. Andrew, I realise that there is limited stuff you can comment on, about what is ongoing in China but, to the extent that you can, I would appreciate any colour you may be able to share around whether you believe these practices or these allegations are purely in Glaxo, or do you think this is an industry-wide issue which the rest of your peers will be facing too? What I am trying to understand is, to the extent that you can say, do you think Glaxo's practices were different from everybody else's?

Secondly, on the product side, I note that your Japan Vaccine revenues were impacted this quarter by increased competition, both on *Cervarix* and *Rotarix*. Do you see this as a quarterly phenomenon or is that a new level of sales that we should be thinking of, going forward. Thank you.

Sir Andrew Witty: Thank you very much for the questions. As far as Japan is concerned, we have clearly seen a slowdown in the HPV market place and, over the last year, we have seen a significant share decline for *Cervarix*. I don't think we will see anything very dramatically changing in that scenario.

Rotarix: rotavirus is a much more positive situation, where we continue to hold very substantial share, despite new entrants. I think rotavirus is likely to develop into a continued, positive story but, on the HPV side, less so.

Coming back to China, again I would like to reiterate that it is very early days. We have not yet been able to get into a full investigation mode ourselves but, working with the Chinese authorities, it appears that this is a consequence of some individuals working outside of the controls and processes of the company, to defraud the company as well as to then and go on and do things which are potentially illegal. It is important to recognise that it appears that we are also seeing an inflection point in the Chinese environment, in terms of how the government wants to see their entire healthcare sector modernised. I don't want to make comments about anybody else, but we are all looking at the same Reuters screens reporting what is going on. I leave it to you to draw your own conclusions. It would be inappropriate for me to comment on anything beyond GSK.

Next question.

Seamus Fernandez (Leerink Swann): I have a couple of quick questions, more as it relates to first-off kind of direction of gross margins, and we see in the back portion of your report the gross and operating margin performance ex-R&D actually improving in most of the divisions, so can you talk a little bit about directionally where you see improvements coming going forward?

That question is for Simon and then beyond that as we think about the key pipeline opportunities going forward, where are the areas that you are particularly excited about? We have mepolizumab data coming up, we are on the cusp of a dolutegravir approval but what are some of the key products that you focus on in the next, call it, 18 months? We are through a first seven here, and we have a number more to go and I would just love to know which ones you are most excited about. Thanks.

Simon Dingemans: Thanks for the question. On the operating margin going forward, as we highlighted in the quarterly commentary, we are already seeing a number of benefits from our restructuring programmes across all of the three major cost lines and we very much think about those together in terms of delivery, operating performance.

We highlighted back at the beginning of the year an additional restructuring programme which is designed to deliver about £1 billion of savings over the next three years which will contribute to that, but alongside that I think as we have highlighted also we are expecting to see some pressure, particularly on the manufacturing side as we ramp up new products and that's probably where the greatest strain is. But we will be working the whole of those mix factors to deliver against our medium-term objective to improve operating margin. It will come from a number of places to the overall total. I think that's probably the best guidance I can give you at the moment.

Sir Andrew Witty: Thanks, Simon. As far as R&D is concerned, there is a tremendous amount going on in this company on R&D. I've worked in this company since 1985; I don't think it's ever been more exciting from an R&D perspective. That's because we have significant products being approved, significant products awaiting approval, a whole raft more products and indications coming through immediately behind and some very exciting stuff coming out of the early phase discovery organisation. So almost at every level we are seeing some very, very cool stuff happening inside the R&D organisation.

To focus on the short-term, the next couple of years what really stands out obviously the impending decisions over the next few months on dolutegravir, on *Anoro*, on albiglutide are important. The continued global process of seeking approval for the two melanoma drugs and *Breo* of course, that's real, it's right here. We have had a good year so far. Obviously we are working hard to ensure that we are able to continue to seek approvals around the world and also to convert those approvals into successful launches. That's a very mobilising phenomena in the organisation and I can tell you, particularly in the US it's had an extraordinary impact in terms of the way in which the US is thinking about the future and is at least partly I suspect one of the reasons why we are seeing the US perform so well, even before those drugs are actually in the marketplace because it's having a deep impact in terms of how they view their future.

I think if we then look into what else is coming up, I'm going to start in the places which you probably least expect me to and it is products like *Votrient* and it is products like *Arzerra* where we have products in the marketplace but we are gradually acquiring more data, gradually able to file for new indications, gradually get those approved and gradually build in momentum behind those products. I think *Votrient* is a super example of our ability

to do that and actually if you look at what's happening in that marketplace coming very quickly through the ranks into being a potential market leader.

Arzerra obviously is a biologic with a very long period of potential exclusivity, we have a great opportunity to continue to develop that brand as well.

If I look then at the slightly newer stuff, so what would I call out? Probably three or four things in the next year and a half. One is MAGE-3, the antigen-specific vaccine programme. You know the first data on that is coming and the second is darapladib. Both, I am going to say what I've said in every comment for the last five years, high-risk but potentially high rewards, so I'm not naïve, I'm completely open to the possibility that these programmes fail, but we always believed there was a good reason to believe and a great prize to go after in terms of the potential patient benefit and those two are going to come to fruition in this time period.

Mepolizumab I think is an extraordinarily exciting programme for severe asthma. We have tremendous amounts of data, particularly safety data in other indications in which this drug was looked at before. It looks very, very exciting.

And the last one actually is zoster vaccine which although it is an event-driven trial and it looks like that vaccine is probably going to report in 15 rather than 14, actually the opportunity for us to bring in a very competitive vaccine into the zoster space, very important for us. We think the technology of that vaccine, given that it's not a live virus-based vaccine gives us much more flexibility. We think it has potential utility beyond where the current product is in the marketplace.

That's another very exciting one, so I think there is a raft of products coming through. As I said, we have 13 sets of data to read out , we have already had two (completed). I have not even mentioned the multiple respiratory combinations and individual products which have come in the background. That is where R&D sits today and it is the product of an extraordinary amount of hard work over the last several years, and I am extremely grateful to and proud of our research and development organisation at GSK. Next question.

Peter Verdult (Morgan Stanley): Good afternoon everyone. I have two questions, Andrew, and the first is on *Relvar/Breo*. Given the advantages you see versus *Advair*, can you talk us through some of the pushes and pulls in terms of deciding to price at parity in the US? The second part of the question is on SUMMIT and Salford, the mortality and outcomes data, can you remind us when we expect to see the topline data there, because I hear that the Salford study is recruiting slower than expected?

Secondly, on China, I realise that it is both delicate and ongoing and I am probably pushing my luck here. As far as how we should think about what a worst case scenario could entail, does that include forced price cuts or perhaps even a ban from certain regions or therapeutic areas? Thank you very much.

Sir Andrew Witty: On China, there is really nothing that I can add there, Peter. These are very early days, we are working very cooperatively with the authorities but it is way too early to take a view of what, if any, implications there are down the road. I remind you that these are allegations. We need to get through the investigation, figure out what really happened, what the consequences are, what the impact is on individuals and/or the company. There is plenty of time for that to come, we are very early in this situation.

As far as *Breo/Relvar* is concerned, I would refer you not just to *Breo/Relvar* but also to look at the pricing positioning of the two melanoma drugs, both of which we brought in at a discount to the current products in that marketplace. We believe that, over the next several years, around the world and in the US, pricing of new products will remain a focus. We have always made it very clear that our R&D strategy was to try to find a way to deliver multiple products. We appear to be in a position where that may be possible. I believe that allows us to reduce the need for any individual product on its own to carry the entire future of the company. It reduces the pressure on pricing and allows us to be able to be more thoughtful and more creative and price in very different ways for very different sorts of products.

Our view on the *Breo/Relvar* positioning was that this gave an opportunity to deliver added value, different value in terms of the dosing frequency and the obvious consequences. It is a new and better device, a device that we know patients prefer and we can build that proposition at a value-for-money price, which is what we have really aimed to do there.

As far as SUMMIT and Salford, we are looking at 2015/16 for those programmes to conclude. Next question.

Jeff Holford (Jefferies & Co): Hello everyone, thanks for taking the questions. I have three questions none of which has the word “China” in, which I am sure you will be glad to hear! First off, on working capital it looks like you are making good progress there. Can you remind us how that is tracking versus the original plan you had there, and how much further do you think you can go on working capital in terms of days I am really thinking there?

Secondly, on the Respiratory market in general, you have a number of new products coming to market, you have initial parity pricing announced. Can you say whether that is a stable proposition going forward with the parity pricing? Sometimes a company will look to raise the price of the older product once the new one is on the market to help force switching over, so perhaps you can talk about that for a moment?

Then is there any further help you can possibly give, narrowing down timing a little bit on MAGE-3 and darapladib, that would be good if you can? Thank you.

Sir Andrew Witty: Simon, go ahead on the working capital.

Simon Dingemans: Overall, we are probably a little bit ahead of where we originally expected to be but with the very clear objective of trying to deliver steady and sustainable progress. So from a trend point of view, you have seen us do that over the last couple of years of making consistent reductions, which is very much the objective going forward.

We have probably made the largest progress on receivables/payables and the areas outside of the core inventory question, and that is now where the focus is really sitting in terms of trying to restructure our supply chains to make sure that we can make sustainable reductions in the needs of inventory as we grow the company again in both the Vaccines and Pharma business. Therefore, that is where you should probably expect the greatest progress going forward.

Sir Andrew Witty: Thanks, Simon. On the Respiratory market, I am sorry, Jeff, I am going to be very irritating. It is obviously a very competitive space, it is very important to us that we try to take whatever competitive advantage we can, so I shall not go into a lot of detail on what our pricing strategy will be. I'm sorry about that. Clearly, it is our goal to establish *Breo*, it is our goal to continue to develop our strong position in the Respiratory marketplace, and with products like *Breo* and, hopefully, *Anoro*, we have tremendous short-term opportunities to do that.

As far as data production, we would expect the first study for both dara and the first study from MAGE-3 to report out before the end of this year, with the second study for both reported out next year.

Florent Cespedes (Exane BNP): Thank you ladies and gentlemen. Thank you for taking my questions. Two quick ones: first on the US business. We have the breakdown of the US, plus some instances of volumes and price and is the good Q2 performance sustainable? The second question is more clarification. Could you confirm that

the real life trials on *Breo* will have the results only in 2015 and not 2014? Could you explain how is it possible to launch *Breo* without the results of this real-life trial?

Sir Andrew Witty: Thanks, Florent. As I said earlier, we are expecting those trials to report out '15 onwards. We feel very increasingly good about launching *Breo* in advance of that. We always knew that was going to be the case and made perfectly clear that those trials would never be finished in time for the launch. What has become clearer to us is the benefits of *Breo* in terms of not just dosing frequency, but the device, the potential understanding and concern within the payor environment about compliance, costs and the like and simply the interest of patients, if you will, for a new option in COPD we think is pretty real. That gives us a degree of confidence. Of course it will be excellent to come along a couple of years post launch with further, hopefully reinforcing, data. That, for me, makes perfect sense.

In terms of the US business composition, it might be worthwhile just reflecting on a couple of things. Yes, there is some price benefit and yes, we have been able to capture more of that price benefit for reasons I have touched on earlier. It might be worthwhile you understanding that we promote in the US 82% of our sales base. 82% of the revenue in the US is promoted by the company. The residual 18% is not promoted by the company and that is made up either of products which are going generic, so in the process of genericising, or are simply a very small number of products which are neither generic nor are they promoted.

Just to put that into context, 82% of the business is promoted; 8% of the business in Q2 was generic or genericising and about 10% of the business is simply not promoted and not genericised. That 82% grew 11.5 percentage points. The generic 8% fell 31 percentage points and the non-promoted business was basically flat. What you see in the US is a lot of volume being destroyed as per usual in the generic side of the house, but a lot of growth and obviously some price benefit in the promoted side of the house. When you see that 82% growing at 11.5%, then you start to consider the introduction of the two melanoma drugs, *Breo* and then, with a fair wind future new products, you can see that our US business is in a very robust shape to receive and start to move forward with the next generation of the product.

Vicki Bakhshi (F&C): Thank you. I have two questions, coming back to China. The first question is can you confirm that there is no connection between the previous difficulties that you had around falsification of data and the exit of the Head of R&D

and the current set of allegations? Secondly, have you given any consideration to whether should these allegations be proven GSK could be prosecuted under the UK Bribery Act?

Sir Andrew Witty: As far as we are aware there is no connection between the individual behaviour at the R&D site, which has been well reported, and I have no comment to make other than to say, as you would expect and as is appropriate, we have open channels to various oversight regulatory agencies in different countries around the world, on both sides of the Atlantic. I have nothing further to say to that. Next question?

Fabian Wenner (Kepler Cheuvreux): Good afternoon. Two quick questions. The first one what are the actual charges in China and are there any charges against you that involve economic damages in the sense of excessive drug prices or the likes? Thank you for any light you can shed on that.

Secondly, can you remind us of the milestones with *Theravance* with regards to potential approval of *Anoro* in the US? Thank you.

Sir Andrew Witty: Very little I can add on China. As I have said this investigation is at the early stage. You have probably seen reported from China the same commentary I have seen. We are going to continue to work with the authorities on this. Our understanding at this point in time from the authorities is that this is around individuals in the senior management of the company in China who are alleged to have worked around our systems and controls to both defraud us, and then potentially to do things inappropriately in the market place. Obviously, this is the early stage of the investigation and we have to wait and see how that actually matures.

I think Simon has the information you asked for on the milestones.

Simon Dingemans: Yes, there is $30 million due on launch, and $30 million on approval, for both *Breo* and *Anoro*, so $30 million each. There are two payments of $30 million on each.

Sir Andrew Witty: Thank you, Simon.

It is time to bring the call to a close. Thank you very much for your attention. Obviously, the IR team at GSK are available to handle any detailed follow-up. Thank you very much.

- *Ends* -