Sir Andrew Witty (Chief Executive Officer): Welcome to our Q1 call. I am joined today by Simon Dingemans to whom I shall hand over in a couple of minutes to take you through some of the detail of the quarter.

Before doing that, I want to remind you – and Q1 is quite a good exemplar – and review where the strategic shape of the Group is, particularly in the light of the three-way transaction that we announced last week with Novartis. We are focused on successfully launching and establishing further growth opportunity in our Respiratory portfolio; secondly, on the development of our Vaccines business, in particular helped by the proposed transaction with Novartis, and, thirdly, developing a premier Cx business, Consumer business, between ourselves and Novartis. All of that is built on the foundations of very strong industry-leading R&D capability and global footprint.

The first quarter is a key quarter as far as signalling the kind of transition that is under way for the business. Of course, there are, as always, other issues like price competition in the environment. What is really going on in this quarter is the beginnings of the full roll-out of our new product portfolio, including in Respiratory, and the transmission of business from the older portfolio to the new.

As we have said many times before, it is very difficult to synchronise that transmission perfectly quarter-to-quarter but our goal is to make sure that gets done over the next several years.

Our strategy is very clear. The transaction last week really emphasises where we are focusing our attention for the future. Key to all of this are new products and we are seeing good performance from new products in Q1. If we look across and start with Respiratory, Breo has started a little more slowly than we would have liked, which is entirely, in our view, due to the pace at which we were able to build insurance coverage in the US, partly because of missing the insurance window for contract negotiation last year due to the timing of the launch. It is also, no doubt, partly due to the tighter pricing environment dynamic that we are seeing.

With the launch of Breo, it has given us the opportunity to get in and start to negotiate those contracts. I am delighted that, as of today, we now have 70% coverage in Medicare Part D for Breo, which compares to only 3% on 1 January, so a very substantial
improvement. I am also delighted to see the continued pick-up in the prescribing performance of the product. Again, it is a slower start than we would have liked but the underlying trends look good and the leading indicators look very promising for Breo, and we remain very optimistic about its potential.

In the same quarter, Advair had a step-down in market share, driven by the pricing dynamic. The delisting at the ESI high control contract had an effect but what you can see in all of the market share data is that effect is a one-off step. We have seen good stabilisation of share over the last several weeks and, of course, we have seen some weeks where it has ticked up as well more recently.

It is a changing dynamic for Advair but, as the product becomes more mature, it is inevitable that it will attract more competitive pressure. The good news is that we now have the newer products in the market ready to pick up the strain. The challenge, of course, is the pace at which the new products start and the older product matures.

Anoro was launched last week and the anecdotal feedback is extremely good, very promising, and I am delighted that we have already been able to secure the first of our Medicare Part D contracts. That is a significant contrast to the Breo situation, reflecting a more convenient timing for launch as far as the calendar of contract negotiations. It also reflects the fact that Anoro is a first-in-class new product into the US. It is off to a good start there and in the US we look with optimism towards our Respiratory future.

Giving all of the pricing dynamics in the US marketplace, I am delighted that we have those new products to help us ensure that we can sustain strong returns despite the tougher pricing situation that we see.

Elsewhere, we have seen the approval for Incruse, our third Respiratory product now in Europe and Canada, and we continue full speed ahead with the next six of our Respiratory products in the pipeline, including mepolizumab, on which you have seen good data in the two Phase III studies in the first quarter for severe asthma. We have just announced that we have put that molecule into Phase III for COPD as well. Therefore, the Respiratory pipeline continues to deliver, launches under way, leading indicators look encouraging, transmission of business from relying on Advair to the others happening.

Elsewhere in the new products, we are seeing very good performance. Tivicay in the ViiV business unit is performing extremely well and now looks to be the most successful HIV product launch in that category for the last five or six years. In Oncology, we continue to see very strong performance from the MEK/BRAF with very good market share achievement, Votrient also. Regarding Flu QIV which was also launched last year, we are seeing a very good early order book for this year, so we are optimistic for future growth from that.
Further back in the R&D organisation, around 40 new molecular entities in advanced development and we continue to see those progressing well. We would expect to describe that in more detail to you as we move through the balance of the year. We are also delighted to see the continuation of major approvals in the first quarter, including Tanzeum in both Europe and America and Incruse as I have said already in Europe and Canada.

The transaction that we announced last week with Novartis, three-way deal, really is designed to surgically enhance two key parts of our business, the Vaccines and the Consumer business and also sought and found the right owners for our nascent Oncology business releasing significant value for our shareholders. We believe that is the right approach to take to further strengthen the Vaccines and Consumer part of the organisation without disturbing our R&D business which clearly is a big driver of future value for the company.

EPS guidance remains unchanged at 4-8% for the year. We expect to grow sales. A little less clear exactly the rate of sales growth given some of the dynamics that we are seeing open up during the year, particularly the early approval of Lovaza combined with some of the price pressure we are seeing in the US. Nonetheless we feel confident to deliver sales growth and very confident to deliver an EPS within the range of 4-8%.

This quarter is an interesting quarter in a sense because for many people on the outside of the company there is great focus on the apparent reliance of GSK on Advair. This quarter, clearly Advair had a difficult quarter, a significant reduction in sales in the US and yet the group delivered 2% EPS growth. I think that really emphasises the strength of the diversity of the organisation and really exemplifies the value of the strategy that we have been deploying.

Finally, I am delighted to also be able to confirm that the dividend will be at 19 pence a share which is up 6% and with that I am going to hand over to Simon to just take you through in a bit more detail.

Simon Dingemans: Thank you, Andrew. This quarter we have seen continued momentum across many of our key growth businesses, including in Emerging Markets, Europe, Japan, ViiV and Vaccines and these helped to partly mitigate the impact of increasing competition in the US, particularly for Advair and supply disruptions to our Consumer business in the US and Europe.

The quarter was also impacted by a number of items we previously flagged, including the phasing of vaccine tenders and stocking patterns by wholesalers and retailers, but despite these pressures the benefits of the reshaping of the group over the last few years
are clearly evident in the breadth of positive contributions to growth that we are now delivering across the business.

New products are making an increasing contribution, although it is still relatively early days in the launch cycle for the eight key new products we have had approved since the beginning of 2013.

The more specialist launches in HIV and oncology have made the most progress to date with ViiV on the back of ongoing success of Tivicay in the US growing 4% and our MEK and BRAF oncology products also continuing to gain share.

The broader respiratory launches are now also underway, although coverage for Breo has taken longer than originally anticipated to negotiate. Despite this, as of 1 May coverage levels for Breo will be over 70% of Medicare Part D lives and Anoro started shipping during April which should contribute to improved momentum from the new respiratory products during the balance of the year, although we continue to expect that it will take time to build this new portfolio to its full potential and that progress will be more visible in the top line in the second half of the year.

The quarter also delivered further progress in our continuing restructuring and cost reduction programmes with benefits at both the cost of goods level and in operating expenses that held operating profit flat in constant currency on an overall sales decline of 2%. Together with further financial efficiencies, these initiatives resulted in EPS growth of 2% in constant currency, very much in line with the objectives of our financial architecture to drive EPS growth ahead of sales through operating leverage and financial efficiency. This, despite the top line challenges we experienced in the quarter.

Over the full year we continue to expect that the substantial majority of the benefits of our restructuring programmes and other cost control measures will be reinvested behind the new launches leaving financial efficiencies as the larger contributor to the EPS leverage we expect in the short-term.

We continue to expect to grow full-year core EPS between 4% and 8% in constant currency terms and on an ex-divestment basis.

We also continue to expect to grow sales on the same basis, but the ultimate level of growth in 2014 will depend on a number of factors that have introduced a particular degree of uncertainty in this year of transition for our portfolio, including the pace of roll-out of our new products, the level of generic competition to older products including Lovaza and we saw a generic approved in April and the timing of resupply to our Consumer business will also be a factor.
But despite these uncertainties, our financial architecture is maintaining our focus on returns and continuing to convert a high proportion of our earnings to cash to fund returns to shareholders.

As usual, the focus of my commentary on the quarter is on CER growth rates and core results, but before we get into the detail, I should highlight that the sustained strength of sterling against almost every currency and some very meaningful devaluations in the emerging markets has clearly had a more significant impact than usual on our reported results.

The impact on the quarter was compounded by the swing in exchange gains and losses between this year and last and you will remember last year in Q1 we had an £82 million settlement gain. This year we have a £20 million loss. This element alone impacted reported earnings per share by around 6% and was a significant contributor to the greater impact of currency on earnings relative to the impact on sales in the quarter. The alignment of cost relative to the geography of sales drives much of the rest of the difference.

Turning to the detail of the quarter, overall group sales were down 2%. As I have mentioned, this mainly reflects the impact of lower sales in our US business and the impact on our consumer business that offset growth contributions from many other parts of the group.

US Pharma and Vaccines were down 10% in the quarter; 7 percentage points of this related to destocking by wholesalers and retailers. The balance of the reduction reflects a generally more competitive environment, but also, more specifically, increased price and contracting competition in the ICS LABA market, which particularly impacted Advair. Advair saw a step-down in market share in the quarter with underlying volume down 13%, as a number of contract terminations, most notably ESI’s formulary control programme, were implemented at the start of the year. Market share trends have since reverted to more normal patterns, although price pressure remains significant with price and mix impacting Advair sales in the quarter by 7%.

We expect price to remain an issue for Advair going forward as we continue to evolve our own contracting strategy, but also, as we invest behind our new launches and drive access for our new portfolio.

Remember, we are following a strategy of building a portfolio here to maintain our leadership in respiratory medicine and grow the sales in aggregate. I would encourage you as we move forward to focus on our overall total respiratory sales, because we do expect some give and take between individual products as we further build and strengthen our respiratory portfolio, especially on a quarter-to-quarter basis.
Moving to Europe, pharmaceutical and vaccine sales were up 3%, which continues to reflect the benefits from the restructuring and refocussing of the business on the priority products with growth potential. Growth from these areas, including oncology, vaccines and Duodart more than offset a 3% reduction in Seretide, which itself benefitted from stronger focus, holding the impact of price to -2%, with volume only slightly down at -1%, despite further new competitor launches into this category from a number of competitors.

Looking at emerging markets, total sales of our pharma and vaccines business grew 2%. This reflected the balance of pharmaceuticals up 7 and vaccines down 8. Excluding China, which continued to act as a drag on the business, the overall growth for the emerging market business was 4%. China was down 20% in the quarter, showing a continued stabilisation. This growth was delivered by further progress in respiratory, up 7% excluding China, oncology up 35% and Avodart up 30%. These offset lower sales of vaccines which were driven primarily by the phasing of tender shipments, particularly Synflorix.

Japan had a particularly strong quarter helped by a government order for Relenza, but also strong performances from Advair and Avodart. These products both benefitted from wholesaler stocking patterns ahead of a local tax increase, so we are likely to see some destocking in Q2, but the underlying trend is encouraging. Other respiratory products in Japan were down, due to a weaker allergy season compared with last year.

Turning to consumer, the business was flat in Q1 in reported terms, compared with market growth of 2%, impacted in both the US and Europe by temporary supplier disruptions, mainly on smoking cessation products and alli.

We are working hard to resolve this situation and expect to restart supply during the second half of the year. In the quarter supply issues cost the business about 5 percentage points of growth.

Elsewhere the consumer business continued to show strong momentum with the business’s largest key brands, Sensodyne and Horlicks delivering continued strong performances, with growth of 13% and 14% respectively.

The Rest of World markets also showed good progress, broadly up 6% in the quarter.

Looking at our costs, the operating margin, excluding currency impact, improved 0.7 percentage points and this reflected the benefits of our ongoing restructuring activities and cost control, which in total delivered around £100 million of incremental savings, versus Q1 last year across each of the major cost lines. Also an improved manufacturing performance,
particularly delivering lower write-offs, as well as further reductions in R&D spend as a number of ongoing trials came to an end.

Together, these benefits help offset the impact of the decline in sales to deliver flat operating profit, despite the impact of reduced royalties, which were £70 million this quarter, versus £130 million in Q1 last year. You will recall that we guided that royalties would be lower given the catch-up that took place in Q1 last year.

We delivered further financial efficiencies in the bottom-half of the P&L, with interest down relative to Q1 last year, reflecting the improved funding of the group and our income tax came in at 22.0%, both in line with our expectations.

Turning to cash flow. The business continues to convert a high proportion of earnings to cash. In Q1 adjusted net cash inflow from operations was approximately £1 billion and free cash flow approximately half a billion. Each down around £400 million on Q1 2013, reflecting mainly the impact on reported profit of currency movements, but also the divestments we made during 2013, which remember, helped us to generate £2.5 billion of proceeds in the latter part of the year.

Working capital days at the end of March were 205, reflecting the regular cycle of stock build we make during the first quarter of each year, particularly in vaccines and consumer, and excluding the impact of disposals, working capital days are up about 8 over Q1 last year, which is mainly driven by currency impacts on the calculation.

Net debt in the quarter was £13.7 billion, increasingly mainly due to the £700 million approximately that we spent on increasing our shareholding in our Indian pharmaceutical company.

Lastly, looking at returns to shareholders, as you know, our commitment is to use free cash flow to support increasing dividends, undertake share repurchases or where returns are more attractive, reinvest in the business, including through bolt-on acquisitions. We announced a 6% increase in the dividend for the quarter, reflecting our confidence and the momentum across the business and are continuing to target share repurchases during the year of between £1 billion and £2 billion.

As usual though where we finally end up on buy-backs will depend on how cash flow develops during the year, including the impact from currencies, but also where we think the best returns lie, given the attractive investment opportunities we see behind our ongoing restructuring programmes and our growing number of new product launches.

With that I will turn I back to Andrew for your questions.
Sir Andrew Witty: Thank you very much Simon and now I would like to open up the call, if the operator could perhaps read out the instructions then we will start the Q&A session.

Question and Answer Session

James Gordon (JP Morgan): Hello, thanks for taking my questions. One question I had was about darapladib, when I looked the press release I can see that the primary endpoint for the SOLID study has changed, so it is now just coronary events rather than overall MACE endpoint. On that, presumably, that has been discussed with the regulator? If you did have positive results on that amended study endpoint and they were in a similar level of efficacy as we saw in the STABILITY study, would that potentially be enough for approval do you think or do you think you would still need another phase III study?

Also one question on Respiratory, which was for Breo, for the prescriptions you have seen so far where are patients predominantly coming from? Are they coming from Advair or Symbicort or are they new LABA/ICS patients?

Sir Andrew Witty: Thanks very much, James.

On the second question, they are coming from a variety of sources, but certainly a healthy mix coming from new starts to ICS/LABA.

As far as darapladib is concerned, you are quite right we have a different endpoint, obviously that is informed by what we saw in the first study. You will have seen from the first study that the effect in stroke essentially was the outlying effect compared to the other elements of the MACE calculation. Of course we have informed the regulators on that issue. In the event that this second study were positive on that endpoint, it would clearly be a conversation to have with the regulator, but you would essentially then have two very large studies, one at least of which would be highly supportive to the second, although recognising that they had originally predefined different endpoints. I think it is a scenario where you could see a way through, but it all depends on the results and we have not too long to wait.

Next question.
Andrew Baum (Citigroup): Hi, two questions, please.

On darapladib, what is the statistical penalty that you are going to have to take from changing the end point, given there have already been a couple of interim analyses?

Secondly, on Anoro, I think we are just waiting for approval in Europe. I notice Incruse has been approved, I just wondered if you would give us an update on the approval for Anoro and what is holding it up?

Finally, on the Consumer, firstly, is the smoking cessation product damaged by the e-cigarettes, is it anything to do with the weakness or is purely the cessation supply issues? Then, secondly, perhaps you would like to give some sense of where you think you can take Consumer margins over the long term, given they are at this quarter at least around the 15% level?

Sir Andrew Witty: Thanks very much, Andrew.

Nothing more to add on darapladib, we are not going to give any further details on that, so I am sorry to frustrate you.

Anoro, we have the positive opinion in Europe, we are obviously just waiting for the time to go through and the process to happen, so, again, no drama there.

Consumer, it is basically a temporary supply disruption, so, again, nothing particularly to report. There is no doubt that the e-cigarettes have some effect in this marketplace, but I would not say that that has so far been dramatic. In terms of margin, in the context of the conversations we had last week following the announcement with Novartis, clearly if everything is approved and we bring those two businesses together we have historically trended up the upper teens, they were very much at the upper teens before they had their Nebraska issue, they are clearly planning to rebuild. My expectation is that over time we can build towards upper teens and that would be our initial goal and then we will see how we can go from there. I think that is entirely reasonable and, obviously, a little bit hurt in the first quarter because of the supply issues on the smoking products – actually remember the first quarter Consumer was growing at an underlying rate of 5%, clearly by losing some of that supply that has affected the margin a little bit.

Nothing super dramatic there and certainly we have a goal to be in the upper teens pretty quickly once we combine the businesses.

Next question.
Graham Parry (Bank of America Merrill Lynch): Thanks for taking the questions. Firstly, on guidance, I think you said on the full year call that you would need Lovaza for a good part of the year to reach the upper end of the guidance, clearly that hasn’t happened, Advair is looking a bit weaker, so what is the offset that you see to retain that upper end of the guidance and what is your level of confidence of being able to get towards the upper end versus the lower end?

Secondly, the price swung very negatively on Advair in the quarter and that has historically obviously been a positive. Can you quantify whether we should expect a similar sort of level of negative price impact on subsequent quarters throughout the year? Could you clarify comments on your portfolio approach in respiratory? Are you looking to offer bigger rebates on Advair for volume, with a higher Breo price, or vice versa?

Thirdly, R&D is very low, quarter on quarter. You have talked about some of the R&D trials falling off. You have also talked historically about upward pressure there as well, as new trials start. Could you help us to think about phasing on that line through the rest of the year?

Finally, on COPD and mepolizumab, could you talk us through how you see the market opportunity there. We understand that it is about 30% of the COPD population who are hyper-eosinophilic: is that the kind of proportion of the market that you are thinking about potentially targeting here? Thank you.

Sir Andrew Witty: Thanks very much, Graham. We will try to cover as much of that as we can. I will let Simon talk to guidance in a moment.

As far as the US is concerned, what is happening with Advair pricing is that there is clearly more price competition in the market place. We have historically been among the most disciplined around discounts and we have had a pretty low level of rebate running on Advair. As we have moved to increase that, to respond to some of the competitive pressures, that has an initial impact in the way in which the broader discount rate is calculated. That is an initial cost of the new phase, I would say. You will see a pressure on price continuing during the year, obviously: the price came down at the beginning of 2014 and it is down for the whole of the year, most likely. You will see that flow through, at least partly, through the rest of the year.

As far as the contracting strategy for Anoro, Advair and Breo is concerned, we are obviously not getting into the detail of that. However, what is very encouraging is that, while we have had to absorb some price pressure on Advair, simultaneously we have gone from being very uncovered on Breo to really exceptionally covered. There is 70% coverage in the Part B book, after seven or eight months on the market, which is an extraordinary
achievement when even the most established products don't get much beyond 90%. That has worked very well and, as I have said, the Anoro coverage has already started to happen very quickly and effectively. I am feeling pretty good about that and it is a shame that we obviously have to go through the trade, if I can put it that way, between the business which had Advair and the business which moved to the new product, but that is inevitable as Advair matures. As we start to see the new product move now, we will see quite a promising picture play out there.

In R&D, we are obviously benefitting from some big oncology and dara [darapladib] trials coming to an end. We have previously talked about upward pressure on that, basically driven by whether we were going to start a much bigger set of trials around the MAGE-3 programme. That will obviously not happen in the short-run, until we have got to the bottom of what is really going on in the trials, one of which has finished and the other is running through. That is taking some of the short-term pressure off there. Secondly, with darapladib again, we have to wait and see what happens in the study, when it reports in the next few weeks, as to what the future is there.

There is nothing at the moment which gives you strong upward pressure, and those potential upward pressures have probably retreated somewhat, versus coming forward.

In COPD, with mepolizumab, yes, about 30% of the patients would have a high eosinophilic count. Not everyone would qualify and so it is obviously about patient selection. Remember, for the severe asthma indication, given the nature of mepolizumab compared to Xolair, we would expect a significantly larger number of patients potentially to be candidates for mepo compared to the Xolair market. It is also quite an interesting way to think about the market opportunity.

On that, I will ask Simon to comment on guidance.

Simon Dingemans: Thanks, Graham. As you pointed out, when we talked about guidance originally there were a number of moving parts at the top line. I think you will see from the statement today that that remains the case. Where we end up, particularly in relation to the existing US respiratory portfolio versus the new portfolio, and the pace of launches, will be a driver. The ultimate top line performance will be a significant factor in where we end up in the bottom line range. You also can see in the quarter how much more flexibility we are building into the company’s cost base, which showed through in the leverage in the first quarter. That will become an increasingly larger part of the drive and delivery against the range at the end of the year. Whether that is a little more operating leverage versus financial efficiency, we will have to see how that plays out during the course of the year and what the right investment decisions are – recognising the number of
launches we have ongoing through the business. That is really how the mix will deliver ultimately, between four and eight.

**Tim Anderson (Sanford Bernstein):** I have two questions. In your view, what has been the catalyst for this suddenly intensified price competition in the US in Respiratory? There has been more than one competitor for a while and, historically, you have not really seen much price competition in the US. What has suddenly seemed to change here and how can this not be a harbinger of pressures to come in the US in other therapeutic areas?

The second question is: I think investors would love to get your view of big pharma merger, especially because, theoretically at least, GSK could represent yet another tax inversion play if a US company wanted to do what Pfizer is trying to do with Astra. What does the future hold for GSK on this front?

On established products, is any sort of disposal more likely to be a block trade or smaller, one-off disposals?

**Sir Andrew Witty:** Thanks very much, Tim. On the price dynamic, there are two. I do not believe that these things will restrain themselves to the Respiratory market, and some of the elements I shall touch on now – at least one of them – we are already seeing play out in the diabetes market and other segments. Partly you have the phenomenon of the consolidation of the payors, and some of the competition, if I can put it that way, between various classes of payors, which are leading payors to think about how they can structure different propositions: whether it is high choice/higher price, or whether it is low choice/lower price, to put very simplistically the two ends of the continuum.

With products like Advair as market leader but not alone and, if we look at other categories, you can see other market leaders being tackled in that way, some of that will go on. There are a relatively limited number of examples where you might anticipate that happening in the future but it is a phenomenon of the new marketplace. That is what has driven that step-down in market share which we saw from 1 January this year, and I am pleased to see that things have stabilised substantially since then.

The second part of the price dynamic is much more of a GSK stimulated issue and I shall tell you what it is. It is because we have shown up with a bunch of new products and there are companies that are very keen to see us not succeed with those new products. Of course, they look for ways in which they can legitimately compete with us. The good news is that we are breaking through that.
As I have just proven to you with Breo, and I believe you will see this on Anoro, we have been able to get these products covered, though not quite as quickly as everybody would have liked: not on day one, not in week three, but now, in the case of Breo, we have terrific coverage. We have seen since that coverage really starting to ramp up and with the introduction, for example, of DTC which makes sense now that we have the coverage, we see much better performance. In the first three weeks of April, scripts were up 36% compared to the first three weeks of March. We have seen a very nice straight line performance of the product, performing better than you would expect at this point, albeit off a lower level because we have had the delay. However, we are now in the right phase for Breo and Anoro, given its level of unique differentiation first-in-class, gives us a tremendous chance there.

As far as M&A is concerned, I do not know what has particularly kicked off all of this. I hesitate to sign up to a particular narrative, because it seems to me that each of the transactions that has been announced in the last two or three weeks is quite different. If I think about the Allergan/Valeant transaction, or the Pfizer/AZ transaction and if you think about the Novartis/GSK transaction, they are all very different. There is very limited commonality between them, so I would slightly err on the side of coincidence than some enormous narrative. However, if there is a narrative, it must be that companies are starting to think about their long-term positioning, which is clearly what drove us.

All I can really speak to with any real confidence is the decision-making we took at GSK, which was that we wanted to find a way to strengthen our Consumer and Vaccines businesses without weakening or distracting our core R&D activity. We felt that a surgical approach in the shape of the transaction with Novartis was a very audacious thing to dream of, very difficult to do, never been done before, but we thought that was the right solution and we are pleased that we could execute it. The others will have their own rationale for why they do it.

As far as EPP is concerned, it is highly likely that you will see us divest individual products and it is possible that we shall do block sales but it is more likely that you will see individual products and we are open-minded to block sales that create value. Thanks, Tim. Next question.

Dani Saurymper (Barclays): I want to clarify a little further on the Advair price mix situation. This is the first time, at least for the last 12 quarters, that we have seen negative price mix and I wonder whether there is any nuance between price and mix as you describe it: is it more mix, is it less price? Can you give us a little flavour around that? Also
in relation to Anoro and your expectations for coverage levels, you said 70% Part D coverage for Breo after seven or eight months from launch. Where would you expect Anoro to be in that timeframe? Lastly, on Tanzeum, with the launch of that product in Europe and the US in the second half of the year, can you perhaps talk through your pricing strategy and your general thoughts around positioning as you launch into that marketplace?

Sir Andrew Witty: The Advair price mix is mostly price, there is some mix but it is mostly price. As far as Anoro coverage, we are off to a very good start and I shall not tempt fate by giving you precise predictions, but that looks very encouraging, not just the coverage we are achieving but also the positioning we are achieving in the formularies that we have already secured, so I am pleased with that.

We are not going to get into describing our positioning and pricing strategy for Tanzeum. As I touched on in the answer to Tim - the US, Europe, different pricing environment. We have been market leaders and been on the receiving end of some competitive activity. It may be that with Tanzeum we have the chance for a bit of role reversal.

Alexandra Hauber (UBS): Thank you for taking my questions, three questions please. Firstly, on the Consumer supply issue at the full year results you commented that these were essentially resolved. Now they continue. Are these similar, the same issues or new issues and if it is the latter, are you reviewing generally what the quality standards are and how confident are you in the timelines that this is not turning into a bigger problem?

A second question on the Breo coverage. If you have 70% coverage from 1 May, is there any lag until we actually see the impacts on that in the marketplace? I am asking that because at the full-year call you said as of the beginning of February that you had 50% coverage and in light of your comment at that time, until that point, 70% of all scripts are rejected, I expected some debottlenecking to happen at the script level which we haven’t seen. We have seen growth but it has been pretty no change in the trajectory, so can you just describe any additional potential things that have to work through for us to see the change in the script trend?

And the third question is just on Tivicay. Do you have any intelligence on the source of patients here? Are the majority of patients using this actually already in combination with Epzicom or are there other combinations?
Sir Andrew Witty: Just on the last point, Tivicay source of patients is very mixed between Epzicom and Gilead co-prescription so actually a very, very nice balance; not at all segmented to one or the other, so just on that one.

On Breo unusually Alexandra, your recollection is wrong. What I said at the full year was that we had 25% coverage at February and we aspired to have 50% by the mid-year. We have actually achieved 70% by 1 May.

There is a bit of a lag because it takes a while sometimes for the systems to turn up and turn on. We have seen one or two of the plans who actually came on stream in February, it took a month or so before their systems actually all switched across so it doesn’t all happen instantaneously.

That’s the first thing to say. The second thing to say of course, it is important that we go back to the physicians and now tell them that they are covered and there is a cycle of making sure that folks are aware because it may be they tried, they couldn’t get coverage and we need to remind them that it is now time to try again.

The most recent data I saw said that we were about 45% of scripts were being rejected and that was as of two or three weeks ago, so there are still a very substantial amount of scripts being rejected but as I have said there is a big jump in coverage starting from today and we hope that that will start to free up.

Just in terms of you are right, the shape of the curve hasn’t changed much but that is positive because normally the shape of the curve starts to plateau out at this stage, so while it is on a low base, and clearly we all wish this had gone a bit quicker a bit sooner, while it is on a low base, the shape of the curve being sustained is an important point and gives us quite strong optimism.

The last thing I would say to you is that the most recent data we have seen, we have a 6% share, a dynamic share in the pulmonologist market. Remember this product is only indicated for COPD, so on a total market basis that would be more like 11%. That is a very, very good performance and we are seeing shares of the dynamic segment rise across the board for Breo.

I think we are moving into a different phase with this product. Quite promising and with Anoro now coming in of course the physician gets a second opportunity to think about using the Ellipta device for a different sort of patient of course, but nonetheless it starts to really emphasise to the physician where we see the portfolio of opportunity going from a GSK perspective.
As far as the Consumer supply is concerned, these are two completely different sets of issues. There was an issue in our Oral Care toothpaste business, a completely different factory, a completely different part of the supply chain which was the issue last year which was resolved. We are back in full supply on those products. That was to do with the introduction of a new formulation.

The issue which we have described today is around smoking control, a completely different factory, a completely different issue. All treated with the same seriousness of course, but totally unrelated in every way in which you could imagine.

Kerry Holford (Credit Suisse): Thank you and I have three questions, please. Firstly on Advair in the US, just backing out from the growth figures, it looks like there was a 10% negative stocking impact which follows the positive stocking impact in Q4 last year. I wondered if you could just comment on whether the Advair stock levels are now considered normal or whether we should see any more impact on this item going forwards in the course of this year.

Secondly, you talked at length about the coverage for Breo and Medicare Part D now being 70% but I wonder if you are able to discuss with us what proportion of that is at Tier 2 versus 3. Lastly could you just run through the reasoning behind the decision not to file fluticasone furoate in Europe and what is now giving you greater confidence to move ahead with the Breo asthma filing in the US?

Sir Andrew Witty: The Breo asthma filing is based on the data we saw from the study which reported out not too long ago. As far as stocking levels in the US, Kerry, we are seeing stock levels for the whole portfolio essentially at almost all-time lows. Certainly, going back to the beginning of 2011 we haven’t seen inventory levels as low as they are now. Our portfolio level, and Advair is particularly no exception to this, we are seeing about a week and a half, almost two weeks less inventory in the market place than we saw back at the beginning of ’11. We have certainly seen that come down by three quarters of a week perhaps in the last 12-18 months.

It is very hard to tell you whether it is at normal levels, because everything looks abnormally low, but it is certainly low. We would be a little bit surprised if it went a lot lower, but we have seen a sustained destock over the last three or four years.

As far as the fluticasone point is concerned, this is to do with European requirements to do additional paediatric work which we think are practically impossible to do. It is not a
strategic decision, it is more an inability to we just can’t see a way to do the kind of work that people are asking us for. Hopefully that might change, but we have to see.

Next question, please.

Florent Cespedes (Exane BNP): Good afternoon gentlemen, thank you very much for taking my questions. Three quick ones, respiratory related questions. First, on Breo asthma, could you give us some element on the timing for this new indication in terms of size of Phase III and duration?

The second question on Advair in Europe – how do you see Europe environment and trend for Advair given the entry of new “me too” drugs on the ICS LABA space?

The last question on Anoro. Have you learnt from the Breo launch to prepare the launch of Anoro? What are the leading indicators and could you give us more colour on what you call the extremely good feedback from the recent launch? Thank you.

Sir Andrew Witty: On the Anoro launch it is very early days, Florent. We have been out there about 10 days so we have no hard data yet, but we can see – I am not going to share with you, but we can see the pick-up of things like free trial offers and that kind of thing which we get in real time; those are very encouraging signals, but until we start to see prescription data in the next three to four weeks, difficult to say. We have a very good position in the commercial book of business. We have already started to win Part D book, all of which is quite different to where we were when we started Breo, although we have fixed most of that. It is very different to where we were when we started. All of that very encouraging.

As far as Seretide is concerned in Europe, we are seeing good performance; basically flat-ish, perhaps a notch down on 1% on volume and 1% on price type of thing, but nothing very dramatic. Very minimal impact from copies thus far, certainly no change in trend compared to what we saw through last year. Good quarter for Europe and good quarter for Europe Seretide.

As far as timing on Breo asthma, obviously the file – my expectation is that the regulators are obviously going to take their time to think about this; this is obviously an area which has historically attracted quite a lot of regulatory review, so I have no really clear view to give you. I wouldn’t guide you to think this is going to be a very rapid review, because obviously it is an area of particular regulatory focus, but we feel like we have a good data package and that is why we are going forward.

Last question, please.
Damien Conover (Morningstar): Thanks for taking the question. One follow-up on Advair. While I appreciate a lot of moving parts with the pricing environment and when we look at AstraZeneca talking about pricing being largely flat in the US for Symbicort and when you look at the pricing for Advair down close to 7%, but yet Advair gets excluded from the Express Scripts formulary, I was wondering how you might reconcile those different viewpoints? Thank you.

Sir Andrew Witty: Thanks Damien. There are two completely different issues at play here. The ESI piece, which as you know well is not just about Advair, but it affects products in other categories like diabetes, there is a whole dynamic there, which you all have a view on I’m sure, about what works in that marketplace.

The difference about what you are seeing in pricing is pretty simple to explain. As I said at the beginning of the call, we have had historically a pretty disciplined, relatively lower level of discount in the marketplace than we believe most of our competitors. We don’t know absolutely, but that is our belief. We tend to have relatively flat discounts across the markets; everything I’m saying here is relative, so that when we do move the discount level in the way that we have done and we have needed to do to respond to some of the pressures that we are seeing in the marketplace, what that can do for us is not only increase our discount rate for the customer who we are negotiating with, and it also changes our best price discount rate for the Medicaid book of business with the government.

Therefore, in the period when you breach that best price level, you get an extra discount level. If – and let’s hypothesise – if my competitor has a very broad range of discount rate already in the market place, and therefore has already set a best price which is relatively low, then they have a great deal of room for manoeuvre in their discount rate without triggering that extra best price in the extra discount level. If you have a much more controlled discount environment, as we historically have, then you are more likely to trigger that kind of double effect where you essentially end up triggering an extra discount level. That is what is driving this differential in this situation.

The reality is that the area under the curve, by having a more controlled discount strategy over the last four or five years, has been extraordinarily productive for GSK shareholders. It has been absolutely appropriate behaviour, as a market leader but, clearly, as we now move into a more dynamic pricing phase, and as we move our focus to new products, then it is the time for us to review our strategy, which is exactly what we have been doing over the last several months.
I am very pleased with the positioning we are achieving on formulary for Advair in many places, ESI being the one exception on the high-control formulary. I am very pleased with where we now are on Breo and I am very pleased with the early returns on Anoro. We should look back at this quarter, next quarter, as a period of some volatility around Respiratory pricing but the strategic point to keep your focus on is making sure that the new products get established, because that is where the real value creation is for the company, going forward.

Finally, I would reiterate a point I made earlier on. Most of this call has been fixated on what is happening to Advair in America – which is quite right, because it is one of our biggest products and it is a very important product. It has had a challenging quarter because of the things that we have talked about on this call, but the corporation delivered 2% EPS growth despite that. This really starts to point the finger to the anxiety around the domination of Advair being somewhat overdone. This quarter has started to demonstrate that as Advair inevitably reaches maturity, the company is capable of generating EPS growth, despite some of those pressures first. Second, we have now discharged the majority of the regulatory and now - as I have told you on this call - the pricing and formulary risks for some of our newer products, that gives us the opportunity to build those businesses sensibly. The only question is, at what rate will that business build, versus the rate of maturity of Advair – and we obviously feel optimistic about that future.

With that, I would like to bring this call to a close and thank you all for your attention.

[Ends]