Emma Walmsley (CEO): Good afternoon everybody and a warm welcome to this call in which we are reporting our first quarter results. It is a great honour for me to be here as the new CEO of GSK and I am looking forward to speaking with you and getting to know you more in the many quarters ahead. Hosting this call with me today is Simon Dingemans, our Chief Financial Officer, who is going to talk through the detail of our results in just a few moments. For all of our quarterly results calls from now on, Simon and I will be joined by different members of our management, which I hope you will find helpful for your questions and will give you a sense of the GSK team as well as different aspects of the company.

With us here today are Patrick Vallance, our Head of R&D, and also David Redfern, Chairman of our HIV business and also our Chief Strategy Officer.

Before I hand over to Simon, let me make just a few comments. Firstly, as I just said, it is a real privilege to be leading this great company. We have many dedicated and highly professional people working for us and with us all around the world and I am optimistic about what we can do better for patients, consumers and our shareholders. Our company has an important purpose and I believe that with the right investments in science, technologies and our people, we can make very meaningful differences to health in all parts of the world. I also believe that, with disciplined allocation of capital and a clear focus on generating competitive performance, we can realise value and deliver returns for our shareholders.

The results we have published today confirm that we are making good progress in the recovery of our financial performance after some difficult years. Group sales were £7.4 billion, up 5%, and adjusted earnings per share were 25% for the quarter, plus 9% both at constant exchange rates.

We saw further improvement in the Group operating margin, reflecting growth in sales, an ongoing tight focus on costs, and benefits from our restructuring programmes. I am also pleased with the continued improvement we are making in cash flow generation. Free cash flow for the quarter was £650 million compared to £240 million outflow in the same quarter last year. Altogether, this is a positive start to the year for GSK, but it is important that we now continue reliable performance for the rest of 2017. We have to do this while navigating a challenging and unpredictable commercial, regulatory and political environment, and with potential for generic competition to Advair in the US still to come.
There is obviously still a lot of uncertainty around this. As we have said previously, this is an event we have planned for and the financial guidance we set out in February absolutely reflects this. We have reiterated that guidance today.

Our clear short-term and immediate priority in this context is to deliver excellent commercial execution, that means making sure that the momentum in new product growth is maintained in all three of our businesses, and that we are also well prepared for our near-term launch opportunities with the immediate focus being on Shingrix in Vaccines, the closed triple in Respiratory and the first of our two drug regimens in HIV. We expect regulatory decisions on all of these over the next 12 months.

This focus on execution now is particularly important given that our next significant wave of new product launches is not expected until the early 2020s, and longer-term then, the big focus must be to increase and deliver innovation in all three of our businesses, and the clearest priority here making the right choices to develop our Pharma pipeline which is promising, but still unproven. We have a lot of work to do here and we need to make sure that our R&D and Commercial organisations are partnering really effectively together, and our new Commercial Leader, Luke Miels will be a strong addition to the team here.

We are going to talk to you all in more detail about these, and our other longer-term priorities for the company in July alongside our Q2 results. In the meantime, let me now hand over to Simon who will take you through the quarter in a lot more detail.

**Simon Dingemans (CFO):** Thanks, Emma. The results that we have reported today reflect another quarter of strong execution and progress against our strategy and the goals we have set out in our financial architecture. All three of our businesses have continued to contribute to our revenue growth and we have leveraged that sales growth, controlled costs and delivered further restructuring benefits, improving the Group’s operating margin while still continuing to make substantial investments both behind our pipeline and the new products. We have also delivered a substantial improvement in our free cash flow, which was up £0.9 billion compared to Q1 last year. Our earnings release provides an extensive amount of detail on the results and so, as usual, my comments will focus on the major points, our expectations for 2017, and some comparative points you might want to take note of for your modelling.

As always, my comments will be at constant exchange rates, except when I specifically refer to currency.
Headline results & currency

Starting with the headlines, Group sales were up 5%, total EPS was 21.4 pence, compared to 5.8 pence last year. Adjusted EPS was up 9%.

On currency, the weakness in sterling resulted in a tailwind of 14% on sales and 22% on adjusted EPS. Unless sterling appreciates significantly from current levels, we would still expect a tailwind from currency this year, particularly in the first half. If exchange rates were to remain in line with last Friday’s close, which takes account of some of the recent strength of sterling, we would expect the full-year tailwind to adjusted EPS from currency to be approximately 8%.

Total results

Total EPS is 21.4 pence, a significant increase on last year, driven by our improved operating performance but also lower restructuring costs as we wind down into the final stages of the programme. We also saw much lower charges for transaction-related items, particularly revaluation charges for the liabilities we carry for contingent consideration and the Consumer and ViiV put options. Last year’s movements were driven by improved performance expectations: this quarter, our expectations for the businesses concerned have not changed significantly and neither have exchange rates, compared to the end of last year.

We also recorded a gain of 3.9 pence on disposals, primarily relating to the Aspen Anaesthesia divestment that was completed in the quarter.

Sales growth

Turning to the topline, this quarter again saw all three businesses contributing to our growth.

Pharma

Sales within the Pharma business were up 4%, despite a drag of nearly 1.5% from the Aspen and Romania distribution divestments. Growth from new products significantly offset declines in sales of older products in the portfolio.

Within our Respiratory portfolio, growth of the new products – the Ellipta products and Nucala – more than offset the decline in Seretide/Advair, helping to deliver global Respiratory sales growth of 5%. The Ellipta products have continued to achieve solid market share gains with the global roll-out continuing. In the US in particular, at the end of Q1, Breo had a 22.7% share of new-to-brand prescriptions, up from 14.7% for the same point last year, while Anoro’s share has risen from 13.8% to 21% over the same period.

Reported sales growth rates in the quarter for the Ellipta products were adversely impacted by inventory reductions in the quarter within the channel, as well as some
unfavourable RAR adjustments. However, across Respiratory as a whole, the RAR adjustments were broadly neutral, with offsetting adjustments in Advair. We continue to see more fluctuation in RAR rates in the resulting provisions that we need to take than we did historically, reflecting the more competitive and dynamic market conditions in the US. I am not expecting this to change, going forward.

We are very pleased with the progress of Nucala, which is now being taken by over 10,000 patients in the US alone, and has grown the severe asthma market by 33%. In Europe, Nucala is also gaining traction, with strong performances in Germany, Belgium and the Netherlands, and we are in the early stages of launching in many other markets.

We continue to prepare for the launch of our closed triple, which is on track for a potential approval later this year. While we remain confident in the long-term prospects for this key addition to the Ellipta portfolio, as we flagged before, it will take some time to build in today’s markets and so we don’t expect significant sales before 2018. We expect a steady progression as we move beyond the initial launch phase.

On Seretide/Advair specifically, if there is no substitutable generic entry in the US, then we continue to expect a decline of 15% to 20% globally, similar to the trend of the last couple of years, with the US in line with this range but Europe probably more at the 20% end, given the different stage of transition in our portfolio. As we have said before, if there is a substitutable generic in the US during the year, then we would expect a much steeper decline, as reflected in our overall guidance.

Moving to the HIV portfolio, we continue to see global growth, driven by the continued increase in market share for Triumeq and Tivicay. This growth is more than offsetting the decline in Epzicom, which is now encountering generic competition in the US but also across most of Europe. Overall, our HIV portfolio grew at 19% during the quarter. In the US, dolutegravir remains the No. 1 core agent, with 24% of the STR and core agent markets, with more than 30,000 scripts per week. NBRx shares also remain encouraging, at around 30%.

The new grouping of Established Pharmaceuticals includes the previous Established Products, CVMU and other Pharma products. The new grouping includes most of our off-patent products and declined by 6% in Q1. The combined mix of this new grouping is likely to continue to decline at a similar mid-to high-single-digit rate for 2017, including the drag from Aspen and Romania disposals, which represented a headwind of around £50 million in the quarter. For the full year, it will be just over £200 million.
**Vaccines**

Moving to Vaccines, sales were up 16%. This reflects a continued strong performance from the meningitis portfolio and improvements in supply from some of the investments we’ve been making. It also reflects an element of phasing relating to the timing of international tenders, including Gavi Synflorix sales, as well as CDC purchases and stockpile movements that boosted, particularly, Pediarix’s growth in the US. Excluding those phasing benefits, Vaccines growth would have been more in the high single-digit range in Q1.

While Vaccine sales are often lumpy, the momentum in the business continues to give us confidence in the mid to high single-digit outlook for the business over the medium term. However, remember that 2016 saw 12% pro forma growth, which creates a tougher comparator for 2017 as a whole.

In addition, I expect Q2 to see a reversal of much of the phasing benefit we saw in Q1, as well as the impact of a couple of competitors returning in our established Vaccines portfolio that have recently returned to full supply.

Further ahead, we continue to expect regulatory decisions on Shingrix in the US and Europe in Q4 2017. We are excited about the prospects for this product and launch preparations are underway but, as with closed triple, we do not expect meaningful contributions from Shingrix until we get into 2018 and beyond.

**Consumer**

Turning to Consumer, sales were up 2% after a 1% drag from the divestment of the Nigeria drinks business at the end of Q3 last year. Strong results from Oral health were partially offset by a more challenging quarter in Wellness, where the pain category was up against a tough comparator. There was also tougher private label competition to Flonase and, despite an encouraging initial uptake of our new switch, Sensimist, the allergy season is yet to kick-in in scale.

We have also seen some slowing in the number of emerging markets as a result of general economic conditions. India, in particular, remains difficult, even though the demonetisation disruption is now largely past, with tough competition still a feature of the nutrition category. We continue to plan for the introduction of GST, which will likely cause another round of disruption later in the year, but despite these challenges we delivered strong performances in many parts of the business, including strong growth for the power brands overall, and around 15% of all sales came from innovation launched in the last three years.
Looking ahead for 2017 and beyond, we continue to expect this business to deliver medium-term growth in the mid-single digit range. As I said previously, we expect to be down a notch from this range in 2017, in part due to the Nigerian divestment, but also the more difficult conditions in India, and international more broadly that I have already discussed.

**Adjusted operating profit**

Turning to operating profit, our adjusted margin of 26.8% was up 230 basis points, 130 basis points from currency and 100 basis point improvement in constant exchange rates from operational performance. This was driven by leverage from sales growth in Pharma and Vaccines in particular, combined with continued tight management of our costs, as well as benefits from restructuring and integration.

R&D costs were up 8%, reflecting increased investments in Pharma R&D, offset by continued integration benefits in Vaccines and Consumer. We saw a particular step-up in HIV, including late stage spend around the two drug regimens and the inclusion of the costs of the BMS assets acquired at the end of February last year. We also continue to advance our earlier pipeline, particularly in oncology. Subject to how the data progresses, we are expecting to continue to invest behind the next wave of the Pharma pipeline this year.

Royalties were down 15% due to a previously flagged true-up in Vaccines last year; we continue to expect around £300 million in royalties for the full year. For Pharma as a business, the margin of 34.4% is up 50 basis points on a constant currency basis with sales leverage, a favourable product mix and tight cost control more than offsetting the increased investment in R&D.

For Vaccines, the margin of 29.6% is up 150 basis points, as the benefits of the 16% sales growth more than offsets some incremental investment we are already starting to make behind the planned launch of Shingrix and the lower royalties. I expect Q2 margins to be lower than Q1 this year as the phasing of sales unwinds.

On Consumer, the margin of 17.2% was down 80 basis points in constant currencies. This is in a large part because of less top-line leverage and the heavier phasing of A&P investment in Q1 this year versus last. We remain confident in the medium term trajectory of the Consumer margin, including the +20% target by 2020.

**Restructuring**

As we previously stated, accelerating the delivery of the targeted benefits of the integration and restructuring programme was a key objective when we closed the Novartis transaction and we are pleased with the progress we are made.
We delivered another £200 million of incremental benefits in the quarter with currency adding a further £100 million for total additional benefits of £300 million. We have now delivered in full the originally targeted £3 billion of annual savings before currency, which has added a total of £0.3 billion to that for £3.3 billion in total. This is well ahead of schedule with costs to date also lower than planned at £3.9 billion. Cash charges to date are £3.1 billion, having charged in the quarter around £150 million of the additional cash charges of £300 million that we said at the year-end we expected to make during 2017. We are continuing to evaluate the programme for any incremental savings opportunities and we will update you on this later in the year.

**Operating profit to net income**

Turning to the bottom half of the P&L, interest costs were slightly up due to higher net debt in line with our expectations. The tax rate of 22% reflects the increased proportion of earnings in the US and we continue to expect to be in the 21-22% range for 2017 as a whole. Minorities also up, reflecting growth in the Consumer and HIV joint ventures.

**Cash generation and net debt**

Our cash flow and net debt – reported free cash flow for the Group was £650 million, significantly improved on the outflow of £240 million we saw in Q1 last year. As well as the net benefit of FX this reflects the improved operating performance across the Group, a wind down in restructuring costs, continued focus on the management of working capital and capex, even as we build inventory for the expected launches later this year and invest in capacity. It also reflects the impact on last year of the costs of the BMS HIV assets which we completed in Q1 2016 for a cost of £221 million. Net debt now stands at £13.7 billion, slightly below where it was at the end of 2016, primarily reflecting the balance of free cash flow and net disposal proceeds versus our dividend payments in the quarter.

**Conclusion**

So, in conclusion – an encouraging start to 2017, the outlook for the full year still depends on whether Advair encounters substitutable generic competition in the US. At this point in time, as Emma has said, there still remains considerable uncertainty as to the timing of a possible introduction of a substitutable generic and so we see no reason to change the range of our guidance scenarios for the full year at this stage. We will update you as and when we have more clarity.

Our focus on execution is underpinning the progress we have made in the quarter, including delivering Sales growth across all three businesses, improving the Group’s operating margin, while still investing in each of those businesses and also contributing
significant improvement in our cash generation to support future investments and sustainable returns to shareholders.

We continue to expect to return an 80p dividend for 2017 and today the Board has approved the first 19p interim payment, and, with that, I will hand you back to Emma.

Emma Walmsley: Thanks very much, Simon.

So, we are now going to open up for Q&A. As I have already said, we are going to be providing you with more detail on our longer-term priorities in Q2, so with that in mind we would really appreciate it if you could focus your attention and your questions today on our Q1 performance.

Question & Answer Session

Graham Parry (Bank of America Merrill Lynch): Great, thanks for taking my questions. If I can kick off with the Respiratory and HIV, which both grew in the US slower than prescriptions, due to the rebate pressure and inventory movements, can you just help us understand how much of that was price or rebating and how much was inventory, especially in Breo and Triumeq, and if you are seeing any impact on Triumeq for a shift back to constituent products, with generic Epzicom being available now? Then secondly, a slightly bigger picture question for Emma, I know we are going to get an update later in the year, but in the release you did reiterate the Group strategy and outlook reference, the prior 2015-2020 guidance given at the Analyst Day back in 2015, so can we take that as some sort of confirmation that no big strategic shifts are anticipated under your new leadership? Thank you.

Emma Walmsley: Thank you very much, Graham. Look, I will make a comment on your third question first and then I will ask Simon to comment on the detail of the Respiratory numbers and maybe David to talk about HIV.

In terms of bigger picture, I think I should reiterate really what I said in my opening words and then more detail to come in July, as you said. In terms of the structure of the Group, we do see both logic and benefit in being a three-business healthcare company, not least because of some of the uncertainty and volatility that we see in the high-return still Pharma business, we like to have more certainty in terms of reliable cash flows, both from Vaccines and Consumer, we believe in some of the synergies both from an operating point of view and a lifecycle management point of view, when we look at switches or you could take the example of the Shingrix launch that will be upcoming, in terms of that obviously will
be launched into HCPs, but it is also going to be a key vaccine that is distributed through retailers and with a direct-to-consumer communication. So, we see that logic as long as all three businesses continue to perform competitively, so I think in terms of the structure of the company I would confirm that, but it is something we should continue to review, hopefully not every quarter, but on a reasonably regular basis and we are always listening to shareholders on that.

The other two main priorities you should expect are absolutely near-term a focus on execution, because we know we have to continue to cement in confidence in our delivery after – on over a longer term five-year track record perhaps less competitive performance, but we know that is coming back up and we want to cement that, bedding in recent launches, the new products you referred to, but also really preparing fantastically competitive launches for the few near-term launches that we do have, including in our core therapy areas of both Respiratory and HIV, and then, obviously, the really big priority where we create the most value in the company is in terms of the strength of our pipeline and making sure we have competitive new launches that bring meaningful value for patients, payors and, therefore, for shareholders. You will get more on that in the Summer as far as the content.

Let me go to Simon first for a little more detail on your Respiratory question.

**Simon Dingemans:** Thanks, Graham. In the quarter, without getting into the specific split product by product, we are seeing quite a significant impact from destocking in both wholesale and retail channels, more than we normally would see, which is why we have called it out. On the pricing side, we continue to see pressure in the marketplace, that varies quarter to quarter, which is some of the fluctuation that I called out in my comments. You should expect that going forward and, certainly, at the back end of last year, we saw some positive true-ups in some quarters, some negative true-ups in other quarters, so I don't think there is any major change on the pricing environment. It is more compounded by a reasonable amount of destocking and that applied across the whole Respiratory portfolio and obviously had the effect that you have seen in the numbers.

**David Redfern:** Graham, on HIV the quarter was very much in line with our expectations. Dolutegravir overall was up 43% of which Triumeq was 45% CER, and Tivicay 41%. As Simon said, we were impacted a little by inventory and, at the margin also by RAR but I should emphasise that was really Medicaid true-ups and nothing structural or different in our approach on pricing.

More importantly, the market share trends all look very robust. We don't see any real change in the mix of the business. As Simon referred to, we are now up to about 30,000 weekly scrips for dolutegravir of which Triumeq is around 16,000 and Tivicay 14,000. The
key indicator I really look at is what we call Core Plus STR market share, so these are all the third agents - integrases, proteases, NNRTIs plus their combinations. There we are at 24%, we are the leader, we are the leading integrase, we are a few points ahead of our nearest competitor and that gap has been very stable over the last 12 months, so we feel good about that. Our lead indicator on NBRx, we are around 30% for both naïve patients, which is obviously important, and our switch patients. If you exclude the tenofovir to TAF conversions, we are probably closer to 40% on switch, so overall pretty solid.

That said, it obviously remains a very competitive marketplace and I suppose the difference now is for our main competitor HIV has become again their major growth driver, so there is no doubt that the competitive intensity is not going down but, overall, we are pleased with the start we have had this year.

Richard Parkes (Deutsche Bank): Thanks for taking my questions. First, on Respiratory, we have seen Teva launch its Advair analogue with the simultaneous launch of an AB-rated generic. I wonder what you feel the impact of that might be on formulary discussions and positioning particularly in the scenario if generic Advair is delayed further?

Secondly, I wonder if you can update us on your interactions with the Agency over the Shingrix filing. I suppose I am interested if the questions have been in line with your expectations and whether there is any indication of the likelihood of a panel given the novel adjuvant used? Thanks.

Emma Walmsley: Thanks Richard for your questions. On the news from Teva, I would remind everyone that this is not a substitutable for Advair without a prescription, so it is a very different product with different mechanism and different dose. We are much more focused on when a generic Advair might come through. We had the recent news from Mylan but we don’t know exactly what kind of delay they are facing. We also have Hikma coming up, which is why we have reiterated our guidance for the year, which, as you will remember, assumed at the bottom end a mid-year arrival of generic Advair and we have no new news on that, but, the really important point is we are ready, this is something that the business has prepared for and we are very focused to Graham’s earlier question on building out our Ellipta portfolio.

In terms of Shingrix, I don’t really want to comment on our engagement with the FDA; this is obviously a really important launch for us, which we hope will be able to demonstrate really differentiated efficacy in the market, also on a sustained basis. We have shared today in our results some positive results in terms of the Zoster 048 study against those that were previously vaccinated, and that will be shared more in June at ACIP, but that is as far as I go on that topic today. Thank you very much, Richard. To the next question, please.
Jo Walton (Credit Suisse): Thank you; three quick ones. Firstly, on the Consumer business. You have highlighted the weakness, particularly in the international markets, I would welcome your perspective on when you think that will ease and when we might see an improvement in that market?

Secondly, Established Products. As a group, that is a very large part of your overall portfolio; it declined at local currency at 6% in the quarter, I wonder if you could comment on just how profitable that unit is? Presumably it has got pretty minimal promotion behind it, very well-established, well learned products, so we should assume that is very profitable. Is that rate of decline of 6% realistic as a longer-term rate of decline?

Finally, a quick question on cost savings. We now know that we have had all of the cost savings delivered, but presumably you have just finished some aspects of restructuring that haven’t yet given us all of the cost savings, so if you do nothing more, but you just let those come through, how much more cost savings will we see by the end of this year? Many things.

Emma Walmsley: Thanks, Jo. I think all of these three questions are going to go over to Simon for response.

Simon Dingemans: Thanks, Jo. On the Consumer business, I think as we move through the course of the year we are expecting improvements in the Indian position; we talked about the demonetisation effect. The performance in India being driven in the core of the business by the Horlicks brand and a number of innovations and launches planned for later this year, which should see that pick up performance, but the broader macro conditions, if you like, in the emerging markets, still remain tough, so a note of caution in terms of how far, much further forward, and remember also we have got a drag from the Nigerian drinks disposal which will wash out after Q3. We should see in the second half of the year a bit better performance than we have seen so far, but it does remain challenging.

On the new Established Pharmaceuticals grouping, we really put those together, given that we run them together. They are off-patent products largely; you are right that they have relatively lower promotional support, as you would expect given the stage in their lifecycle, so they are strong profit contributors and this is why in the past when people have asked “Should we sell those or dispose of them?” that they are worth more to us than anyone outside the company in terms of what they contribute to cash flow and margin; I am not going to get into a breakdown between individual product categories, but they contribute as you would expect for products at this stage in their life cycle and meaningfully in cash terms as well. What we are going to do going forward is give a bit more colour in terms of
the individual elements of that, or the kind of categories within that, but we will update you some more on that at Q2, but this is a group that we do run together. Going forward, from a trend point of view, I think mid to high single-digits is the right sort of territory and that is what you should model in. That has obviously got some drag from the disposals in for this year, but it is a portfolio where I think you should continue to expect us to make disposals, if we can identify particular pockets of value where that makes sense, so that is probably the right continuing trend to factor in as well.

Then on cost savings, as I said in my remarks, our experience has been exactly as you point out, that we do get additional benefits over time as we complete the programmes – we are only just coming to the end, so we are looking at where we think we can really squeeze additional out of those and where we should really focus on what is going to contribute most effectively to the business. It’s a bit early to say that; we will update you during the course of the year, so bear with us on that, but certainly, I think you are right to expect continuing flexibility in our cost base going forward, which has served us well so far, as we reallocate resources behind both the new products, and the pipeline allowing our SG&A in constant currency terms to stay broadly flat, and restrain some of the growth that I know some of you were worried about a while ago. Hopefully that answers your question. I will hand you back to Emma.

**Emma Walmsley:** Thanks, Simon. Just to reiterate, beyond any update on restructuring programmes, it is something that Simon and I are discussing a lot, and with the leadership team – a much more disciplined focus on general running costs and cash consciousness across the whole company in an increasingly tough external environment, as we have discussed.

Thank you very much, Jo. On to the next question, please.

**Andrew Baum (Citi):** I have a couple of questions, please. The newly appointed CEO of Lilly, who also has a long tenure with that company, indicated that he sees opportunities to materially increase the tension and accountability in that organisation, in order to drive improved execution and shareholder value creation. Does that resonate at all, given your background both at your previous company and then in the last seven years or so at GSK?

Then second, you highlighted in your comments the addition of Luke to the team, to better align Commercial with R&D. In terms of thinking about the ROI for your development pipeline, do you believe there is additional opportunity for pruning the existing the pipeline, then intensifying capital allocation on a few of the key assets, compared to what has happened historically?
Emma Walmsley: Thanks very much, Andrew, for both of your questions. In a moment, we will come into the pipeline, and I will ask Patrick, who is here with us today as well, to talk about focus and discipline choices there, although obviously we will be updating you more on that in the Q2 results update in July. Clearly, Luke is going to be a very important addition to that team, in partnership with Patrick, to really put that discipline, in terms of our governance, around the development programmes. He should be with us in due course.

I would like to comment on and thank you for your question around – I suppose – some more cultural aspects. I absolutely recognise that comment. It is something that, in my first week with my leadership team around me, we spent several days really talking about what we want the culture to be at GSK and what we want to keep. I’ve been talking over the last few months to thousands of people inside and outside the company and there is a lot that is very precious, particularly in terms of the underpinning of the values of the company, aligned to the purpose of fundamentally what we are here to do in terms of the impact on human health.

But there is an opportunity to put more discipline; more performance orientation; to make tougher choices and be much more explicit about individual accountabilities; standardise some of our metrics, and simplify some of our ways of working. That is a very easy thing to say but not an easy thing to do, in a big, matrixed organisation, but it starts with alignment at the top and it starts with the tone you set at the top. We have had some really constructive, focused discussions on that, which I will be delighted to share with you in more detail in the future. But I absolutely recognise that and I think culture is an under-valued competitive advantage.

Patrick, can I send that over to you, in terms of how we think about the discipline around our portfolio.

Patrick Vallance: Sure. Hi, Andrew. I think the short answer to your question is yes, there is absolutely room to improve that, and not only is there room but there is a necessity because of the quality and novelty of some of the things coming through, that we absolutely need to back with the appropriate level of resource to get them through fast and to the end. So, historically, I think we have let things circle too much. We have some legacy products which, I think, continued for too long. We have done some clean-up and we have some more clean-up to do on that. The clean-up is absolutely essential in order to be able to back the winners that we think we have got coming through; to make sure that we do so with the right level of organisation might, the right resource behind it, and the right alignment behind it. I think there is an opportunity to do that and we will say more about it.
You know that we have some exciting things coming through and I think that the alignment between R&D and Commercial in this will be crucially important, to make sure that we get that pull-through as effective as we possibly can, so that we don’t have any divide as we accelerate some of the things that we are interested in pursuing.

Emma Walmsley: Thank you very much, Andrew. Could we move to the next question, please?

Tim Anderson (Bernstein): Hi! A couple of questions, please. Any updated perspective on the coming competition in the integrase inhibitor space with Gilead’s product, head-to-head data coming out in 2017, I am wondering if you have any insights or best guesses as to what that data might show versus dolutegravir, in terms of profile, how it might be either better or worse? Then, on Advair, from what I understand you may have an authorised generic ready to go in the US once true generics launch that would capture some of the value of the generic channel and I am wondering if you can confirm if this is the case? If it is, it makes me think that the 2017 guidance in the lesser of the two scenarios that you have outlined could possibly end up being better than you describe. Thank you.

Emma Walmsley: Thanks very much, Tim. Obviously, I will come to David in a moment on the question in terms of Gilead’s upcoming results, although I don’t think we are in a position to guess at what their data might bring, but I am sure he will have some comment and insight on what we have seen so far.

Just in terms of your question around the Advair programme, I am not going to comment on the specifics of our plan, because that would obviously be very competitively sensitive, but we have been preparing for this for some time and when it comes we will be ready with a diverse set of actions and opportunities that we can pursue. We are absolutely maintaining our guidance, because we don’t know any more just because of the recent announcement around delays, we don’t know yet what is going to land, as I have already iterated, so we are maintaining guidance as it is.

So, David, over to you, any further comments on the competitive situation in our priority category of HIV?

David Redfern: Yes, so, Tim, we don’t have any insight, obviously, at this point as to what the Phase III data may look like. Along with everyone else, we have only seen the Phase II data, which was in less than 100 patients and I think just 33 patients on the dolutegravir arm. I think the general consensus around that data is that bictegravir looks broadly equivalent with dolutegravir, but of course it is limited data and it is early, so we really need to see the Phase III data this year. And what will be important in that is obviously the primary endpoint on efficacy, but also detail on things like drug interactions and whether
their dose – because the dose in Phase III is different from their Phase II dosing – whether that has any material difference, but we will see how that plays through later in the year.

Against that, I would remind you that dolutegravir we have now studied it for over 10 years, we have 300,000 patients-plus worldwide on the medicine, over 120,000 in the US, we have done a very extensive clinical programme over those 10 years, five Phase III trials prior to registration, a very extensive Phase IIIb/IV programme in all sorts of different types of patients, women, co-infected with TB and so forth. Four of those trials showed superiority against the standard of care and I think it is very clear patients and with physicians dolutegravir is seen as a potent, very well tolerated and, I think importantly, very high-resistance barrier medicine. We have seen no emergent resistance at all from dolutegravir mutations in any of the clinical trials when the patient received dolutegravir as initial therapy and, of course, it is that data and that profile that is really leading us into the dual therapy. So, we will see what the competitors do later in the year, but we feel we are in a very good position, we have set the bar very high and dolutegravir is going to be a very important medicine going forward.

Emma Walmsley: David, thanks very much. So, Tim, hopefully that answers your question, thank you for it.

Over to the next question, please.

Kerry Holford (Exane BNP): Thank you, two questions please. Firstly, on US corporate tax, so just I would be interested in your views if Trump’s proposed tax reforms are enacted how could we envisage the GSK Group tax rates will evolve over time and specifically, if you are willing to comment, what would be the sensitivity to that 15% proposed corporate tax rate and the impact on your Group tax rate of 21-22%?

Then secondly, on Vaccines, Simon, I know you touched on it but I am not sure I caught all the details, but the benefits from CDC purchases and stocking patterns this quarter how should we think about those as we move through the remainder of the year? What is a sensible, constant rate to look for, for the full year? Thank you.

Emma Walmsley: Thanks very much, Kerry. I will pass on both of those questions to Simon, but just to reiterate and maybe we will get some news from the House or from the President later on today on tax, but it is still very uncertain what exactly is going to come out here, just as it is on various aspects of potential impact in the US environment, whether it is on the American Healthcare Act or on tax reform or on potential regulatory reform, which might be positive as well, in terms of accelerating innovation, so we will see on tax. Simon will add some additional comment, we hope it will be mildly positive over time,
but perhaps, Simon, you can add on that and then add your commentary and reiteration on the Vaccines.

**Simon Dingemans:** Yes, thanks, Kerry. As you point out, it is still very unclear really as to what proposals might firstly emerge and then actually get passed and the House is in a different place from where it is rumoured that the President is. If a headline reduction in the rate is all that we see, clearly you would expect that to have a significantly positive benefit as far as reducing our tax rate going forward. But there are some important caveats in there: how interest deductibility works, or whether in particular there is a border tax is a key determinant of the final impact on a Group like us where we have a lot of investment, many employees and a lot of activity in the US but we do import API, vaccines, very difficult to move primary production from where it is currently mainly in Belgium. Therefore, there will be some things for us to manage.

On balance, however, from what we can see of the multiple options in front of us, it looks like it will, on balance, be a small positive and let’s see what the detail reveals but, as we learn more, we will try to keep you updated but it is probably that side of the line.

On Vaccines, as I said at the end of last year with the full year results, we have a medium-term view of that business of a mid-to-high single digit top line growth. We grew 12% in 2016, so 2017 has a tough comparator and is probably going to be more at the lower end of that range. The phasing that I talked about in Q1 will pretty much unwind in Q2 so, if we are high single digits without the phasing, you can reverse that back out in Q2, which is why I have just alerted you to the leverage effect and the impact that is likely to have on the margin given that we want to keep investing behind Shingrix and the programme that is coming to support that, which is a key launch for the Group going forward. If you think for 2017 as a whole the lower end of that mid-to-high range. We also have a tough comparator with flu’ coming up in Q3, so continuing to be lumpy quarter-to-quarter, but that probably gives you a guide as to the end point for the year.

**Emma Walmsley:** Thanks very much, Simon. Kerry, I hope that answers your questions. Next question please.

**Michael Leuchten (UBS):** I have two questions. Going back to the HIV business with Triumeq and Tivicay, thinking about it sequentially there does seem to be a slowdown in Q1 that isn't entirely explained by the volume trends. If I have heard your comments right, pricing really wasn’t a big effect, so is that step-down entirely related to the inventory moves that you mentioned on Triumeq, or this market more dynamic than perhaps it had been over the previous quarters?
Secondly, Luke Miels has come up a couple of times now and I thought his starting date was in April but it sounds like he hasn't joined the company yet. Given your Q2 update as far as the strategy going forward, at what point do you expect him to be with the company and has been part of the discussions so far on your strategic outlook or has he not?

Emma Walmsley: Thank you, Michael. I will pass the HIV question back to David in a second. Just to comment on Luke, you are right, he hasn't joined the company yet. We are still in discussion with his previous employer and I hope we will get to a resolution on that and he will be able to join the company as soon as possible. David, do you want to answer on HIV?

David Redfern: I don't really have a lot to add, Michael. I don't think we do see any slowdown as I have said that the prescription trends are remarkably consistent for both Tivicay and Triumeq; Triumeq grew 45% up to 16,000 which is very much on the progression we expected. I have put more emphasis on the inventory destocking than RAR. There was some RAR true-up but generally in the US market across the whole business there was some inventory and the Viiv business is distributed with the rest of GSK, so there was some impact there but it is at the margin. Overall, I believe that the growth trends are consistent.

James Gordon (JP Morgan): I have one question on the pipeline. We have heard you talk about the excitement around the approval decisions coming up in the next 12 months. As far as products that are still in the clinic, are your hands totally full with internal assets that you are excited about, or are you also on the look-out for potential external assets as well?

Secondly, reviewing priorities in conjunction with the Q2 results, it will be a little more than two years since the 2020 targets were set and almost two years since the pipeline deep-dive last took place. Would it be reasonable to expect an update on 2020 targets and beyond and a deep pipeline dive at Q2 as well?

Emma Walmsley: Thanks very much, James. A deeper pipeline dive - definitely. You will have a chance to hear about all of the three businesses in more detail but, certainly, there will be a strong focus on Pharma in particular with Patrick. As far as any guidance commentary, wait and see is the answer to that and we will update you then.

For pipeline, very briefly, of course we are looking at what we have internally, we will see the data as they come through - some really important data over the next couple of years really. As Patrick has already said, we hope we will be able to double down on some exciting assets there but we will be looking externally. To one of the earlier questions today regarding any M&A focus, it really is in that early stage pipeline to make sure that we are
bringing a competitive portfolio of scale new medicines for patients and payors, which will include internal and external sourcing. Thank you. Next question?

**Seamus Fernandez (Leerink):** Thank you very much for the question. A couple of questions: Emma, as we think about the prospective for Consumer assets potentially coming to market, obviously there has been some commentary there about some large potential consumer assets either going up for sale, or perhaps getting creative with financial structures, do you think that is a possibility for GSK to participate in those types of discussions and to fully finance, or would you be more interested in creative structuring of partnerships as you have in the past?

The second question, I don't think that a question has been asked on the triple, but in terms of the triple, maybe you could just talk about the opportunity to broaden and expand the opportunity for the **Ellipta** franchise within the context of the Respiratory business? Thank you very much.

**Emma Walmsley:** Thank you. In terms of Consumer, we do think that is interesting. We have said previously that we have structured the JV to allow for potential further consolidation in the industry which we would like to be a part of to a degree. Obviously the put is the first question on the agenda for that, which we continue to express interest in, but that is Joe's choice, and as a leader in the Consumer Healthcare sector, we absolutely keep an eye on what is out there, but we are very focussed on making sure that any options create shareholder value.

I am going to ask Patrick to perhaps come back further on the opportunity within the Respiratory franchise. We are excited about triple because at the moment 22% of people with COPD are currently on the open triple, and we do think with a once-a-day medicine in a device that will allow people to graduate through the different GSK medicines, there are definitely opportunities in there, but we have broader opportunities across the Respiratory franchise that perhaps Patrick would like to comment on as well.

**Patrick Vallance:** Yes, we obviously closed triple we expect to be important for the reasons Emma has said – people moving from open to closed and the convenience of that. The **Ellipta** portfolio allows people to move up and down as they need to between treatments without having to change device and learn a new device. New inhaled medicines that we bring along will fit into the **Ellipta** device; there is very clearly a plan there in terms of how that fits. We are expecting data from the IMPACT study later this year and, of course, that will cement where triple fits in versus dual as well, closed triple. The guidelines we expect to move in the direction of use of triple and we are also looking at triple in asthma. We expect there to be quite a broad opportunity both around the **Ellipta** platform per se, and
also triple specifically in terms of its impact in patients with COPD and when we get the results, potentially in asthma as well.

**Emma Walmsley:** Thanks very much, Patrick.

I think we are now going to have time for one last question, or two or three last questions within one last question.

**Vincent Meunier (Morgan Stanley):** Thank you very much for taking my question. It is on the cost base. The gross margin first came slightly better than expected, so do you think that the Q1 level will be sustainable for the remainder of the year, in the case of no US generic of Advair?

More generally, how would you see the cost base evolve for the rest of ’17 and maybe ’18 in terms of R&D spending and SG&A in the context of the strategic review? Thank you.

**Emma Walmsley:** Thanks very much, Vincent. I am going to pass that question onto Simon, although obviously in terms of longer term point of view, you would expect more of an update on that in Q2, but Simon, do you want to make any comment?

**Simon Dingemans:** You are absolutely right, the gross margin is a bit better in the first quarter and as we called out in some of the commentary in the release, that really reflects mix as well as, obviously, leverage at the top-line, so I think we are seeing continued progress in that, together with the contributions from the balance of the restructuring and integration programmes which in the quarter fell particularly to the benefits of the manufacturing and supply chain activities, so have benefitted the gross margin more than other lines.

On the rest of the cost base, importantly, as we have said before, we are going to manage the P&L to make sure that we are investing in the right places to drive the most sustainable and most attractive growth going forward and work that through the whole P&L to drive earnings per share faster than that top-line and the individual line items are going to move around to deliver that. We will give you the guidance with that context in mind. I have said before we continue to focus on keeping SG&A tight, growing behind sales, delivering leverage into the P&L, while making sure we are backing the new products and allowing us that flexibility to step up the R&D spend as the pipeline progresses. I think you have seen that in the quarter, where SG&A is broadly flat in constant currency terms, and we will be very focussed on protecting that flexibility on the back of the restructuring that we have been doing over the last two or three years going forward – hopefully that helps you for now – we will give you some updates as we move through the year.
Emma Walmsley: Thanks very much, Simon, and to all of the team. Just to reiterate, we do think this is a positive start to the year for GSK, but it is important that we now continue to deliver reliable performance for the rest of 2017.

With that, I would like to say thank you to all of you for your questions. Again, I am looking forward to seeing more of you in the quarters to come. Of course, all of the IR Team are absolutely available here at GSK with any follow-up questions you might have. Please do feel free to do so, and we will help you as best we can. Thank you very much.

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