# GLAXOSMITHKLINE

# FULL YEAR RESULTS 2012
# WEBCAST

**6 February 2013**

**Cautionary statement regarding forward-looking statements**

Under the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995, the company cautions investors that any forward-looking statements or projections made by the company, including those made in this document are subject to risks and uncertainties that may cause actual results to differ materially from those projected.
Factors that may affect the Group's operations are described under 'Risk Factors' in the 'Financial review & risk section' in the company's Annual Report 2011 included as exhibit 15.2 to the company's Annual Report on Form 20-F for 2011.
Nothing in this document should be construed as a profit forecast except the specific core EPS growth and turnover growth guidance given in respect of slides 12, 21 and 23.

**Sir Andrew Witty**
**Chief Executive Officer**

Good afternoon and thank you for coming to the GSK annual results. As usual, I shall take you through a few slides just to frame where we think things are at, perhaps cover a couple of the highlights from the results announcement today, and then Simon will take you through some more detail and give you a sense of the shape of the year to come. Then, most importantly, we shall give you the chance to ask any questions you might have.

Let me highlight that we have David Redfern here in the room who is our Head of Strategy for the company. He was very busy last year buying HGS, shares in Theravance, the Indian business, Shionogi and a few other things. He has been very active for us and has come out here for a rest. It would be quite good if you were to ask him some really difficult questions so that he does not relax that much!

**Slide 2: Cautionary statement regarding forward-looking statements**

Let me take you through the results but, before I do that, I need to share with you this statement to draw your attention to it, and you can probably recite it better than I can.

**Slide 3: Strategy has delivered a fundamentally different GSK**

Let us move on to where we are as a Group. Nothing has changed in terms of the strategy of the company but, as we have moved through the last few years, it is becoming clearer and clearer what GSK really is. We have a very clear case of a balanced business, a balanced exposure geographically, a balanced exposure across our different sectors, our Consumer business, our Vaccine business and Pharmaceutical business, also some very good opportunity around the development of our pipeline of new products. So a good balance.

We have been very focused on building synergies within the organisation which exists at many different levels. All of the organisation increasingly works through a common core backbone of services that I talked about three or four years ago, which has led to significant reductions in cost, about a 20% reduction in administration costs in the company since 2008, partially facilitated by that. That core backbone is increasingly now being supported by the deployment of our global ERP platform which we have begun to aggressively to roll out. It is now well on the way to rolling out through Europe and then we shall go beyond as we move through the next year or two. That whole binding together of the service organisation of the business is very important.

We have Global Manufacturing, we have always had that but we have increasingly now moved towards Global Supply Chains, so we have started to strip back out of our commercial businesses the commercial distribution ends of our supply chains and binding them back together with our core manufacturing supply chains. That has taken out all the interfaces, all of the opportunities for inventory build at interface which often happens, so again a nice source of synergy.

A key one is the interaction between our Consumer business and our Pharmaceutical business, which increasingly is focused around two key points of synergy. One is where the business is around OTC and Consumer, obviously very closely linked to Pharma, many of those drugs were Pharma products originally, and they are often distributed through pharmacy, so a tremendous obvious synergy which has always been there.

Then Emerging Markets is the second pole of synergy where we see tremendous shared distribution capability. One of the things we have announced today is a review of our *Lucozade* and our *Ribena* brands, at least partially because they do not sit in either of those two poles. We do not have a big Emerging Market *Lucozade* and *Ribena* business; they are not distributed through pharmacy OTC pharma channels, so we are looking to see how we best now develop the long-term brand value. All options are on the table and it is quite a good example of us really testing how, if it does not naturally fit to where the core points of synergy are, we are going to ask the question as to exactly we deal with that. I am sure we shall cover that a little later on as well.

We have been focused on driving forward the development of this business. We now have a much more balanced business geographically. We are looking for more and more efficiency in the organisation. We are committed to cash conversion, as you have seen over the last two to three years, and a very substantial repatriation of cash back to shareholders either through dividend growth or through share buybacks.

**Slide 4: Global, Economic and Portfolio balance to capitalise on growth opportunities whilst managing environmental risk**

If we look across the four different types of business we have, we are all about the pro-innovation markets. I have talked about these in the past being particularly the United States and Japan. This is the part of the business that will benefit the most from new products as they come through the final stages of regulatory approval. We have worked hard to make sure that in both of those geographies we have the right operating model to go forward. That has been much more the focus in America as we have responded both to the shift in our portfolio, frankly some lack of competitiveness in our business four or five years ago, also to the effects of the Affordable Care Act. As you have seen, sporadically we have shared with you bits and pieces of what we have done differently there, we now have a very strong Commercial organisation. All the evidence of early launches of niche, small specialty products, is very encouraging in terms of share.

We are starting to see some nice improvements even in the bigger, older products like *Advair* and its share performance, as well as its market performance in the last few months. All of this is reassuring, some very good metrics coming back from the key decision-makers in the US marketplace ready for the pipeline.

In Japan, we have just launched *Votrient* in the sarcoma indication, which is the 70th new product we have launched there since 2000, and we have 30 more new products to launch in the next three or four years. Therefore, this is a very exciting portfolio of opportunities to come I hope in these businesses but both of them ready to start to move forward with what I hope will be bigger commercial opportunities than we have had in the past.

In Japan, specifically, during the year we built the joint venture with Daiichi Sankyo to ensure that in the Vaccines space we can complement our new high end vaccines with the base vaccines portfolio that Daiichi Sankyo has, and that has put us in a very strong position for the longer term in Japan as well.

Emerging Markets have been the focus since I took over. We have significantly increased our resource base there and now you can see it is a very material part of the Group, continuing to grow very strongly. We are delighted last year that, although we suffered in the first quarter particularly with the Arab Spring, there was a very strong recovery during the rest of the year: 16% up in Pharma/Vaccines space in the fourth quarter, very strong Consumer business and overall still a 10% growth rate there as we started to see some of our multinational peers' growth rate drop off. That is largely because we have the right business model in these markets. We are very focused on innovation and great continued growth of our newer products, but we are also very focused on ensuring access of the body of the portfolio. We see good volume numbers, good adoption of new products.

If I take *Synflorix* as one example, £400 million of turnover just for that product just in the Emerging Markets is a good signal of the way in which we can generate the adoption of newer products, as well as sustaining the old ones.

Europe has been the challenge, very much the focus of last year. It was disappointing for us to see the environment turn out more negatively than we anticipated, very much expressed through price. We have continued to see our European business perform around zero, minus 1 type volume movements. Our biggest product *Seretide* last year grew 2% in volume but had a significant price reduction, so the volumes are nothing dramatic, very much in line with where we see the market operating. Volume shares do not look anything to be worried about but, like everybody else, we face significant price pressure. Although at the beginning of last year, it felt that we were the only people to get such significant pressure as we had that *Seretide* price cut roll through, as the year has gone on we have seen most of our peers have had very similar price dynamics to our own. When you look at our performance in Europe, it is very much alongside the rest of the industry, but we are determined to do something about this. We don't believe that the European picture is going to suddenly improve and we don't think the European macroeconomic situation is going to facilitate a dramatic relaxation of pressure in Europe.

And therefore as a group we want to make sure that we do everything we can to maximise our efficiency in this region while we then focus on the growth opportunities in the other 80% of the group. It is a very dangerous trap to become obsessed with Europe when in fact everything else in the world shows great opportunity.

We have already announced today the beginnings of a significant restructuring programme of our European business within our overall change programme that I have announced today. This will focus on obviously reducing the size of these organisations; it will reduce the headcount of these organisations. It will eliminate overlap, duplication and the like. Most of that will fall in the SG&A arena so that will be administration, sales organisations.

There will be an element of redeployment, so some of the reductions and eliminations will be redeployed on some of the brands we think we might be a little under-powered on at the moment. All of that makes sense, it is all completely obvious and it is underway as we speak.

We are continuing, however, to look at bigger, broader strategic solutions to Europe. Europe is not a one or two-year issue. We think it is a strategic issue for the business and actually bluntly for the industry and so we continue to look at other options. We are not in a position today to share those details with you but it is very much something which is on the front burner of the company and we intend during 2013 to get to resolution and obviously when we do, we will share with you what the shape of that looks like.

We have already signalled as an example of perhaps the least ambitious perimeter of what the next step might look like that we are looking for a partner for *albiglutide* commercialisation so that might be one pathway where we look to do more specific partnering to avoid build-up of European infrastructure when we know it is a relatively tough environment.

At the other end of the perimeter you know historically we have transacted deals like ViiV where we have created very different approaches to try and resolve very complex pressures in a particular segment of our business. I am not guiding you that we are going to do either one of those things; I am simply signalling to you the spread of the perimeter and I think that gives you a feel that we are very serious about looking for the right strategic response but we need to make the right decision at the right moment and obviously not simply to synchronise with the results announcement.

So a lot going on in Europe, a lot of change, a lot of work. We have seen as you saw in Q4 a slight improvement in performance there which is good, a slight improvement in volume and a little bit of a reduction in the price pressure as predicted because the *Seretide* price pressure went down a bit but nonetheless we would expect 2013 to remain a negative price environment in Europe, as we saw last year, probably mid-single digit sort of territory.

US and Europe Consumer businesses remain very strong, very dynamic, particularly in America; outstanding consumption growth. Every single month of last year we grew faster than our categories in terms of consumption. We have seen very strong performance of all of our brands in these geographies, particularly the Oral Care Business, *Sensodyne* now a billion dollar brand. It accounts for about 8% of the world's toothpaste market so as a brand which most people think about as a bit of a niche, it has actually ended up or has become a very significant part of the global toothpaste business and has grown in double digits for 14 of the last 15 quarters, including the last quarter.

So very strong business, very good performance in America, very much benefitted from stripping out the tail, so by divesting ourselves of the tail last year has really cleared the way for us to focus on essentially 15 brands. Those 15 brands drive about 80% of that organisation. It is an extremely concentrated business and has a very, very sharp focus.

As I mentioned, two brands, *Lucozade* and *Ribena* really sit a little bit outside of the very strong synergy points of this business. That's why they are up for review. Again, this is a review which has no predetermined decision and it has no options rules in or out so it could at the most conservative end of the perimeter conclude that we should invest more and we should carry on doing what we are doing but with more investment in different geographies and it could at the far end of the perimeter include divestment of these assets.

That perimeter is as wide as that; no decision taken and I think we had the first phone call from a bank at 12:18 and we have had six since so all credit to the investment bank community, although I am surprised it took them 18 minutes to get on the phone.

**Slide 5: R&D delivery will strengthen innovative Pharma and Vaccines**

R&D I think has been a really tremendous story for us during 2012, really the continuation of the momentum which has been building up in the R&D organisation; very strong delivery of clinical trial results, fabulous delivery of efficiency in the trial environment, something like three times as many patients in GSK clinical trials today as compared to 2008, so a massive step up in activity. Trials getting done, many trials finishing early, many trials coming in under budget, all of which is why we have been able to hold our R&D budget flat to down, even with this massive step up in pipeline. Really the proof if you will of the efficiencies that we have begun to put in place in that organisation.

There are 14 assets still to report out over the next couple of years and we think with the six which are already under review we have the potential to have 15 new drugs or vaccines – that's not line extensions – that's 15 complete new drugs or vaccines in the next couple of years.

Lots of news this year, lots of catalysts for those of you who love catalysts so there will be lots of moments where I am going to be very nervous, you are going to be very interested, and we will see how we both feel in the morning. It is going to be one of those sorts of years. It is a very different sort of atmosphere for us. Obviously there are going to be lots of twists and turns in this year. Not everything is going to go smoothly. There are bound to be twists and turns as we go along, so we will see how the year progresses but we are in great shape. We have six files in already and of course during the year we will also get the first data back on the MAGE-A3 therapeutic vaccine and darapladib, and while we have always signalled that those are high-risk but very high return opportunities, it is impossible not to get excited about them as those days start to progress toward us.

So a lot coming in terms of pipeline. I really couldn't be happier in terms of the progression of what we have done and been able to do all of that and at the same time show that we can be more efficient and that R&D is not simply a function of how much money you throw at it.

We believe and we have the first two respiratory files obviously at the regulators, we believe we have the opportunity for up to ten new respiratory drugs in the next five or six years and we are very confident of our view that we can grow our respiratory franchise over the medium term as these new products start to roll in, notwithstanding the fact that there will inevitably be continued price and in some areas generic pressure to some of our existing products.

One of the reasons why we have been buying up our stakes in our partners is because of our increasing confidence in the assets and our desire to get more economic control and also to simplify some of the relationships, so to avoid having to negotiate everything, to speed up decision-making and buy up the economics, was really behind our deployment of capital last year and essentially almost all of our bolt-on acquisitions, all of our deployments last year were targeted around that arena.

**Slide 6: A simplified and modernised company with strong focus on cash**

In terms of looking at how we simplified the business I have covered a couple of these things. The first two you have seen; these are updates on numbers you have seen before. Very substantial reductions in the size of our R&D footprint as an example, so a much leaner organisation almost on every dimension. It is a much more creative organisation, it is a much more accountable organisation, but it is certainly leaner.

We are in the midst of changing our manufacturing organisation and the Change programme that I have announced today - £1.5 billion charge for about £1 billion of savings covers the European restructure and it covers elements of the changes that we are stimulating in R&D and manufacturing. This is going to lead to a really significant technology leap for the company. Areas, for example, that we are going to be accelerating is a jump towards more continuous process manufacture, a shift from synthetic chemical reactions to enzymatic reactions and a whole reframing of how we do analytical testing in all of our facilities. The net/net of all of that: very significant reduction in process times, very significant reduction in cost, carbon footprint, inventory and speed. All of those things are on offer and we have been spending in parts of the organisation we almost never talk to you about in our platform sciences units. We have been working over the last five to six years on a series of technologies, which we believe now are ready to industrialise. We began building the first facility last September in Singapore, where we are going to start deploying the enzymatic technologies into amoxicillin first of all, but it has already been deployed in two of our pipeline assets and will now be accelerated across the rest of the organisation.

Just to give you a little sense of what all that means, because I could see when I said "Enzymatic reactions" one or two people glazed over just for a second. Just to bring that into what that might mean from an economics point of view a couple of metrics. When we normally make a chemical which goes into a medicine we need a facility which is about 900 square metres in size. That gives you a sense on average. To do it this way takes about 100 square metres, so you are talking about a massive reduction in capital deployment and space occupancy. You will see something like a 50%

reduction in carbon footprint and solvent use, up to a 50% reduction in cost. These are enormous levers on the biggest part of the cost base in terms of the cost of goods.

How big could this be? Again if you look at our current portfolio between one third and 50% of all the chemical reactions we do in our factories is amenable to this technology. This is not something which will be a rarity; it should be something we can apply on a very broad basis. That is a new avenue for us and I am excited about it, because what this reflects is this is a company that has spent five years working to deal with the patent cliff, working to do with lots of other issues from the past, reinvents its R&D organisation to deliver a pipeline, re-think its commercialisation modelling key businesses, grapple with core strategic issues of fit, like HIV, like *Lucozade* and *Ribena* and at the same time invest in developing technologies which can allow us to take another leap forward in terms of changing our cost base for the medium term. It reflects the capability and the focus of the organisation to relentlessly keep looking for ways to build momentum into long term value creation.

**Slide 7: Strategy focussed on deliver of EPS growth, strong cash generation and returns to shareholders**

All of that, of course is designed to generate sustainable sales growth. We think this year should be a year of growth: small growth, low growth, with leverage, but nonetheless a year of growth. Obviously we hope that would have happened last year, but with the pressures we saw in Europe combined with the decision to dispose of some of the tail that really took that growth away. This year we think we can get to growth. We will have to see what the environment throws at us but, based on what we see today we expect that.

We are confident we can deliver EPS growth. A lot of that leverage comes from our financial engineering and Simon will touch on this a little bit more, but the work that has gone on to refinance the group, reduce our cost of borrowing really has made a significant difference as, of course, does the tax rate. All of that should start to deliver for us a very consistent delivery over the next few years as the pipeline starts to feed in at the top.

We continue to work to reduce working capital and, of course, we continue to then focus on returning the cash back to shareholders. We are guiding today that we will increase the dividend again, that is our goal – consistently increase the dividend. We have done it today by 6%, we continue to aim to do that during 2013 and we will continue to buy back shares initially set in the range of £1 to £2 billion.

Very simple architecture for the company, very much focussed on sales driving into the top of an efficient organisation using leverage at any place we can within the P&L to try and maximise the EPS growth with a view that the focus should be on organic growth and it should be on returning cash to shareholders rather than significant acquisitions.

Those are essentially the key messages for you. I think we are in good shape. Last year wasn't quite where we hoped it would be, but the way it turned out wasn't far off either. The key for us as we go forward this year is to lock in on the growth opportunities, make the right decisions on the strategic challenges of Europe, *Lucozade* and *Ribena*, and make sure that the R&D pipeline continues to move forward. There are bound to be twists and turns during the year. I certainly start 2013 with a very high degree of confidence.

With that, I am going to hand over to Simon.

**Simon Dingemans**

**Chief Financial Officer**

**Slide 9: GSK financial architecture driving returns**

Thanks Andrew. Clearly, as Andrew has highlighted, 2012 was a challenging year and one that, looking back on it, turned out to be a lot more challenging than we had expected at the beginning of the year. I am very pleased with how the business performed and responded during the course of the year to those challenges and equally pleased that we were able to deliver on the updated guidance that we gave you back in October, delivering sales broadly in line with last year, flat excluding the drag from the OTC disposals and earnings per share flat on the year before.

Europe was obviously a key issue during the course of the year and if you look at the near £400 million drag that Europe introduced to the Group that reflects basically all of the downturn that we saw at the Group level as well. You can see the scale of the challenge that we have to deal with. What made it particularly difficult to respond to was the way in which the formal austerity measures spread in a diverse way across the continent and played out in different markets in very different ways, which meant that business had to become a lot more agile and a lot more adept in tackling those challenges. The business has responded very well. Even though today we have announced a number of changes and some restructuring charges to put Europe onto a sounder footing going forward, clearly that is not where we started from; already a number of changes were being made in the business during the latter part of last year. Already we have taken a number of resources and reallocated them across the business to make sure that we are really focussing on where the European business can make the best returns.

From my perspective that is also very encouraging in the way in which the financial strategy that we laid out for the company and the financial metrics and architecture that we have given the businesses really being applied at the front line, so that has not only meant reducing cost but it has also meant reallocating resources either back to the Group for other purposes where we can see better returns, or even within Europe where picking two or three of our key products, putting extra resources and extra investment behind them, which might seem counterintuitive in the face of that sort of pressure, has led to some of the volume growth that Andrew described for you. It has really allowed us to improve our market positions in a number of key territories across the Continent, and we shall look to do much more of that as we go into the continuing review of the European business during 2013.

More broadly across the business, you can see other areas where the financial strategy has really started to bite and to have a material impact on our bottom line performance. I am particularly pleased with the progress we have made in delivering our funding objectives a year early with our net interest cost now down over 200 basis points from the year before I came. That is really a function of taking advantage of different opportunities on the interest rate curve, refinancing some of our debt and building a much more sustainable and flexible capital structure to fund the business going forward.

Equally, on the tax rate and I shall talk some more about that going forward, we have really built a much more sustainable position to allow us to continue to improve and to deliver value at the bottom line.

On the cost side, we have a number of ongoing programmes: our OE programme, which is now coming to an end and the new initiatives we have announced today, but we also continue to look at areas where we can release value either on an ongoing basis, or a one-off basis. They all contribute to our flexibility to be able to deliver funding to the businesses where we can deliver the best return and the best growth.

Some of the benefits changes we have highlighted in the release today, even though they may be lumpy in the way they deliver value, they really put those plans onto a sustainable long-term basis for our employees, and they release a lot more funding flexibility into the company. This is something we have been working on for some time even though they have only arrived in the fourth quarter this year, and we shall be looking for further opportunities along that line.

As Andrew highlighted, the financial strategy is one of the key drivers why, during the course of last year and this year, we have looked at some of the assets we have coming through the pipeline, some of our partnership arrangements and have bought in the economics during the course of this year to make sure that we are driving the most sustainable, long-term earnings per share growth. It is worth remembering that the strategy that we have outlined to support the Group's objectives is designed to drive two things: earnings per share and free cash flow growth. That is why the guidance we have given is focused on earnings per share. If we deliver the earnings per share, the focus we now have across the Group on free cash flow conversion will deliver the cash flow that we can either use to reinvest in further opportunities, or return back to the shareholders as dividends and buybacks as we have said before. That will be done on a rigorous CFROI basis, benchmarking those opportunities to see where the best returns can be delivered.

**Slide 10: Slide Headline results**

If we turn to the results for 2012, as we said we saw good delivery particularly in the second half of the year. I am pleased with how a number of the key objectives we had in the fourth quarter came through. We highlighted back in October that we had a significant number of vaccines deliveries to make in Emerging Markets especially, but in the US we also a very good take-up from the Vaccines business in the fourth quarter as well. That is not delivered without a lot of effort from the Vaccines business to make sure they arrive with the patients in the right timeframe and in the right markets, so we saw good, successful execution there.

Equally, the Emerging Market Pharma business consistently has been picking up the pace since that disruption by the Arab Spring in Q1.

Europe also saw a slightly lower rate of decline in Q4, partly reflecting some of the measures we have already taken, but it is too early to call that a trend as the markets remain very challenging. That also helped to contribute to the overall delivery.

The US is also making progress although we saw slightly less stocking in the fourth quarter than we have historically seen. This may be a change in pattern and we are still working through how that may flow into Q1 but that is why we have ended up a little short of where we expected to be in the US. However, overall, the general performance was very strong.

At the operating level, we saw a good contribution from a variety of cost saving measures, allowing us to minimise the impact of the top line drag at the operating level to around 30 basis points. We flagged on top of that the cost of HGS coming in in the back half of the third quarter and into the fourth quarter which will take about 30 basis points this year. That will fade out as we go into 2013 and then contribute from 2014 onwards. Overall, we have managed to deal with a very unpredictable environment and maintain pretty much the same margin as we had last year.

The leverage has really come at the bottom half of the P&L in the financial measures which we have described in the release today. There was good progress on funding, tax and looking at the share count, the benefits of the share buyback allows us to deliver core earnings per share flat on last year.

Let me say a quick word on free cash flow which is one of our core metrics. It is down 17% for the year which really reflects a continued focus on generating and converting earnings to cash but also during the year, as we flagged a year ago, we were going to need to put more investment into the capital expenditure behind the delivery of the pipeline. Also the absolute amount of working capital released during the year was lower than in 2011 but still a very good contribution that has allowed us to fund £6.3 billion of distributions back to shareholders during the year.

**Slide 11: Sales growth analysis**

If you look at the sales contribution and look underneath that in terms of the overall mix, as Andrew highlighted, we went into the year expecting a material drag from the disposals of the OTC businesses. We were not sure exactly when they would be exited but we saw that combined with the final stages of the roll-off of *Avandia*. Then, the comparison with the spike in *Cervarix* that we saw in 2011 through the five cohort catch-up programme in Japan, which really put about £600 million of drag into the sales level for 2012. I shall come back to some of that which will still play out in the first half of next year but that is obviously a material factor.

If you then look at the shape of what the contributions from the different businesses have delivered during 2012, you can see immediately the drag factor that Europe and the £400 million decline introduces into the mix. The rest of it is very consistent with the pattern that we have described for you over the last several quarters.

The US is broadly flat when you strip away the decline of *Avandia*, generics offsetting the continued growth of the promoted products. Without new products to add to that mix, the US is holding steady but needs that extra additional portfolio to be able to move forward.

Likewise, ViiV is experiencing generic pressures and it has an exciting new product with the regulators at the moment. Again, that will need new product before that really moves forward.

Then offset by the continued strong performances of our Emerging Markets business, our Japanese business and our Consumer business, which have very consistently delivered over the course of

2012. At an absolute level you can see that leaves us down 1% broadly in line with last year, but Europe really being the swing factor in our performance.

**Slide 12: Outlook for 2013: around 1% turnover growth (CER) – difficult comparators in Q1**

And when you look forward into 2013, the reason why we have given guidance at 1% is that we continue to see some drag from those exiting businesses. Most of that will fall in Q1. We have about £400 million in total to flow through the course of 2013, but when you look at that business below those drag factors and you can see without calling a very different position in Europe, that again we need the pipeline to move the US forward, we need the pipeline to move ViiV forward. Without that, there remains a relatively high degree of offset against our existing growth businesses which leaves us expecting about 1% for 2013 on a constant currency basis.

**Slide 13: Margin impacted by declining sales, mix and HGS (30bps)**

If we look past that at the margin, I think you can see here very much the dynamics that we have talked about before in how we want to manage the P&L to drive bottom line performance.

We have had a number of different offsetting factors, but overall the key message is that the margin is broadly the same as last year, despite the top-line pressures that we have seen, really reflects our continuing balance of releasing cost savings from our established businesses, putting them behind our growth drivers in the emerging markets and putting them behind, getting ready for the pipeline if and when it is approved by the regulators.

That is going to be the pattern very much during 2013, but if you look at the overall mix you can see there the SG&A block sitting in the middle which really reflects holding that expense steady in the face of a falling sales line. We think that's the right thing to have done, given that if we pulled back we would have to put it into the business again and we would be slow on the uptake if we get these products approved.

The rest really reflects the mix and the impact of just lower sales against a relatively static cost base.

If you look at R&D, this is also a good example where we have been able to manage expense despite obviously a lot going on in the R&D business that they maintain their focus on cost control, they maintain their focus on efficiency and we have a number of phasing benefits in the course of the year where they have maintained a very tight discipline on the amount they are investing. Going forward they are clearly going to have to also pick up the additional R&D costs as a result of folding the Shionogi interests back in directly to ViiV as we work on dolutegravir and also the HGS costs, so we are continuing to manage that to the broadly flat guidance we gave you at the beginning of 2012 from about £3.6 billion and we will work within that parameter to make sure that we are really driving the best returns out of the R&D portfolio that we can.

**Slide 14: SG&A: Balancing investment in growth with cost savings**

On the SG&A side, equally more consistency, looking to release resource from our developed markets, continuing to put them behind our new growth markets and you can see broadly that's balanced during the course of the year. Quite a lot of the structural savings that we have made out of the OE programme are now coming to an end and these savings really being about the ongoing measures and the improvements that I have talked about a couple of times before and particularly in terms of our functional capability where as Andrew highlighted we are continuing to roll out our new ERP platforms, we will have over three-quarters of our European business by revenues on to the new ERP platform by the middle of this year. That is starting to drive some significant changes and open up new opportunities as well to simplify the functional and administrative costs of the company.

We have just opened the first two of our business centres which are really going to be hubs to provide coverage across both Europe and now the central part of the EMAP businesses, three or four more to come, but we are already making significant progress that leaves us confident we can continue to offset the investments we need with the release of cost measures, either one-offs, ongoing or a combination of both that will hopefully allow us to play this position forward and that's certainly the plan.

What you can see is that fixed flat cost number against the declining sales obviously is the other 0.5% that you saw in the margin impact during the course of the year.

**Slide 15: COGS:  Mitigation of pressure from cost management and OE savings**

Where we see more pressure is at the Cost of Goods line and many of the measures that are contained within the New Change Programme we have identified today are really designed to address the ongoing competitiveness of our supply chains and how we really adapt them to both the considerable burden of expansion that our bringing as many new products through the pipeline is going to require from our manufacturing businesses and they are already gearing up to do that.

A new product inevitably takes some time to develop to the optimum margin and cost structure, but also making sure that we are continuing to take cost out of the manufacturing line supplying into emerging markets and those where the price point is different and we have already seen even in the last six months and the focus of these new programmes that have been summarised in the release today, significant changes.

Take *Ventolin* where we have had a number of product presentations of *Ventolin* designed to go into the emerging markets, by taking some of the lessons from the Consumer business and really designing those products for value we have reduced the costs to supply those by not just 10% or 20%, but 70% to 80% which not only makes us competitive with the local producers in those markets but also allows us to access more patients and broaden out the access and coverage of those markets, again opening up new opportunities for us to expand in emerging markets.

That is just a small example for a product like *Ventolin* which is 30 years old where you can still make very significant changes by aligning the supply lines with the end customer and making sure that you are really focussed on where the value sits in that chain.

Overall again, a little bit like you have seen on the SG&A side, cost management and OE savings along the lines of the sort of programmes I have described offsetting a recurrent drag that we have in the Cost of Goods line of the mix of the business as it has changed over the last two or three years. Clearly as the pipeline comes through and those sales go to the US or Japan, then that mix is likely to change but this is a factor that we need to continue to build in to our plans to make sure that we are covering the costs and the impact of that.

The shorter-term issue has clearly been volume where in a declining sales environment, particularly one where sales have declined as quickly as they have in Europe, moving the manufacturing chains to respond is quite difficult, particularly when some of our supply lines are 18 months long and we have seen here some volume impact in the course of 2012.  Some of that will still flow into 2013 as we unwind some of the impacts from this year but one of the reasons we want to shorten our supply chains is to allow us to be much more responsive to these sorts of pressures going forward.

**Slide 16: New Change Programme: Expected to deliver at least £1bn of further annual savings by 2016**

Overall the savings that we are expecting to make out of the new programme will total £1 billion by 2016.  That is going to be phased, as indeed were the savings out of the OE programme.

Like that programme you should expect us to both invest as well as release to the bottom line. Typically our pattern has been roughly 50/50 in terms of those benefits and I would expect that there is probably a little bit more concentration on the investment side in the short-term as we get ourselves ready for the pipeline but we do expect progressive delivery of those benefits into the mix and we will allow those to flow through as we see the opportunities.  This will take a number of years to reach full run rate and we think that is the right thing to do given the number of moving parts that we are having to manage.

**Slide 17: Strong delivery on financial efficiencies**

On the financial side, as I highlighted earlier we set out some targets to reduce our net funding costs by a couple of hundred basis points.  We have delivered that this year, a year earlier than planned and we are continuing to look at ways of improving that.  It is worth remembering we have taken the net debt of the company from around £9 billion to around £14 billion; the interest charge this year is pretty much the same as last year – in 2012 relative to 2011 reflecting the progress that we have made in the way in which we are funding the group.

Equally on the tax side we have delivered 24.4% this year, again ahead of the 25% target a year earlier that we set out.  This is a function of the continuing efforts that we are making to restructure the way in which the group's operations and its financial structure are aligned.  You will see in the release today details of some of the moves we have made to bring substantial amounts of our intellectual property back to the UK. That was done during the course of last year. That has contributed a little bit in terms of how we have ended up this year, but it is really about the story going forward and why we believe we can take 24.4% from 2012 into 24% in 2013 and we continue to look for ways to improve that going forward as we now have a significant amount of our pipeline sitting in the UK, available to access the patent box and some of the tax incentives around that, which go with the investment and the activity we are also bringing back to the UK so that we believe that is a sustainable position going forward and one that is going to contribute materially to the bottom line future years as the pipeline delivers.

We bought shares of £2.5 billion back. Next year we are looking again like last year, to start with a similar shape of a range of £1-2 billion. We will see how we progress during the course of the year, but that will very much depend on where alternative investments might come. Perhaps they don't, in which case we will work our way through the range, but it is too early to call that and we will keep it under review. It is very much the pattern that we have followed in the last couple of years again for 2013.

The other bits of the financial structure for next year are that we are expecting the net financing expense to be again broadly similar. Core tax rate I have identified at 24%, so hopefully you will see that with sales guidance of 1%, earnings per share guidance of 3-4% that we are delivering leverage through the P&L, but it is across the P&L and we have always made it clear that we expect more leverage for the financial side in the shorter term until we see the pipeline beginning to make a material contribution.

The core EPS that we reported, 112.7p, does flag the total EPS of 92.9p when we instituted Core we gave you guidance that it was typically 10p or 11p of different delta between the two. This year higher than that and the main difference is a 9p tax charge related to the implications and costs of moving the IP from around the world back into the UK which is driving the tax benefits I have just described. That is the reason the delta this year is a bit higher than we have seen previously.

**Slide 18: Accounting for Pensions – IAS 19R**

Quickly on IAS 19, which we will be adopting from 1 January 2013, this as you will recall is about substituting return rates on assets for the discount rate you are using, so it increases the cost of your benefit plans. Restating 2012 takes it from 112.7p to 111.4p, so 1.3p coming off there.

Our estimate for 2013 is that it will have an impact of about 2.5p on a like-for-like basis and that really reflects the continuing decline in the interest rates and obviously the impact of the discount rate that has.

**Slide 19: Continued strong cash conversion: £4.7bn FCF (ex legal)**

Turning to free cash flow I think I call out particularly here the working capital - £400 million in contribution to the cash. We continue to make steady progress here. The numbers in day terms during the course of the year have a number of distorting factors in there, primarily reflecting a number of the intangible adjustments we have made to bring in the transactions and the economic interests that we have just described. Overall we have made about five day progress and we continue to set up programmes inside the company to deliver steady and, most importantly, sustained progress. While we have probably made the most progress in the short term in receivables and payables, that has also helped manage our risk in Europe, clearly, in terms of sovereign risk, but we are probably coming to the end of that in terms of where material improvements might be seen. The real focus in 2012 has been putting in place a series of programmes to give both the Vaccines, Pharmaceutical and Consumer manufacturing businesses real end-to-end ownership of the inventory across the company so that we remove the buffers, we remove the interfaces across the company where inventory tends to accumulate. Particularly in the third and fourth quarters last year we saw those programmes already dropping quite a lot of finished goods, materials and inventories out of the commercial operations – lots more still to do, but that is where the opportunity will be going forward.

As we highlighted during the course of the year the legal charges obviously have material impact on the free cash flow, but we have effectively funded those in terms of how we think about it off the balance sheet in the same we as we have done in the various acquisitions that we have made during the course of the year. Free cash flow £4.7 billion pre-legal, contributing to the distributions of £6.3 billion that we made during the course of the year.

**Slide 20: Net debt increased to £14bn. Net interest charges broadly similar to 2011**

The debt increase, financing that legal charge and also the HGS and other acquisitions that we made during the course of the year, giving a debt of £14 billion on a net basis.

**Slide 21: Guidance for 2013**

To summarise our guidance for the year, 3-4% on a constant exchange rate basis at the earnings level and that is the key metric that we are focussed on, driven off an assumption for sales growth of around 1%, again on a constant currency basis, really reflecting the mix of those different growth drivers, the US, waiting for the pipeline and the continuing offset from the exit of *Avandia*, the OTC disposals and *Cervarix* which, you will remember, the third wave of that came in Q1 2012, so there is a little bit more of that to come. Even after absorbing that we still expect to grow this year. Most importantly the leverage coming through the P&L with the financial side contributing more, allowing us to continue to invest behind the pipeline, behind those growth drivers to make sure that we are building the right and most sustainable platform to deliver earnings per share growth in the future.

With that, I'll hand you back to Andrew.