GLAXOSMITHKLINE PLC
Form 6-K
November 24, 2014
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

November 24, 2014

001-15170

(Commission File Number)

GlaxoSmithKline plc

(Name of registrant)

980 Great West Road, Brentford, Middlesex, TW8 9GS

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

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THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, fund manager, solicitor, accountant or other appropriate independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (FSMA) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

This document is a circular relating to the Transaction which has been prepared in accordance with the Listing Rules and approved by the Financial Conduct Authority (**FCA**).

If you sell or have sold or otherwise transferred all of your Ordinary Shares, please forward this document, together with the accompanying documents as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or the transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain this document and the accompanying documents and consult with the bank, stockbroker or other agent through whom the sale or transfer was effected as to the action you should take.

Any person (including, without limitation, custodians, nominees, and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this document to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any such action. The distribution of this document and any accompanying documents into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this document and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

GLAXOSMITHKLINE PLC

(Incorporated and Registered in England and Wales with registered number 3888792)

PROPOSED MAJOR TRANSACTION WITH NOVARTIS AG

Circular to Shareholders

and

Notice of General Meeting

Your attention is drawn to the letter from your Chairman which is set out in Part 1 (*Letter from the Chairman*) of this document and which contains the recommendation of the Board that you vote in favour of the Resolution to be proposed at the General Meeting referred to below. Please read the whole of this document. In particular, your attention is drawn to Part 2 (Risk Factors) of this document, which contains a discussion of certain risk factors that should be taken into account when considering the matters referred to in this document.

Notice of a General Meeting of the Company to be held at 10.30 am on Thursday, 18 December 2014 at Sofitel London Heathrow, Terminal 5, London Heathrow Airport, TW6 2GD is set out at the end of this document. A Form of Proxy or ADR Voting Instruction Form for use in connection with the Resolution to be proposed at the General Meeting is also enclosed. Whether or not you intend to attend the General Meeting in person, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible by post or (during normal business hours only) by hand but, in any event, so as to be received by the Company s Registrar, Equiniti, no later than 10.30 am on Tuesday, 16 December 2014 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). Alternatively, you may appoint a proxy electronically at www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number (SRN) printed on your Form of Proxy. CREST Shareholders may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti, CREST participant ID RA19. Electronic proxy appointments must be received by no later than 10.30 am on Tuesday, 16 December 2014 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). Completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the General Meeting, or any adjournment thereof, if you wish to do so and are so entitled.

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In the event that they do not attend the General Meeting in person, in order for holders of ADRs to vote upon the resolutions to be proposed at the General Meeting, the enclosed ADR Voting Instruction Form must be returned to the Depositary so as to be received no later than 5.00 pm New York City time on Tuesday, 16 December 2014.

A summary of the action to be taken by Shareholders is set out in paragraph 9 of Part 1 (*Letter from the Chairman*) of this document and in the accompanying Notice of General Meeting.

Ordinary Shareholders on the register of members of the Company at the close of business on 19 November 2014, have been sent this document. The record date for ADR holders was 18 November 2014.

This document does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been so authorised. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in it is correct as at any subsequent time to its date.

Citigroup Global Markets Limited and Lazard & Co., Limited who are authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and regulated in the United Kingdom by the FCA and the PRA, are each acting exclusively for the Company and no one else in connection with the Transaction, are acting as joint sponsors in relation to the Transaction, and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Transaction and will not be responsible to anyone other than the Company for providing the protections afforded to respective clients of Citigroup Global Markets Limited and Lazard & Co. Limited nor for providing advice in relation to the Transaction or any other matter referred to in this document.

Save for the responsibilities and liabilities, if any, of Citigroup Global Markets Limited and Lazard & Co., Limited under the Financial Services and Markets Act 2000 or the regulatory regime established thereunder, Citigroup Global Markets Limited and Lazard & Co., Limited assume no responsibility whatsoever and make no representations or warranties, express or implied, in relation to the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by GSK, or on GSK s behalf, or by Citigroup Global Markets Limited or Lazard & Co., Limited, or on Citigroup Global Markets Limited s or Lazard & Co., Limited s behalf, and nothing contained in this document is, or shall be, relied on as a promise or representation in this respect, whether as to the past or the future, in connection with GSK or the Transaction. Citigroup Global Markets Limited and Lazard & Co., Limited accordingly disclaim to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this document or any such statement.

Zaoui & Co., which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for the Company and for no one else in connection with the Transaction and is not, and will not be, responsible to anyone other than the Company for providing the protections afforded to clients of Zaoui & Co., nor for providing advice in connection with the Transaction or any other matter described in this document.

THE CONTENTS OF THIS DOCUMENT OR ANY SUBSEQUENT COMMUNICATION FROM THE COMPANY OR THE FINANCIAL ADVISERS OR ANY OF THEIR RESPECTIVE AFFILIATES,

OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS ARE NOT TO BE CONSTRUED AS LEGAL, FINANCIAL OR TAX ADVICE. EACH SHAREHOLDER SHOULD CONSULT HIS, HER OR ITS OWN SOLICITOR, INDEPENDENT FINANCIAL ADVISER OR TAX ADVISER FOR LEGAL, FINANCIAL OR TAX ADVICE.

Capitalised terms have the meanings ascribed to them in the Definitions section of this document.

This document is dated 20 November 2014.

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IMPORTANT NOTICES

1. FORWARD-LOOKING STATEMENTS

This document contains statements that are, or may be deemed to be, forward-looking statements .

Forward-looking statements can typically be identified by the use of forward-looking terminology, including the terms anticipates , believes , could , estimates , expects , intends , may , plans , projects , should or will , or negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Company s intentions, beliefs or current expectations concerning, among other things, the Group s business, results of operations, financial position, prospects, growth, strategies and the industry in which it operates as well as those of the Novartis businesses that are the subject of the Transaction.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of operations of or financial position of the Group or the Enlarged Group, and the developments in the industry in which the Group or the Enlarged Group operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. The same applies in respect of the Novartis businesses that are the subject of the Transaction. In addition, even if the results of operations, financial position and the development of the markets and the industry in which the Group or the Enlarged Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, changes in regulation, currency fluctuations, changes in its business strategy and political and economic uncertainty. **Shareholders should specifically consider the factors identified in this document which could cause actual results to differ before making a decision in relation to the Transaction.**

Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements speak only as at the date of this document, reflect the current views and beliefs of the Board and other members of senior management based on the information currently available to them, and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group s operations, results of operations and growth strategy. Except as required by the FCA, the LSE or applicable law (including as may be required by the Listing Rules and the Disclosure and Transparency Rules), GSK expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Company s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Save as set out in paragraph 11 of Part 6 (*Additional Information*) of this document, no statement in this document is intended to be a profit forecast or profit estimate and no statement in this document should be interpreted to mean that the earnings per share of GSK, as altered by the Transaction, will necessarily match or exceed the historical or published earnings per share of GSK or the relevant entities which are the subject of the Transaction.

The statements in this section should not in any way be construed as a qualification to the opinion of the Company as to the Group s working capital set out in paragraph 10 of Part 6 (*Additional Information*) of this document.

2. NO INCORPORATION OF WEBSITE INFORMATION

Neither the content of GSK s website or Novartis s website, nor the content of any website accessible from hyperlinks on GSK s website or Novartis s website, is incorporated into, or forms part of, this document and shareholders should not rely on them.

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CORPORATE INFORMATION AND ADVISERS

DIRECTORS

Name	Position
Sir Christopher Gent	Non-Executive Chairman
Sir Andrew Witty	Chief Executive Officer
Simon Dingemans	Chief Financial Officer
Dr Moncef Slaoui	Chairman, Vaccines
Sir Deryck Maughan	Senior Independent Non-Executive Director
Professor Sir Roy Anderson	Independent Non-Executive Director and Scientific Expert
Dr Stephanie Burns	Independent Non-Executive Director
Stacey Cartwright	Independent Non-Executive Director
Lynn Elsenhans	Independent Non-Executive Director
Judy Lewent	Independent Non-Executive Director
Dr Daniel Podolsky	Independent Non-Executive Director and Scientific Expert
Tom de Swaan	Independent Non-Executive Director
Jing Ulrich	Independent Non-Executive Director
Hans Wijers	Independent Non-Executive Director

The business address of each of the Directors is the registered office of the Company at 980 Great West Road, Brentford, Middlesex TW8 9GS.

Company Secretary

Victoria Whyte

Registered Office

980 Great West Road

Brentford

Middlesex

TW8 9GS

Website

http://www.gsk.com/

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Advisers and others

Joint Sponsors	Citigroup Global Markets Limited Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB Lazard & Co., Limited 50 Stratton Street London W1J 8LL
Joint Financial Advisers	Lazard & Co., Limited 50 Stratton Street London W1J 8LL Zaoui & Co. Ltd 11 Hill Street London W1J 5LF
Legal Adviser to GSK	Slaughter and May One Bunhill Row London EC1Y 8YY
Legal Adviser to the Joint Sponsors	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG
Auditor and Reporting Accountants to GSK	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Registrar	Equiniti Limited Aspect House Spencer Road Lancing BN99 6DA

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of the Transaction	22 April 2014
Publication and posting of this document, the Notice of General Meeting, the Form of Proxy and ADR Voting Instruction Form	24 November 2014
Latest time and date for receipt of Forms of Proxy and CREST Proxy Instructions	10.30 am on 16 December 2014
Latest time and date for receipt of ADR Voting Instruction Form	5.00 pm (New York City time) on 16 December 2014
General Meeting	10.30 am on 18 December 2014

Notes:

All references in this document are to London times unless otherwise stated

Total number of issued Ordinary Shares (including those underlying ADRs) as at 18 November 2014	**5,352,993,977**
Total number of voting rights as at 18 November 2014	**4,861,478,027**

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PART 1

LETTER FROM THE CHAIRMAN

GlaxoSmithKline plc (GSK or the Company)

(Incorporated and Registered in England and Wales with registered number 3888792)

Directors

Sir Christopher Gent
Sir Andrew Witty
Simon Dingemans
Dr Moncef Slaoui
Sir Deryck Maughan
Professor Sir Roy Anderson
Dr Stephanie Burns
Stacey Cartwright
Lynn Elsenhans
Judy Lewent
Dr Daniel Podolsky
Tom de Swaan
Jing Ulrich
Hans Wijers

Registered office

980 Great West Road
Brentford
Middlesex
TW8 9GS

20 November 2014

Dear Shareholder,

1. Introduction

In April, GSK announced a major three-part transaction with Novartis, committing to strengthen significantly the Group s vaccines and consumer healthcare franchises by agreeing to acquire Novartis s Vaccines Business (which excludes the Influenza Vaccines Business) for an initial consideration of $5.25 billion[1], and to form a consumer healthcare joint venture with Novartis, over which GSK will have majority control with an equity interest of 63.5 per cent., by combining the GSK Consumer Healthcare Business with the Novartis OTC Business. At the same time, GSK also agreed to divest its Oncology Business to Novartis for $16 billion[2]. £4 billion of the net proceeds is intended to be returned to Shareholders via a B share scheme following Completion of the Transaction[3].

This is the most significant transaction for the Company since the creation of GlaxoSmithKline plc in 2000 and is a major step towards fulfilling the Company s strategy of creating a simpler, stronger and more balanced platform for long-term growth.

The Transaction, because of its size in relation to the Company, is a class 1 transaction for the Company under the Listing Rules and is therefore conditional, amongst other things, upon approval by Shareholders of the Resolution as contained in the notice convening the General Meeting set out at the end of this document. A General Meeting of

Shareholders has been scheduled to be held at Sofitel London Heathrow, Terminal 5, London Heathrow Airport, TW6 2GD at 10.30 am on Thursday, 18 December 2014 for the purpose of seeking approval by Shareholders under the Listing Rules. A summary of the action to be taken by Shareholders is set out in paragraph 9 below.

The purpose of this document is to provide you with details of the Transaction, to explain why the Board considers the Transaction, which fundamentally re-shapes the Group for the future, to be in the best interests of the Company and its Shareholders as a whole and, accordingly, why the Board unanimously believes that you should vote in favour of the Resolution at the General Meeting.

[1] Total consideration includes additional potential milestone payments of up to $1.8 billion and ongoing royalties. Please refer to paragraph 4.2 of this Chairman s Letter for further details.

[2] Up to $1.5 billion of this consideration depends on the results of the COMBI-d Trial. Please refer to paragraph 4.3 of this Chairman s Letter for further details.

[3] Please refer to paragraph 5.4 of this Chairman s Letter for further details.

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In recognition of the strategic significance of the Transaction, this letter also sets out how GSK has delivered against the strategic priorities the Company set out in 2008. Furthermore, to demonstrate why the Transaction represents a unique opportunity for GSK to take a major step forward in delivering on this strategy, this letter provides a summary of the highlights of the Company s key franchise areas vaccines, consumer healthcare, respiratory and HIV including their leading market positions, their prospects and the opportunities to boost revenue growth and profitability on Completion of the Transaction.

2. Background to the Transaction

In 2008, GSK set out its strategic priorities to grow a diversified and global business, deliver more products of value and simplify the operating model. In doing so, the Company s objective was to deliver growth, reduce risk and improve the long-term financial performance of the Group. During a challenging period, when the Company has faced significant loss of sales to generic competition, GSK has maintained broadly stable sales and earnings and delivered increased dividends. Over this period the Company has continued to invest in growth businesses, consolidated its positions in emerging markets and launched numerous new products, including Breo/Relvar, Anoro, Mekinist, Tafinlar, Tivicay and Triumeq, Eperzan/Tanzeum and QIV flu, while delivering on significant cost efficiency programmes across the pharmaceuticals, vaccines and consumer healthcare businesses. This Transaction represents the next logical stage in the transformation of the Group and is consistent with GSK s approach of pursuing targeted strategic acquisitions and disposals to enhance shareholder value rather than large scale mergers or acquisitions.

With this approach GSK is creating a set of balanced, long-term businesses with global scale that are less exposed to risk and volatility.

2.1 ***Creating a balanced Group with three core businesses***

Within GSK s pharmaceutical business the Company already has leading global positions in respiratory and HIV. The interconnected parts of the proposed Transaction add further balance to the Group, building significantly on its leading position in global vaccines and creating a new global consumer healthcare leader. In both of these strengthened franchises, GSK believes that its larger scale and greater geographic reach represent significant competitive advantages that will provide an opportunity to create substantial further value for Shareholders over the long-term.

In particular, the GSK Group following Completion of the Transaction will have four key franchises with leading positions in respiratory, HIV, vaccines and consumer healthcare. In aggregate, these franchises represent approximately 70 per cent. of Group revenues. Each franchise will benefit by being part of the GSK Group, with access to the Group s global commercial infrastructure, international supply network, innovative R&D organisation, significant scale and extensive presence in emerging markets, and regulatory relationships. Furthermore, GSK s strengthened consumer healthcare business will benefit from further opportunities provided by the potential to switch existing and future pharmaceutical brands to the consumer healthcare business. A recent example of GSK s success in this area is the switch of its steroid nasal spray, Flonase, to an over-the-counter (**OTC**) version which was approved by the FDA in July 2014. In addition to the benefits that each business gains from being part of the broader GSK Group, GSK benefits from its ownership of a more balanced set of franchises, with longer duration cash flows from the vaccines and consumer healthcare businesses that complement the pharmaceuticals business with its greater patent-driven cyclicality.

Consumer Healthcare

The GSK consumer healthcare business is one of the largest in the world, developing and marketing a range of products based around four category areas: wellness, oral health, nutrition and skin health. The business s strategy is to combine GSK s pharmaceutical capabilities and scientific expertise with the strengths of the fast moving consumer goods (**FMCG**) world, such as consumer insight, speed to market and brand focus, to become the first and best fast moving consumer healthcare company, driven by science and values.

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In 2013 GSK s consumer healthcare revenue was £5.2 billion[4] or 20 per cent. of GSK s total turnover. GSK s consumer healthcare brands are available in over 100 countries, with more than half of sales coming from top-selling brands such as Sensodyne, Panadol and Horlicks. The business is particularly strong in the emerging markets where GSK has a major presence in India, China and Latin America.

Wellness is GSK s biggest category, focusing on products that cover four core areas: pain management, respiratory health, gastrointestinal health and smokers health. Panadol is the top-selling paracetamol brand globally and Tums is the number 1 antacid brand in the US.

In oral health, GSK is one of the largest researchers in the world. Sensodyne is the global leader in sensitivity toothpaste, and its Polident range is the global market leader in the area of denture care.

GSK also has a long heritage in the area of nutrition. Horlicks, which is over 140 years old, is the leading nutritional supplement in the Indian subcontinent and continues to innovate with launches of new product variants and formulations based on rigorous science.[5] Through GSK s acquisition of Stiefel Laboratories in 2009, the Company s skin health brands hold leading positions in pharmacy and specialised skin care in some of the world s fastest growing markets.

GSK s consumer healthcare research takes place at six research centres throughout the world, where scientists are seeking to identify and develop sustained innovation in all GSK categories and regions. In 2013, GSK invested 3.4 per cent. of consumer healthcare sales in consumer healthcare R&D, and product innovations launched in 2013 provided over 13 per cent. of its consumer healthcare sales.[6]

The Novartis OTC Business has a portfolio of brands that are highly complementary to GSK s and delivered £1.8 billion in revenues in 2013. The combination of the Novartis OTC Business with the GSK Consumer Healthcare Business represents a unique opportunity to materially transform this division.

The JV will hold category leading positions and brands in several large and growing global categories including wellness, oral health and skin health, combining OTC and FMCG capabilities and expertise. In the wellness category, the new combination s complementary portfolio will create the number 1 business globally.

GSK will hold a 63.5 per cent. shareholding and Novartis will hold a 36.5 per cent. shareholding in the newly created Consumer Healthcare Joint Venture. It will be the largest consumer healthcare business globally, operating in markets estimated to be worth $106.6 billion and projected to grow at approximately 4 per cent. per annum over the next five years.

The new Consumer Healthcare Joint Venture will have 19 major brands each with annual revenues in excess of $100 million, including Sensodyne, Panadol, Aquafresh, Voltaren® and Otrivin®. With increased speed to market and investment in new products, this business has greater opportunities to deliver revenue growth consistently above market rates.

The two portfolios are geographically well-matched and the combined business will have the largest share of the consumer healthcare market in more than 35 countries. The Board believes that Novartis s portfolio presents multiple new growth opportunities in high growth emerging markets for several major brands and innovations, notably Voltaren®, Excedrin® and Otrivin®. Similarly, GSK s brands will benefit from exposure to Novartis s highly successful CIS, Central and Eastern European business.

Additionally, future Consumer Healthcare Joint Venture revenues will reflect the re-supply of certain products manufactured at Novartis s facility in Lincoln, Nebraska, following remediation activities at the site. Production and re-supply began in late 2013 and will continue into 2015.

[4] 2013 revenue of £5.2billion includes revenues from GSK s Indian and Nigerian consumer healthcare businesses, which do not form part of the Consumer Healthcare Joint Venture.

[5] Horlicks is sold in India by GlaxoSmithKline Consumer Healthcare Limited (GSK India). The business of GSK India is excluded from the Consumer Healthcare Joint Venture.

[6] R&D costs have been measured on a core basis which excludes certain items that are considered to be non-core in nature as this provides a clearer view of the underlying R&D expenditure of the Group by removing the volatility inherent in many of the non-core items. Further details on the definition of core results can be found on page 150.

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Leadership

Emma Walmsley has been appointed as Chief Executive Officer Designate of the new Consumer Healthcare Joint Venture and will be a member of the JV Board, which will comprise directors from both GSK and Novartis. Sir Andrew Witty will be Chairman of the JV Board.

Vaccines

Marketed vaccines portfolio

With a turnover of approximately £3.4 billion per annum in 2013 (up from £2.5 billion in 2008), GSK s vaccines business is one of the largest in the world, developing, producing and distributing over 2 million vaccines every day to people across 170 countries. The Company currently has a portfolio of over 30 vaccines to prevent a broad range of illnesses.

GSK s currently marketed paediatric vaccines portfolio includes vaccines against polio, diptheria, tetanus, pertussis, measles, mumps, rubella, meningitis C, chicken pox, pneumococcal disease and rotavirus infection. The Company s adolescent, adult and travel vaccines portfolio includes vaccines against flu (pandemic and seasonal), human papilloma virus (cervical cancer), hepatitis A and B, typhoid, meningitis A, C, W, Y, and booster vaccines against diptheria, tetanus, pertussis and polio.

In 2013, GSK distributed approximately 860 million doses of vaccine, 80 per cent. of which were delivered to least developed, low and middle income countries. GSK s vaccines are made at 14 manufacturing sites around the world. The growth prospects for GSK s vaccines business remain strong, with the business having achieved a +4 per cent. CAGR between 2008 and 2013 on a CER basis.

The acquisition of Novartis s global Vaccines Business (which excludes the Influenza Vaccines Business), with a turnover of £602 million in 2013, further improves GSK s position as the world s leading global vaccines solutions provider. Demand for vaccination is significant, with the $25.6 billion global vaccine market projected to grow at approximately mid-single digits over the period to 2020.

The proposed Transaction will create a broader, stronger portfolio offering, most notably in key areas such as meningitis and travel vaccines. It will also increase the profitability of the business through synergies, including the vertical integration of antigen supply currently provided by Novartis to GSK.

The global market for meningitis vaccines is expected to triple by 2020, reaching $3.6 billion. The addition of Bexsero®, a new vaccine for the prevention of meningitis B and a pentavalent MenABCWY vaccine candidate in development will strengthen GSK s position in one of the fastest growing segments of the vaccines market.

In travel, a number of complementary traveller vaccines will also add further breadth to GSK s industry-leading travel vaccine portfolio.

The expanded portfolio will help accelerate GSK s strategy in the US, where Novartis has a strong presence and track record, especially in meningitis, where US sales of Menveo® reached $152 million in 2013, while benefiting from GSK s significant presence in emerging and developing markets, where significant new opportunities exist for the introduction and growth of Novartis s vaccines across both new and existing sets of customers.

The acquisition is also expected to enhance GSK s vaccines manufacturing network and provide an important increase in overall vaccines capacity, notably with the addition of Novartis s facilities in Rosia, Italy and Marburg, Germany. Both of these sites have benefited from significant recent capital investment and are FDA-registered. GSK will also acquire Novartis s vaccines manufacturing sites in India and, through the acquisition of Novartis s 85 per cent. interest in Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd. (**Tianyuan**), an interest in Tianyuan s vaccines manufacturing sites in China.

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As the leading player in a growing market, GSK expects to drive strong operational synergies and improve margins as the businesses are integrated over the coming period. Growth of the expanded business is expected to be in line with, or ahead of, the market depending on the timing and phasing of the launch of new key pipeline products.

Vaccines pipeline

GSK and Novartis s vaccines R&D organisations are also highly complementary, bringing together respective expertise in virology and bacterial infection. The Company currently has 14 vaccines in development and the addition of Novartis s Vaccines Business will increase this number by over 50 per cent. Novartis s clinical pipeline includes two Phase II vaccines candidates, namely a pentavalent meningitis vaccine candidate, protecting against meningococcal serogroups A, B C, W and Y, and a vaccine against infection by group B streptococcus. Novartis also has earlier stage programmes against HIV, cytomegalovirus, hospital infections such as s. aureus, c. difficile and p. aeruginosa and various acellular pertussis combination vaccines. Of particular interest is Novartis s candidate vaccine against group B streptococcus infection, the leading cause of neonatal sepsis and meningitis globally. Novartis also contributes a number of pre-clinical vaccine candidates aimed at devastating diseases highly prevalent in developing countries such as malaria and tuberculosis.

Leadership

As announced on 22 October 2014, Moncef Slaoui has been appointed as Chairman of the global vaccines business.

Pharmaceuticals

Marketed pharmaceutical products

Following Completion of the Transaction, the strengthened global vaccines and consumer healthcare businesses will be complemented by GSK s existing global pharmaceuticals business. This will comprise the Company s key pharmaceutical franchises of respiratory and HIV medicines, supported by a highly productive R&D organisation.

The Company s respiratory franchise is the leader in the $29 billion respiratory market, which is forecast to grow at 2 per cent. per annum over the medium term. GSK has been the global leader in this therapeutic area for over 30 years, with its franchise strength built around the strength of Ventolin, Flovent and Seretide/Advair. The respiratory portfolio is currently undergoing a period of transition as the portfolio is being strengthened and broadened with the addition of Breo/Relvar, Anoro, Incruse and Arnuity, all of which are delivered in the proprietary Ellipta device. GSK s key priority in respiratory is to deliver and generate access to its new products. The Group s most recent results clearly point to the extensive transition underway for the portfolio, and, in particular, the pressure on the Group s older products, such as Seretide/Advair, especially in the US market where the Group is seeing a significantly more challenging contracting and competitive environment. Despite these changes, the Group is delivering on increasing the access for new products, with Breo for chronic obstructive pulmonary disease (**COPD**) holding 72 per cent. Medicare Part D coverage and Anoro holding around 50 per cent. as of late October. Furthermore, the Group has yet to launch the recently approved monotherapy medicines, Incruse (for COPD) and Arnuity (for asthma), and has filed mepolizumab, GSK s first-in-class anti-IL5 treatment for severe asthma in November 2014. The Group expects total global respiratory sales (residual and new products) will return to growth in 2016.

In the HIV therapeutic area, GSK established ViiV Healthcare in 2009, combining expertise from GSK, Pfizer, and, since 2012, Shionogi. ViiV Healthcare is now one of the leading companies in a field with estimated global sales of $20 billion, and growing at 8 per cent. per annum.

ViiV Healthcare s portfolio of 11 HIV treatments generated annual sales of £1.4 billion in 2013 and is seeing strong growth on the back of recent successful product approvals. Tivicay (dolutegravir), ViiV Healthcare s integrase inhibitor, which has been approved and launched in the US, Europe and other countries, has performed strongly and ahead of some of the most successful recent product launches in

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the HIV space. The strength of the franchise underpinned by Tivicay and Epzicom was reaffirmed in the Group s most recent quarterly results, as sales grew 18 per cent. (on a CER basis) to £373 million. Furthermore, GSK s strength in understanding combination therapies has led to the recent approval and launch of Triumeq, the first single-pill regimen containing dolutegravir, in both the US and Europe.

Following the significant progress the business has made, both in terms of R&D and commercial execution particularly with respect to Tivicay and Triumeq the Board believes that now is the right time to explore the potential for an IPO of a minority shareholding in this business. In addition to raising capital to increase the financial flexibility of the wider GSK Group, a partial IPO of ViiV would provide greater visibility of the intrinsic value of its currently marketed assets and future pipeline while also enhancing the potential future options for the Group in relation to its interest in ViiV. While ViiV is an important part of the Group and will remain so for some time, this is a further significant step within our pharmaceuticals business to deliver improved operational performance.

Besides these key pharmaceuticals franchises, GSK also commercialises a number of smaller innovative pharmaceutical products in areas such as lupus (Benlysta), benign prostatic hyperplasia (Avodart/Jalyn) and type II diabetes (recently launched Tanzeum). In addition, the Group has an established portfolio of products made up of generally off-patent medicines in developed markets and where growth is driven by GSK s breadth of patient access across the emerging markets.

Pharmaceuticals pipeline

The Company s innovative pharmaceuticals business is underpinned by a strong R&D organisation, which delivered a record number of approvals in 2013 and has built a significant pipeline on which to build further success. Last year GSK invested £3.2 billion in R&D across pharmaceuticals and vaccines and currently has over 40 new molecular entities currently in PhII/PhIII development. GSK estimates that its internal rate of return on late-stage R&D investment had improved to 13 per cent. when last measured in 2013.[7] The Company continues to target 14 per cent. on a longer term basis.

The key pharmaceutical franchises, driven by continued innovation by the Company s R&D organisation, are expected to deliver strong medium to long-term revenue growth. For example, the Company has five further respiratory products in late-stage development including mepolizumab, an anti-IL5 antibody which has been filed in the US for severe asthma and continues to be investigated for COPD, and a respiratory triple combination (ICS/LABA/LAMA) in PhIII for COPD. The recently launched new products and the Group s continuing pipeline and device innovation provide confidence that GSK will remain the leader in respiratory well into the next decade. ViiV Healthcare s R&D pipeline is also strong, including cabotegravir or 744, a long-acting parenteral HIV integrase inhibitor as well as early stage work to identify new therapeutic options such as further antiretroviral drug candidates with novel mechanisms of action.

Besides the pipeline innovations in the respiratory and HIV therapy areas, the Company s mid-stage pipeline contains many other potential medicines for which there is already substantial evidence of efficacy, for example: 863, a prolyl hydroxylase inhibitor (PhI) in PhIIb for anaemia; ex-vivo stem cell gene therapies (273, 274 and 275) in PhII and PhIII for a number of rare diseases; and sirukumab, the anti-IL6 antibody in PhIII in rheumatoid arthritis (from GSK s collaboration with Janssen). GSK is also encouraged by the continuing innovation of the early-stage pipeline with potential first-in-class molecules in epigenetics targeting oncology and immuno-inflammation (BETi, EZH2 and LSD-1) as well as a further set of novel assets in other therapy areas such as asthma and COPD (PI3Kd), cardiovascular diseases (TRPV4) and inflammatory diseases (RIP-1 & 2 kinases).

Leadership

As announced on 22 October 2014, Abbas Hussain has been appointed Global President of Pharmaceuticals.

[7] R&D costs have been measured on a core basis which excludes certain items that are considered to be non-core in nature as this provides a clearer view of the underlying R&D expenditure of the Group by removing the volatility inherent in many of the non-core items. Further details on the definition of core results can be found on page 150.

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2.2 ***Disposal of Marketed Oncology Portfolio and related assets***

Over the past six years, GSK has successfully established its oncology business and developed an innovative R&D pipeline of oncology assets, which led to multiple regulatory approvals and global product launches in recent years, including Votrient, Promacta, Arzerra, Tafinlar and Mekinist.

As part of the Transaction, GSK has agreed to divest the Oncology Business for an aggregate cash consideration of $16 billion[8]. The agreed price represents approximately 10x 2013 revenues, reflecting the strong future growth potential of the business. The Oncology Business comprises the Company s Marketed Oncology Portfolio, related R&D activities and rights to its AKT Inhibitors currently in development and also the grant to Novartis of the Oncology Commercialisation Partner Rights for future oncology products arising from GSK s early-stage oncology pipeline.

GSK remains committed to early-stage discovery in oncology and, through the Oncology Commercialisation Partner Rights granted to Novartis, the Company has identified a preferred marketing partner capable of delivering improved patient outcomes. Novartis s global scale in this therapy area will enable it to deliver new growth and development opportunities for the Marketed Oncology Portfolio as well as for future products that may arise from GSK s discovery pipeline.

2.3 ***Further transparency for each of GSK s global franchises***

Following the Transaction, in recognition of the increased contribution of the consumer healthcare and vaccines businesses and the resultant greater balance of the Enlarged Group, the Company will provide further transparency and greater financial disclosure to allow Shareholders to understand the different but complementary attributes and financial profiles of the core businesses.

For example, the vaccines franchise, which previously has been part of the pharmaceuticals segment, will be treated as a separate financial segment, allowing Shareholders to analyse and better understand its long-term growing revenues and cash-flows, its R&D pipeline and the opportunities to build on its leadership position in new markets.

Within the consumer healthcare business, GSK will provide a greater degree of clarity around the performance of the business by providing greater disclosure on the KPIs that the Group uses to manage the business.

GSK is confident that each of these franchises will have a premium position within their respective sectors and will provide greater detail on the strategies for the new global franchises following Completion.

2.4 ***Creating a stronger higher quality earnings profile and repositioning for growth***

In addition to the stronger growth prospects set out above, the Transaction also provides GSK with the opportunity to achieve further cost savings of approximately £1 billion, with approximately 50 per cent. delivered by year three of the Transaction (see paragraph 5.3 for more details of these savings).

These cost savings build on the Company s track record of driving greater efficiency from its businesses and are separate from and incremental to the existing announced programmes and the new restructuring programme announced in the Group s most recent quarterly results. This new restructuring programme to refocus the global pharmaceuticals business and cost base is expected to deliver approximately £1 billion of additional annual cost savings over the next three years, with approximately 50 per cent. delivered in 2016. By the end of 2014, GSK will

have reduced its annual costs by £3.7 billion under a series of programmes first started in 2007.

In financial terms, the Transaction is expected to be accretive to core earnings per share in the first full year following Completion and the execution of the intended Capital Return in full (by way of a B share scheme), and is expected to make a growing contribution to earnings over time, especially from 2017, as the delivery

[8] Up to $1.5 billion of this consideration depends on the results of the COMBI-d Trial. Please refer to paragraph 4.3 of this Chairman s Letter for further details.

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of cost savings and new product launches accelerate. The impact of the Transaction on core earnings per share, particularly in the near-term, depends on the timing of Completion and the timing and size of the intended Capital Return.

The Transaction is still expected to close during the first half of 2015 with the Capital Return implemented as soon as practicable thereafter, following completion of due diligence (including on the distributable reserves position of the Company and the tax implications for Shareholders), confirmation of the outcome of the COMBI-d Trial and once appropriate shareholder approvals are obtained.

This statement does not constitute a profit forecast, nor should it be interpreted to mean that the future earnings per share, profits, margins, or cash flows of the Enlarged Group will necessarily be greater than the historical published earnings per share, profits, margins or cash flows of the Group.

2.5 ***Crystallising value and returning surplus capital to Shareholders***

Since Sir Andrew became CEO, GSK will have returned more than £33 billion to Shareholders, with £23 billion in dividends and £10 billion in share buybacks.

GSK is focused on driving improved Shareholder value and is open-minded with regard to exploring further opportunities to create greater value through the sale or partnership of assets and businesses. This rigorous approach to capital allocation is exemplified through a series of strategic transactions over recent years. For example, the Company has significantly enhanced the Group s opportunities in HIV through the ViiV Healthcare partnership with Pfizer and Shionogi. The potential minority IPO of ViiV is a further step in this strategy. The Company has crystallised over £4 billion of value over the past two years through the careful rationalisation of the Group s portfolio, for example through the divestment of GSK s non-core nutritional drinks brands, Ribena and Lucozade, to Suntory for £1.35 billion in 2013 and the divestment of Arixtra and Fraxiparine, together with the associated manufacturing site, to Aspen. In addition, we continue to manage our pharmaceutical established products portfolio actively balancing growth in emerging markets and high cash generation in mature markets against potential disposal value. We are currently continuing to evaluate options for the potential divestment of assets in this group with around £1 billion of annual sales.

Consistent with this approach, the sale of GSK s Oncology Business to Novartis for $16 billion allows GSK to realise a highly attractive value for this portfolio and make capital available to accelerate the Company s investment in vaccines and consumer healthcare. In addition, GSK intends to return £4 billion of the net proceeds to Shareholders following Completion of the Transaction (see paragraph 5.4 below for further details).

3. Further information on the businesses the subject of the Transaction

3.1 ***Information on the Novartis OTC Business***

The Novartis OTC Business that will be contributed to the JV comprises the OTC medicines business carried on by Novartis s OTC Division, including OTC pipeline products and its related manufacturing network (but excluding the business of researching and developing, manufacturing, selling or otherwise commercialising nicotine-related products in the US). The Novartis OTC Business is a leader in offering products designed for self-care and prevention of common medical conditions and ailments to enhance people s overall health and well-being. It is conducted by the

Novartis Group in more than 50 countries.

Novartis focuses on a group of strategic global brands in leading product categories that include treatments for cough/cold/respiratory ailments and pain relief, as well as products for digestive health, dermatology, and smoking cessation. The principal brands are: Benefiber®, Excedrin®, Fenistil®, Lamisil®, Otrivin®, Sinecod®, Theraflu®/Neocitran®, Triaminic®, Voltaren® and Nicotinell®.

Products for the Novartis OTC Business are produced by the Novartis OTC Business s own plants, strategic third party suppliers and other Novartis Group plants. The primary OTC plants are located in

9 Up to $1.5 billion of this consideration depends on the results of the COMBI-d Trial. Please refer to paragraph 4.3 of this Chairman s Letter for further details.

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Lincoln, Nebraska; Nyon, Switzerland; Humacao, Puerto Rico; and Jamshoro, Pakistan. Novartis voluntarily suspended operations at the facility in Lincoln, Nebraska in December 2011 due to quality issues. However, Novartis is gradually reinstating commercial production at the facility. While the process is not yet fully completed, an inspection by the FDA in October 2013 has not resulted in any Form 483 observations and the facility started shipping certain products (including Excedrin®) into the US in November 2013 and resumed Theraflu® shipments in July 2014 for the US market in time for the 2014/15 cough and cold season.

The Novartis OTC Business operates in most major markets (including the US, Europe and emerging markets) and the business distributes its products through various channels such as pharmacies, food, drug and mass retail outlets.

The focus of research and development activities is primarily on pain relief and cough/cold/respiratory treatments, and the development of line extensions to leverage brand equities is of high importance.

A summary of the trading results for the Novartis OTC Business for the three years ended 31 December 2013 (on an IFRS basis) is set out below:

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Core results reconciliation	£m	£m	£m
Turnover	**2,050**	**1,649**	**1,847**
Core operating profit	**313**	**38**	**87**
Intangible amortisation	(32)	(31)	(31)
Intangible impairment	(7)	(4)	(5)
Major restructuring	(2)	(9)	(7)
Legal cost	(5)	(12)	(8)
Disposal of assets	46	31	41
Reported operating profit	**313**	**13**	**77**

In 2013, the Novartis OTC Business showed double-digit sales growth as the business began to recover from the supply disruptions through 2012. Core operating profit was 5 per cent. of turnover, still significantly impacted by the costs to upgrade quality at the Lincoln facility and investments made to support the relaunch of products. The core operating profit margin in 2011 was 15 per cent., with the impact of the voluntary suspension of activities at Lincoln only occurring in December of that year.

The summary financial information in this paragraph 3.1 has been extracted without material adjustment from the financial information contained in Section A of Part 4 (*Historical Combined Financial Information Relating to the Novartis OTC Business)* of this document.

Please refer to Section A of Part 4 (*Historical Combined Financial Information Relating to the Novartis OTC Business)* of this document for further historical financial information on the Novartis OTC Business. Please also refer to the unaudited pro forma statement of net assets of the Enlarged Group in Part 5 (*Unaudited Pro Forma Statement of Net Assets for the Enlarged Group*) which illustrates (on the basis set out therein) the effects of the Consumer

Healthcare Joint Venture on the net assets of the Enlarged Group had it occurred on 30 June 2014.

Current trading, trends and prospects

The Novartis OTC Business has seen a slight decrease in turnover in the first nine months of 2014 in pounds sterling due to the strengthening of the pound against the US dollar. However, in constant currency (**cc**) terms, the Novartis OTC Business delivered high single-digit turnover growth in the first nine months

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of 2014, as the business cycled over the 2013 relaunch of Excedrin Extra Strength® in the US. Growth was driven by the strong performance of several global brands and product relaunches, which more than offset the impact of a soft cough and cold season earlier in the year. Voltaren® continued to deliver double-digit turnover growth (in cc terms) following successful launches in Europe of the 12-hour formulation. Theraflu® turnover grew double-digit (in cc terms) driven by a strong relaunch in the US and dynamic share growth in other key markets. Emerging growth markets delivered broad-based, double-digit turnover growth (in cc terms), led by China, Brazil and Poland.

Operating income has benefited from higher gross margin from incremental turnover and lower Lincoln plant remediation and restructuring expenses, partially offset by commercial investments behind the growth of key brands and product relaunches.

3.2 ***Information on Novartis s Vaccines Business***

The Vaccines Business which GSK is acquiring is the business of researching, developing, manufacturing, selling, marketing and commercialising vaccines for human use (and ingredients used in such vaccines) as currently conducted by the Novartis Group (but excluding the Influenza Vaccines Business). The Vaccines Business is one of the top five vaccines companies in the world. The principal assets include: Novartis s meningococcal portfolios (including Menveo® and Bexsero®); its diphtheria/tetanus antigen bulk manufacturing facilities at Marburg, Germany and its manufacturing and R&D sites in Italy (Rosia and Siena); and its pipeline vaccines, including its Group B streptococcus vaccine and Meningococcal ABCWY (**MenABCWY**) combination vaccine.

The principal markets for the Vaccines Business include the US and Europe. The Novartis Group s main vaccines marketing and sales organisations are based in Switzerland, Germany, the UK, Italy and the US. Novartis has recently also been focused on expanding operations in China, India, Europe and Latin America. In the US, Novartis markets meningococcal, Japanese encephalitis and rabies vaccines through a network of wholesalers and distributors as well as direct to key customers. Direct sales efforts are focused on public health and distributor channels, and on non-traditional channels, such as employers, chain drug headquarters and service providers.

A summary of the trading results for the Vaccines Business for the three years ended 31 December 2013 (on an IFRS basis) is set out below:

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
Core results reconciliation	£m	£m	£m
Turnover	**603**	**568**	**602**
Core operating loss	**(109)**	**(143)**	**(7**