GLAXOSMITHKLINE PLC
Form 6-K
April 25, 2012

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

For period ending 25th April 2012

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

--

Issued: Wednesday, 25 April 2012, London, U.K
Results Announcement for the first quarter 2012

GSK reports sales growth (+2% CER), further R&D delivery, operational leverage and continued returns to shareholders

- Core* EPS 27.3p (+7%)
- Dividend up 6% to 17p; total 2012 share buyback now expected to be £2-£2.5 billion including non-core OTC disposal proceeds

Core results*

| | Q1 2012 £m | CER% | £% |
|---|---|---|---|
| Turnover | 6,640 | 2 | 1 |
| Core operating profit | 2,071 | 3 | 1 |
| Core earnings per share | 27.3p | 7 | 5 |

Total results

| | Q1 2012 £m | CER% | £% |
|---|---|---|---|
| Turnover | 6,640 | 2 | 1 |
| Operating profit | 2,037 | 2 | - |
| Earnings per share | 26.7p | (10) | (11) |

Summary

Group sales growth of 2%:

- Pharmaceuticals and Vaccines +2% (Pharmaceuticals +2%, Vaccines +1%) and Consumer Healthcare +1%
- Pharmaceuticals and Vaccines growth in US, EMAP and Japan offset declines in Europe and ViiV Healthcare
- Consumer sales growth of 7% excluding non-core OTC brands identified in 2011 for disposal; agreements now reached to divest brands with combined 2011 sales of approximately £370 million

Further R&D pipeline progress:

- Positive data received since full year results for dolutegravir (integrase inhibitor for HIV); dabrafenib (BRAF inhibitor for melanoma) and albiglutide (GLP1 for type 2 diabetes)
- Quadrivalent flu vaccine filed in Q1 2012; 4 products with sufficient data to file in 2012; Relovair (asthma and COPD), Promacta (HepC), MEK and BRAF; 4 products expected to complete Phase III registration studies in 2012: albiglutide, dolutegravir, Mosquirix, LABA/LAMA

Cost management and financial efficiencies driving leverage and core EPS growth:

- Core operating profit £2.1 billion (+3%); core operating margin 31.2% (Q1 2011: 31.0%)
- Q1 core tax rate 25.9%; £226 million of share buybacks completed as part of ongoing programme
- Core earnings £1.4 billion (+4%); core EPS 27.3p (+7%)
- Total EPS 26.7p down 10% primarily reflecting impact of Quest disposal in Q1 2011

Continued focus on execution of strategy and returns to shareholders:

- Q1 dividend: +6%
- 2012 share repurchases now expected to be £2-£2.5 billion: £1.5-£2 billion from ongoing programme and £450 million from the sale of European and International non-core OTC brands
- Offer for Human Genome Sciences aligned to long term strategy

2012 outlook for sales growth and gradual expansion of core margin unchanged

The full results are presented under 'Income Statement' on page 23 and Core results reconciliations are presented on pages 34 and 35.

* For explanations of the measures 'Core results' and 'CER growth', see page 21.

GSK's strategic priorities

We have focused our business around the delivery of three strategic priorities, which aim to increase growth, reduce risk and improve our long term financial performance:

- Grow a diversified global business
- Deliver more products of value
- Simplify the operating model

Chief Executive Officer's review

This quarter marked continued progress for the Group as we returned to reported sales growth, delivered additional R&D pipeline output and maintained our focus on returns to shareholders through dividend growth and share repurchases.

Despite continued economic pressure and political instability in many markets and several demanding comparators with Q1 last year, total sales rose 2%. This performance reflects the resilience of our business and the investments we have made to increase the breadth and mix of the Group.

The US Pharmaceuticals and Vaccines business grew 9% this quarter. Growth benefited from incremental revenue related to the conclusion of our co-promotion agreement for Vesicare together with growth in Advair and an encouraging performance from new products, particularly in oncology.

European markets remained challenging and despite good progress on new launches in a number of therapeutic areas, particularly cardiovascular/urogenital and oncology, the continued implementation of government austerity measures left Pharmaceuticals and Vaccines sales down 6%.

Our Emerging Markets/Asia Pacific (EMAP) business also saw some pricing pressures, but sales were significantly affected by ongoing instability in the Middle East/Africa region (£267 million, -6%) and the phasing of vaccine tenders. Overall, Pharmaceuticals and Vaccines sales in the region rose 2%, with Pharmaceuticals up 6% and Vaccines down 9%. Growth was delivered across a broad number of markets and businesses, including China, which performed particularly strongly with sales up 27% to £163 million, and Latin America Pharmaceuticals, up 11% to £197 million. We remain confident in the long term growth prospects of this business and continue to invest behind our objective to grow ahead of the market.

Consumer Healthcare sales grew 1% on a reported basis and 7% excluding the non-core OTC brands identified in 2011 for divestment, well ahead of estimated market growth of just under 4%. I am pleased that we have now reached agreement to divest brands across the US, Europe and International regions for net cash proceeds of approximately £690 million.

We remain mindful of the challenges we face given the current global political and economic environment, particularly in relation to pricing on our more established products. However, we also continue to see attractive growth opportunities across our businesses and we intend to continue to invest behind them to strengthen the breadth and mix of the Group and its future growth prospects.

2012 is a very important year for pipeline delivery and so far the performance has been encouraging. This year we have received a significant amount of positive data for five Phase III assets for the treatment of HIV, cancer, diabetes and asthma. Data from the first of three Phase III studies for ViiV Healthcare's non-boosted once-daily integrase inhibitor, dolutegravir, demonstrated non-inferiority to twice daily raltegravir. We also completed successful Phase III studies with both our BRAF and MEK inhibitors in melanoma and now have sufficient data to file both of these assets. We have plans to begin a Phase III trial of the combination of MEK and BRAF in metastatic melanoma in the next few months. Data continues to be generated for our once weekly GLP1 agonist, albiglutide, and, as previously announced, we have now received data from 7 of 8 studies, all of which are supportive of registration. Finally, we have completed the Relovair asthma programme and expect to begin to file for both asthma and COPD indications in the middle of the year.

Increased visibility for these programmes, together with the progress we have made with the broader late stage pipeline since the beginning of 2011, underpins our growing confidence in our ability to grow sales on a sustainable basis.

The financial strategy that we are implementing is beginning to drive operating leverage and improved core earnings per share growth.

We remain focused on managing our cost base while investing appropriately in the business. We continue to expect the core operating margin to begin to improve gradually this year, with further improvement over the next two to three years. Our financial efficiency is also improving and contributed to the delivery of core EPS growth of 7% from sales growth of 2%.

The business continues to be highly cash generative with first quarter cash inflows of £1 billion. We continue to allocate capital where it can deliver the best returns for our shareholders. Our commitment is to use free cash flow to support increasing dividends, share repurchases or, where returns are more attractive, bolt-on acquisitions.

We have confirmed today a 6% increase in the Q1 dividend to 17p. We have also announced that we expect total share repurchases this year to be £2-£2.5 billion. This is expected to consist of £1.5-£2 billion from our ongoing programme and £450 million from the proceeds of the most recent disposals of our non-core OTC brands in Europe and International markets, which we have decided to return to shareholders through additional buybacks in order to balance the distribution of the total proceeds between dividends and buybacks.

Our focus on disciplined use of cash is also reflected in our proposed transaction to acquire HGS, which was announced last week. This transaction is entirely consistent with our strategy to deliver sustainable growth, enhance R&D returns, simplify our business model and improve returns to shareholders.

Sir Andrew Witty
Chief Executive Officer

Video interview with GSK CFO, Simon Dingemans discussing today's results is available on www.gsk.com

Contents


| | Page |
|---|---|
| Q1 2012 results summary | 1 |
| Chief Executive Officer's review | 2 |
| Group performance | 5 |
| Divisional performance | 12 |
| Research and development | 18 |
| Definitions | 21 |
| Contacts | 22 |
| Income statement - three months ended 31 March 2012 | 23 |
| Statement of comprehensive income | 24 |
| Pharmaceuticals and Vaccines turnover - three months ended 31 March 2012 | 25 |
| Balance sheet | 26 |
| Statement of changes in equity | 27 |
| Cash flow statement - three months ended 31 March 2012 | 28 |
| Segment information | 29 |
| Legal matters | 31 |
| Taxation | 31 |

| | |
|---|---|
| Additional information | 32 |
| Reconciliation of cash flow to movements in net debt | 33 |
| Core results reconciliations | 34 |
| Auditor's review report | 36 |


Group performance

Group turnover by division, geographic region and segment

Group turnover by division

| | Q1 2012 | |
|---|---|---|
| | £m | Growth CER% |
| Pharmaceuticals | 4,546 | 2 |
| Vaccines | 758 | 1 |
| Pharmaceuticals and Vaccines | 5,304 | 2 |
| Consumer Healthcare | 1,336 | 1 |
| | 6,640 | 2 |

Group turnover by geographic region

| | Q1 2012 | |
|---|---|---|
| | £m | Growth CER% |
| US | 2,151 | 6 |
| Europe | 1,900 | (5) |
| EMAP | 1,582 | 5 |
| Japan | 615 | 4 |
| Other | 392 | (4) |
| | 6,640 | 2 |

Group turnover by segment

| | Q1 2012 | |
|---|---|---|
| | £m | Growth CER% |

| | | |
|---|---|---|
| Pharmaceuticals and Vaccines | | |
| -US | 1,784 | 9 |
| -Europe | 1,295 | (6) |
| -EMAP | 1,052 | 2 |
| -Japan | 549 | 4 |
| -ViiV Healthcare | 334 | (5) |
| -Other trading and unallocated pharmaceuticals | 290 | (5) |
| Pharmaceuticals and Vaccines | 5,304 | 2 |
| Consumer Healthcare | 1,336 | 1 |
| | 6,640 | 2 |

Turnover - Q1 2012

Total Group turnover for Q1 2012 increased 2%, to £6,640 million. Pharmaceuticals turnover was up 2% primarily reflecting continued pressure from the implementation of government austerity measures in Europe as well as slower growth in EMAP driven particularly by continued disruption in the Middle East, but also some broader sensitivity to a more challenging economic environment in a number of EMAP markets. Vaccines was also impacted by similar pressures in Europe and EMAP as well as phasing of tenders and a demanding comparator. Consumer Healthcare turnover increased 1% to £1,336 million. Excluding the non-core OTC brands identified in 2011 for divestment, turnover increased 7%, reflecting growth across all categories and regions.

In the quarter, Group sales outside the US and Europe accounted for 39% of turnover and increased 3%, reflecting growth across all areas apart from Vaccines in EMAP and Pharmaceuticals in Japan.

In the US, Pharmaceuticals and Vaccines turnover growth was 9%. Pharmaceuticals turnover growth reflected incremental revenue related to the conclusion of the co-promotion agreement for Vesicare together with growth in Advair and Lamictal as well as an encouraging performance from new products, particularly in oncology. Turnover growth was adversely impacted by the decline of a number of older, genericised products and the loss of Zovirax sales following disposal of the North American rights in Q1 2011. Sales of Vaccines in the US were down 6%, in part reflecting variations in the timing of vaccine shipments and an adverse comparison with Q1 2011 which included a CDC stockpile order that did not recur this quarter.

Europe Pharmaceuticals and Vaccines markets remained challenging and despite good progress on new launches in a number of therapeutic areas, particularly cardiovascular/urogenital and oncology, turnover declined 6% primarily reflecting the impact of price cuts, which lowered sales by approximately 4.5 percentage points. Sales in the region were also impacted by generic competition to older products and a mild flu season. Vaccines sales continued to be affected by austerity measures as well as tender phasing in the quarter and declined 3% to £225 million.

EMAP also saw some pricing pressures but sales were most significantly affected by ongoing instability in the Middle East/Africa region (£267 million, -6%) and the phasing of vaccine tenders. Pharmaceuticals grew 6% primarily reflecting stronger growth in respiratory sales as prior year price cuts annualised, offset by weaker sales of anti-bacterials, which were impacted by a mild flu season and also the effect of stocking patterns following supply interruptions in late 2011. Vaccines declined 9% as a result of the expected adverse comparison with Q1 2011, which benefited from strong tender shipments. Overall, Pharmaceuticals and Vaccines sales in the region rose 2%, with growth generated across a broad number of markets and businesses.

Japan Pharmaceuticals and Vaccines turnover grew 4%, with a strong contribution from Cervarix and an encouraging performance from a number of new products including Lamictal, Avodart and Promacta. Respiratory products fell 7% primarily reflecting comparison with a particularly strong allergy season in Q1 2011.

ViiV Healthcare turnover declined by 5% as the effect of recent launches of generic competitors in the US to Combivir and Epivir offset the growth of newer products.

Consumer Healthcare turnover grew 1% in the quarter, but excluding the sales of the non-core OTC brands identified in 2011 for disposal, Consumer Healthcare turnover increased 7%. This reflected continued strong contributions from Oral care (up 11%) and Nutrition (up 11%), together with an improved performance from Wellness (up 4%). On a regional basis, ongoing growth was broadly based with contributions from each of the US (up 8%), Europe (up 4%) and Rest of World (up 10%).

Core operating profit and margin

| Core operating profit | | | Q1 2012 |
|---|---|---|---|
| | £m | % of turnover | Growth CER % |
| Turnover | 6,640 | 100 | 2 |
| Cost of sales | (1,711) | (25.8) | (2) |
| Selling, general and administration | (2,038) | (30.7) | 2 |
| Research and development | (892) | (13.4) | 4 |
| Royalty income | 72 | 1.1 | - |
| Core operating profit | 2,071 | 31.2 | 3 |
| Core earnings per share | 27.3p | | 7 |

| Core operating profit by division | | | Q1 2012 |
|---|---|---|---|
| | £m | Margin % | Growth |

| | | | CER % |
|---|---|---|---|
| Pharmaceuticals | 1,782 | 39.2 | 5 |
| Vaccines | 271 | 35.7 | 3 |
| Pharmaceuticals and Vaccines | 2,053 | 38.7 | 5 |
| Consumer Healthcare | 236 | 17.7 | (1) |
| | 2,289 | 34.5 | 4 |
| Corporate & other unallocated costs | (218) | | 20 |
| Core operating profit | 2,071 | 31.2 | 3 |

Core operating profit by segment

| | Q1 2012 | | |
|---|---|---|---|
| | £m | Margin % | Growth CER % |
| Pharmaceuticals and Vaccines | | | |
| -US | 1,259 | 70.6 | 19 |
| -Europe | 672 | 51.9 | (11) |
| -EMAP | 311 | 29.6 | (4) |
| -Japan | 342 | 62.3 | 4 |
| -ViiV Healthcare | 239 | 71.6 | 19 |
| -Pharmaceutical R&D | (689) | | 3 |
| -Other trading and unallocated pharmaceuticals | (81) | (27.9) | 66 |
| Pharmaceuticals and Vaccines | 2,053 | 38.7 | 5 |
| Consumer Healthcare | 236 | 17.7 | (1) |
| Corporate & other unallocated costs | (218) | | 20 |
| Core operating profit | 2,071 | 31.2 | 3 |

Core operating profit - Q1 2012

Core operating profit was £2,071 million, a 3% increase in CER terms on a turnover increase of 2% reflecting improved operating leverage. The operating margin improved by 0.2 percentage points to 31.2% compared with Q1 2011, primarily reflecting the benefits of net turnover growth and ongoing cost management offset by continued investments in R&D, new product launches and ongoing growth businesses.

Cost of sales declined to 25.8% of turnover (2011: 27.0%). This primarily reflected the benefits of net turnover growth and ongoing cost management as well as lower inventory write-offs and a

one-off royalty adjustment.

SG&A costs were 30.7% of turnover compared with 30.0% in 2011. This reflected continued investment in growth businesses and new product launches as well as the impact of higher exchange losses on settled intercompany transactions, partly funded by ongoing cost management, including savings from the Operational Excellence programme.

R&D expenditure grew 4% to £892 million (13.4% of turnover) compared with £856 million in 2011 (13.0% of turnover), reflecting increased investment in the late-stage pipeline.

Core net income and core earnings per share - Q1 2012

Net finance expense decreased slightly to £168 million from £174 million in 2011. This reflected relatively stable levels of net debt as the Group's strong cash generation funded share repurchases of £218 million and increased dividend payments.

Tax on core profit amounted to £495 million and represented an effective tax rate of 25.9% (2011: 27.2%). In 2012, we continue to expect the core tax rate to be around 26%.

Core EPS of 27.3p increased 7% in CER terms and 5% in sterling terms reflecting the strengthening of Sterling against the Euro and higher exchange losses on settled inter-company transactions, partly offset by the weakness of Sterling against the US Dollar and Japanese Yen.

Currency impact

The 2012 results are based on average exchange rates, principally £1/$1.58, £1/€1.20 and £1/Yen 125. Comparative exchange rates are given on page 32. The period end exchange rates were £1/$1.60, £1/€1.20 and £1/Yen 132. If exchange rates were to hold at these period end rates for the rest of 2012 and there were no further exchange gains or losses, the estimated adverse impact on 2012 sterling core EPS would be approximately 1%.

Core adjustments

The adjustments that reconcile core operating profit, profit after tax and earnings per share to total results are as follows:

| | Q1 2012 | | | Q1 2011 | | |
|---|---|---|---|---|---|---|
| | Operating profit £m | Profit after tax £m | EPS p | Operating profit £m | Profit after tax £m | EPS p |
| Core results | 2,071 | 1,418 | 27.3 | 2,044 | 1,375 | 25.9 |
| Intangible asset amortisation | (104) | (74) | (1.5) | (111) | (76) | (1.5) |
| Intangible asset impairment | (52) | (36) | (0.7) | (8) | (6) | (0.1) |
| Major restructuring costs | (81) | (63) | (1.3) | (135) | (114) | (2.2) |
| Legal costs | (33) | (28) | (0.6) | - | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other operating income/asset disposals | 236 | 173 | 3.5 | 245 | 405 | 7.9 |
| | (34) | (28) | (0.6) | (9) | 209 | 4.1 |
| Total results | 2,037 | 1,390 | 26.7 | 2,035 | 1,584 | 30.0 |

Full reconciliations between core results and total results are set out on pages 34 and 35 and the definition of core results is set out on page 21.

Restructuring programme

The Operating Excellence restructuring programme remains on track to deliver £2.8 billion of annual savings by 2014. Costs of £81 million were charged in the quarter (Q1 2011: £135 million).

Total operating profit and total earnings per share - Q1 2012

Total operating profit was £2,037 million compared with £2,035 million in 2011. This included £81 million of restructuring charges (Q1 2011: £135 million), intangible amortisation of £104 million (Q1 2011: £111 million), intangible impairments of £52 million (Q1 2011: £8 million), legal costs of £33 million (Q1 2011: £nil) and other operating income, including the profit on disposal of the North American non-core OTC brands, of £236 million (Q1 2011: £245 million). More significant differences arose, however, on total profit after tax and total EPS, primarily reflecting the disposal of the Group's interests in Quest Diagnostics in Q1 2011. Total EPS was 26.7p compared with 30.0p in Q1 2011.

Cash generation and conversion

Cash flow and net debt

| | Q1 2012 | Q1 2011 |
|---|---|---|
| Net cash inflow from operating activities (£m) | 1,012 | 987 |
| Adjusted net cash inflow from operating activities* (£m) | 1,072 | 1,438 |
| Free cash flow* (£m) | 687 | 597 |
| Adjusted free cash flow* (£m) | 747 | 1,048 |
| Free cash flow growth (%) | 15% | (65)% |
| Free cash flow conversion* (%) | 55% | 69% |
| Net debt (£m) | 8,877 | 8,419 |

* Adjusted net cash inflow from operating activities, free cash flow, adjusted free cash flow and free cash flow conversion are defined on page 21.

Working capital

| | 31 March 2012 | 31 December 2011 | 30 September 2011 | 30 June 2011 | 31 March 2011 |
|---|---|---|---|---|---|
| Working capital conversion cycle* (days) | 215 | 210 | 227 | 236 | 241 |
| Working capital percentage of turnover (%) | 22 | 21 | 24 | 25 | 25 |

* Working capital conversion cycle is defined on page 21.

The net cash inflow from operating activities for the period was £1,012 million (Q1 2011: £987 million). Excluding legal settlements of £60 million (Q1 2011: £451 million), the adjusted net cash inflow from operating activities was £1,072 million, £366 million lower than in Q1 2011. This reflected a greater increase in working capital and a greater decrease in net liabilities compared with Q1 2011, together with higher tax payments.

Working capital increased by £438 million in the quarter compared with an increase of £295 million in 2011. The working capital conversion cycle of 215 days increased by 5 days from 31 December 2011 as a result of higher Vaccines stock building, including for the flu season and a number of one-off adjustments to payables terms in the quarter. Total working capital was still 26 days lower than at 31 March 2011.

Free cash flow was £687 million. Excluding legal settlements, adjusted free cash flow was £747 million (Q1 2011: £1,048 million), the decline reflecting the increase in working capital and decrease in net liabilities together with higher tax payments. The decline in free cash flow conversion reflected similar factors.

The free cash flow, together with asset disposal proceeds of £401 million, enabled the Group to pay dividends (including distributions to non-controlling interests) of £894 million and spend £218 million on repurchasing shares. At 31 March 2012, net debt was £8.9 billion, compared with £9.0 billion at
31 December 2011, comprising gross debt of £14.7 billion and cash and liquid investments of £5.8 billion. At 31 March 2012, GSK had short-term borrowings (including overdrafts) repayable within 12 months of £2,723 million with loans of £1,561 million repayable in the subsequent year.

Returns to shareholders

GSK's commitment is to use free cash flow to support increasing dividends, undertake share repurchases or, where returns are more attractive, reinvest in the business, including bolt-on acquisitions. The company has also stated that it intends to use the net proceeds from the disposals of its non-core OTC brands to fund increased returns to shareholders.

Quarterly dividends
The Board has declared a first interim dividend of 17 pence per share (Q1 2011: 16 pence per share).

Payment of dividends
The equivalent interim dividend receivable by ADR holders is 54.9100 cents per ADS based on an exchange rate of £1/$1.6150. The ex-dividend date will be 9 May 2012, with a record date of 11 May 2012 and a payment date of 5 July 2012.

| | Paid/ payable | Pence per share | £m |
|---|---|---|---|
| 2012 | | | |
| First interim | 5 July 2012 | 17 | 844 |
| 2011 | | | |
| First interim | 7 July 2011 | 16 | 814 |
| Second interim | 6 October 2011 | 16 | 809 |
| Third interim | 5 January 2012 | 17 | 847 |
| Fourth interim | 12 April 2012 | 21 | 1,042 |
| | | 70 | 3,512 |
| Supplemental | 12 April 2012 | 5 | 248 |
| | | 75 | 3,760 |

Share repurchases
During the quarter, GSK repurchased 15.9 million shares (£226 million). GSK intends to make total repurchases of £2-£2.5 billion during 2012 where this use of funds delivers an attractive return.

The weighted average number of shares for Q1 2012 was 4,963 million, compared with 5,087 million in Q1 2011.

Divisional performance

Pharmaceutical sales summary

| | Q1 2012 | |
|---|---|---|
| | £m | CER% |

| | | |
|---|---|---|
| Respiratory | 1,841 | 1 |
| Anti-virals | 184 | (18) |
| Central nervous system | 401 | 1 |
| Cardiovascular and urogenital | 728 | 34 |
| Metabolic | 33 | (60) |
| Anti-bacterials | 318 | (14) |
| Oncology and emesis | 179 | 22 |
| Dermatology | 213 | 1 |
| Rare diseases | 106 | (5) |
| ViiV Healthcare (HIV) | 334 | (5) |
| Other | 209 | (2) |
| | 4,546 | 2 |

Respiratory

Q1 2012 (£1,841 million; +1%)
In the quarter, Respiratory sales increased 1%, as growth in the US and EMAP offset declines in Europe and Japan. Seretide/Advair sales increased 2%, primarily as a result of the 6% growth in the US. In addition, Xyzal sales, almost exclusively in Japan, more than doubled to £36 million. Ventolin sales increased 6% to £155 million but Zyrtec declined 26% to £24 million (Q1 2011 sales in Japan reflected a strong allergy season).

In the US, reported sales of Advair increased 6% to £630 million. On an underlying basis, sales for the quarter grew approximately 2% (7% volume decline offset by 9% positive impact of price and mix). The four percentage point difference between underlying and reported growth is primarily due to the variations in wholesaler and retailer stocking patterns. Flovent, the leading single agent inhaled corticosteroid in the US market, grew 5% to £113 million.

The ICS/LABA combination market in the US (which includes Advair) declined approximately 2% in Q1 2012 compared with Q1 2011, which was caused in part by the FDA labelling change, implemented in 2010, required for all ICS/LABA combinations. Overall, the company has maintained its clear leadership position in the overall 'controller' class (LABA, ICS and anti-cholinergic products) despite new competition (combined market share of Advair and Flovent 49% in Q1 2012 compared with 52% in Q1 2011). Overall prescription volume in the controller class was flat in the quarter compared with Q1 2011. (All market growth and share data based on IMS Health data).

In the US, Respiratory sales also benefited from the strong performance of Ventolin, up 23% to £69 million. Reported growth in Q1 2012 reflected the impact of variations in wholesaler and retailer stocking patterns. Excluding this, sales for the quarter grew approximately 12% (4% volume plus 8% positive impact of price and mix).

European Respiratory sales were down 4% in the quarter reflecting the impact of price cuts as well as a relatively mild flu season. Seretide sales were down 4% to £375 million, reflecting the impact of price cuts.

In EMAP, Respiratory sales grew 9% in the quarter, with growth across most products in the portfolio. Seretide grew 9% to £98 million in the region with strong volume growth in many markets.

Anti-virals

Q1 2012 (£184 million; -18%)
Valtrex sales continued to decline (down 32% to £63 million) as a result of generic competition in the US and Europe. In addition, Zovirax sales were down 33% compared with Q1 2011 to £24 million, following disposal of the brand in North America in Q1 2011.

Central nervous system

Q1 2012 (£401 million; +1%)
In Central nervous system, strong growth of Lamictal (up 29% to £148 million), principally in the US and Japan, was offset by declines in a number of older generic products, but primarily Seroxat/Paxil (down 15% to £91 million).

Cardiovascular and urogenital

Q1 2012 (£728 million; +34%)
In the quarter, Cardiovascular and urogenital primarily benefited from incremental revenue related to the conclusion of the co-promotion agreement for Vesicare in the US (Q1 2012: £174 million, Q1 2011: £28 million) although there was also strong growth from Avodart, Lovaza and Levitra. The Avodart franchise grew 11% to £186 million in the quarter with growth driven by a strong contribution from the recent launch of the new combination product Duodart/Jalyn in Europe and of Avodart in EMAP and Japan. Lovaza grew 17% to £151 million, while Levitra sales more than doubled in the quarter to £33 million as GSK assumed full promotional rights to the brand in the US during 2011. Arixtra sales declined 34% as a result of generic competition in the US which began in Q3 2011.

Metabolic

Q1 2012 (£33 million; -60%)
The decline in Metabolic sales reflected the ongoing loss of sales of Avandia.

Anti-bacterials

Q1 2012 (£318 million; -14%)
Anti-bacterial sales declined in all segments in the quarter, partly as a result of a mild flu season but also due to the impact of some supply interruptions and stocking patterns in Q4 2011. Price cuts impacted the portfolio in Europe.

Oncology and emesis

Q1 2012 (£179 million; +22%)
Sales of new products Votrient, Promacta/Revolade and Arzerra together more than doubled to £72 million in the quarter, with growth in each of the US, Europe and EMAP.

Tykerb/Tyverb sales increased 15% to £60 million with strong growth in both the US and EMAP. Growth from new products and Tykerb was partly offset by the impact of generic

competition to older products, including Hycamtin in Europe.

Dermatology

Q1 2012 (£213 million; +1%)
Sales growth in Europe and EMAP was offset by lower sales in the US, which in part reflected the impact of generic competition to Evoclin.

Rare diseases

Q1 2012 (£106 million; -5%)
A 26% decline in sales of Flolan, primarily in Europe, to £35 million was partly offset by growth of 27% in sales of Volibris.

ViiV Healthcare (HIV)

Q1 2012 (£334 million; -5%)
ViiV Healthcare sales declined by 5%, with the US down 11%, Europe down 2%, and EMAP up 12%. Sales growth in Epzicom/Kivexa (up 14% to £159 million) and Selzentry (up 26% to £29 million) were more than offset by a 23% decline in the mature portfolio, primarily as a result of generic competition in the US to Combivir and Epivir. The Epzicom/Kivexa sales growth reflects strong performances in both the US and Europe.

Vaccines sales

| | Q1 2012 | |
|---|---|---|
| | £m | CER% |
| Total Vaccines sales | 758 | 1 |

Q1 2012 (£758 million, +1%)
The performance of Vaccines in the quarter reflected pressure from the implementation of government austerity measures in Europe and disruption in the Middle East, as well as phasing of tenders and a demanding comparator.

Cervarix sales continued to grow (up 17% to £131 million) with a particularly strong contribution from Japan, where sales increased 36% to £100 million reflecting the final stage of the catch-up vaccination programme started last year.

Boostrix sales increased 47% to £47 million, with growth in all the regions where it has been launched. In the US (up 40% to £21 million) the product is benefiting from being the only vaccine for use in adults of 65 and older for active immunisation against tetanus, diphtheria and whooping cough.

Sales of hepatitis vaccines declined in the US (down 11% to £63 million) due to reduced public funding of adult hepatitis vaccines and the return to the market of a previously out-of-stock competitor. Europe hepatitis vaccines sales were down 7% to £48 million, due in part to government austerity measures. Sales of hepatitis vaccines in EMAP grew 44% to £25 million.

Synflorix sales fell 3% to £73 million as a result of tender phasing in both Europe and EMAP.

Rotarix sales fell 1% to £76 million as a result of variations in customer buying patterns in the US and EMAP. Rotarix achieved sales in Japan of £7 million in the quarter following its recent launch.

Sales from new pharmaceutical and vaccine launches

| | Q1 2012 | |
|---|---|---|
| | £m | CER% |
| Arzerra | 12 | 33 |
| Benlysta | 9 | - |
| Duodart/Jalyn | 34 | >100 |
| Lamictal XR | 34 | 48 |
| Potiga/Trobalt | 1 | - |
| Prolia | 5 | >100 |
| Promacta | 27 | >100 |
| Requip XL | 28 | (15) |
| Synflorix | 73 | (3) |
| Treximet | 12 | (14) |
| Volibris | 28 | 27 |
| Votrient | 33 | 100 |
| Others | 4 | |
| | 300 | 31 |

New products are those launched in the last five years (2008 to 2012 inclusive). Since the Q4 2011 Preliminary Announcement, products launched in 2007 have been removed from the list. Total sales of new products were £300 million, grew 31% in Q1 2012 and represented 6% of Pharmaceuticals and Vaccines turnover.

Benlysta for lupus has now been launched in the US and most European markets. GSK turnover of £9 million in the quarter reflects the share of gross profit in the US and total sales in all other markets.

Trobalt as an adjunctive (add-on) treatment of partial onset seizures continues to be launched throughout Europe (£1 million). The product has been approved by the FDA under the brand name of Potiga, and following the FDA recommended scheduling by the US Drug Enforcement Administration, will be launched in late April.

Consumer Healthcare

| | Q1 2012 | | |
|---|---|---|---|
| | £m | CER% | Growth excluding non-core OTC products CER% |
| Turnover | | | |
| Total wellness | 539 | (8) | 4 |
| Oral care | 462 | 11 | 11 |
| Nutrition | 269 | 11 | 11 |
| Skin health | 66 | (6) | (6) |
| Total | 1,336 | 1 | |

| | £m | CER% | Growth excluding non-core OTC products CER% |
|---|---|---|---|
| Turnover | | | |
| US | 229 | (7) | 8 |
| Europe | 467 | (3) | 4 |
| ROW | 640 | 8 | 10 |
| Total | 1,336 | 1 | |

Q1 2012

The Consumer Healthcare business recorded turnover growth of 1% in the quarter. Excluding the non-core OTC brands that were identified in 2011 for divestment, turnover grew 7% versus market growth of just under 4%.

The Group has now completed the sale of, or reached agreement to divest, non-core brands that had total 2011 sales of approximately £370 million. This includes the divestment of the North American brands (total 2011 sales of approximately £126 million) which was substantially completed at the end of January 2012 and the divestments expected to be completed in Q2 2012 of European brands (total 2011 sales of approximately £185 million) and international brands

(total 2011 sales of approximately £60 million).

Wellness sales were down 8%, but excluding the non-core brands identified for divestment, the category gained 4%, driven by growth of 6% in gastrointestinal health products. The Panadol Pain business grew 3%, impacted by a relatively mild flu season. The smoking control franchise grew 3% behind strong lozenge growth in the US and Europe.

Oral care sales were up 11%. The Sensodyne Sensitivity and Acid Erosion business, up 22% to £186 million, continued its strong growth across all markets, driven by Sensodyne Repair and Protect and Sensodyne Pronamel. Sensodyne registered its twelfth consecutive quarter of double-digit sales growth.

Nutrition sales grew 11% in the quarter. Excluding the acquisition of Maxinutrition, which completed in Q1 2011, sales grew 9%. The category performance was driven by strong growth of 16% in developing markets, particularly of Horlicks in India (up 17%), combined with an improved performance from Lucozade (up 9%), which returned to growth in Europe and also had very strong growth in developing markets of 31%.

Skin health sales fell 6%, as growth of Zovirax OTC in Europe and Bactroban OTC in China was more than offset by reported declines of other brands, including Abreva, impacted by some stocking patterns, and Hinds, affected by competitor activity in Mexico.

Excluding the non-core brands, the US registered strong growth of 8% in the quarter, driven by Sensodyne and Tums. In Europe, sales declined 3%, but excluding the non-core brands grew 4%, driven by strong results in southern Europe (up 5%) and Central and Eastern Europe (up 5%). The Rest of World markets grew 10%, excluding the non-core OTC brands, with strong results from India, China, the Middle East and Africa and Japan.

The company continues to plan to divest alli. As previously stated, the process to divest alli has been delayed pending the resolution of a temporary third party supply interruption. No product was shipped in the quarter. Sales of alli in Q1 2011 and the full-year 2011 were £31 million and £93 million, respectively.

Research and development

GSK remains focused on delivering an improved return on its investment in R&D. Sales contribution, reduced attrition and cost reduction are all important drivers of an improving internal rate of return. R&D expenditure is not determined as a percentage of sales but instead capital is allocated using strict returns based criteria depending on the pipeline opportunities available.

The operations of Pharmaceuticals R&D are broadly split into Discovery activities (up to the completion of Phase IIa trials) and Development work (from Phase IIb onwards) each supported by specific and common infrastructure and other shared services where appropriate. R&D expenditure for Q1 2012 is analysed below.

| | Q1 2012 | Q1 2011 |
|---|---|---|

| | £m | £m |
|---|---|---|
| | --- | --- |
| Discovery | 185 | 198 |
| Development | 418 | 358 |
| Facilities and central support functions | 125 | |