FULL YEAR 2011 RESULTS
ANALYST PRESENTATION/SCRIPT
SIMON LOWTH - 2 FEB 2012

Thank you, David, and good afternoon everyone. Today I will cover five topics:

First, I will summarise our full year results for 2011, with a focus on the Core P&L.

I'll then provide an update on our restructuring and productivity improvement programme.

I'll describe our cash performance and the increased cash returns to shareholders delivered this year.

I will then review the mid-term planning assumptions that we had set out for the period 2010 to 2014.

And finally, I will set out our financial guidance for 2012.

FY 2011 P&L

So, let me start with a summary of our full year results for 2011. I will focus here on Core profit and margins. The press release does, of course, contain the statutory numbers and a detailed reconciliation to the Core measures. When I refer to growth rates, they will all be on a constant currency basis.

The starting point is revenue, which for the full year was $33.6 billion dollars, down 2 percent compared with 2010. I will leave Tony to describe the performance of our key brands and markets, and will concentrate my attention on costs and margins.

Core gross margin, at 82.2 percent of sales, was 130 basis points higher than last year. You will recall that we took an intangible impairment on lesogaberan in the third quarter 2010, and we had the benefit from the patent settlement with PDL Biopharma in the first quarter this year. Together, they accounted for almost three quarters of the improvement.

Core SG&A expense was $9.9 billion, 2 percent lower than last year, as restructuring and productivity initiatives across Established Markets provided the headroom to continue investments in Emerging Markets and recent launches. We also absorbed the impact of the excise tax component of US healthcare reform, which was 2 percent of SG&A expense for the year.

Core other income for the year was $845 million, down about 8 percent.

Core Pre-R&D margin was 100 basis points higher than last year, reaching 54.2 percent of revenue, just above the top of our planning range.

Core R&D expenditures were 15 percent higher for the full year. Intangible impairments accounted for half of this increase. The remainder was attributable to increased project spend and investment in biologics.

Core operating profit was just under $13.2 billion, down 4 percent. Were it not for the R&D impairments this would have been down more or less in line with the revenue of 2 percent. Core operating margin was 39.2 percent of revenue for the full year.

Productivity/Restructuring

I will now turn to our restructuring programmes, starting with a brief summary of the first two phases of restructuring and then providing details on the new programme announced today.

The first phase of our restructuring, initiated in 2007, delivered exactly as planned.

We kicked off phase 2 in January 2010. The restructuring actions associated with this second phase are now complete. The final cost charged to Phase 2 has been $2.1 billion -- $1.2 billion in 2010, and $0.9 billion in 2011. This is just $100m higher than the original estimate.

The target gross benefit to be realised from Phase 2 was, and still remains, $1.9 billion by the end of 2014. We have realised $1.0 billion in annual benefits through the end of 2011, and are on track to deliver about two thirds of the remaining benefits by the end of 2012, with the remainder by 2014. Phase 2 will deliver a gross headcount reduction of just under 9,000 positions.

Bringing together these two Phases, we have reduced gross headcount by around 20,500 positions by the end of 2011. After investment in Biologics and Emerging Markets, we have achieved a net reduction of approximately 9,600 full time equivalents. This has been an important driver of the 10 percentage point improvement in our Core Pre-R&D operating margin over this period.

Today we have announced a third Phase to our restructuring programme. This new Phase, when completed, will entail a total programme cost of around $2.1 billion; with around $500 million in the supply chain, and $800 million each in SG&A and R&D. We charged $261 million of this $2.1 billion Phase 3 restructuring charge in the fourth quarter 2011. Phase 3 is expected to deliver gross headcount reductions of approximately 7,300 positions, and total annual gross benefits of a further $1.6 billion by the end of 2014.

Of course, all of these are estimates, and are subject to the requisite consultation process before they can be finalised, and that process is underway.

Cash/Capital Structure

Let me now turn to cash flow.

We create value for our shareholders by driving Pre-R&D post-tax cash flow through investment in our brands and continuous productivity improvement, and then optimising the deployment of this cash flow between disciplined reinvestment in the business and distributions to shareholders. Pre-R&D post-tax cashflow, which is a non-GAAP measure, amounted to $12.9 billion in 2011, including $1.8bn from the disposal of Astratech.

We re-invested $3.3 billion in after-tax R&D expenditures, including both in-house R&D and externalisation, and $1.1 billion in capital expenditure. This represents a reinvestment rate of around 40 percent of cash-flow, excluding the Astra Tech disposal proceeds, in line with our planning assumption of a 40 to 50 percent reinvestment rate.

Our commitment to shareholder value is evidenced by the $9.4 billion in cash returned to shareholders—a 71 percent increase over last year's $5.5 billion.

We ended 2011 with net funds of $2.8 billion, comprising gross debt of $9.3 billion and cash, cash equivalents and other short term investments of $12.2 billion.

Let me put our net cash position in the context of the Board's thinking on capital structure. We intend to maintain a strong investment grade credit rating. Given this rating objective and our pension position, we remain comfortable with carrying gross debt of the current order of magnitude. Alongside gross debt, we need to hold a meaningful cash balance in order to meet operational funding needs and periodic liabilities. The target cash balance will fluctuate with business needs, but the size of the current balance was clearly considered in the Board's decision for the 2012 share repurchase programme, which I will come to in a minute.

Before turning to shareholder distributions, let me briefly recap our cash deployment priorities. These remain as previously stated.

First...investment in the business, which is chiefly organic investment in our own in-house R&D combined with external investments in technology and product acquisitions.

In addition, we will decide whether to exercise the Second Merck option in 2012, during a six month window starting in May. We are evaluating our options, but we have not yet reached a decision. If we choose to exercise, there will be a cash outlay required.

Over and above its normal contributions to meet ongoing requirement the Company has agreed to make lump sum contributions to the UK pension fund totalling of approximately $1.1 billion dollars before 30 June 2013

The next priority is debt service. This year we have a $1.75 billion note coming due. We will evaluate market conditions at the time and decide whether to pay it down or refinance.

The third priority is funding the progressive dividend.

Then the Board reviews the opportunity to return cash in excess of these requirements to shareholders through periodic share repurchases.

Shareholder Returns

Today, we announced a second interim dividend of $1.95, bringing the dividend for the full year to $2.80, a 10 percent increase.

This is consistent with our progressive dividend policy, by which we aim to maintain or grow the dividend each year over the planning cycle, with a target dividend cover of 2 times over the course of the cycle.

Subject to market conditions and business needs, the Board has approved a target of $4.5 billion in net share repurchases for 2012.

Mid-term planning assumptions

Back in January 2010 we first outlined our planning assumptions for the 2010 to 2014 period. We reaffirmed the principal assumptions last year, with a recalibration of the pipeline contribution to revenue by 2014. We reiterated these planning assumptions in our guidance update a few weeks ago.

Despite significant external pressures and the divestment of AstraTech, the Company continues to plan on the basis that total company revenue will be in the range of $28 to $34 billion over the 2010-14 period...although, based on the evolution of these assumptions, the centre of gravity for revenue is likely to be the lower half of the range going forward.

Pipeline and launch estimates are dynamic. We review our forecasts as part of our annual planning cycle ahead of our annual results announcements. Based on our latest assessment, and this does include the recent disappointing news related to the Complete Response Letter for dapagliflozin in the US, we have lowered our risk adjusted view of the potential revenue contribution from the recently launched and pipeline products to between $2 and $4 billion...down from the previous $3 to $5 billion estimate.

We continue to expect double-digit revenue growth from Emerging Markets.

Based on continued strong execution on productivity improvement programmes and disciplined management of costs, we still plan for Core Pre-R&D operating margin in the range of 48 to 54 percent of revenue.

Our plans for driving strong cash performance over the period and the allocation between reinvestment for future growth and value and cash returns to shareholders remain firmly in place.

Let me finally turn to our financial guidance for 2012.

2012 Guidance

Aside from the headwinds from government interventions in the marketplace and continued erosion from recent patent expirations, we face the pending loss of worldwide exclusivity for Seroquel IR and Atacand, and for Crestor in Canada.

Not surprisingly, therefore, we are expecting a significant decline in revenue for 2012, on the order of a low-double digit decline in constant currency terms compared with 2011.

Also contributing to the decline is the absence of Astra Tech. We are also in the process of divesting the remaining Aptium oncology centers, and have finalised a deal on Zomig in the US that means future revenues on Zomig will be classified as other income. Combined, this accounts for around $770 million of the anticipated revenue decline in 2012.

We expect double-digit revenue growth in Emerging Markets for the full year, but not in the first quarter, when we face some particularly challenging year-on-year comparisons for Turkey, China, and Brazil.

Core gross margin should be lower than 2011, but above the 80 percent planning range.

We will remain highly disciplined in our SG&A spend.

Core other income, barring any unusual items, will likely show a low double-digit decline.

Given the decline in revenue, Core Pre-R&D operating margin will be lower than 2011, but should remain in the upper half of the 48 to 54 percent of revenue planning range.

Net finance expense should be broadly in line with 2011.

We anticipate a reported tax rate for 2012 of around 24 percent, as we see the benefit of the trend to lower corporate tax rates around the world start to show through more clearly now that we have resolved two of our major tax issues, the APA and related valuation in 2011 and our settlement with HMRC in 2010.

Our Core EPS target is based on the January 2012 average exchange rates for our principal currencies. On that basis, we anticipate Core earnings per share to be in the range of $6.00 to $6.30.

So that concludes my review of 2011 performance and our outlook for 2012.

I will now hand over to Martin, who joins us from Sweden, and will provide a review of our R&D strategy, portfolio, and progress.