

DEVON ENERGY CORP/DE

Form 10-Q

November 07, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2007

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission File No. 001-32318

Devon Energy Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

*(State or Other Jurisdiction of
Incorporation or Organization)*

73-1567067

*(I.R.S. Employer
Identification Number)*

20 North Broadway

Oklahoma City, Oklahoma

(Address of Principal Executive Offices)

73102-8260

(Zip Code)

Registrant's telephone number, including area code:

(405) 235-3611

Former name, former address and former fiscal year, if changed from last report.

Not applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of Registrant's common stock, par value \$0.10, as of October 31, 2007, was 444,960,000.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements are based on our examination of historical operating trends, the information which was used to prepare the December 31, 2006 reserve reports and other data in our possession or available from third parties. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, project, estimate, anticipate, believe, or continue or the negatives or variations or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, our assumptions about:

energy markets;

production levels, including our Canadian production subject to government royalties which fluctuate with prices and our International production governed by payout agreements which affect reported production;

reserve levels;

competitive conditions;

technology;

the availability of capital resources;

capital expenditure and other contractual obligations;

the supply and demand for oil, natural gas, NGLs and other energy products or services;

the price of oil, natural gas, NGLs and other energy products or services;

currency exchange rates;

the weather;

inflation;

the availability of goods and services;

drilling risks;

future processing volumes and pipeline throughput;

general economic conditions, either internationally or nationally or in the jurisdictions in which we or our subsidiaries conduct business;

legislative or regulatory changes, including retroactive royalty or production tax regimes, changes in environmental regulation, environmental risks and liability under federal, state and foreign environmental laws and regulations;

terrorism;

occurrence of property acquisitions or divestitures or the timing of such planned transactions;

the securities or capital markets; and

other factors disclosed in Devon's 2006 Annual Report on Form 10-K under Item 2. Properties Proved Reserves and Estimated Future Net Revenue, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

All subsequent written and oral forward-looking statements attributable to Devon, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

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DEFINITIONS

AS USED IN THIS DOCUMENT:

- Bbl or Bbls means barrel or barrels.
- Bcf means billion cubic feet.
- Boe means barrel of oil equivalent, determined by using the ratio of one Bbl of oil or NGLs to six Mcf of gas.
- MMBbls means million barrels.
- MMBoe means million Boe.
- Mcf means thousand cubic feet.
- NGL or NGLs means natural gas liquids.
- Oil includes crude oil and condensate.
- SEC means United States Securities and Exchange Commission.
- Domestic means the properties of Devon in the onshore continental United States and the offshore Gulf of Mexico.
- United States Onshore means the properties of Devon in the continental United States.
- United States Offshore means the properties of Devon in the Gulf of Mexico.
- Canada means the division of Devon encompassing oil and gas properties located in Canada.
- International means the division of Devon encompassing oil and gas properties that lie outside the United States and Canada.

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CONSOLIDATED BALANCE SHEETS**

	September 30, 2007 (Unaudited)	December 31, 2006
	(In millions, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,392	692
Short-term investments, at fair value	341	574
Accounts receivable	1,435	1,324
Current assets held for sale	176	232
Other current assets	340	390
Total current assets	3,684	3,212
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties (\$3,371 and \$3,293 excluded from amortization in 2007 and 2006, respectively)	46,546	39,585
Less accumulated depreciation, depletion and amortization	19,561	16,429
	26,985	23,156
Investment in Chevron Corporation common stock, at fair value	1,327	1,043
Goodwill	6,150	5,706
Assets held for sale	1,707	1,619
Other assets	418	327
Total assets	\$ 40,271	35,063

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Accounts payable trade	\$ 1,268	1,154
Revenues and royalties due to others	529	522
Income taxes payable	187	82
Short-term debt	2,076	2,205
Accrued interest payable	191	114
Current liabilities associated with assets held for sale	190	173
Accrued expenses and other current liabilities	325	395
Total current liabilities	4,766	4,645
Debentures exchangeable into shares of Chevron Corporation common stock	638	727
Other long-term debt	5,235	4,841

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Financial instruments, at fair value	495	302
Asset retirement obligation, at fair value	1,246	804
Liabilities associated with assets held for sale	445	429
Other liabilities	622	583
Deferred income taxes	5,992	5,290
Stockholders' equity:		
Preferred stock of \$1.00 par value. Authorized 4,500,000 shares; issued 1,500,000 (\$150 million aggregate liquidation value)	1	1
Common stock of \$0.10 par value. Authorized 800,000,000 shares; issued 444,699,000 in 2007 and 444,040,000 in 2006	45	44
Additional paid-in capital	6,883	6,840
Retained earnings	11,564	9,114
Accumulated other comprehensive income	2,339	1,444
Treasury stock, at cost: 11,000 shares in 2006		(1)
Total stockholders' equity	20,832	17,442
Commitments and contingencies (Note 6)		
Total liabilities and stockholders' equity	\$ 40,271	35,063

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)			
	(In millions, except per share amounts)			
Revenues:				
Oil sales	\$ 905	696	2,461	1,806
Gas sales	1,182	1,186	3,788	3,709
NGL sales	242	204	643	573
Marketing and midstream revenues	434	413	1,273	1,261
 Total revenues	 2,763	 2,499	 8,165	 7,349
Expenses and other income, net:				
Lease operating expenses	457	363	1,326	1,036
Production taxes	85	92	255	261
Marketing and midstream operating costs and expenses	301	301	912	924
Depreciation, depletion and amortization of oil and gas properties	705	547	1,937	1,480
Depreciation and amortization of non-oil and gas properties	51	43	146	127
Accretion of asset retirement obligation	19	12	55	35
General and administrative expenses	126	104	358	284
Interest expense	108	112	325	315
Change in fair value of financial instruments	(22)	22	(31)	81
Reduction of carrying value of oil and gas properties		20		36
Other income, net	(28)	(28)	(71)	(86)
 Total expenses and other income, net	 1,802	 1,588	 5,212	 4,493
Earnings from continuing operations before income tax expense	961	911	2,953	2,856
Income tax expense:				
Current	96	147	459	471
Deferred	221	111	452	253
 Total income tax expense	 317	 258	 911	 724
 Earnings from continuing operations	 644	 653	 2,042	 2,132
Discontinued operations:				
Earnings from discontinued operations before income tax expense	177	112	442	337
Income tax expense	86	60	194	205
 Earnings from discontinued operations	 91	 52	 248	 132
 Net earnings	 735	 705	 2,290	 2,264

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Preferred stock dividends	2	2	7	7
Net earnings applicable to common stockholders	\$ 733	703	2,283	2,257
Basic net earnings per share:				
Earnings from continuing operations	\$ 1.45	1.47	4.57	4.81
Earnings from discontinued operations	0.20	0.12	0.56	0.30
Net earnings	\$ 1.65	1.59	5.13	5.11
Diluted net earnings per share:				
Earnings from continuing operations	\$ 1.43	1.45	4.52	4.76
Earnings from discontinued operations	0.20	0.12	0.55	0.29
Net earnings	\$ 1.63	1.57	5.07	5.05
Weighted average common shares outstanding:				
Basic	445	441	445	441
Diluted	450	447	450	447

See accompanying notes to consolidated financial statements.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,	2006	2007	2006
	2007	(Unaudited)		
		(In millions)		
Net earnings	\$ 735	705	2,290	2,264
Foreign currency translation:				
Change in cumulative translation adjustment	579	(1)	1,311	303
Income taxes	(33)		(74)	7
Total	546	(1)	1,237	310
Derivative financial instruments reclassification adjustment for realized gains included in net earnings			(1)	(1)
Pension and postretirement benefit plans:				
Recognition of net actuarial loss in net earnings	4		12	
Income taxes	(2)		(5)	
Total	2		7	
Investment in Chevron Corporation common stock (Note 1):				
Unrealized holding gain		39		114
Income taxes		(14)		(41)
Total		25		73
Other comprehensive income, net of tax	548	24	1,243	382
Comprehensive income	\$ 1,283	729	3,533	2,646

See accompanying notes to consolidated financial statements.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Preferred Stock	Common Shares	Common Amount	Additional Paid-In Capital	Retained Earnings (Unaudited) (In millions)	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Nine Months Ended								
September 30, 2007								
Balance as of December 31, 2006	\$ 1	444	\$ 44	6,840	9,114	1,444	(1)	17,442
Adoption of FASB Statement No. 159 (Note 1)					364	(364)		
Adoption of FASB Interpretation No. 48 (Note 1)					(10)			(10)
Adoption of FASB Statement No. 158 (Note 4)					(1)	16		15
Net earnings					2,290			2,290
Other comprehensive income						1,243		1,243
Stock option exercises		3	1	70				71
Common stock repurchased		(2)					(138)	(138)
Common stock retired				(139)			139	(138)
Common stock dividends					(186)			(186)
Preferred stock dividends					(7)			(7)
Share-based compensation				92				92
Excess tax benefits on share-based compensation				20				20
Balance as of September 30, 2007	\$ 1	445	\$ 45	6,883	11,564	2,339		20,832
Nine Months Ended								
September 30, 2006								
Balance as of December 31, 2005	\$ 1	443	\$ 44	6,928	6,477	1,414	(2)	14,862
Net earnings					2,264			2,264
Other comprehensive income								

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1.5 *Conduct before Completion*

Pending Completion of the Transaction or termination of the Put Option Implementation Agreement, the Consumer Healthcare Joint Venture will continue to operate its business in the ordinary course and in accordance with the Shareholders Agreement, which will continue to operate in accordance with its terms, save for certain modifications, including that:

the JV Put Option is disappplied during this period, meaning that the Novartis JV Shareholders are not entitled to serve notice to exercise the JV Put Option and require the GSK JV Shareholder to purchase their Novartis JV Shares in accordance with the Shareholders Agreement;

GSK's entitlement to sell its entire holding in the Consumer Healthcare Joint Venture to a third party (subject to Novartis having, as part of any exercise of such sale right by GSK, (i) a right of first refusal to acquire the GSK JV Shares and (ii) a tag right to require a third party purchaser of the GSK JV Shares to purchase the Novartis JV Shares at the same price per share) is disappplied during this period; and

the GSK JV Shareholder is permitted to transfer a part of its stake in the Consumer Healthcare Joint Venture to any other wholly-owned subsidiary of GSK.

In addition, the Novartis JV Directors will resign from the JV Board on or before the fifth business day prior to the expected date of Completion (or, if later, the date on which the conditions to Completion are satisfied). This is to ensure that Novartis relinquishes its involvement in the Consumer Healthcare Joint Venture at both board and shareholder level and will mean that the Novartis JV Directors do not authorise or participate in the process to implement the Cancellation.

1.6 *Completion date*

Completion will take place on the later of:

the first business day of the calendar month following the calendar month in which satisfaction (or waiver, as applicable) of the conditions to Completion takes place; and

the first business day that is at least the fourth business day after (and excluding) the date on which satisfaction (or waiver, as applicable) of the conditions to Completion takes place.

Accordingly, subject to Shareholders approving the Resolution at the General Meeting, Completion is currently expected to take place on 1 June 2018.

1.7 *Pre-closing dividends and true-up following Completion*

The Consumer Healthcare Joint Venture will continue to pay dividends to GSK and Novartis in accordance with its established practice until Completion.

The Transaction Consideration is subject to a post-Completion true-up mechanism in respect of distributable cash, which ensures that Novartis receives its agreed share of the Consumer Healthcare Joint Venture's cash generated in the period between the last regular dividend and Completion. In the event that there has been an overpayment of dividends in the period before Completion, the Novartis JV Shareholders would be required to compensate the Consumer Healthcare Joint Venture in respect of such overpayment.

1.8 ***Warranties and indemnities***

Each of the parties to the Put Option Implementation Agreement has given warranties regarding its capacity and authority to enter into the Transaction and the binding effect of its obligations under the Put Option Implementation Agreement. In addition, Novartis and the Novartis JV Shareholders have given certain warranties regarding the Novartis JV Shareholders' free and unencumbered title to the Novartis JV Shares.

GSK has agreed to indemnify Novartis and the Novartis JV Shareholders in respect of (i) any loss they suffer as a result of any failure by the Consumer Healthcare Joint Venture to carry out the Cancellation in accordance with applicable law, (ii) any additional steps the Novartis Shareholders are required to take to effect the Cancellation beyond exercising their voting rights in respect of the Novartis JV Shares, and (iii) any failure by the Consumer Healthcare Joint Venture to pay the Transaction Consideration (or any true-up payment).

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The Novartis JV Directors have also received, subject to their having resigned in accordance with the Put Option Implementation Agreement, the benefit of an indemnity from GSK in respect of any loss they suffer as a result of the Cancellation.

1.9 *Termination*

The Put Option Implementation Agreement may be terminated: (i) if agreed in writing between the parties; or (ii) where a party fails to perform its Completion obligations with a specified period of time. The Put Option Implementation Agreement will terminate automatically: (i) if the Break Fee is paid (and, where applicable, there is no subsequent Shareholder vote approving the Transaction within eight weeks); or (ii) if the conditions to Completion have not been satisfied (or, where applicable, waived) by 31 December 2018.

If the Put Option Implementation Agreement is terminated, the Shareholders Agreement will continue to operate in accordance with its terms as they existed prior to signing of the Put Option Implementation Agreement, including as regards the JV Put Option.

1.10 *Guarantees*

GSK has agreed to guarantee the obligations of the GSK JV Shareholder and the Consumer Healthcare Joint Venture under the Put Option Implementation Agreement, including the Consumer Healthcare Joint Venture's obligation to pay the Transaction Consideration to the Novartis JV Shareholders.

Novartis has agreed to an equivalent guarantee of the obligations of the Novartis JV Shareholders.

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PART 3

RISK FACTORS

You should carefully consider the risks and uncertainties described below, together with all other information in this document.

The risk factors in this document set out the necessary disclosure in accordance with the Listing Rules, and do not seek to cover all of the material risks which generally affect the Group or the businesses that are the subject of the Transaction. Further information on the material risks which generally affect the Group are set out in the 2017 Annual Report.

The risks and uncertainties described below represent those known to the Directors as at the date of this document which the Directors consider to be material risks relating to the Transaction, as well as material risks to the Group that will be impacted by the Transaction. However, these risks and uncertainties are not the only ones which, following closing of the Transaction, the Group will face. Additional risks and uncertainties that do not currently exist or that are not currently known to the Directors, or that the Directors currently consider to be immaterial, or which the Directors consider to be material but which are not related to or will not be impacted by the Transaction, could also have a material adverse effect on the Group's business, results of operations, financial position or prospects.

If any or a combination of these risks actually occurs, the Transaction and/or the relevant business, financial condition, results of operations or prospects of the Group or the Group could be materially and adversely affected. In such case, the price of the Ordinary Shares could decline and you may lose all or part of your investment.

The risks are not intended to be presented in any assumed order of priority. The information given is as at the date of this document and, except as requested by the FCA or required by the Listing Rules or any other applicable law, will not be updated. Any forward-looking statements are made subject to the reservations specified under "Forward Looking Statements" on page 5 of this document.

1. RISKS RELATING TO THE TRANSACTION

Completion of the Transaction is subject to the satisfaction (or waiver, where applicable) of two conditions which, if not satisfied, may result in the Transaction not proceeding and in the payment by the Company of the Break Fee

Completion of the Transaction is subject to the satisfaction (or waiver, where applicable) of the following conditions:

(A) the approval of the Resolution by Shareholders at the General Meeting; and

(B) there being no governmental orders restraining or prohibiting the Transaction.

There is no guarantee that these conditions will be satisfied (or waived, if applicable). If any of the conditions are not satisfied (or waived, if applicable), the Transaction will not complete. If the Transaction fails to complete, the anticipated benefits of the Transaction will not be achieved and the Company may not be able to recover its costs incurred in connection with the Transaction. In certain circumstances where the condition relating to the approval by Shareholders of the Resolution is not satisfied, GSK will also be required to pay the Break Fee of \$200 million to

Novartis and the JV Put Option would be re-instated, giving Novartis the right to sell its interest in the Consumer Healthcare Joint Venture to GSK again, in accordance with the terms of the existing Shareholders Agreement.

Events or developments may occur which have an adverse effect on the Consumer Healthcare Joint Venture and the GSK Group would remain obliged to proceed with the Transaction

Pursuant to the Put Option Implementation Agreement, the Company will only be entitled to terminate the Transaction: (i) if agreed between the parties or (ii) if Novartis and/or the Novartis JV Shareholders fail to perform their obligations at Completion. The Put Option Implementation Agreement will terminate automatically: (i) if the Break Fee is paid (and, where applicable, there is no subsequent Shareholder vote approving the Transaction within eight weeks); or (ii) if the conditions to Completion have not been satisfied (or, where applicable, waived) by 31 December 2018. During the period prior to Completion, events or

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developments may occur which have an adverse effect on the Consumer Healthcare Joint Venture or the Group but do not entitle GSK to terminate the Transaction. GSK would instead be required, subject to satisfaction of the conditions to the Put Option Implementation Agreement, to proceed to Completion notwithstanding the adverse events or developments, and this could have a material and adverse effect on the business, financial condition and results of the GSK Group.

Risks of executing the Transaction could cause the market price of GSK Shares to decline

The market price of the Company's Shares may decline as a result of the Transaction, among other reasons, if:

- (A) the Group does not achieve the anticipated benefits of the Transaction as rapidly, or to the extent anticipated by the Board, analysts or investors, or at all;
- (B) the effect of the Transaction on the Company's financial results is not consistent with the expectations of analysts or investors; or
- (C) Shareholders sell a significant number of Shares following Completion.

The Group is exposed to exchange rate fluctuations in relation to the Transaction

Since the Transaction Consideration is denominated in US dollars whilst the Group's financial reporting currency is pounds sterling, the Group is potentially exposed to variations in the US dollar-pound sterling exchange rate. If exchange rate fluctuations move adversely against the Group, the pounds sterling cost of the US dollar-denominated Transaction Consideration will increase, although certain hedging transactions have been entered into to mitigate the impact of such adverse exchange rate movements. If any hedging instruments used by the Group are not completely effective and the Group is unable to extend or renew such instruments, this may affect the results of the Group's operations and financial condition.

Risks associated with the future exercise of the JV Put Option

If the Transaction is not approved by Shareholders or does not otherwise complete for any reason, Novartis will retain the right to exercise the JV Put Option until 2 March 2035. If in the future Novartis exercises the JV Put Option, the value of the Novartis JV Shares will be determined at that time in accordance with the methodology provided in the Shareholders' Agreement, and that could result in a valuation that is materially different to the Transaction Consideration that has been agreed between Novartis and GSK in respect of the Novartis JV Shares. Furthermore, if in the future Novartis exercises the JV Put Option in accordance with the terms of the Shareholders' Agreement, no Shareholder approval would be required as such a transaction was previously approved by Shareholders in 2014 in connection with GSK's major three-part transaction with Novartis.

The Group will have increased financial leverage following the Transaction which may have adverse consequences on the Group's financial performance

Following the Transaction, the Group will have increased debt obligations and a higher financial leverage. As a result of its higher financial leverage, the debt service charges and other borrowing costs of the Group may increase. In addition, the Group's debt service and borrowing costs could increase further due to higher interest rates, whether as a

result of market-driven fluctuations to floating interest rates or otherwise as required by the Group's lenders and more stringent borrowing requirements, whether mandated by law or required by lenders. Such increases could adversely affect the Group's profitability, particularly if any hedging instruments used by the Group are not completely effective and the Group is unable to extend or renew such instruments.

The Group may require additional funding for further capital investment or growth plans over the long term, and the Group may not be able to access such funding on favourable terms

In order to grow its business in accordance with its stated objectives, the Group may seek additional financing for the purposes of capital investment or to fund new acquisitions. The Group may seek to raise additional funds by issuing equity, equity-linked securities or debt securities or by borrowing from banks or other resources. In particular, as a result of the Group's increased financial leverage following the Transaction, the Company cannot predict with certainty whether such financing would be available on

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favourable terms, or at all, to the Group. If the Group fails to obtain additional financing on acceptable terms, it may not be able to implement fully new investment or growth plans. Additional debt financing may restrict the commercial and financial flexibility of the Group through additional debt service obligations or restrictive covenants. Any of the foregoing may adversely affect the Group's business, prospects and results of operations.

2. EXISTING RISKS RELATING TO THE GROUP THAT WILL BE IMPACTED BY THE TRANSACTION

By undertaking the Transaction, GSK is not acquiring any businesses or products that it does not already control; it is instead increasing its exposure to existing risks in its consumer healthcare business as a result of its ownership of the Consumer Healthcare Joint Venture increasing from 63.5% to 100%. However, since Novartis has a unilateral right to exercise the JV Put Option (which has been disappplied, but will be re-instated should Shareholders not approve the Transaction), GSK is in effect already potentially exposed to these risks in their entirety.

The Consumer Healthcare Joint Venture has operations in countries with high degrees of political, economic and legal uncertainty

The Transaction will result in the GSK Group having a greater exposure, through its increased ownership of the Consumer Healthcare Joint Venture, to a segment of its existing business, some of which is carried out in countries with high degrees of political, economic and legal uncertainty. This may exacerbate the Group's existing geopolitical risks and risks arising from non-compliance with, or changes to, laws and regulations affecting the Group and/or the interpretation and application of those laws and regulations by governments or regulatory bodies in such jurisdiction. Any change in, or non-compliance with, applicable law and regulation (including additional taxation, additional pricing restrictions, reductions in the protections afforded to intellectual property rights or compulsory licensing, the imposition of international sanctions or non-compliance with local and international anti-bribery and corruption legislation) could materially and adversely affect the operations and financial results of the Consumer Healthcare Joint Venture and the Group.

The Transaction may increase the Group's exposure to product liability risk

The Consumer Healthcare Joint Venture and the wider Group is subject to a complex regulatory framework in relation to product liability. In order to mitigate its risk in this area, the Group has developed and implemented a set of quality control policies and procedures that are highly tailored to the specific requirements of the Group and the regulatory regimes of the jurisdictions in which it operates. Whilst the Consumer Healthcare Segment is generally considered to be exposed to lower product liability risk than the pharmaceuticals and vaccines segments of the Group, nevertheless, as a result of the Transaction, the Group will have a greater exposure to the risk of product liability claims and related issues in the Consumer Healthcare Joint Venture, which have the potential to do significant damage to the Group's reputation and adversely affect the results of its operations and financial condition.

Economic conditions and other factors outside the Company's control may adversely affect consumer and/or retailer spending decisions may adversely impact the business of the Group and, in particular, the business of the Consumer Healthcare Joint Venture

The business of the Consumer Healthcare Joint Venture is affected by changes in consumers' discretionary spending on consumer healthcare products and any consequent changes in retailers purchasing stocks of consumer healthcare products. The prevailing global economic climate, inflation, levels of employment, real disposable income, salaries, wage rates, interest rates, consumer confidence and consumer perception of economic conditions can all influence

customer spending decisions adversely. In turn, retailers' perception of consumer spending habits can influence retailer spending decisions adversely. The Transaction will increase the Group's exposure to consumer and retailer spending trends. Whilst sales of consumer healthcare products by the Group have not historically been materially adversely affected by downturns in the global economic climate, there can be no assurance that the foregoing events or factors will not adversely impact the sales of the Consumer Healthcare Joint Venture or the results of operations and financial condition of the Group and, whether before or following the Transaction.

The Group may not be able to develop and commercialise new products in a timely fashion

The future growth of the Consumer Healthcare Joint Venture and, consequently, the Group is to a significant extent dependent on its ability to develop new products or new formulations of existing products.

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This development process is both time-consuming and costly and involves a high degree of business risk. The Group must develop, test and manufacture products to meet its own internal specifications as well as all applicable regulatory and safety requirements and it is possible that a new product can fail to make it to market at any stage of this process. Whilst the Consumer Healthcare Joint Venture has a good track record of developing new products, there can be no guarantee that the Group will continue to be able to develop and commercialise new products at the rate required to retain or grow market share. Any failure to develop and commercialise new products in a timely fashion may decrease revenues and/or increase R&D costs and, consequently, may adversely affect the results of the Group's operations and financial condition.

The Group may not be able to manufacture its products in compliance with good manufacturing practice

Failure to comply with good manufacturing practice or good distribution practice regulations throughout GSK's in-house and contract manufacturing supply and distribution chains could lead to product supply interruptions and product recalls. As a result of this Transaction, there is increased exposure to these risks within the Consumer Healthcare Joint Venture. The Consumer Healthcare Joint Venture is increasing its reliance on third parties and, in parallel, there is a global network rationalisation programme underway to reduce the number of manufacturing sites within the Consumer Healthcare Joint Venture, both of which may increase the risks to safe and timely supply of products which could have the potential to do significant damage to the Group's reputation and adversely affect the results of its operations and financial condition.

Determinations made by the Group with respect to the application of tax law may result in the payment of additional amounts for tax

The Transaction will result in the Group having an increased exposure, through its increased ownership of the Consumer Healthcare Joint Venture, to business operations which will be subject to taxation across multiple jurisdictions. The Group will be subject to many different forms of taxation including, but not limited to, income tax, withholding tax, value added tax, transfer pricing rules, commodity tax and social security and other payroll taxes. Tax law and its administration is complex and often requires the Group to make subjective determinations. Tax authorities around the world are increasingly rigorous in their scrutiny of transactions and may not agree with the determinations that are made by the Group with respect to the application of tax law. Such disagreements could result in legal disputes, an increased overall tax rate applicable to the Group and, ultimately, in the payment of additional amounts for tax, which could have a material and adverse effect on the Group's business, results of operations and financial condition.

Table of Contents**PART 4****ADDITIONAL INFORMATION****1. Registered Office**

The registered office of the Company is at 980 Great West Road, Brentford, Middlesex TW8 9GS. The telephone number of the registered office is 020 8047 5000.

2. Share capital

The total number of issued Ordinary Shares (including those underlying ADRs) as at 11 April 2018 was 5,373,736,008 (with 414,605,950 Ordinary Shares held in treasury). The total number of voting rights in relation to the Company as at 11 April 2018 was 4,959,130,058.

3. Directors

The names and principal functions of the Directors of the Company are as follows:

Name	Position
Philip Hampton	Non-Executive Chairman
Emma Walmsley	Chief Executive Officer
Simon Dingemans	Chief Financial Officer
Dr Hal Barron	Chief Scientific Officer and President, R&D
Manvinder Singh Banga	Senior Independent Non-Executive Director
Professor Sir Roy Anderson	Independent Non-Executive Director and Scientific & Medical Expert
Dr Vivienne Cox	Independent Non-Executive Director
Lynn Elsenhans	Independent Non-Executive Director
Dr Laurie Glimcher	Independent Non-Executive Director and Scientific & Medical Expert
Dr Jesse Goodman	Independent Non-Executive Director and Scientific & Medical Expert
Judy Lewent	Independent Non-Executive Director
Urs Rohner	Independent Non-Executive Director

4. Major interests in shares

As at the Latest Practicable Date the Company had received notifications in accordance with the Disclosure Guidance and Transparency Rules of the following notifiable interests in the voting rights in the Company's issued share capital:

	No. of shares	Percentage* of issued capital (%)
BlackRock, Inc	335,337,360	6.76

* Percentage of Ordinary Shares in issue, excluding Ordinary Shares held in treasury.

Save as disclosed above, the Company is not aware of any person who had a notifiable interest under the Disclosure Guidance and Transparency Rules as at the Latest Practicable Date.

As at the Latest Practicable Date, the Company was not aware of any person or persons who directly or indirectly, jointly or severally, exercise or could exercise control over the Company, nor is it aware of any arrangement the operation of which may at a subsequent date result in a change in control of the Company.

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None of the Company's major shareholders has or will have different voting rights attached to the Ordinary Shares they hold in the Company.

5. No significant change

There has been no significant change in the financial or trading position of the GSK Group since 31 December 2017, being the date to which the GSK Group's latest published audited full year financial results have been prepared.

6. Material contracts

In addition to the Put Option Implementation Agreement (which is summarised in Part 2 (*Principal Terms and Conditions of the Transaction*)), the following contracts are the only contracts (other than contracts entered into in the ordinary course of business) that (i) Shareholders would reasonably require in making a properly informed assessment of how to vote on the Resolution; and (ii) have been entered into by members of the GSK Group, either (a) within the two years immediately preceding the date of this document which are or may be material; or (b) which contain any provision under which any member of the GSK Group has any obligation or entitlement which is or may be material to the GSK Group as at the date of this document:

6.1 *The Shareholders Agreement*

The Shareholders Agreement (the **SHA**) was entered into by GSK, the GSK JV Shareholder, Novartis, the Novartis JV Shareholder and the Consumer Healthcare Joint Venture on 2 March 2015 and, since then, was amended on 30 June 2015, 13 August 2015 and 23 June 2016. It governs the relationship between the JV Shareholders, their respective parent companies, and the management and operation of the Consumer Healthcare Joint Venture.

a) Shareholdings and management structure

The GSK JV Shareholder currently owns 63.5% of the JV Shares, with the remaining 36.5% owned by the Novartis JV Shareholders.

The SHA provides that, whilst the JV Shareholders retain their existing stake in the Consumer Healthcare Joint Venture, GSK has the right to appoint seven directors to the JV Board and Novartis has the right to appoint four directors to the JV Board. GSK has the right to appoint the Chairman of the JV Board. Appointment or removal of the CEO of the Consumer Healthcare Joint Venture is a matter for the JV Board. Removal of the CFO of the Consumer Healthcare Joint Venture or the appointment of any subsequent CFO is a reserved matter requiring Novartis' consent.

b) Reserved matters

The SHA contains a list of customary reserved matters that may not be undertaken by the Consumer Healthcare Joint Venture or any member of its group without the prior approval of Novartis.

Subject to the reserved matters and review by the JV Board, the executive management will have full operational control of the Consumer Healthcare Joint Venture and its group.

c) Funding and dividends

In the event that the Consumer Healthcare Joint Venture requires funding for any purpose, other than in relation to a Novartis reserved matter, the Consumer Healthcare Joint Venture requests funding from GSK and Novartis pro rata to their respective shareholdings. In the event that Novartis does not wish to participate in that funding, GSK is required to fund the entirety of the requirement. The Consumer Healthcare Joint Venture is not permitted to borrow externally (excluding loans from GSK and Novartis as shareholders and ordinary course activities (e.g. trade credit, bank account overdraft positions and interest rate and foreign exchange hedging activities)), other than as a reserved matter with Novartis consent.

Dividends are required to be paid by the Consumer Healthcare Joint Venture to the JV Shareholders in proportion to their respective shareholdings in respect of each half-yearly accounting period, subject to the availability of distributable reserves and there being no outstanding Shareholder Loans.

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d) JV Put Option

Under the SHA, Novartis is entitled to exercise the JV Put Option, which became exercisable on 2 March 2018 and will expire on 2 March 2035, subject to certain prohibited periods in which it is not capable of exercise.

The JV Put Option may be exercised in a maximum of four tranches, in respect of either (i) 7.5 per cent. of the share capital of the Consumer Healthcare Joint Venture or (ii) 100 per cent. of Novartis then-current shareholding or, in any fourth tranche, 14 per cent. of the JV Shares (or such other amount as is, at that time, equal to 100 per cent. of Novartis shareholding).

The price payable for the relevant shares is the then-prevailing fully-distributed public trading equity value of those shares (with no premium or discount applied), which would be determined by expert valuations at the time the JV Put Option is exercised, subject to customary adjustments after completion of the acquisition of the relevant shares.

In the event that Novartis exercises the JV Put Option in tranches, Novartis representation on the JV Board and any committees of the JV Board reduces proportionately in line with Novartis shareholding.

e) Restrictions on transfer of shares

The SHA includes customary restrictions (and permitted exceptions) on the transfer of GSK and Novartis respective interests in the Consumer Healthcare Joint Venture to a third party.

As of 2 March 2018, GSK is entitled to sell its entire holding in the Consumer Healthcare Joint Venture to a third party, provided that Novartis has (i) a right of first refusal to acquire GSK's shares, and (ii) a tag right to require a third party purchaser of GSK's shares to purchase Novartis shares at the same per share price.

Following expiry of the JV Put Option, Novartis will be free to sell its entire holding in the Consumer Healthcare Joint Venture to a third party, subject to GSK having a right of first refusal to purchase Novartis holding.

f) Transfer of shares on default

The SHA provides that if certain events of default occur in relation to the GSK JV Shareholder or either of the Novartis JV Shareholders, the non-defaulting JV Shareholder may require the defaulting JV Shareholder to sell its shareholding in the Consumer Healthcare Joint Venture to the non-defaulting JV Shareholder at a default price to be calculated in accordance with the SHA.

Events of default for these purposes include (i) material or persistent breach of the restrictions on transfer of shares contained in the SHA by any JV Shareholder, and (ii) the commencement of any procedure with a view to the liquidation, winding-up, administration or bankruptcy of any JV Shareholder (or any of its parent undertakings) (or analogous proceedings).

g) Termination

The SHA terminates immediately in the event that only the GSK Group or only the Novartis Group remain holding shares in the Consumer Healthcare Joint Venture. Accordingly, the SHA will terminate upon Completion.

6.2 *Financing*

GSK entered into a facilities agreement as a borrower and as a guarantor with, amongst others, the Lenders and GlaxoSmithKline LLC (as an additional borrower) (the **US Borrower**, together with the Company the **Borrowers**) on 27 March 2018, pursuant to which the Lenders agreed to make available to the Borrowers loans of up to \$8,000,000,000 and £3,500,000,000 for the purposes of funding the Transaction Consideration payable at Completion. To the extent that the Borrowers use the facilities in order to fund all or part of the Transaction Consideration, the loans will be repayable in full by the Borrowers, save where the Borrowers exercise an option to extend the maturity of a loan (and subject to

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the compliance of certain terms of the facilities): (i) if the loan is a facility A loan (being a loan originally denominated as a USD commitment of the lenders), on the date falling 364 days after the earlier of (a) first drawdown; or (b) 6 months following the signing date; and (ii) if the loan is a facility B loan (being a loan originally denominated as a GBP commitment of the lenders), on the date falling 18 months after the earlier of (a) first drawdown; or (b) 6 months following the signing date.

The Borrowers have agreed, pursuant to the terms of the facilities agreement, not to (and to procure that none of their Material Subsidiaries shall) grant security upon the whole or part of its property, assets or revenues, present or future (subject to certain exceptions). The facilities agreement includes additional terms which are customary for a financing of this nature, including, without limitation, an obligation to comply with the terms of the documents relating to the Transaction and to comply with all laws to which it may be subject, if failure so to comply would materially impair its ability to perform its obligations in respect of the facilities. The obligations of the Borrowers (including any additional borrowers which may accede to the facilities agreement after the date on which it was entered into) are guaranteed by GSK.

Any post-Completion adjustments to the Transaction Consideration that require the Company to pay additional amounts in cash to Novartis, as well as the costs and expenses of the Transaction, are expected to be paid using GSK's available cash resources.

7. Related party transactions

By virtue of Novartis being a related party of GSK under the Listing Rules, the Break Fee arrangement under the Put Option Implementation Agreement (details of which are set out in paragraph 1.4 of Part 2) constituted a smaller related party transaction within LR 11.1.10R of the Listing Rules.

GSK has obtained written confirmation from Citi, Greenhill and J.P. Morgan Cazenove as joint sponsors, that the terms of the relevant arrangement is fair and reasonable as far as GSK shareholders are concerned.

8. Consents

Citi has given and has not withdrawn its written consent to the references to its name in the form and context in which they appear in this document.

Greenhill has given and has not withdrawn its written consent to the references to its name in the form and context in which they appear in this document.

J.P. Morgan Cazenove has given and has not withdrawn its written consent to the references to its name in the form and context in which they appear in this document.

9. Documents on display

Copies of the following documents will be available for inspection during normal business hours on any Business Day free of charge at the registered office of the Company at 980 Great West Road, Brentford, Brentford, Middlesex TW8 9GS and at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY, from the date of this document until the conclusion of the General Meeting:

- (i) the memorandum and Articles of Association of the Company;
- (ii) the Put Option Implementation Agreement;
- (iii) the audited financial statements of the GSK Group for FY2016 and FY2017;
- (iv) the written consents referred to in paragraph 8 above; and
- (v) a copy of this document and the Form of Proxy.

Dated 13 April 2018

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DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

Adjusted Earnings	means Total Earnings, excluding Adjusting Items;
Adjusted Operating Profit	means total operating profit, excluding Adjusting Items;
Adjusting Items	means amortisation and impairment of intangible assets (excluding computer software) and goodwill; major restructuring costs, including those costs following material acquisitions; significant legal charges (net of insurance recoveries) and expenses on the settlement of litigation and government investigations; transaction-related accounting adjustments for significant acquisitions; and other items, including disposals of associates, products and businesses and other operating income other than royalty income, together with the tax effects of all of these items, where appropriate, and the impact of the enactment of the US Tax Cuts and Jobs Act in 2017
ADR	means American Depositary Receipts of GSK issued under the Deposit Agreement;
ADR Voting Instruction Form	means the voting form for use by holders of ADRs to vote at the General Meeting;
AER	has the meaning given on page 6 of this document;
Articles of Association	means the articles of association of the Company;
Board or the Directors	means the directors of the Company whose names are set out in paragraph 3 of Part 4 of this document (or, where the context requires, the directors of the Company from time to time);
Break Fee	has the meaning given in paragraph 4 of Part 1;
Cancellation	means the reduction of the share capital of the Consumer Healthcare Joint Venture by way of cancellation of the Novartis JV Shares in

accordance with the procedure set out under section 641(1)(a) of the Companies Act;

CER has the meaning given on page 6 of this document;

Circular means this document;

Citi means Citigroup Global Markets Limited;

Companies Act means the Companies Act 2006, as amended from time to time;

Company or **GSK** means GlaxoSmithKline plc;

Completion means completion of the Transaction;

Consumer Healthcare Joint Venture means GlaxoSmithKline Consumer Healthcare Holdings Limited, a company registered in England under number 08998608 whose registered office is at 980 Great West Road, Brentford, Middlesex TW8 9GS, being the consumer healthcare company owned by GSK and Novartis, together with its subsidiaries;

Consumer Healthcare Segment means the reported consumer healthcare operating segment of GSK, which includes the Consumer Healthcare Joint Venture and

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GSK's Indian and Nigerian publicly-listed businesses, as well as some local go-to-market capabilities in smaller territories where this activity is shared with GSK's pharmaceutical business and also includes certain administrative and central costs that are not allocated to the Consumer Healthcare Joint Venture, but excludes any allocation of the Group's Adjusting Items;

Consumer Healthcare Segment Operating Profit Margin means the part of the Group's Adjusted Operating Profit attributable to the Consumer Healthcare Segment expressed as a percentage of the Consumer Healthcare Segment's turnover;

CREST means the paperless settlement procedure operated by Euroclear enabling system securities to be evidenced otherwise than by certificates and transferred otherwise than by written instrument;

CREST Manual means the rules governing the operation of CREST as published by Euroclear;

CREST Proxy Instruction means a proxy appointment or instruction made via CREST, authenticated in accordance with Euroclear's specifications and containing the information set out in the CREST Manual;

CREST Shareholders means Shareholders holding Ordinary Shares in CREST in uncertificated form;

Deposit Agreement means the deposit agreement dated 6 April 2015 between GSK, the Depository and the owners and holders of ADRs issued thereunder;

Depository means the Bank of New York Mellon as depository under the Deposit Agreement;

Disclosure Guidance and Transparency Rules means the rules made by the FCA in its capacity as the UK Listing Authority under Part VI of FSMA (and contained in the UK Listing Authority's publication of the same name), as amended from time to time;

Equiniti means Equiniti Limited, Aspect House, Spencer Road, Lancing BN99 6DA;

EU	means the European Union;
Euroclear	means Euroclear UK & Ireland Limited, the operator of CREST;
FCA	means the Financial Conduct Authority;
Form of Proxy	means the form of proxy enclosed with this document for use by Shareholders in connection with the General Meeting;
FSMA	means the Financial Services and Markets Act 2000, as amended from time to time;
FY2016	means the year ended 31 December 2016;
FY2017	means the year ended 31 December 2017;
General Meeting	means the general meeting of the Company, to be held at the QEII Centre, Broad Sanctuary, Westminster, London, SW1P 3EE at 3.30p.m. (or as soon thereafter as the Company's annual general meeting convened for that date has concluded or been adjourned) on Thursday 3 May 2018, or any adjournment thereof, notice of which is set out at the end of this document;

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Greenhill	means Greenhill & Co. International LLP;
GSK Board Recommendation	means the recommendation of the Board set out in paragraph 12 of Part 1;
GSK Group or Group	means the Company together with its subsidiaries and subsidiary undertakings;
GSK JV Shareholder	means either (i) Setfirst Limited, a wholly-owned subsidiary of the Company and/or (ii) any other member of the GSK Group to whom all or some of the GSK JV Shares are transferred in accordance with the terms of the Shareholders Agreement and/or the Put Option Implementation Agreement;
GSK JV Shares	means the 63,500 A ordinary JV Shares that are held by the GSK JV Shareholder;
J.P. Morgan Cazenove	means J.P. Morgan Securities plc;
JV Board	means the board of directors of the Consumer Healthcare Joint Venture;
JV Put Option	means Novartis' right to require GSK to purchase its stake in the Consumer Healthcare Joint Venture, as described in more detail in paragraph 3.3 of Part 1;
JV Shareholders	means the GSK JV Shareholder and the Novartis JV Shareholders;
JV Shares	means the issued share capital of the Consumer Healthcare Joint Venture, comprising 63,500 A ordinary shares and 36,500 B ordinary shares;
Latest Practicable Date	means 11 April 2018, being the latest practicable date prior to publication of this document;
Lenders	means, as at the date of this document, Barclays Bank PLC, Citibank, N.A., London Branch, Citicorp North America Inc. and JPMorgan Chase Bank N.A., London Branch;

Listing Rules	means the rules made by the FCA in its capacity as the UK Listing Authority under Part VI of FSMA (and contained in the UK Listing Authority's publication of the same name), as amended from time to time;
LSE	means London Stock Exchange plc;
Material Subsidiaries	means a subsidiary of the Company whose total assets or total profits before interest payable and tax (Gross Profits) (attributable to the Company) represent 10 per cent. or more of the consolidated total assets or consolidated Gross Profits (as the case may be) of the Company and its subsidiaries as reflected in the latest published audited consolidated financial statements of the Company. Total assets and total Gross Profits will, for this purpose, exclude assets and profits eliminated in the consolidated financial statements referred to in the previous sentence;
Member State	means a member state of the European Union;
Moody's	means Moody's Investors Service, Inc.;

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Notice	means the notice of the General Meeting which is set out at the end of this document;
Ordinary Shares or Shares	means ordinary shares of 25 pence each in the capital of the Company;
Novartis	means Novartis AG;
Novartis Group	means Novartis together with its subsidiaries and subsidiary undertakings;
Novartis JV Directors	means the directors of the Consumer Healthcare Joint Venture who have been nominated by Novartis;
Novartis JV Shareholders	means (i) Novartis Holding AG and Novartis Finance Corporation, both of whom are wholly-owned subsidiaries of Novartis and/or (ii), where the context requires, any other member of the Novartis Group to whom the Novartis JV Shares are or may be transferred in accordance with the terms of the Shareholders Agreement and/or the Put Option Implementation Agreement;
Novartis JV Shares	means the 36,500 B ordinary JV Shares that are held by the Novartis JV Shareholders;
OTC	means over-the-counter healthcare products;
Prospectus Rules	means the rules made by the FCA in its capacity as the UK Listing Authority under Part VI of FSMA (and contained in the UK Listing Authority's publication of the same name), as amended from time to time;
Put Option Implementation Agreement	means the put option implementation agreement between the Company, the GSK JV Shareholder, Novartis, the Novartis JV Shareholders and the Consumer Healthcare Joint Venture dated 27 March 2018 relating to the Transaction, as more fully described in Part 2;
R&D	means research and development;
Resolution	

means the ordinary resolution in respect of the Transaction set out in the Notice;

Risk Factors

means the risk factors set out in Part 3 of this document;

S&P

means S&P Global Inc.;

Shareholder

means a holder, for the time being of Ordinary Shares;

Shareholder Loans

means any loans granted by any of the JV Shareholders to the Consumer Healthcare Joint Venture pursuant to and in accordance with the terms of the Shareholders Agreement;

Shareholders Agreement or SHA

means the shareholders agreement in relation to the Consumer Healthcare Joint Venture, between GSK, the GSK JV Shareholder, Novartis, the Novartis JV Shareholders and the Consumer Healthcare Joint Venture, originally dated 2 March 2015, as amended on 30 June 2015, 13 August 2015 and 23 June 2016;

Total Earnings

means GSK's total profit attributable to Shareholders, calculated in accordance with International Financial Reporting Standards;

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Transaction	means the transaction to buy out the Novartis JV Shareholders' interests in the Consumer Healthcare Joint Venture, proposed to be effected by the Cancellation of the Novartis JV Shares (or such other means as are agreed to transfer the Novartis JV Shares to the GSK JV Shareholder) in consideration for the payment by the Consumer Healthcare Joint Venture (or the GSK JV Shareholder, as applicable) to the Novartis JV Shareholders of the Transaction Consideration, subject to and in accordance with the terms and conditions contained in the Put Option Implementation Agreement (as more fully described in Part 2), and following and as a result of which the GSK Group will own the entire issued share capital of the Consumer Healthcare Joint Venture;
Transaction Consideration	means \$13 billion, subject to the adjustments described in paragraph 1.7 of Part 2;
UK or United Kingdom	means the United Kingdom of Great Britain and Northern Ireland;
UK Listing Authority or UKLA	means the FCA acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000; and
United States or US	means the United States of America.

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GlaxoSmithKline plc

(Registered in England and Wales No. 3888792)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of GlaxoSmithKline plc (the **Company**) will be held at the QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 3.30p.m. on Thursday 3 May 2018 (or as soon thereafter as the Company's annual general meeting convened for that date has concluded or been adjourned) for the purposes of considering and, if thought fit, passing the following resolution, which will be proposed as ordinary resolution.

ORDINARY RESOLUTION

1. THAT the Transaction (as defined and summarised in the circular sent to shareholders on 13 April 2018 (the **Circular**)) to be implemented in accordance with the terms and conditions contained in the Put Option Implementation Agreement (as defined and summarised in the Circular) entered into by, among other parties, the Company and Novartis AG and the associated and ancillary agreements and arrangements relating thereto, be and are hereby approved for the purposes of Chapter 11 of the Listing Rules of the Financial Conduct Authority, and that the Directors of the Company (or a duly authorised committee thereof) be and are hereby authorised to:
 - a. take all such steps, execute all such agreements and make all such arrangements as may seem to them necessary, expedient or desirable for the purpose of giving effect to, or otherwise in connection with, the Transaction and/or the associated and ancillary agreements and arrangements relating thereto; and
 - b. agree and make such modifications, variations, revisions, waivers or amendments in relation to any of the foregoing (provided that such modifications, variations, revisions, waivers or amendments are not material) as they may in their absolute discretion think necessary, expedient or desirable.

Dated 13 April 2018

By order of the Board

Victoria Whyte

Company Secretary

GlaxoSmithKline plc

Registered Office:

980 Great West Road

Brentford

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Middlesex

TW8 9GS

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Notes:

1. The Resolution at the General Meeting will be decided by poll as required by the Company's Articles of Association. This is a more transparent method of voting as shareholder votes are counted according to the number of shares held and this will ensure an exact and definitive result.
2. Shareholders are entitled to appoint one or more proxies to attend the General Meeting, and to speak and vote on his or her behalf, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.
3.
 - a. To appoint a proxy you may:
 - i. complete the Form of Proxy enclosed with this Circular, which should be returned directly to Equiniti at the address given in Note 3(e); or
 - ii. if you have a Shareview portfolio, register your vote electronically by visiting www.shareview.co.uk, and log onto your portfolio using your user ID and password. Once logged in, simply click 'View' on the 'My Investments' page, click on the link to vote then follow the on screen instructions; or
 - iii. register the appointment of your proxy electronically using the internet by logging on to www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number (SRN) printed on your Form of Proxy enclosed with this Circular and following the instructions provided. Please note that any electronic communication sent to Equiniti in respect of the appointment of a proxy that is found to contain a computer virus will not be accepted; or
 - iv. if you hold your shares in uncertificated form in CREST, you may utilise the CREST electronic proxy appointment service by using the procedures described in the CREST Manual. CREST Personal Members or other CREST Sponsored Members, and those CREST members who have appointed a service provider or providers, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Further details of voting via CREST are given on page 37.
 - b. The proxy appointment must be received by the Company's registrars, Equiniti, by 3.30p.m. on Tuesday 1 May 2018.
 - c. The 'Vote withheld' option is provided to enable a member to withhold his or her vote on the Resolution. It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the

proportion of votes For or Against each of the Resolution.

- d. If you do not have a Form of Proxy and believe that you should have been sent one, or if you require additional proxy forms, please contact Equiniti on one of the numbers given in Note 3(e).
- e. The return of a completed Form of Proxy, other instrument, or any CREST Proxy Instruction will not prevent a member from attending the General Meeting and voting in person if he or she wishes to do so.

Equiniti can be contacted using the following details:

Equiniti Limited
Aspect House
Spencer Road
Lancing, BN99 6DA

Tel: 0371 384 2991 (in the UK)*

Tel: + 44 (0)121 415 7067 (outside the UK)

* Lines are open from 8.30 a.m. to 5.30 p.m., UK time, Monday to Friday, excluding public holidays in England and Wales.

- f. In the case of joint Shareholders where one or more of the joint Shareholders purports to appoint a proxy, only the vote of the first named in the register of members of those who have purported to appoint a proxy shall be accepted.

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4. Holders of the Company's American Depositary Shares evidenced by American Depositary Receipts (**ADRs**) may exercise their votes through the Depositary, BNY Mellon. Such holders wishing to attend the General Meeting should obtain prior authority by being nominated an **Appointed Proxy** by the Depositary, who can be contacted at:

BNY Mellon Shareowner Services
PO Box 505000
Louisville, KY 40233-5000

Overnight correspondence should be sent to:

BNY Mellon Shareowner Services
211 Quality Circle,
Suite 210 College Station, TX 77845

www.mybnymdr.com

Tel: 1 877 353 1154 (US toll free)

Tel: + 1 201 680 6825 (outside the US)

5. Participants in the Company's Corporate Sponsored Nominee service may exercise their votes through the Company's registrars, Equiniti, by using the Form of Direction enclosed with this Notice, which should be returned direct to Equiniti at the address in Note 3(e) above. Please note that the Form of Direction must be received by 5.00 p.m. on 27 April 2018.
6. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act to enjoy information rights (a **Nominated Person**) may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.
7. The statement of the rights of members in relation to the appointment of proxies in Notes 2 and 3 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by members of the Company.
8. To be entitled to attend and vote at the General Meeting, members must be entered on the Register of Members of the Company at 6.30 p.m. (London time) on Tuesday 1 May 2018, or, in the event of any adjournment, 6.30 p.m. (London time) on the date which is two business days before the time of the adjourned meeting. Members may

cast votes only in respect of shares of which they were registered holders at such time, and changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the General Meeting.

9. The total number of issued ordinary shares of the Company (including those underlying ADRs) as at 11 April 2018 (being the latest practicable date prior to publication of this Notice) was 5,373,736,008 (with 414,605,950 ordinary shares held in treasury). The total number of voting rights in relation to the Company as at 11 April 2018 was 4,959,130,058.
10. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that, if there is more than one corporate representative, they do not do so in relation to the same shares.
11. Members may not use any electronic address provided either in this Notice or any related documents (including the Circular and Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.
12. A copy of the Circular, including this Notice, and other information required by section 311A of the Companies Act, can be found at **www.gsk.com**.

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13. Any member, proxy or joint shareholder attending the General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the General Meeting but no such answer need be given if (i) to do so would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information, (ii) the answer has already been given on a website in the form of an answer to a question, or (iii) it is undesirable in the interests of the Company or the good order of the General Meeting that the question be answered.

14. In the case of joint shareholders where one or more of the joint shareholders purports to appoint a proxy, only the vote of the first named in the register of members of those who have purported to appoint a proxy shall be accepted.

15. To be admitted to the General Meeting, shareholders are asked to present their attendance card (which is attached to the Form of Proxy) or present proof of identity.

16. On arrival at the place of the General Meeting, all those entitled to vote will be required to register and collect a poll card.

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Further information on how to vote electronically

Voting using Shareview

If you have a Shareview portfolio, you may register your vote electronically by visiting www.shareview.co.uk, and log onto your portfolio using your user ID and password. Once logged in, simply click View on the My Investments page, click on the link to vote then follow the on screen instructions.

Voting using Sharevote

You may register your vote electronically by logging on to www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number (SRN) printed on your enclosed Form of Proxy and following the instructions provided. If you would like to cast your vote electronically you need to do so by 3.30p.m. on Tuesday 1 May 2018.

Voting using CREST's electronic proxy appointment service

If you hold your shares in uncertificated form in CREST you may use the electronic proxy appointment service operated by CREST to appoint a proxy or proxies and register your vote. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual (available via www.euroclear.com). CREST Personal Members or other CREST Sponsored Members, and those CREST members who have appointed a voting service provider or providers, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

For a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual.

The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent Equiniti ID RA19 by 3.30p.m. on Tuesday 1 May 2018.

For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions.

It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member or Sponsored Member or has appointed a voting service provider or providers, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

GlaxoSmithKline plc

(Registrant)

Date: April 13, 2018

By: /s/ Simon Dingemans
Simon Dingemans

Authorised Signatory for and on
behalf of GlaxoSmithKline plc