As filed with the Securities and Exchange Commission on March 3, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 20-F

☐ Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

OR

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2005

OR

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

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-15170

GlaxoSmithKline plc

(Exact name of Registrant as specified in its charter)

England
(Jurisdiction of incorporation or organization)

980 Great West Road, Brentford, Middlesex TW8 9GS England
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange On Which Registered**
American Depositary Shares, each representing 2 Ordinary Shares, Par value 25 pence	New York Stock Exchange

Securities registered or to be registered to Section 12(g) of the Act:

None
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☒ Yes ☐ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports 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 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 ☒ Acccelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☒ Item 18

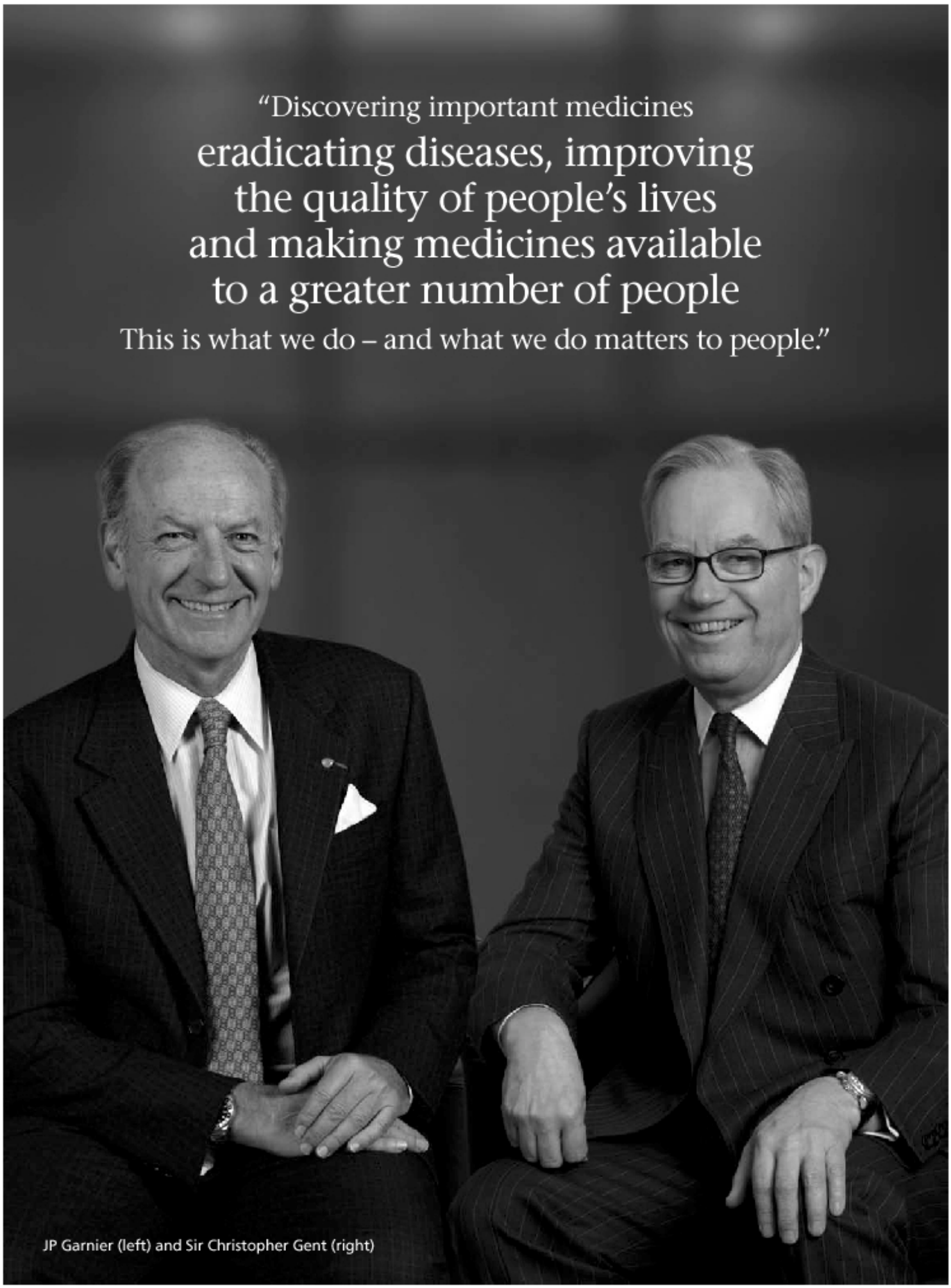
If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

human being

GlaxoSmithKline

Do more, feel better, live longer



JP Garnier (left) and Sir Christopher Gent (right)

JP Garnier (left) and Sir Christopher Gent (right)

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"Thanks to the efforts of our employees around the world, 2005 was a very successful year for GSK. Not only was it our best year ever from a financial standpoint, we also made substantial progress with our pipeline of innovative medicines and vaccines."

JP Garnier, Chief Executive Officer

An interview with Sir Christopher Gent, Chairman and JP Garnier, Chief Executive Officer

2005: a year of success and progress

GSK delivered an excellent financial performance in 2005. Turnover of £21.7 billion grew by 7% at constant exchange rates (CER). Earnings per share (EPS) were 82.6p, with growth of 18% at CER, putting GSK in the top tier of global pharmaceutical companies in terms of performance.

"These figures confirm the excellent growth of our key products and the efficiency of our global operations," says JP.

GSK's performance was driven by sales of key pharmaceutical products. "Sales of *Seretide/Advair*, *Avandia*, *Coreg*, *Lamictal* and *Valtrex* all continued their impressive growth," says JP. "We also saw good performance from a number of newer products, including *Avodart* for enlarging prostate, *Boniva/Bonviva* for osteoporosis and *Requip* for Restless Legs Syndrome, which all show great promise for the future, both for patients and GSK.'

"Looking into 2006, the strong growth seen from key products and from our vaccines business is expected to continue and we anticipate an EPS growth of around 10% at CER."

Pipeline progress

GSK continues to meet the challenge of increasing Research & Development (R&D) productivity to discover new medicines faster and more economically. The company's pipeline is one of the largest and most promising in the industry, with 149 projects in clinical development (as at the end of February 2006), including 95 new chemical entities (NCEs), 29 product line extensions (PLEs) and 25 vaccines.

"In 2006, we anticipate further good news on GSK's late-stage pipeline, which is developing at a fast pace. Eight major new assets are scheduled to enter phase III in 2006, doubling our late-stage pipeline," says JP.

Year of the vaccine

2005 was a landmark year for GSK's vaccines business. Sales increased by 15% and the company made a number of significant strategic acquisitions. "The acquisition of ID Biomedical was an important move for GSK," says JP, "which strengthened our position in the global flu vaccine market, and increased our ability to prepare for and respond to a potential flu pandemic."

"The pharmaceutical industry is making a positive improvement to people's lives. It has a noble purpose. It develops medicines and vaccines that save lives and make people feel better."
Sir Christopher Gent, Chairman

"We also acquired a plant in Marietta, Pennsylvania which will give us access to tissue culture technology in our vaccine manufacturing. The acquisition of Corixa gives us valuable adjuvant technology, enabling us to boost human immune response to our vaccines."

GSK also made good progress on its pipeline of new vaccines. "We expect five major vaccine launches in the next five years," says JP. "Perhaps most exciting is *Cervarix* for cervical cancer, which we expect to file for approval in Europe in March 2006 and in the USA by the end of the year."

Improving access to medicines

GSK continues to seek new ways of improving access to its medicines for people who need them, but are least able to obtain them. This challenge is particularly acute in the developing world, where GSK has been offering many of its medicines and vaccines at not-for-profit prices for some years.

However, addressing this challenge is something GSK cannot do alone. The work of GSK with organisations such as the Bill & Melinda Gates Foundation highlights the benefits of public-private partnerships. They provide a way for companies such as GSK and the private sector to work together. Typically, GSK provides the R&D, technology, manufacturing and distribution expertise, while other partners and governments help fund the development and delivery costs.

In 2005, GSK entered three groundbreaking public-private partnerships to develop vaccines against the biggest causes of death in the developing world today – AIDS, malaria and tuberculosis.

"Public-private partnerships use the respective strengths of the partners and bring out the best of each. Most importantly, it is a model that works."

Reaching out to patients

In 2005, GSK introduced and strengthened a number of initiatives aimed at improving patients' understanding of GSK's medicines, and programmes to help gain access to them. These initiatives include GSK's pioneering Clinical Trial Register, which was expanded to contain 2,125 summaries of clinical trials by the end of 2005.

In the USA, GSK is placing more emphasis on education and the patient in direct-to-consumer advertising, and providing people with advice on GSK's programmes and the industry's Partnerships for Prescriptions Assistance which help people gain access to the medicines they need.

"Through these and other initiatives, we are seeking to differentiate GSK as a company finding solutions to the healthcare challenges that society faces. I believe we are well on the way to achieving that," says Sir Christopher.

A broader contribution

GSK's global community investment activities in 2005 were valued at £380 million, equivalent to 5.6% of Group profit before tax.

The year saw a number of natural disasters, including the Asian tsunami, the Guatemalan hurricane, the New Orleans floods and the earthquake that struck parts of India and Pakistan. GSK was quick to respond to help victims of these tragedies. "My thanks go to our employees for their response to these crises. It makes me proud to lead an organisation with such committed and compassionate people, who can respond so effectively to help people in real need," says JP.

For these disasters alone, GSK contributed more than £3 million in cash and donated medicines and vaccines valued at over £14 million towards the relief efforts.

"The tragedies during the year brought home to me the extent to which the pharmaceutical industry is making a positive improvement to people's lives," says Sir Christopher. "It has a noble purpose. It develops medicines and vaccines that save lives and make people feel better."

Being human

We continue to meet the challenges of improving productivity in R&D and ensuring patients have access to medicines, even in the poorest parts of the world. This Report highlights some of the work we have done to implement our strategies to meet these challenges. Behind each one is a human story.

We thank all our employees for their efforts in 2005. Their commitment and passion, both individually and through their teamwork, have helped us make GSK the success it is today. We also appreciate the great support our employees receive from their families for the work they are doing at GSK.

We are grateful for the significant contribution of Tachi Yamada, Chairman of R&D and Executive Director, who is to retire in June 2006, and we welcome Moncef Slaoui, who will succeed Tachi with effect from 1st June 2006. We would also like to thank Jack Ziegler, President of GSK Consumer Healthcare, who retired from the company in January 2006, and welcome his successor, John Clarke. We also thank Dr Lucy Shapiro, who is to retire as a Non-Executive Director at the company's Annual General Meeting in May 2006, and we welcome Tom de Swaan, who joined the Board in January 2006 as a new Non-Executive Director.

Sir Christopher Gent
Chairman

JP Garnier
Chief Executive Officer

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The Annual Report was approved by the Board of Directors on 1st March 2006 and published on 3rd March 2006.

Website

GlaxoSmithKline's website, www.gsk.com gives additional information on the Group. Information made available on the website does not constitute part of this Annual Report.

Financial summary

	2005 £m	2004 £m	Growth CER%	Growth £%
Turnover	**21,660**	19,986	7	8
Operating profit	**6,874**	5,756	16	19
Profit before taxation	**6,732**	5,779	13	16
Profit after taxation for the year	**4,816**	4,022	17	20
Profit attributable to minority interests	**127**	114		
Profit attributable to shareholders	**4,689**	3,908		
Earnings per share	**82.6p**	68.1p	18	21
Diluted earnings per share	**82.0p**	68.0p		
Dividends per share	**44p**	42p		
Net cash inflow from operating activities	**5,958**	4,944		
Net assets	**7,570**	5,937		

History and development of the company

GlaxoSmithKline plc is a public limited company incorporated on 6th December 1999 under English law. Its shares are listed on the London Stock Exchange and the New York Stock Exchange. On 27th December 2000 the company acquired Glaxo Wellcome plc and SmithKline Beecham plc, both English public limited companies, by way of a scheme of arrangement for the merger of the two companies. Both Glaxo Wellcome and SmithKline Beecham were major global healthcare businesses.

GSK plc and its subsidiary and associated undertakings constitute a major global healthcare group engaged in the creation, discovery, development, manufacture and marketing of pharmaceutical and consumer health-related products.

GSK has its corporate head office in London. It also has operational headquarters in Philadelphia and Research Triangle Park, USA, and operations in some 119 countries, with products sold in over 130 countries. The principal research and development (R&D) facilities are in the UK, the USA, Japan, Italy, Spain and Belgium. Products are currently manufactured in some 37 countries.

The major markets for the Group's products are the USA, France, Japan, the UK, Italy, Germany and Spain.

Business segments

GSK operates principally in two industry segments:

- Pharmaceuticals (prescription pharmaceuticals and vaccines)
- Consumer Healthcare (over-the-counter medicines, oral care and nutritional healthcare).

The Group, as a multinational business, operates in many countries and earns revenues and incurs costs in many currencies. The results of the Group, as reported in sterling, are therefore affected by movements in exchange rates between sterling and overseas currencies. Average exchange rates prevailing during the period are used to translate the results and cash flows of overseas subsidiary and associated undertakings and joint ventures into sterling. Period end rates are used to translate the net assets of those undertakings. The currencies which most influence these translations are the US dollar, the Euro and the Japanese Yen.

In order to illustrate underlying performance, it is the Group's practice to discuss its results in terms of constant exchange rate (CER) growth. This represents growth calculated as if the exchange rates used to determine the results of overseas companies in sterling had remained unchanged from those used in the previous year. CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates.

Cautionary statement regarding forward-looking statements

The Group's reports filed with or furnished to the US Securities and Exchange Commission (SEC), including this document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, may contain forward-looking statements. Forward-looking statements give the Group's current expectations or forecasts of future events. An investor can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as 'anticipate', 'estimate', 'expect', 'intend', 'will', 'project', 'plan', 'believe' and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results. The Group undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Forward-looking statements involve inherent risks and uncertainties. The Group cautions investors that a number of important factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Risk factors' on pages 71 to 74 of this Annual Report.

Description of business

Mission

Our global quest is to improve the quality of human life by enabling people to do more, feel better and live longer.

Our Spirit

We undertake our quest with the enthusiasm of entrepreneurs, excited by the constant search for innovation. We value performance achieved with integrity. We will attain success as a world class global leader with each and every one of our people contributing with passion and an unmatched sense of urgency.

Annual Report and Review

This report is the Annual Report of GlaxoSmithKline plc for the year ended 31st December 2005, prepared in accordance with United Kingdom requirements.

A summary report on the year, the Annual Review 2005, intended for the investor not needing the full detail of the Annual Report, is produced as a separate document.

The Annual Review includes the joint statement by the Chairman and the Chief Executive Officer, a summary review of operations, summary financial statements and a summary remuneration report.

The Annual Review is issued to all shareholders. The Annual Report is issued to shareholders who have elected to receive it. Both documents are available on GlaxoSmithKline's corporate website at www.gsk.com.

The Description of business discusses the strategy, activities, resources and operating environment of the business and identifies developments and achievements in 2005, under the following headings:

Strategy

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Discussion of the Group's management structures and corporate governance procedures is set out in Corporate governance (pages 27 to 36).

The Remuneration Report gives details of the Group's policies on Directors' remuneration and the amounts earned by Directors and senior management in 2005 (pages 37 to 54).

Discussion of the Group's operating and financial performance and financial resources is given in the Operating and financial review and prospects (pages 55 to 80).

In this report:

'GlaxoSmithKline', the 'Group' or 'GSK' means GlaxoSmithKline plc and its subsidiary undertakings.
The 'company' means GlaxoSmithKline plc.
'GlaxoSmithKline share' means an Ordinary Share of GlaxoSmithKline plc of 25p.
American Depositary Share (ADS) represents two GlaxoSmithKline shares.

Throughout this report, figures quoted for market size, market share and market growth rates relate to the 12 months ended 30th September 2005 (or later where available). These are GSK's estimates based on the most recent data from independent external sources, valued in sterling at relevant exchange rates. Figures quoted for product market share reflect sales by GSK and licensees.

Brand names appearing in italics throughout this report are trademarks either owned by and/or licensed to GlaxoSmithKline or associated companies, with the exception of *Baycol* and *Levitra*, trademarks of Bayer, *Boniva/Bonviva*, a trademark of Roche, *Entereg*, a trademark of Adolor Corporation in the USA, *Hepsera*, a trademark of Gilead Sciences in some countries including the USA, *Integrilin*, a trademark of Millennium Pharmaceuticals, *Micropump*, a trademark of Flamel Technologies, *Natrecor*, a trademark of Scios and Janssen, *Navelbine*, a trademark of Pierre Fabre Médicament, *Nicoderm*, a trademark of Sanofi-Aventis, Elan, Novartis or GlaxoSmithKline in certain countries, *Pritor*, a trademark of Boehringer Ingelheim and *Vesicare*, a trademark of Yamanouchi Pharmaceuticals, and in Japan and South Korea a trademark of Astellas Pharmaceuticals, all of which are used in certain countries under license by the Group.

Strategy and business drivers

GlaxoSmithKline is addressing the key challenges that face both the pharmaceutical industry and society as a whole:

- improving productivity in research and development
- ensuring patients have access to new medicines

The strategies to meet these challenges focus on several business drivers:

Build the best product pipeline in the industry

The Group is aiming to create the best product pipeline in the industry for the benefit of patients, consumers and society. This includes developing a focused portfolio strategy to support the pipeline and manage the full life cycle of compounds from their launch as prescription medicines through to becoming over-the-counter products where appropriate. This strategy includes selective in-licensing and efficient execution of development, commercialisation and the supply chain processes.

GSK's R&D organisation measures productivity by the number and innovation of the products it creates, and also by the commercial value of these products and their ability to address the unmet needs of all consumers. This includes patients, healthcare professionals, budget holders and regulators, each with their own perspective on what constitutes a valuable new product.

Further details are given on pages 7 to 13.

Achieve commercial and operational excellence

GSK links research and commercial operations closely in order to maximise the value of the portfolio. As compounds are developed and tested, marketing campaigns and sales efforts are planned. Where appropriate within markets, the Group aims to build strong relationships with patients and consumers as the ultimate users of its medicines.

Common approaches to management processes and business functions are used by an internationally diverse and talented management team in order to create and sustain competitive advantage in all markets. Further details are given on page 14.

Improve access to medicines

GSK has created extensive programmes designed to improve the healthcare of people who have limited access to medicines both in the developed and developing world. These are set out in the 'Improve access to medicines' section of this report (page 15).

Be the best place for the best people to do their best work

The single greatest source of competitive advantage of any organisation is its people. The Group's ambition is to be the place where great people apply their energy and passion to make a difference in the world. Their skills and intellect are key components in the successful implementation of the Group's strategy. The work environment supports an informed, empowered and resilient workforce, in which the Group values and draws on the diverse knowledge, perspectives, experience, and styles of the global community. Further details are given on page 16.

Corporate Responsibility

In working to meet these challenges and implement these business drivers, GSK recognises that it has a responsibility to support the delivery of better healthcare and education in under-served communities and to connect business decisions to ethical, social and environmental concerns. GSK's commitment to these is outlined on pages 18 to 19, with more information available in the Corporate Responsibility Report, which is available on the website at www.gsk.com

Build the best product pipeline in the industry

Research and Development – Pharmaceuticals

GSK's strategic intent is to become the indisputable leader in the industry. This success depends on the bedrock of the Group's business – a vibrant and productive Research and Development (R&D) function that develops new ways to help patients while supporting existing products.

Focus on the Patient

R&D's focus on the patient involves seeking the views of patients and their families for an understanding of the most important aspects of their disease and the impact it has on their lives. This information, in conjunction with discussions with key opinion leaders, is then used to shape drug development programmes so that new medicines are likely to benefit patients.

Finding candidate compounds

Two components are needed in the early stages of finding new medicines – targets that can be shown to affect mechanisms of important pathological processes in human disease and compounds able to modulate the behaviour of specific targets.

Many diseases arise through complex interactions between gene variants and environmental factors. Within GSK, Genetics Research aims to take advantage of this by identifying genes which influence common diseases with large unmet medical needs and major patient burdens. These insights help in the search for targets with known relevance to the disease, and hence a greater chance of delivering benefit to the patients.

Discovery Research (DR) produces the lead compounds that may influence targets which form the basis of drug discovery efforts in GSK's Centres of Excellence for Drug Discovery (CEDDs). In 2005, DR performed over 90 million assays and provided the CEDDs with 50 high-quality new lead compounds. Investment in DR has been focused on increasing the quality and quantity of the lead compounds available.

Selecting the best candidate molecules

The fundamental steps in turning a lead compound into a drug candidate are optimising it for potency, efficacy and safety and then demonstrating the validity of the therapeutic hypothesis through early clinical trials of the resulting candidate.

These steps are helped by rapid, informed decision making and creative solutions to the issues that inevitably arise in this phase of development. GSK has designed the CEDDs, which are focused on specific disease areas, to be nimble and entrepreneurial. There are seven CEDDs, based in Europe and the USA:

- Biopharmaceuticals – Stevenage, UK
- Cardiovascular & Urogenital Diseases – Upper Merion, USA
- Metabolic & Viral Diseases – Research Triangle Park, USA
- Microbial, Musculoskeletal & Proliferative Diseases, including cancer – Upper Providence, USA
- Neurology & Gastrointestinal Diseases – Harlow, UK
- Psychiatry – Verona, Italy
- Respiratory and Inflammation – Stevenage, UK.

Each CEDD is responsible for assessing the safety and other development characteristics of lead compounds in preclinical screens, some of which may involve using animals. This allows the selection of the best candidate for a new medicine. Once this is achieved, the CEDDs are responsible for demonstrating that the compound has satisfied a proof of therapeutic concept during mid-stage clinical trials.

A decision is then made on whether the information available justifies the compound's progression into late-stage drug development, where large-scale clinical trials are conducted to register and commercialise the product.

During 2005 18 compounds entered clinical trials for the first time.

A GSK research facility focusing on new therapies in the treatment of neurodegenerative illnesses, such as Alzheimer's disease, was opened in Singapore in 2005.

The application of experimental medicine is a major opportunity for the industry. An important tool in this field is clinical imaging, which enables visualisation of changes in the body made in response to the administration of a new medicine. In 2005 world-class imaging experts were recruited from both the USA and UK, as GSK prepared to open the Clinical Imaging Centre at the Hammersmith Hospital in London in 2006. In addition, R&D has established global collaborations with academic imaging centres that make it a leader in application of imaging for drug discovery and development.

Converting candidates to medicines

Preclinical Development (PCD) includes a wide range of activities throughout the entire drug development process. It is also involves the enhancement of existing products by devising more convenient formulations. Early in the development process, the metabolism and safety of compounds are evaluated in laboratory animals before testing in humans. The testing required in animals is highly regulated (see Animals and research, page 10).

PCD researchers investigate appropriate dosage forms (for example, tablets or inhalers) and develop formulations to enhance a drug's effectiveness and ease of use by the patient. Processes and supporting analytical methods for drug synthesis and product formulation and delivery are scaled up to meet increasing supply requirements. This leads to the technical transfer of the processes and methods to manufacturing. The New Product Supply process, a partnership between R&D and Global Manufacturing and Supply, ensures that a robust product is developed for large-scale commercial manufacturing and launch.

To provide focus for the development process, all the major functional components of clinical, medical, biomedical data, regulatory and safety are integrated into a single management organisation, Worldwide Development (WWD).

GSK's Medicine Development Centres (MDCs), which provide a focus for late-stage development, are responsible for creating value through the delivery of full product development plans, managing the day-today operational activities for the late-stage development portfolio and ensuring strong partnerships with the CEDDs and Global Commercial Strategy (GCS).

Build the best product pipeline in the industry
Continued

The MDCs are based at the major USA and UK sites and are aligned with the following therapeutic areas:

- Cardiovascular/Metabolic
- Infectious Diseases including Diseases of the Developing World (DDW)
- Musculoskeletal/Inflammation/Gastrointestinal/Urology
- Neuroscience (Psychiatry/Neurology)
- Oncology
- Respiratory.

These teams are responsible for maximising the worldwide development opportunities for each product within their remit so that all the information needed to support the registration, safety programmes, pricing and formulary negotiations is available when needed. Commercial input from Global Commercial Strategy ensures that regional marketing needs are integrated into any development plans at an early stage.

In addition, R&D is investigating new ways of operating to enable it to respond to the variety of external pressures on the industry, such as increasing regulatory stringency, so that it is positioned to ensure that effective new medicines reach patients as soon as possible.

GSK believes that pharmacogenetic research, which correlates genetic data with response to medicine, will help to reduce pipeline attrition and improve productivity. R&D is collecting DNA samples in clinical studies to identify pharmacogenetic information that can help predict a patient's response. This information is intended to define patient groups likely to gain benefit from treatment, or to suffer a side effect, as the compound progresses through development in the clinic. Ultimately, pharmacogenetics promises to provide physicians with information to help them select the medicine and dose most likely to benefit their patient.

During 2005, R&D has taken several approaches to improving productivity in clinical trials, including an increasing use of countries outside Western Europe and the USA and the introduction of direct electronic data capture in most new clinical trials. These improvements in productivity will continue going forward.

All clinical trials sponsored by GSK, irrespective of where they take place, are conducted according to international standards of good clinical practice and applicable laws and regulations. The protocols are reviewed by the external regulatory agencies in the relevant countries where required and all protocols are considered by an Ethics Review Committee, whose remit covers the site where the study will take place. Safety data is routinely collected throughout development programmes and is reported to national and regional regulatory agencies in line with applicable regulations.

The GSK Global Safety Board is responsible internally for approving pivotal studies and investigating any issues related to patient safety arising during the development programme. During 2005, GSK took a further step in making information from its clinical trials widely and easily available by extending its Clinical Trial Register, a public website on which clinical trials data are published. Regulatory authorities will continue to be informed of the data generated so they may be reassured of the safety and efficacy of GSK's products. The Clinical Trial Register will enhance the ability of clinicians to make informed clinical judgements to benefit their patients.

Extending the use of existing products
Once a product is launched, it is important to establish additional ways in which patients can be helped. This can be through investigating whether any other illnesses may be treated with the product or by the development of additional, more convenient dosage forms. Some developments reflect feedback from patients and the medical professions, while others are the result of continuing research into disease and its causes.

Examples of the importance of lifecycle management to GSK include the new indication of restless leg syndrome for *Requip* and monthly dosing of *Boniva* to simplify its administration for prevention of osteoporosis. Line extensions add significant value to the product portfolio. Recent examples, such as *Augmentin ES/XR*, *Seroxat/Paxil CR* and *Wellbutri n XL*, achieved sales of £888 million in 2005.

Productivity
The challenge of increasing R&D productivity continued in 2005. Programmes to identify associations between diseases and genes have helped point to areas of research more likely to produce new ways of helping patients. Increased automation in screening has provided higher quality lead compounds more quickly.

Progress of the portfolio is communicated to investors and the media at regular intervals during the year. A major presentation on the vaccine portfolio was held in June and on the oncology and supportive care portfolio in November 2005. Details of GSK's product development pipeline are given on pages 11 to 13.

Managing the portfolio
With improved productivity, more compounds are progressed into later phases of development. This progress, however, puts demands on our R&D resources and it is important to look objectively at the portfolio. Key projects reaching significant milestones are reviewed each month by the Product Management Board (PMB), which is responsible for determining if an asset has met criteria for passing into the next phase of development.

GSK continues to identify compounds from other companies that would enhance the portfolio and to create innovative collaborations to ensure that the Group is regarded as the partner of choice for large and small companies.

In 2005 a specific Centre of Excellence for External Drug Discovery was created. This small internal management team is responsible for delivering compounds with clinical proof of concept by establishing and managing long-term strategic collaborations with biotechnology companies, small- and mid-sized pharmaceutical companies, and academic institutions. The Group has committed funding for two years to these collaborations, with an option to renew for an additional three years.

In-licensing
In-licensing or co-marketing/co-promotion agreements concluded in 2005 were:

- The development and commercialisation of Vertex Pharmaceuticals Inc.'s VX-409, Nav1.8 Na-channel blocker plus back-up molecules for pain (preclinical)
- The development and promotion of Allergan Inc.'s Botox in Japan and China
- The development and commercialisation of a renin inhibitor program (preclinical) with Vitae Pharmaceuticals Inc.

Build the best product pipeline in the industry
Continued

- The exercise of an option for Theravance Inc.'s inhaled muscarinic antagonist / beta 2 agonist programme (preclinical)
- The exercise of options for Human Genome Science Inc.'s LymphoStat B (completed Phase IIa) for rheumatoid arthritis and systematic lupus erythematosus and mapatumumab TRAIL R1 monoclonal antibody for various cancer indications (Phase II).

Discontinuations
All R&D carries a risk of failure. Lead compounds showing positive activity against a validated target may prove insufficiently safe to introduce to humans or impossible to manufacture on a commercial scale. Also, compounds may not show the expected benefits in patients in large scale clinical testing. These discontinuations occur despite extensive predictive testing.

Late-stage projects terminated during 2005 in Phase III included aplaviroc (873140) and 695634, both for HIV, *Avandia* for psoriasis and *Lamictal XR* for schizophrenia.

Research and development – GSK vaccines
The majority of GSK's vaccine R&D activities are conducted at its biologicals headquarters in Rixensart, Belgium. These include clinical development, regulatory strategy, commercial strategy, scaling up, vaccine production, packaging and all other support functions. Over 1,500 scientists are devoted to developing new vaccines and more cost-effective and convenient combination vaccines to prevent infections that cause serious medical problems worldwide. GSK is also targeting therapeutic vaccines that may prevent relapse in cancer patients.

Vaccine discovery involves many collaborations with academia and the biotech industry worldwide and allows identification of new vaccine antigens which are then expressed in yeast, bacteria or mammalian cells and purified to a very high level.

This is followed by formulation of the clinical lots of the vaccine. This may involve mixing antigens with selected novel proprietary adjuvants, which are designed to stimulate a good immune response. The first step is to evaluate the safety and efficacy of the candidate vaccine in a preclinical setting, usually involving an animal model. The candidate vaccine is then tested in clinical trials in healthy individuals to evaluate safety and effectiveness in inducing an immune response to protect the body from infection encountered later in a natural setting (Phase I/II). Large-scale field trials in healthy individuals follow to establish safety and efficacy in a cross section of the population (Phase III).

The results obtained during clinical trials and data regarding the development of a quality and large-scale production process and facilities are then combined into a regulatory file which is submitted to the authorities in the various countries where the vaccine is to be made available.

After launch, post marketing studies of considerable size are set up to assess vaccination programmes' impact and to monitor vaccine safety (Phase IV).

Vaccine manufacturing is particularly complex as it requires the use of living micro-organisms. Sophisticated quality assurance and quality control procedures are in place to ensure both quality and safety of the vaccines and this commonly includes animal use. Due to their biological nature, health authorities may subject vaccines to a second control to guarantee the highest quality standards.

In 2005, GSK made a number of investments that strengthen its vaccine capabilities:

- a significant increase in flu vaccine manufacturing and development capacity by:
  - acquiring ID Biomedical, a North American developer of vaccines for infectious diseases and producer of influenza vaccines with sites in Canada and the USA, for £874 million
  - investing over £64 million in extending its German vaccine facility
  - purchasing a vaccine R&D and manufacturing site in the USA
- acquiring US based Corixa Corporation, a developer of innovative vaccine adjuvants, for approximately £150 million
- entering into three groundbreaking public-private partnerships to develop vaccines against the three biggest killers in the developing world, AIDS, malaria and tuberculosis.

GSK expects to launch five major new vaccines within the next five years:
- a human papilloma virus vaccine preventing cervical cancer
- the USA and EU launch of a vaccine against rotavirus induced gastroenteritis and the strengthening of its presence in international markets
- a vaccine against pneumococcal disease
- an improved vaccine for influenza
- vaccine combinations against meningitis.

The strength of GSK's vaccine pipeline is expected to provide opportunities for GSK to deliver new vaccines for many years to come.

Research and development – Consumer Healthcare
R&D has aligned itself closely with the new Consumer Healthcare operating model and structure. For the Global brands, it now mirrors the commercial structure with R&D teams paired with commercial teams and located in the principal centres for Consumer Healthcare R&D at Weybridge in the UK and in Parsippany in the USA; with this co-location, these sites are now termed Innovation Centres. The focus of R&D is on the identification and rapid development of novel products that bring benefits to consumers in the over-the-counter (OTC), oral care and nutritional healthcare markets.

Diseases of the developing world
Continued investment in research into diseases that disproportionately affect the developing world is essential if there is to be a long-term improvement in the health of people who live in these regions. As part of GSK's response to this challenge, it operates a drug discovery unit, dedicated to finding new medicines for these diseases, based at Tres Cantos, Spain. The work undertaken in Tres Cantos focuses on malaria and tuberculosis which, together with work elsewhere in the Group on HIV/AIDS and vaccines, means GSK is addressing the prevention and treatment of all three of the World Health Organization's (WHO) top priority diseases.

Build the best product pipeline in the industry

Continued

GSK currently has 14 clinical programmes of relevance to the developing world, eight of which are aimed at producing vaccines and medicines for diseases that disproportionately affect developing countries.

Public/private partnerships (PPP) remain essential to fund research where there is no commercially viable market for a potential product. GSK is a leader in working with PPP and continues to collaborate closely with many governments, academic centres, United Nations' agencies and other global funding bodies in this area, to maximise expertise and knowledge. This has the dual benefit of encouraging research and development and accelerating access to the medicines in the developing world. For example, in 2005, GSK announced partnerships with the Global Alliance for TB Drug Development, the Aeras Global TB Vaccine Foundation and the International AIDS Vaccine Initiative. GSK's malaria 'falcipain inhibitors' project was chosen for the Medicines for Malaria Venture 'project of the year' award.

Animals and research

For ethical, regulatory and scientific reasons, research using animals remains a small but vital part of research and development of new medicines and vaccines. GSK only uses animals where there is no alternative and only in the numbers required for each test. The Group strives to exceed regulatory standards in the care and use of the animals it uses and undergoes internal and external review to assure these standards.

The vast majority of the experimental methods do not use animals. GSK is actively engaged in research to develop and validate more tests that either avoid the use of animals in research or reduce the numbers needed. When animals are used in research unnecessary pain or suffering is scrupulously avoided.

GSK understands that use of animals for research purposes commands a high level of public interest. The GlaxoSmithKline Public Policy Position 'The care and ethical use of animals in research', and further information and reports, are available on the website, www.gsk.com, or from Secretariat.

GSK's pipeline

The chart on the right shows new chemical entities (NCE) and product line extensions (PLE) for projects in the clinic in 2001 and 2005. At the end of February 2006, GSK had nearly 200 pharmaceutical and vaccine projects in development. Of these, 149 are in the clinic comprising 95 NCEs, 29 PLEs and 25 vaccines, compared with 118 in 2001. Since 2001 the number of projects in the late stages of development has increased from 31 to 57.

This maturity in the late stage pipeline is expected to lead to an increase in registrations in the coming years. The content of the drug development portfolio will change over time as new compounds progress from discovery to development and from development to the market. Owing to the nature of the drug development process, many of these compounds, especially those in early stages of investigation, may be terminated as they progress through development. Phase I NCEs with multiple indications are counted only once. NCEs in later phases are counted by each indication. For competitive reasons, new projects in pre-clinical development have not been disclosed and some project types may not have been identified.

GSK's submissions to the regulatory authorities in the USA and EU for the first time and approvals during 2005 were:

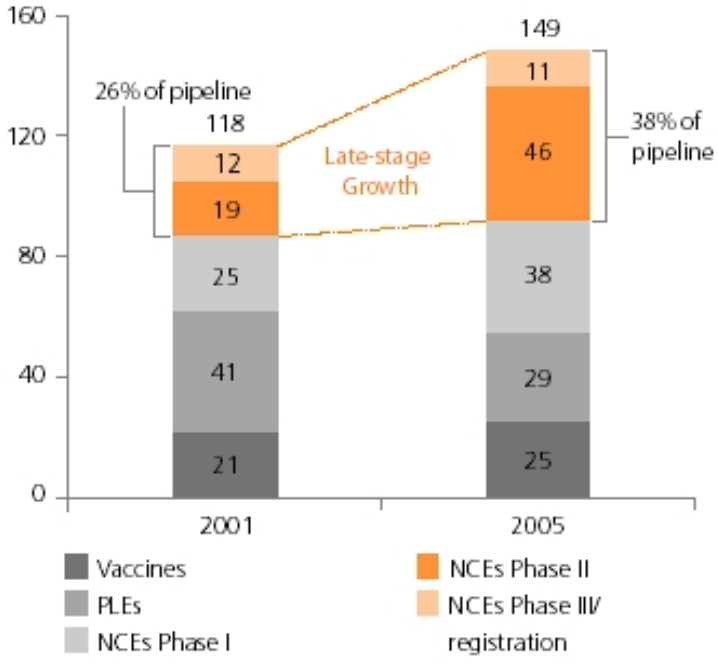
	USA	Europe
Submission	5	7
Approval	6	6
	11	13

In 2006, the late-stage pipeline is expected to expand further with eight major assets anticipated to enter phase III development. Also, in 2006, GSK anticipates seven products will be approved and/or launched and seven product filings are planned. For further details of these developments expected in 2006 see the GSK outlook on page 71.

GSK's policy is to obtain patent protection on all significant products discovered or developed through its R&D activities. Patent protection for new active ingredients is available in all significant markets. Protection can also be obtained for new pharmaceutical formulations and manufacturing processes, and for new medical uses and special devices for administering products.

Key

(v)	Vaccine
(p)	Pharmaccine
*	Compounds in Shionogi-GlaxoSmithKline Pharmaceuticals LLC joint venture
†	In-license or other alliance relationship with third party
S	Date of first submission
A	Date of first regulatory approval (for MAA, this is the first EU approval letter)
AL	Approvable letter indicates that ultimately approval can be given subject to resolution of deficiencies
MAA	Marketing authorisation application (Europe)
NDA	New drug application (USA)
Phase I	Evaluation of clinical pharmacology, usually conducted in volunteers
Phase II	Determination of dose and initial evaluation of efficacy, conducted in a small number of patients
Phase III	Large comparative study (compound versus placebo and/or established treatment) in patients to establish clinical benefit and safety



Build the best product pipeline in the industry

continued

Compound/Product	Type	Indication	Phase	Estimated filing dates MAA	NDA
Cardiovascular & Metabolic					
256073	high affinity nicotinic acid receptor (HM74A) agonist	dyslipidaemia	I		
681323	p38 kinase inhibitor	atherosclerosis (also rheumatoid arthritis & chronicobstructive pulmonary disease, COPD)	I		
813893	factor Xa inhibitor	prevention of stroke in atrial fibrillation	I		
856553	p38 kinase inhibitor	atherosclerosis (also rheumatoid arthritis & COPD)	I		
rilapladib†	lipoprotein-associated phospholipase A2 (Lp-PLA2) inhibitor	atherosclerosis	I		
501516†	peroxisome proliferator-activator receptor(PPAR) delta agonist	dyslipidaemia	II		
590735	PPAR alpha agonist	dyslipidaemia	II		
odiparcil†	indirect thrombin inhibitor	prevention of thrombotic complications of cardiovascular disease	II		
darapladib†	Lp-PLA2 inhibitor	atherosclerosis	II/III		
Arixtra	synthetic factor Xa inhibitor	treatment of acute coronary syndrome	III	2006	2006
Coreg CR†	beta blocker	hypertension & congestive heart failure – once-daily	Submitted	N/A	S:Dec05
Metabolic projects					
625019	PPAR pan agonist	type 2 diabetes	I		
716155†	glucagon-like peptide 1 agonist	type 2 diabetes	I		
856464	melanin concentrating hormone antagonist	obesity	I		
radafaxine	noradrenaline/dopamine re-uptake inhibitor	obesity (also fibromyalgia, neuropathic pain & depression)	I		
189075†	sodium dependent glucose transport (SGLT2) inhibitor	type 2 diabetes	II		
677954	PPAR pan agonist	type 2 diabetes	II		
869682†	SGLT2 inhibitor	obesity	II		
denagliptin	dipeptidyl peptidase IV (DPP IV) inhibitor	type 2 diabetes	II		
solabegron	beta3 adrenergic agonist	type 2 diabetes (also overactive bladder)	II		
Avandamet XR	PPAR gamma agonist + metformin	type 2 diabetes – extended release	III		2007
Avandia + simvastatin	PPAR gamma agonist + statin	type 2 diabetes	III		2007
Avandaryl†	PPAR gamma agonist + sulphonylurea	type 2 diabetes – fixed dose combination	Approved	S:May05	A:Dec05
Infectious Diseases					
565154	oral pleuromutilin	treatment of bacterial infections	I		
742510	oral pleuromutilin	treatment of bacterial infections	I		
270773†	phospholipid anti-endotoxin emulsion	sepsis	II		
farglitazar	PPAR gamma agonist	hepatic fibrosis	II		
sitamaquine	8-aminoquinoline	treatment of visceral leishmaniasis	II		N/A
chlorproguanil, dapsone + artesunate (CDA)†	antifolate + artemisinin	treatment of uncomplicated malaria	III	2007	N/A
Etaquine†	8-aminoquinoline	malaria	III		
Altabax (retapamulin)	topical pleuromutilin	bacterial skin infections	Submitted	2006	S:Nov05
Antivirals					
825780†	DNA antiviral vaccine	HIV infection	I		
brecanavir†	aspartyl protease inhibitor	HIV infection	II		
Relenza†	neuraminidase inhibitor	influenza prophylaxis	Submitted	S:Nov05	S:Nov05
Musculoskeletal, Inflammation, Gastrointestinal & Urology					
221149	oxytocin antagonist	threatened pre-term labour	I		
232802	3G-selective oestrogen receptor modulator	treatment of menopausal symptoms	I		
267268	vitronectin integrin antagonist	age-related macular degeneration	I		
366074†	potassium channel opener	overactive bladder	I		
relacatib†	cathepsin K inhibitor	osteoporosis & osteoarthritis (also bone metastases)	I		
751689†	calcium antagonist	osteoporosis	I		
768974†	parathyroid hormone agonist	osteoporosis	I		
786034	tyrosine kinase inhibitor	psoriasis	I		
842470†	PDE IV inhibitor (topical)	atopic dermatitis	I		
876008†	corticotrophin releasing factor (CRF1) antagonist	irritable bowel syndrome (also depression & anxiety)	I		
dutasteride + testosterone	5-alpha reductase inhibitor + testosterone	hypogonadism – fixed dose combination	I		
solabegron	beta3 adrenergic agonist	overactive bladder (also type 2 diabetes)	I		
270384	endothelial cell adhesion molecule inhibitor	inflammatory bowel disease	II		
274150	selective iNOS inhibitor	rheumatoid arthritis (also migraine)	II		
681323	p38 kinase inhibitor	rheumatoid arthritis (also atherosclerosis & COPD)	II		
683699†	dual alpha4 integrin antagonist (VLA4)	inflammatory bowel disease (also multiple sclerosis)	II		
856553	p38 kinase inhibitor (oral)	rheumatoid arthritis (also atherosclerosis & COPD)	II		
casopitant	NK1 antagonist	overactive bladder (also depression & anxiety, chemotherapy induced & postoperative nausea & vomiting)	II		
mepolizumab	anti-IL5 monoclonal antibody	eosinophilic esophagitis (also asthma & nasal polyposis)	II		
rosiglitazone XR	PPAR gamma agonist	rheumatoid arthritis (also Alzheimer's disease)	II		
Avodart + alpha blocker	5-alpha reductase inhibitor + alpha blocker	benign prostatic hyperplasia – fixed dose combination	III	2007	2007
Avodart	5-alpha reductase inhibitor	reduction in the risk of prostate cancer	III		
Entereg/Entrareg†	peripheral mu-opioid antagonist	opioid induced GI symptoms	III	2007	2007
mepolizumab	anti-IL5 monoclonal antibody	hypereosinophilic syndrome (also asthma & nasal polyposis)	III	2006	2006
Entereg/Entrareg†	peripheral mu-opioid antagonist	post operative ileus	Approvable	2007	AL:Jul05
Boniva/Bonviva†	bisphosphonate	treatment of postmenopausal osteoporosis – i.v. injection	Approved	S:Apr05	A:Jan06

Build the best product pipeline in the industry
continued

Compound/Product	Type	Indication	Phase	Estimated filing dates MAA	NDA
Neurosciences					
163090	presynaptic mixed 5HT1 antagonist	depression & anxiety	I		
189254	histamine H3 antagonist	dementia	I		
234551†	endothelin A antagonist	stroke	I		
406725	gap junction blocker	migraine, epilepsy & neuropathic pain	I		
644784	dual-acting COX-2 inhibitor	acute & chronic pain conditions (including neuropathic pain) & schizophrenia	I		
737004†	endothelin A antagonist	stroke	I		
823296	NK1 antagonist	depression & anxiety	I		
842166	non-cannabinoid CB2 agonist	inflammatory pain	I		
876008†	CRF1 antagonist	depression & anxiety (also irritable bowel syndrome)	I		
radafaxine	noradrenaline/dopamine re-uptake inhibitor	fibromyalgia & neuropathic pain (also obesity)	I		
274150	selective iNOS inhibitor	migraine (also rheumatoid arthritis)	II		
372475†	triple (5HT/noradrenaline/dopamine) re-uptake inhibitor	depression and attention deficit hyperactivity disorder	II		
468816	glycine antagonist	smoking cessation	II		
683699†	dual alpha4 integrin antagonist (VLA4)	multiple sclerosis (also inflammatory bowel disease)	II		
705498	transient receptor potential vanilloid-1 (TRPV1) antagonist	acute migraine	II		
742457	5HT6 antagonist	dementia	II		
773812	mixed 5HT/dopaminergic antagonist	schizophrenia	II		
casopitant	NK1 antagonist	depression & anxiety (also overactive bladder, chemotherapy induced & postoperative nausea & vomiting)	II		
radafaxine	noradrenaline/dopamine re-uptake inhibitor	depression (also obesity)	II		
rosiglitazone XR	PPAR gamma agonist	Alzheimer's disease (also rheumatoid arthritis)	II		
talnetant	NK3 antagonist	schizophrenia	II		
vestipitant + paroxetine	NK1 antagonist + selective serotonin re-uptake inhibitor	depression & anxiety	II		
406381	dual-acting COX-2 inhibitor	acute & chronic pain	III		
Lamictal	sodium channel inhibitor	bipolar disorder – acute treatment	III	N/A	2006
Lamictal XR	sodium channel inhibitor	epilepsy – once-daily	III		2006
Requip extended release	non-ergot dopamine agonist	restless legs syndrome	III		2006
Requip Modutab/XL 24 hour†	non-ergot dopamine agonist	Parkinson's disease – once-daily controlled release formulation	Submitted	S:Dec05	2006
Trexima†	5HT1 agonist + naproxen	migraine – fixed dose combination	Submitted	N/A	S:Aug05
Wellbutrin XL†	noradrenaline/dopamine re-uptake inhibitor	seasonal affective disorder	Submitted		S:Dec04
Wellbutrin XL†	noradrenaline/dopamine re-uptake inhibitor	depression	Approved	2006	A:Aug03
Oncology					
559448†	thrombopoietin agonist	thrombocytopaenia	I		
743921†	kinesin spindle protein (KSP) inhibitor	cancer	I		
elacridar	oral bioenhancer	cancer	I		
relacatib†	cathepsin K inhibitor	bone metastases (also osteoporosis & osteoarthritis)	I		
casopitant	NK1 antagonist	postoperative nausea & vomiting (also overactive bladder, depression & anxiety)	II	2007	2007
casopitant	NK1 antagonist	chemotherapy induced nausea & vomiting (also overactive bladder, depression & anxiety)	II		
ethynylcytidine†	selective RNA polymerase inhibitor	solid tumours	II		
iboctadekin†	recombinant human IL18 immunomodulator	immunologically-sensitive cancers (melanoma & renal cell)	II		
ispinesib†	KSP inhibitor	non-small cell lung cancer & other tumours	II		
pazopanib	vascular endothelial growth factor (VEGF) tyrosine kinase inhibitor	solid tumours	II		
vestipitant	NK1 antagonist	postoperative nausea & vomiting	II		
eltrombopag†	thrombopoietin agonist	thrombocytopaenia	III	2006/07	2006/07
Hycamtin	topo-isomerase I inhibitor	ovarian cancer first-line therapy	III	2007	2007
Hycamtin	topo-isomerase I inhibitor	small cell lung cancer second-line therapy – oral formulation	III	2007	2007
Tykerb/Tycerb	ErbB-2 and epidermal growth factor receptor (EGFR) dual kinase inhibitor	breast cancer (also renal, head & neck cancers)	III	2006/07	2006/07
Hycamtin	topo-isomerase I inhibitor	cervical cancer second-line therapy	Submitted	2006	S:Dec05
Arranon	guanine arabinoside prodrug	acute lymphoblastic leukaemia & lymphomas	Approved	2006	A:Oct05
Hycamtin	topo-isomerase I inhibitor	small cell lung cancer second-line therapy	Approved	A:Jan06	A:Nov98

Build the best product pipeline in the industry

continued

Compound/Product	Type	Indication	Phase	Estimated filing dates MAA	NDA
Respiratory					
256066	PDE IV inhibitor (inhaled)	asthma, COPD & allergic rhinitis	I		
656398†	muscarinic acetylcholine antagonist	COPD	I		
856553	p38 kinase inhibitor (oral)	COPD (also atherosclerosis & rheumatoid arthritis)	I		
870086	novel glucocorticoid agonist	asthma	I		
961081†	muscarinic antagonist, beta2 agonist	COPD	I		
159797†	long-acting beta2 agonist	COPD, also COPD & asthma in combination with a glucocorticoid agonist	II		
159802†	long-acting beta2 agonist	COPD, also COPD & asthma in combination with a glucocorticoid agonist	II		
233705	muscarinic acetylcholine antagonist	COPD	II		
597901†	long-acting beta2 agonist	COPD, also COPD & asthma in combination with a glucocorticoid agonist	II		
642444†	long-acting beta2 agonist	COPD, also COPD & asthma in combination with a glucocorticoid agonist	II		
678007†	long-acting beta2 agonist	COPD, also COPD & asthma in combination with a glucocorticoid agonist	II		
681323	p38 kinase inhibitor (oral)	COPD (also rheumatoid arthritis & atherosclerosis)	II		
685698	glucocorticoid agonist	asthma & COPD in combination with a long-acting beta2 agonist (also allergic rhinitis)	II		
799943	glucocorticoid agonist	asthma & COPD in combination with a long-acting beta2 agonist	II		
mepolizumab	anti-IL5 monoclonal antibody	asthma & nasal polyposis (also hypereosinophilic syndrome & eosinophilic esophagitis)	II		
Avamys/Allermist	glucocorticoid agonist	allergic rhinitis	III	2006	2006
Seretide/Advair	beta2 agonist/inhaled corticosteroid	COPD – mortality claim	III	2006	2006
Seretide	beta2 agonist/inhaled corticosteroid	asthma – initial maintenance therapy	Submitted	S:Aug04	N/A
Ariflo	PDE IV inhibitor (oral)	COPD	Approvable		AL:Oct03
Seretide/Advair	beta2 agonist/inhaled corticosteroid	asthma – non-CFC inhaler	Approved	A:Jun00	AL:Oct01 & Oct02
Paediatric Vaccines					
Hib-MenCY-TT	conjugated	Neisseria meningitis groups C & Y disease & Haemophilus influenzae type b disease prophylaxis	II		
MenACWY-TT	conjugated	Neisseria meningitis groups A, C, W & Y disease prophylaxis	II		
Globorix	conjugated	diptheria, tetanus, pertussis, hepatitis B, Haemophilus influenzae type b disease, Neisseria meningitis groups A & C disease prophylaxis	III	2006	
Streptorix†	conjugated	S.pneumoniae disease prophylaxis for children	III	2007	
Priorix-Tetra	live attenuated	measles, mumps, rubella & varicella prophylaxis	Submitted	S:Apr04	
Rotarix†	live attenuated – oral	rotavirus induced gastroenteritis prophylaxis	Submitted	S:Dec04	
Menitorix	conjugated	Neisseria meningitis group C disease & Haemophilus influenzae type b disease prophylaxis	Approved	A:Dec05	
Other Vaccines					
HIV	recombinant	HIV infection prophylaxis	I		
S. pneumoniae elderly†	recombinant	S. pneumoniae disease prophylaxis	I		
S. pneumoniae paediatric (PGCvax)	recombinant	S. pneumoniae disease prophylaxis	I		
Varicella Zoster virus	recombinant	Varicella Zoster prevention	I		
Tuberculosis†	recombinant	tuberculosis prophylaxis	I/II		
Dengue fever†	attenuated tetravalent vaccine	Dengue fever prophylaxis	II		
Epstein-Barr virus†	recombinant	EBV infection prophylaxis	II		
Flu improved	inactivated split-adjuvanted	influenza prophylaxis	II		
Flu intranasal (*FluINsure*)	inactivated split-adjuvanted	influenza prophylaxis	II		
Hepatitis E virus	recombinant	hepatitis E prophylaxis	II		
Mosquirix†	recombinant	malaria prophylaxis	II		
Cervarix†	recombinant	human papilloma virus infection prophylaxis	III	2006	2006
Fluviral	inactivated split	influenza prophylaxis	III		2006
Simplirix	recombinant	genital herpes prophylaxis	III		
Flu pandemic	inactivated whole-aluminium salt adjuvant	influenza prophylaxis	Submitted	S:Dec05	
Pharmaccines					
P501	recombinant	treatment of prostate cancer	I		
Her2	recombinant	treatment of breast cancer	I/II		
MAGE-3†	recombinant	treatment of non-small cell lung cancer & melanoma	II		

Achieve commercial and operational excellence

GSK undertakes a range of activities to maximise the commercial potential of its intellectual property, by introducing innovative products into as many markets as possible, accelerating the process of bringing new products to market, increasing brand recognition and ensuring that patients have access to new medicines. Both the pharmaceutical and consumer healthcare businesses focus on ways to improve existing performance through commercial and operational excellence initiatives. Some of these are:

Worldwide pharmaceutical sales force excellence

GSK's sales force has always ranked high on surveys with healthcare professionals. Worldwide sales force excellence (WSFE) aims to improve customer satisfaction even further.

The time available for physicians to learn about new medicines and clinical studies is precious. Through the WSFE initiative, sales representatives strengthen product knowledge and learn to deliver patient-specific treatment options more efficiently and more effectively. Research shows that a sales visit is highly effective when a representative engages the physician in dialogue around patient types and supports the message with visual aids that illustrate clinical results.

The Group has introduced a single global sales call model that focuses on treating the patient through a dialogue about "when" a GSK medicine is appropriate, "why" it is effective and "how" to administer it safely. All field people in the Group's key markets had been trained in the new "When? Why? How?" approach. The entire sales organisation is now involved in WSFE to bring about a cultural change that raises ethical standards and helps build long-term, trusting relationships with the healthcare community.

Pharmaceutical marketing excellence

Large numbers of patients suffering the effects of their disease continue to be unable to benefit from innovative medicines and treatments. One of GSK's goals is to provide accurate and balanced information on the Group's products to allow as many people as possible to benefit from GSK's medical advances. For example within Europe, around 50% of patients suffering from Chronic Obstructive Pulmonary Disease (COPD) are diagnosed and, of those, only 60% receive regular maintenance drug therapy. GSK's marketing initiative implements programmes to overcome the barriers to proper diagnosis and treatment. As these programmes begin to show effects, the societal costs of disease will decrease. To the extent that a GSK product is chosen for patients' treatment, the Group will benefit as well.

Marketing codes

GSK is committed to ethical, responsible and patient-centred marketing. The Group's Pharmaceutical Marketing and Promotional Activity policy governs marketing activities and apply to all employees, suppliers, contractors and agents. This policy requires that all marketing and promotional activities are based on valid scientific evidence, and comply with applicable laws and regulations.

This policy is supported by regional marketing practices codes in Europe, GSK's International region, Japan and the USA. These codes apply the same ethical standards but reflect differences in market structures, national healthcare systems and regulations. They incorporate the principles of industry codes of practice such as the European Federation of Pharmaceutical Industries Associations, the International Federation of Pharmaceutical Manufacturers Associations, Japan Pharmaceutical Manufacturers Association and Pharmaceutical Research and Manufacturers of America marketing codes.

Consumer Healthcare marketing excellence

The structure of this business was redesigned in 2004 in order to focus on brands and their growth opportunities. For those brands that have sales in multiple markets a new team called the Future group has been created to develop a global approach to support these global brands. For those brands that are large and marketed in several territories, but generally with one lead market, one anchor market team leads development of these lead market brands. The remaining valuable local brands are managed through a new model, which retains local responsibility for the brand, communications and innovation. These local enterprise brands are also supported globally and regionally to ensure the application of best practice and cross pollination of innovation.

Maintaining high standards

GSK expects employees to meet high ethical standards in all aspects of business by conducting activities with honesty and integrity, adhering to corporate responsibility principles and complying with applicable laws and regulations. GSK audits its operations to ensure relevant standards expected, such as those in marketing practices, are reached or exceeded.

Commitment to the GSK Code of Conduct is reinforced each year by a senior management certification programme, and in 2005 over 12,000 managers certified they had complied with "Performance with Integrity" principles.

Patient advocacy

The Patient advocacy initiative has demonstrated significant progress since its inception in 2002. The rationale for the strategy centres on enhancing access for the Group's medicines by connecting with patient groups to ensure that they are informed of disease treatments, as well as improving GSK's reputation as a patient-centric group.

Initially launched as a US programme, it is now a critical initiative in strategic plans throughout the world. Patient advocacy teams in the USA and Europe have shared best practices and established processes to optimise interaction with patient groups. In 2005, Patient advocacy Leaders Summits were held in the USA, Europe and Canada, with over 1,000 patient advocates attending GSK sponsored meetings throughout the world. Two diabetes summits were held with minority legislative groups in the USA in the hopes of developing a base for future legislation and awareness activities.

Vision Factory

GSK introduced the Vision Factory initiative in Global Manufacturing and Supply which is identifying improvements in productivity and cost reduction. This will increase operational excellence in the manufacturing operations to ensure product quality and patient safety are paramount.

Procurement

GSK non-production operations are supported by a number of third party purchases; worldwide this covers all areas including media, travel, R&D, IT and marketing. These purchases are managed by procurement, on behalf of their internal customers, and covers assurance of supply, service, quality, cost and innovation. Widely recognised by industry analysts as a global best practice leader, procurement works collaboratively with the business to develop and implement sourcing strategy that ensures GSK receives best value when buying goods and services.

Improve access to medicines

Access to healthcare in the developing world

Access to healthcare in developing countries remains a major challenge to the global community. The problem, which is rooted in poverty and a lack of political will, continues to demand a significant mobilisation of resources and a true spirit of partnership. GSK continues to play a vital role, through its commitment to R&D into diseases particularly prevalent in the developing world, through its programme of preferential pricing for its anti-retrovirals (ARVs), anti-malarials and vaccines, through its community investment programmes and through its willingness to seek innovative solutions, such as voluntary licencing arrangements.

Preferential pricing programme

GSK has offered its vaccines to key organisations for vaccination programmes in developing countries at preferential prices for over 20 years. The Group also sets a single not-for-profit price for each of its ARVs and anti-malarials to a wide range of customers in the Least Developed Countries (UN definition) and sub-Saharan Africa, as well as Country Coordinating Mechanism-projects fully funded by the Global Fund to Fight AIDS, TB, and Malaria and the US President's Emergency Plan for AIDS Relief (PEPFAR).

GSK is committed to contributing to health improvements in a sustainable manner. The prices for its ARVs and anti-malarials are therefore set at levels at which no profit is made, but direct costs are covered, allowing supply to be sustained for as long as required. During 2005, GSK shipped to developing countries over 45 million tablets of preferentially-priced *Combivir* and over 81 million tablets of preferentially-priced *Epivir*.

The offer of not-for-profit prices requires a sustainable framework, combining GSK's commitment to preferential pricing with commitments from governments of the developed world to avoid price referencing against preferentially priced medicines and to help prevent product diversion. GSK has taken steps to minimise the threat of diversion. *Retrovir* syrup, *Epivir* solution, *Combivir*, *Epivir* tablet and *Trizivir* are now available in special access packs in more than 50 countries. Differentiated red (as opposed to traditional white) *Combivi r* and *Epivir* tablets are now registered across a number of International markets. GSK is the only company to have registered its ARVs under the European Union's Anti-Diversion Regulation. During 2005, it also continued to encourage other countries to take the necessary steps to ensure the introduction and strict enforcement of appropriate anti-diversion measures.

Innovative solutions

GSK has shown industry leadership in granting voluntary licences to seven generic companies for the manufacture and supply of ARVs to both the public and private sectors in sub-Saharan Africa.

Looking ahead

GSK will continue to build on its products, pricing and partnership commitments to help improve healthcare in the developing world. However, a significant increase in funding from the global community is still needed. It is also important to maintain incentives for R&D through protection of intellectual property.

While much was achieved in 2005, sustainable progress will only occur if the significant barriers that stand in the way of better access to healthcare are tackled as a shared responsibility by all sectors of global society – governments, international agencies, charities, academic institutions, the pharmaceutical industry and others.

Access to medicines in the developed world

Programmes in the USA

GSK is working to provide meaningful access to medicines for people with limited financial resources and without prescription drug insurance. In 2005, GSK's US patient assistance programs provided $464 million worth of medicines, valued at wholesale acquisition cost, to 565,000 qualifying low income US residents.

For uninsured Americans who do not qualify for Medicare or Medicaid, GSK and 11 other pharmaceutical companies created Together Rx Access, a programme for qualified individuals offering reductions in the usual pharmacy cost on more than 275 medicines. Launched in 2005, there are over 353,000 Together Rx Access cardholders, who saved about $10.1 million in 2005.

GSK participates in the Partnership for Prescription Assistance (PPA), the largest national programme dedicated to helping people in need access prescription medicines. PPA has matched more than one million US patients in need to programs providing significant help. GSK and other US pharmaceutical companies launched the program in 2005 in partnership with healthcare, physician and patient advocacy organisations.

Programmes in other countries

The Group has also introduced Orange Cards providing discounts on certain GSK prescription medicines for eligible patients in Bulgaria, Lithuania and Ukraine. The nature of the discounts varies between countries, depending on the needs of the patient and the way in which the healthcare system operates.

Preparing for a flu pandemic

The Group is committed to doing everything it can to support governments and health authorities around the world in planning responses to a possible global influenza pandemic. GSK was the first company to submit a "mock-up" dossier to the EMEA to apply for a pandemic influenza vaccine marketing authorisation in the EU, which allows for an accelerated final registration once a pandemic is declared. GSK is also developing an H5N1 prototype pandemic vaccine and clinical trials testing of this vaccine against the H5N1 flu strain are taking place in 2006. To increase the performance of its prototype pandemic vaccine, GSK has developed an innovative adjuvant that may allow lower amounts of antigen to be used, which is essential for manufacturing large number of doses in the event of a pandemic.

Be the best place for the best people to do their best work

GlaxoSmithKline people

GlaxoSmithKline is committed to creating the best place for the best people to do their best work to deliver the Group's business strategy. The Group employs over 100,000 people in over 116 countries.

Recruitment, talent management and leadership development

Attracting the best people in the industry is critical to enhancing and sustaining GSK's performance. The Group's recruiters in the USA and UK are focussed on pro-active identification of talented external candidates for key jobs, acting as an internal headhunting function.

The annual performance and development planning (PDP) process ensures that employees set objectives aligned with corporate strategies, set behavioural goals and create a development plan. PDPs are reviewed throughout the year, culminating with an end of year review that is factored into compensation decisions.

The annual talent management cycle identifies the highest performing people in each business and function. Individuals are given feedback on development needs and key talent is developed through exceptional management and leadership programmes (for more detail see the Group's Corporate Responsibility Report), exposure to top management through programmes such as the Chief Executive Forum and via stretch assignments. A pool of successors is identified for all Vice-President positions and other critical roles in the organisation.

Performance and reward

Reward systems are designed to support a culture of high performance and to attract and retain the best people. Performance based pay, share awards and share options align employee interests with the accomplishment of business targets.

Business ethics and reputation

Performance with Integrity is central to operating at GSK. The most recent Global Leadership Survey showed over 90% believe that "people in their department show commitment to performance with integrity". To enhance managers' and leaders' skills a programme on ethical decision making was run in 2005, attended by 479 people. Further training in this area is planned for 2006.

The PDP process includes an assessment of how well employees have implemented the GSK Spirit – the principles used to define the Group's culture. This can have a significant impact on bonus payments, potentially reducing them to zero if an employee is found not to have followed the Spirit, and can also affect future career development. In this way the Group holds employees accountable for delivering performance with high standards of integrity to protect and enhance GSK's reputation.

Diversity

The GSK diversity initiative focuses on improving performance by responding to the diverse needs of employees, customers and external stakeholders. At the third annual Multicultural Marketing and Diversity Awards, 60 entrants from the USA, UK and Continental Europe highlighted innovative activities that demonstrated business impact. In 2005, the global management population was 64.5% male and 35.5% female. For more details on diversity measures, see the Employment Practices section of the Corporate Responsibility report.

The Group is committed to employment policies free from discrimination against potential or existing staff on the grounds of age, race, ethnic and national origin, gender, sexual orientation, faith or disability. GSK is committed to offering people with disabilities access to the full range of recruitment and career opportunities. Every effort is made to retain and support employees who become disabled while working with the Group.

Communication and employee involvement

Good internal communication is important in achieving GSK's business objectives as well as creating an open and inclusive work environment. There are a range of communication channels to keep employees up-to-date with GSK's news and enable them to give feedback. These include:

- myGSK, the global intranet site, provides news and updates and a Q&A section where employees put questions directly to the Chief Executive Officer and other senior executives. Up to 100 questions are answered each month. Behind the News, a section of the GSK intranet, gives the Group's position on important issues linked to press stories about GSK
- Spirit, GSK's internal magazine, reaches around 50,000 employees throughout the world four times a year
- confidential feedback mechanisms enable employees to raise concerns. These include GSK's integrity helpline.

The Group conducts a Global Leadership Survey (GLS) every two years. The last GLS was conducted in 2004 among more than 10,000 managers to gauge opinion on critical issues such as culture and confidence in the Group's future. Results showed significant improvement on 29 of 31 items compared with 2002 results. Compared with global benchmarks, managers rate highly on fostering alignment between personal goals and the GlaxoSmithKline mission and fostering an environment of ethics and integrity. In the survey, 80% of managers were "proud to be part of GlaxoSmithKline" and would "gladly refer a friend or family member to work for GSK".

Between Leadership Surveys many business areas conduct surveys of all employees to gauge levels of engagement, satisfaction and motivation. Each business and function has developed action plans to address areas for improvement based on results from the GLS and these other surveys.

The Group also consults employees on changes that affect them and discusses developments in the businesses with the European Employee Forum and similar committees in countries where this is national practice.

Health and well-being

Healthy employees and healthy ways of working contribute to GSK's sustained performance. Global policies on Employee Health are supported by mandatory standards that integrate employee health and safety and environmental requirements. These standards are applied to all the Group's facilities and operations worldwide.

A commitment to flexible working through flexi-time, tele-conferencing, remote working and flexible work schedules, recognises that employees work best in an environment that helps them integrate their work and personal lives. During 2005 the Group's Employee Health Management function won Personnel Today's Managing Health at Work award in the UK in recognition of its impact in promoting a healthy workplace.

Global manufacturing and supply

GSK has a large portfolio of products, ranging from tablets and toothpaste to inhalers and complex capsules, in over 28,000 different pack sizes and presentations.

Manufacture of medicines begins with the development of a therapeutic active ingredient (bulk active) in a selected formulation. Global Manufacturing and Supply (GMS) develops manufacturing processes for full scale volume production of active compounds at primary manufacturing sites. Converting active compounds into a finished dosage formulation is the responsibility of the secondary manufacturing sites.

GMS operates as a single global network of 80 sites in 37 countries. Each year GMS produces around 6,000 tonnes of bulk actives and over four billion packs, which are packaged and delivered for sale in over 160 countries. Throughout the world it also supports about 2,000 new product and line extension launches a year.

By adopting leading edge practices and developing its people GMS expects to derive benefits from:

- a secure source of supply of high quality products
- compliance with regulatory requirements and customer expectations
- best in class cost.

Organisation

Supply divisions

There are four supply divisions, with sites grouped together based upon common business drivers, areas of expertise and the commercial activities that they support. These four divisions are described below:

Primary supply and Antibiotics

Primary supply and Antibiotics focuses on ensuring the supply of high quality and competitively priced bulk actives and on driving improvements in primary technologies and processes. It also supports the delivery of maximum value from the antibiotics franchise through a combined primary and secondary approach to cost competitive supply and response to market opportunities and customer needs. There are 17 sites in eight countries in Primary supply and Antibiotics.

Consumer Healthcare supply

Consumer Healthcare supply focuses on delivering high quality, competitively produced products and offering the capability for rapid new product introduction in a highly innovative and competitive business which has far shorter time frames than pharmaceuticals. New technologies have become a fundamental platform for lowering costs and providing flexibility in operations. There are 24 sites in 17 countries in Consumer Healthcare supply.

Regional pharma supply

Regional pharma supply focuses on several key activities, the supply of products that are key in one or more regions, the supply of products that are important in a particular market and the tailoring of packaging to meet specific local requirements. A key focus for the regional pharma supply team is on reducing costs so that GSK can compete more effectively in all its markets. There are 31 sites in 23 countries in Regional pharma supply.

New product and global supply

New product and global supply focuses on ensuring that the appropriate technical competencies exist to support rapid and successful new product introduction. It works closely with R&D's development team to do this. It also ensures secure supply of the key brands that are sold across many markets and have global distribution. This division is the focal point for developing and introducing new secondary manufacturing technologies for GMS. It co-ordinates with Primary supply operations to ensure alignment between the two divisions and a full value stream approach to introducing new products. There are eight sites in six countries in New product and global supply.

Operational excellence

GMS has developed a set of measures and a uniform way of working to drive business improvement. These activities are mainly focused on increasing the quality of products supplied to customers. Extensive leadership education has been carried out to reinforce a culture of continuous improvement, with staff involved in solving problems in a rigorous, controlled and structured way. All this has provided the capability to improve significantly performance, and to accelerate delivery of benefits across the manufacturing network.

Since the formation of GSK, merger rationalisation and operational excellence initiatives have reduced the number of manufacturing sites by 35 (30%).

External suppliers

Manufacturing spends over £2 billion with many external suppliers every year, including on the purchase of active ingredients, chemical intermediates and part-finished and finished products. GMS takes appropriate steps to protect its supply chains from any disruption resulting from interrupted external supply through appropriate stock levels, contracting and alternative registered suppliers.

Vaccines supply chain

In Europe, vaccine manufacturing is located primarily at Rixensart and Wavre in Belgium, with three other sites in France, Germany and Hungary. In 2005, GSK strengthened its global production network in North America through three major acquisitions: US based Corixa Corporation, which produces an important component in many of GSK's vaccines under development, a vaccine production site in Marietta, Pennsylvania and ID Biomedical with flu vaccine manufacturing facilities in Canada. In Asia, new vaccine production facilities are being built in India and Singapore. GSK's vaccine division also has two joint ventures in China and Russia. Managing the vaccine supply chain involves anticipating market needs and using a flexible approach to be able to meet fluctuations in demand. These are based on forecasts from the different markets and firm orders from health authorities for mass vaccination campaigns.

Bulk, filling and packaging are carefully balanced and stocking of vaccines helps manage short-term increases in demand. Such increases result from disease outbreaks or increased demand from the public owing to disease awareness campaigns.

Corporate responsibility and community investment

Commit to corporate responsibility

GSK is committed to connecting business decisions to ethical, social and environmental concerns. Thus, corporate responsibility is an integral and embedded part of the way GSK does business.

In 2003, GSK published a set of Corporate Responsibility principles to provide guidance on the standards to which the Group is committed. This sets out the approach to ten areas: standards of ethical conduct, research and innovation, products and customers, access to medicines, employment practices, human rights, community investment, caring for the environment, leadership and advocacy, and engagement with stakeholders. The Group reports annually on progress in upholding these principles in its Corporate Responsibility Report, which is available on the website at www.gsk.com.

Partnership success

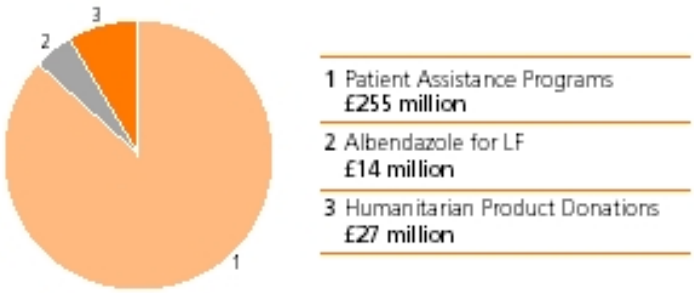
GSK works as a partner with under-served communities in the developed and developing world. It supports programmes that are innovative and sustainable and that bring real benefits to these communities. The Group engages with numerous external stakeholders, funds community-led initiatives around the world and donates medicines to support humanitarian efforts and community based healthcare.

Community investment

GSK's global community investment activities in 2005 were valued at £380 million, equivalent to 5.6% of Group profit before tax. This comprised product donations of £296 million, cash giving of £61 million, other in-kind donations of £2 million and costs of £21 million to manage and deliver community programmes in more than 100 countries.

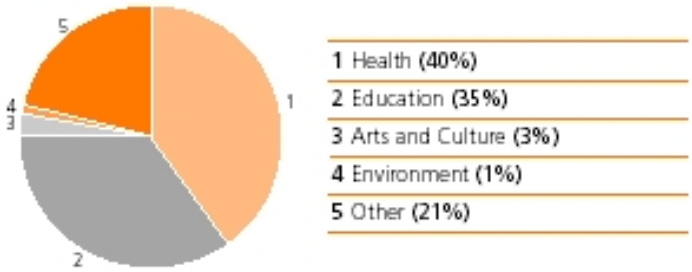
Product donations in 2005 were as follows:

1. Product donations



GSK's cash giving was targeted primarily at health and education initiatives.

2. Breakdown of cash giving



In the UK, GSK contributed £4 million in 2005 to its continuing corporate programme of charitable activities supporting over 80 organisations in health, medical research, science education, the arts and the environment. In addition, Group companies in the UK provided a further £8 million for charitable purposes.

Corporate programmes in North America focused on improving public education and access to better healthcare for children and seniors with funding of almost £8 million. In addition, the Group's US-based businesses donated £14 million to regional community activities.

GSK does not operate a single charitable foundation for its community investment programmes, but has a number of country based foundations. The grants made by these foundations in 2005 are included in the investment total.

Global Health Programmes

Eliminating lymphatic filariasis

The Group's effort to help rid the world of the disabling disease, lymphatic filariasis (LF), continued in close partnership with the governments of countries where the disease is endemic, the WHO and over 40 partner organisations. GSK is committed to donate as much of the anti-parasitic drug albendazole as required to treat the one billion people at risk in 80 countries by 2020. In 2005, 136 million albendazole treatments, worth over £14 million at wholesale acquisition cost, were donated to 36 countries. Since the global elimination programme started in 2000, a cumulative total of 442 million albendazole treatments have been donated and the programme is now reaching over 100 million people. During 2005, GSK opened a new $3 million manufacturing facility in Cape Town, South Africa to produce albendazole.

Positive Action on HIV/AIDS

Positive Action is GSK's pioneering global programme working with communities affected by AIDS. Started in 1992, it supports community-based organisations to deliver effective HIV and AIDS education, prevention and healthcare services. During 2005, Positive Action worked with 29 partners to support programmes in 30 countries. The programme also supported the participation of community involvement at regional and international AIDS conferences.

The GlaxoSmithKline African Malaria Partnership

Since 2002, this partnership has supported three behavioural development programmes working in eight African countries. The programmes are targeting nearly two million people and focus particularly on young children and pregnant women, encouraging effective prevention measures, prompt treatment and antenatal malaria management. Extending this programme in 2005, the Group announced a three-year grant of £900,000 to the Malaria Consortium for a new initiative 'Mobilising for Malaria'. Through increased and sustained advocacy activities in the UK, Europe and African countries, the programme aims to increase awareness of malaria and mobilise resources.

PHASE

The PHASE initiative (Personal Hygiene And Sanitation Education), initiated by GSK in 1998, is now providing education to thousands of school children in Kenya, Uganda, Zambia, Nicaragua and Peru to improve their health and hygiene to fight infectious diseases. In 2005 the Group committed three year funding of £300,000 to extend the programme to Bangladesh in partnership with Save the Children, USA.

Corporate responsibility and community investment
continued

Humanitarian product donations
During 2005, GSK donated essential products, such as antibiotics, through non-profit partners including AmeriCares, MAP International and Project HOPE, to support humanitarian relief efforts and community healthcare. In December 2004, medicines donated by the Group were among the first to be shipped to support the south Asia tsunami relief efforts. In 2005, GSK continued to donate these lifesaving medicines to tsunami-affected countries and to those affected by other disasters, including hurricanes in the USA.

In 2005 the total value of the Group's international humanitarian product donations was £27 million. This excludes albendazole donated as part of the Group's commitment to the lymphatic filariasis elimination programme. Product donations are valued at wholesale acquisition cost which is the wholesale list price, not including discounts, and is a standard industry method.

Community initiatives
GSK is dedicated to strengthening the fabric of communities where we live and work through providing health and education initiatives and support for local civic and cultural institutions that improve the quality of life.

GSK's contribution to improve healthcare includes a new grant of $2.65 million over three years to the Children's Health Fund to expand their Referral Management Initiative (RMI) to sites in Philadelphia, including the Delaware Valley Community Health Center. The RMI ensures continuity of specialist medical care for high-risk children who are often homeless.

The annual Impact Awards recognise excellence in the work of non-profit community health organisations across the UK and in the Greater Philadelphia area of the USA. Over 20 charities receive unrestricted awards for their work dealing with diverse issues such as domestic and community violence, sexual health services for young people and bereavement and counselling services.

To further medical research, over £470,000 was provided to four UK medical charities, The Alzheimer's Research Trust, The British Liver Trust, Meningitis UK and The Samantha Dickson Research Trust for childhood brain tumours.

As part of GSK's support for the arts, the Group sponsored the popular 'Gardens of Glass: Chihuly at Kew', an innovative exhibition of the work of Dale Chihuly, the contemporary glass artist, at the Royal Botanic Gardens, Kew near London.

Education initiatives
GSK's efforts to improve public and science education included a three-year grant of $300,000 to the National Board for Professional Teaching Standards to increase the number of science teachers pursuing certification in the North Carolina and Philadelphia areas.

During 2005 GSK led a group of companies to come together to create the US Business Education Network (BEN). BEN is a new business coalition staffed by the Center for Corporate Citizenship of the US Chamber of Commerce, and is dedicated to harnessing the power of the business community to address issues facing the US education system.

GSK continued to support the Innovative Scheme for Post-docs in Research and Education (INSPIRE), developed in partnership with Imperial College London and the Specialist Schools and Academies Trust, with a £1 million donation over four years. INSPIRE places post-doctoral researchers in specialist science schools to assist with science teaching.

'Science in the Summer', a free library-based science education programme in the Philadelphia area teaching basic scientific concepts, continued to receive support with a grant of $300,000. Science Across the World is an award-winning international education programme that uses web-based resources to promote discussion of science issues between 3,600 teachers, 100,000 children and schools in more than 115 countries. A further grant of £110,000 was made in 2005 bringing GSK's total contribution to this programme to £670,000 over five years.

Employee involvement
GSK employees are encouraged to contribute to their local communities through employee volunteering schemes. Support varies around the world, but includes employee time, cash donations to charities where employees volunteer and a matching gifts programme.

In 2005 in the USA, the Group matched more than 20,000 employee and retiree gifts at a value of over $5 million. The Group also matched more than $1.3 million of employee donations to GSK's annual United Way campaign. GSK's GIVE program provided grants of over $300,000 to more than 350 organisations where US employees have volunteered.

GSK's Making a Difference programme in the UK provided grants of almost £300,000 to over 440 non-profit organisations and registered charities based on employee involvement.

Products and competition

Pharmaceutical products

GlaxoSmithKline's principal pharmaceutical products are currently directed to nine therapeutic areas. An analysis of sales by these therapeutic areas, and a description of the principal products, are set out below:

Turnover by therapeutic area	**2005 £m**	2004 £m	2003 £m
Respiratory	**5,054**	4,394	4,390
Central nervous system	**3,219**	3,462	4,446
Anti-virals	**2,598**	2,359	2,345
Anti-bacterials/anti-malarials	**1,519**	1,547	1,800
Metabolic	**1,495**	1,251	1,077
Vaccines	**1,389**	1,194	1,121
Oncology and emesis	**1,016**	934	1,000
Cardiovascular and urogenital	**1,331**	932	770
Other	**1,040**	1,027	1,165
	18,661	17,100	18,114

Sales in 2005 were 8% higher in CER terms and 9% in sterling terms than in 2004.

Products and all their formulations may not be approved for all indications in all markets where they are available.

Respiratory

Seretide/Advair, a combination of *Serevent* and *Flixotide*, offers a long-acting bronchodilator and an anti-inflammatory in a single inhaler. It is approved for the treatment of asthma and COPD.

Flixotide/Flovent and *Becotide/Beclovent* are inhaled steroids for the treatment of inflammation associated with asthma and COPD.

Serevent is a long-acting bronchodilator used to treat asthma and COPD, and *Ventolin* is a selective short-acting bronchodilator used to treat bronchospasm.

Flixonase/Flonase and *Beconase* are steriod intra-nasal preparations for the treatment of perennial and seasonal rhinitis.

Central nervous system (CNS)

Seroxat/Paxil is a selective serotonin re-uptake inhibitor (SSRI) for the treatment of depression, panic, obsessive compulsive disorder, post traumatic stress disorder, social anxiety disorder, premenstrual dysphoric disorder and generalised anxiety disorder.

Wellbutrin is an anti-depressant, available in the USA and some international markets in normal, sustained-release (SR) and once daily formulations.

Imigran/Imitrex is a 5HT1 receptor agonist used for the treatment of severe or frequent migraine and cluster headache and has become the reference product in this sector. *Naramig/Amerge* is a newer migraine product.

Lamictal, a well established treatment for epilepsy, is now also indicated for bipolar disorder.

Requip is a specific dopamine D2/D3 receptor agonist indicated for the treatment of Parkinson's disease and is the first approved product for Restless Leg Syndrome (RLS).

Anti-virals

Combivir, a combination of *Retrovir* and *Epivir*, has consolidated the position of these two reverse transcriptase inhibitors as the cornerstone of many multiple anti-HIV product regimens. Physician acceptance has clearly demonstrated the value placed on minimising the pill burden faced by patients.

Ziagen is a reverse transcriptase inhibitor. The product's potency, ease of use and resistance profile allow it to play a significant role in a variety of highly active, well tolerated and simplified HIV treatment regimens.

Trizivir is a combination of *Combivir* and *Ziagen*, combining three anti-HIV therapies in one tablet, for twice daily administration.

Epzicom/Kivexa, approved for use in the USA and Europe, is a combination of *Epivir* and *Ziagen* that is taken as one tablet with once-daily dosing for HIV/AIDS in combination with at least one other anti-HIV drug.

Lexiva/Telzir is a protease inhibitor for the treatment of HIV that is well tolerated and more convenient than *Agenerase* which it supersedes. *Lexiva* may be taken twice daily or once daily when boosted with ritonavir.

Zeffix has been approved for marketing in the USA, Europe, China and other markets for the treatment of chronic hepatitis B.

Valtrex is a treatment for episodic genital herpes as well as the long term suppression and reduction of transmission of genital herpes, zoster (shingles), cold sores and chicken pox. *Valtrex* supersedes *Zovirax*, which is also used to treat herpes infections.

Anti-bacterials and anti-malarials

Augmentin is a broad-spectrum antibiotic suitable for the treatment of a wide range of common bacterial infections and is particularly effective against respiratory tract infections. *Augmentin ES-600* is an extra strength suspension specifically designed to treat children with recurrent or persistent middle ear infections. *Augmentin XR* is an extra strength tablet form for adults to combat difficult to treat infections.

Zinnat is an oral antibiotic used primarily for community-acquired infections of the lower respiratory tract.

Malarone is an oral anti-malarial used for the treatment and prophylaxis of malaria caused by Plasmodium falciparum.

Lapdap is an effective and well tolerated therapy for the treatment of malaria, which has been developed through a public/private collaboration.

Products and competition
continued

Metabolic
Avandia is a potent insulin sensitising agent which acts on the underlying pathophysiology of type 2 diabetes.

Avandamet is a combination of *Avandia* and metformin HCl; it is the first medicine that targets insulin resistance and decreases glucose production in one convenient pill.

Avandaryl is a fixed-dosed combination of *Avandia* and Amaryl, a Sanofi-Aventis product.

Bonviva/Boniva is a once-monthly oral bisphosphonate for the treatment of osteoporosis. It was launched in the USA and several EU markets in 2005.

Vaccines
GSK markets over 25 vaccines worldwide. In GSK's hepatitis vaccines range, *Havrix* protects against hepatitis A and *Engerix-B* against hepatitis B.

Twinrix is the only available combined hepatitis A and B vaccine, protecting against both diseases with one vaccine and available in both adult and paediatric strengths. In 2005, GSK received European approval for *Fendrix*, a vaccine to prevent hepatitis B in patients with renal insufficiency including high-risk groups such as pre-haemodialysis and haemodialysis patients, from 15 years of age onwards.

Fluarix is indicated for prevention of certain types of influenza. It is distributed in 79 countries and was approved in the USA in 2005. *Fluarix* is the first vaccine to receive FDA approval under the agency's accelerated approval regulations.

Infanrix is GSK's range of paediatric vaccine combinations. *Infanrix* provides protection against diphtheria, tetanus and pertussis (whooping cough). *Infanrix PeNta/Pediarix* provides additional protection against hepatitis B and polio, and *Infanrix hexa* further adds protection against Haemophilus influenzae type b, which is a cause of meningitis. In 2005, GSK launched *Boostrix* in the USA, a vaccine that adds protection against pertussis (whooping cough) to the routine tetanus/di ptheria booster administered to teenagers.

GSK also markets *Priorix*, a measles, mumps and rubella vaccine, *Typherix*, a vaccine for protection against typhoid fever, and *Varilrix*, a vaccine against varicella or chicken pox. In addition, the Group markets a range of vaccines to prevent meningitis under the umbrella name *Mencevax*. GSK recently received approval in the UK for a new Hib-MenC vaccine, *Menitorix*. GSK's meningitis vaccine portfolio wil be complimented by new meningitis conjugate vaccines in the near future.

As part of its paediatric franchise, GSK has also developed a vaccine against rotavirus induced gastroenteritis. Since its launch in Mexico in 2005, *Rotarix* has been licensed in several additional countries worldwide among them a number of Latin American countries including Brazil, with the Philippines and Singapore being the first Asian countries.

Oncology and emesis
Zofran is used to prevent nausea and vomiting associated with chemotherapy and radiotherapy for cancer, and is available in both oral and injectable forms. It is also approved for use in the prevention and treatment of post-operative nausea and vomiting.

Hycamtin is a second line treatment both for ovarian cancer and for small cell lung cancer.

Bexxar is a treatment for patients with CD20 follicular, non-Hodgkin's lymphoma with and without transformation whose disease is refractory to rituximab and who have relapsed following chemotherapy.

Cardiovascular and urogenital
Coreg is an alpha/beta blocker which has been proven to be effective in treating patients with mild, moderate and severe heart failure, heart attack or hypertension. GSK has sole marketing rights in the USA and Canada. Generic versions of the product are available in Canada.

Levitra is a PDE-5 inhibitor indicated for male erectile dysfunction. GSK has co-promotion rights in the USA and more than 20 other markets.

Avodart is a 5-ARI inhibitor currently indicated for benign prostatic hyperplasia. A large clinical outcome study is underway examining its efficacy in the prevention of prostate cancer.

Arixtra and *Fraxiparine* were acquired in 2004 as part of the divestitures required for the merger of Sanofi and Aventis.

Arixtra, a selective Factor Xa inhibitor, is indicated for the prophylaxis of deep vein thrombosis, which may lead to pulmonary embolism, in hip fracture surgery, knee replacement, hip replacement surgery and abdominal surgery. It is also indicated for the treatment of deep vein thrombosis and pulmonary embolism.

Fraxiparine is a low-molecular weight heparin indicated for prophylaxis of thromboembolic disorders (particularly deep vein thrombosis and pulmonary embolism) in general surgery and in orthopedic surgery, treatment of deep vein thrombosis and prevention of clotting during hemodialysis.

Integrilin is a GP IIb-IIIa inhibitor, approved in the EU for the prevention of early myocardial infarction in patients with unstable angina or non-Q-wave MI.

Other
This category includes *Betnovate*, the higher potency *Dermovate* and the newer *Cutivate*, which are anti-inflammatory steroid products used to treat skin diseases such as eczema and psoriasis, *Relafen*, a non-steroidal anti-inflammatory drug for the treatment of arthritis, and *Zantac*, for the treatment of peptic ulcer disease and a range of gastric acid related disorders.

Products and competition
continued

Pharmaceuticals competition

The pharmaceutical industry is highly competitive. GSK's principal competitors range from small to large international pharmaceutical companies with substantial resources. Some of these companies and their major products are mentioned below.

Pharmaceuticals may be subject to competition from other products during the period of patent protection and, once off patent, from generic versions. The manufacturers of generic products typically do not bear significant research and development or education and marketing development costs and consequently are able to offer their products at considerably lower prices than the branded competitors. A research and development based pharmaceutical company will normally seek to achieve a sufficiently high profit margin and sales volume during the period of patent protection to repay the original investment, which is generally substantial, and to fund research for the future. Competition from generic products generally occurs as patents in major markets expire. Increasingly patent challenges are made prior to patent expiry, claiming that the innovator patent is not valid and/or that it is not infringed by the generic product. Following loss of patent protection, generic products rapidly capture a large share of the market, particularly in the USA.

GSK believes that remaining competitive is dependent upon the discovery and development of new products, together with effective marketing of existing products. Within the pharmaceutical industry, the introduction of new products and processes by competitors may affect pricing levels or result in changing patterns of product use. There can be no assurance that products will not become outmoded, notwithstanding patent or trademark protection. In addition, increased government and other pressures for physicians and patients to use generic pharmaceuticals, rather than brand-name medicines, may increase competition for products that are no longer protected by patent.

Respiratory
GSK's respiratory franchise is driven by the growth of *Seretide/Advair*, gaining patients from competitor products and the cannibalisation of *Serevent* and *Flixotide/Flovent*. Major respiratory competitors are Singulair from Merck, especially in the USA and in Europe, Symbicort from AstraZeneca and Spiriva from Pfizer/ Boehringer Ingelheim.

CNS disorders
Major competitors in the USA to *Paxil* are its generic forms, as well as generic fluoxetine, the generic form of Eli Lilly's Prozac, Zoloft from Pfizer, Forest Laboratories' Celexa and Lexapro, and Effexor from Wyeth. The principal competitors in the USA for *Wellbutrin* are generic forms of bupropion, the generic forms of SSRIs and Effexor XR, a Wyeth product. *Paxil CR* and the once-daily *Wellbutrin XL* help to retain a strong presence in the anti-depressant market, given the availability of both generic paroxetine and bupropion in the USA. Generic competition for *Seroxat/Paxil* has also commenced in the UK and a number of other markets.

Anti-virals
GSK is a pioneer in the HIV market, launching AZT (*Retrovir)* in 1987 and *Epivir* in 1995, which today are available as *Combivir* in a single tablet, a cornerstone of HIV combination therapy. The launches of *Ziagen*, *Agenerase*, *Trizivir*, *Lexiva* and *Epzicom* have broadened the Group's portfolio of HIV products. Major competitors in the HIV market include Gilead, Bristol Myers Squibb, Abbott, Merck and Pfizer.

Valtrex has strengthened the Group's position in the anti-herpes area, where GSK's *Valtrex* and *Zovirax* compete with Novartis' Famvir. *Valtrex* is the market leader, whilst *Zovirax* faces competition from generic acyclovir. In the hepatitis B market, GSK's *Zeffix* was the first anti-viral on the market. Gilead's Hepsera was the second. The Group has secured marketing rights to *Hepsera* in some key markets.

Anti-bacterials and anti-malarials
Generic versions of both *Augmentin* and *Ceftin/Zinnat* are available in the USA. *Augmentin* also faces generic competition in various European countries. *Augmentin XR* and *Augmentin ES* compete against a broad range of other branded and generic antibiotics. *Malar one's* safety profile and convenient dosing regimen have helped put this product in a strong position versus mefloquine for malaria prophylaxis.

Metabolic
The major competitor for *Avandia* is Takeda Chemical's Actos, which is co-promoted with Eli Lilly in the USA.

Monthly *Boniva/Bonviva* competes with Merck's weekly Fosamax and Proctor & Gamble/Sanofi-Aventis's weekly Actonel. Generic Fosamax (alendronate) is available in a few markets such as the UK and Canada.

Vaccines
The vaccine market is dominated by four key players. GSK's major competitors include Sanofi Pasteur (SP), Merck and Wyeth. In the hepatitis market, *Engerix-B* and *Havrix* compete with vaccines produced by SP and Merck – respectively Comvax and Recombivax HB for hepatitis B, and Vaqta and Avaxim for hepatitis A. Within the paediatric vaccine field, *Infanrix's* main competitor is SP's range of DTPa-based combination vaccines, although the *Infanrix hexa* combination is the only available hexavalent paediatric combination in Europe.

Oncology and emesis
Zofran presently provides GSK with a leadership position in the anti-emetic market where competitor companies include Roche, Sanofi-Aventis and more recently MGI and Merck. Major competitors in the diverse cytotoxic market include Bristol Myers Squibb, Sanofi-Aventis, Pfizer and Novartis. GSK's cytotoxic portfolio, led by *Hycamtin*, currently holds a relatively small market position.

Cardiovascular and urogenital
GSK markets *Coreg* in the USA where its major competitors are Toprol XL and generic betablockers. *Avodart* competes directly with Merck's Proscar within the BPH market. The Group has co-promotion rights in the USA for *Levitra*, which faces competition from Pfizer's Viagra and Lilly/Icos' Cialis.

Consumer Healthcare products

GlaxoSmithKline's principal consumer healthcare products are in three major areas. An analysis of sales by these areas is set out below:

	2005 £m	2004 £m	2003 £m
OTC medicines	**1,437**	1,400	1,472
Oral care	**943**	913	915
Nutritional healthcare	**619**	573	569
	2,999	2,886	2,956

In 2005 sales were 2% higher in CER terms and 4% higher in sterling terms than in 2004.

Major products, which are not necessarily sold in all markets, are:

Category	Product
Over-the-counter medicines	
Analgesics	*Panadol*
Dermatologicals	*Zovirax*
	Abreva
Gastro-intestinal	*Tums*
	Citrucel
Respiratory tract	*Contac*
	Beechams
Smoking control	*Commit*
	Nicorette
	NicoDerm CQ
	NiQuitin CQ
	Nicabate CQ
Natural wellness support	*Abtei*
Oral care	*Aquafresh*
	Dr Best
	Macleans
	Odol
	Odol Med 3
	Polident
	Poligrip
	Sensodyne
Nutritional healthcare	*Lucozade*
	Ribena
	Horlicks

Over-the-counter medicines

The leading products are *Panadol*, a widely available paracetamol/ acetominophen analgesic, *Nicorette* gum in the USA, the *NicoDerm*, *NiQuitin CQ* and *Nicabate* range of smoking control products, *Tums*, a calcium-based antacid, *Citrucel* laxative, *Contac* for the treatment of colds, *Abtei*, a natural medicines and vitamin range, and *Zovirax* and *Abreva* for the treatment of cold sores.

Oral care

The leading Oral care products are toothpastes and mouthwashes under the *Aquafresh*, *Sensodyne*, *Macleans* and *Odol* brand names, and a range of toothbrushes sold under the *Aquafresh* and *Dr Best* names. In addition, denture care products are available principally under the *Polident*, *Poligrip* and *Corega* brand names.

Nutritional healthcare

The leading products in this category are *Lucozade* glucose energy and sports drinks, *Ribena*, a blackcurrant juice-based drink rich in vitamin C, and *Horlicks*, a range of milk-based malted food and chocolate drinks.

Consumer Healthcare competition

GSK holds leading global positions in all its key consumer product areas. Worldwide it is the third largest in Oral care and in OTC medicines. In Nutritional healthcare it holds the leading position in the UK, India and Ireland.

The environment in which the Consumer Healthcare business operates has become ever more challenging:

- consumers are demanding better quality, better value and improved performance
- retailers have consolidated and globalised which has strengthened their negotiation power
- competitors are finding conditions equally challenging and competing more aggressively across all elements of the marketing mix
- cycle times for innovation have been reduced.

The main competitors include the major international companies Colgate-Palmolive, Johnson & Johnson, Pfizer, Procter & Gamble, Unilever and Wyeth. In addition, there are many other companies that compete with GSK in certain markets.

The major competitor products in OTC medicines are:

- in the USA: Metamucil (laxative), Pepcid (indigestion) and private label smoking control products
- in the UK: Lemsip (cold remedy), Nurofen and Anadin (analgesics), and Nicorette and Nicotinell (smoking control treatments).

In Oral care the major competitors are Colgate-Palmolive's Colgate and Procter & Gamble's Crest.

In Nutritional healthcare the major competitors to *Horlicks* are Ovaltine and Milo malted food and chocolate drinks. The competitors to *Ribena* are primarily local fruit juice products, while *Lucozade* competes with other energy drinks.

Regulatory environment

Regulation – Pharmaceuticals

GSK operates within a highly regulated environment. Regional and country-specific laws and regulations define the data required to show safety and efficacy of pharmaceutical products, as well as govern testing, approval, manufacturing, labelling and marketing of drugs. These regulatory requirements are a major factor in determining whether a marketable product may be successfully developed and the amount of time and expense associated with this development.

In Europe, pharmaceutical firms and regulators are managing a transition following the implementation of new medicines legislation at the end of 2005. Significant changes are being implemented in a number of areas, including approval procedures, post marketing requirements, manufacturing controls (on active ingredients and excipients), labelling requirements, pharmacovigilance processes and an increased emphasis in involvement and availability of information for patients in the EU.

The climate of change will continue, with the expectation that a new Paediatric Regulation will be finalised in 2006, stimulating industry research into paediatric indications, via intellectual property incentives.

The European Medicines Agency (EMEA) has published the final version of its 'Road Map', a strategic plan to 2010. This will be an additional driver for change, covering areas such as new technologies, innovative development approaches and enhanced provision of agency advice during the development process.

In the USA, safety issues of prescription drugs are a primary focus of the FDA and congressional oversight committees since the recent withdrawal of several products from the market for safety reasons. GSK is working closely with the FDA to assess any impact this will have on any of its own current development programmes. As in Europe, evaluation of benefit and risk continues to be an important consideration for approval of a new drug by the FDA.

The FDA has introduced a new focus called the Critical Path Initiative. This is intended to facilitate innovation in drug development, hopefully allowing for more rapid development and approval of needed medicines. This initiative will investigate the use of pharmacogenomics and surrogate markers of efficacy, among other things, such as manufacturing innovations, as tools for rapidly developing and producing safe and effective drugs for unmet medical needs. The pharmaceutical industry, including GSK, are collaborating with the FDA and National Institutes of Health in a number of these areas, including the use of biomarkers.

A new health information source has been launched by the US government that includes electronic labelling of all approved prescription drugs, posted within one day of an FDA approval action, for immediate access by physicians and patients. GSK is now providing labelling to the FDA for all products in this new electronic format. New regulations from the FDA will be implemented mid-2006 that will completely change the format of prescribing information in the USA.

GSK is well placed to manage effectively these changes in the external regulatory environment.

Price controls

In many countries the prices of pharmaceutical products are controlled by law. Governments may also influence prices through their control of national healthcare organisations, which may bear a large part of the cost of supplying products to consumers.

Recent government healthcare reforms in countries such as France, Spain and Germany may restrict pricing and reimbursement.

In the USA, recent legislation on healthcare reform, cross-border trade, the acceleration of generics to market and increased patient contributions have further increased the focus on pricing. Currently, there are no government price controls over private sector purchases, but federal law requires pharmaceutical manufacturers to pay prescribed rebates on certain drugs in order to be eligible for reimbursement under Medicaid and other federal healthcare programmes.

Medicare

In 2006, the US Medicare program, a federally funded healthcare insurance program benefiting senior citizens and certain disabled Americans, included coverage for prescription medicines. This is a new benefit under the Medicare program and the most dramatic change in the program since its inception in the 1960s. The coverage is voluntary, includes brand-name and generic drugs and is open to the 41 million Americans with Medicare coverage.

A number of competing private organisations provide the new benefit with premiums subsidised by the government. Benefits must satisfy a minimum standard outlined in federal law. While the law provides incentives for manufacturers to negotiate prices with private plans, it does not provide for government price controls. The government provides additional help to more than 14 million people on Medicare with limited incomes and resources. Those qualifying beneficiaries pay no or reduced premiums and deductibles, and low copayments for their prescriptions.

Value for money

It is increasingly necessary to demonstrate the value for money of new products. In particular, the impact on drug budget expenditure and the burden of the disease that will be treated must be apparent.

In some markets, this requirement to satisfy healthcare purchasers as to value for money is becoming an additional hurdle for product acceptance over and above the regulatory tests of safety, efficacy and quality. This may delay bringing effective and improved medicines to the market and reduce their effective patent protection time.

In many markets, especially in the USA and Europe, it is becoming more difficult for even a significantly improved therapy to obtain a premium price over existing medication. Value-based pricing may be difficult to apply in such circumstances, although in the USA it is still possible to price products to reflect their value. It is not possible to predict whether, and to what extent, the Group's business will be affected by future legislative and regulatory developments relating to specific pharmaceutical products or their price.

Regulation – Consumer Healthcare

The consumer healthcare industry is subject to national regulation for the testing, approval, manufacturing, labelling and marketing of products. In many countries, high standards of technical appraisal involve a lengthy approval process before a new product is launched.

National regulatory authorisation is also required to approve the switch of products from prescription to OTC. The requirements include long-term experience of the quality, safety and efficacy of the product in a wide patient population and data to confirm that the relevant condition is both self-limiting and easily diagnosed by the consumer.

Intellectual property

Intellectual property is a key business asset for GSK. The effective legal protection of intellectual property is critical in ensuring a reasonable return on investment in R&D. Intellectual property can be protected by patents, trademarks, registered designs, copyrights and domain name registrations. Patent and trademark rights are regarded as particularly valuable.

In many cases generic manufacturers launch, or attempt to launch, generic versions of patented drugs prior to normal patent expiry, arguing that the relevant patents are invalid and/or are not infringed by their product. Significant litigation concerning these challenges is summarised in Note 41 to the financial statements, 'Legal proceedings'.

Patents

GSK's policy is to obtain patent protection on all significant products discovered or developed through its R&D activities. Patent protection for new active ingredients is available in all significant markets. Protection can also be obtained for new pharmaceutical formulations and manufacturing processes, and for new medical uses and special devices for administering products.

The patent position with respect to the active ingredients in significant products is as follows:

Avandia and *Avandamet*. The patent on rosiglitazone is not due to expire until 2012[a,c] (USA) and 2013[b] (Europe). Patents on the commercial form of the active ingredient rosiglitazone maleate are not due to expire until 2015 (USA) and 2014[b] (Europe). Litigation challenging the validity of the patents protecting these products is ongoing in the USA[e].

Avodart. The patent on dutasteride is not due to expire until 2015[a] (USA) and 2017[b] (Europe).

Combivir. The patent on the specific combination of lamivudine and zidovudine is not due to expire until 2012 (USA) and 2013[b] (Europe).

Coreg. GSK is the exclusive licensee under the US patent on carvedilol, which is not due to expire until 2007[a,c].

Epivir. The patent on lamivudine is not due to expire until 2010[a,c] (USA) and 2011[b] (Europe).

Flixotide/Flovent and *Flixonase/Flonase*. The patents on fluticasone propionate have expired in the EU and USA. Generic competition to *Flixonase* exists in the EU and the FDA recently approved a generic version of *Flonase* in the USA[e].

Imigran/Imitrex. The patent on sumatriptan is not due to expire until 2009[c] (USA) and generally 2006[b] (Europe, except 2008[b] (Italy)). Litigation challenging the validity of the patent protecting this product is ongoing in the USA[e].

Lamictal. The patent on lamotrigine is not due to expire until 2009[a,c] (USA). Litigation challenging the validity of this patent in the USA has been settled[e]. In Europe, the corresponding patent has expired and generic competition exists.

Levitra[d]. GSK has co-promotion rights under the US patent on vardenafil which is not due to expire until 2018 in the USA.

Lexiva/Telzir. GSK is the exclusive licensee under the patent on fosamprenavir, which is not due to expire until 2017 (USA) and 2019[b] (Europe).

Paxil/Seroxat. The patent on the commercial form of paroxetine is not due to expire until 2007[c] (USA) and 2006 (Europe). Litigation relating to the validity and infringement of the patents protecting this product is ongoing in the USA[e]. Generic competition has commenced in the USA, Europe and certain other markets. *Paxil CR* is protected by a formulation patent that is not due to expire until 2012. A generic manufacturer has applied for FDA approval of a generic form of *Paxil* CR asserting non-infringement of this patent[e].

Requip. The patent on ropinirole is not due to expire until 2007[a] (USA) and 2008[b] (Europe). A patent relating to the use of ropinirole in Parkinson's disease is not due to expire until 2008 (USA) and 2011[b] (Europe). Litigation challenging the validity of these patents is ongoing in the USA[e].

Retrovir. There are no patents on zidovudine. Patents covering pharmaceutical formulations containing zidovudine and their medical use have expired in the USA and will expire in 2006 in Europe.

Seretide/Advair. The patent on the specific combination of salmeterol xinafoate and fluticasone propionate is not due to expire until 2010 (USA) and 2013[b] (Europe). An application for re-issue of the US patent has been filed by GSK[e] with the US Patent and Trademark Office (USPTO). In January 2006, the USPTO issued a final office action rejecting this application. GSK will seek reconsideration of this rejection[e]. The UK patent has been revoked by the UK courts. Patents on the individual ingredients have expired in the UK. In the USA, the patent on salmeterol xinafoate does not expire until 2008.

Serevent. The patent on salmeterol xinafoate is not due to expire until 2008 in the USA. In Europe, the patent has expired, except France (2008[b]) and Italy (2009[b]).

Trizivir. The patent on the method of treatment using a combination of lamivudine, zidovudine and abacavir does not expire until 2016 (USA) and 2016 (Europe).

Valtrex. The patent on valaciclovir is not due to expire until 2009[a] (USA) and 2009[b] (Europe). Litigation challenging the validity of the patent protecting this product is ongoing in the USA[e].

Wellbutrin SR, *Wellbutrin XL* and *Zyban.* The patent on the active ingredient has expired. There is now generic competition for the sustained release (*SR*) and instant release (*IR*) forms in the USA. In Europe, regulatory data exclusively provides protection until 2009 in some markets. In the USA, *Wellbutrin XL* is protected by formulation patents that expire in 2018. Litigation relating to the validity and infringement of these patents is ongoing in the USA[e].

Ziagen. The patent on abacavir is not due to expire until 2012[a,c] (USA) and 2014[b] (Europe).

Zofran. The patent on ondansetron has expired in the USA and Europe, (except France (2007[b]) and Italy (2010[b])). A patent on use in treating emesis expires in 2006. Litigation challenging the validity of the emesis use patent is ongoing in the USA[e].

a) Including patent term restoration under the Hatch-Waxman Act
b) Including extension of term by national or European supplementary protection certificates
c) Including granted or pending extension of term for paediatric exclusivity
d) A registered trademark of Bayer AG
e) See Note 41 to financial statements 'Legal proceedings'.

Regulatory environment
continued

Trademarks
All of GSK's pharmaceutical products are protected by registered trademarks in major markets. There may be local variations, for example, in the USA the trademark *Paxil* is used instead of *Seroxat* and *Advair* is used instead of *Seretide*.

Trademark protection may generally be extended for as long as the trademark is used by renewing it when necessary. GSK's trademarks on pharmaceutical products are important for maintaining the brand identity of the product upon expiration of the patent.

The Consumer Healthcare trademarks are particularly important, as the business is very brand orientated and many products do not have patent protection.

Responsibility for environment, health and safety

Environment, health and safety (EHS) is a key element of corporate responsibility for the Group and has a high priority. Responsibility for EHS is at the highest level. There is a corporate group reporting to the General Counsel that has overall responsibility for providing governance and leadership on EHS issues. The head of this group makes regular reports to the Corporate Executive Team (CET) and the Audit and Corporate Responsibility Committees of the Board of Directors. Within the businesses, operations managers are responsible for EHS and are supported by site-based EHS and occupational health staff.

EHS strategy and plan
GSK has a strategic planning process for EHS that looks forward 10 years but is reviewed every year. The plan is aligned with the GSK business drivers and includes both management and performance measures and targets. Progress has been made in all areas of the plan, with particular success in incorporating EHS into the selection and management of contract manufacturers and key suppliers, in developing and maintaining an open and effective dialogue with external stakeholders, in providing EHS data for decision making on new products and processes and in ensuring safety and health concerns are properly addressed at GSK's facilities to minimise risk and avoid disruption of product supply. Some areas for additional focus are driver safety, occupational chemical exposure, machine guarding, pharmaceuticals in the environment from patient excretion, energy conservation and the use of hazardous chemicals in manufacturing.

Strategic focus in 2005
The plan provides an area of special focus each year. In 2005, the focus was on completing core programmes. These programmes are essential to prevent injury or illness or harm to the environment and to ensure the continuity of GSK's business. Some of them will be common to all operating locations. Operations with different risks may have different core needs and therefore different core programmes. For a programme to be complete it must have a management system in place, acceptable audit scores and acceptable progress against the EHS targets.

There is a need to operate and maintain the programmes, monitor their performance and continually look for improvements. Progress in this strategic focus area may be seen in the audit scores and progress to targets.

EHS management
GSK takes a systematic approach to managing EHS risks and impacts. A framework of information and programmes based on the global EHS standards guides the management of key aspects, impacts and risks throughout the organisation.

EHS audits
As part of its governance responsibility, GSK conducts EHS audits of its sites, assessing performance against the EHS standards and assigning quantitative performance scores. In 2005, when 36 sites were audited, 70% of these achieved audit scores of 70% or better. As part of the continuous improvement process, progress was monitored on actions arising from issues raised on all audits.

As part of the commitment to corporate responsibility and the pro-active management of the GSK manufacturing and supply base, 41 suppliers were also assessed, representing about 20% of priority suppliers. This process evaluated the management of key EHS risks and impacts, as well as human rights issues, based on the Group's requirements for priority suppliers. Recommendations were made for improvements where needed.

EHS targets
As part of the EHS plan, targets are set every five years and 2005 is the end of the first five-year target period. Targets were set for 10 environmental measures and for one measure of occupational health and safety.

Progress towards meeting these targets has been tracked every year. Final data for 2005 showing the level of achievement of targets will be published on the website www.gsk.com. Significant progress has been made towards achieving eight of the 10 EHS targets with some of the progress due to outsourcing some processes to contract manufacturers. For hazardous waste disposed and the proportion of waste recycled, the targets have not been achieved. The targets have not been achieved because of products transferred to facilities without appropriate recycling systems in place, other recycling systems that were down for maintenance and new products coming into manufacturing.

GSK selects its measures of performance improvement based on the potential for adverse impact on people or the environment, business continuity or business reputation. Most of the measures selected are similar to those reported by other companies and are recommended by the Global Reporting Initiative, a long-term, multi-stakeholder, international undertaking to develop and disseminate globally applicable sustainability reporting guidelines.

Sustainability
In the work towards eventual sustainability, GSK is addressing economic, environmental and social issues in research, manufacturing, sales and distribution of its medicines. Sustainability starts with healthcare solutions found by R&D and continues with sustainable solutions in manufacturing and sales. R&D is considering improving operational efficiency for new products. In the future, the EHS plan for excellence proposes investigating the use of renewable resources and the overall balance of its impact on society and the environment. The Group seeks dialogue with external stakeholders and considers their views when developing approaches to sustainable development. More information on EHS programmes and performance may be found on the website.

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Corporate governance

This section discusses GlaxoSmithKline's management structures and governance procedures.

It contains the company's reporting disclosures on corporate governance required by the Combined Code on Corporate Governance of the Financial Reporting Council (Combined Code), including the required statement of compliance.

Further, the company reports on compliance with the US laws and regulations that apply to it.

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Corporate governance
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The Board

Sir Christopher Gent (Aged 57)
Appointed on 1st June 2004. Chairman. Sir Christopher was the Chief Executive Officer of Vodafone plc, until his retirement in July 2003. He is a Non-Executive Director of Lehman Brothers Holdings Inc, a member of the Financial Reporting Council, a Senior Adviser at Bain & Co. and Chairman of the advisory board of Reform.

Dr Jean-Pierre Garnier (Aged 58)
Appointed on 23rd May 2000. Chief Executive Officer. Dr Garnier was appointed an Executive Director of SmithKline Beecham plc in 1992, and became Chief Executive Officer in April 2000. He is a Non-Executive Director of United Technologies Corporation and a member of the Board of Trustees of the Eisenhower Exchange Fellowships. He holds a PhD in pharmacology from the University of Louis Pasteur in France and an MBA from Stanford University in the USA.

Lawrence Culp (Aged 42)
Appointed on 1st July 2003. Non-Executive Director. Mr Culp is President and Chief Executive Officer of Danaher Corporation. Prior to joining Danaher, he held positions in Accenture, previously Andersen Consulting.

Sir Crispin Davis (Aged 56)
Appointed on 1st July 2003. Non-Executive Director. Sir Crispin is Chief Executive of Reed Elsevier PLC. Prior to that, he was Chief Executive of Aegis Group plc, which he joined from Guinness plc, where he was a member of the main board and Group Managing Director of United Distillers. He spent his early career with Procter & Gamble.

Julian Heslop (Aged 52)
Appointed on 1st April 2005. Chief Financial Officer. Mr Heslop joined Glaxo Wellcome as Financial Controller in April 1998. In January 2001, following the merger, he was appointed Senior Vice President, Operations Controller. Prior to joining Glaxo Wellcome, he held senior finance roles at Grand Metropolitan PLC.

Sir Deryck Maughan (Aged 58)
Appointed on 1st June 2004. Non-Executive Director. Sir Deryck is a Managing Director of Kohlberg Kravis Roberts & Co. He was formerly Chairman and CEO of Citigroup International and of Salomon Brothers Inc. He is a Non-Executive Director of Reuters Group plc, as well as serving on the Boards of Directors of Carnegie Hall, Lincoln Center and NYU Medical Center. He is also an International Advisory Board member of British American Business Inc. and a Board member of the Trilateral Commission. He served as Vice Chairman of the New York Stock Exchange from 1996 to 2000.

Sir Ian Prosser (Aged 62)
Appointed on 23rd May 2000. Senior Independent Director. Sir Ian was formerly a Non-Executive Director of SmithKline Beecham plc. He was Chairman and Chief Executive of Bass plc and ultimately Chairman of the demerged InterContinental Hotels Group plc. He was Chairman of the World Travel and Tourism Council and the London Stock Exchange Listed Advisory Council. He is Non-Executive Deputy Chairman of BP plc, a Non-Executive Director of Sara Lee Corporation and a member of the CBI President's Committee.

Dr Ronaldo Schmitz (Aged 67)
Appointed on 23rd May 2000. Non-Executive Director. Dr Schmitz was formerly a Non-Executive Director of Glaxo Wellcome plc. He is a Non-Executive Director of Legal & General Group plc and a member of the Board of Directors of Rohm and Haas Company and Cabot Corporation.

Dr Lucy Shapiro (Aged 65)
Appointed on 23rd May 2000. Non-Executive Director. Dr Shapiro was formerly a Non-Executive Director of SmithKline Beecham plc. She is Ludwig Professor of Cancer Research in the Department of Developmental Biology and Director of the Beckman Center for Molecular and Genetic Medicine at the Stanford University School of Medicine and a Non-Executive Director of Anacor Pharmaceuticals, Inc. She holds a PhD in molecular biology.

Tom de Swaan (Aged 59)
Appointed on 1st January 2006. Non-Executive Director. Mr de Swaan is a member of the Managing Board of ABN AMRO, of which he was Chief Financial Officer until 31st December 2005. He will retire from the Board of ABN AMRO on 1st May 2006. He is a Non-Executive Director of the Financial Services Authority, a member of the Board of the Institute of International Finance, Chairman of the Board of the Netherlands Opera and a member of the Board of the Royal Concertgebouw Orchestra.

Sir Robert Wilson (Aged 62)
Appointed on 1st November 2003. Non-Executive Director. Sir Robert is Non-Executive Chairman of BG Group plc and the Economist Group and was previously Executive Chairman of Rio Tinto.

Dr Tachi Yamada (Aged 60)
Appointed on 1st January 2004. Retiring on 1st June 2006. Chairman, Research & Development. Dr Yamada was a Non-Executive Director, and subsequently an Executive Director, of SmithKline Beecham plc. Prior to joining SmithKline Beecham, he was Chairman of the Department of Internal Medicine at the University of Michigan Medical School and Physician-in-Chief of the University of Michigan Medical Center. He is a Trustee of the Rockefeller Brothers Fund and a member of the Advisory Board of Quaker BioVentures, Inc.

Moncef Slaoui (Aged 46)
Chairman Designate, Research & Development. Dr Slaoui, Senior Vice President, Worldwide Business Development, has been appointed to the Board with effect from 17th May 2006, and will succeed Dr Yamada as Chairman, Research & Development on 1st June 2006. Dr Slaoui joined GSK Biologicals in 1988 where he engineered the development of a robust vaccines pipeline. He has a PhD in Molecular Biology and Immunology from Université Libre de Bruxelles.

Other Directors
Mr John Coombe, formerly Chief Financial Officer, retired from the Board on 31st March 2005.

Details of membership of the Board Committees may be found on page 31.

Corporate Executive Team (CET)

JP Garnier
Chief Executive Officer
As Chief Executive Officer, Dr Garnier is responsible for the management of the Group. He oversees all operational aspects of the Group, including establishing policies, objectives and initiatives, and he directs long-term strategy. He was formerly Chief Executive Officer of SmithKline Beecham, having joined the Group in 1990.

Rupert Bondy
Senior Vice President and General Counsel
Mr Bondy is responsible for legal matters across the Group, together with environmental, health and safety issues, insurance and security. He was a lawyer in private practice before joining SmithKline Beecham in 1995.

Ford Calhoun
Chief Information Officer
Dr Calhoun is responsible for information technology, a global function that enables key business processes across all parts of the Group. With doctoral and post-doctoral training in microbiology, genetics, biomathematics and computer science, he joined Smith Kline & French in 1984.

John Clarke
President, Consumer Healthcare
Mr Clarke succeeded Mr Ziegler as President, Consumer Healthcare on 31st January 2006. He joined Beecham in 1976 and progressed through roles in Australasia, South Africa, The Far East, Japan, Canada and the UK. From 1998 to 2003, John was President, Consumer Healthcare Europe, and in 2004, appointed President, Futures Group.

Marc Dunoyer
President, Pharmaceuticals Japan
Mr Dunoyer was appointed President, Pharmaceuticals Japan in March 2003. He joined the Group in 1999 and was Senior Vice President and Regional Director, Japan until his current appointment.

Russell Greig
President, Pharmaceuticals International
Dr Greig leads the pharmaceutical operations outside the USA, Japan and most of Europe, covering more than 100 countries. He joined the Group in 1980 and was Senior Vice President, Worldwide Business Development for R&D prior to his current appointment in March 2003.

Julian Heslop
Chief Financial Officer
Mr Heslop became Chief Financial Officer on 1st April 2005. As head of the finance function Mr Heslop is responsible for activities such as financial reporting and control, tax and treasury, investor relations, finance systems, internal audit and real estate. He joined Glaxo Wellcome as Financial Controller in April 1998.

Dan Phelan
Senior Vice President, Human Resources
Mr Phelan is responsible for benefits, compensation, recruitment, organisation development, leadership development and succession planning, human resource information systems and employee health management. He was a lawyer in private practice before joining Smith Kline & French in 1981.

David Pulman
President, Global Manufacturing and Supply
Dr Pulman is responsible for the Global Manufacturing and Supply Organisation and Global Procurement. He joined Glaxo in 1978 and was responsible for the North American supply network, manufacturing strategy and logistics until his current appointment in 2002.

David Stout
President, Pharmaceutical Operations
Mr Stout is responsible for all pharmaceuticals and vaccines operations worldwide, including the USA, Europe, International, Japan and Global Manufacturing and Supply. He joined SmithKline Beecham in 1996 and was President, US Pharmaceuticals, until his current appointment in January 2003.

Chris Viehbacher
President, US Pharmaceuticals
Mr Viehbacher is responsible for US Pharmaceuticals. He joined Wellcome in 1988 and was responsible for GSK's European Pharmaceuticals business before his current appointment in 2003.

Andrew Witty
President, Pharmaceuticals Europe
Mr Witty is responsible for the Group's pharmaceuticals operations in Europe. He joined Glaxo in 1985 and was Senior Vice President, Asia Pacific until his current appointment in 2003.

Tachi Yamada
Chairman, Research & Development
Dr Yamada leads the Group's complex business of drug discovery and development, creating new medicines through research. He joined SmithKline Beecham in 1994 as a Non-Executive Director and became Chairman, R&D Pharmaceuticals in 1999.

Jennie Younger
Senior Vice President, Corporate Communications & Community Partnerships
Mrs Younger is responsible for the Group's internal and external communications, its image and partnerships with global communities. She joined Glaxo Wellcome in 1996 as Director of Investor Relations and was appointed to her current position in 2001.

Moncef Slaoui
Chairman Designate, Research & Development
Dr Slaoui will succeed Dr Yamada as Chairman, Research & Development on 1st June. He will join the CET on 17th May. He joined the Group in 1988 and is currently Senior Vice President, Worldwide Business Development.

Other members
Mr Combe retired as Chief Financial Officer on 31st March 2005.

Mr Ziegler retired as head of the Consumer Healthcare business on 31st January 2006.

Mr Ingram continues to work part-time as Vice Chairman of Pharmaceuticals, acting as a special advisor to the Group and attending CET meetings in that capacity.

Corporate governance
continued

Governance and policy

The Board and Corporate Executive Team
The Directors are listed under 'The Board' (page 28).

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy and financial performance.

The Chief Executive Officer (CEO) is responsible for executive management of the Group and is assisted by the CET. The CET meets 11 times per year and otherwise as necessary. The members and their responsibilities are listed under "Corporate Executive Team" (page 29).

The Board comprises three Executive and nine Non-Executive Directors. Whilst the Board considers all its Non-Executive Directors to be independent in character and judgement, it has determined that one Non-Executive Director, Dr Shapiro, should not be considered as 'independent' under the Combined Code. Dr Shapiro is not considered to be independent due to the remuneration that she receives from the Group as a member of the GlaxoSmithKline Scientific Advisory Board. When Sir Christopher Gent was appointed to the Board as Deputy Chairman, he was determined by the Board to be independent. Upon taking up the chairmanship of the Board on 1st January 2005, in accordance with the Combined Code, he was excluded from the determination of whether at least half the Board are independent Non-Executive Directors. Neither Dr Shapiro nor Sir Christopher Gent hold positions on a Board Committee where independence is required under the Combined Code.

The Board considers that Mr Culp, Sir Crispin Davis, Sir Deryck Maughan, Sir Ian Prosser, Dr Schmitz, Mr de Swaan and Sir Robert Wilson are independent in accordance with the recommendations of the Combined Code.

At the date of publication and throughout 2005, a majority of the Board members, excluding the Chairman, were independent Non-Executive Directors.

Sir Christopher Gent succeeded Sir Christopher Hogg on 1st January 2005 and was Chairman throughout 2005. Dr Garnier is CEO. The Chairman leads the Board, and represents the Board to the CEO and other CET members as necessary between Board meetings. The CEO manages the Group and implements the strategy and policies adopted by the Board. The Chairman and the chairmen of Board Committees communicate regularly with the CEO and other CET members. The division of responsibilities between the role of Chairman and the CEO has been set out in writing, agreed by the Board and appears in full on the website.

Sir Ian Prosser was Senior Independent Director (SID) throughout 2005.

Board process
The Board has the authority, and is accountable to shareholders, for ensuring that the company is appropriately managed and achieves the strategic objectives it sets. The Board discharges those responsibilities through an annual programme of meetings which includes the approval of overall budgetary planning and business strategy. The Board reviews the company's internal controls and risk management policies and approves its governance structure and code of ethics.

The Board appraises and approves major financing, investment and contractual decisions in excess of defined thresholds. In addition, the Board evaluates and monitors the performance of the Group as a whole. This includes:

- engaging at Board meetings with the CEO, the other Executive Directors and members of the CET as appropriate, on the financial and operating performance of GSK and external issues material to the Group's prospects
- evaluating progress toward the achievement of the Group's financial and business objectives and annual plans
- monitoring, through reports received directly or from various committees, the significant risks facing the Group.

The Board has overall responsibility for succession planning for the CEO and the other Executive Directors. The Board has given the CEO broad authority to operate the business of the Group, and the CEO is accountable for, and reports to the Board on, business performance.

CET members make regular presentations to the Board on their areas of responsibility, and the Board meets with all the CET members on an annual basis to discuss collectively the Group's strategy. A primary element of the induction process for new Non-Executive Directors is undertaken by members of the CET, and all Non-Executive Directors are encouraged to have separate informal discussions at their discretion with any CET members.

The Board met six times in 2005, with each member attending as follows:

Name	Number of meetings held whilst a Board member	Number of meetings attended
Sir Christopher Gent	6	6
Dr JP Garnier	6	6
Mr J Heslop	5	5
Dr T Yamada	6	6
Mr L Culp	6	5
Sir Crispin Davis	6	6
Sir Deryck Maughan	6	6
Sir Ian Prosser	6	6
Dr R Schmitz	6	6
Dr L Shapiro	6	6
Sir Robert Wilson	6	6
Mr J Coombe	1	1

In addition to the six scheduled meetings, the Board also met on a quorate basis on two occasions.

Business environment development
To ensure that the Board is kept up-to-date on important matters, including legal, governance and regulatory developments, presentations are made on a regular basis by both external and internal advisers.

Independent advice
The Board recognises that there may be occasions when one or more of the Directors feel it is necessary to take independent legal and/or financial advice at the company's expense. There is an agreed procedure to enable them to do so. This is explained in the Corporate Governance section of the company's website.

Indemnification of Directors
Qualifying third party indemnity provisions (as defined in section 309B(1) of the Companies Act 1985) are in force for the benefit of the Directors and former Directors who held office during 2005.

Company Secretary
The Company Secretary is responsible to the Board and is available to individual Directors in respect of Board procedures. The Company Secretary is Simon Bicknell, who was appointed in May 2000. He is a barrister and joined the Group in 1984. He is secretary to all the Board Committees.

Board Committees
The Board has established a number of Committees and provides sufficient resources to enable them to undertake their duties. Executive Directors are not members of the Audit, Remuneration, Nominations or Corporate Responsibility Committees, although they may be invited to attend meetings. Each Director is a member of the Corporate Administration & Transactions and Financial Results Committees. Membership of these Committees is shown in the table below.

	Audit	Remuneration	Nominations	Corporate Responsibility
Sir Christopher Gent	–	–	C	C
Mr L Culp	–	M	–	–
Sir Crispin Davis	–	M	–	–
Sir Deryck Maughan	M	–	–	–
Sir Ian Prosser	M	–	M	M
Dr R Schmitz*	C	M	M	–
Dr L Shapiro	–	–	–	M
Mr de Swaan*	M	–	–	–
Sir Robert Wilson	M	C	–	–

* Mr de Swaan will succeed Dr Schmitz as Chairman of the Audit Committee from September 2006.

Key: C = Chairman. M = Member.

The following is a summary of the role and terms of reference of each Committee. The current full terms of reference of each Committee may be obtained from the Company Secretary or the Corporate Governance section of the company's website.

Audit Committee
The Audit Committee reviews the financial and internal reporting process, the system of internal controls, the management of risks and the external and internal audit process. The Committee also proposes to shareholders the appointment of the external auditors and is directly responsible for their remuneration and oversight of their work. The Committee consists entirely of independent Non-Executive Directors. It meets at least four times a year and otherwise as necessary. The Audit Committee Report is on pages 34 and 35.

Remuneration Committee
The Remuneration Committee determines the terms of service and remuneration of the Executive Directors and members of the CET and, with the assistance of external independent advisors, it evaluates and makes recommendations to the Board on overall executive remuneration policy. The Committee consists entirely of independent Non-Executive Directors. It meets at least four times a year and otherwise as necessary. Information on the remuneration of Directors is given in the Remuneration Report on pages 37 to 54. The Chairman of the company and the CEO are responsible for evaluating and making recommendations to the Board on the remuneration of the Non-Executive Directors.

Nominations Committee
The Nominations Committee reviews the structure, size and composition of the Board and the appointment of members of the Board and the CET, and makes recommendations to the Board as appropriate. The Committee also monitors the planning of succession to the Board and Senior Management. The Committee consists entirely of Non-Executive Directors, of whom a majority are independent, and meets at least once a year and otherwise as necessary. The Nominations Committee Report is given on page 35.

Corporate Responsibility Committee
The Corporate Responsibility Committee consists entirely of Non-Executive Directors and provides a Board-level forum for the regular review of external issues that have the potential for serious impact upon the Group's business and for the oversight of reputation management. The Committee is also responsible for governance oversight of the Group's worldwide donations and community support. The Committee meets formally three times a year and otherwise as necessary.

Financial Results Committee
The Financial Results Committee reviews and approves, on behalf of the Board, the Annual Report and Form 20-F, the Annual Review and the convening of the Annual General Meeting, together with the preliminary and quarterly statements of trading results. Each Director is a member of the Committee and the quorum for a meeting is any three members. To be quorate, each meeting must include the Chairman or the Chairman of the Audit Committee and the CEO or the Chief Financial Officer (CFO). The Committee meets as necessary.

Corporate Administration & Transactions Committee
The Corporate Administration & Transactions Committee reviews and approves matters in connection with the administration of the Group's business, and certain corporate transactions. The Committee consists of the Directors, CET members and the Company Secretary. The Committee meets as necessary.

Evaluation of the Board, Board Committees and Directors
The performance evaluation of the Board, its Committees and Directors during 2005 was undertaken by the Chairman and implemented in collaboration with the Committee Chairmen, with the support of the Company Secretary. The Board considered the review conclusions at its meeting in December 2005 and agreed a number of minor improvements to its procedures and operating methodology.

The Senior Independent Non-Executive Director, Sir Ian Prosser, undertook the performance evaluation of the Chairman through a discussion with the Directors, excluding the Chairman, in December 2005.

Dialogue with shareholders

Financial results are announced quarterly.

The company reports formally to shareholders twice a year, when its half-year and full-year results are announced. The full-year results are included in the company's Annual Report and Annual Review, which are issued to shareholders. The company's half-year results are published in a national newspaper shortly after release. The CEO and CFO give presentations on the full-year results to institutional investors, analysts and the media.

Corporate governance
continued

There are webcast teleconferences after the release of the first, second and third quarter results for institutional investors, analysts and the media. The Annual Report, Annual Review and quarterly results are available on the company's website.

The Annual General Meeting (AGM) takes place in London, and formal notification is sent to shareholders at least one month in advance. At the Meeting, a business presentation is made to shareholders and all Directors able to attend are available, formally during the AGM, and informally afterwards, for questions. Committee Chairmen ordinarily attend the AGM to respond to shareholders' questions. Mr Culp was unable to attend the company's AGM in May 2005 due to other commitments. All resolutions at the AGM are decided on a poll as required by the company's Articles of Association. The results of the poll are announced to the London Stock Exchange and posted on the company's website. Details of the 2006 AGM are set out in the section 'Annual General Meeting' (see this page).

To ensure that the Non-Executive Directors are aware of and understand the views of major shareholders about the company, the Board has in place a process focusing on sector-specific issues, as well as general shareholder preferences. At its meeting in July, the Board received an external review of shareholder opinion.

The CEO and CFO maintain a dialogue with institutional shareholders on performance, plans and objectives through a programme of regular meetings.

The Group's Investor Relations department, with offices in London and Philadelphia, acts as a focal point for contact with investors throughout the year.

The Chairman meets regularly with institutional investors to hear their views and discuss issues of mutual importance.

The Chairman of the Remuneration Committee meets with major shareholders to discuss executive remuneration policy. All Non-Executive Directors, including new appointees, are available to meet with major shareholders if requested.

The company's website gives access to current financial and business information about the Group.

Share buy-back programme

A total of £6.5 billion has been spent by the company on buying its own shares for cancellation or to be held as Treasury shares, of which £1 billion was spent in 2005. The programme covers purchases by the company of shares for cancellation or to be held as Treasury shares, in accordance with the authority given by shareholders at the company's AGM in 2005.

In May 2005, the company was authorised to purchase a maximum of 586.4 million shares. During 2005, 72.8 million shares, representing 1.2% of the issued share capital, were purchased and held as Treasury shares (see Note 31 to the financial statements, 'Share capital and share premium account').

The exact amount and timing of future purchases, and the extent to which repurchased shares will be held as Treasury shares rather than being cancelled, will be determined by the company and is dependent on market conditions and other factors.

Donations to Political Organisations and EU Political Expenditure

At the AGM in May 2001, shareholders first authorised the company to make donations to EU Political Organisations and to incur EU Political Expenditure, under the provisions of the Political Parties, Elections and Referendums Act 2000, of up to £100,000 each year. This authority has since been renewed annually. Although the company does not make and does not intend to make such payments or donations to political parties, within the normal meaning of that expression, the definition in the legislation of 'EU Political Organisation' is wide. It may extend to bodies, which the company and its subsidiaries might wish to support including those concerned with policy review, law reform, the representation of the business community and special interest groups, such as those concerned with the environment. No donations were made to EU Political Organisations during 2005. The Group made donations to non-EU Political Organisations totalling £320,000 during 2005 (£291,000 in 2004).

Donations of £301,000 were made in the USA and £19,000 in Canada. The USA is the largest recipient of political donations, and this reflects the US political system, where candidates are sponsored solely by donations from individuals, NGOs, companies and other parties.

In line with US law, the corporate donations by GSK are not made at a federal level, but only to candidates and political parties at the state and local levels. Donations are accepted practice in the USA, and as a major employer in a heavily regulated industry, it is important for GSK to engage fully in the political process. Donations are one of the ways of doing this. GSK supports those candidates who seek an environment that appropriately rewards high-risk, high-investment industries and who believe in free market principles and intellectual property rights.

The situation is similar in Canada, and donations follow the same guidelines. In the rest of the world donations are very rare and of low value.

There is also a GSK Political Action Committee (PAC) in the USA which gives political donations. PAC's are employee organisations which allow employees to contribute to a fund for political donations. Employees decide upon the recipients of the PAC donations. In 2005, a total of £282,000 was donated to political organisations by the GSK PAC.

Annual General Meeting

The AGM will be held at 2.30pm on Wednesday, 17th May 2006 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The business to be transacted at the meeting will include:

- Receiving and adopting GlaxoSmithKline's 2005 Annual Report
- Approving the 2005 Remuneration Report
  The Remuneration Report on pages 37 to 54 sets out the remuneration policies operated by GlaxoSmithKline and disclosures on Directors' remuneration, including those required by the Companies Act 1985 and the Directors' Remuneration Report Regulations 2002. A resolution will be proposed to approve the Remuneration Report.

- Retirement, election and re-election of Directors
  Dr Slaoui and Mr de Swaan have been appointed Directors since the 2005 AGM and will offer themselves for election to the Board. Mr Culp, Sir Crispin Davis and Dr Schmitz will retire and offer themselves for re-election to the Board under article 93 of the company's Articles of Association. Dr Shapiro will retire at the conclusion of the AGM and will not offer herself for re-election.

- Re-appointment and remuneration of Auditors
  Resolutions will be proposed to re-appoint PricewaterhouseCoopers LLP as auditors and to authorise the Audit Committee to determine their remuneration.

- Special business
  The company will seek authority to:

  - make donations to EU Political Organisations and incur EU Political Expenditure
  - allot Ordinary Shares in the company
  - give the Directors authority to disapply pre-emption rights when allotting new Shares in connection with rights issues or otherwise up to a maximum of 5% of the current issued share capital and purchase its own Ordinary Shares up to a maximum of just under 10% of the current issued share capital.

Internal control framework

The Board recognises its responsibility to present a balanced and understandable assessment of the Group's position and prospects. The structure of accountability and audit operated in GSK is as follows.

The Board has accountability for reviewing and approving the adequacy and effectiveness of internal controls operated by the Group, including financial, operational and compliance controls and risk management. The Board has delegated responsibility for such review to the Audit Committee, which receives reports from those individuals identified in the Committee's Report on pages 34 and 35. It is the responsibility of management, through the CET, to implement Board policies on risk and control. The CET is responsible for identifying, approving, monitoring and enforcing key policies that go to the heart of how the Group conducts business. The internal control framework includes central direction, resource allocation and risk management of the key activities of research and development, manufacturing, marketing and sales, legal, human resources, information systems and financial practice. As part of this framework, there is a comprehensive planning system with an annual budget approved by the Board. The results of operating units are reported monthly and compared to the budget. Forecasts are prepared regularly during the year.

Extensive financial controls, procedures, self-assessment exercises and risk activities are reviewed by the Group's internal auditors. Commercial and financial responsibility, however, is clearly delegated to local business units, supported by a regional management structure. These principles are designed to provide an environment of central leadership coupled with local operating autonomy as the framework for the exercise of accountability and control within the Group.

The Group also attaches importance to clear principles and procedures designed to achieve appropriate accountability and control. A Group policy, 'Risk Management and Legal Compliance', mandates that business units establish processes for managing and monitoring risks significant to their businesses and the Group.

The internal control framework also relies on the following for overseeing and reporting risk and compliance issues.

Risk Oversight and Compliance Council (ROCC)

The ROCC is a council of senior executives authorised by the Board to assist the Audit Committee oversee the risk management and internal control activities of the Group. Membership comprises several CET members and some of the heads of departments with internal control, risk management, audit and compliance responsibilities.

The ROCC meets on a regular basis to review and assess significant risks and their mitigation plans. The ROCC, responding to the Group policy referred to above, has provided the business units with a framework for risk management and upward reporting of significant risks. Mitigation planning and identification of a manager with overall responsibility for management of any given risk is a requirement.

Risk Management and Compliance Boards (RMCBs)

Risk Management and Compliance Boards (RMCBs) have been established in each of the major business units. Membership often comprises members of the senior executive team of the respective business unit, augmented by specialists where appropriate. The RMCBs oversee management of all risks that are considered important for their respective business units, including those risks that are designated as significant to GlaxoSmithKline as a whole, thus increasing the number of risks that are actively managed across the Group.

Each RMCB regularly reports the status regarding its significant risks to the ROCC.

Compliance functions

In a number of risk areas, specific standards that meet or exceed requirements of applicable law have been established. Specialist audit and compliance functions (for example Corporate Environment, Health & Safety, Global Quality Assurance and Worldwide Regulatory Compliance) assist in the dissemination, implementation and audit of these standards.

Corporate Ethics & Compliance (CEC)

The ROCC is also supported by the Corporate Ethics & Compliance department which is responsible for supporting the development and implementation of practices that facilitate employees' compliance with laws and Group policy.

The thrust of the Group's compliance effort is due diligence in preventing and detecting misconduct and non-compliance with law or regulation by promoting ethical behaviour, compliance with all laws and regulations, corporate responsibility at all levels and effective compliance systems.

The CEC is managed by the Corporate Compliance Officer, who reports directly to the CEO. The Corporate Compliance Officer chairs the ROCC and provides summary reports on the ROCC's activities and the Group's significant risks to the CET and the Audit Committee on a regular basis. The Corporate Compliance Officer's direct reporting line to the Audit Committee provides a mechanism for bypassing the executive management should the need ever arise.

Areas of potentially significant risk

For details of risks affecting the Group, see Note 41 to the financial statements, 'Legal proceedings' and 'Risk factors' on pages 71 to 74.

Corporate governance
continued

Effectiveness of controls

The internal control framework has been in operation for the whole of the year under review and continues to operate up to the date of approval of this report. The system of internal controls is designed to manage rather than eliminate the risk of not achieving business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee receives reports on areas of significant risk to the Group and on related internal controls. Following consideration of these reports, the Audit Committee reports annually to the Board on the effectiveness of controls. Such controls may mitigate but cannot eliminate risks. In addition, there are areas of the Group's business where it is necessary to take risks to achieve a satisfactory return for shareholders, such as investment in R&D and in acquiring new products or businesses. In these cases, it is the Group's objective to apply its expertise in the prudent management rather than elimination of risk. The Directors' review relates to the company and its subsidiaries and does not extend to material associated undertakings, joint ventures or other investments.

The Board, through the Audit Committee, has reviewed the assessment of risks and the internal control framework that operates in GlaxoSmithKline and has considered the effectiveness of the system of internal control in operation in the Group for the year covered by this report and up to the date of its approval by the Board. The process followed by the Board in reviewing the system of internal controls accords with the guidance on internal control issued by the Turnbull Committee in 1999.

Committee reports

Audit Committee Report

The Audit Committee's role flows directly from the Board's oversight function and it is authorised by the Board to investigate any activity within its terms of reference. The Committee has written terms of reference which have been approved by the Board. The Committee reports regularly to the Board on the performance of the activities it has been assigned. The Committee's main responsibilities include reviewing the corporate accounting and financial reporting process, monitoring the integrity of the financial statements, evaluating the system of internal control and the management of risks, overseeing activities of each of the Group's compliance audit functions and overseeing compliance with laws, regulations and ethical codes of practice. The Committee's oversight role requires it to address regularly the relationships between management and the internal and external auditors, and understand and monitor the reporting relationships and tiers of accountability between them. The Committee receives regular reports from members of the CET and senior managers covering the key compliance activities of the Group, including those concerning R&D, manufacturing, sales and marketing and EHS.

Committee members bring considerable financial and accounting experience to the Committee's work. Members have past employment experience in either finance or accounting roles or comparable experience in corporate activities.

In respect of 2005, the Board had determined that the combined qualifications and experience of the Committee members, when taken together with its modus operandi, gave the Committee collectively the financial expertise necessary to discharge its responsibilities.

Accordingly, the Board chose not to nominate any one committee member as having recent and relevant financial experience as defined by the Combined Code, or as an Audit Committee Financial Expert as defined by Sarbanes-Oxley.

In arriving at its conclusion, the Board considered the following points. Dr Schmitz has been the Chairman of the Committee since April 2001. Prior to his appointment as a Non-Executive Director of the company, he was a Non-Executive Director of Glaxo Wellcome plc, where he served on the Audit Committee. Dr Schmitz has also been a member of the Executive Board of Directors of Deutsche Bank AG. He retired from that Board in 2000 having been in charge of investment banking. Dr Schmitz was formerly a member of the Executive Board of Directors of BASF from 1980 to 1990, including CFO from 1985 to 1990. He holds an MBA from Insead. Sir Ian Prosser was CFO and later CEO of Bass PLC and is a member of the Institute of Chartered Accountants in England and Wales. Sir Robert Wilson began his professional career as an economist. He is Chairman of BG Group plc. He held senior management positions at Rio Tinto plc culminating in his appointment as Executive Chairman, from which he retired in 2003.

Sir Deryck Maughan was appointed a member of the Committee on 21st January 2005. He is Managing Director of Kohlberg Kravis Roberts & Co (KKR) and Chairman of KKR Asia. He was Chairman and CEO of Citigroup International and Vice Chairman of Citigroup Inc. Prior to the creation of Citigroup, he was Chairman and Co-Chief Executive Officer of Salomon Smith Barney. He was also Chairman and Chief Executive Officer of Salomon Brothers.

When appointing Mr de Swaan to the Committee with effect from 1st January 2006, the Board determined that he had recent and relevant financial experience in accordance with the Combined Code. In coming to this conclusion, the Board paid particular attention to Mr de Swaan's role as Chief Financial Officer of ABN AMRO, from which he retired on 31st December 2005. The Board also considers Mr de Swaan to be an Audit Committee Financial Expert as defined by Sarbanes-Oxley.

The Committee is supported by the Company Secretary, who attends the Committee's meetings, and it has available to it financial resources to take independent professional advice when considered necessary. Meetings of the Committee are attended by the Chairman, CEO, CFO, General Counsel, Head of Global Internal Audit (GIA), Corporate Compliance Officer and the external auditors.

In 2005, the Committee worked to a structured programme of activities, with standing items that the Committee is required to consider at each meeting together with other matters focused to coincide with key events of the annual financial reporting cycle:

- the external auditors reported to the Committee on all critical accounting policies and practices used by the company, alternative accounting treatments which had been discussed with management and the resultant conclusion by the external auditors, material written communications with management and any restrictions on access to information
- the CFO reported on the financial performance of the company and on technical financial and accounting matters
- the General Counsel reported on material litigation
- the Company Secretary reported on corporate governance

- the Heads of each of the Group's compliance and audit groups reported on their audit scope, annual coverage, audit resources and on the results of audits conducted throughout the year
- the Corporate Compliance Officer reported on the activities undertaken by the ROCC
- the Company Secretary, as Chairman of the Disclosure Committee, reported on matters that affected the quality and timely disclosure of financial and other material information to the Board, to the public markets and to shareholders. This enabled the Committee to review the clarity and completeness of the disclosures in the published annual financial statements, interim reports, quarterly and preliminary results announcements and other formal announcements relating to financial performance prior to their release by the Board.

The Audit Committee, management, internal auditors and the full Board work together to ensure the quality of the company's corporate accounting and financial reporting. The Committee serves as the primary link between the Board and the external and internal auditors. This facilitates the necessary independence from management and encourages the external and internal auditors to communicate freely and regularly with the Committee. In 2005, the Committee met both collectively and separately with the external auditors and the Head of GIA, without members of management being present.

The Committee has primary responsibility for making a recommendation to shareholders on the appointment, reappointment and removal of the external auditors by annually assessing the qualifications, expertise, resources and independence of the external auditors and the effectiveness of the audit process.

In making its assessment, the Committee considers papers which detail the relevant regulatory requirements relating to external auditors and evaluates reports from the external auditors on their compliance with the requirements. Where the external auditors provide non-audit services, the Committee ensures that auditor objectivity and independence are safeguarded by a policy requiring pre-approval by the Audit Committee for such services. Expenditure on audit and non-audit services is set out on pages 95 and 96.

The guidelines set out in the company's policy on engaging the external auditors to provide non-audit services include ascertaining that: the skills and experience of the external auditors make them a suitable supplier of the non-audit services; adequate safeguards are in place so that the objectivity and independence of the audit are not compromised; and the fee levels relative to the annual audit fee are within the limits set by the Committee.

The company also has well-established policies, including a Code of Ethics, which is available on its website, and a help-line facility for the reporting and investigation of unlawful conduct. No waivers to the Code were made in 2005.

The Committee met in full session five times in 2005 and five times on a quorate basis. Each full session was attended by all members except Sir Robert Wilson, who was unable to attend one meeting.

Nominations Committee Report

The Nominations Committee's terms of reference include responsibility for proposing the appointment of Board and Committee members. During 2005, the Committee made recommendations to the Board on the appointment of Mr de Swaan as a Non-Executive Director.

The Committee also recommended to the Board the appointment of Sir Deryck Maughan to the Audit Committee in January 2005 and Dr Schmitz to the Remuneration Committee in May 2005. In February 2006, the Committee recommended to the Board that Dr Moncef Slaoui, succeed Dr Yamada as Chairman, Research & Development on his retirement from the company on 1st June 2006.

In addition, the Committee recommended to the Board that Dr Schmitz should serve a further term of three years as a Non-Executive Director and that he should remain Chairman of the Audit Committee until September 2006. The Committee also made a recommendation to the Board that Dr Ralph Horwitz be appointed a Non-Executive Director. Following the announcement of Dr Horwitz's appointment, a potential conflict of interest was disclosed, and Dr Horwitz decided not to take up his appointment as a Non-Executive Director of the company.

When recruiting Non-Executive Directors, the Committee considers the particular skills, knowledge and experience that would benefit the Board most significantly for each appointment. Broad selection criteria are used which focus on achieving a balance between the representation of European, UK and US markets, and having individuals with CEO experience and skills developed in various sectors and specialities. During 2005, particular focus was placed upon recruiting a new Non-Executive Director with recent and relevant financial expertise, to join the Audit Committee. Professional search agencies are engaged specialising in the recruitment of high calibre Non-Executive Directors. Dossiers of potential non-executive appointees are provided to the Committee and candidates are short-listed for interview after considering their relevant qualifications.

A customised induction process is conducted for each of the new Non-Executive Directors focusing on their particular experience and taking account of their different backgrounds. This process includes meeting members of the CET and other senior executives and visiting particular operational facilities of the Group.

The Committee continued to keep under review the succession planning for senior executive positions, including that of the CEO and Chairman, Research & Development.

When appointing new Executive Directors, the Committee considers the skills, knowledge and experience required for the particular executive position. The Committee will consider potential external and internal candidates before recommending to the Board to approve the new appointment. All new Directors offer themselves for election at the company's next AGM. Their appointments are announced publicly.

The Committee met once during 2005 in full session and twice on a quorate basis. All members were present at the full meeting.

Remuneration Report

The Remuneration Report can be found on pages 37 to 54.

The Combined Code

Throughout 2005, the company complied with the Code provisions of the Combined Code, except as follows:

- B.1.1 – In designing schemes of performance-related remuneration, the Remuneration Committee should follow the provisions in Schedule A to the Code. Item 6 of Schedule A states that, in general, only basic salary should be pensionable. The company's position is explained in the Remuneration Report on pages 37 to 54.

Corporate governance
continued

- C.3.1 – The Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. The company's position is explained on page 34. See page 34 for the position from 1st January 2006.

- D.2.3 – The Chairman should arrange for the Chairmen of the Audit, Remuneration and Nominations Committees to be available to answer questions at the AGM and for all Directors to attend. The company's position is explained on pages 31 and 32.

US law and regulation

A number of provisions of US law and regulation apply to GSK because the company's shares are quoted on the New York Stock Exchange (NYSE) in the form of ADSs.

NYSE rules

In general, the NYSE rules permit the company to follow UK corporate governance practices instead of those applied in the USA, provided that the company explains any significant variations. This explanation is on the company's website. NYSE rules that came into effect in 2005 require the company to file annual and interim written affirmations concerning the Audit Committee and the company's statement on significant differences in corporate governance.

Sarbanes-Oxley Act of 2002

Following a number of corporate and accounting scandals in the USA, Congress passed the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley). Sarbanes-Oxley established new standards for corporate accountability for companies listed in the USA. Although the company's corporate governance structure was believed to be robust and in line with best practice, certain changes were necessary to ensure compliance with Sarbanes-Oxley.

As recommended by the Securities and Exchange Commission (SEC), GSK has established a Disclosure Committee. The Committee reports to the CEO, the CFO and to the Audit Committee. It is chaired by the Company Secretary and the members consist of senior managers from finance, legal, compliance, corporate communications and investor relations.

External legal counsel and the external auditors are invited to attend its meetings periodically. It has responsibility for considering the materiality of information and, on a timely basis, determining the disclosure of that information. It has responsibility for the timely filing of reports with the SEC and the formal review of the Annual Report and Form 20-F. In 2005, the Committee met eleven times.

Sarbanes-Oxley requires that the Annual Report contains a statement as to whether a member of the company's Audit Committee is an audit committee financial expert.

For an explanation and details of the basis for the Board's judgement on this matter, refer to page 34.

For accounting periods ending on or after 15th July 2006, Sarbanes-Oxley requires that the company's Form 20-F contain a report stating the responsibility of management for establishing and maintaining adequate internal control over financial reporting and assessing the effectiveness of the company's internal control over financial reporting.

Although the company is not required to report compliance in its 2005 Form 20-F, management has undertaken a process to ensure that it will be in a position to report compliance by the due date.

Sarbanes-Oxley also introduced a requirement for the CEO and the CFO to complete formal certifications, confirming that:

- they have each reviewed the Annual Report and Form 20-F

- based on their knowledge, it contains no material misstatements or omissions

- based on their knowledge, the financial statements and other financial information fairly present, in all material respects, the financial condition, results of operations and cash flows as of the dates, and for the periods, presented in the Annual Report and Form 20-F

- they are responsible for establishing and maintaining disclosure controls and procedures that ensure that material information is made known to them, have evaluated the effectiveness of these controls and procedures as at the year end, the results of such evaluation being contained in the Annual Report and Form 20-F and have disclosed in the Annual Report and Form 20-F any changes in internal controls over financial reporting during the period covered by the Annual Report and Form 20-F that have materially affected, or are reasonably likely to affect materially, the company's internal control over financial reporting

- they have disclosed, based on their most recent evaluation of internal control over financial reporting, to the external auditors and the Audit Committee all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect adversely the company's ability to record, process, summarise and report financial information and any fraud (regardless of materiality) involving persons that have a significant role in the company's internal control over financial reporting.

The CEO and CFO have completed these certifications, which will be filed with the SEC as part of the Group's Form 20-F.

Controls and procedures

The Group carried out an evaluation under the supervision and with the participation, of the Group's management, including the CEO and CFO, of the effectiveness of the design and operation of the Group's disclosure controls and procedures as at 31st December 2005. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon the Group's evaluation, the CEO and CFO have concluded that, as at 31st December 2005, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports the Group files and submits under the US Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported as and when required and that it is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in the Group's internal control over financial reporting during 2005 that have materially affected, or are reasonably likely to affect materially, the Group's internal control over financial reporting.

Remuneration Report

The Remuneration Report sets out the remuneration policies operated by GSK in respect of the Directors and Corporate Executive Team (CET) members, together with disclosures on Directors' remuneration including those required by The Directors' Remuneration Report Regulations 2002 (the Regulations). In accordance with the Regulations, the following sections of the Remuneration Report are subject to audit: Annual remuneration; Non-Executive Directors' remuneration; Share options; Incentive plans; performance criteria on Performance Share Plans and share options; and Pensions. The remaining sections are not subject to audit nor are the pages referred to from within the audited sections.

This Report is submitted to shareholders by the Board for approval at the Annual General Meeting, as referenced in the notice of Annual General Meeting.

Throughout the Remuneration Report the Executive Directors and CET members are referred to as the 'Executives'.

References to GlaxoSmithKline shares and ADSs mean, respectively, Ordinary Shares of GlaxoSmithKline plc of 25p and American Depository Shares of GlaxoSmithKline plc. Each ADS represents two GlaxoSmithKline shares.

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Remuneration Report
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Introduction

The Remuneration Committee (or 'Committee') is responsible for making recommendations to the Board on the company's remuneration policy and, within the terms of the agreed policy, determining the total individual remuneration packages of the Executives.

The remuneration policy set out in this Report was finalised after undertaking an extensive consultation process with shareholders and institutional bodies during the course of 2003 and 2004.

The Chairman of the Remuneration Committee continues to have regular dialogue with institutional investors regarding GSK's remuneration policy.

GlaxoSmithKline's remuneration policy is designed to establish a framework for remuneration that is consistent with the company's scale and scope of operations, meets the recruitment needs of the business and is closely aligned with UK shareholder guidelines. As at 31st December 2005, the company was the second largest pharmaceutical company in the world by revenue, with operations on five continents with products sold in over 130 countries and with around 50% of sales being generated in the USA.

Remuneration Committee

Sir Robert Wilson has been Chairman of the Committee since 17th May 2004. Sir Crispin Davis and Mr Culp were members of the Committee throughout 2005. Dr Schmitz was appointed to the Committee in May 2005. The Board deemed all of the members of the Committee to be independent Non-Executive Directors in accordance with the Combined Code.

The Committee met five times during 2005 with each member attending as follows:

Name	Number of meetings held whilst a Committee member	Number of meetings attended by Committee member
Sir Robert Wilson	5	5
Mr L Culp	5	5
Sir Crispin Davis	5	5
Dr Ronaldo Schmitz	4	4

Three quorate meetings were held to approve the formal grant of share options and performance share awards to give effect to the Committee's decisions.

With the exception of the Company Secretary, no employees of the company were involved in the conduct of Committee meetings. Dr Garnier (CEO) and the Senior Vice President, Human Resources, were invited to attend part of some meetings of the Committee as required.

Deloitte & Touche LLP (Deloitte) have been appointed by the Committee to provide it with independent advice on executive remuneration.

Deloitte provided other consulting services to GSK during the year, but did not provide advice on executive remuneration matters other than to the Committee.

Towers Perrin provides market data and data analysis to the Committee.

Remuneration policy

Principles

The four core principles which underpin the remuneration policy for GlaxoSmithKline are:

- securing outstanding executive talent
- pay for performance and only for performance
- robust and transparent governance structures
- a commitment to be a leader of good remuneration practice in the pharmaceutical industry.

In formulating the policy, the Committee also decided that:

- the remuneration structure must support the needs of the business in a very competitive market place
- UK shareholder guidelines will be followed to the maximum extent consistent with the needs of the business and the company would maintain a regular dialogue with shareholders
- global pharmaceutical companies are the primary pay comparator group
- performance conditions would be based on the measurable delivery of strong financial performance and the delivery of superior returns to shareholders as compared with other pharmaceutical companies
- a high proportion of the total remuneration opportunity will be based on performance-related remuneration which will be delivered over the medium to long term
- remuneration would be determined using the projected value method (see 'Benchmarking' below)
- there would be one remuneration structure for Executive Directors and the CET with the same performance conditions, applying equally to their long-term incentive awards
- no ex-gratia payments will be made
- pay structures would be as simple as is consistent with the business needs.

Overall, the policy is intended to provide median total remuneration for median performance. Poor performance will result in total remuneration significantly below the pay comparator group median, with the opportunity to earn upper quartile total remuneration for exceptional performance.

This strong alignment with performance is demonstrably in the interests of shareholders and provides the Executives with unambiguous signals about the importance of delivering success to the company's shareholders.

Commitment

The Committee will apply this policy on a consistent and transparent basis. Any significant changes in the measures used to assess performance will be discussed with shareholders. In the use of comparators for pay benchmarking, the Committee will use its discretion to ensure that remuneration levels are reasonable, and if it believes that changes may cause concern amongst shareholders, the position will be discussed with shareholders prior to implementation.

Pay and performance comparators

The following table sets out the companies used for pay and performance comparison:

Company	Country	Market Cap 31.12.05 £m
Abbott Laboratories	USA	35,561
AstraZeneca	UK	44,693
Bristol-Myers Squibb	USA	26,140
Eli Lilly	USA	37,396
GlaxoSmithKline	**UK**	**85,497**
Johnson & Johnson	USA	103,950
Merck	USA	40,440
Novartis	Switzerland	80,419
Pfizer	USA	99,942
Roche Holdings	Switzerland	61,334
Sanofi-Aventis	France	70,997
Schering-Plough	USA	17,915
Takeda Pharmaceutical Company	Japan	27,949
Wyeth	USA	35,952

The merger of Aventis and Sanofi-Synthelabo during 2004 reduced the size of the comparator group to 13 companies and GlaxoSmithKline. The Committee subsequently determined that for a number of reasons, including focus of operation and market capitalisation, there was no other suitable company to add to the group.

Benchmarking

For benchmarking purposes, total remuneration incorporates base salary, annual bonus and long-term incentives. When setting pay, the Committee has due regard to the Executives' pension arrangements.

The global pharmaceutical industry is used as the primary pay comparator for the Executives, as it is the appropriate marketplace for the company's most senior executive talent. In the first instance, pay is benchmarked to publicly available remuneration data for these companies.

To provide context to the above information, reference is made to the Towers Perrin annual global pharmaceutical pay survey for the Pharmaceutical Human Resources Association (PHRA). To ensure that the global pharmaceutical industry benchmark is subject to scrutiny and review, the Committee also considers pay data from other global businesses primarily in the consumer and the manufacturing sectors.

Prior to determining the annual long-term incentive opportunity, the Committee considers a range of vesting levels that may be achieved based on different assumptions, such as share price growth, performance levels etc. For performance in line with expectations, total remuneration is targeted at the median of the comparator group and the long-term incentive opportunity is set in a way which provides for positioning of total remuneration at the median.

To ensure that a stable benchmark is developed and to reduce the impact of short-term fluctuations, incentive policies for other global pharmaceutical companies are assessed over a number of years.

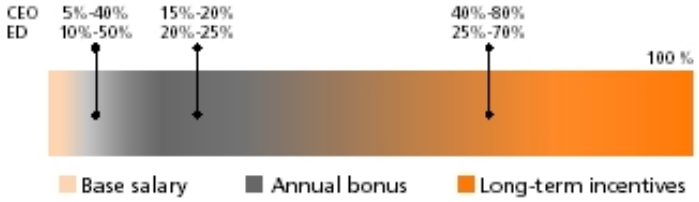
Valuation method

The projected value method is used to benchmark total remuneration. This method projects the future value of the remuneration package under different performance scenarios, whilst moderating the impact of market fluctuations in the short term and strengthening the focus on performance.

Following the independent review in 2003, the Committee made a deliberate and conscious decision to use the projected value method for pay benchmarking purposes as it enables a comparison of packages with different structural characteristics and provides an insight into the value gearing of different equity instruments.

Individual elements of remuneration

The balance between the fixed (base salary) and variable (annual bonus and long-term incentive) elements of remuneration changes with performance. The chart below shows the anticipated normal range of the mix between fixed and variable pay at different levels of performance for the CEO and the typical case for the other Executive Directors ("ED"). In some years, the ranges may be higher or lower, depending on the performance of the company and the individual.



Base salary

Base salaries are set by reference to the median for the relevant market. For Executives, this is the pharmaceutical pay comparator group. Actual salary levels are reviewed annually and may vary depending on an Executive's experience, responsibility and market value. Any changes usually take effect from 1st April. Following a market data review, base salaries for Dr Garnier and Dr Yamada were increased by 5.1% to $1,600,000 and 6.9% to $775,000, respectively, with effect from 1st April 2005 in line with stated policy in relation to base salary positioning. The base salary for Mr Coombe prior to his retirement on 31st March 2005 was £509,850. The base salary on appointment for Mr Julian Heslop, who succeeded Mr Coombe, was £320,000. Following a market data review, undertaken in February 2006, the base salary for Dr Garnier and Dr Yamada was increased by 8% to $1,730,000 and by 3% to $800,000, respectively. Mr Heslop's base salary was increased by 25% to £400,000 following the Committee's review of his performance as CFO since his appointment to the role on 1st April 2005. Salary increases take effect 1st April 2006.

Annual bonus

All bonuses are determined on the basis of a formal review of annual performance against stretching financial targets based on profit before interest and tax and are subject to detailed assessment of individual, business unit and Group achievements against objectives. No bonus is payable if financial performance is less than 96% of the target performance. The individual performance against objectives can increase or decrease the bonus level by a factor which can range from zero to 1.5. Bonuses are subject to upper limits, which for the Executives other than the CEO, range between 100% and 200% of base salary. The CEO's limit is 200%.

An annual bonus paid on the basis of on-target business performance together with base salary provides annual cash in line with the median of the pay comparator group.

In the case of the CEO, the bonus targets are set by the Board. In setting the objectives for the CEO, the Board takes into account the strategies that have been developed by the company, and are set out on page 6 of the Annual Report.

Remuneration Report
continued

The objectives set for 2005 focussed in particular on building the best product pipeline in the industry, delivering commercial and operational excellence and, in addition, formulating and updating the strategic plan for the vaccines business.

For reasons of commercial sensitivity, the specific objectives set against the strategic business drivers are kept confidential. Following the end of the financial year, the Board reviews the CEO's performance generally and against the set objectives, and the Committee then determines the bonus payable. The CEO makes recommendations to the Committee regarding the performance level achieved against objectives for the other Executives. These recommendations are then considered by the Committee to determine the resultant bonus.

In determining bonus awards for 2005, the Committee took into account the excellent financial performance during the year and the encouraging progress in building the pipeline of new products.

In light of the low take up levels and in response to concerns expressed by institutional investors in relation to the 1 for 10 non-performance related match provided under the Annual Incentive Plan (AIP), the Committee decided to discontinue the AIP. Under the AIP, and its US equivalent, eligible employees could elect to invest their bonus in GSK shares or ADSs for a minimum period of three years. At the end of the three-year holding period, participants (including Executives) are entitled to a matching award of 10% of their deferred shareholding. The match is not subject to further performance conditions. This AIP was open to approximately 700 senior executives who all participated on the same terms. The last deferral elections under the AIP were made in respect to bonuses earned during 2005. Although the AIP has now closed, GSK will continue to manage the ongoing administration of subsisting awards as required by the AIP rules.

Long-term incentives

Executives are eligible for performance share awards and share options. The remuneration policy provides that annual long-term incentive (LTI) awards will normally be made up of a performance share award and a share option award.

The Committee considers that performance shares provide a stronger alignment to shareholder value, and therefore the remuneration policy places greater emphasis on the use of performance shares. LTI awards are determined such that for on-target performance more than half of the long-term incentive reward is derived from performance shares.

The annual grant of LTI awards using more than one plan is consistent with the practice of the pay comparator group and other leading UK companies. LTIs for the CET are provided on the same basis as the Executive Directors. The level of the annual LTI opportunity is considered carefully year-on-year by the Committee in the context of market practice.

To align the award cycles more closely with GSK's financial year and budgeting process, the Committee decided to change the annual grant date for LTI awards for all eligible employees from the fourth quarter of each year to the first quarter of each year.

This change took effect from 2005 and thus LTI awards that would otherwise have been made in the fourth quarter of 2005 were made instead in February 2006. This change in award cycle does not affect the performance period.

Historically, the performance period for awards made in the fourth quarter started on 1st January following the date of award. For LTI awards made in 2006 and thereafter, the performance period starts on 1st January of the year of award (i.e. 1st January 2006 for awards made in February 2006).

No compensation was provided for the change in the awards cycle.

Full disclosure of LTI awards made to the Executive Directors in February 2006 will be made in the Remuneration Report for 2006. The summary details of the LTI awards made to the Executive Directors in February 2006 are set out on page 51 of the Remuneration Report.

Performance share awards and share options are delivered to US resident executives in the form of ADSs. Awards are delivered in the form of Ordinary Shares to executives resident in the UK and other countries. All awards are made under plans which incorporate dilution limits consistent with the guidelines provided by the Association of British Insurers, the National Association of Pension Funds and other shareholder representative bodies. Current estimated dilution from existing awards under all GlaxoSmithKline employee share schemes made since the merger is approximately 5% of the company's share capital at 31st December 2005.

In 2005, the Committee, assisted by Deloitte, undertook a review of the current performance measures used under the GSK LTI plans. After extensive and careful consideration, the Committee concluded that the measures currently used under the LTI plans remain appropriate and relevant, although in the case of the Share Option Plan, it was agreed that the annualised growth in EPS to achieve 100% vesting for the awards granted in 2006, would be increased from RPI + 5% to RPI +6%.

a) Performance shares

For the Executives, the level of performance shares vesting is based on the company's Total Shareholder Return (TSR) relative to the performance comparator group (see page 39) over a three-year measurement period. TSR was chosen as the most appropriate comparative measure since it focuses on the return to shareholders, is a well-understood and tested mechanism to measure performance and allows comparison between companies operating in different countries.

TSR is measured in sterling over the performance period and represents the change in the value of a share together with the value of reinvested dividends paid. In order to remove the impact of the varying tax treatments of dividends in different jurisdictions, all dividends are reinvested gross.

As a result of the change in the LTI award cycle for all eligible employees, no performance share awards were made in 2005 to the Executives. In respect of the performance share awards granted in December 2004 and in February 2006, with the performance periods of 1st January 2005 to 31st December 2007 and 1st January 2006 to 31st December 2008, respectively, if GSK is ranked at position seven (the mid-point) of the performance comparator group, 35% of the shares will vest. Any ranking below this point will result in no shares vesting. Only if GSK is one of the top two companies will all of the shares vest. When determining vesting levels, the Committee has regard for the company's underlying financial performance.

TSR rank with 13 companies & GlaxoSmithKline	Percentage of award vesting*
1	100%
2	100%
3	87%
4	74%
5	61%
6	48%
7	35%
Below 7	0%

* TSR is measured on a pro-rata basis. Where GlaxoSmithKline's performance falls between two of the comparators, the level of vesting will be determined by the actual relative level of TSR rather than simple ranking.

To provide a closer link between shareholder returns and payments to the Executives, notional dividends are reinvested and paid out in proportion to the vesting of the award. The receipt of dividends has been incorporated into the benchmarking of award levels. In addition, performance shares earned by the Executives cannot be sold, except to meet related tax liabilities, for a further two years following the end of the vesting period. The Committee believes that this further aligns the interests of the Executives with the long-term interests of shareholders.

The vesting table for the performance share awards granted in December 2003, with the performance period 1st January 2004 to 31st December 2006, is given on page 52.

b) Share options

Share options allow a holder to buy shares at a future date at the share price prevailing at the time of grant. Share options are granted to more than 12,000 managers at GlaxoSmithKline, including the Executives. The vesting of the share options granted to the Executives is linked to the achievement of compound annual EPS growth over the performance period.

The Committee considered that EPS was the key measure of the performance of the business and was also fully reflected through the business measures extended throughout the Group, ensuring organisational alignment.

When setting EPS targets, the Committee considers the company's internal projections and analysts' forecasts for GlaxoSmithKline's EPS performance, as well as analysts' forecasts for the pharmaceutical industry.

The following key principles govern the use of EPS as a performance measure:

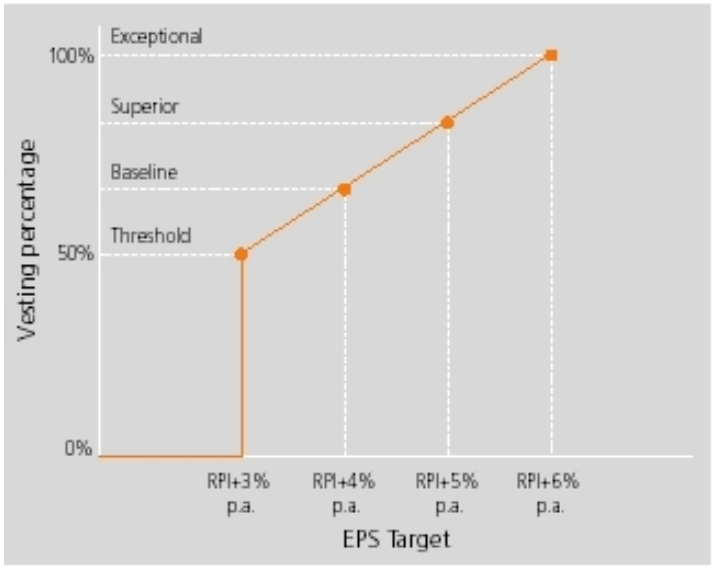
- adjustments will only be considered for major items
- adjustments will be for the judgement of the Committee
- the purpose of the adjustments is to ensure that the performance measurement is fair and reasonable to both participants and shareholders
- any discretion exercised by the Committee will be disclosed to shareholders in the Annual Report.

The Committee will set out the basis of its decision if it considers it appropriate to make any adjustment.

Following the introduction of International Financial Reporting Standards (IFRS) on 1st January 2005, the Committee considered what EPS measurement basis, either IFRS or UK GAAP, should be used for share options and performance share plan awards (prior to 2003 see page 50), with EPS performance conditions having performance periods that straddled the IFRS conversion date. The Committee agreed that for the purpose of measuring EPS growth in determining whether vesting targets had been achieved, UK GAAP would be used for the 2002 grant (performance period: 1st January 2003 to 31st December 2005) as two out of three years would be reported under UK GAAP. This would require the 2005 CER growth to be restated on a UK GAAP basis. IFRS would be used for the 2003 grant (performance period: 1st January 2004 to 31st December 2006) as two out of the three years would be reported under IFRS.

As a result of the change in the LTI award cycle for all eligible employees, no share options were granted to Executives in 2005.

For share option grants in 2006, vesting increases on a straight-line basis for EPS performance between the hurdles set out in the following graph.



This performance condition is substantially consistent with UK shareholder guidelines and expectations and is demanding when compared with those operated by other global pharmaceutical companies. This is consistent with the policy of providing pay for performance and only for performance.

Performance is measured over periods of three financial years, which commence on the basis set out on page 40. There is no performance retesting, so if the performance condition is not met after the three-year period, the options will lapse.

Pensions

The Executives participate in GlaxoSmithKline senior executive pension plans. The pension arrangements are structured in accordance with the plans operated for executives in the country in which the executives are likely to retire. Benefits are normally payable at age 60. Details of individual arrangements for the Executive Directors are set out on page 43. In response to the future pensions regime in the UK, the Committee carefully considered the impact of the change in legislation and has decided the following:

- the company will continue to fulfil its obligations under existing pension arrangements
- no compensation will be provided if participants are adversely affected by the new pension regime.

In coming to these decisions, the Committee took account of the following:

- new executive hires benefit from a 15%, plus 4% match opportunity, of base pay under the defined contribution plan in the UK, and a contribution equal to 5% of base salary plus under the bonus cash balance plan in the USA
- in the UK, legacy final salary plans were grandfathered for existing employees and no new entrants have been allowed. For capped employees, benefits in excess of the cap are currently all provided through unfunded arrangements
- for capped employees in the USA, benefits above the cap are provided by a non-qualified plan.

Share ownership requirements

To align the interests of executives with those of shareholders, executives are required to maintain significant holdings of shares in GlaxoSmithKline. These requirements are an important part of aligning the interests of executives with shareholders. The CEO is required to hold shares to the value of four times base salary. Other Executive Directors are required to build a shareholding to the value of three times base salary. Members of the CET are required to build a shareholding to a value of two times base salary. The other top 700 executives in the Group are required to build a shareholding to a value of one times base salary. Executives are required to continue to satisfy these shareholding requirements for a minimum of twelve months following retirement from the company.

In order for shares to qualify for these share ownership requirements they must be held personally by the Executive or their spouse or minor children or have been earned but deferred under one of the share programmes operated by the company. Unexercised share options are not included in this calculation. As at 31st December 2005, Dr Garnier's holding was 225,896 ADSs, Dr Yamada's was 67,512 ADSs and Mr Heslop's was 18,885 ordinary shares. Dr Garnier's and Dr Yamada's holdings were in excess of the share ownership requirements. Mr Heslop has until December 2008 to build his holding to the value of three times base salary. Mr Coombe's shareholding at 31st December 2005, was in excess of the share ownership requirements following his retirement from the Board on 31st March 2005.

Other remuneration elements

The Executives participate in various legacy Glaxo Wellcome and SmithKline Beecham all-employee share plans in either the UK or the USA and in the GlaxoSmithKline plans that replaced them.

The Sharesave plan and the ShareReward plan are Inland Revenue-approved plans open to all UK employees on the same terms. Mr Heslop is a member of the Sharesave plan, into which he contributes £250 a month. This provides him with the option to buy shares at the end of the three-year savings period in line with the opportunity available to all UK employees.

Mr Heslop also contributes £125 per month to buy shares under the ShareReward plan. The company matches the number of shares bought each month.

The Executives also receive other benefits including healthcare (medical and dental), personal financial advice and life assurance. The cash value of the benefits received by the Executive Directors in 2005 is shown on page 45.

Executive Director terms, conditions and remuneration

Executive Director contracts

The policy regarding the Executive Directors' contracts was the subject of extensive review and change during 2003. The policy provides the framework for contracts for Executive Directors appointed since and going forward.

The key aspects of GlaxoSmithKline's contractual framework are:

Aspect	Policy
Notice period on termination by the employing company or executive	12 calendar months
Termination payment	– 1x annual salary and 1x annual 'on-target' bonus [1] – No mitigation required [2]
Benefits	Governed by benefits policy, including: – healthcare (medical and dental) – personal financial advice – life assurance contributions
Vesting of long-term incentives	Rules of relevant equity incentive plan [3]
Pension	Based on existing arrangements and terms of the relevant pension plan
Non-compete clause	12 months from termination notice date [2]

1 Dr Garnier's target bonus is 100% of salary, Dr Yamada's is 85% of salary and Mr Heslop's is 75% of salary.
2 The imposition of a 12-month non-compete period on the Executives is considered vitally important by the company in order to protect the Group's intellectual property. In light of the non-compete clause and competitor practice, the Committee believes that it would not be appropriate to provide for mitigation in the contracts. When reviewing the level of severance payments, the Committee considered investor and DTI guidance. However, it determined that in line with competitive practice it is appropriate to provide for the payment of salary and target bonus on termination.
3 As approved by shareholders of GlaxoSmithKline, Glaxo Wellcome and SmithKline Beecham, as appropriate.

Following the independent review of remuneration undertaken in 2003, Dr Garnier, Mr Coombe and Dr Yamada agreed to changes in their previous contractual terms without compensation to come broadly in line with the new contractual framework, including the reduction of contractual notice period from 24 to 12 calendar months. However, in order to honour certain aspects of their 'old' contractual terms, there are a number of individual features which have been retained.

In Dr Garnier's case, these include the entitlement to reimbursement of excise tax on change of control related payments, life insurance benefit funded by the company to age 65 and the following provisions relating to the vesting of long-term incentives:

- Pre-2003 awards
  On termination by the company (other than for cause), on retirement or on resignation for 'good reason' (i.e. resignation due to not being elected or retained as a director of the company or any merged company, or as a result of a change of control provided that such resignation occurs on or within 30 days of the first anniversary of the change in control), options will vest in full and remain exercisable for the full option term, and performance shares will vest at the end of the performance period subject to performance but not time-apportioned.

- 2003 and thereafter
  Awards for the above provisions apply, but options will be subject to performance testing in all circumstances, and any options or performance share awards made 12 months prior to the termination notice date will lapse.

In addition, Dr Garnier and Dr Yamada are entitled to receive one year's worth of pension contributions on termination.

Dr Garnier's contract was executed on 3rd March 2004 and took effect from 1st January 2004. His contract will expire on 31st October 2007 being the last day of the month in which he will reach his 60th birthday. Dr Yamada's contract was executed on 27th July 2004 and took effect from 1st January 2004. Dr Yamada will retire from the Board and the company on 1st June 2006. Mr Coombe's contract was executed on 3rd March 2004, took effect from 1st January 2004 and expired on 31st March 2005.

Mr Heslop's contract was executed on 16th March 2005 and took effect from 1st April 2005. Mr Heslop's contract will expire on 31st January 2014, being the last day of the month in which he reaches his 60th birthday.

No termination payments will be made in respect of any part of a notice period extending beyond the contract expiry dates.

Individual pension arrangements

The UK plan provides for a pension based on two-thirds of final salary at age 60. The US cash balance plan provides for an annual contribution and interest on the sum accumulated in the cash balance plan but with no contractual promise to provide specific levels of retirement income.

GlaxoSmithKline makes annual contributions of 15% of Dr Garnier's annual salary and bonus and 18% of Dr Yamada's annual salary and bonus. The fund increases at an interest rate based on the yield on 30-year treasury bonds. The company has no liability beyond making these annual contributions.

Prior to 1999 all US employees, including Dr Garnier and Dr Yamada, were moved from a final salary pension arrangement to the current cash balance structure. For all employees in the US, cash balance plan contributions are based on combined annual salary and annual bonus.

Mr Heslop participates in the Glaxo Wellcome defined benefit plan with an accrual rate of 1/30th of final pensionable salary per annum.

In 2000 all benefits accrued under the Glaxo Wellcome UK pension arrangements were augmented by the Trustees of the plans by 5% to reflect a distribution of surplus. This augmentation will apply to that element of Mr Heslop's pension earnings before 31st March 2000.

Other entitlements

In addition to the contractual provisions outlined above, in the event that Executive Directors service agreements are terminated by their employing company, the following would apply:

- in the case of awards under the GlaxoSmithKline Annual Investment Plan, provided that their agreement is terminated other than for cause, any deferred amount, any income and gains, are automatically distributed as soon as administratively practicable after termination. If they resign, retire or the termination is for cause, then any deferred amount is not distributed until the end of the minimum three-year deferral period

- in line with the policy applicable to US senior executives, Dr Garnier and Dr Yamada are entitled to receive continuing medical and dental insurance

- following the merger, those participants in the legacy share option schemes who elected to exchange their legacy options for options over GlaxoSmithKline shares will receive an additional cash benefit equal to 10% of the grant price of the original option. This additional benefit is triggered when the new option is exercised or lapses. To qualify for this additional cash benefit, participants had to retain their options until at least the second anniversary of the effective date of the merger.

Outside appointments for Executive Directors

Any outside appointments must be approved by the Chairman on behalf of the Board. It is the company's policy that remuneration earned from such appointments may be kept by the individual Executive Director.

Remuneration Report
continued

Non-Executive Director terms, conditions and fees

Non-Executive Directors of GlaxoSmithKline do not have service contracts but instead have letters of appointment. The company aims to provide Non-Executive Directors with fees that are competitive with other companies of equivalent size and complexity. The fee structure for the Non-Executive Directors is as follows:

	Per annum
Standard annual cash retainer fee	£60,000
Supplemental fees	
Senior Independent Director, the Audit Committee Chairman and Scientific/Medical Experts	£30,000
Chairmen of the Remuneration and Corporate Responsibility Committees	£20,000
Non-Executive Director undertaking intercontinental travel to meetings	£5,000 per meeting

Automatic share allocation

To enhance the link between Directors and shareholders GlaxoSmithKline requires Non-Executive Directors to receive a significant part of their fees in the form of shares. With effect from 1st October 2004, at least 25% of the Non-Executive Directors' total fees, excluding the Chairman, are paid in the form of shares and allocated to a share account. The Non-Executive Directors may also take the opportunity to invest part or all of the balance of their fees into the same share account.

Exchange rate

Fees that are paid in US Dollars are converted at a rate of £1/US$1.8162, being the exchange rate that applied on 29th July 2004 when the new fee arrangements were approved by the Board.

Non-Executive Directors are not entitled to compensation if their appointment is terminated.

Chairman

Sir Christopher Hogg retired as Chairman with effect from 31st December 2004. Sir Christopher Gent's letter of appointment to the Board was dated 26th May 2004, under which it was agreed that he serve the company as Deputy Chairman until 31st December 2004 and from 1st January 2005 as Chairman until the conclusion of the Annual General Meeting following the third anniversary of his appointment. This may be extended for a further term of three years by mutual agreement. He received fees at the rate of £240,000 per annum plus an allocation of GlaxoSmithKline shares to the value of £60,000 per annum whilst Deputy Chairman, and receives £400,000 per annum plus an allocation of GlaxoSmithKline shares to the value of £100,000 per annum as Chairman.

Other Non-Executive Directors

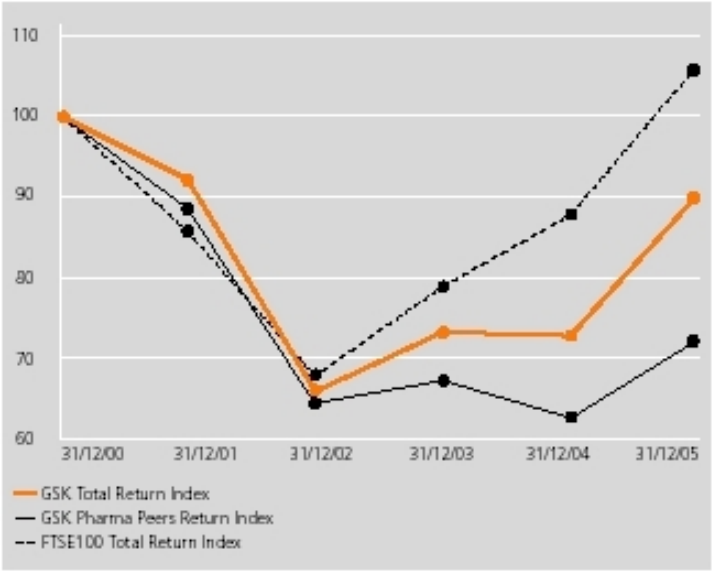
On appointment, each Non-Executive Director is provided with a letter of appointment under which it is agreed that they serve the company as a Non-Executive Director until the conclusion of the Annual General Meeting following the third anniversary of their appointment. In each case this can be extended for a further term of three years by mutual agreement. No Directors serve a term longer than three years without offering themselves for re-election by the shareholders.

The following table shows the date of the letter of appointment of each Non-Executive Director:

Non-Executive Director	Date of letter of appointment
Mr L Culp	09.06.03
Sir Crispin Davis	09.06.03
Sir Deryck Maughan	26.05.04
Sir Ian Prosser	19.06.00
Dr R Schmitz	19.06.00
Dr L Shapiro	19.06.00
Mr T de Swaan	21.12.05
Sir Robert Wilson	09.06.03

TSR performance graph

The following graph sets out the performance of the company relative to the FTSE 100 index of which the company is a constituent and to the performance comparator group since the merger on 27th December 2000. The graph has been prepared in accordance with the Regulations and is not an indication of the likely vesting of awards granted under any of the company's incentive plans.



Directors and Senior Management remuneration

The following tables set out for the Directors of GlaxoSmithKline plc the remuneration earned in 2005, their interests in shares of GlaxoSmithKline plc, their interests in share options and incentive plans and their pension benefits. The members of the CET and the Company Secretary, known as the Senior Management, also participate in the same remuneration plans as the Executive Directors and the aggregate remuneration and interests of the Directors and Senior Management are also provided.

Annual remuneration

	Footnote	2005 Fees and salary 000	Other benefits 000	Annual bonus 000	Deferred bonus 000	**Total annual remuneration 000**	2004 Fees and salary 000	Other benefits 000	Annual bonus 000	Total annual remuneration 000
Current Executive Directors										
Dr JP Garnier	a,b,c	$ 1,582	$ 641	$ 2,812	$ 1,556	**$ 6,591**	$ 1,523	$ 786	$ 2,250	$ 4,559
Mr J Heslop		£ 240	£ 9	£ 280	–	**£ 529**	–	–	–	–
Dr T Yamada	a,b,c	$ 763	$ 739	$ 1,110	$ 698	**$ 3,310**	$ 725	$ 577	$ 1,001	$ 2,303
Total Current Executive Directors		£ 1,528	£ 767	£ 2,436	£ 1,238	**£ 5,969**	£ 1,228	£ 745	£ 1,777	£ 3,750
Former Executive Director										
Mr J Coombe	b,c,d	£ 139	£ 32	–	–	**£ 171**	£ 506	£ 9	–	£ 515
Total Executive Directors		£ 1,667	£ 799	£ 2,436	£ 1,238	**£ 6,140**	£ 1,734	£ 754	£ 1,777	£ 4,265
Current Non-Executive Directors										
Mr L Culp		$ 136	–	–	–	**$ 136**	$ 97	–	–	$ 97
Sir Crispin Davis		£ 70	–	–	–	**£ 70**	£ 57	–	–	£ 57
Sir Christopher Gent		£ 500	–	–	–	**£ 500**	£ 175	–	–	£ 175
Sir Deryck Maughan		$ 146	–	–	–	**$ 146**	$ 57	–	–	$ 57
Sir Ian Prosser		£ 100	–	–	–	**£ 100**	£ 65	–	–	£ 65
Dr R Schmitz		£ 95	–	–	–	**£ 95**	£ 72	–	–	£ 72
Dr L Shapiro	e	$ 230	–	–	–	**$ 230**	$ 182	–	–	$ 182
Sir Robert Wilson		£ 90	–	–	–	**£ 90**	£ 66	–	–	£ 66
Total Current Non-Executive Directors		£ 1,137	–	–	–	**£ 1,137**	£ 618	–	–	£ 618
Former Non-Executive Directors										
Dr M Barzach	f	£ 58	–	–	–	**£ 58**	£ 78	–	–	£ 78
Sir Christopher Hogg		–	–	–	–	**–**	£ 369	£ 1	–	£ 370
Sir Roger Hurn		–	£ 5	–	–	**£ 5**	–	–	–	–
Sir Peter Job		–	£ 5	–	–	**£ 5**	£ 57	–	–	£ 57
Mr J McArthur		–	–	–	–	**–**	$ 42	$ 18	–	$ 60
Mr D McHenry		–	–	–	–	**–**	$ 42	–	–	$ 42
Sir Richard Sykes		–	£ 1	–	–	**£ 1**	–	£ 1	–	£ 1
Total Former Non-Executive Directors		£ 58	£ 11	–	–	**£ 69**	£ 550	£ 12	–	£ 562
Total Non-Executive Directors		£ 1,195	£ 11	–	–	**£ 1,206**	£ 1,168	£ 12	–	£ 1,180
Total Remuneration		£ 2,862	£ 810	£ 2,436	£ 1,238	**£ 7,346**	£ 2,902	£ 766	£ 1,777	£ 5,445

Remuneration for Directors on the US Payroll is reported in Dollars. Amounts have been converted to Sterling at the average rates for each year.

a) Following the merger, those participants in the legacy share option schemes who elected to exchange their legacy options for options over GlaxoSmithKline shares were granted an additional cash benefit equal to 10% of the grant price of the original option. This additional benefit, known as the Exchange Offer Incentive (EOI), is only payable when the new option is exercised or lapses above market value. To qualify for this additional cash benefit, participants had to retain these options until at least the second anniversary of the effective date of the merger. During the year, Dr Garnier received $174,472 (2004 – $335,730) and Dr Yamada received $167,405 (2004 – $nil) relating to options exercised (page 50).

b) Dr Garnier is a Non-Executive Director of United Technologies Corporation, in respect of which in 2005 he received $110,000 (2004 –$110,000) in the form of deferred stock units and 3,000 (2004 – 3,500) stock options with a grant price of $101.05 (2004 – $88.17). Dr Yamada is a member of the Advisory Board of Quaker BioVentures, Inc., in respect of which in 2005 he received $12,000. Dr Yamada was previously a member of the Board of Directors of diaDexus, Inc., in respect of which he received in 2004, 30,000 stock appreciation rights with a grant price of $0.40. These amounts are excluded from the table above and retained by the Executive Directors. Mr Coombe is a member of the Supervisory Board of Siemens and a Non-Executive Director of HSBC Holdings plc, for which, in the period from 1st January 2005 until his retirement from GlaxoSmithKline on 31st March 2005, he received £12,466 (2004 – £54,082 and 1,500 stock appreciation rights with a grant price of €72.54), and £4,583 (2004 – nil), respectively.

c) In 2001, following the merger, Dr Garnier, Mr Coombe and Dr Yamada were awarded a one-off special deferred bonus as members of the CET. Each was awarded an amount equivalent to his annual salary on 31st December 2001 and this was notionally invested in GlaxoSmithKline shares or ADSs on 15th February 2002 and deferred for three years. The deferred bonus vested on 15th February 2005 and the amounts paid were equivalent to the then value of GlaxoSmithKline shares or ADSs notionally acquired in February 2002 plus dividends reinvested over the period. Dr Garnier received $1,556,324, and Dr Yamada received $697,663. Mr Coombe waived his deferred bonus of £383,924. The company made a contribution to the pension plan in 2005 of £383,924 to enhance his pension entitlements. This amount is not included in the table above.

Remuneration Report
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d) Mr Coombe waived his prorated 2005 bonus of £106,870 and his 2004 annual bonus of £650,370. The company made a contribution to the pension plan in 2005 of £106,870 and £650,370 to enhance his pension entitlements. These amounts are not included within fees and salary above.

e) Dr Shapiro is a member of GlaxoSmithKline's Scientific Advisory Board for which she received fees of $85,000 (2004 – $85,000), of which $30,000 (2004 –$30,000) was in the form of ADSs. These are included within fees and salary above.

f) Dr Barzach received fees of €84,244 (2004 – €83,005) from GlaxoSmithKline France for healthcare consultancy provided. These are included within fees and salary above.

None of the above Directors received expenses during the year requiring separate disclosure as required by the Regulations.

Mr de Swaan joined the Board as a Non-Executive Director on 1st January 2006. No remuneration is shown for him in the table above.

Mr de Swaan joined the Board as a Non-Executive Director on 1st January 2006. No remuneration is shown for him in the table above.

Non-Executive Directors' remuneration

	2005			2004		
Fees and salary	**Total 000**	Cash 000	Shares/ADSs 000	Total 000	Cash 000	Shares/ADSs 000
Current Non-Executive Directors						
Mr L Culp	**$ 136**	–	$ 136	$ 97	–	$ 97
Sir Crispin Davis	**£ 70**	–	£ 70	57	–	£ 57
Sir Christopher Gent	**£ 500**	£ 400	£ 100	£ 175	£ 140	£ 35
Sir Deryck Maughan	**$ 146**	–	$ 146	$ 57	–	$ 57
Sir Ian Prosser	**£ 100**	£ 50	£ 50	£ 65	£ 28	£ 37
Dr R Schmitz	**£ 95**	£ 57	£ 38	£ 72	£ 38	£ 34
Dr L Shapiro	**$ 145**	$ 109	$ 36	$ 97	$ 75	$ 22
Sir Robert Wilson	**£ 90**	£ 68	£ 22	£ 66	£ 52	£ 14
Former Non-Executive Directors						
Dr M Barzach	**–**	–	–	£ 22	£ 19	£ 3
Sir Christopher Hogg	**–**	–	–	£ 369	£ 150	£ 219
Sir Peter Job	**–**	–	–	£ 57	–	£ 57
Mr J McArthur	**–**	–	–	$ 42	$ 37	$ 5
Mr D McHenry	**–**	–	–	$ 42	$ 37	$ 5
Total	**£ 1,090**	£ 635	£ 455	£ 1,066	£ 508	£ 558

The table above sets out the remuneration received as Non-Executive Directors of GlaxoSmithKline. Accordingly, it does not include Dr Barzach's fees received from GlaxoSmithKline France for healthcare consultancy provided, or Dr Shapiro's fees received as a member of GlaxoSmithKline's Scientific Advisory Board.

From the formation of GSK, the Non-Executive Directors, have been required to take at least a part of their total fees in the form of shares allocated to a share account. From 1st October 2004, at least 25% of Non-Executive Directors fees, except those of the Chairman, see page 44 for further details, must be taken under the fee allocation arrangement. Non-Executive Directors can then elect to receive either all or part of the remaining cash payment in the form of further shares or ADSs. The total value of these shares and ADSs as at the date of award, together with the cash payment, forms their total fees, which are included within the Annual remuneration table under 'Fees and salary'. The table above sets out the value of their fees received in the form of cash and shares and ADSs.

The shares and ADSs are notionally awarded to the Non-Executive Directors and allocated to their interest accounts and are included within the Directors' interests tables on page 48. The accumulated balance of these shares and ADSs, together with notional dividends subsequently reinvested, are not paid out to the Non-Executive Directors until retirement. Upon retirement, the Non-Executive Directors will receive either the shares and ADSs or a cash amount equal to the value of the shares and ADSs at the date of retirement.

The table below sets out the accumulated number of shares and ADSs held by each Non-Executive Director in relation to their fees received as Board members as at 31st December 2005, together with the movements in their account over the year.

Number of shares and ADSs

Non-Executive Directors' share arrangements	Footnote	At 31.12.04	Elected	Dividends reinvested	Paid out	At 31.12.05
Current Non-Executive Directors						
Shares						
Sir Crispin Davis		7,333	5,192	233	–	12,758
Sir Christopher Gent		2,921	7,349	116	–	10,386
Sir Ian Prosser		12,520	3,728	342	–	16,590
Dr R Schmitz		10,771	2,810	317	–	13,898
Dr L Shapiro		1,676	47	–	–	1,723
Sir Robert Wilson		1,337	1,665	45	–	3,047
ADSs						
Mr L Culp		3,348	2,769	110	–	6,227
Sir Deryck Maughan		1,248	2,947	47	–	4,242
Dr L Shapiro		2,608	752	66	–	3,426
Former Non-Executive Directors						
Shares						
Sir Christopher Hogg	a	48,000	–	–	48,000	–
Sir Roger Hurn		11,305	–	309	1,330	10,284
Sir Peter Job	a	17,638	–	–	17,638	–

Dividends are notionally reinvested at the end of the financial year in which payment is made.

The table below sets out the settlement of former Non-Executive Directors' share arrangements on their leaving the Board:

		Date of leaving	Value of awards on allocation	Value of awards on leaving	Payments in 2005
Prior years					
Sir Christopher Hogg	a,b	31.12.04	£ 565,857	£ 586,559	£ 586,559
Sir Roger Hurn	c	05.06.03			£18,198
Sir Peter Job	a,b	31.12.04	£ 225,360	£ 215,538	£ 215,538

a) Awards to Sir Christopher Hogg and Sir Peter Job under the Non-Executive Directors' share arrangements were settled in full, with a transfer of shares in January 2005.
b) The change in value of awards between allocation and leaving is attributable to dividends re-invested and the change in share price between the dates of award and the dates of leaving.
c) On leaving the Board, Sir Roger Hurn elected to receive the settlement of his Non-Executive Directors share arrangements in 40 quarterly cash payments.

Remuneration Report
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Directors' interests

The following beneficial interests of the Directors of the company are shown in the register maintained by the company in accordance with the Companies Act 1985:

		Shares			ADSs		
	Footnote	24th February 2006	**31st December 2005**	1st January 2005	24th February 2006	**31st December 2005**	1st January 2005
Current Executive Directors							
Dr JP Garnier	a	–	**–**	–	226,538	**225,896**	204,430
Mr J Heslop	b,d	20,512	**18,885**	17,547	–	**–**	–
Dr T Yamada	a	–	**–**	–	73,626	**67,512**	60,923
Former Executive Director							
Mr J Coombe	c,d,e		**198,665**	186,652	–	**–**	–
Current Non-Executive Directors							
Mr L Culp	f	–	**–**	–	6,227	**6,227**	3,348
Sir Crispin Davis	f	17,925	**17,925**	12,500	–	**–**	–
Sir Christopher Gent	f	10,386	**10,386**	2,921	–	**–**	–
Sir Deryck Maughan	f	–	**–**	–	4,242	**4,242**	1,248
Sir Ian Prosser	f	17,500	**17,500**	13,430	–	**–**	–
Dr R Schmitz	f	13,898	**13,898**	10,771	2,840	**2,840**	2,840
Dr L Shapiro	f	1,723	**1,723**	1,676	7,401	**7,401**	5,958
Mr T de Swaan	f	–	**–**	–	–	**–**	–
Sir Robert Wilson	f	4,175	**4,175**	2,465	–	**–**	–

One GlaxoSmithKline ADS represents two GlaxoSmithKline shares.

a) Includes the equivalent number of ADSs purchased in the GlaxoSmithKline Stock Fund within the 401(k) plan.

b) In the case of Mr Heslop, the opening number of shares is shown at 1st April 2005.

c) In the case of Mr Coombe, the closing number of shares is shown at 31st March 2005.

d) Includes shares purchased through the GlaxoSmithKline ShareReward Plan for Mr Heslop totalling 1,013 shares at 31st December 2005 (1st April 2005 – 829) and 1,054 shares at 24th February 2006, and for Mr Coombe 829 shares at 31st March 2005 (1st January 2005 – 763).

e) Mr Coombe left the Board on 31st March 2005, therefore his interests in the company on 24th February 2006 are not included in the table above.

f) Includes shares and ADSs received as part or all of their fees as described under Non-Executive Directors' share arrangements on page 46. Dividends received on these shares and ADSs were converted to shares and ADSs as at 31st December 2005. These are also included in the Directors' interests above.

The interests of the above-mentioned Directors at 24th February 2006 reflect changes between the end of the financial year and that date.

Share options

Options – ADSs

	Footnote	At 31.12.04	Granted				Exercised	At 31.12.05
			Date of grant	Exercise period	Grant price	Number		
Dr JP Garnier	a	3,844,648	–	–	–	–	79,054	3,765,594
Dr T Yamada		1,223,358	–	–	–	–	74,868	1,148,490

Options – Shares

		At 31.12.04	Granted				Exercised	At 31.12.05
			Date of grant	Exercise period	Grant price	Number		
Mr J Heslop	a,b	365,719	27.10.05	01.12.08 – 31.05.09	£ 11.45	816	1,031	365,504
Mr J Coombe	c	1,434,249	n/a	n/a	n/a	n/a	–	1,434,249

a) As part of the main option grant that occured on 21st February 2006, with a vesting period of 1st January 2006 to 31st December 2008, Dr Garnier was awarded 500,000 ADS options with a grant price of $51.02. As part of the same grant, Mr Heslop was awarded 231,000 share options with a grant price of £14.68. Dr Yamada did not receive a grant of options due to his impending retirement from GlaxoSmithKline.

b) Mr Heslop joined the Board on 1st April 2005. These details cover the period from 1st April 2005 to 31st December 2005. The grant included in the table above relates to the Sharesave plan.

c) Mr Coombe retired on 31st March 2005. These details cover the period from 1st January to 31st March 2005.

For those options outstanding at 31st December 2005, the earliest and latest vesting and lapse dates for those above and below the market price for a GlaxoSmithKline share at the year end are given in the table below. Those for Mr Coombe are on the following page.

Dr JP Garnier		Weighted average grant price	Number	Vesting date earliest	Vesting date latest	Lapse date earliest	Lapse date latest
Above market price ("underwater") at year end:	vested options	$ 55.99	2,033,448	23.11.01	28.11.04	22.11.08	27.11.11
		$ 55.99	2,033,448				
Below market price at year end:	vested options	$ 36.96	812,146	21.11.99	03.12.05	20.11.06	02.12.12
	unvested options	$ 44.15	920,000	15.12.06	02.12.07	14.12.13	01.12.14
		$ 40.78	1,732,146				
Total ADS options as at 31st December 2005		$ 49.00	3,765,594				

Dr T Yamada		Weighted average grant price	Number	Vesting date earliest	Vesting date latest	Lapse date earliest	Lapse date latest
Above market price ("underwater") at year end:	vested options	$ 56.35	660,591	23.11.01	28.11.04	22.11.08	27.11.11
		$ 56.35	660,591				
Below market price at year end:	vested options	$ 37.04	211,899	21.11.99	03.12.05	20.11.06	02.12.12
	unvested options	$ 44.15	276,000	15.12.06	02.12.07	14.12.13	01.12.14
		$ 41.06	487,899				
Total ADS options as at 31st December 2005		$ 49.85	1,148,490				

Mr J Heslop		Weighted average grant price	Number	Vesting date earliest	Vesting date latest	Lapse date earliest	Lapse date latest
Above market price ("underwater") at year end:	vested options	£ 18.17	132,838	31.07.01	28.11.04	30.07.08	27.11.11
		£ 18.17	132,838				
Below market price at year end:	vested options	£ 13.29	115,600	25.02.03	03.12.05	24.02.10	02.12.12
	unvested options	£ 11.91	117,066	28.10.06	01.12.08	31.05.09	01.12.14
		£ 12.59	232,666				
Total share options as at 31st December 2005		£ 14.62	365,504				

Remuneration Report
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Mr J Coombe (to 31st March 2005)		Weighted average grant price	Number	Vesting date earliest	Vesting date latest	Lapse date earliest	Lapse date latest
Above market price ("underwater") at period end:	vested options	£16.97	867,218	04.08.02	31.03.11	31.03.07	30.09.11
	unvested options	£12.70	276,000	31.03.08	31.03.08	30.09.08	30.09.08
		£15.94	1,143,218				
Below market price at period end:	unvested options	£11.78	291,031	01.12.05	31.03.12	31.05.06	30.09.12
		£11.78	291,031				
Total share options as at 31st March 2005		£15.10	1,434,249				

The lapse dates for Mr Coombe's options have been modified to reflect his retirement in 2005.

GSK grants share options to Executive Directors and Senior Managers on an annual basis. An initial grant was made following completion of the merger in March 2001. The measurement period for the options granted in March 2001 commenced on 1st January 2001. The measurement periods for options granted in November 2001 and 2002, and December 2003 and 2004 commenced on 1st January 2002, 2003, 2004 and 2005, respectively. The Directors hold these options under the various share option plans referred to in Note 37 to the financial statements, 'Employee share schemes'. The measurement period for options granted in February 2006 commenced on 1st January 2006. None of the other Directors had an interest in any option over the company's shares.

Following the merger, each of the Directors above elected to exchange their outstanding options in the legacy share option plans for options over GSK shares. These Directors, and all other participants in those legacy schemes who made such an election, will receive an additional benefit of a cash sum equal to 10% of the grant price of the original option. This additional benefit will be given when the new option is exercised or lapses.

Prior to 2003, only those share options granted to the then Executive Directors were subject to a performance condition. In order for the options to vest in full, business performance EPS growth, excluding currency and exceptional items, had on average to be at least three percentage points per annum more than the increase in the UK Retail Prices Index over any three-year performance period.

For share options granted in 2003 and 2004 vesting increases on a straight-line basis for EPS performance between the hurdles set out in the following table.

Annualised growth in EPS	Percentage of award vesting
RPI + 5%	100%
RPI + 4%	75%
RPI + 3%	50%
< RPI + 3%	0%

In respect of the 2003 grant, if the performance condition is not met after the three-year measurement period, the performance will be measured again over the four financial years following the date of grant of the options. If the performance condition is not met at the end of four years, the option will lapse.

The options granted to the Executive Directors in 2004 were subject to the same performance condition as set in 2003, but to the extent that the performance conditions have not been met at the end of the three-year performance period, the option will lapse with no retesting being permitted.

Options exercised	Date	Number	Grant price	Market price	2005 Gain	2004 Gain
Dr JP Garnier	14.02.05	79,054	$22.07	$47.74	$2,029,561	$6,621,049
Dr T Yamada	06.12.05	16,400	$22.36	$50.52	$461,824	–
	07.12.05	58,468	$22.36	$50.10	$1,622,107	–
Mr J Heslop	23.12.05	1,031	£9.16	£14.66	£5,665	–

At the average exchange rate for the year, the above gain made by Dr Garnier amounted to £1,115,143. An EOI benefit of $174,472 (£95,864) was paid to Dr Garnier on exercise of these options. This benefit has been included in the table on page 45.

At the average rate for the year, the above gain made by Dr Yamada amounted to £1,145,017. An EOI benefit of $167,405 (£91,981) was paid to Dr Yamada on the exercise of these options. This benefit has been included in the table on page 45.

Mr Coombe did not exercise any share options during 2005 or 2004.

The highest and lowest closing prices during the year ended 31st December 2005 for GlaxoSmithKline shares were £15.44 and £11.75, respectively. The highest and lowest prices for GlaxoSmithKline ADSs during the year ended 31st December 2005 were $53.53 and $44.48, respectively. The market price for a GlaxoSmithKline share on 31st December 2005 was £14.69 (31st December 2004 – £12.22) and for a GlaxoSmithKline ADS was $50.48 (31st December 2004 – $47.39). The prices on 24th February 2006 were £14.61 per GlaxoSmithKline share and $51.10 per GlaxoSmithKline ADS.

Incentive plans

Performance Share Plan awards

Dr JP Garnier – ADSs

Performance period	Unvested at 31.12.04	Vested & deferred at 31.12.04	Market price on date of grant	Vested & exercised: Number	Vested & exercised: Market price	Vested & exercised: Gain	Lapsed	Additional ADS by dividends reinvested	Unvested at 31.12.05	Vested & deferred at 31.12.05	Number granted in 2006
01.01.01 – 31.12.03	–	35,515	–	–	–	–	–	1,160	–	36,675	–
01.01.02 – 31.12.04	70,000	–	$51.95	35,000	$46.67	$1,633,450	35,000	–	–	–	–
01.01.03 – 31.12.05	70,000	–	$37.25	–	–	–	–	–	70,000	–	–
01.01.04 – 31.12.06	205,990	–	$44.57	–	–		–	6,773	212,763	–	–
01.01.05 – 31.12.07	200,000	–	$43.73	–	–		–	4,881	204,881	–	–
01.01.06 – 31.10.08	–	–	£51.02	–	–	–	–	–	–	–	220,000

The value of awards deferred by Dr Garnier at vesting was $1,496,608

Dr T Yamada – ADSs

Performance period	Unvested at 31.12.04	Vested & deferred at 31.12.04	Market price on date of grant	Vested & exercised: Number	Vested & exercised: Market price	Vested & exercised: Gain	Lapsed	Additional ADS by dividends reinvested	Unvested at 31.12.05	Vested & deferred at 31.12.05	Number granted in 2006
01.01.02 – 31.12.04	20,000	–	$51.95	10,000	$46.67	$466,700	10,000	–	–	–	
01.01.03 – 31.12.05	20,000	–	$37.25	–	–	–	–	–	20,000	–	–
01.01.04 – 31.12.06	61,797	–	$44.57	–	–	–	–	2,032	63,829	–	–
01.01.05 – 31.12.07	60,000	–	$43.73	–	-	–	–	1,464	61,464	–	–

Mr J Heslop – Shares

Performance period	Unvested at 1.4.05	Vested & deferred at 31.12.04	Market price on date of grant	Vested & exercised: Number	Vested & exercised: Market price	Vested & exercised: Gain	Lapsed	Additional shares by dividends reinvested	Unvested at 31.12.05	Vested & deferred at 31.12.05	Number granted in 2006
01.01.02 – 31.12.04	5,000	–	£18.15	2,500	£12.35	£30,875	2,500	–	–	–	–
01.01.03 – 31.12.05	5,000	–	£11.79	–	–	–	–	–	5,000	–	–
01.01.04 – 31.12.06	5,000	–	£12.70	–	–	–	–	–	5,000	–	–
01.01.05 – 31.12.07	15,500	–	£11.63	–	–	–	–	385	15,885	–	–
01.01.06 – 31.12.08	–	–	£14.68	–	–	–	–	–	–	–	100,000

Mr J Coombe – Shares

Performance period	Unvested at 31.12.04	Vested & deferred at 31.12.04	Market price on date of grant	Vested & exercised: Number	Vested & exercised: Market price	Vested & exercised: Gain	Lapsed	Additional shares by dividends reinvested	Unvested at 31.3.05	Vested & deferred at 31.12.05	Number granted in 2006
01.01.02 – 31.12.04	40,000	–	£18.15	20,000	£12.35	£247,000	20,000	–	–	–	–
01.01.03 – 31.12.05	40,000	–	£11.79	–	–	–	–	–	40,000	–	–
01.01.04 – 31.12.06	123,622	–	£12.70	–	–	–	40,000	1,036	84,658	–	–

On 1st April 2005, the total number of Performance Share Plans (PSP) awards granted to Mr Coombe for the performance period 1st January 2004 to 31st December 2006 was pro-rated to reflect his retirement before the end of the performance period. The PSP awards for the performance period 1st January 2006 to 31st December 2008 were made on 21st February 2006 when the market price was £14.68 per share and $51.02 per ADS. Dr Garnier was awarded 220,000 ADSs, and Mr Heslop 100,000 shares. All are unvested.

At the average exchange rate for the year, the above gains by Dr Garnier and Dr Yamada amounted to £897,500 and £256,429, respectively.

The PSP is a medium-term incentive scheme introduced during 2001. The PSP replaces the LTI Plan and the Mid-Term Incentive Plan operated, respectively, by Glaxo Wellcome and SmithKline Beecham.

Under the terms of the PSP the number of shares actually vesting is determined following the end of the relevant three-year measurement period and is dependent on GSK's performance during that period as described on pages 40 and 41. The share awards were previously granted annually in November or December, but from 2005 they are granted in February of the following year.

The measurement period commences on the 1st January, in the year in which they are granted, ending after three years on 31st December. The three-year measurement period for the awards with a performance period commencing 1st January 2003 ended on 31st December 2005. Based on the performance of GSK during that period, 50% of the award vested in February 2006. For awards with a performance period commencing on 1st January 2005 and subsequent awards, dividends are reinvested on the PSPs awarded to members of the CET. Dividends are reinvested in the quarter in which payment is made. Under the terms of the PSP, US participants may defer receipt of all or part of their vested awards.

Prior to the performance period beginning 1st January 2004, awards were in two parts: half can be earned by reference to GSK's TSR performance compared to the FTSE 100, of which the company is a constituent, and the other half of the award will be earned if the company's business performance EPS growth, excluding currency and exceptional items, is on average at least three percentage points per year more than the increase in the UK Retail Prices Index over the three-year performance period. For these awards, if GSK is ranked in the top 20 of the FTSE 100 based on TSR performance, then all of the shares in this part of the award will vest. For the 50th position in the FTSE 100, 40% of the shares will vest. If GSK is ranked below the 50th position, none of the shares subject to this part of the award will vest. Between the 20th and 50th positions, vesting will occur on a sliding scale.

Remuneration Report
continued

The following vesting table applies to the awards with performance periods from 1st January 2004 to 31st December 2006 and 1st January 2005 to 31st December 2007. It also applies to the awards made on 21st February 2006.

TSR rank with 14 companies & GlaxoSmithKline*	Percentage of award vesting**
1	100%
2	100%
3	90%
4	80%
5	70%
6	60%
7	50%
Median	35%
Below median	0%

* The performance comparator group for these awards comprised 14 other companies and GlaxoSmithKline. Both Aventis and Sanofi-Synthelabo were in the comparator group prior to their merger to form Sanofi-Aventis. For the purposes of calculating TSR over the performance period for the awards granted in December 2003, the starting price of the shares of the two individual companies will be compared to the price of the merged company at the end of the performance period, adjusted by the merger ratio. Dividends will be treated as having been reinvested during the performance period.

** TSR is measured on a pro rata basis. Where GlaxoSmithKline's performance falls between two of the comparators, the level of vesting will be determined by the actual relative level of TSR rather than simple ranking.

Mid-Term Incentive Plan – ADSs	Vested and deferred participations at 31.12.04	Additional ADS by dividends reinvested in 2005	Vested and deferred participations at 31.12.05
Dr JP Garnier	163,138	5,326	168,464

The Mid-Term Incentive Plan (MTIP) was a share award scheme operated by SmithKline Beecham. The plan closed to new entrants upon completion of the merger and no further participations have been granted.

Where a final award of ADSs is made, receipt of the award may be deferred by a Director. Dr Garnier deferred receipt of the full amounts vested in 1999, 2000, 2001, 2002 and 2003. The deferred awards, together with any additional ADSs subsequently received through dividend reinvestment, are not included in the Directors' interests table on page 48 since they are retained in the MTIP until paid out.

Stock Appreciation Rights (SARs) – ADSs	At 31.12.04	At 31.12.05	Average grant price
Dr L Shapiro	1,487	872	$57.25

Options exercised	Date	Number	Grant price	Market price	2005 Gain	2004 Gain
Dr L Shapiro	21.12.05	615	$40.54	$50.91	$6,380	–

All SARs held by Dr Shapiro had a grant price above the market price of a GlaxoSmithKline ADS at 31st December 2005.

Dr Shapiro is a member of GlaxoSmithKline's Scientific Advisory Board (SAB). Dr Shapiro was a member of SmithKline Beecham's SAB from 1993 until the completion of the merger with Glaxo Wellcome. Along with other members of the SAB, she received annual grants of SmithKline Beecham SARs which, in general, vested three years from the date of grant and will expire 10 years from the date of grant. Grants of SARs to SAB members ceased in 1999.

SARs entitle the holder to a cash sum at a future date based on share price growth between the date of grant and the date of exercise.

Full provision is made in the financial statements for accrued gains on SARs from the date of grant. In connection with the merger, all previously granted SARs became immediately exercisable.

Pensions

The accrued annual pension benefits and transfer values for Executive Directors on retirement are set out below.

The regulations require disclosure of the accrued benefit at the end of the year, the change in accrued benefit over the year, the transfer value at both the beginning and end of the year, and the change in the transfer value over the year. The Listing Rules require additional disclosure of the change in accrued benefit net of inflation and the transfer value of this change. Pensions for the Executive Directors have been disclosed in the currency in which the pension is payable.

	Accrued benefit at 31.12.04 (b) 000	Accrued benefit at 31.12.05 000	Change in accrued benefit over year 000	Personal contributions made to the scheme during the year 000	Transfer value at 31.12.04 (a) 000	Transfer value at 31.12.05 000	Change in transfer value (b) 000	Change in accrued benefit over year net of inflation 000	Transfer value of change in accrued benefit (b) 000
Current Executive Directors									
Dr JP Garnier	$ 1,040	$ 1,093	$ 53	–	$ 11,638	$ 13,240	$ 1,602	$ 17	$ 1,602
Mr J Heslop	£ 44	£ 75	£ 31	£ 9	£ 642	£ 1,260	£ 609	£ 30	£ 523
Dr T Yamada	$ 140	$ 168	$ 28	–	$ 1,526	$ 1,985	$ 459	$ 24	$ 459
Former Executive Directors									
Mr J Coombe	£ 345	£ 337	£ (8)	–	£ 7,666	£ 7,955	£ 289	£ (19)	£ (351)

a) Dr Yamada's transfer value at 31st December 2004 has increased by $262,469 from that previously disclosed as the result of an adjustment to his employment contract in 2004. Dr Yamada's accrued benefit at 31st December 2004 has decreased by $25,066 reflecting an adjustment to his retirement age.
b) The change in transfer value and the transfer value of change in accrued benefit are shown net of contributions made by the individual.

Dr Garnier and Dr Yamada are members of the all employee US cash balance pension plan, under which GlaxoSmithKline makes annual contributions calculated as a percentage of the employee's base salary and bonus. The fund increases at an interest rate set annually in advance based on the 30-year treasury bond rate to provide a cash sum at retirement. This cash sum is used to purchase a pension at retirement based on the annuity rates applicable at that time. Neither has entitlement to a spouse's pension or to pension increases, other than by reducing their own initial pension.

The normal retirement age under this plan is 65 years of age. Dr Garnier's pension arrangements have been brought into line with the terms of his service agreement and the assumed retirement age reduced to 60. Similarly Dr Yamada's assumed retirement age had been reduced to 62.

The transfer value, or cash sum, of Dr Garnier's plan has increased by $1,602,236 over the year as a result of phased transfers from a previous scheme, the further accumulation of interest and contributions paid by the company.

The transfer value, or cash sum, of Dr Yamada's plan has increased by $458,737 over the year as a result of the further accumulation of interest and contributions paid by the company.

Dr Garnier and Dr Yamada are also members of the US Retirement Savings Plan, a savings scheme open to all US employees and the Executive Supplemental Savings Plan, a savings scheme open to executives to restore US government limits imposed on the Retirement Savings Plan. Contributions to both plans are invested in a range of funds and the value of the accumulated funds are paid at retirement. During 2005 contributions of £84,710 ($154,172) were paid into these two schemes by the company in respect of Dr Garnier, of which £2,308 ($4,200) was invested in GSK shares in a stock ownership account. In respect of Dr Yamada, contributions of £40,483 ($73,679) were paid into the scheme of which £2,308 ($4,200) was invested in GSK shares in a stock ownership account. The shares held in these accounts are included within the Director's interests tables on page 48.

Mr Heslop's transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer value represents the present value of future payments to be made under the pension plan. Mr Heslop's annual accrued benefit has increased by £31,329 (£29,900 excluding the effects of inflation), and the transfer value less personal contributions has increased by £608,999 over the year. The increase in Mr Heslop's pensionable salary of £127,380 is the primary reason for the increase in transfer value.

Mr Coombe's transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer value represents the present value of future payments to be made under the pension plan. Mr Coombe's transfer value increased by £289,211 but his accrued benefit fell by £8,201. This decline is due to Mr Coombe opting to receive a lumpsum on retirement.

Mr Coombe waived his 2005 bonus of £106,870. The company made a contribution to the pension plan in 2005 of £1,141,164 to enhance his pension benefits, being his 2005 bonus, his special deferred bonus of £383,924 and his 2004 bonus of £650,370.

Remuneration Report
continued

Directors and Senior Management

For US reporting purposes, it is necessary to provide information on compensation and interests of Directors and Senior Management as a group ('the group'). For the purposes of this disclosure, the group is defined as the Directors, members of the CET and the Company Secretary. In respect of the financial year 2005, the total compensation paid to members of the group for the periods during which they served in that capacity was £17,538,674, the aggregate increase in accrued pension benefits, net of inflation, was £78,814 and the aggregate payment to defined contribution schemes was £374,156. During 2005, members of the group were granted 4,080 options under the Sharesave scheme and were awarded 14,542 shares and 31,290 ADSs through reinvestment of dividends in the Performance Share Plan. At 24th February 2006, the then-current members of the group (comprising 24 persons) owned 495,389 shares and 474,221 ADSs, constituting less than 1% of the issued share capital of the company. The group also held, at that date: options to purchase 5,372,577 shares and 8,145,814 ADSs; 910,359 shares and 1,557,146 ADSs awarded under the Performance Share Plan, including those shares and ADSs that are vested and deferred; 8,103 shares and 232,732 ADSs under the legacy SmithKline Beecham Mid-Term Incentive Plan, including those shares and ADSs that are vested and deferred; 872 ADSs awarded under the legacy SmithKline Beecham Stock Appreciation Rights and 6,320 shares awarded under the Restricted Share Plan. These holdings were issued under the various executive share option plans described in Note 37 to the financial statements, 'Employee share schemes'.

Directors' interests in contracts

Except as described in Note 33 to the financial statements, 'Related party transactions', during or at the end of the financial year no Director or connected person had any material interest in any contract of significance in relation to the Group's business with a Group company.

The Directors' Remuneration Report has been approved by the Board of Directors and signed on its behalf by

Sir Christopher Gent
Chairman
1st March 2006

Operating and financial review and prospects

The Operating and financial review and prospects discusses the operating and financial performance, the financial outlook and the financial resources of the Group. The results for each year, which have been prepared under IFRS, as adopted for use in the European Union, are compared primarily with the results for the preceding year under the following headings:

Financial trends and ratios **56**

2005 Year – results for the year to 31st December 2005 compared to the year to 31st December 2004 **57**

Financial position and resources – at 31st December 2005 **66**

Outlook and Risk factors **71**

2004 Year – results for the year to 31st December 2004 compared to the year to 31st December 2003 **75**

The reconciliation to US accounting principles is set out in Note 38 to the financial statements.

Accounting presentation

With effect from 1st January 2005, GSK has moved to reporting its financial results in accordance with International Financial Reporting Standards (IFRS) as required by a European Union Regulation issued in 2002. This report is prepared under IFRS, as adopted for use in the European Union. All comparative figures are presented on this basis, except that GSK has taken advantage of an exemption which permits financial instruments to be accounted for and presented on a UK GAAP basis in 2004 and 2003 and only in accordance with IAS 32 and IAS 39 from 1st January 2005. Full details of the major differences from UK GAAP as they apply to GSK are given in Note 38 to the financial statements, IFRS transition. Information prepared under IFRS is not directly comparable with that prepared under UK GAAP.

Data for market share and market growth rates are GSK estimates based on the most recent data from independent external sources, and where appropriate, are valued in sterling at relevant exchange rates. Figures quoted for product market share reflect sales by GSK and licensees.

In order to illustrate underlying performance, it is the Group's practice to discuss its results in terms of constant exchange rate (CER) growth. This represents growth calculated as if the exchange rates used to determine the results of overseas companies in sterling had remained unchanged from those used in the previous year. CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates.

Annual Report on Form 20-F

For the purpose of US reporting requirements applicable to first-time adopters of IFRS, GSK hereby incorporates by reference from its Annual Report on Form 20-F for 2004, the Five year record of selected financial information on pages 160 to 162 thereof, the discussion of the 2004 Year on pages 61 to 70 in the Operating and financial review and prospects section thereof and the Financial statements and supporting notes on pages 87 to 152 thereof.

Financial trends and ratios

	2005	Growth		2004	Growth		2003
	£m	CER%	£%	£m	CER%	£%	£m
Turnover – Pharmaceuticals	**18,661**	8	9	17,100	1	(6)	18,114
– Consumer Healthcare	**2,999**	2	4	2,886	3	(2)	2,956
Total	**21,660**	7	8	19,986	1	(5)	21,070
Cost of sales	**(4,764)**	8	9	(4,360)	–	(5)	(4,577)
Selling, general and administration	**(7,250)**	–	1	(7,201)	(5)	(9)	(7,888)
Research and development	**(3,136)**	8	8	(2,904)	8	1	(2,865)
Other operating income	**364**			235			310
Operating profit	**6,874**	16	19	5,756	6	(5)	6,050
Profit before taxation	**6,732**	13	16	5,779	9	(3)	5,954
Profit after taxation for the year	**4,816**	17	20	4,022	4	(7)	4,308
Profit attributable to minority interests	**127**			114			107
Profit attributable to shareholders	**4,689**			3,908			4,201
Earnings per share (pence)	**82.6p**	18	21	68.1p	6	(6)	72.3p
Diluted earnings per share (pence)	**82.0p**			68.0p			72.1p
Research and development							
Pharmaceuticals	**3,030**			2,797			2,770
Consumer Healthcare	**106**			107			95
Total	**3,136**			2,904			2,865
Net finance cost cover							
Net finance costs	**194**			186			153
Cover	**36 times**			32 times			40 times

Net finance cost cover is profit before tax plus net finance costs, divided by net finance costs.

Tax rate	**28.5%**			30.4%			27.7%
Borrowings							
Net debt	**1,237**			1,984			1,648
Gearing	**16%**			33%			29%

The gearing ratio is calculated as net debt as a percentage of total equity.

Exchange rates

The Group, as a multinational business, operates in many countries and earns revenues and incurs costs in many currencies. Its results are reported in sterling and are affected by movements in exchange rates between sterling and other currencies.

Average exchange rates prevailing during the period are used to translate the results and cash flows of overseas subsidiary and associated undertakings and joint ventures into sterling. Period end rates are used to translate the net assets of those undertakings. The currencies which most influence these translations are the US dollar, the Euro and the Japanese Yen.

World economy

GDP growth picked up in the first part of the year, but the impact of higher oil prices later in the year saw leading indicators turn downward and business confidence weaken in most major countries. Manufacturing and trade strengthened during the year after an initial dip. Modest global expansion continued to be led by the USA and China, where momentum was maintained in contrast to most other regions excluding Japan and India. However, US GDP growth slowed in the fourth quarter of 2005 to an annual rate of 3.5% compared with 4.2% in 2004, reflecting a slow down in consumer spending and in federal government spending. During 2005, US interest rates increased through a series of rises from 2.25% to 4.25%. There are mixed views on the outlook for the US economy in 2006.

GDP growth in China again exceeded expectations at 9.9% and was also robust in India, where continued expansion in services such as information technology remained strong. Global trade arrangements, including those with China, were again in the spotlight. There were agreements between the EU and China and between the USA and China on textile imports in 2005, but the World Trade Organisation ministerial talks in Hong Kong at the end of the year made only modest progress towards agreement on the reduction of trade barriers.

The Japanese economy expanded strongly, particularly in the fourth quarter, driven by a recovery in domestic demand, underpinned by a strengthening labour market which saw full-time employment expand for the first time in seven years. Both business confidence and exports grew during the year. Part of this confidence stemmed from the continued reforms in the banking sector. GDP growth for the year was 5.5%, with a similar rise forecast for 2006, and the Nikkei share index rose to a four-year high on the strength of better-than-expected GDP data.

Oil prices and higher commodity prices slowed growth in the 12 Eurozone nations and economic forecasts for the zone were downgraded during the year. With increased concerns about rising inflation, the European Central Bank raised interest rates by 0.25% to 2.25%, the first change in rates since June 2003. Weak domestic demand and the Euro's lack of resilience to external events were features of the Eurozone in 2005. In the UK, GDP growth of 1.8% was recorded, with a rate of around 2% predicted for 2006. The Bank of England cut interest rates in the middle of the year to 4.5% on the grounds that economic growth was subdued, but predicted growth would pick up in 2006, reflecting a recovery in domestic demand and foreign trade.

Exchange

The currencies that most influence the Group's results are the US dollar, the Euro and the Japanese Yen.

In 2005, the dollar strengthened by over 10% against the pound, rising to $1.72 at the year-end following two years of weakness. Both the Euro and Japanese Yen year-end rates weakened against the pound by just over 3%.

World market – pharmaceuticals

Global pharmaceutical sales increased by 7% in 2005 to £302 billion.

World market by geographic region	Value £ bn	% of total	Growth £ %
USA	132.0	44	3
Europe	86.8	29	8
Germany	16.4	5	8
France	15.9	5	9
UK	10.5	3	–
Italy	9.9	3	3
Japan	32.5	11	4
Asia Pacific	20.5	7	13
Latin America	13.7	4	15
Middle East, Africa	9.8	3	17
Canada	7.0	2	14
Total	302.3	100	6

Growth in the US market has slowed to 3% but it still represents 44% of the global prescription pharmaceutical market compared with 30% a decade ago.

At 30th September 2005, GSK held second position in the world pharmaceutical market with a market share of 6.3%, behind Pfizer with a market share of 8.9%. GSK had eight of the world's top 60 pharmaceutical products. These were *Avandia*, *Flixonase*, *Imigran/Imitrex*, *Lamictal*, *Seretide/Advair*, *Seroxat/Paxil*, *Wellbutrin* and *Zofran*.

World market – top five therapeutic classes	Value £bn	% of total	Growth CER%	Growth £%
Cardiovascular	50.7	17	7	6
Central nervous system	49.7	16	6	4
Alimentary tract and metabolic	36.6	12	6	5
Anti-infectives (bacterial, viral and fungal) excluding vaccines	32.2	11	7	5
Respiratory	20.7	7	8	7

(Note: data based on 12 months to 30th September 2005.)

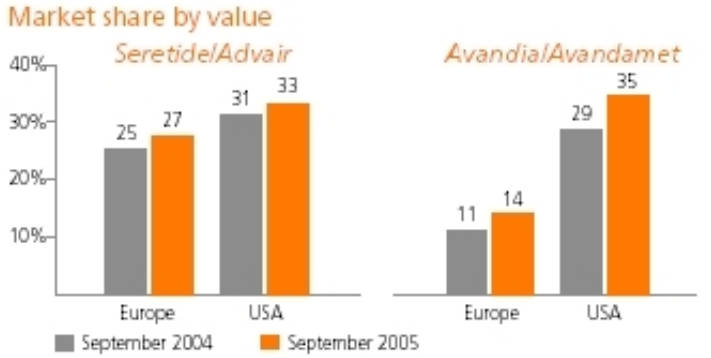
Pharmaceutical turnover

All growth rates included in the review of turnover are at constant exchange rates (CER) unless otherwise stated. The sterling growth rates may be found in the tables of pharmaceutical turnover by therapeutic area on page 59 and by geographic region on page 60.

Total pharmaceutical turnover in 2005 was £18,661 million compared with £17,100 million in 2004, an increase of 8% CER. In sterling terms turnover increased 9%, principally due to the strength of the Euro and other International currencies. Within the Group's portfolio, turnover of new products first launched in a major market within the last five years accounted for 24% of total turnover and grew by 30% to £4,446 million. Turnover of the more established, franchise products amounted to £10,965 million, representing 59% of total turnover, and increased 4% compared with last year. Turnover of older products, now less actively promoted, was £3,250 million, a decline of 1%, representing 17% of total turnover.

Pharmaceutical turnover by therapeutic area

GSK's ability to continue to deliver pharmaceutical turnover growth, is primarily due to an exceptionally broad product portfolio of fast-growing, high-value products. Sales of GSK's largest product, *Seretide/Advair*, were up 22% to £3.0 billion and continued to gain market share across all regions. Market share by value in the anti-asthma and COPD therapy class was 27% in Europe and 33% in the USA, an increase of 2 percentage points in both cases compared with 2004. Sales of diabetes treatments were also strong, with *Avandia/Avandamet* up 18% to £1.3 billion. GSK launched *Avandia* for the treatment of type 2 diabetes in 1999 and a combination product, *Avandamet*, for blood sugar control in 2002. The product group was expanded further in February 2006 with the launch in the USA of a fixed-dose combination treatment, *Avandaryl*, which combines *Avandia* with a sulfonylurea. EU approval is expected in Q2 2006. In 2005, *Avandia/Avandamet* achieved a market share by value in oral anti-diabetics of 14% in Europe and 35% in the USA, up 3 and 6 percentage points, respectively.



Other fast growing products were *Lamictal* for epilepsy/bipolar disorder, up 24% (£0.8 billion), *Valtrex* for herpes, up 21% (£0.7 billion), *Coreg* for heart disease, up 32% (£0.6 billion) and vaccines, up 15% (£1.4 billion).

In addition, in 2005 there has been a rapid uptake of a number of high potential products such as *Requip*, for restless legs syndrome (sales up 34% to £156 million), *Avodart* for benign prostatic hyperplasia (sales doubled to £129 million) and *Boniva/Bonviva* for the treatment of osteoporosis, which was launched in 2005 and captured a 10% share of new prescriptions for oral bisphosphonates in the US market.

Respiratory

GSK continues to be the global leader in respiratory pharmaceuticals with sales of its three key products, *Seretide/Advair*, *Flixotide/Flovent* and *Serevent,* amounting to £4.0 billion, up 15%. *Seretide/Advair* sales rose 26% to £1.7 billion in the USA. Sales were also strong in both European and International markets, which were up 16% to £1 billion and £0.3 billion, respectively.

Central nervous system (CNS)

CNS sales declined 8% to £3.2 billion. Sales declined in the USA and Europe, with a small gain in International. Total *Paxil* sales fell 42% to £615 million, due to generic competition and the interruption in supply to *Paxil CR* during the year. See 'Product supply' on page 61. Partially mitigating this decline was the strong performance of *Paxil* in Japan, up 17% to £197 million.

Total *Wellbutrin* turnover fell 2% to £739 million. *Wellbutrin IR* and *SR* sales fell 68% to £92 million due to generic competition, but this was largely offset by the very strong performance of *Wellbutrin XL* (up 38% to £647 million).

The strong growth of GSK's epilepsy and bi-polar disorder treatment *Lamictal* continued, with sales up 24% to £849 million, driven by the indication for the maintenance treatment of bi-polar disorder.

Requip sales rose 34% to £156 million. By Q1 2006, weekly new prescriptions for the product have quadrupled in the USA since it was launched for restless legs syndrome (RLS) in Q2 2005. In the EU, final approval of *Requip* (*Adartrel*) for RLS is expected during Q1 2006.

Anti-virals

Global HIV product sales grew 5% to £1.6 billion, with sales from new products *Epzicom/Kivexa* and *Lexiva* (together more than doubling to £226 million) offsetting the performance of *Trizivir* (down 6% to £303 million) and *Epivir* (down 12% to £261 million). Sales of the herpes treatment *Valtrex* grew 21% to £695 million. Performance is being driven by the USA (up 26% to £470 million) where the product is the clear market leader in treatments for genital herpes.

Anti-bacterials

Anti-bacterial sales declined 3% worldwide. In the USA the decline was 27% reflecting increased generic competition.

Metabolic

The diabetes treatments *Avandia/Avandamet* continued to perform very strongly, with overall sales of £1.3 billion, up 18%. In the USA, sales grew 14% to £977 million. *Avandia/Avandamet* are also establishing strong positions in Europe, with sales rising 52% to £157 million, helped by the launch of *Avandamet*. Sales in International markets rose 13% to £195 million. Two major outcome studies involving *Avandia* are due to report by the end of 2006. ADOPT investigates first line use of *Avandia* in type 2 diabetes and DREAM the earlier use of *Avandia* to delay or prevent disease progression.

Boniva/Bonviva, a new once-monthly oral bisphosphonate for the treatment of osteoporosis, which was developed with Roche, had a strong launch in the USA and in February 2006 had a 10% share of new prescriptions for oral bisphosphonates. *Boniva* injection, the first-ever quarterly treatment for osteoporosis, was approved in the USA in January 2006 and received a positive opinion from the CHMP in Europe on 27th January 2006.

Vaccines

The vaccines business performed well, with total sales rising 15% to £1.4 billion, led by *Infanrix*. Vaccine sales were particularly strong in the USA, where turnover rose 26% to £338 million, helped by the launch of two new products, *Fluarix* and *Boostrix*.

In July, GSK acquired Corixa Corporation for £150 million and in December, completed the acquisition of ID Biomedical Corporation for £0.9 billion. Approval of IDB's *Fluviral* flu vaccine is expected in time for the 2006/07 flu season.

Also in December, GSK submitted a "mock-up" dossier to the EMEA for accelerated approval of a potential pandemic influenza vaccine. GSK expects to begin clinical trials in the coming weeks on its H5N1 prototype pandemic vaccine using two different adjuvants: "alum" and a newly developed adjuvant. The Group is in discussions with governments around the world on plans to "prime" populations and stockpile the vaccine. GSK expects to complete its filing in Europe in 2006.

Pharmaceutical turnover by therapeutic area 2005

Therapeutic area/ major products	% of total	Total 2005 £m	Total 2004 £m	Total Growth CER%	Total Growth £%	USA 2005 £m	USA Growth CER%	USA Growth £%	Europe 2005 £m	Europe Growth CER%	Europe Growth £%	International 2005 £m	International Growth CER%	International Growth £%
Respiratory	27	**5,054**	**4,394**	**14**	**15**	**2,580**	**17**	**18**	**1,660**	**8**	**9**	**814**	**13**	**17**
Seretide/Advair		3,003	2,441	22	23	1,687	26	27	1,033	16	17	283	16	24
Flixotide/Flovent		638	618	2	3	262	4	4	188	(3)	(1)	188	3	6
Serevent		330	349	(7)	(5)	104	(20)	(19)	160	(3)	(1)	66	12	14
Flixonase/Flonase		656	578	13	13	506	12	12	60	(1)	2	90	27	30
Central Nervous System	17	**3,219**	**3,462**	**(8)**	**(7)**	**2,051**	**(10)**	**(10)**	**704**	**(7)**	**(6)**	**464**	**2**	**5**
Seroxat/Paxil		615	1,063	(42)	(42)	133	(75)	(74)	187	(26)	(25)	295	–	1
Paxil IR		488	667	(27)	(27)	18	(87)	(87)	187	(26)	(25)	283	(1)	(1)
Paxil CR		127	396	(68)	(68)	115	(70)	(70)	–	–	–	12	40	50
Wellbutrin		739	751	(2)	(2)	723	(2)	(2)	2	42	100	14	(14)	(7)
Wellbutrin IR, SR		92	284	(68)	(68)	80	(70)	(70)	2	42	100	10	(35)	(23)
Wellbutrin XL		647	467	38	39	643	37	38	–	–	–	4	>100	100
Imigran/Imitrex		697	682	1	2	504	2	2	144	1	1	49	(2)	2
Lamictal		849	677	24	25	568	36	37	226	3	4	55	15	22
Requip		156	116	34	34	80	50	51	68	21	21	8	22	14
Anti-virals	14	**2,598**	**2,359**	**9**	**10**	**1,285**	**10**	**10**	**773**	**6**	**7**	**540**	**12**	**15**
HIV		**1,554**	**1,462**	**5**	**6**	**766**	**2**	**3**	**607**	**8**	**9**	**181**	**12**	**15**
Combivir		583	570	1	2	283	1	1	227	–	1	73	8	12
Trizivir		303	322	(6)	(6)	166	(7)	(6)	123	(5)	(5)	14	(8)	(7)
Epivir		261	294	(12)	(11)	93	(33)	(33)	122	4	6	46	12	15
Ziagen		136	155	(14)	(12)	55	(26)	(25)	54	(8)	(10)	27	11	23
Retrovir		41	43	(6)	(5)	14	(17)	(18)	16	(6)	–	11	12	10
Agenerase, Lexiva		112	63	77	78	70	50	52	36	>100	>100	6	46	20
Epzicom/Kivexa		118	1	>100	>100	85	–	–	29	>100	>100	4	>100	>100
Herpes		**826**	**718**	**14**	**15**	**476**	**24**	**25**	**139**	**–**	**1**	**211**	**4**	**6**
Valtrex		695	571	21	22	470	26	27	98	9	9	127	12	13
Zovirax		131	147	(11)	(11)	6	(32)	(45)	41	(16)	(15)	84	(6)	(5)
Zeffix		145	130	9	12	12	11	9	21	(8)	(5)	112	13	15
Anti-bacterials	8	**1,519**	**1,547**	**(3)**	**(2)**	**261**	**(27)**	**(27)**	**718**	**3**	**4**	**540**	**5**	**7**
Augmentin		666	708	(7)	(6)	139	(38)	(38)	316	5	6	211	11	13
Augmentin IR		552	533	2	4	40	(34)	(32)	305	3	4	207	11	14
Augmentin ES, XR		114	175	(35)	(35)	99	(40)	(40)	11	97	83	4	(19)	(20)
Zinnat/Ceftin		197	205	(6)	(4)	10	2	11	112	(9)	(7)	75	(4)	(1)
Metabolic	8	**1,495**	**1,251**	**18**	**20**	**995**	**16**	**17**	**190**	**39**	**43**	**310**	**12**	**17**
Avandia		1,154	892	27	29	864	31	32	112	20	23	178	15	22
Avandamet		175	222	(22)	(21)	113	(43)	(43)	45	>100	>100	17	2	13
Bonviva/Boniva		18	–	>100	>100	17	–	–	1	>100	>100	–	–	–
Vaccines	8	**1,389**	**1,194**	**15**	**16**	**338**	**26**	**26**	**592**	**12**	**14**	**459**	**10**	**13**
Hepatitis		444	405	8	10	137	1	2	224	11	12	83	13	17
Infanrix, Pediarix		431	356	19	21	145	13	12	202	24	25	84	20	27
Oncology and emesis	5	**1,016**	**934**	**8**	**9**	**761**	**12**	**12**	**164**	**(4)**	**(4)**	**91**	**1**	**7**
Zofran		837	763	9	10	639	12	13	124	(5)	(5)	74	3	9
Hycamtin		99	99	(1)	–	66	2	3	27	(6)	(7)	6	(6)	–
Cardiovascular and urogenital	7	**1,331**	**932**	**41**	**43**	**766**	**36**	**36**	**415**	**57**	**59**	**150**	**32**	**39**
Coreg		573	432	32	33	568	33	34	–	–	–	5	(30)	(29)
Levitra		40	49	(19)	(18)	35	79	75	4	(78)	(81)	1	(94)	(88)
Avodart		129	64	100	>100	65	90	91	55	>100	>100	9	>100	>100
Arixtra		24	6	>100	>100	15	>100	>100	8	>100	>100	1	>100	>100
Fraxiparine		211	56	>100	>100	–	–	–	179	>100	>100	32	>100	>100
Vesicare		13	–	–	–	13	–	–	–	–	–	–	–	–
Other	6	**1,040**	**1,027**	**–**	**1**	**69**	**(22)**	**(22)**	**321**	**(2)**	**(1)**	**650**	**3**	**6**
Zantac		244	273	(12)	(11)	58	(19)	(17)	64	(15)	(11)	122	(6)	(7)
	100	**18,661**	**17,100**	**8**	**9**	**9,106**	**8**	**8**	**5,537**	**8**	**9**	**4,018**	**9**	**12**

CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates. Turnover by quarter is given in the Financial record on pages 166 to 171.

Oncology and emesis
Sales of *Zofran* grew 9% to £837 million, driven by the US market, up 12% to £639 million.

Cardiovascular and urogenital
Sales of *Coreg* for heart disease grew 32% to £573 million.

Avodart for benign prostatic hyperplasia (enlarged prostate) had a very strong year, with sales doubling to £129 million. By January 2006 the product accounted for 42% of new prescriptions in the US 5-Alpha Reductase Inhibitor market.

Other therapeutic areas
Sales of *Zantac* fell 12% to £244 million, with declines in all regions.

Regional analysis

Pharmaceutical turnover by geographic region in 2005 on an invoiced basis
The turnover reported in the table below represents sales invoiced by GSK's local entity to its customers in the local market plus co-promotion income within each market.

Region/ major markets	% of total	**2005 £m**	2004 £m	Growth* CER%	Growth* £%
USA	**49**	**9,106**	**8,425**	**8**	**8**
Europe	**30**	**5,537**	**5,084**	**8**	**9**
France		1,007	982	2	3
UK		766	735	4	4
Italy		666	611	8	9
Germany		555	482	14	15
Spain		590	560	5	5
Poland		208	148	24	41
Other Europe		1,745	1,566	10	11
International	**21**	**4,018**	**3,591**	**9**	**12**
Asia Pacific		1,324	1,161	10	14
Japan		854	769	13	11
Middle East, Africa		746	669	9	12
Latin America		651	581	7	12
Canada		443	411	–	8
	100	**18,661**	**17,100**	**8**	**9**

* CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates.

Individual governments determine the pricing of medicines in most countries within Europe, which can result in wide price variations for the same product. Parallel trade occurs when third parties exploit this price differential by purchasing products in markets where low prices are enforced and selling them to governments and other purchasers in those markets where higher prices have been agreed. This parallel trade is permitted under the single market rules in the European Union. GSK does not derive any benefit from the profit on resale at the higher price.

As a result, management believes that within the European region, turnover by market, on an invoiced basis as presented above, does not properly represent the consumption of the products within each market. GSK employees based in each market are instrumental in the promotion of the Group's products within their market, thereby creating a product sale and final consumption in that market. The following table gives the adjustments made in order to restate the turnover for markets within Europe on a turnover created basis.

Pharmaceutical turnover for Europe region in 2005 on a turnover created basis

Region/ major markets	2005 Invoiced £m	2005 Adjustment £m	2005 Created £m	2004 Invoiced £m	2004 Adjustment £m	2004 Created £m
Europe	**5,537**	**–**	**5,537**	**5,084**	**–**	**5,084**
France	1,007	(47)	960	982	(32)	950
UK	766	92	858	735	95	830
Italy	666	(14)	652	611	(23)	588
Germany	555	57	612	482	54	536
Spain	590	(15)	575	560	(15)	545
Poland	208	–	208	148	–	148
Other Europe	1,745	(73)	1,672	1,566	(79)	1,487

These adjustments are GSK's estimates based on the most recent data from independent external sources, valued in sterling at relevant exchange rates. Management believes that this turnover created basis of reporting turnover by market provides a better reflection of the performance of the businesses in each market within Europe.

The total turnover for the Europe region is unaffected by this restatement.

Parallel trade occurs occasionally elsewhere in the world, but it is not sufficiently material to affect significantly the turnover data by market presented on an invoiced basis.

Pharmaceutical turnover by geographic region in 2005 on a turnover created basis
Turnover by market within Europe has been adjusted for the effects of parallel trade to show turnover on the basis of the country where the product is finally consumed, not where the product was sold by GSK.

Region/ major markets	% of total	**2005 £m**	2004 £m	Growth* CER%	Growth* £%
USA	**49**	**9,106**	**8,425**	**8**	**8**
Europe	**30**	**5,537**	**5,084**	**8**	**9**
France		960	950	—	1
UK		858	830	3	3
Italy		652	588	10	11
Germany		612	536	13	14
Spain		575	545	5	6
Poland		208	148	24	41
Other Europe		1,672	1,487	11	12
International	**21**	**4,018**	**3,591**	**9**	**12**
Asia Pacific		1,324	1,161	10	14
Japan		854	769	13	11
Middle East, Africa		746	669	9	12
Latin America		651	581	7	12
Canada		443	411	–	8
	100	**18,661**	**17,100**	**8**	**9**

* CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates. Turnover by quarter is given in the Financial record on pages 166 to 171.

USA

The USA reported an 8% turnover growth in the year despite the impact of generic competition to *Paxil IR* and *Wellbutrin IR/SR*. Excluding sales of these products, turnover grew 12%. The US business represented 49% of total pharmaceutical turnover in 2005.

Advair maintained its strong growth with sales of £1,687 million, up 26%. However, this adversely affected sales of its constituent products, *Flovent* and *Serevent*, which collectively declined. *Flonase*, indicated for the treatment of perennial rhinitis, grew by 12%.

Sales of *Wellbutrin* products fell 2% to £723 million. *Wellbutrin IR/SR* sales fell 70% to £80 million as a result of generic competition. The impact was partially offset, however, by the exceptionally strong performance of *Wellbutrin XL*, the new once-daily product, which achieved sales of £643 million, up 37%.

Total sales of *Paxil* were down 75% to £133 million as a result of generic competition to *Paxil IR*, sales of which declined 87% to £18 million. *Paxil CR* generated sales of £115 million, down 70% due to supply issues at the Cidra plant in Puerto Rico.

Sales in the anti-virals therapeutic area grew 10% with HIV products up 2%. *Valtrex*, for herpes, grew 26% driven by patients switching to suppression therapy.

Sales of *Avandia/Avandamet* increased by 14%. Anti-bacterial sales declined 27% as a result of generic competition that began in the third quarter of 2002. *Coreg* sales increased 33% to £568 million as it continued to benefit from its wide range of indications.

Vaccines grew 26% reflecting the good performance of *Pediarix* and the launches in 2005 of *Boostrix* and *Fluarix*.

Europe

The discussion of individual market performance in the Europe region is on a turnover created basis.

The Europe region contributed 30% of pharmaceutical turnover and grew 8%, which reflected strong growth in a number of countries and the full year impact of the acquisitions of *Fraxiparine* and *Arixtra*, which were acquired in Q3 2004. Excluding *Fraxiparine* and *Arixtra*, growth was 5%. Markets which recorded strong growth included Germany, Italy, Poland, Central Europe and Southern and Eastern Europe. Government healthc are reforms, including pricing and reimbursement restrictions, together with generic competition, adversely affected turnover in France, the UK and Spain.

Major growth drivers were *Seretide*, GSK's largest selling product in Europe, with growth of 16%, the *Avandia/Avandamet* franchise, which grew 52%, HIV up 8% and the vaccines franchise, up 12%.

Sales of the herpes franchise were flat compared with 2004 mainly as a result of generic competition for *Zovirax* offset by patients switching to the newer product, *Valtrex*.

Seroxat sales were down 26%, reflecting generic competition in the majority of markets in the region.

Anti-bacterial sales increased 3%, due to a stronger than normal flu season in a number of Southern European markets.

International

The International region reported year on year turnover growth of 9%. Strong growth in Japan, up 13%, China/Hong Kong, up 11% and Asia Pacific, up 10%, was partly offset by broadly flat sales in Canada and Australia. The Canadian sales performance reflected generic competition for *Paxil* whilst the Australian business was negatively impacted by Government pricing reforms.

The strong performance in Japan was driven by the sales of *Paxil*, up 17%, *Serevent,* up 29% and Anti-virals, up 10%, partially offset by declines in *Zantac*, *Zovirax* and *Tagamet*.

Across all markets in International, the key products driving growth were *Seretide*, which grew 16% to record sales of £283 million, *Avandia/Avandamet*, which grew 13% to £195 million and the vaccines franchise, which recorded growth of 10% and achieved sales of £459 million.

Product supply

Following FDA inspections in October 2003 and November 2004, which identified possible deficiencies in manufacturing practices at the Group's facility at Cidra in Puerto Rico, the FDA halted distribution of supplies of *Paxil CR* and *Avandamet* in March 2005. This site is engaged in tableting and packaging for a range of GSK products, primarily for the US market including *Paxil*, *Paxil CR*, *Coreg*, *Avandia* and *Avandamet*. In April 2005, the Group reached agreement with the FDA on a Consent Decree, which provides for an independent expert to review manufacturing processes at the site for compliance with FDA Good Manufacturing Practice requirements. The Decree also allows for potential future penalties, up to a maximum of $10 million a year, if GSK fails to meet its terms.

In June 2005, the Group began re-supplying the US and other markets with both *Paxil CR* and *Avandamet*. The sales of these products were significantly impacted in 2005 by this interruption in supply. The impact on *Avandamet* was mitigated by the switching of patients to *Avandia*. In 2005, the Group also established a provision for the external costs required to rectify the manufacturing issues at the plant. For further details see Risk factors on pages 71 to 74 and Note 41 to the financial statements, 'Legal proceedings'.

Consumer Healthcare sales

	2005	2004	Growth	
	£m	£m	CER%	£%
OTC medicines	**1,437**	1,400	1	3
Analgesics	362	333	6	9
Dermatological	161	180	(12)	(11)
Gastro-intestinal	249	241	1	3
Respiratory tract	154	145	5	6
Smoking control	336	327	2	3
Natural wellness support	133	136	(4)	(2)
Oral care	**943**	913	2	3
Nutritional healthcare	**619**	573	7	8
	2,999	2,886	2	4

The growth in Consumer Healthcare sales of 2% to £3.0 billion comprised an OTC medicines sales increase of 1%, a Nutritional healthcare sales increase of 7% and an Oral care sales increase of 2%.

OTC medicines
Over-the-counter medicine sales were £1,437 million, up 1%. Growth from analgesics, up 6%, and respiratory tract, up 5%, helped offset the loss of sales from the dermatological products divested in 2004. *Panadol* growth of 12% in International markets was the key driver of the growth in analgesics.

On 23rd January 2006, an FDA Advisory Committee recommended that *Alli* (orlistat) be approved for over-the-counter use in the USA to promote weight loss in overweight adults, when used along with a reduced calorie, low-fat diet. If approved, *Alli* will be the only FDA-approved weight-loss drug available over-the-counter.

Oral care
Oral care sales grew 2% to £943 million. Sales of *Sensodyne* and the denture care brands (*Polident*, *Poligrip* and *Corega*) grew by 12% and 6%, respectively, helping to offset lower sales of other toothpaste products.

Nutritional healthcare
Nutritional healthcare product sales grew 7% to £619 million. *Lucozade*, up 11%, continued to grow strongly in Europe.

Operating profit
The analysis below of operating profit and subsequent discussion compares the 2005 results with 2004 results.

	2005		2004		Growth	
	£m	%	£m	%	CER%	£%
Turnover	**21,660**	**100.0**	19,986	100.0	7	8
Cost of sales	**(4,764)**	**(22.0)**	(4,360)	(21.8)	8	9
Selling, general and administration	**(7,250)**	**(33.5)**	(7,201)	(36.0)	–	1
Research and development	**(3,136)**	**(14.5)**	(2,904)	(14.5)	8	8
Other operating income	**364**	**1.7**	235	1.1		
Operating profit	**6,874**	**31.7**	5,756	28.8	16	19

Cost of sales
Cost of sales as a percentage of turnover increased 0.2 percentage points. At constant exchange rates, the increase was also 0.2 percentage points, reflecting higher costs related to the ongoing rectification of manufacturing issues at the Cidra site in Puerto Rico, which were only partly offset by operating efficiencies compared with the previous year.

Selling, general and administration
Selling, general and administration (SG&A) as a percentage of turnover decreased 2.5 percentage points. At constant exchange rates, the decrease was 2.2 percentage points, reflecting flat expenditure compared with the prior year on a turnover increase of 7%. SG&A costs were in line with 2004 overall, with higher advertising, promotion and selling expense being offset by lower general and administration expenditure. Advertising, promotion and selling expenses increased 3% and accounted for a 2% increase in total SG&A. General and administration costs declined 4% and accounted for a 2% reduction in total SG&A.

This was due to lower charges related to legal matters, equal to a 2% reduction in total SG&A, and lower share-based payment charges, equal to a 1% decrease in total SG&A, partly offset by higher costs related to programmes to deliver future cost savings equal to a 1% increase in total SG&A.

Research and development
R&D expenditure as a percentage of turnover was 14.5%, in line with 2004, and increased 8% compared with the previous year, partly as a result of some write-offs of intangible assets. Excluding these write-offs, R&D expenditure grew slightly below turnover growth. Pharmaceuticals R&D expenditure represented 16.2% of pharmaceutical turnover.

Other operating income
Other operating income includes royalty income, equity investment disposals and impairments, product disposals and fair value adjustments to the Quest collar and Theravance options. Other operating income was £364 million in 2005 compared with £235 million in 2004. The increased income in 2005 is predominantly due to increased product and asset disposal gains compared with 2004, and a favourable fair value movement of £19 million in the Quest collar and the Theravance options.

Operating profit
Overall, the operating profit margin increased 2.9 percentage points as operating profit of £6,874 million increased 19% in sterling terms. At constant exchange rates operating profit increased 16% and the margin increased 2.5 percentage points, reflecting the lower charges relating to legal matters and share-based payments, higher product and asset disposals and increases in advertising, promotion and selling that were below the rate of turnover growth. Partially offsetting these items were higher costs related to programmes to deliver future cost savings and increased R&D expenditure.

Profit before taxation

The discussion below compares the 2005 results with the 2004 results. Gains from asset disposals, including associates, were £290 million (2004 – £295 million), costs for legal matters were £430 million (2004 – £595 million) and charges relating to cost-saving programmes were £141 million (2004 – £104 million). Share-based payments in 2005 were £236 million (2004 – £333 million).

Share of profits/(losses) of joint ventures and associated undertakings
The share of profits of associates arises principally from the Group's holding in Quest Diagnostics Inc..

Disposal of interest in associates
There were no disposals of interests in associates in 2005. During 2004, the Group disposed of 3.8 million shares from its investment in Quest Diagnostics Inc. for cash proceeds of £188 million. A profit of £150 million was recognised. The Group's shareholding in Quest as at 31st December 2005 was 18.4%.

Net finance costs

Finance income	2005 £m	2004 £m
Interest income	**276**	173
Unwinding of discount on assets	**–**	3
Fair value adjustments	**(19)**	–
	257	176

Finance costs		
Interest costs	**(427)**	(346)
Unwinding of discount on liabilities	**(25)**	(16)
Fair value adjustments	**1**	–
	(451)	(362)

Finance income increased compared with 2004 predominantly due to higher interest rates and higher cash balances. Finance costs increased due to higher interest rates as well as higher interest costs resulting from the issue of two €750 million bonds in 2005.

Taxation

	2005 £m	2004 £m
UK corporation tax	**354**	273
Overseas taxation	**1,665**	1,394
Current taxation	**2,019**	1,667
Deferred taxation	**(103)**	90
Total	**1,916**	1,757

The charge for taxation on profit, amounting to £1,916 million, represents an effective tax rate of 28.5% (2004 – 30.4%). The tax rate in 2005 of 28.5% benefited from higher tax relief on the actual or potential exercise of share options by employees, arising from the increase in the share price in the year.

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Disagreements with, and between, revenue authorities as to intra-Group transactions, in particular the price at which goods should be transferred between Group companies in different tax jurisdictions, can produce conflicting claims from revenue authorities as to the profits to be taxed in individual territories. Resolution of such issues is a continuing fact of life for GSK. The Group has significant open issues with the revenue authorities in the USA, UK, Japan and Canada, details of which are set out in Note 12 to the financial statements, 'Taxation'.

The Group had total current tax payable liabilities at 31st December 2005 of £2,269 million (2004 – £1,753 million) in respect of transfer pricing and other tax matters.

GSK uses the best advice in determining its transfer pricing methodology and in seeking to manage transfer pricing issues to a satisfactory conclusion and, on the basis of external professional advice, continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments.

However, there continues to be a wide difference of views between the Group, the IRS, HMRC and other relevant taxation authorities where open issues exist. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings and negotiations with the relevant tax authorities.

Profit for the year

		2005		2004	Growth CER%	Growth £%
		£m		£m		
Profit after taxation for the year		**4,816**		4,022	17	20
Profit attributable to shareholders		**4,689**		3,908	17	20
Earnings per share (pence)		**82.6p**		68.1p	18	21
Earnings per ADS (US$)	**$**	**3.00**	$	2.49	18	21
Weighted average number of shares (millions)		**5,674**		5,736		
Diluted earnings per share(pence)		**82.0p**		68.0p		
Diluted earnings per ADS (US$)	**$**	**2.98**	$	2.49		
Weighted average number of shares (millions)		**5,720**		5,748		

Profit for the year was £4,816 million, an increase of 17% (20% in sterling terms). Profit attributable to minority interests was £127 million and profit attributable to shareholders was £4,689 million, an increase of 17% (20% in sterling terms).

Earnings per share increased 18%, reflecting higher profits and also the reduction in the weighted average number of shares resulting from the Group's share buy-back programme. The interest cost of this programme also impacts the Group's earnings.

At actual rates of exchange, earnings per share increased 21%. The favourable currency impact on EPS of three percentage points reflects a strengthening of the US dollar and Euro average exchange rates relative to 2004 and compares with a 1% favourable currency impact on turnover. This difference principally arises from a different mix of currencies in profits compared with turnover.

Dividend

The Board has declared a fourth interim dividend of 14 pence per share, resulting in a dividend for the year of 44 pence, a 2 pence increase over the dividend of 42 pence per share for 2004. The equivalent fourth interim dividend receivable by ADR holders is 48.7480 cents per ADS based on an exchange rate of £1/$1.7410. The dividend had an ex-dividend date of 15th February 2006, a record date of 17th February 2006 and will be paid on 6th April 2006.

Under IFRS interim dividends are only recognised in the accounts when paid and not when declared. GSK normally pays a dividend two quarters after the quarter to which it relates and one quarter after it is declared. Consequently, the 2005 financial statements recognise the dividends paid in 2005, namely the third and fourth interim dividends for 2004 and the first and second interim dividends for 2005 totalling £2,390 million.

2005 Year
continued

Critical accounting policies

The consolidated Financial statements are prepared in accordance with International Financial Reporting Standards, as adopted for use in the European Union, following the accounting policies approved by the Board and described in Note 2 to the financial statements, 'Accounting policies'. Management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the financial statements. Actual amounts and results could differ from those estimates. The following are considered to be the critical accounting policies adopted.

Turnover

Revenue is recognised when title and risk of loss is passed to the customer and reliable estimates can be made of relevant deductions. Gross turnover is reduced by rebates, discounts, allowances and product returns given or expected to be given, which vary by product arrangements and buying groups. These arrangements with purchasing organisations are dependent upon the submission of claims some time after the initial recognition of the sale. Accruals are made at the time of sale for the estimated rebates, discounts or allowances payable or returns to be made, based on available market information and historical experience. Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix. The level of accrual is reviewed and adjusted quarterly in the light of historical experience of actual rebates, discounts or allowances given and returns made and any changes in arrangements. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group.

The Group's largest business is US pharmaceuticals, and the US market has the most complex arrangements for rebates, discounts and allowances. The following briefly describes the nature of the arrangements in existence in the Group's US pharmaceuticals business.

- The US Medicaid programme is a state-administered programme providing assistance to certain poor and vulnerable patients. In 1990, the Medicaid Drug Rebate Program was established to reduce state and federal expenditure on prescription drugs. GSK participates by providing rebates to states. Accruals for Medicaid rebates are calculated based on the specific terms of individual state agreements using a combination of historical experience, product and population growth, anticipated price increases and the impact of contracting strategies. No impact of the Medicaid Part D arrangements was seen in 2005, but they are expected to affect the level of discounts given in 2006.
- GSK has arrangements with certain key parties, whereby the party is able to buy products from wholesalers at lower prices. A chargeback represents the difference between the invoice price to the wholesaler and the indirect customer's contractual discounted price. Accruals for estimating chargebacks are calculated based on the terms of each agreement, historical experience and product growth rates.
- Customer rebates are offered to key managed care and group purchasing organisations and other direct and indirect customers. These arrangements require the customer to achieve certain performance targets relating to value of product purchased, formulary status or pre-determined market shares relative to competitors. The accrual for these rebates is estimated based on the specific terms in each agreement, historical experience and product growth rates.
- Cash discounts are offered to customers to encourage prompt payment. These are accrued for at the time of invoicing and adjusted subsequently to reflect actual experience.
- Where there is historical experience of customer returns, GSK records an accrual for estimated sales returns by applying historical experience of customer returns to the amounts invoiced, together with market related information such as stock levels at wholesalers, anticipated price increases and competitor activity.

A reconciliation of gross turnover to net turnover for the US pharmaceuticals business is as follows:

	2005		2004		2003	
	£m	**%**	£m	%	£m	%
Gross turnover	**11,875**	**100**	10,835	100	11,825	100
Chargebacks	**786**	**7**	732	7	851	7
US Government and State programmes	**775**	**6**	734	7	628	5
Managed care and group purchasing organisation rebates	**686**	**6**	575	5	567	5
Cash discounts	**227**	**2**	208	2	226	2
Customer returns	**155**	**1**	86	1	86	1
Prior year adjustments	**(34)**	**–**	(51)	(1)	(93)	(1)
Other items	**174**	**1**	126	1	150	1
Total deductions	**2,769**	**23**	2,410	22	2,415	20
Net turnover	**9,106**	**77**	8,425	78	9,410	80

The increase in customer returns in 2005 arose from product recalls following the manufacturing issues at the Cidra plant and increased generic competition.

The total accruals for rebates, discounts, allowances and returns in the US pharmaceuticals business at 31st December 2005 and 31st December 2004 were as follows:

	At 31st December 2005 £m	At 31st December 2004 £m
Chargebacks	**56**	50
US Government and State programmes	**417**	362
Managed care and group purchasing organisation rebates	**401**	297
Cash discounts	**27**	19
Customer returns	**146**	97
Other	**53**	31
Total	**1,100**	856

A monthly process is operated to monitor inventory levels at wholesalers for any abnormal movements. This process uses gross sales volumes, prescription volumes based on third party data sources and information received from key wholesalers. The aim of this is to maintain inventories at a consistent level from year to year based on the pattern of consumption. On this basis, US pharmaceutical inventory levels at wholesalers and in other distribution channels at 31st December 2005 were estimated to amount to less than one month of turnover. This calculation uses third party information, the accuracy of which cannot be totally verified, but which is believed to be sufficiently reliable for this purpose.

Taxation

Current tax is provided at the amounts expected to be paid, and deferred tax on temporary differences between the tax bases of assets and liabilities and their carrying amounts, at the rates that have been enacted or substantially enacted by the balance sheet date.

The Group has open tax issues with a number of revenue authorities, principally in relation to transfer pricing disputes. GSK uses the best advice in determining its transfer pricing methodology and in seeking to manage transfer pricing issues to a satisfactory conclusion and, on the basis of external professional advice, continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments. However, there continues to be a wide difference of views where open issues exist. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings and negotiations with the relevant tax authorities.

Legal and other disputes

GSK provides for anticipated settlement costs where a reasonable estimate may be made of the likely outcome of the dispute and legal and other expenses arising from claims against the Group. The company's Directors, having taken legal advice, have established provisions after taking into account insurance and other agreements and having regard to the relevant facts and circumstances of each matter and in accordance with accounting requirements. Provisions for product liability claims on certain products have been made on an 'incurred but not reported' basis where sufficient history of claims made and settlements is available. No provisions have been made for other unasserted claims or for claims for which no reasonable estimate of the likely outcome can yet be made. The ultimate liability for pending and unasserted claims may vary from the amounts provided, if any, and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

Impairment of fixed assets

The carrying values of fixed assets subject to depreciation and amortisation are reviewed for impairment when there is an indication that the values of the assets might be impaired. Impairment is determined by reference to the higher of net realisable value and value in use, measured by reference to risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group.

Intangible assets

Where intangible assets are acquired by GlaxoSmithKline from third parties the costs of acquisition are capitalised. Licences to compounds in development are amortised from the point at which they are available for use, over their estimated useful lives, up to 20 years. Estimated useful lives are reviewed annually and impairment reviews are undertaken if events occur which call into question the carrying values of the assets. Brands acquired with businesses are capitalised independently where they are separable and have a long-term value to the Group. Brands are amortised over their estimated useful lives, not exceeding 20 years, except where the end of the useful economic life cannot be foreseen. Where brands are not amortised, they are subject to annual impairment reviews. Impairment reviews are based on risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the values of these intangible assets to be impaired and this would have an adverse effect on the future results of the Group.

Pensions and other post-employment benefits

The costs of providing pensions and other post-retirement benefits are charged to the income statement in accordance with IAS 19R over the period during which benefit is derived from the employee's services. The costs are assessed in accordance with advice received from independent actuaries on the basis of assumptions selected by management for use under both IFRS and US GAAP. These assumptions include future earnings and pension increases, discount rates and expected long term rates of return on assets and are disclosed in Note 26 to the financial statements,'Pensions and other post-employment benefits'. The expected long term rates of return on bonds are determined based on the portfolio mix of index-linked, government and corporate bonds. An equity risk premium is added to this for equities. Discount rates are based on appropriate long-term indices, including the iBoxx over 15 year AA index for the UK, and Moody's Aa index for the USA. Sensitivity analysis is provided in Note 26, but a 0.25% reduction in the discount rate would lead to an increase in the net pension deficit of approximately £400 million and an increase in the annual pension cost of approximately £6 million. The selection of different assumptions could affect the future results of the Group.

Product rights and goodwill

In addition to the critical accounting policies outlined above, the accounting policy for product rights and goodwill is deemed to be important in respect of the balance sheet prepared in accordance with US accounting principles. Under US GAAP the merger of Glaxo Wellcome and SmithKline Beecham in 2000 was accounted for as an acquisition which gave rise to product rights of £24 billion and goodwill of £16 billion being recognised. Goodwill and those product rights determined to have indefinite lives are not amortised but rather reviewed annually for impairment. These impairment reviews assess business projections prepared as part of the Group's annual budgeting and planning process to determine whether or not an impairment in value has occurred. The business projections include assumptions about future events. Changes in future events could cause the assumptions in the business projections to change with a consequent adverse effect on the future results of the Group as reported under US GAAP.

Financial position and resources

Financial position

	2005 £m	2004 £m
Assets		
Non-current assets		
Property, plant and equipment	**6,652**	6,197
Goodwill	**696**	304
Other intangible assets	**3,383**	2,513
Investments in associates and joint ventures	**276**	209
Other investments	**362**	298
Deferred tax assets	**2,214**	2,032
Other non-current assets	**438**	611
Total non-current assets	**14,021**	12,164
Current assets		
Inventories	**2,177**	2,193
Current tax recoverable	**416**	155
Trade and other receivables	**5,348**	4,451
Liquid investments	**1,025**	1,512
Cash and cash equivalents	**4,209**	2,467
Assets held for sale	**2**	2
Total current assets	**13,177**	10,780
Total assets	**27,198**	22,944
Liabilities		
Current liabilities		
Short-term borrowings	**(1,200)**	(1,582)
Trade and other payables	**(5,147)**	(4,267)
Current tax payable	**(2,269)**	(1,753)
Short-term provisions	**(895)**	(962)
Total current liabilities	**(9,511)**	(8,564)
Non-current liabilities		
Long-term borrowings	**(5,271)**	(4,381)
Deferred tax provision	**(569)**	(569)
Pensions and other post-employment benefits	**(3,069)**	(2,519)
Other provisions	**(741)**	(569)
Other non-current liabilities	**(467)**	(405)
Total non-current liabilities	**(10,117)**	(8,443)
Total liabilities	**(19,628)**	(17,007)
Net assets	**7,570**	5,937
Equity		
Share capital	**1,491**	1,484
Share premium account	**549**	304
Retained earnings	**5,579**	4,542
Other reserves	**(308)**	(606)
Shareholders' equity	**7,311**	5,724
Minority interests	**259**	213
Total equity	**7,570**	5,937

Property, plant and equipment

The total cost of the Group's property, plant and equipment at 31st December 2005 was £13.2 billion, with a net book value of £6.7 billion. Of this, land and buildings represented £2.9 billion, plant and equipment £2.8 billion and assets in construction £1.0 billion. In 2005, GlaxoSmithKline invested £1,001 million in new and renewal property, plant and equipment. This is mainly related to a large number of projects for the renewal improvement and expansion of facilities at various worldwide sites. Property is mainly held freehold. New investment is financed from Group liquid resources. At 31st December 2005, the Group had capital contractual commitments for future expenditure of some £376 million and 2006 operating lease commitments of £111 million.

GSK's business is science-based, technology-intensive and highly regulated by governmental authorities. The Group allocates significant financial resources to the renewal and maintenance of its property, plant and equipment to minimise risks of interruption of production and to achieve compliance with regulatory standards. A number of its processes use chemicals and hazardous materials.

The Group observes stringent procedures and uses specialist skills to manage environmental risks from these activities. Environmental issues, sometimes dating from operations now modified or discontinued, are reported under 'Responsibility for environment, health and safety' (page 26) and in Note 41 to the financial statements, 'Legal proceedings'. GSK believes that its facilities are adequate for its current needs.

Other intangible assets

Other intangible assets include the cost of intangibles acquired from third parties and computer software. The cost of other intangible assets as at 31st December 2005 was £3,383 million (2004 – £2,513 million). Much of the increase in 2005 includes additions of £816 million arising from the acquisitions of Corixa Corporation and ID Biomedical Corporation.

Investments

GSK held investments, including associates and joint ventures, with a carrying value at 31st December 2005 of £638 million (2004 – £507 million). The market value at 31st December 2005 was £1,487 million (2004 – £1,292 million). The investments are mainly in equity shares where the holding derives directly from the Group's business. The largest of these investments is in the associate, Quest Diagnostics Inc., which had a book value at 31st December 2005 of £244 million (2004 – £173 million). The investments include stakes in companies where the Group has research collaborations, which provide access to biotechnology developments of potential interest or interests in companies that arise from business divestments.

Trade and other receivables

Trade and other receivables include £180 million (2004 – £5 million) of derivative financial instruments now held at fair value. The remaining increase from 2004 reflects increased sales and the impact of strengthening overseas currencies on the translation of foreign currency receivables.

Trade and other payables

Trade and other payables include £171 million (2004 – £72 million) of derivative financial instruments now held at fair value. The remaining increase reflects an increase in customer return and rebate accruals and strengthening foreign currencies.

Financial position and resources
continued

Provisions
The Group carried deferred tax provisions and other short-term and non-current provisions of £2,205 million at 31st December 2005 (2004 – £2,100 million) in respect of estimated future liabilities, of which £1,165 million related to legal and other disputes.

Provision has been made for tax, legal and other disputes, indemnified disposal liabilities and the costs of manufacturing restructuring and merger integration to the extent that at the balance sheet date an actual or constructive obligation existed and could be reasonably estimated.

Pensions and other post-employment benefits
The Group accounts for pension and other post-employment arrangements in accordance with IAS 19R. The net deficit before allowing for deferred taxation was £3,069 million (2004 – £2,519 million). Special cash contributions of £366 million (2004 – £256 million) were made in 2005 to reduce the funding deficits in the UK and US plans.

Net debt

	2005 £m	2004 £m
Cash, cash equivalents and liquid investments	**5,234**	3,979
Borrowings – repayable within one year	**(1,200)**	(1,582)
Borrowings – repayable after one year	**(5,271)**	(4,381)
Net debt	**(1,237)**	(1,984)

Net debt reduced by £747 million in 2005 to £1,237 million, primarily due to increased operating profits, partly offset by the acquisition of Corixa and ID Biomedical for a total consideration of over £1 billion.

Total equity
A summary of the movements in equity is set out below.

	2005 £m	2004 £m
Total equity at beginning of year	**5,937**	5,598
Implementation of accounting for financial instruments under IAS 39	**(12)**	–
Total equity at beginning of year, as adjusted	**5,925**	5,598
Total recognised income and expense for the year	**4,576**	3,999
Dividends to shareholders	**(2,390)**	(2,476)
Ordinary shares issued	**252**	42
Ordinary shares purchased and cancelled	**–**	(201)
Ordinary shares purchased and held as Treasury shares	**(1,000)**	(799)
Ordinary shares issued by ESOP Trusts	**68**	23
Share-based payments	**265**	312
Changes in minority interest shareholdings	**(40)**	(489)
Minority interests	**(86)**	(72)
Total equity at end of year	**7,570**	5,937

Share purchases
In 2005, the ESOP Trusts did not make any market purchases of shares in GSK plc (2004 – nil). Shares are held by the Trusts to satisfy future exercises of options and awards under the Group share option and award schemes. A proportion of the shares held by the Trusts are in respect of awards where the rules of the scheme require the company to satisfy exercises through market purchases rather than the issue of new shares. The shares held by the Trusts are matched to options and awards granted and diminish the dilutive effect of new share issues on shareholders' equity and earnings.

At 31st December 2005, the ESOP Trusts held 167.4 million GSK shares against the future exercise of share options and share awards. The carrying value, which is the lower of cost or expected proceeds, of £2,313 million has been deducted from other reserves. The market value of these shares was £2,459 million.

In 2005, GSK repurchased £1 billion of shares as Treasury shares and expects to repurchase a further £1 billion in 2006. The exact amount and timing of future purchases will depend on market conditions and other factors. At 31st December 2005, GSK held 142.8 million shares as Treasury shares at a cost of £1,799 million, which has been deducted from retained earnings.

Commitments and contingent liabilities
Financial commitments are summarised in Note 35 to the financial statements, 'Commitments'. Other contingent liabilities and obligations in respect of short and long-term debt are set out in Note 29 to the financial statements, 'Contingent liabilities' and Note 30 to the financial statements, 'Net debt'.

Amounts provided for pensions and post-retirement benefits, restructuring and integration plans and legal, environmental and other disputes are set out in Note 27 to the financial statements, 'Other provisions'.

Contractual obligations and commitments
The following table sets out the Group's contractual obligations and commitments at 31st December 2005 as they fall due for payment.

	Total £m	Under 1 yr £m	1-3 yrs £m	3-5 yrs £m	5 yrs+ £m
Loans	6,350	1,162	1,490	344	3,354
Interest on loans	3,067	233	403	326	2,105
Finance lease obligations	121	38	51	19	13
Operating lease commitments	437	111	138	85	103
Intangible assets	1,833	273	269	412	879
Property, plant & equipment	376	301	75	–	–
Pensions	2,200	550	1,100	550	–
Other commitments	64	26	38	–	–
Total	14,448	2,694	3,564	1,736	6,454

Commitments in respect of future interest payable on loans are disclosed after taking into account the effect of interest rate swaps.

Financial position and resources
continued

The Group has entered into a number of research collaborations to develop new compounds with other pharmaceutical companies. The terms of these arrangements can include up-front fees, equity investments, loans and commitments to fund specified levels of research. In addition the Group will often agree to make further payments if future 'milestones' are achieved. As some of these agreements relate to compounds in the early stages of development, milestone payments will continue for a number of years if the compounds move successfully through the development process. Generally the closer the product is to marketing approval the greater the possibility of success. The payments shown above within intangible assets represent the maximum that would be paid if all milestones are achieved. A number of commitments were made in 2005 under licensing and other agreements, principally with Vertex Pharmaceuticals Inc.

GSK has agreed with the trustees of the UK and US pension schemes to make additional contributions of approximately £370 million per year over a five-year period ending 31st December 2009 in order to eliminate the pension deficits on an IAS 19 basis by that point. The table above shows this commitment, which on the basis of the deficits at 31st December 2005 amounts to total contributions (normal plus additional) of approximately £550 million per year. No commitments have been made past 31st December 2009.

Contingent liabilities

The following table sets out contingent liabilities, comprising discounted bills, performance guarantees and other items arising in the normal course of business and when they are expected to expire.

	Total	Under 1 yr	1-3 yrs	3-5 yrs	5 yrs+
	£m	£m	£m	£m	£m
Guarantees	220	205	8	–	7
Other contingent liabilities	122	13	8	2	99
Total	342	218	16	2	106

In the normal course of business the Group has provided various indemnification guarantees in respect of business disposals in which legal and other disputes have subsequently arisen. A provision is made where a reasonable estimate can be made of the likely outcome of the dispute and this is included in Note 27 to the Financial statements, 'Other provisions'.

It is the Group's policy to provide for the settlement costs of asserted claims and environmental disputes when a reasonable estimate may be made. Prior to this point no liability is recorded. Legal and environmental costs are discussed in 'Risk factors' on pages 71 to 74.

GSK uses the best advice in determining its transfer pricing methodology and, on the basis of external professional advice, continues to believe that it has made adequate provision for the liabilities likely to arise from open taxation assessments. The ultimate liability for such matters may vary significantly from amounts provided and is dependent upon the outcome of litigation proceedings and negotiations with the relevant tax authorities. This is discussed further in Note 12 to the financial statements, 'Taxation'.

Cash flow

A summary of the consolidated cash flow statement is set out below:

	2005	2004
	£m	£m
Net cash inflow from operating activities	**5,958**	4,944
Net cash outflow from investing activities	**(1,660)**	(920)
Net cash outflow from financing activities	**(2,914)**	(3,407)
Increase in cash and bank overdrafts	**1,384**	617
Exchange adjustments	**233**	(93)
Cash and bank overdrafts at beginning of year	**2,355**	1,831
Cash and bank overdrafts at end of year	**3,972**	2,355
Cash and bank overdrafts at end of year comprise:		
Cash and cash equivalents	**4,209**	2,467
Overdrafts	**(237)**	(112)
	3,972	2,355

The net cash inflow from operating activities after taxation paid was £5,958 million, an increase of £1,014 million over 2004, arising principally due to higher operating profits.

The net cash outflow from investing activities was £1,660 million, an increase of £740 million which reflected the purchase of Corixa and ID Biomedical in 2005 for over £1 billion (purchases of businesses in 2004 was £0.3 billion reflecting the purchase of *Fraxiparine* and *Arixtra* from Sanofi).

Free cash flow was £4,664 million, an increase of 26% over 2004. Free cash flow is the amount of cash generated by the business after meeting its obligations for interest, tax and dividends paid to minority interests, and after capital expenditure on non-current tangible and intangible assets.

Free cash flow is used by GSK's management for planning and reporting purposes and in discussions with and presentations to investment analysts. GSK's free cash flow is presented on a basis other than in accordance with IFRS. This measure may not be directly comparable with similarly described measures used by other companies. A reconciliation of net cash inflow from operating activities, which is the closest equivalent IFRS measure, to free cash flow is shown below.

Reconciliation of free cash flow

	2005	2004
	£m	£m
Net cash inflow from operating activities	**5,958**	4,944
Purchase of non-current intangible assets	**(903)**	(788)
Purchase of non-current tangible assets	**(278)**	(255)
Disposal of non-current tangible fixed assets	**54**	53
Interest paid	**(381)**	(350)
Interest received	**290**	173
Dividends received from joint ventures and associated undertaking	**10**	11
Dividends paid to minority interests	**(86)**	(75)
Free cash flow	**4,664**	3,713

Reconciliation of net cash flow to movement in net debt

	2005 £m	2004 £m
Net debt at beginning of year	**(1,984)**	(1,648)
Increase in cash in the year	**1,384**	617
Cash (outflow)/inflow from management of liquid resources	**(550)**	53
Net increase in long-term loans	**(912)**	(1,350)
Net repayment of short-term loans	**857**	407
Exchange and other movements	**(32)**	(63)
Net debt at end of year	**(1,237)**	(1,984)

Investment appraisal

GSK has a formal process for assessing potential investment proposals in order to ensure decisions are aligned with the Group's overall strategy. This process includes an analysis of the impact on profit and assessment of the return based on discounted cash flows. The discount rate used to perform financial analysis is decided internally, to allow determination of the extent to which investments cover the Group's cost of capital. For specific investments the discount rate may be adjusted to take into account country or other risk weightings.

Capital expenditure and financial investment

Cash payments for tangible and intangible fixed assets amounted to £1,181 million (2004 – £1,043 million). Disposals realised £275 million (2004 – £53 million). Cash payments to acquire equity investments of £23 million (2004 – £103 million) were made in the year and sales of equity investments realised £35 million (2004 – £58 million).

Future cash flow

The Group expects that future operating cash flow will be sufficient to fund its operating and debt service costs, to satisfy normal levels of capital expenditure, to meet obligations under existing licensing agreements and to meet other routine outflows including tax and dividends, subject to the risk factors discussed on pages 71 and 74. The Group may from time to time have additional demands for finance, such as for acquisitions. The Group has access to other sources of liquidity from banks and other financial institutions, in addition to the cash flow from operations, for such needs.

Payment policies

Group companies are responsible for monitoring and managing their working capital. The terms of sales collections and supplier payments reflect local commercial practice.

In the UK, the company and each of its UK subsidiaries have policies to ensure that suppliers are paid on time. In particular, the UK companies seek:

- to settle terms of payment with suppliers when agreeing the terms of the transaction
- to ensure that suppliers are made aware of the agreed terms of payment
- to abide by the terms of payment.

The policy includes arrangements for accelerated payment of small suppliers.

Payment performance

At 31st December 2005, the average number of days' purchases represented by trade and fixed asset creditors of the parent company was nil (2004 – nil) and in respect of the company and its UK subsidiaries in aggregate was 22 days (2004 – 21 days).

Treasury policies

GlaxoSmithKline plc reports in sterling and pays dividends out of sterling profits. The role of Corporate Treasury in GSK is to manage and monitor the Group's external and internal funding requirements and financial risks in support of Group corporate objectives. Treasury activities are governed by policies and procedures approved by the Board and monitored by a treasury management group.

GSK maintains treasury control systems and procedures to monitor foreign exchange, interest rate, liquidity, credit and other financial risks.

Liquidity

GSK operates globally, primarily through subsidiary companies established in the markets in which the Group trades. Due to the nature of GSK's business, with patent protection on many of the products in its portfolio, the Group's products compete largely on product efficacy rather than on price. Selling margins are sufficient to cover normal operating costs and the Group's operating subsidiaries are substantially cash generative.

Operating cash flow is used to fund investment in the research and development of new products as well as routine outflows of capital expenditure, tax, dividends and repayment of maturing debt. The Group may, from time to time, have additional demands for finance, such as for share purchases and acquisitions.

GSK operates with a high level of interest cover and at low levels of net debt relative to its market capitalisation. In addition to the strong positive cash flow from normal trading activities, additional liquidity is readily available via its commercial paper programme and short-term investments. The Group also has a European Medium Term Note programme of £5 billion, of which £3.5 billion was in issue at 31st December 2005. In 2004, the Group established a US Shelf Registration of $5 billion; at 31st December 2005 $2.4 billion (£1.4 billion) was in issue.

Treasury operations

The objective of treasury activity is to manage the post-tax net cost/income of financial operations to the benefit of Group earnings. Corporate Treasury does not operate as a profit centre. GSK uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from those operations.

Derivatives, principally comprising forward foreign currency contracts, interest rate and currency swaps, are used to swap borrowings and liquid assets into the currencies required for Group purposes and to manage exposure to funding risks from changes in foreign exchange rates and interest rates.

Financial position and resources
continued

GSK balances the use of borrowings and liquid assets having regard to: the cash flow from operating activities and the currencies in which it is earned; the tax cost of intra-Group distributions; the currencies in which business assets are denominated; and the post-tax cost of borrowings compared to the post-tax return on liquid assets.

Liquid assets surplus to the immediate operating requirements of Group companies are generally invested and managed centrally by Corporate Treasury. Requirements of Group companies for operating finance are met whenever possible from central resources.

External borrowings, mainly managed centrally by Corporate Treasury, comprise a portfolio of long and medium-term instruments and short-term finance.

GSK does not hold or issue derivative financial instruments for trading purposes and the Group's Treasury policies specifically prohibit such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

Funding, maturity and counterparty risk
The Group invests centrally managed liquid assets in government bonds, short-term corporate debt instruments with a minimum short-term credit rating of A-1/P-1, money market funds with a credit rating of AAA/Aaa and other structured investments (credit ratings shown are from Standard and Poor's and Moody's Investors' Services, respectively).

The Group manages its net borrowing requirements through a portfolio of long-term borrowings, including bonds, together with short-term finance under the US$10 billion commercial paper programme. In 2005, two bonds were issued under the European Medium Term Note programme: a €750 million, seven year, 3% coupon bond and a €750 million, 20 year, 4% coupon bond.

The Group's long-term borrowings mature at dates between 2006 and 2034. These include a private financing which, although maturing in 2032, may be redeemed by GSK at any time and, in particular, in the event of any accelerating event that would increase the cost of funding for the Group. GSK's long-term debt rating is AA from Standard and Poor's and Aa2 from Moody's Investors' Services. The agencies' short-term ratings for paper issued under the Group's commercial paper programme are A-1+ and P-1 respectively.

Foreign exchange risk management
In GSK foreign currency transaction exposure arising on normal trade flows, in respect of both external and intra-Group trade, is not hedged. The policy is to minimise the exposure of overseas operating subsidiaries to transaction risk by matching local currency income with local currency costs. For this purpose, intra-Group trading transactions are matched centrally and intra-Group payment terms are managed to reduce risk. Exceptional foreign currency cash flows are hedged selectively under the management of Corporate Treasury.

A significant proportion of Group borrowings, including the commercial paper programme, is in US dollars, to benefit from the liquidity of US dollar denominated capital markets. Certain of these and other borrowings are swapped into other currencies as required for Group purposes. The Group seeks to denominate borrowings in the currencies of its principal assets and cash flows.

Borrowings denominated in, or swapped into, foreign currencies that match investments in overseas Group assets are treated as a hedge against the relevant net assets.

Based on the composition of net debt at 31st December 2005, a 10% appreciation in sterling against major currencies would result in a reduction in the Group's net debt of approximately £61 million. A 10% weakening in sterling against major currencies would result in an increase in the Group's net debt of approximately £75 million.

Interest rate risk management
GSK's policy on interest rate risk management requires that the amount of net borrowings at fixed rates increases with the ratio of forecast net interest payable to trading profit.

The Group uses a limited number of interest rate swaps to redenominate external borrowings into the interest rate coupon required for Group purposes. The duration of these swaps matches the duration of the principal instruments. Interest rate derivative instruments are accounted for as fair value or cash flow hedges of the relevant assets or liabilities.

The Group manages centrally the short-term cash surpluses or borrowing requirements of subsidiary companies and uses forward contracts to hedge future repayments back into the originating currency.

Sensitivity analysis considers the sensitivity of the Group's net debt to hypothetical changes in market rates and assumes that all other variables remain constant. Based on the composition of net debt and financing arrangements at 31st December 2005, and taking into consideration all fixed rate borrowings in place, a one percentage point (100 basis points) decrease in average interest rates would result in an increase in the Group's annual net interest charge of approximately £19 million.

Equity risk management
Equity investments classified as current assets are available-for-sale and the Group manages disposals to meet overall business requirements as they arise. The Group regularly monitors the value of its equity investments and only enters into hedges selectively with the approval of the Board.

Financial assets and liabilities
An analysis of net debt is given in Note 30 to the financial statements, 'Net debt'. An analysis of financial assets and liabilities at carrying value and fair value and a reconciliation to net debt are given in Note 36 to the financial statements, 'Financial instruments and related disclosures', together with a discussion of derivative financial instruments and quantitative disclosures about market risk in accordance with the requirements of IAS 32 and IAS 39.

The Group continues to benefit from strong positive cash flow. Group net debt would have decreased significantly in the year to 31st December 2005, but for the Group's purchase of its own shares in the market of £1 billion and acquisitions of approximately £1 billion.

The financial assets and liabilities at 31st December 2005 are representative of the treasury policies and strategies of GSK, applied consistently during the year. There were no significant changes in such policies throughout the year.

Outlook and Risk Factors

Outlook

Sales growth of existing products and launch of new products are key drivers of GSK's business performance. The strong growth seen from key products such as *Seretide/Advair*, *Avandia/Avandamet* and from GSK's vaccines business is expected to continue in 2006. Eight major development projects are scheduled to enter phase III in 2006. These include the oncology products casopitant and pazopanib, as well as products for Alzheimer's disease, HIV, meningitis, lupus and diabetes. Up to seven product filings are planned in 2006. These include two vaccines, *Cervarix* for cervical cancer and a potential flu pandemic vaccine, *Allermist* for allergic rhinitis, eltrombopag for low platelet count to help patients suffering from thrombocytopenia, *Tykerb* for breast cancer, mepolizumab for hypereosinophilic syndrome and *Lamictal* XR, a once-daily formulation for epilepsy.

Seven products are expected to be launched/approved in 2006. These include *Rotarix* for rotavirus, *Entereg* for post-operative bowel disorders, *Trexmia* for migraine, *Avandaryl* for diabetes, *Coreg CR* for heart failure, *Arranon* for cancer and *Altabax* for infections.

Typically, sales of existing products decline dramatically when generic competition is introduced either on patent expiry or earlier if there is a successful challenge to the Group's patent. GlaxoSmithKline is engaged in legal proceedings regarding the validity and infringement of the Group's patents relating to many of its products. These are discussed in 'Risk factors' below and in Note 41 to the financial statements, 'Legal proceedings'.

GSK's published earnings guidance for 2006 is that earnings per share growth is expected to be around 10% in constant exchange rate terms.

The Group has net debt of £1.2 billion, which is low relative to its market capitalisation, and this positions it to take advantage of any opportunities that might arise to build the business.

There are risks and uncertainties inherent in the business that may affect future performance including R&D projects, anticipated sales growth and expected earnings growth. These are discussed in 'Risk factors' below.

Risk factors

There are risks and uncertainties relevant to the Group's business. The factors listed below are among those that the Group thinks could cause the Group's actual results to differ materially from expected and historical results.

Risk that R&D will not deliver commercially successful new products

Continued development of commercially viable new products is critical to the Group's ability to replace sales of older products that decline upon expiration of exclusive rights, and to increase overall sales. Developing new products is a costly, lengthy and uncertain process. A new product candidate can fail at any stage of the process, and one or more late-stage product candidates could fail to receive regulatory approval.

New product candidates may appear promising in development but, after significant investments, fail to reach the market or have only limited commercial success as a result of efficacy or safety concerns, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, infringement of patents or other intellectual property rights of others or inability to differentiate the product adequately from those with which it competes.

Risk of loss or expiration of patents or marketing exclusivity

Patent infringement litigation

Efforts by generic manufacturers may involve challenges to the validity of a patent or assertions that the alternative compounds do not infringe the Group's patents. If the Group is not successful during the patent protection or data exclusivity periods in maintaining exclusive rights to market one or more of its major products, particularly in the USA where the Group has its highest turnover and margins, the Group's turnover and margins would be adversely affected. See Note 41 to the financial statements, 'Legal proceedings', for a discussion of patent-related proceedings in which the Group is involved.

Generic drug manufacturers are seeking to market generic versions of many of the Group's most important products, including *Avandia*, *Zofran, Wellbutrin XL, Imitrex*, *Lamictal*, *Valtrex* and *Paxil CR*, prior to the expiration of the Group's patents, and have exhibited a readiness to do so for other products in the future. Generic products competitive with *Paxil IR* and *Wellbutrin SR* were launched in the USA in 2003 and 2004, respectively, and had a significant impact on the Group's overall turnover and earnings.

Weakness of intellectual property protection in certain countries

In some of the countries in which the Group operates, patent protection may be significantly weaker than in the USA or the European Union. In addition, in an effort to control public health crises, some developing countries, such as South Africa and Brazil, have considered plans for substantial reductions in the scope of patent protection for pharmaceutical products. In particular, these countries could facilitate competition within their markets from generic manufacturers who would otherwise be unable to introduce competing products for a number of years.

Any loss of patent protection, including abrogation of patent rights or compulsory licensing, is likely to affect adversely the Group's operating results in those national markets but is not expected to be material to the Group overall. Absence of adequate patent protection could limit the opportunity to look to such markets for future sales growth.

Outlook and Risk Factors
continued

Risk of substantial adverse outcome of litigation and government investigations

See Note 41 to the financial statements, 'Legal proceedings', for a discussion of proceedings and governmental investigations in which the Group is currently involved. Unfavourable resolution of these and similar future proceedings or investigations may have a material adverse effect on the Group's financial results. The Group has made material provisions in 2003, 2004 and 2005 related to legal proceedings and investigations which reduced its earnings. The Group may also make additional significant provisions related to legal proceedings and investigations in the future, which would reduce its earnings. In many cases the practice of the plaintiff bar is to claim damages – compensatory, punitive and statutory – in amounts that bear no relationship to the underlying harm. Accordingly it is potentially misleading to quantify the potential exposure to claims, proceedings and investigations of the type described in Note 41.

Recent insurance loss experience, including pharmaceutical product liability exposures, has increased the cost of, and narrowed the coverage afforded by, insurance for pharmaceutical companies generally, including the Group.

In order to contain insurance costs in recent years the Group has continued to adjust its coverage profile, accepting a greater degree of un-insured exposure. In addition, where claims are made under insurance policies, insurers may reserve the right to deny coverage on various grounds. If denial of coverage is ultimately upheld on these claims, this could result in material additional charges to the Group's earnings.

Product liability litigation

Pre-clinical and clinical trials are conducted during the development of potential products to determine the safety and efficacy of products for use by humans following approval by regulatory bodies. Notwithstanding these efforts, when drugs and vaccines are introduced into the marketplace, unanticipated side effects may become evident. The Group is currently a defendant in a number of product liability lawsuits, including class actions, that involve substantial claims for damages related to the Group's pharmaceutical products. Litigation, particularly in the USA, is inherently unpredictable and excessive verdicts that are not justified by the evidence can occur. Class actions that sweep together all persons who were prescribed the Group's products can inflate the potential liability by the force of numbers. Claims for pain and suffering and punitive damages are frequently asserted in product liability actions and, if allowed, can represent potentially open-ended exposure.

Anti-trust litigation

In the USA it has become increasingly common that following an adverse outcome in prosecution of patent infringement actions, the defendants and direct and indirect purchasers and other payers initiate anti-trust actions as well. Claims by direct and indirect purchasers and other payers are typically filed as class actions and the relief sought may include treble damages and restitution claims. Damages in adverse anti-trust verdicts are subject to automatic trebling in the USA.

Sales, marketing and regulation

The Group operates globally in complex legal and regulatory environments that often vary among jurisdictions. The failure to comply with applicable laws, rules and regulations in these jurisdictions may result in civil and criminal legal proceedings. In the USA, for example, the Group is responding to federal and state governmental investigations into pricing, marketing and reimbursement of its prescription drug products. These investigations could result in related restitution or civil false claims act litigation on behalf of the federal or state governments, as well as related proceedings initiated against the Group by or on behalf of consumers and private payers. Such proceedings may result in trebling of damages awarded or fines in respect of each violation of law. Criminal proceedings may also be initiated against Group companies or individuals.

Risks of competition, price controls and limitations on sales

Third party competition

The Group operates in highly competitive businesses. In the pharmaceuticals business, it faces competition both from proprietary products of large international manufacturers and producers of generic pharmaceuticals. Significant product innovations, technical advances or the intensification of price competition by competitors could adversely affect the Group's operating results. Continued consolidation in the pharmaceutical industry could adversely affect the Group's competitive position, while continued consolidation among the Group's customers may increase pricing pressures. The Group had 12 products with over £500 million in annual global sales in 2005.

Among these products is *Augmentin IR*, with respect to which the Group already has generic competition, and *Zofran*, *Imitrex, Valtrex, Avandia* and *Wellbutrin XL*, with respect to which the Group's intellectual property rights in the USA are currently the subject of litigation, and *Flonase*, for which the FDA approved the first generic version in February 2006.

If these or any of the Group's other major products were to become subject to a problem such as loss of patent protection, unexpected side effects, regulatory proceedings, publicity affecting doctor or patient confidence or pressure from competitive products, or if a new, more effective treatment should be introduced, the adverse impact on the Group's revenues and operating results could be significant. In particular, the Group faces intense competition from manufacturers of generic pharmaceutical products in all of its major markets. Generic products often enter the market upon expiration of patents or data exclusivity periods for the Group's products. Introduction of generic products typically leads to a dramatic loss of sales and reduces the Group's revenues and margins for its proprietary products. The expiration dates for patents for the Group's major products are set out on page 25 and legal proceedings involving patent challenges are set out in Note 41 to the financial statements, 'Legal proceedings'.

Governmental and payer controls

Pharmaceutical products are subject to price controls or pressures and other restrictions in many markets, including Japan, Germany, France and Italy. Some governments intervene directly in setting prices. In addition, in some markets major purchasers of pharmaceutical products (whether governmental agencies or private health care providers) have the economic power to exert substantial pressure on prices or the terms of access to formularies.

The Group cannot predict whether existing controls will increase or new controls will be introduced that will reduce the Group's margins or affect adversely its ability to introduce new products profitably.

For example, in the USA, where the Group has its highest margins and most sales for any country, pricing pressures could significantly increase following implementation of the pharmaceutical benefit under Medicare, or in the event that other state programmes to control the cost of prescription drugs are adopted. As experience develops under the Medicare programme outpatient pharmaceutical coverage for its beneficiaries in 2006, the US government, or the private insurers through which coverage will be offered, through their enormous purchasing power under the programme could demand discounts that may implicitly create price controls on prescription drugs. Additionally, a number of states have proposed or implemented various schemes to control prices for their own senior citizens' programmes, including importation from other countries and bulk purchases of drugs. The growth in the number of patients covered through large managed care institutions in the USA, which is likely to increase with implementation of the Medicare benefit, also increases pricing pressures on the Group's products. These trends may adversely affect the Group's revenues and margins from sales in the USA.

Regulatory controls

The Group must comply with a broad range of regulatory controls on the testing, approval, manufacturing and marketing of many of its pharmaceutical and consumer healthcare products, particularly in the USA and countries of the European Union, that affect not only the cost of product development but also the time required to reach the market and the uncertainty of successfully doing so. Stricter regulatory controls also heighten the risk of withdrawal by regulators on the basis of post-approval concerns over product safety, which would reduce revenues and can result in product recalls and product liability lawsuits.

In addition, in some cases the Group may voluntarily cease marketing a product (for example the withdrawal of *Lotronex* in 2000 shortly after its initial launch in the USA) or face declining sales based on concerns about efficacy or safety, whether or not scientifically justified, even in the absence of regulatory action. The development of the post-approval adverse event profile for a product or the product class may have a major impact on the marketing and sale of the product.

Risk of interruption of product supply

The manufacture of pharmaceutical products and their constituent materials requires compliance with good manufacturing practice regulations. The Group's manufacturing sites are subject to review and approval by the FDA and other regulatory agencies. Compliance failure by suppliers of key materials or the Group's own manufacturing facilities could lead to product recalls and seizures, interruption of production and delays in the approvals of new products pending resolution of manufacturing issues. Non-compliance can also result in fines and disgorgement of profits. Any interruption of supply or fines or disgorgement remedy could materially and adversely affect the Group's financial results. The Group's Cidra, Puerto Rico facility has worked at resolution of FDA observations of deficiencies in manufacturing practices and is subject to compliance with a consent decree entered into with the FDA during 2005, as referred to in Note 41 to the financial statements, 'Legal proceedings'. As a consequence of those discussions, supplies of certain products manufactured at Cidra were curtailed or constricted which had an adverse impact on sales in 2005.

While the Group undertakes business continuity planning, single sourcing for certain components, bulk active materials and finished products creates a risk of failure of supply in the event of regulatory non-compliance or physical disruption at the manufacturing sites.

Outlook and Risk Factors
continued

Risk from concentration of sales to wholesalers
In the USA, in line with other pharmaceutical companies, the Group sells its products through a small number of wholesalers in addition to hospitals, pharmacies, physicians and other groups. Sales to the three largest of which amounted to approximately 80% of the Group's US pharmaceutical sales. At 31st December 2005, the Group had trade receivables due from these three wholesalers totalling £1,051 million (31st December 2004 – £710 million). The Group is exposed to a concentration of credit risk in respect of these wholesalers such that, if one or more of them is affected by financial difficulty, it could materially and adversely affect the Group's financial results.

Environmental liabilities
The environmental laws of various jurisdictions impose actual and potential obligations on the Group to remediate contaminated sites. The Group has also been identified as a potentially responsible party under the US Comprehensive Environmental Response Compensation and Liability Act at a number of sites for remediation costs relating to the Group's use or ownership of such sites. Failure to manage properly the environmental risks could result in additional remedial costs that could materially and adversely affect the Group's operations. See Note 41 to the financial statements, 'Legal proceedings', for a discussion of environmental-related proceedings in which the Group is involved.

Reliance on information technology
The Group is increasingly dependent on information technology systems, including Internet-based systems, for internal communication as well as communication with customers and suppliers. Any significant disruption of these systems, whether due to computer viruses or other outside incursions, could materially and adversely affect the Group's operations.

Taxation
The effective tax rate on the Group's earnings benefits from the fact that a portion of its earnings is taxed at more favourable rates in some jurisdictions outside the UK. Changes in tax laws or in their application with respect to matters, such as transfer pricing and the risk of double taxation, that relate to the portion of the Group's earnings taxed at more favourable rates, could increase the Group's effective tax rate and adversely affect its financial results. The Group has open issues with the revenue authorities in the USA, UK, Japan and Canada. By far the largest relates to Glaxo heritage products, in respect of which the US Internal Revenue Service and UK Inland Revenue have made competing and contradictory claims. These matters are discussed in Note 12 to the financial statements, 'Taxation'.

Disruption from pandemic influenza
In the event of pandemic influenza, the Group could be subject to disruption from a range of factors. National governments may be more willing to abrogate intellectual property rights for medicines that might otherwise be in short supply. In a country afflicted by pandemic flu, there would be a risk that employees and their families will be affected with the consequence that sales and distribution and manufacturing activities could be shut down and supply continuity – for active ingredients and finished goods – affected.

Global political and economic conditions
The Group conducts a substantial portion of its operations outside the UK. The Group's management of foreign exchange rates is discussed in Operating and financial review and prospects, 'Foreign exchange risk management'. Fluctuations in exchange rates between sterling and other currencies, especially the US dollar, the Euro and the Japanese yen, materially affect the Group's financial results.

The Group has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or the possibility of political unrest, legal and regulatory changes or nationalisation in jurisdictions in which the Group operates. These factors could materially affect the Group's future results of operations.

Accounting standards
New or revised accounting standards and rules promulgated from time to time by US or international accounting standard setting boards could have a material adverse impact on the Group's reported financial results. With the adoption of International Financial Reporting Standards (IFRS), changes in the market valuation of certain financial instruments (such as the equity collar linked to the Group's investment in Quest Diagnostics, the put and call options linked to the Group's strategic alliance with Theravance and impairments of equity investments) are reflected in the Group's reported results before those gains or losses are actually realised and could have a significant impact on the results in any given period. The Group believes that it complies with the appropriate regulatory requirements concerning its financial statements and disclosures. However, other companies have experienced investigations into potential non-compliance with accounting and disclosure requirements that have resulted in significant penalties.

Human resources
The Group has approximately 100,000 employees around the world and is subject to laws and regulations concerning its employees – ranging from discrimination and harassment to personal privacy to labour relations – that vary significantly from jurisdiction to jurisdiction. Failure to continue to recruit and retain the right people and maintain a culture of compliance could have a significant adverse affect on the Group.

In accordance with US SEC disclosure requirements, the following discussion compares results for the year to 31st December 2004 with the results for the year to 31st December 2003. The information has been prepared under IFRS.

All growth rates are at constant exchange rates (CER) unless otherwise stated. The sterling growth rates for turnover by product may be found in the table of pharmaceutical sales by therapeutic area on page 77.

Exchange

The currencies that most influence the Group's results are the US dollar, the Euro and the Japanese Yen.

The pound hit its highest level against the dollar for more than four years, climbing to $1.92 at the year-end, and the Euro gained 1% against sterling and 8% against the dollar in 2004. This was the second consecutive year that the dollar has fallen in value against the Euro, due to the impact of continued unrest in Iraq, tension elsewhere in the world and concerns for the US economy.

World market – pharmaceuticals

Global pharmaceutical sales increased by 9% in 2004 to £284 billion.

World market by geographic region	Value £bn	% of total	Growth CER%	Growth £%
USA	124.7	44	10	(2)
Europe	82.3	29	8	8
Germany	15.5	5	6	6
France	15.0	5	8	8
UK	10.5	4	10	10
Italy	9.7	3	6	6
Japan	30.9	11	3	1
Asia Pacific	19.3	7	13	6
Latin America	12.1	4	16	2
Middle East, Africa	8.6	3	13	5
Canada	6.0	2	10	8
Total	283.9	100	9	2

Growth in the US market has slowed but remains in double digits and now represents 44% of the global prescription pharmaceutical market compared to 30% a decade ago.

At 30th September 2004, GSK held second position in the world pharmaceutical market with a market share of 6.5%, behind Pfizer with a market share of 10.1%. GSK had eight of the world's top 60 pharmaceutical products. These were *Augmentin, Avandia, Imigran/Imitrex, Lamictal, Seretide/Advair, Seroxat/Paxil, Wellbutrin* and *Zofran.*

World market – top five therapeutic classes	Value £bn	% of total	Growth CER%	Growth £%
Cardiovascular	48.3	17	9	3
Central nervous system	47.1	17	11	4
Alimentary tract and metabolic	35.1	12	6	(1)
Anti-infectives (bacterial, viral and fungal) excluding vaccines	30.6	11	6	(1)
Respiratory	19.5	7	5	(1)

(Note: data based on 12 months to 30th September 2004.)

Pharmaceutical turnover

All growth rates included in the review of turnover are at constant exchange rates (CER) unless otherwise stated. The sterling growth rates may be found in the tables of pharmaceutical turnover by therapeutic area on page 77.

Total pharmaceutical turnover in 2004 was £17,100 million compared with £18,114 million in 2003, an increase of 1% CER. In sterling terms turnover declined 6%, principally due to the weakness of the US dollar.

Pharmaceutical turnover by therapeutic area

GSK's ability to continue to deliver pharmaceutical turnover growth, despite generic competition to several of its products, is primarily due to an exceptionally broad product portfolio of fast-growing, high-value products.

These include the respiratory product *Seretide/Advair,* up 19% (£2.4 billion), the diabetes treatment *Avandia/Avandamet,* up 32% (£1.1 billion), *Lamictal* for epilepsy/bipolar disorder, up 33% (£0.7 billion), *Valtrex* for herpes, up 24% (£0.6 billion), *Coreg* for heart disease, up 34% (£0.4 billion) and vaccines, up 11% (£1.2 billion).

In all, 12 GSK products each had sales of over £500 million in 2004.

Respiratory

GSK continued to be the global leader in respiratory pharmaceuticals with sales of its three key products, *Seretide/Advair*, *Flixotide/Flovent* and *Serevent*, amounting to £3.4 billion, up 9%. Sales of *Seretide/Advair*, the Group's largest product, grew 19% to £2.4 billion although this contributed to declines in *Serevent* and *Flixotide*, its constituent products.

In the USA, *Advair* sales grew 20% to £1.3 billion. Growth of *Seretide* in Europe was also strong (up 19% to £882 million). International sales grew 15%, reflecting good growth in all geographic areas.

The older respiratory products *Ventolin* and *Becotide* continued to decline as patients converted to newer products.

Central nervous system (CNS)

CNS sales declined 16% to £3.5 billion. Sales declined in all regions.

Total sales of *Paxil* were down 39% to £1.1 billion as a result of generic competition to *Paxil IR*, sales of which declined 53% to £667 million. Mitigating this decline was the strong performance of the product in Japan, up 25% to £171 million and the performance of *Paxil CR,* which generated sales of £396 million, up 14%.

Total sales of *Wellbutrin* products fell 12% to £751 million. *Wellbutrin IR* and *SR* sales fell 64% to £284 million as a result of generic competition. This impact was partially offset, however, by the exceptionally strong performance of *Wellbutrin XL*, the new once-daily product, which achieved sales of £467 million in its first full year on the market.

The strong growth of GSK's epilepsy and bi-polar disorder treatment *Lamictal* continued, with sales up 33% to £677 million. Ongoing US growth, up 49% to £414 million, is being driven by the indication for the maintenance treatment of bi-polar disorder received in 2003.

Anti-virals
Global HIV product sales rose 4% to £1.5 billion and sales in the USA increased 4% to £747 million. GSK continued to grow its HIV franchise, despite the launch of several new products by competitors.

HIV performance was enhanced by the launch of *Epzicom*, a new combination product (*Epivir/Ziagen*) in the USA in August 2004.

Sales of the herpes treatment *Valtrex* exceeded £500 million for the first time in 2004 (up 24% to £571 million). Performance was driven by the USA (up 30% to £369 million) where the product is the clear market leader in treatments for genital herpes.

Anti-bacterials
Anti-bacterial sales declined 9% worldwide and 24% in the USA, reflecting generic competition in all regions.

Metabolic
The diabetes treatments *Avandia/Avandamet* continued to perform very strongly, with overall sales of £1.1 billion (up 32%).

Sales in the USA grew 26% to £852 million. Encouragingly, *Avandia/ Avandamet* also grew very strongly in Europe and International markets with sales up 52% and 62%, respectively. Strong performance in these markets was driven by the growing acceptance amongst opinion leaders and physicians of the benefits of these new products in improving control for diabetic patients.

Vaccines
The vaccines business had a strong year, with sales up 11% to £1.2 billion. Several key products drove growth – *Pediarix/Infanrix* up 12% to £356 million, *Priorix*, up 14% to £95 million and *Fluarix*, up 38% to £79 million.

Oncology and emesis
Sales of *Zofran* grew 8% to £763 million, driven by the US performance, up 10% to £565 million.

Cardiovascular and urogenital
In 2004, *Coreg* (for heart disease) sales grew 34% to £432 million.

Other therapeutic areas
Sales of *Zantac* fell 12% to £273 million, with declines in all regions.

USA
The USA reported flat turnover in 2004 despite the significant impact of generic competition to *Paxil* and *Wellbutrin*. Excluding sales of these products, turnover grew 10%. The US business represented 49% of total pharmaceutical turnover in 2004.

Advair maintained its strong growth with sales of £1,330 million, up 20%. However, this adversely affected sales of its constituent products, *Flovent* and *Serevent,* which both showed declines. *Flonase*, indicated for the treatment of perennial rhinitis, grew by 9%.

Sales of *Wellbutrin* products fell 12% to £735 million. *Wellbutrin IR* and *SR* sales fell 65% to £270 million as a result of generic competition. The impact was partially offset, however, by the exceptionally strong performance of *Wellbutrin XL*, the new once-daily product, which achieved sales of £465 million in its first full year on the market.

Total sales of *Paxil* were down 51% to £519 million as a result of generic competition to *Paxil IR* (sales of which declined 82% to £131 million). Mitigating this decline was the performance of *Paxil CR,* which generated sales of £388 million, up 13%.

Sales in the anti-virals therapeutic area grew 12%, with HIV products up 4%. *Valtrex*, for herpes, grew 30% driven by patients switching to suppression therapy.

Sales of *Avandia/Avandamet* increased by 26%. Anti-bacterial sales declined 24% as a result of generic competition that began in the third quarter of 2002. *Coreg* sales increased 37% as it continued to benefit from its wide range of indications.

Vaccines grew 6% reflecting the good performance of *Pediarix.*

Europe
The discussion of individual market performance in the Europe region is on a turnover created basis rather than a turnover invoiced basis. See '2005 Year' on page 60 for an explanation of the adjustments made.

Europe region contributed 30% of pharmaceutical turnover. Although overall turnover growth in the region was only 2%, good growth was recorded in Spain and Southern and Eastern Europe. Government healthcare reforms, including pricing and reimbursement restrictions, adversely affected turnover in France, Italy and Germany.

Seretide, GSK's largest selling product in Europe, grew 19% and reported notable growth in Spain and the UK. *Seretide* and its constituent products *Serevent* and *Flixotide* grew 9%.

The decline in sales of the herpes franchise was mainly as a result of generic competition for *Zovirax*, partially offset by patients switching to the newer product, *Valtrex*.

Seroxat sales were down 31%, reflecting generic competition in the UK and France.

Anti-bacterial sales declined 6% due to generic competition throughout the region

Vaccines grew by 7% driven by the hepatitis franchise and *Infanrix*.

International
The International region reported year on year turnover growth of 4%. Strong growth in Asia Pacific, up 8% and Latin America, up 8%, was offset by flat sales in Australia and declines of 5% in Sub-Saharan Africa, 8% in the Middle East/North Africa and 11% in Canada. In Canada, the sales decline was due to generic erosion of *Paxil IR*, excluding this element, Canada grew 4.5%.

Japan recorded turnover growth of 5%, despite routine government price reductions being implemented in 2004. *Paxil*, up 25%, *Serevent*, up 74% and *Valtrex*, up 16% performed particularly well, offsetting small declines in *Zantac* and *Zovirax*.

Across all markets in International, the key products driving growth were *Seretide*, which grew 15% to record sales of £229 million, *Avandia/Avandamet*, which grew 62% to £161 million and the vaccines franchise, which recorded growth of 21% and achieved sales of £405 million.

Pharmaceutical turnover by therapeutic area 2004

Therapeutic area/ major products	% of total	Total 2004 £m	Total 2003 £m	Total Growth CER%	Total Growth £%	USA 2004 £m	USA Growth CER%	USA Growth £%	Europe 2004 £m	Europe Growth CER%	Europe Growth £%	International 2004 £m	International Growth CER%	International Growth £%
Respiratory	26	**4,394**	**4,390**	**7**	**–**	**2,183**	**9**	**(3)**	**1,517**	**6**	**4**	**694**	**4**	**–**
Seretide/Advair		2,441	2,192	19	11	1,330	20	8	882	19	17	229	15	12
Flixotide/Flovent		618	704	(7)	(12)	251	(12)	(21)	189	(7)	(9)	178	3	–
Serevent		349	432	(15)	(19)	129	(26)	(34)	162	(13)	(13)	58	24	21
Flixonase/Flonase		578	594	7	(3)	450	9	(2)	59	7	5	69	(5)	(9)
Central Nervous System	20	**3,462**	**4,446**	**(16)**	**(22)**	**2,271**	**(19)**	**(27)**	**747**	**(10)**	**(11)**	**444**	**(7)**	**(10)**
Seroxat/Paxil		1,063	1,877	(39)	(43)	519	(51)	(56)	251	(31)	(32)	293	(8)	(11)
Paxil IR		667	1,490	(53)	(55)	131	(82)	(84)	251	(31)	(32)	285	(10)	(13)
Paxil CR		396	387	14	2	388	13	1	–	–	–	8	>100	>100
Wellbutrin		751	953	(12)	(21)	735	(12)	(21)	1	>100	>100	15	(37)	(40)
Wellbutrin IR, SR		284	883	(64)	(68)	270	(65)	(69)	1	>100	>100	13	(44)	(48)
Wellbutrin XL		467	70	>100	>100	465	>100	>100	–	–	–	2	>100	>100
Imigran/Imitrex		682	759	(2)	(10)	492	(2)	(12)	142	(1)	(3)	48	(6)	(9)
Lamictal		677	549	33	23	414	49	33	218	13	12	45	12	7
Requip		116	98	25	18	53	26	13	56	22	22	7	34	20
Anti-virals	14	**2,359**	**2,345**	**8**	**1**	**1,165**	**12**	**1**	**724**	**2**	**–**	**470**	**7**	**1**
HIV		**1,462**	**1,505**	**4**	**(3)**	**747**	**4**	**(6)**	**558**	**3**	**1**	**157**	**8**	**1**
Combivir		570	588	4	(3)	280	4	(7)	225	6	4	65	(1)	(7)
Trizivir		322	375	(8)	(14)	177	(10)	(19)	130	(8)	(9)	15	13	7
Epivir		294	293	7	–	139	4	(7)	115	10	8	40	14	5
Ziagen		155	167	–	(7)	73	(5)	(15)	60	(1)	(2)	22	25	15
Retrovir		43	44	2	(2)	17	–	(11)	16	4	–	10	3	–
Agenerase, Lexiva		63	38	80	66	46	>100	92	12	22	20	5	29	–
Herpes		**718**	**668**	**15**	**7**	**380**	**31**	**17**	**138**	**(5)**	**(6)**	**200**	**6**	**3**
Valtrex		571	498	24	15	369	30	17	90	6	5	112	20	17
Zovirax		147	170	(10)	(14)	11	38	22	48	(21)	(23)	88	(7)	(11)
Zeffix		130	129	7	1	11	18	10	22	28	29	97	3	(5)
Anti-bacterials	9	**1,547**	**1,800**	**(9)**	**(14)**	**356**	**(24)**	**(32)**	**688**	**(6)**	**(7)**	**503**	**1**	**(6)**
Augmentin		708	825	(9)	(14)	223	(21)	(29)	298	(9)	(10)	187	9	3
Augmentin IR		533	584	(5)	(9)	59	(15)	(21)	293	(10)	(11)	181	8	2
Augmentin ES		74	135	(39)	(45)	69	(42)	(48)	–	–	–	5	>100	100
Augmentin XR		101	106	6	(5)	95	1	(10)	5	>100	>100	1	>100	>100
Zinnat/Ceftin		205	232	(7)	(12)	9	(52)	(59)	120	1	(1)	76	(8)	(15)
Metabolic	8	**1,251**	**1,077**	**27**	**16**	**852**	**26**	**13**	**133**	**20**	**18**	**266**	**35**	**27**
Avandia/Avandamet		1,114	929	32	20	852	26	13	101	52	49	161	62	52
Vaccines	7	**1,194**	**1,121**	**11**	**7**	**268**	**6**	**(5)**	**521**	**7**	**6**	**405**	**21**	**17**
Hepatitis		405	417	3	(3)	134	(5)	(15)	200	7	5	71	9	3
Infanrix, Pediarix		356	336	12	6	129	16	3	161	11	10	66	8	3
Oncology and emesis	5	**934**	**1,000**	**2**	**(7)**	**679**	**2**	**(9)**	**170**	**6**	**4**	**85**	**(5)**	**(10)**
Zofran		763	774	8	(1)	565	10	(2)	130	5	3	68	(2)	(7)
Hycamtin		99	110	(3)	(10)	64	(7)	(17)	29	13	12	6	(19)	(25)
Cardiovascular and urogenital	5	**932**	**770**	**31**	**21**	**563**	**27**	**14**	**261**	**51**	**49**	**108**	**16**	**9**
Coreg		432	361	34	20	425	37	23	–	–	–	7	(43)	(43)
Levitra		49	37	41	32	20	–	(14)	21	87	82	8	>100	80
Avodart		64	19	>100	>100	34	>100	>100	27	>100	>100	3	>100	>100
Other	6	**1,027**	**1,165**	**(7)**	**(12)**	**88**	**(1)**	**(11)**	**323**	**(5)**	**(8)**	**616**	**(8)**	**(14)**
Zantac		273	328	(12)	(17)	70	1	(9)	72	(21)	(21)	131	(13)	(17)
	100	**17,100**	**18,114**	**1**	**(6)**	**8,425**	**–**	**(10)**	**5,084**	**2**	**1**	**3,591**	**4**	**(2)**

CER% represents turnover growth at constant exchange rates. £% represents growth at actual exchange rates.

2004 Year
continued

Consumer Healthcare sales

	2004 £m	2003 £m	Growth CER%	Growth £%
OTC medicines	**1,400**	1,472	2	(5)
Analgesics	333	328	7	2
Dermatological	180	225	(15)	(20)
Gastro-intestinal	241	267	(2)	(10)
Respiratory tract	145	144	3	1
Smoking control	327	315	13	4
Natural wellness support	136	148	(2)	(8)
Oral care	**913**	915	4	–
Nutritional healthcare	**573**	569	4	1
	2,886	2,956	3	(2)

The growth in Consumer Healthcare sales of 3% to £2.9 billion comprised an OTC medicines sales increase of 2%, Oral care sales increase of 4% and a Nutritional healthcare sales increase of 4%.

OTC medicines

OTC medicine sales were £1.4 billion, up 2%. Sales growth from smoking control products in the USA, up 11%, and Europe, up 22%, helped to offset the decline in dermatological products, which were down 15% due to generic competition to *Cutivate* in the USA. Expansion of the *Panadol* brand in International markets helped analgesics grow 7%.

In July, GSK obtained the OTC marketing rights in the USA for orlistat, an FDA-approved prescription product for obesity management marketed by Roche as Xenical.

Oral care

Oral care sales were £0.9 billion, up 4%. Strong growth in International of 8% was led by the *Sensodyne*, *Polident* and *Poligrip* brands.

Nutritional healthcare

Sales of Nutritional healthcare products grew 4% to £0.6 billion. *Lucozade* grew 6% to £237 million.

Operating profit

The analysis below of operating profit and subsequent discussion compares the 2004 results with 2003 results.

	2004 £m	2004 %	2003 £m	2003 %	Growth CER%	Growth £%
Turnover	**19,986**	**100.0**	21,070	100.0	1	(5)
Cost of sales	**(4,360)**	**(21.8)**	(4,577)	(21.7)	–	(5)
Selling, general and administration	**(7,201)**	**(36.0)**	(7,888)	(37.4)	(5)	(9)
Research and development	**(2,904)**	**(14.5)**	(2,865)	(13.6)	8	1
Other operating income	**235**	**1.1**	310	1.4		
Operating profit	**5,756**	**28.8**	6,050	28.7	6	(5)

Cost of sales

Cost of sales as a percentage of turnover remained broadly in line with the prior year as reduced merger and manufacturing restructuring costs were offset by a significant weakening of the US dollar relative to 2003, the loss of higher margin *Paxil IR* and *Wellbutrin SR* sales to generics, and an adverse product mix. Merger and manufacturing restructuring costs were nil in 2004 but £356 million in 2003.

Selling, general and administration

Selling, general and administration (SG&A) costs declined 5% (9% decline in sterling terms) reflecting savings in general and administration that were partly offset by increased advertising, promotion and selling costs. These latter costs increased 1%, and accounted for a one percentage point increase in total SG&A. General and administration costs declined 14% and accounted for a six percentage point reduction in total SG&A. This was due to lower charges related to programmes to deliver future cost savings (equal to a two percentage point reduction in total SG&A) and other general expense reductions (equal to a four percentage point decline in total SG&A). Net of currency movements, there was an overall reduction of 1.4 percentage points relative to 2003 for expenses expressed as a percentage of turnover.

Research and development

R&D expenditure increased 8% reflecting increased clinical trial activity. Pharmaceuticals R&D expenditure represented 16.4% of pharmaceutical turnover in the year.

Other operating income

Other operating income includes royalty income, equity investment disposals and impairments and product disposals. Other operating income was £235 million in 2004 compared with £310 million in 2003 reflecting lower product and asset disposals.

Operating profit

Overall the operating profit margin increased 0.1 percentage points as operating profit of £5,756 million declined 5% in sterling terms on a turnover decline of 5%. At constant exchange rates operating profit increased 6%, reflecting the completion of the merger and manufacturing restructuring programme in 2003 and lower charges relating to programmes to deliver future cost savings, partly offset by increased R&D expenditure and lower product and asset disposals.

Share of after tax profits/(losses) of associates and joint ventures

The share of profits of associates arises principally from the Group's holding in Quest Diagnostics Inc.

Disposal of interest in associates

During 2004, the Group disposed of 3.8 million shares from its investment in Quest Diagnostics Inc. for cash proceeds of £188 million, reducing the Group's shareholding at 31st December 2004 to 18.6%. After recognising a charge of £17 million for goodwill previously written off to reserves a profit of £139 million was recognised.

Finance income	**2004 £m**	2003 £m
Interest income	**173**	98
Unwinding of discount on assets	**3**	3
	176	101

Finance costs	**2004 £m**	2003 £m
Interest costs	**(346)**	(234)
Unwinding of discount on provisions	**(16)**	(20)
	(362)	(254)

Profit before taxation

Taking account of finance income and finance costs, the contribution from associates and business disposals, profit before tax was £5,779 million compared with £5,954 million in 2003, an increase of 9% (3% decline in sterling terms).

Taxation

	2004 £m	2003 £m
UK corporation tax	**273**	383
Overseas taxation	**1,394**	1,578
Current taxation	**1,667**	1,961
Deferred taxation	**90**	(310)
Total	**1,757**	1,651

The charge for taxation on profit, amounting to £1,757 million, represents an effective tax rate of 30.4% (2003 – 27.7%).

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Disagreements with, and between, revenue authorities as to intra-Group transactions, in particular the price at which goods should be transferred between Group companies in different tax jurisdictions, can produce conflicting claims from revenue authorities as to the profits to be taxed in individual territories. Resolution of such issues is a continuing fact of life for GSK. The Group has open issues with the revenue authorities in the USA, UK, Japan and Canada. By far the largest relates to Glaxo heritage products, in respect of which the US Internal Revenue Service (IRS) and UK Inland Revenue have made competing and contradictory claims.

For the latest position on taxation see 'Taxation' in the 2005 Year Operating and Financial review and prospects on page 63.

2004 Year
continued

Profit for the year

	2004	2003	Growth	
	£m	£m	CER%	£%
Profit after taxation for the year	**4,022**	4,308	4	(7)
Profit attributable to shareholders	**3,908**	4,201	4	(7)
Earnings per share (pence)	**68.1p**	72.3p	6	(6)
Earnings per ADS (US $)	**$2.49**	$2.37	6	(6)
Weighted average number of shares (millions)	**5,736**	5,806		
Diluted earnings per share (pence)	**68.0p**	72.1p		
Diluted earnings per ADS (US $)	**$2.49**	$2.36		
Weighted average number of shares (millions)	**5,748**	5,824		

Profit for the year was £4,022 million, an increase of 4% (7% decline in sterling terms). Net of profits attributable to minority interests, profit attributable to shareholders was £3,908 million, an increase of 4% (7% decline in sterling terms).

EPS in 2004 was 68.1 pence compared with 72.3 pence in 2003. The sterling based decline in EPS of 6% reflected the significant weakening of the dollar. Excluding the effects of currency, statutory EPS grew 6% reflecting the completion of the Group's merger and restructuring programmes in 2003 as well as underlying business growth, partly offset by a higher tax rate.

Dividend
The Board declared a fourth interim dividend of 12 pence per share making a total for the year of 42 pence per share. This compared with a total dividend of 41 pence per share for 2003.

Financial statements

This section comprises the Directors' statements of responsibility, the Independent Auditors' report on the financial statements and the consolidated financial statements consisting of the principal financial statements and supporting notes prepared under IFRS as adopted for use in the European Union. Also presented is the balance sheet of GlaxoSmithKline plc, which has been prepared under UK GAAP.

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Directors' statements of responsibility

Directors' statement of responsibility in relation to the consolidated financial statements

The Directors are responsible for:

- ensuring the maintenance of proper accounting records, which disclose with reasonable accuracy the financial position of the Group at any time and from which financial statements can be prepared to comply with the Companies Act 1985 and Article 4 of the IAS Regulation
- preparing financial statements for each financial period which give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of affairs of the Group as at the end of the financial period and of the profit or loss for that period
- ensuring the operation of systems of internal control and for taking reasonable steps to safeguard the assets of the Group and for preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31st December 2005, comprising principal statements and supporting notes, are set out in 'Financial statements' on pages 84 to 164 of this report.

The Directors confirm that suitable accounting policies have been consistently applied in the preparation of the financial statements, supported by reasonable and prudent judgements and estimates as necessary.

The responsibilities of the auditors in relation to the financial statements are set out in the Independent Auditors' report (page 83 opposite).

The financial statements for the year ended 31st December 2005 are included in the Annual Report 2005, which is published in hard-copy printed form and made available on the website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Directors' remuneration

The Remuneration Report on pages 37 to 54 sets out the remuneration policies operated by GlaxoSmithKline and disclosures on Directors' remuneration and other disclosable information relating to Directors and officers and their interests. It has been prepared in accordance with the Companies Act 1985 and complies with Section B of the Combined Code on Corporate Governance.

Going concern basis

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board, through the Audit Committee, has reviewed the assessment of risks and the internal control framework that operates in GlaxoSmithKline and has considered the effectiveness of the system of internal control in operation in the Group for the year covered by this report and up to the date of its approval by the Board of Directors.

The Combined Code

The Board considers that GlaxoSmithKline plc applies the principles of the Combined Code on Corporate Governance of the Financial Reporting Council, as described under 'Corporate governance' on pages 27 to 36, and has complied with its provisions except as described on pages 35 and 36.

As required by the Listing Rules of the Financial Services Authority, the auditors have considered the Directors' statement of compliance in relation to those points of the Combined Code which are specified for their review.

Annual Report

The Annual Report for the year ended 31st December 2005, comprising the Report of the Directors, the Remuneration Report, the Financial statements and additional information for investors, has been approved by the Board of Directors and signed on its behalf by

Sir Christopher Gent
Chairman
1st March 2006

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of GlaxoSmithKline plc:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of recognised income and expense and of cash flows present fairly, in all material respects, the financial position of GlaxoSmithKline plc and its subsidiaries at 31 December 2005 and 31 December 2004, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2005 in conformity with International Financial Reporting Standards as adopted by the European Union. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards as adopted by the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 38 to the consolidated financial statements.

As discussed in Note 1 to the financial statements, the Group changed the manner in which it accounts for financial instruments as of 1 January 2005.

PricewaterhouseCoopers LLP
London, England
1 March 2006

Consolidated income statement

for the year ended 31st December 2005

	Notes	2005 £m	2004 £m	2003 £m
Turnover	5	**21,660**	19,986	21,070
Cost of sales		**(4,764)**	(4,360)	(4,577)
Gross profit		**16,896**	15,626	16,493
Selling, general and administration		**(7,250)**	(7,201)	(7,888)
Research and development		**(3,136)**	(2,904)	(2,865)
Other operating income	6	**364**	235	310
Operating profit	7,8	**6,874**	5,756	6,050
Finance income	9	**257**	176	101
Finance costs	10	**(451)**	(362)	(254)
Share of after tax profits of associates and joint ventures	11	**52**	60	57
Profit on disposal of interest in associates	34	**–**	149	–
Profit before taxation		**6,732**	5,779	5,954
Taxation	12	**(1,916)**	(1,757)	(1,651)
Profit on disposal of businesses		**–**	–	5
Profit after taxation for the year		**4,816**	4,022	4,308
Profit attributable to minority interests		**127**	114	107
Profit attributable to shareholders		**4,689**	3,908	4,201
		4,816	4,022	4,308
Basic earnings per share (pence)	13	**82.6p**	68.1p	72.3p
Diluted earnings per share (pence)	13	**82.0p**	68.0p	72.1p

Consolidated balance sheet

at 31st December 2005

	Notes	2005 £m	2004 £m
Non-current assets			
Property, plant and equipment	15	**6,652**	6,197
Goodwill	16	**696**	304
Other intangible assets	17	**3,383**	2,513
Investments in associates and joint ventures	18	**276**	209
Other investments	19	**362**	298
Deferred tax assets	12	**2,214**	2,032
Other non-current assets	20	**438**	611
Total non-current assets		**14,021**	12,164
Current assets			
Inventories	21	**2,177**	2,193
Current tax recoverable	12	**416**	155
Trade and other receivables	22	**5,348**	4,451
Liquid investments	30	**1,025**	1,512
Cash and cash equivalents	23	**4,209**	2,467
Assets held for sale	24	**2**	2
Total current assets		**13,177**	10,780
Total assets		**27,198**	22,944
Current liabilities			
Short-term borrowings	30	**(1,200)**	(1,582)
Trade and other payables	25	**(5,147)**	(4,267)
Current tax payable	12	**(2,269)**	(1,753)
Short-term provisions	27	**(895)**	(962)
Total current liabilities		**(9,511)**	(8,564)
Non-current liabilities			
Long-term borrowings	30	**(5,271)**	(4,381)
Deferred tax provision	12	**(569)**	(569)
Pensions and other post-employment benefits	26	**(3,069)**	(2,519)
Other provisions	27	**(741)**	(569)
Other non-current liabilities	28	**(467)**	(405)
Total non-current liabilities		**(10,117)**	(8,443)
Total liabilities		**(19,628)**	(17,007)
Net assets		**7,570**	5,937
Equity			
Share capital	31	**1,491**	1,484
Share premium account	31	**549**	304
Retained earnings	32	**5,579**	4,542
Other reserves	32	**(308)**	(606)
Shareholders' equity		**7,311**	5,724
Minority interests		**259**	213
Total equity		**7,570**	5,937

Approved by the Board on 1st March 2006

Sir Christopher Gent
Chairman

Consolidated cash flow statement

for the year ended 31st December 2005

	Notes	2005 £m	2004 £m	2003 £m
Cash flows from operating activities				
Cash generated from operations		**7,665**	6,527	7,005
Taxation paid		**(1,707)**	(1,583)	(1,917)
Net cash inflow from operating activities		**5,958**	4,944	5,088
Cash flow from investing activities				
Purchase of property, plant and equipment		**(903)**	(788)	(746)
Proceeds from sale of property, plant and equipment		**54**	53	46
Proceeds from sale of intangible assets		**221**	–	–
Purchase of intangible assets		**(278)**	(255)	(316)
Purchase of equity investments		**(23)**	(103)	(63)
Proceeds from sale of equity investments		**35**	58	125
Share transactions with minority shareholders	34	**(36)**	–	–
Purchase of businesses, net of cash acquired	34	**(1,026)**	(297)	(12)
Disposal of businesses and interest in associates	34	**(2)**	230	3
Investments in associates and joint ventures	34	**(2)**	(2)	(3)
Interest received		**290**	173	104
Dividends from associates and joint ventures		**10**	11	1
Net cash outflow from investing activities		**(1,660)**	(920)	(861)
Cash flow from financing activities				
Decrease/(increase) in liquid investments		**550**	(53)	(373)
Proceeds from own shares for employee share options		**68**	23	26
Issue of share capital	31	**252**	42	41
Share capital purchased for cancellation		**–**	(201)	(980)
Purchase of Treasury shares		**(999)**	(799)	–
Redemption of preference shares issued by subsidiary		**–**	(489)	–
Increase in long-term loans		**982**	1,365	1,046
Repayment of long-term loans		**(70)**	(15)	(23)
Net repayment of short-term loans		**(857)**	(407)	(442)
Net repayment of obligations under finance leases		**(36)**	(22)	–
Interest paid		**(381)**	(350)	(236)
Dividends paid to shareholders		**(2,390)**	(2,475)	(2,333)
Dividends paid to minority interests		**(86)**	(73)	(84)
Dividends paid on preference shares		**–**	(2)	(15)
Other financing cash flows		**53**	49	82
Net cash outflow from financing activities		**(2,914)**	(3,407)	(3,291)
Increase in cash and bank overdrafts		**1,384**	617	936
Exchange adjustments		**233**	(93)	(110)
Cash and bank overdrafts at beginning of year		**2,355**	1,831	1,005
Cash and bank overdrafts at end of year		**3,972**	2,355	1,831
Cash and bank overdrafts at end of year comprise:				
Cash and cash equivalents		**4,209**	2,467	1,986
Overdrafts		**(237)**	(112)	(155)
		3,972	2,355	1,831

Supplementary information on cash flow

for the year ended 31st December 2005

Reconciliation of operating profit to operating cash flows	Notes	2005 £m	2004 £m	2003 £m
Operating profit		**6,874**	5,756	6,050
Adjustments:				
Depreciation		**710**	691	704
Impairment and assets written off		**193**	94	255
Amortisation of intangible assets		**194**	168	127
(Profit)/loss on sale of property, plant and equipment		**(19)**	2	–
(Profit)/loss on sales of intangible assets		**(203)**	1	(7)
Profit on sale of equity investments		**(15)**	(33)	(89)
Fair value loss on inventory sold		**–**	13	–
Changes in working capital:				
Decrease/(increase) in inventories		**47**	(33)	(76)
Increase in trade and other receivables		**(397)**	(235)	(369)
Increase/(decrease) in trade and other payables		**491**	163	(74)
(Decrease)/increase in pension and other provisions		**(453)**	(351)	71
Share-based incentive plans		**236**	333	375
Other		**7**	(42)	38
Net cash inflow from operating activities		**7,665**	6,527	7,005

Reconciliation of net cash flow to movement in net debt				
Net debt at beginning of year		**(1,984)**	(1,648)	(2,335)
Implementation of accounting for financial instruments under IAS 39		**13**	–	–
Increase in cash and bank overdrafts		**1,384**	617	936
Cash (inflow)/outflow from liquid investments		**(550)**	53	373
Net increase in long-term loans		**(912)**	(1,350)	(1,023)
Net repayment of short-term loans		**857**	407	442
Net repayment of obligations under finance leases		**36**	22	–
Net non-cash funds of subsidiary undertakings acquired		**(68)**	–	–
Exchange adjustments		**39**	24	(37)
Other non-cash movements		**(52)**	(109)	(4)
Movement in net debt		**747**	(336)	687
Net debt at end of year	30	**(1,237)**	(1,984)	(1,648)

Analysis of changes in net debt	At 31.12.04 as previously reported £m	Adjusted for IAS 39 £m	At 1.1.05 £m	Exchange £m	Other £m	Acquisitions £m	Cash flow £m	At 31.12.05 £m
Liquid investments	1,512	3	1,515	15	–	45	(550)	**1,025**
Cash and cash equivalents	2,467	–	2,467	235	–	(2)	1,509	**4,209**
Overdrafts	(112)	–	(112)	(2)	–	–	(123)	**(237)**
	2,355	–	2,355	233	–	(2)	1,386	**3,972**
Debt due within one year:								
Commercial paper	(830)	–	(830)	–	–	–	254	**(576)**
Eurobonds and Medium-Term Notes	(552)	3	(549)	(3)	(294)	–	555	**(291)**
Other	(88)	–	(88)	(13)	–	(46)	51	**(96)**
	(1,470)	3	(1,467)	(16)	(294)	(46)	860	**(963)**
Debt due after one year:								
Eurobonds, Medium-Term Notes and private financing	(4,302)	7	(4,295)	(192)	301	–	(974)	**(5,160)**
Other	(79)	–	(79)	(1)	(59)	(67)	95	**(111)**
	(4,381)	7	(4,374)	(193)	242	(67)	(879)	**(5,271)**
Net debt	(1,984)	13	(1,971)	39	(52)	(70)	817	**(1,237)**

For further information on significant changes in net debt see Note 30 ‘Net debt’.

Consolidated statement of recognised income and expense

for the year ended 31st December 2005

	2005 £m	2004 £m	2003 £m
Exchange movements on overseas net assets	**203**	(47)	53
Tax on exchange movements	**99**	(73)	(90)
Fair value movements on available-for-sale investments	**(1)**	–	–
Deferred tax on fair value movements	**(10)**	–	–
Revaluation of goodwill due to exchange	**9**	6	(7)
Actuarial (losses)/gains on defined benefit plans	**(794)**	108	(432)
Deferred tax on actuarial movements in defined benefit plans	**257**	(17)	121
Fair value movements on cash flow hedges	**(4)**	–	–
Deferred tax on fair value movements on cash flow hedge	**1**	–	–
Net losses recognised directly in equity	**(240)**	(23)	(355)
Profit for the year	**4,816**	4,022	4,308
Total recognised income and expense for the year	**4,576**	3,999	3,953
Implementation of accounting for financial instruments under IAS 39	**(12)**		
Total recognised income and expense	**4,564**		
Total recognised income and expense for the year attributable to:			
Shareholders	**4,423**	3,906	3,919
Minority interests	**153**	93	34
	4,576	3,999	3,953
Implementation of accounting for financial instruments under IAS 39 attributable to:			
Shareholders	**(16)**		
Minority interests	**4**		
	(12)		

Notes to the financial statements

1 Presentation of the financial statements

Description of business
GlaxoSmithKline is a major global healthcare group which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products, including vaccines, over-the-counter (OTC) medicines and health-related consumer products. GlaxoSmithKline's principal pharmaceutical products include medicines in the following therapeutic areas: central nervous system, respiratory, anti-virals, anti-bacterials, vaccines, oncology and emesis, metabolic, cardiovascular and urogenital.

Compliance with applicable law and IFRS
The financial statements have been prepared in accordance with the Companies Act 1985, Article 4 of the IAS Regulation and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations, as adopted for use in the European Union.

For GSK, there are no differences between IFRS as adopted for use in the European Union and full IFRS as published by the International Accounting Standards Board.

Financial period
These financial statements cover the financial year from 1st January to 31st December 2005, with comparative figures for the financial years from 1st January to 31st December 2004 and from 1st January to 31st December 2003.

Composition of the Group
A list of the subsidiary and associated undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in 'Principal Group companies', Note 39.

Composition of financial statements
The consolidated financial statements are drawn up in accordance with IFRS and with IFRS accounting presentation. The financial statements comprise:

- Consolidated income statement
- Consolidated balance sheet
- Consolidated cash flow statement
- Consolidated statement of recognised income and expense
- Notes to the financial statements.

Additional information in accordance with the requirements of US generally accepted accounting principles (US GAAP) is included in the notes to the financial statements. In Note 38 a statement of differences, and reconciliations of net income and shareholders' equity, between IFRS and US GAAP are provided.

Accounting convention
The financial statements have been prepared using the historical cost convention, modified for certain items carried at fair value, as stated in the accounting policies.

Accounting principles and policies
The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements have been prepared in accordance with the Group's accounting policies approved by the Board and described in Note 2.

Conversion to IFRS
This is the first year that GlaxoSmithKline has produced financial statements under IFRS. The adoption of IFRS has resulted in a number of significant adjustments to the previously reported results and equity shareholders' funds presented under UK generally accepted accounting principles (UK GAAP). The main changes were in relation to share-based payments, pensions, intangible assets, deferred taxation and financial instruments.

IFRS 1, First-Time Adoption of international Financial Reporting Standards, permits those companies adopting IFRS for the first time to take some exemptions from the full requirements of IFRS in the transition period. GlaxoSmithKline has adopted the following key exemptions:

- Business combinations: Business combinations prior to the transition date (1st January 2003) have not been restated onto an IFRS basis
- Share-based payments: IFRS 2, 'Share-based Payment', applies to equity instruments, such as share options granted since 7th November 2002, but GlaxoSmithKline has elected to adopt full retrospective application of the standard
- Financial instruments: Financial instruments in the comparative periods presented in the Annual Report 2005 (i.e. 2004 and 2003) are recorded on the UK GAAP basis applicable in those years, rather than in accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.

See Note 40 for further details.

2 Accounting policies

Consolidation
The consolidated financial statements include:

- the assets and liabilities, and the results and cash flows, of the company and its subsidiaries, including ESOP Trusts
- the Group's share of the net assets and results of associates and joint ventures.

The financial statements of entities consolidated are made up to 31st December.

Entities over which the Group has the ability to exercise control are accounted for as subsidiaries; where the Group has the ability to exercise joint control, they are accounted for as joint ventures; and where the Group has the ability to exercise significant influence, they are accounted for as associates.

Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

Notes to the financial statements
continued

2 Accounting policies continued

Transactions and balances between subsidiaries are eliminated; no profit before tax is taken on sales between subsidiaries or on sales to joint ventures and associates until the products are sold to customers outside the Group. Deferred tax relief on unrealised intra-Group profit is accounted for only to the extent that it is considered recoverable.

Goodwill arising on the acquisition of interests in subsidiaries, joint ventures and associates, representing the excess of the purchase consideration over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised as a separate item in the case of subsidiaries and as part of the cost of investment in the case of joint ventures and associates. Goodwill is denominated in the currency of the operation acquired. In the case of acquisitions prior to 1998, goodwill was written off directly to equity; on a subsequent disposal of assets from such acquisitions, any related goodwill remains in equity and is not charged to the consolidated income statement. Business combinations have not been restated in 2004 and 2003.

The results and assets and liabilities of associates and joint ventures are incorporated into the consolidated financial statements using the equity method of accounting.

Assets and liabilities, including related goodwill, of overseas subsidiaries, associates and joint ventures, are translated into sterling at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries, associates and joint ventures are translated into sterling using average rates of exchange. Exchange adjustments arising when the opening net assets and the profits for the year retained by overseas subsidiaries, associates and joint ventures are translated into sterling, less exchange differences arising on related foreign currency borrowings which hedge the Group's net investment in these operations, are taken to a separate component of equity.

When translating into sterling the assets, liabilities, results and cash flows of overseas subsidiaries, associates and joint ventures which are reported in currencies of hyper-inflationary economies, adjustments are made to reflect current price levels. Any loss on net monetary assets is charged to the consolidated income statement.

Foreign currency transactions
Foreign currency transactions by Group companies are booked in local currency at the exchange rate ruling on the date of transaction. Foreign currency assets and liabilities are retranslated into local currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement.

Revenue
Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received and when title and risk of loss passes to the customer. Turnover represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in the light of contractual and historical information and past experience. Turnover also includes co-promotion income where the Group records its share of the revenue but no related cost of sales. Value added tax and other sales taxes are excluded from revenue.

Expenditure
Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Advertising and promotion expenditure is charged to the income statement as incurred. Shipment costs on intercompany transfers are charged to cost of sales; distribution costs on sales to customers are included in selling, general and administrative expenditure. Restructuring costs are recognised in respect of the direct expenditure of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken.

Research and development
Research and development expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is capitalised when the criteria for recognising an asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable. Property, plant and equipment used for research and development is depreciated in accordance with the Group's policy.

Environmental expenditure
Environmental expenditure related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible is charged to the income statement. The Group recognises its liability on a site-by-site basis when it can be reliably estimated. This liability includes the Group's portion of the total costs and also a portion of other potentially responsible parties' costs when it is probable that they will not be able to satisfy their respective shares of the clean-up obligation. Recoveries of reimbursements are recorded as assets when virtually certain.

Pensions and other post-employment benefits
The costs of providing pensions under defined benefit schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employees' services, in accordance with the advice of qualified actuaries. Pension obligations are measured as the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds.

Pension scheme assets are measured at fair value at the balance sheet date. Actuarial gains and losses, differences between the expected and actual returns, and the effect of changes in actuarial assumptions are recognised in the statement of recognised income and expense in the year in which they arise. The Group's contributions to defined contribution plans are charged to the income statement as incurred.

The costs of other post-employment liabilities are calculated in a similar way to defined benefit pension schemes and spread over the period during which benefit is expected to be derived from the employees' services, in accordance with the advice of qualified actuaries.

Legal and other disputes
Provision is made for anticipated settlement costs where a reasonable estimate can be made of the likely outcome of legal or other disputes against the Group. In addition, provision is made for legal or other expenses arising from claims received or other disputes.

2 Accounting policies continued

In respect of product liability claims related to products where there is sufficient history of claims made and settlements, an "incurred but not reported" (IBNR) actuarial technique is used to determine a reasonable estimate of the Group's exposure to unasserted claims for those products and a provision is made on that basis.

No provision is made for other unasserted claims or where an obligation exists under a dispute but it is not possible to make a reasonable estimate. Costs associated with claims made by the Group against third parties are charged to the income statement as they are incurred.

Employee share plans

Incentives in the form of shares are provided to employees under share option and share award schemes. These options and awards are fair valued at their grant dates and the cost is charged to the income statement over the relevant vesting periods. This has been applied on a fully retrospective basis.

The Group provides finance to ESOP Trusts to purchase company shares on the open market to meet the obligation to provide shares when employees exercise their options or awards. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves and held at the value of the proceeds receivable from employees on exercise. If there is deemed to be a permanent impairment in value this is reflected by a transfer to retained earnings.

Property, plant and equipment

Property, plant and equipment (PP&E) is stated at the cost of purchase or construction less provisions for depreciation and impairment. Financing costs are not capitalised.

Depreciation is calculated to write off the cost of PP&E, excluding freehold land, using the straight-line basis over its expected useful life. The normal expected useful lives of the major categories of PP&E are reviewed annually and are:

Freehold buildings	20 to 50 years
Leasehold land and buildings	Lease term or 20 to 50 years
Plant and machinery	10 to 20 years
Fixtures and equipment	3 to 10 years

On disposal of PP&E, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is taken to the income statement.

Leases

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. The assets are included in PP&E or computer software and the capital elements of the leasing commitments are shown as obligations under finance leases. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement. All other leases are operating leases and the annual rentals are included in the income statement on a straight-line basis over the lease term.

Goodwill

Goodwill is stated at cost less impairments. Goodwill is deemed to have an indefinite useful life and is tested for impairment annually.

Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid, this excess is recognised immediately as a gain in the income statement.

Intangible assets

Intangible assets are stated at cost less provisions for amortisation and impairments.

Licences, patents, know-how and marketing rights separately acquired or acquired as part of a business combination are amortised over their estimated useful lives from the time they are available for use. The estimated useful lives for determining the amortisation charge are reviewed annually, and take into account the estimated time it takes to bring the compounds or products to market. Any development costs incurred by the Group and associated with acquired licences, patents, know-how or marketing rights are written off to the income statement when incurred, unless the criteria for recognition of an internally generated intangible asset are met.

Brands are valued independently as part of the fair value of businesses acquired from third parties where the brand has a value which is substantial and long-term and where the brands can be sold separately from the rest of the businesses acquired. Brands are amortised over their estimated useful lives, except where it is considered that the useful economic life is indefinite.

Prior to 1998, acquired minor brands and similar intangibles were eliminated in the Group balance sheet against reserves in the year of acquisition.

The costs of acquiring and developing computer software for internal use and internet sites for external use are capitalised as intangible fixed assets where the software or site supports a significant business system and the expenditure leads to the creation of a durable asset. ERP systems software is amortised over seven years and other computer software over three to five years.

Impairment of non-current assets

The carrying values of all non-current assets are reviewed for impairment when there is an indication that the assets might be impaired. Additionally, goodwill, intangible assets with indefinite useful lives and intangible assets which are not yet available for use are tested for impairment annually. Any provision for impairment is charged to the income statement in the year concerned.

Investments in associates and joint ventures

Investments in associates and joint ventures are carried in the consolidated balance sheet at the Group's share of their net assets at date of acquisition and of their post-acquisition retained profits or losses together with any goodwill arising on the acquisition.

Available-for-sale investments

Available-for-sale investments are initially recorded at cost and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses on available-for-sale investments are recognised directly in equity. On disposal or impairment of the investments, the gains and losses in equity are recycled into the income statement. Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Notes to the financial statements
continued

2 Accounting policies continued

Purchases and sales of equity investments are accounted for on the trade date and purchases and sales of other available-for-sale investments are accounted for on settlement date.

In 2004 and 2003 equity investments are recorded at cost.

Inventories
Inventories are included in the financial statements at the lower of cost (including raw materials, direct labour, other direct costs and related production overheads) and net realisable value. Cost is generally determined on a first in, first out basis.

Taxation
Current tax is provided at the amounts expected to be paid applying tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax liabilities and assets are not discounted.

Derivative financial instruments and hedging (2005)
Derivative financial instruments are used to manage exposure to market risks from treasury operations. The principal derivative instruments used by GlaxoSmithKline are foreign currency swaps, interest rate swaps and forward foreign exchange contracts. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are initially recognised in the balance sheet at cost and then remeasured at subsequent reporting dates to fair value. Hedging derivatives are classified on inception as fair value hedges, cash flow hedges or net investment hedges. Changes in the fair value of derivatives designated as fair value hedges are recorded in the income statement, with the changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivatives designated as cash flow hedges are recognised in equity. Amounts deferred in equity are transferred to the income statement in line with the hedged forecast transaction.

Hedges of net investments in foreign entities are accounted for in a similar way to cash flow hedges.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Derivative financial instruments and hedging (2004 and 2003)
IAS 32 and 39 were adopted by the Group on 1st January 2005. The 2004 and 2003 information relating to financial instruments remains as reported under UK GAAP and applying the following policies.

Derivative contracts are treated from inception as an economic hedge of the underlying financial instrument with matching accounting treatment and cash flows. Derivative instruments no longer designated as hedges are restated at market value and any future changes in value are taken directly to the profit and loss account.

Currency swaps and forward exchange contracts used to fix the value of the related asset or liability in the contract currency and at the contract rate are accrued to the profit and loss account over the life of the contract.

Gains and losses on foreign exchange contracts designated as hedges of forecast foreign exchange transactions are deferred and included in the measurement of the related foreign currency transactions in the period they occur. Gains and losses on balance sheet hedges are accrued and are taken directly to reserves except that forward premiums/discounts are recognised as interest over the life of the contracts.

Interest differentials under interest swap agreements are recognised in the profit and loss account by adjustment of interest expense over the life of the agreement.

3 New accounting policies and future requirements

The following IFRS and IFRIC interpretation have been issued by the IASB and are likely to affect future Annual Reports.

IFRS 7 ‘Financial instruments: disclosures’ was issued in August 2005 and is required to be implemented by GSK from 1st January 2007. This new standard incorporates the disclosure requirements of IAS 32, which it supersedes, and adds further quantitative and qualitative disclosures in relation to financial instruments.

IFRIC 4 ‘Determining whether an arrangement contains a lease’ was issued in December 2004 and is required to be implemented by GSK from 1st January 2006. The interpretation requires arrangements which may have the nature, but not the legal form, of a lease to be accounted for in accordance with IAS 17 ‘Leases’. This interpretation is not expected to have a material impact on the Group.

4 Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of overseas subsidiaries, joint ventures and associated undertakings into sterling and period end rates to translate the net assets of those undertakings. The currencies which most influence these translations, and the relevant exchange rates, were:

	2005	2004	2003
Average rates:			
£/US$	**1.82**	1.83	1.64
£/Euro	**1.46**	1.47	1.45
£/Yen	**200.00**	197.00	191.00
Period end rates:			
£/US$	**1.72**	1.92	1.79
£/Euro	**1.46**	1.41	1.42
£/Yen	**203.00**	197.00	192.00

5 Segment information

The Group's primary segment reporting is by business sector with geographical reporting being the secondary format. The business sectors consist of Pharmaceuticals (prescription pharmaceuticals and vaccines) and Consumer Healthcare (oral care, OTC medicines and nutritional healthcare). The geographical sectors of the USA, Europe and International (other Rest of World markets) reflect the Group's most significant regional markets and are consistent with the Group's regional market management reporting structure. Business sector data includes an allocation of corporate costs to each sector on an appropriate basis. There are no sales between business sectors.The Group's activities are organised on a global basis. The geographical sector figures are therefore influenced by the location of the Group's operating resources, in particular manufacturing and research, and by variations over time in intra-Group trading and funding arrangements. Turnover is shown by business sector and by location of customer. Other geographic information is given by location of subsidiary. The UK segment information gives turnover by location of customer and location of subsidiary. The UK operating profit, total assets and net assets are also shown. Where the Group co-promotes a product and the third party records the sale, the Group records its share of revenue as co-promotion income within turnover. The nature of co-promotion activities is such that the Group records no costs of sales. Pharmaceutical turnover includes co-promotion revenue of £112 million (2004 – £65 million, 2003 – £35 million).

Turnover by business sector	**2005 £m**	2004 £m	2003 £m
Pharmaceuticals	**18,661**	17,100	18,114
Consumer Healthcare	**2,999**	2,886	2,956
Turnover	**21,660**	19,986	21,070
Profit by business sector			
Pharmaceuticals	**6,159**	5,126	5,519
Consumer Healthcare	**715**	630	531
Operating profit	**6,874**	5,756	6,050
Finance income	**257**	176	101
Finance costs	**(451)**	(362)	(254)
Share of profits after tax of associates and joint ventures:			
Pharmaceuticals	**52**	60	57
Consumer Healthcare	**–**	–	–
Profit on disposal of interest in associates	**–**	149	–
Profit before taxation	**6,732**	5,779	5,954
Taxation	**(1,916)**	(1,757)	(1,651)
Profit on disposals of businesses	**–**	–	5
Profit after taxation for the year	**4,816**	4,022	4,308
Investments in associates and joint ventures by business sector			
Pharmaceuticals	**276**	209	
Consumer Healthcare	**–**	–	
Investment in associates and joint ventures	**276**	209	
Property, plant and equipment and intangible assets by business sector			
Additions			
Pharmaceuticals	**2,031**	1,301	
Consumer Healthcare	**164**	150	
Total additions	**2,195**	1,451	
Depreciation/amortisation			
Pharmaceuticals	**(807)**	(766)	
Consumer Healthcare	**(97)**	(93)	
Total depreciation/amortisation	**(904)**	(859)	
Impairment			
Pharmaceuticals	**(92)**	(39)	
Consumer Healthcare	**–**	(5)	
Total impairment	**(92)**	(44)	
Impairment reversal			
Pharmaceuticals	**3**	11	
Consumer Healthcare	**–**	–	
Total impairment reversal	**3**	11	

Notes to the financial statements
continued

5 Segment information continued

Total assets by business sector	**2005 £m**	2004 £m
Pharmaceuticals	**16,431**	14,239
Consumer Healthcare	**2,446**	2,323
Total operating assets	**18,877**	16,562
Investments in associates	**276**	209
Liquid investments	**1,025**	1,512
Derivative financial instruments	**179**	5
Cash and cash equivalents	**4,209**	2,467
Current and deferred taxation	**2,630**	2,187
Tangible assets held for sale	**2**	2
Total assets	**27,198**	22,944

Total liabilities by business sector		
Pharmaceuticals	**(9,099)**	(7,687)
Consumer healthcare	**(1,070)**	(963)
Total operating liabilities	**(10,169)**	(8,650)
Short-term borrowings	**(1,200)**	(1,582)
Long-term borrowings	**(5,271)**	(4,381)
Derivative financial instruments	**(150)**	(72)
Current and deferred taxation	**(2,838)**	(2,322)
	(19,628)	(17,007)

Turnover by location of customer	**2005 £m**	2004 £m	2003 £m
USA	**9,867**	9,191	10,276
Europe	**6,892**	6,395	6,346
International	**4,901**	4,400	4,448
Turnover	**21,660**	19,986	21,070

Property, plant and equipment and intangible asset additions by location	**2005 £m**	2004 £m
USA	**509**	323
Europe	**742**	976
International	**944**	152
Total additions	**2,195**	1,451

Total assets by location		
USA	**4,459**	3,588
Europe	**16,423**	16,536
International	**5,020**	2,921
Inter-segment trading balances	**(7,025)**	(6,483)
Total operating assets	**18,877**	16,562
Investments in associates	**276**	209
Liquid investments	**1,025**	1,512
Derivative financial instruments	**179**	5
Cash and cash equivalents	**4,209**	2,467
Current and deferred taxation	**2,630**	2,187
Tangible assets held for sale	**2**	2
Total assets	**27,198**	22,944

5 Segment information continued

UK Segment
For the purposes of US GAAP information is given separately in respect of the UK, which, although included in the Group's Europe market region, is considered the Group's home segment for the purposes of segmental reporting.

	2005 £m	2004 £m	2003 £m
Turnover by location of customer	**1,431**	1,382	1,338
Turnover including inter-segment turnover	**4,414**	4,386	4,610
Inter-segment turnover	**2,657**	2,709	2,883
Turnover by location of subsidiary	**1,757**	1,677	1,727
Operating profit	**1,576**	1,327	1,438
Total assets	**7,057**	6,521	
Net operating assets	**2,290**	2,253	

6 Other operating income

	2005 £m	2004 £m	2003 £m
Royalties	**83**	96	75
Asset disposal profits	**290**	146	242
Other income including fair value adjustments	**(9)**	(7)	(7)
	364	235	310

Royalties are principally a core of recurring income from the out-licensing of intellectual property. Asset disposal profits include product divestments and disposals of equity investments, intellectual property and tangible property. Other income includes equity investment carrying value adjustments arising from stock market changes and fair value adjustments arising on the Quest Collar and Theravance put and call options.

7 Operating profit

	2005 £m	2004 £m	2003 £m
The following items have been charged in operating profit:			
Employee costs (Note 8)	**5,254**	5,054	5,461
Advertising	**697**	599	615
Distribution costs	**270**	266	279
Depreciation of property, plant and equipment	**710**	691	704
Amortisation of intangible assets	**194**	168	127
Net foreign exchange (gains)/losses	**(3)**	72	41
Inventories:			
Cost of inventories included in cost of sales	**4,335**	4,032	4,337
Write-down of inventories	**119**	142	105
Reversal of prior year write-down of inventories	**(61)**	(49)	(20)
Operating lease rentals:			
Minimum lease payments	**104**	110	144
Contingent rents	**12**	9	8
Sub-lease payments	**1**	–	–
Audit fees	**8.5**	7.2	6.9
Fees to auditors for other work:			
Auditors' UK firm	**1.8**	2.6	1.7
Auditors' overseas firms	**4.2**	4.7	5.9

Notes to the financial statements
continued

7 Operating profit continued

	2005 £m	2004 £m	2003 £m
Analysis of fees to auditors for other work:			
Advisory services related to section 404 of Sarbanes-Oxley Act 2002	**2.4**	2.0	1.3
Other non-statutory assurance services	**1.0**	1.4	1.3
Tax compliance services	**0.7**	1.0	0.8
Tax planning and advice	**1.6**	2.0	3.8
Other services	**0.3**	0.9	0.4

Included within audit fees above is a fee of £10,700 (2004 – £10,000, 2003 – £10,000) relating to the company audit of GlaxoSmithKline plc. Included within other non-statutory assurance services are amounts related to the Group's preparation for the adoption of International Financial Reporting Standards. Other services include human resources advisory, compliance and treasury related services.

At 31st December 2005, the amount due to PricewaterhouseCoopers for fees yet to be invoiced was £3.0 million, comprising statutory audit £2.1 million, further assurance £0.7 million and taxation services of £0.2 million.

8 Employee costs

	2005 £m	2004 £m	2003 £m
Wages and salaries	**4,152**	3,864	3,999
Social security costs	**432**	430	444
Pension and other post-employment costs (see Note 26)	**350**	347	421
Cost of share-based incentive plans	**236**	333	375
Severance and other costs from integration and restructuring activities	**84**	80	222
	5,254	5,054	5,461

The Group provides benefits to employees, commensurate with local practice in individual countries, including, in some markets, healthcare insurance, subsidised car schemes and personal life assurance.

The average number of persons employed by the Group (including Directors) during the year	2005 Number	2004 Number	2003 Number
Manufacturing	**30,906**	31,427	34,265
Selling, general and administration	**53,634**	53,513	54,128
Research and development	**14,963**	14,897	14,773
	99,503	99,837	103,166

The average number of Group employees excludes temporary and contract staff. The numbers of Group employees at the end of each financial year are given in the Financial record on page 174.The average number of persons employed by GlaxoSmithKline plc in 2005 was nil (2004 – nil).

The compensation of the Directors, the CET and the Company Secretary, in aggregate, was as follows:

	2005 £m	2004 £m	2003 £m
Wages and salaries	**17**	13	16
Social security costs	**1**	1	1
Pension and other post-employment costs	**3**	2	1
Cost of share-based incentive plans	**15**	16	19
	36	32	37

Information on Directors' remuneration is given in the Remuneration Report on pages 37 to 54.

9 Finance income

	2005 £m	2004 £m	2003 £m
Interest income	**268**	173	98
Unwinding of discount on assets	**–**	3	3
Interest on extended credit on receivables	**8**	–	–
Net investment hedges	**(17)**	–	–
Fair value adjustments on non-hedging derivatives	**(2)**	–	–
	257	176	101

10 Finance costs

	2005 £m	2004 £m	2003 £m
Interest on bank loans and overdrafts	**(11)**	(6)	(6)
Interest on other loans	**(412)**	(337)	(226)
Interest in respect of finance leases	**(4)**	(2)	(2)
Realised losses on financial instruments	**–**	(1)	–
Unwinding of discount on provisions	**(25)**	(16)	(20)
Fair value hedges	**2**	–	–
Fair value adjustments on non-hedging derivatives	**(1)**	–	–
	(451)	(362)	(254)

11 Associates and joint ventures

	2005 £m	2004 £m	2003 £m
Associates:			
Share of after tax profits of Quest Diagnostics Inc.	**52**	59	58
Share of after tax losses of other associates	**(1)**	(1)	(2)
	51	58	56
Share of after tax profits/(losses) of joint ventures	**1**	2	1
	52	60	57
Share of turnover of joint ventures	**32**	31	31
Sales to joint ventures and associates	**48**	50	51

Summarised income statement information in respect of the Group's associates is set out below:

	2005 £m	2004 £m	2003 £m
Total turnover	**3,029**	2,806	2,893
Total profit/(loss)	**296**	275	268

12 Taxation

Taxation charge based on profits for the year	2005 £m	2004 £m	2003 £m
UK corporation tax at the UK statutory rate	**589**	429	673
Less double taxation relief	**(235)**	(156)	(290)
	354	273	383
Overseas taxation	**1,665**	1,394	1,578
Current taxation	**2,019**	1,667	1,961
Deferred taxation	**(103)**	90	(310)
	1,916	1,757	1,651

Notes to the financial statements
continued

12 Taxation continued

Reconciliation of the taxation rate on Group profits	**2005 %**	2004 %	2003 %
UK statutory rate of taxation	**30.0**	30.0	30.0
Overseas taxes	**3.0**	2.5	1.9
Benefit of special tax status	**(2.3)**	(3.6)	(3.8)
R&D credits	**(1.4)**	(1.5)	(1.2)
Intercompany stock profit	**1.0**	0.3	(0.4)
Impact of share based payments	**(0.3)**	1.5	1.3
Tax on profit of associates	**(0.4)**	(0.4)	(0.5)
Other differences	**(0.4)**	0.5	(0.6)
Prior year items	**(0.7)**	1.1	1.0
Tax rate	**28.5**	30.4	27.7

The Group operates in countries where the tax rate differs from the UK tax rate. Profits arising from certain operations in Singapore, Puerto Rico, Ireland and Belgium are accorded special status and are taxed at reduced rates compared with the normal rates of tax in these territories. The effect of this reduction in the taxation charge increased earnings per share by 2.7p in 2005, 3.6p in 2004 and 3.9p in 2003.

The Group is required under IFRS to create a deferred tax asset in respect of unrealised intercompany profit arising on stock held by the Group at the year end by applying the tax rate of the country in which the stock is held (rather than the tax rate of the country where the profit was originally made and tax paid, which is the practice under UK and US GAAP). The Group tax rate was increased by 1.0% in 2005 (2004 – 0.3%, 2003 – 0.4% decrease) as a result of reductions in work-in-progress and finished goods.

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Disagreements with, and between, revenue authorities as to intra-Group transactions, in particular the price at which goods should be transferred between Group companies in different tax jurisdictions, can produce conflicting claims from revenue authorities as to the profits to be taxed in individual territories. Resolution of such issues is a continuing fact of life for GSK.

The Group has open issues with the revenue authorities in the USA, UK, Japan and Canada; by far the largest relates to Glaxo heritage products, in respect of which the US Internal Revenue Service (IRS) and HM Revenue & Customs (HMRC) in the UK have made competing and contradictory claims. GSK has attempted to settle the US dispute, first through direct discussion with the IRS and subsequently through discussions between the US and UK authorities under the terms of the double tax convention between the two countries; these discussions were terminated in July 2003. On 6th January 2004 the IRS issued a Notice of Deficiency for the years 1989-1996 claiming additional taxes of $2.7 billion.

On 2nd April 2004 the Group filed a petition in the US Tax Court disputing the IRS claim and seeking a refund of $1 billion in taxes. On 25th January 2005 the IRS issued a further Notice of Deficiency for the years 1997-2000 claiming additional federal taxes of $1.9 billion, which the Group contested by filing a petition in the US Tax Court on 12th April 2005, to which the IRS filed its statutory Answer on 7th June 2005. In September 2005 the Court agreed to consolidate the IRS claims for 1997-2000 with those for 1989-1996 into a single trial. The total claims for these periods amount to $4.6 billion of additional federal taxes and related interest to 31st December 2005 of $3.7 billion, net of federal tax relief, giving a total of $8.3 billion. The Group's petitions against the IRS claims include counter-claims for repayment of federal taxes totalling $1.8 billion, based partly by reference to an Advance Pricing Agreement (APA) between SmithKline Beecham and the IRS covering the transfer pricing of *Tagamet* between 1991 and 1993. On 23rd December 2004 the IRS filed a motion for summary judgement to exclude any evidence relating to APAs from the court proceedings. On 31st March 2005 the trial judge denied the IRS motion and reserved ruling on the admissibility of APA evidence until full trial, which is scheduled to commence on 16th October 2006. A decision is expected by mid-2008.

As similar tax issues remain open for 2001 to date, GSK expects to receive further substantial claims by the IRS for these years. GSK continues to believe that the profits reported by its US subsidiaries for the period 1989 to date, on which it has paid taxes in the USA, are more than sufficient to reflect the activities of its US operations. However, the Group tax creditor balance at 31st December 2005 of £2.3 billion (2004 –£1.8 billion) includes a provision for the estimated amount at which the IRS dispute might ultimately be settled. If the IRS were to follow the same methodology as applied previously in respect of these later years, GSK estimates that the potential unprovided exposure in respect of this dispute with the IRS for the years 1989-2005 amounted to approximately $11.5 billion at 31st December 2005 (2004 – $10.1 billion).

GSK is in continuing discussions with HMRC in respect of UK transfer pricing and other matters which are in dispute for the years 1995 to date. However little progress has been made over the past year and consequently these matters may become subject to litigation in due course.

12 Taxation continued

GSK uses the best advice in determining its transfer pricing methodology and in seeking to manage transfer pricing issues to a satisfactory conclusion and, on the basis of external professional advice, continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments. However, there continues to be a wide difference of views between the Group, the IRS, HMRC and other relevant taxation authorities where open issues exist. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings and negotiations with the relevant tax authorities.

Except as shown in this Annual Report, no provision has been made for taxation which would arise on the distribution of profits retained by overseas subsidiary and associated undertakings, on the grounds that no remittance of profit retained at 31st December 2005 is required in such a way that incremental tax will arise. The aggregate amount of these unremitted profits at the balance sheet date was approximately £24 billion.

At 31st December 2005 the Group had recognised a deferred tax asset of £87 million (2004 – £20 million) in respect of income tax losses of approximately £291 million (2004 – £63 million). Of these losses, £64 million (2004 – £28 million) are due to expire between 2007–2012, £184 million (2004 – £19 million) are due to expire between 2018–2025 and £43 million (2004 – £16 million) are available indefinitely. At 31st December 2005 the Group had not recognised any deferred tax asset in respect of income tax losses of approximately £217 million (2004 –£387 million), of which £28 million (2004 – £358 million) are due to expire between 2007–2012, £79 million (2004 – £nil) are due to expire between 2018–2025 and £110 million (2004 – £29 million) are available indefinitely. The Group had capital losses at 31st December 2005 estimated to be in excess of £10 billion in respect of which no deferred tax asset has been recognised. Deferred tax assets are not recognised where there is insufficient evidence that losses will be utilised.

Movement on current tax account	Payable £m	Recoverable £m	Net £m
At 1st January 2005	(1,753)	155	(1,598)
Exchange adjustments	(183)	2	(181)
Charge to profit and loss account	(1,591)	(428)	(2,019)
Cash paid	1,195	512	1,707
Other movements	63	175	238
At 31st December 2005	(2,269)	416	(1,853)

Movement in deferred tax assets and liabilities

Deferred taxation asset/(liability)	Accelerated capital allowances	Intangibles	Intra-group profit	Product & business disposals	Pensions & other post retirement benefits	Tax Losses	Legal & other disputes	Manu-facturing restructuring	Stock valuation adjustments	Share option and award schemes	Other net temporary differences	Total
Deferred tax asset at 1st January 2005	(54)	34	759	–	524	19	149	73	(62)	67	523	2,032
Deferred tax liability at 1st January 2005	(558)	(328)	–	(32)	294	1	10	26	(52)	–	70	(569)
At 1st January 2005	(612)	(294)	759	(32)	818	20	159	99	(114)	67	593	1,463
IAS 39 adjustments	–	–	–	–	–	–	–	–	–	–	(5)	(5)
At 1st January 2005, as adjusted	(612)	(294)	759	(32)	818	20	159	99	(114)	67	588	1,458
Exchange adjustments	(9)	(6)	–	–	45	–	19	1	(6)	–	55	99
Credit/(charge) to income	(10)	16	(50)	(3)	29	(24)	62	(20)	(5)	59	49	103
Credit/(charge) to equity	–	–	–	–	257	–	–	–	–	25	(18)	264
Transfer to/from current tax	10	–	–	39	(88)	–	(79)	(7)	3		(13)	(135)
Acquisitions	6	(258)	–	–	–	86	–	–	–		4	(162)
Other movements	–	2	–	–	(1)	5	–	–	–		12	18
At 31st December 2005	(615)	(540)	709	4	1,060	87	161	73	(122)	151	677	1,645
Deferred tax asset at 31st December 2005	(492)	(18)	709	(9)	1,035	63	160	73	(72)	151	614	2,214
Deferred tax liability at 31st December 2005	(123)	(522)	–	13	25	24	1	–	(50)	–	63	(569)
	(615)	(540)	709	4	1,060	87	161	73	(122)	151	677	1,645

Deferred taxation provided on stock valuation adjustments, intra-Group profit and other temporary differences shown above are current. All deferred taxation movements arise from the origination and reversal of temporary differences. Other net temporary differences include accrued expenses and other provisions.

Notes to the financial statements
continued

13 Earnings per share

	2005 p	2004 p	2003 p
Basic earnings per share	**82.6**	68.1	72.3
Diluted earnings per share	**82.0**	68.0	72.1

Earnings per share has been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period. The number of shares used in calculating basic and diluted earnings per share are reconciled below.

Weighted average number of shares in issue	**millions**	millions	millions
Basic	**5,674**	5,736	5,806
Dilution for share options	**46**	12	18
Diluted	**5,720**	5,748	5,824

Shares held by the ESOP Trusts are excluded. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

14 Dividends

2005	First interim	Second interim	Third interim	Fourth interim	Total
Total dividend (£m)	568	567	568	792	2,495
Dividend per share (pence)	10	10	10	14	44
Paid/payable	7th July 2005	6th October 2005	5th January 2006	6th April 2006	
2004					
Total dividend (£m)	575	573	571	684	2,403
Dividend per share (pence)	10	10	10	12	42
Paid	1st July 2004	30th September 2004	6th January 2005	7th April 2005	
2003					
Total dividend (£m)	524	522	520	808	2,374
Dividend per share (pence)	9	9	9	14	41
Paid	3rd July 2003	2nd October 2003	6th January 2004	15th April 2004	

Under IFRS interim dividends are only recognised in the financial statements when paid and not when declared. GSK normally pays a dividend two quarters after the quarter to which it relates and one quarter after it is declared. The 2005 financial statements recognise those dividends paid in 2005, namely the third and fourth interim dividends for 2004 and the first and second interim dividends for 2005. The amounts recognised in each year are as follows:

	2005 £m	2004 £m	2003 £m
Dividends to shareholders	**2,390**	2,476	2,333

15 Property, plant and equipment

	Land and buildings £m	Plant equipment and vehicles £m	Assets in construction £m	**Total £m**
Cost at 1st January 2004	3,999	7,214	650	**11,863**
Exchange adjustments	(78)	(93)	(11)	**(182)**
Additions	81	333	473	**887**
Additions through business combinations	10	28	–	**38**
Disposals	(58)	(267)	(6)	**(331)**
Reclassifications	113	300	(424)	**(11)**
Transfer to assets held for sale	(5)	(3)	–	**(8)**
Cost at 31st December 2004	4,062	7,512	682	**12,256**
Exchange adjustments	136	183	19	**338**
Additions	54	307	640	**1,001**
Additions through business combinations	32	45	33	**110**
Disposals	(82)	(404)	(4)	**(490)**
Reclassifications	83	255	(348)	**(10)**
Transfer to assets held for sale	(4)	(11)	–	**(15)**
Cost at 31st December 2005	4,281	7,887	1,022	**13,190**
Depreciation at 1st January 2004	(1,111)	(4,281)	–	**(5,392)**
Exchange adjustments	25	63	–	**88**
Provision for the year	(123)	(568)	–	**(691)**
Disposals	29	208	–	**237**
Reclassifications	8	(5)	–	**3**
Transfer to assets held for sale	1	5	–	**6**
Depreciation at 31st December 2004	(1,171)	(4,578)	–	**(5,749)**
Exchange adjustments	(38)	(119)	–	**(157)**
Provision for the year	(125)	(585)	–	**(710)**
Disposals	43	356	–	**399**
Reclassifications	–	1	–	**1**
Transfer to assets held for sale	1	10	–	**11**
Depreciation at 31st December 2005	(1,290)	(4,915)	–	**(6,205)**
Impairment at 1st January 2004	(130)	(157)	(28)	**(315)**
Exchange adjustments	4	1	–	**5**
Disposals	6	17	1	**24**
Impairment losses	(24)	(11)	–	**(35)**
Reversal of impairments	8	3	–	**11**
Impairment at 31st December 2004	(136)	(147)	(27)	**(310)**
Exchange adjustments	(9)	(2)	–	**(11)**
Disposals	10	2	2	**14**
Impairment losses	(13)	(18)	–	**(31)**
Reversal of impairments	–	3	–	**3**
Transfer to assets held for sale	2	–	–	**2**
Impairment at 31st December 2005	(146)	(162)	(25)	**(333)**
Total depreciation and impairment at 31st December 2004	(1,307)	(4,725)	(27)	**(6,059)**
Total depreciation and impairment at 31st December 2005	(1,436)	(5,077)	(25)	**(6,538)**
Net book value at 1st January 2004	2,758	2,776	622	**6,156**
Net book value at 31st December 2004	2,755	2,787	655	**6,197**
Net book value at 31st December 2005	2,845	2,810	997	**6,652**

Notes to the financial statements
continued

15 Property, plant and equipment continued

The net book value at 31st December 2005 of the Group's land and buildings comprises freehold properties £2,635 million (2004 – £2,556 million), properties with leases of 50 years or more £155 million (2004 – £143 million) and properties with leases of less than 50 years £55 million (2004 – £56 million).

Included in land and buildings at 31st December 2005 are leased assets with a cost of £165 million (2004 – £155 million), accumulated amortisation of £49 million (2004 – £46 million) and a net book value of £116 million (2004 – £109 million).

Included in plant, equipment and vehicles at 31st December 2005 are leased assets with a cost of £153 million (2004 – £93 million), accumulated amortisation of £57 million (2004 – £25 million) and a net book value of £96 million (at 1st January 2005 – £68 million).

The impairment losses principally arise from decisions to rationalise facilities and are calculated based on either fair value less costs to sell or value in use. The value in use calculations determine the net present value of the projected risk-adjusted, post-tax cash flows of the relevant asset or cash generating unit, applying a discount rate of the Group post-tax weighted average cost of capital of 8%, adjusted where appropriate for country specific risks. This approximates to applying a pre-tax discount rate to pre-tax cash flows. These losses have been charged through Cost of sales, £16 million, Research and development, £2 million, and Selling, general and administration, £13 million.

16 Goodwill

	2005 £m	2004 £m
Cost at 1st January	**304**	294
Exchange adjustments	**10**	11
Additions through business combinations	**383**	–
Disposals	**(1)**	–
Assets written off	**–**	(1)
Cost at 31st December	**696**	304
Net book value at 1st January	**304**	294
Net book value at 31st December	**696**	304

The additions for the year comprise £357 million on the acquisition of ID Biomedical Corporation and £26 million on the acquisition of Corixa Corporation. See Note 34 for further details.

Goodwill is not amortised but is tested for impairment at least annually. Value in use calculations are generally utilised to calculate recoverable amount. Value in use is calculated as the net present value of the projected risk-adjusted, post-tax cash flows of the cash generating unit in which the goodwill is contained, applying a discount rate of the Group post-tax weighted average cost of capital of 8%, adjusted where appropriate for country specific risks. This approximates to applying a pre-tax discount rate to pre-tax cash flows.

17 Other intangible assets

	Computer software £m	Licences, patents, etc £m	Brands £m	**Total £m**
Cost at 1st January 2004	541	1,059	1,169	**2,769**
Exchange adjustments	(6)	(39)	(25)	**(70)**
Additions	77	449	–	**526**
Disposals	(9)	(1)	(1)	**(11)**
Assets written off	(5)	(19)	–	**(24)**
Reclassifications from property, plant and equipment	11	–	–	**11**
Cost at 31st December 2004	609	1,449	1,143	**3,201**
Exchange adjustments	13	72	41	**126**
Additions	62	207	–	**269**
Additions through business combinations	–	816	–	**816**
Disposals	1	(29)	–	**(28)**
Assets written off	(10)	(43)	–	**(53)**
Reclassifications from property, plant and equipment	10	–	–	**10**
Cost at 31st December 2005	685	2,472	1,184	**4,341**
Amortisation at 1st January 2004	(234)	(202)	–	**(436)**
Exchange adjustments	3	11	–	**14**
Provision for the year	(93)	(75)	–	**(168)**
Disposals	9	–	–	**9**
Assets written off	4	1	–	**5**
Reclassifications from property, plant and equipment	(3)	–	–	**(3)**
Amortisation at 31st December 2004	(314)	(265)	–	**(579)**
Exchange adjustments	(6)	(21)	–	**(27)**
Provision for the year	(85)	(109)	–	**(194)**
Disposals	–	5	–	**5**
Assets written off	7	5	–	**12**
Reclassifications from property, plant and equipment	(1)	–	–	**(1)**
Amortisation at 31st December 2005	(399)	(385)	–	**(784)**
Impairment at 1st January 2004	(22)	(58)	(23)	**(103)**
Exchange adjustments	–	1	1	**2**
Impairment losses	(1)	(8)	–	**(9)**
Disposals	–	–	1	**1**
Impairment at 31st December 2004	(23)	(65)	(21)	**(109)**
Exchange adjustments	–	(2)	(2)	**(4)**
Impairment losses	(1)	(60)	(1)	**(62)**
Assets written off	1	–	–	**1**
Impairment at 31st December 2005	(23)	(127)	(24)	**(174)**
Total amortisation and impairment at 31st December 2004	(337)	(330)	(21)	**(688)**
Total amortisation and impairment at 31st December 2005	(422)	(512)	(24)	**(958)**
Net book value at 1st January 2004	285	799	1,146	**2,230**
Net book value at 31st December 2004	272	1,119	1,122	**2,513**
Net book value at 31st December 2005	263	1,960	1,160	**3,383**

Notes to the financial statements
continued

17 Other intangible assets continued

Amortisation and impairment has been charged through Research and development, and Selling, general and administration. At 31st December 2005, the net book value of computer software included £24 million that had been internally generated.

The additions through business combinations in the year of £816 million comprise £701 million from the acquisition of ID Biomedical Corporation and £115 million from the acquisition of Corixa Corporation (see Note 34). Other additions to licences and patents in the year relate to the purchase of development and commercialisation rights for Botox in certain territories acquired from Allergan and various other compounds rights (see Note 35).

Brands comprise a portfolio of products acquired with the acquisitions of Sterling Winthrop Inc. in 1994, and The Block Drug Company in 2001. The net book values of the major brands are as follows:

	2005 £m	2004 £m
Panadol	**340**	322
Sensodyne	**230**	226
Polident	**97**	96
Corega	**87**	85
Poligrip	**60**	59
Solpadeine	**56**	57
Others	**290**	277
	1,160	1,122

Each of these brands is considered to have an indefinite life, given the strength and durability of the brand and the level of marketing support. The brands are in relatively stable and profitable market sectors, and their size, diversification and market shares mean that the risk of market-related factors causing a shortening of the brands' lives is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives. Accordingly, they are not amortised. Each brand is tested annually for impairment applying a fair value less costs to sell methodology and using five year post-tax cash flow forecasts with a terminal value calculation and applying a discount rate of the Group post-tax weighted average cost of capital of 8%, adjusted where appropriate for country-specific risks. This approximates to applying a pre-tax discount rate to pre-tax cash flows.

The main assumptions include future sales prices and volumes, product contribution and the future development expenditure required to maintain the products marketability and registration in the relevant jurisdiction and the product's life. These assumptions are reviewed as part of management's budgeting and strategic planning cycle for changes in market conditions and product erosion, through generic competition.

18 Investments in associates and joint ventures

	Joint ventures £m	Associated undertakings £m	**2005 Total £m**	2004 Total £m
At 1st January	14	195	**209**	210
Implementation of accounting for financial instruments under IAS 39	–	(7)	**(7)**	–
At 1st January, as adjusted	14	188	**202**	210
Exchange adjustments	1	25	**26**	(14)
Additions	–	2	**2**	2
Transfers	–	–	**–**	(1)
Disposals	–	–	**–**	(36)
Retained profit for the year	(1)	47	**46**	48
At 31st December	14	262	**276**	209

The principal associated undertaking is Quest Diagnostics Inc., a US clinical laboratory business listed on the New York Stock Exchange. The investment had a book value at 31st December 2005 of £244 million (2004 – £173 million) and a market value of £1,093 million (2004 –£908 million).

At 31st December 2005, the Group owned 18.4% of Quest (2004 – 18.6%). Although the Group holds less than 20% of the ownership interest and voting control in Quest, the Group has the ability to exercise significant influence through its active participation on the Quest Board of Directors and Board sub-committees.

18 Investments in associates and joint ventures continued

Summarised balance sheet information in respect of the Group's associates is set out below:

	2005 £m	2004 £m
Total assets	**3,134**	2,233
Total liabilities	**(1,481)**	(999)
Net assets	**1,653**	1,234
Group's share of associates' net assets	**262**	195

Investments in joint ventures comprise £17 million share of gross assets (2004 – £16 million) and £3 million share of gross liabilities (2004 – £2 million). These principally arise from 50% interests in two joint ventures, Shionogi-GlaxoSmithKline Holdings, L.P., which is developing specified chemical compounds, and GlaxoSmithKline Shire BioChem, which primarily co-markets *Combivir*, *Trizivir* and *Epivir* in certain territories.

19 Other investments

	2005 Total £m	2004 Total £m
At 1st January	**298**	262
Implementation of accounting for financial instruments under IAS 39	**61**	–
At 1st January as adjusted	**359**	262
Exchange adjustments	**33**	(11)
Additions	**23**	103
Fair value movements	**14**	–
Impairments	**(35)**	(25)
Transfers	**(12)**	1
Disposals	**(20)**	(32)
At 31st December	**362**	298

Other investments comprise non-current equity investments which are available-for-sale investments that are recorded at fair value at each balance sheet date. For investments traded in an active market, the fair value is determined by reference to the relevant stock exchange quoted bid price. For other investments, the fair value is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets.

The Group holds a number of equity investments, frequently in entities where the Group has entered into research collaborations. Equity investments are recorded as non-current assets unless they are expected to be sold within one year, in which case they are recorded as current assets. Non-current equity investments include listed investments of £268 million (2004 – £270 million) that offer the Group the opportunity for return through dividend income and fair value gains.

On disposal investments fair value movements are reclassified from reserves to the income statement based on average cost.

The impairment losses recorded in the tables above have been recognised in the income statement for the year within other operating income, together with amounts recycled from the fair value reserve (Note 32) on recognition of the impairments. These impairments initially result from prolonged or significant declines in the fair value of the equity investments below acquisition cost, subsequent to which any further declines in fair value are immediately taken to the income statement.

20 Other non-current assets

Other non-current assets comprise of sundry receivables which are due in more than one year, including insurance recovery receivables which have been discounted using risk-free rates of return and derivative financial instruments.

21 Inventories

	2005 £m	2004 £m
Raw materials and consumables	**721**	629
Work in progress	**552**	644
Finished goods	**904**	920
	2,177	2,193

Notes to the financial statements
continued

22 Trade and other receivables

	2005 £m	2004 £m
Trade receivables	**4,411**	3,786
Prepaid pension contributions	**1**	9
Other prepayments and accrued income	**285**	226
Interest receivable	**42**	56
Employee loans and advances	**59**	49
Derivative financial instruments	**180**	5
Other receivables	**370**	320
	5,348	4,451

Trade receivables include £2 million (2004 – £7 million) due from associates and joint ventures, and are shown after deducting provisions for bad and doubtful debts of £140 million (2004 – £128 million).

23 Cash and cash equivalents

	2005 £m	2004 £m
Cash at bank and in hand	**686**	408
Short-term deposits	**1,677**	884
Commercial paper	**1,846**	1,175
	4,209	2,467

Cash and cash equivalents include highly liquid investments with maturities of three months or less.

24 Assets held for sale

	2005 £m	2004 £m
Land and buildings	**1**	2
Plant, equipment and vehicles	**1**	–
	2	2

25 Trade and other payables

	2005 £m	2004 £m
Trade payables	**819**	707
Wages and salaries	**804**	639
Social security	**102**	114
Other payables	**240**	269
Deferred income	**34**	27
Customer return and rebate accruals	**1,187**	982
Other accruals	**1,784**	1,451
Derivative financial instruments	**171**	72
Dividends payable	**6**	6
	5,147	4,267

Customer return and rebate accruals are provided for by the Group at the point of sale in respect of the estimated rebates, discounts or allowances payable to customers, principally in the USA. Provisions are made at the time of sale but the actual amounts paid are based on claims made some time after the initial recognition of the sale. Because the amounts are estimated they may not fully reflect the final outcome and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix. The level of provision is reviewed and adjusted quarterly in the light of historical experience of actual rebates, discounts or allowances given and returns made and any changes in arrangements. Future events could cause the assumptions on which the provisions are based to change, which could affect the future results of the Group.

26 Pensions and other post-employment benefits

Pension and other post-employment costs	2005 £m	2004 £m	2003 £m
UK pension schemes	**124**	119	163
US pension schemes	**41**	44	83
Other overseas pensions schemes	**83**	74	61
Unfunded post-retirement healthcare schemes	**100**	92	90
Other post-employment costs	**2**	18	24
	350	347	421
Analysed as:			
Funded defined benefit/hybrid schemes	**198**	192	263
Unfunded defined benefit schemes	**25**	22	19
Defined contribution schemes	**25**	23	25
Unfunded post-retirement healthcare schemes	**100**	92	90
Other post-employment costs	**2**	18	24
	350	347	421

The costs of the defined benefit pension and post-retirement healthcare schemes are charged in the income statement as follows:

Cost of sales	**71**	68	84
Selling, general and administration	**75**	72	101
Research and development	**177**	166	187
	323	306	372

GSK entities operate pension arrangements which cover the Group's material obligations to provide pensions to retired employees. These arrangements have been developed in accordance with local practices in the countries concerned. Pension benefits can be provided by state schemes; by defined contribution schemes, whereby retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee, or by defined benefit schemes, whereby retirement benefits are based on employee pensionable remuneration and length of service. Some 'hybrid' defined benefit schemes also include defined contribution sections.

Contributions to defined benefit schemes are determined in accordance with the advice of independent, professionally qualified actuaries. Pension costs of defined benefit schemes for accounting purposes have been assessed in accordance with independent actuarial advice, using the projected unit method. In certain countries pension benefits are provided on an unfunded basis, some administered by trustee companies. Liabilities are generally assessed annually in accordance with the advice of independent actuaries. Formal, independent, actuarial valuations of the Group's main plans are undertaken regularly, normally at least every three years.

The assets of funded schemes are generally held in separately administered trusts or are insured. Assets are invested in different classes in order to maintain a balance between risk and return. Investments are diversified to limit the financial effect of the failure of any individual investment. During 2005, the target asset allocations for the UK schemes were 65% equities and 35% bonds and for the US scheme were 77% equities, 20% bonds and 3% property. The longer term aim is to increase the property element to 10% with a consequent reduction in equities.

Actuarial movements in the year are recognised in full through the statement of recognised income and expense.

The UK discount rate is based on the iBoxx over 15 year AA index and the US discount rate is based on Moody's Aa index. The expected return on bonds reflects the portfolio mix of index-linked, government and corporate bonds. An equity risk premium of between 3% and 4% is added to this for equities. Projected inflation rate and pension increases are long term predictions based on the yield gap between long term index-linked and fixed interest Gilts. In the UK, mortality rates are calculated using the PA92 standard mortality tables projected to 2006. Plan obligations are then increased by between 3% and 10%, depending on each individual scheme's mortality experience, to make allowance for future improvements in life expectancy. In the USA, mortality rates are calculated using the RP2000 fully generational table, projected using scale AA, with the white collar adjustment. This builds in a full allowance for future improvements in life expectancy.

During 2005, the Group made special funding contributions to the UK and US pension schemes totalling £366 million. GSK has agreed with the trustees of the UK and US defined benefit pension schemes that the Group would make additional contributions of approximately £370 million per year over a five-year period ending 31st December 2009 in order to eliminate the deficits on an IAS 19 basis, by that point.

In the UK the defined benefit pension schemes operated for the benefit of former Glaxo Wellcome employees and former SmithKline Beecham employees remain separate. These schemes were closed to new entrants in 2001 and subsequent UK employees are entitled to join a defined contribution scheme. In the USA the former Glaxo Wellcome and SmithKline Beecham defined benefit schemes were merged during 2001.

In addition, the Group operates a number of post-retirement healthcare schemes, the principal one of which is in the USA.

The following information relates to the Group's defined benefit pension and post-retirement healthcare schemes.

Notes to the financial statements
continued

26 Pensions and other post-employment benefits continued

The Group has applied the following assumptions in assessing the liabilities:

	UK			USA			Rest of World		
	2005 % pa	2004 % pa	2003 % pa	**2005 % pa**	2004 % pa	2003 % pa	**2005 % pa**	2004 % pa	2003 % pa
Rate of increase of future earnings	**4.00**	4.00	4.00	**5.00**	5.00	5.50	**3.25**	3.25	3.00
Discount rate	**4.75**	5.25	5.25	**5.50**	5.75	6.25	**3.75**	4.25	4.75
Expected pension increases	**2.75**	2.50	2.50	**n/a**	n/a	n/a	**2.00**	2.00	2.00
Cash balance credit/conversion rate	**n/a**	n/a	n/a	**4.50**	4.75	5.25	**1.75**	1.75	1.50
Inflation rate	**2.75**	2.50	2.50	**2.50**	2.50	2.50	**1.75**	1.75	1.50

The amounts recorded in the income statement and statement of recognised income and expense for the three years ended 31st December 2005 in relation to the defined benefit pension and post-retirement healthcare schemes were as follows:

				Pensions	**Post-retirement benefits**
2005	UK £m	USA £m	Rest of World £m	**Group £m**	**Group £m**
Amounts charged to operating profit					
Current service cost	117	63	52	**232**	**46**
Past service cost	–	–	–	**–**	**1**
Expected return on pension scheme assets	(285)	(126)	(28)	**(439)**	**–**
Interest on scheme liabilities	276	104	34	**414**	**53**
Settlements and curtailments	16	–	–	**16**	**–**
	124	41	58	**223**	**100**
Actuarial losses recorded in the statement of recognised income and expense	(490)	(109)	(93)	**(692)**	**(102)**

				Pensions	Post-retirement benefits
2004	UK £m	USA £m	Rest of World £m	Group £m	Group £m
Amounts charged to operating profit					
Current service cost	117	58	42	217	37
Past service cost	–	–	2	2	–
Expected return on pension scheme assets	(272)	(118)	(20)	(410)	–
Interest on scheme liabilities	269	104	27	400	55
Settlements and curtailments	5	–	–	5	–
	119	44	51	214	92
Actuarial gains/(losses) recorded in the statement of recognised income and expense	162	26	(26)	162	(54)

				Pensions	Post-retirement benefits
2003	UK £m	USA £m	Rest of World £m	Group £m	Group £m
Amounts charged to operating profit					
Current service cost	109	67	44	220	29
Past service cost	3	(7)	(16)	(20)	(3)
Expected return on pension scheme assets	(231)	(111)	(17)	(359)	–
Interest on scheme liabilities	246	119	25	390	64
Settlements and curtailments	36	15	–	51	–
	163	83	36	282	90
Actuarial (losses)/gains recorded in the statement of recognised income and expense	(452)	174	(7)	(285)	(147)

The total actuarial losses recorded in the statement of recognised income and expense since 1st January 2003 amount to £1,118 million.

26 Pensions and other post-employment benefits continued

The fair values of the assets and liabilities of the UK and US defined benefit schemes, together with aggregated data for other defined benefit schemes in the Group are as follows:

	UK		USA		Rest of World		**Group**
At 31st December 2005	Expected rate of return %	Fair value £m	Expected rate of return %	Fair value £m	Average expected rate of return %	Fair value £m	**Fair value £m**
Equities	7.75	3,895	8.50	1,440	7.00	192	**5,527**
Property	–	–	7.50	106	6.25	11	**117**
Bonds	4.25	1,764	5.50	352	3.50	302	**2,418**
Other assets	4.00	85	4.00	78	3.25	152	**315**
Fair value of assets		5,744		1,976		657	**8,377**
Present value of scheme obligations		(7,054)		(2,150)		(922)	**(10,126)**
		(1,310)		(174)		(265)	**(1,749)**
Included in other non-current assets		–		–		12	**12**
Included in pensions and other post-employment benefits		(1,310)		(174)		(277)	**(1,761)**
		(1,310)		(174)		(265)	**(1,749)**
Actual return on plan assets		940		130		48	**1,118**

	UK		USA		Rest of World		Group
At 31st December 2004	Expected rate of return %	Fair value £m	Expected rate of return %	Fair value £m	Average expected rate of return %	Fair value £m	Fair value £m
Equities	8.25	3,053	8.50	1,223	7.50	208	4,484
Property	–	–	6.50	58	6.25	7	65
Bonds	4.50	1,428	5.75	307	3.75	270	2,005
Other assets	4.00	80	2.50	50	2.25	62	192
Fair value of assets		4,561		1,638		547	6,746
Present value of scheme obligations		(5,735)		(1,750)		(761)	(8,246)
		(1,174)		(112)		(214)	(1,500)
Included in other non-current assets		–		–		14	14
Included in pensions and other post-employment benefits		(1,174)		(112)		(228)	(1,514)
		(1,174)		(112)		(214)	(1,500)
Actual return on plan assets		430		199		28	657

	UK		USA		Rest of World		Group
At 31st December 2003	Expected rate of return %	Fair value £m	Expected rate of return %	Fair value £m	Average expected rate of return %	Fair value £m	Fair value £m
Equities	8.25	3,147	8.50	1,191	7.75	194	4,532
Property	–	–	6.50	52	6.50	6	58
Bonds	4.50	594	5.75	314	4.00	226	1,134
Other assets	4.00	214	1.00	26	2.00	18	258
Fair value of assets		3,955		1,583		444	5,982
Present value of scheme obligations		(5,508)		(1,751)		(707)	(7,966)
		(1,553)		(168)		(263)	(1,984)
Included in other non-current assets		–		–		9	9
Included in pensions and other post-employment benefits		(1,553)		(168)		(272)	(1,993)
		(1,553)		(168)		(263)	(1,984)
Actual return on plan assets		610		341		30	981

Notes to the financial statements
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26 Pensions and other post-employment benefits continued

Movements in defined benefit obligations	UK £m	USA £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Obligations at 1st January 2003	(4,503)	(1,789)	(602)	(6,894)	(834)
Exchange adjustments	–	190	(47)	143	79
Service cost	(112)	(60)	(28)	(200)	(26)
Interest cost	(246)	(119)	(25)	(390)	(64)
Actuarial losses	(788)	(57)	(40)	(885)	(147)
Scheme participants' contributions	(13)	–	(3)	(16)	(8)
Benefits paid	190	99	38	327	49
Settlements and curtailments	(36)	(15)	–	(51)	–
Obligations at 31st December 2003	(5,508)	(1,751)	(707)	(7,966)	(951)
Exchange adjustments	–	126	31	157	52
Service cost	(117)	(58)	(44)	(219)	(37)
Interest cost	(269)	(104)	(27)	(400)	(55)
Actuarial losses	(34)	(60)	(49)	(143)	(54)
Scheme participants' contributions	(12)	–	(3)	(15)	(8)
Benefits paid	210	97	38	345	48
Settlements and curtailments	(5)	–	–	(5)	–
Obligations at 31st December 2004	(5,735)	(1,750)	(761)	(8,246)	(1,005)
Exchange adjustments	–	(217)	14	(203)	(138)
Service cost	(117)	(63)	(52)	(232)	(47)
Interest cost	(276)	(104)	(34)	(414)	(53)
Actuarial losses	(1,137)	(112)	(128)	(1,377)	(102)
Scheme participants' contributions	(12)	–	(3)	(15)	(9)
Benefits paid	239	96	42	377	46
Settlements and curtailments	(16)	–	–	(16)	–
Obligations at 31st December 2005	(7,054)	(2,150)	(922)	(10,126)	(1,308)

The liability for the US post-retirement healthcare scheme has been assessed using the same assumptions as for the US pension scheme, together with the assumption for future medical inflation of 10%, reducing by 0.75% per year to 5% in 2013 and thereafter. On this basis the liability for the US scheme has been assessed at £1,133 million (2004 – £895 million; 2003 – £851 million).

The defined benefit pension obligation is analysed as follows:

	2005 £m	2004 £m	2003 £m
Funded	**(9,858)**	(8,029)	(7,758)
Unfunded	**(268)**	(217)	(208)
	(10,126)	(8,246)	(7,966)

Post-retirement benefits are unfunded.

26 Pensions and other post-employment benefits continued

Movements in fair value of assets	UK £m	USA £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Assets at 1st January 2003	3,224	1,351	348	4,923	–
Exchange adjustments	–	(170)	(17)	(187)	–
Expected return on assets	231	111	17	359	–
Actuarial gains	336	231	33	600	–
Employer contributions	341	159	98	598	41
Scheme participants' contributions	13	–	3	16	8
Benefits paid	(190)	(99)	(38)	(327)	(49)
Assets at 31st December 2003	3,955	1,583	444	5,982	–
Exchange adjustments	–	(117)	27	(90)	–
Expected return on assets	272	118	20	410	–
Actuarial gains	196	86	23	305	–
Employer contributions	336	65	68	469	40
Scheme participants' contributions	12	–	3	15	8
Benefits paid	(210)	(97)	(38)	(345)	(48)
Assets at 31st December 2004	4,561	1,638	547	6,746	–
Exchange adjustments	–	200	(4)	196	–
Expected return on assets	285	126	28	439	–
Actuarial gains	647	3	35	685	–
Employer contributions	478	105	90	673	37
Scheme participants' contributions	12	–	3	15	9
Benefits paid	(239)	(96)	(42)	(377)	(46)
Assets at 31st December 2005	5,744	1,976	657	8,377	–

The UK defined benefit schemes include defined contribution sections with account balances totalling £515 million at 31st December 2005 (2004 – £404 million, 2003 – £327 million). Information on scheme assets under US GAAP is given in Note 38.

Employer contributions for 2006 are estimated to be approximately £700 million in respect of deferred benefit pension schemes and £50 million in respect of post-retirement benefits.

The transition date for conversion to IFRS for GSK was 1st January 2003 and therefore the following historical data has been presented from that date. This will be built up to a rolling five year record over the next two years.

History of actuarial gains and losses	UK £m	USA £m	Rest of World £m	**Pensions Group £m**	**Post-retirement benefits Group £m**
2005					
Actuarial gains of scheme assets (£m)	647	3	35	**685**	
Percentage of scheme assets at 31st December 2005	11%	–	5%	**8%**	
Actuarial losses of scheme liabilities (£m)	(1,137)	(112)	(128)	**(1,377)**	**(102)**
Percentage of scheme obligations at 31st December 2005	16%	5%	14%	**14%**	**8%**
Fair value of assets	5,744	1,976	657	**8,377**	**–**
Present value of scheme obligations	(7,054)	(2,150)	(922)	**(10,126)**	**(1,308)**
Deficits in the schemes	(1,310)	(174)	(265)	**(1,749)**	**(1,308)**

Notes to the financial statements
continued

26 Pensions and other post-employment benefits continued

History of actuarial gains and losses	Pensions				Post-retirement benefits
	UK £m	USA £m	Rest of World £m	Group £m	Group £m
2004					
Actuarial gains of scheme assets (£m)	196	86	23	305	
Percentage of scheme assets at 31st December 2004	4%	5%	4%	5%	
Actuarial (losses)/gains of scheme liabilities (£m)	(34)	(60)	(49)	(143)	(54)
Percentage of of scheme obligations at 31st December 2004	1%	3%	6%	2%	5%
Fair value of assets	4,561	1,638	547	6,746	–
Present value of scheme obligations	(5,735)	(1,750)	(761)	(8,246)	(1,005)
Deficits in the schemes	(1,174)	(112)	(214)	(1,500)	(1,005)
2003					
Actuarial gains/(losses) of scheme assets (£m)	336	231	33	600	
Percentage of scheme assets at 31st December 2003	8%	15%	7%	10%	
Actuarial (losses)/gains of scheme liabilities (£m)	(788)	(57)	(40)	(885)	(147)
Percentage of scheme obligations at 31st December 2003	14%	3%	6%	11%	15%
Fair value of assets	3,955	1,583	444	5,982	–
Present value of scheme obligations	(5,508)	(1,751)	(707)	(7,966)	(951)
Deficits in the schemes	(1,553)	(168)	(263)	(1,984)	(951)

Sensitivity analysis

Changes in the assumptions used may have a material impact on the annual defined benefit pension and post-retirement costs or the benefit obligations.

	£m
A 0.25% decrease in discount rate would have the following approximate effect:	
Increase in annual pension cost	6
Increase in annual post-retirement benefits cost	1
Increase in pension obligation	400
Increase in post-retirement benefits obligation	40
A one year increase in life expectancy would have the following approximate effect:	
Increase in annual pension cost	19
Increase in annual post-retirement benefits cost	4
Increase in pension obligation	270
Increase in post-retirement benefits obligation	50
A 0.25% decrease in expected rates of returns on assets would have the following approximate effect:	
Increase in annual pension cost	20
A 1% increase in the rate of future healthcare inflation would have the following approximate effect:	
Increase in annual post-retirement benefits cost	10
Increase in post-retirement benefits obligation	90

27 Other provisions

	Manufacturing restructuring £m	Merger integration £m	Legal and other disputes £m	Other provisions £m	**Total £m**
At 1st January 2005	46	224	1,074	187	**1,531**
Exchange adjustments	2	6	88	8	**104**
Additions through business combinations	–	–	–	37	**37**
Charge for the year	–	16	380	102	**498**
Unwinding of discount	–	–	18	6	**24**
Applied	(10)	(42)	(297)	(100)	**(449)**
Reversed unused	(12)	(8)	(76)	(16)	**(112)**
Reclassifications and other movements	–	(4)	(22)	29	**3**
At 31st December 2005	26	192	1,165	253	**1,636**
To be settled within one year	10	77	657	151	**895**
To be settled after one year	16	115	508	102	**741**
At 31st December 2005	26	192	1,165	253	**1,636**

The Group has recognised costs in previous years in respect of plans for manufacturing and other restructuring initiated in 1998, 1999 and in 2001 following the merger of Glaxo Wellcome and SmithKline Beecham and the acquisition of Block Drug. These plans are largely completed. Costs recognised as a provision, principally in respect of identified severances at sites where it has been announced that manufacturing activities will cease and site closure and cleaning costs are expected to be incurred mainly within the next three years. Costs of asset write-downs have been recognised as impairments of property, plant and equipment.

The Group has recognised costs in previous years in respect of plans for the integration of the Glaxo Wellcome and SmithKline Beecham businesses. Implementation of the integration following the merger is substantially complete. Costs recognised as a provision in respect of identified severances are expected to be incurred in 2006 and in respect of the programme to encourage staff to convert Glaxo Wellcome or SmithKline Beecham share options into GlaxoSmithKline share options when employees exercise these options up to 2010. The discount on this latter provision increased by £4 million in 2005 (2004 – £4 million), and was calculated using risk-free rates of return.

GlaxoSmithKline is involved in a number of legal and other disputes, including notification of possible claims. Provisions for legal and other disputes include amounts relating to US anti-trust, product liability, contract terminations, self-insurance, environmental clean-up and property rental. The company's Directors, having taken legal advice, have established provisions after taking into account insurance and other agreements and having regard to the relevant facts and circumstances of each matter and in accordance with accounting requirements. These provisions were discounted by £71 million in 2005 (2004 – £11 million) using risk-free rates of return. The effect of the change in the discount rate in 2005 is to increase the discount at 31st December by £20 million. A number of products have a history of claims made and settlements which makes it possible to use an IBNR (incurred but not reported) actuarial technique to determine a reasonable estimate of the Group's exposure for unasserted claims in relation to those products. Apart from the IBNR provision, no provisions have been made for unasserted claims. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

It is in the nature of the Group's business that a number of these matters, including those provided using the IBNR actuarial technique, may be the subject of negotiation and litigation over several years. The largest individual amounts provided are expected to be settled within three years.

At 31st December 2005, it is expected that £115 million (2004 – £236 million) of the provision made for legal and other disputes will be reimbursed. This amount is included within non-current assets.

For a discussion of legal issues, refer to Note 41'Legal proceedings'.

28 Other non-current liabilities

	2005 £m	2004 £m
Accruals and deferred income	**58**	66
Derivative financial instruments	**26**	–
. Other payables	**383**	339
	467	405

Notes to the financial statements
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29 Contingent liabilities

At 31st December 2005 contingent liabilities, comprising guarantees, discounted bills and other items arising in the normal course of business, amounted to £342 million (2004 – £207 million). At 31st December 2005, £96 million (2004 – £134 million) financial assets were pledged as collateral for contingent liabilities. For a discussion of tax issues, refer to Note 12, 'Taxation' and of legal issues, refer to Note 41, 'Legal proceedings'.

30 Net debt

	2005 £m	2004 £m
Current assets:		
Liquid investments	**1,025**	1,512
Cash and cash equivalents	**4,209**	2,467
	5,234	3,979
Short-term borrowings:		
7.375% US$ US Medium Term Note 2005	**–**	(52)
8.75% £Eurobond 2005	**–**	(500)
6.125% US$ Notes 2006	**(291)**	–
Commercial paper	**(576)**	(830)
Bank loans and overdrafts	**(249)**	(163)
Other loans	**(46)**	(2)
Obligations under finance leases	**(38)**	(35)
	(1,200)	(1,582)
Long-term borrowings:		
6.125% US$ Notes 2006	–	(260)
2.375% US$ US Medium Term Note 2007	**(283)**	(260)
3.375% € European Medium Term Note 2008	**(689)**	(705)
4.875% £ European Medium Term Note 2008	**(502)**	(498)
3.25% € European Medium Term Note 2009	**(342)**	(348)
3.00% € European Medium Term Note 2012	**(510)**	–
4.375% US$ US Medium Term Note 2014	**(825)**	(772)
4.00% € European Medium Term Note 2025	**(503)**	–
5.25% £ European Medium Term Note 2033	**(976)**	(975)
5.375% US$ US Medium Term Note 2034	**(288)**	(258)
Loan stock	**(11)**	(12)
Bank loans	**(3)**	(4)
Other loans and private financing	**(256)**	(231)
Obligations under finance leases	**(83)**	(58)
	(5,271)	(4,381)
Net debt	**(1,237)**	(1,984)

Current assets
Liquid investments are classified as available-for-sale investments. At 31st December 2005, they included redeemable shares, which were fully collateralised with highly rated bonds, of €1 billion (£685 million). The £1 billion redeemable preference shares held at 31st December 2004 were redeemed during the year. The effective interest rate on liquid investments at 31st December 2005 was approximately 2.8%.

The effective interest rate on cash and cash equivalents at 31st December 2005 was approximately 4.0%.

30 Net debt continued

Short-term borrowings
Commercial paper comprises a US$10 billion programme, of which $991 million (£576 million) was in issue at 31st December 2005 (2004 –$1,593 million (£830 million)), backed up by committed facilities of 364 days duration of $900 million (£523 million) (2004 – $900 million (£469 million)) renewable annually, and liquid investments, cash and cash equivalents as shown in the table above.

The weighted average interest rate on commercial paper borrowings at 31st December 2005 was 4.4% (2004 – 2.4%).

The weighted average interest rate on current bank loans and overdrafts at 31st December 2005 was 4.0% (2004 – 3.0%).

Long-term borrowings
In 2005, two bonds were issued under the European Medium Term Note programme: a € 750 million, 7 year, 3% coupon bond and a €750 million, 20 year, 4% coupon bond.

Loans due after one year are repayable over various periods as follows:

	2005 £m	2004 £m
Between one and two years	**317**	289
Between two and three years	**1,224**	279
Between three and four years	**354**	1,210
Between four and five years	**9**	352
After five years	**3,367**	2,251
	5,271	4,381

The loans repayable after five years carry interest at effective rates between 3.0% and 5.4%. The repayment dates range from 2012 to 2034.

The average effective interest rate of all Notes at 31st December 2005 was approximately 4.5%.

Secured loans
Loans amounting to £20 million (2004 – £11 million) are secured by charges on non-current and current assets.

Finance lease obligations	2005 £m	2004 £m
Rental payments due within one year	**41**	36
Rental payments due between one and two years	**33**	28
Rental payments due between two and three years	**23**	17
Rental payments due between three and four years	**13**	5
Rental payments due between four and five years	**9**	3
Rental payments due after five years	**15**	7
Total future rental payments	**134**	96
Future finance charges	**(13)**	(3)
Total finance lease obligations	**121**	93

Notes to the financial statements
continued

31 Share capital and share premium account

	Ordinary shares of 25p each Number	Ordinary shares of 25p each £m	Share premium £m
Share capital authorised			
At 31st December 2003	10,000,000,000	2,500	
At 31st December 2004	10,000,000,000	2,500	
At 31st December 2005	10,000,000,000	2,500	
Share capital issued and fully paid			
At 1st January 2003	6,024,266,345	1,506	224
Issued under share options schemes	6,041,283	1	40
Purchased and cancelled	(80,844,000)	(20)	–
At 31st December 2003	5,949,463,628	1,487	264
Issued under share option schemes	6,300,203	2	40
Purchased and cancelled	(18,075,000)	(5)	–
At 31st December 2004	5,937,688,831	1,484	304
Issued under share option schemes	25,162,425	7	245
At 31st December 2005	5,962,851,256	1,491	549

	31st December 2005	31st December 2004	31st December 2003
Number ('000) of shares issuable under outstanding options (Note 37)	**221,293**	276,954	259,990
Number ('000) of unissued shares not under option	**3,815,856**	3,785,358	3,790,546

At 31st December 2005, of the issued share capital, 167,436,200 shares were held in the ESOP Trust, 142,779,678 shares were held as Treasury shares and 5,652,635,378 shares were in free issue. All issued shares are fully paid.

A total of £6.5 billion has been spent by the company since 2001 on buying its own shares for cancellation or to be held as Treasury shares, of which £1 billion was spent in 2005. The exact amount and timing of future purchases, and the extent to which repurchased shares will be held as Treasury shares rather than being cancelled, will be determined by the company and is dependent on market conditions and other factors. No shares were purchased in the period 1st January 2006 to 8th February 2006. In the period 9th February 2006 to 24th February 2006 a further 2.7 million shares have been purchased at a cost of £40 million. All purchases were through the publicly announced buy-back programme.

The table below sets out the monthly purchases under the share buy-back programme:

Month	Number of shares (000)	Average share price excluding commission and stamp duty £
January 2005	Nil	–
February 2005	6,300	12.56
March 2005	10,090	12.44
April 2005	Nil	–
May 2005	6,895	13.45
June 2005	6,670	13.53
July 2005	Nil	–
August 2005	8,720	13.29
September 2005	9,510	13.77
October 2005	2,250	14.73
November 2005	5,875	14.73
December 2005	16,522	14.52
Total	72,832	13.65

All shares purchased in 2005 are held as Treasury shares. For details of substantial shareholdings refer to 'Substantial shareholdings' on page 177.

32 Movements in equity

	Shareholders' equity						
	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m	Minority interests £m	**Total equity £m**
At 1st January 2003	1,506	224	3,065	(926)	3,869	743	**4,612**
Recognised income and expense for the year	–	–	3,919	–	3,919	34	**3,953**
Distributions to minority shareholders	–	–	–	–	–	(96)	**(96)**
Dividends to shareholders	–	–	(2,333)	–	(2,333)	–	**(2,333)**
Ordinary shares issued	1	40	–	–	41	–	**41**
Ordinary shares purchased and cancelled	(20)	–	(980)	20	(980)	–	**(980)**
Ordinary shares transferred by ESOP Trusts	–	–	–	26	26	–	**26**
Write-down of shares held by ESOP Trusts	–	–	(87)	87	–	–	**–**
Share-based incentive plans	–	–	375	–	375	–	**375**
At 31st December 2003	1,487	264	3,959	(793)	4,917	681	**5,598**
Recognised income and expense for the year	–	–	3,906	–	3,906	93	**3,999**
Changes in minority shareholdings	–	–	–	–	–	(489)	**(489)**
Distributions to minority shareholders	–	–	–	–	–	(72)	**(72)**
Dividends to shareholders	–	–	(2,476)	–	(2,476)	–	**(2,476)**
Ordinary shares issued	2	40	–	–	42	–	**42**
Ordinary shares purchased and cancelled	(5)	–	(201)	5	(201)	–	**(201)**
Ordinary shares purchased and held as Treasury shares	–	–	(799)	–	(799)	–	**(799)**
Ordinary shares transferred by ESOP Trusts	–	–	–	23	23	–	**23**
Write-down of shares held by ESOP Trusts	–	–	(180)	180	–	–	**–**
Share-based incentive plans	–	–	333	(21)	312	–	**312**
At 31st December 2004	1,484	304	4,542	(606)	5,724	213	**5,937**
Implementation of accounting for financial instruments under IAS 39	–	–	(94)	78	(16)	4	**(12)**
At 1st January 2005, as adjusted	1,484	304	4,448	(528)	5,708	217	**5,925**
Recognised income and expense for the year	–	–	4,426	(3)	4,423	153	**4,576**
Changes in minority shareholdings	–	–	(15)	–	(15)	(25)	**(40)**
Distributions to minority shareholders	–	–	–	–	–	(86)	**(86)**
Dividends to shareholders	–	–	(2,390)	–	(2,390)	–	**(2,390)**
Ordinary shares issued	7	245	–	–	252	–	**252**
Ordinary shares purchased and held as Treasury shares	–	–	(1,000)	–	(1,000)	–	**(1,000)**
Ordinary shares transferred by ESOP Trusts	–	–	–	68	68	–	**68**
Write-down of shares held by ESOP Trusts	–	–	(155)	155	–	–	**–**
Share-based incentive plans	–	–	240	–	240	–	**240**
Tax on share-based incentive plans	–	–	25	–	25	–	**25**
At 31st December 2005	1,491	549	5,579	(308)	7,311	259	**7,570**

Retained earnings and other reserves amounted to £5,271 million at 31st December 2005 (2004 – £3,936 million, 2003 – £3,166 million) of which £8,067 million (2004 – £10,243 million, 2003 – £10,785 million) relates to the company and £180 million (2004 – £108 million, 2003 – £93 million) relates to joint ventures and associated undertakings. The cumulative translation exchange in equity at 31st December 2005 since 1st January 2003 is £217 million (2004 – £5 million, 2003 – £46 million). 2005 share based incentive plans of £240 million, includes £4 million relating to an associate undertaking.

Notes to the financial statements
continued

32 Movements in equity continued

Other reserves is analysed as follows:

	ESOP Trust shares £m	Fair value reserve £m	Cash flow hedge reserve £m	Other reserves £m	**Total £m**
At 1st January 2003	(2,831)	–	–	1,905	**(926)**
Ordinary shares purchased and cancelled	–	–	–	20	**20**
Ordinary shares transferred by ESOP Trusts	26	–	–	–	**26**
Write-down of shares held by ESOP Trusts	87	–	–	–	**87**
At 31st December 2003	(2,718)	–	–	1,925	**(793)**
Ordinary shares purchased and cancelled	–	–	–	5	**5**
Ordinary shares transferred by ESOP Trusts	23	–	–	–	**23**
Write-down of shares held by ESOP Trusts	180	–	–	–	**180**
Share-based incentive plans	(21)	–	–	–	**(21)**
At 31st December 2004	(2,536)	–	–	1,930	**(606)**
Implementation of accounting for financial instruments under IAS 39	–	76	2	–	**78**
At 1st January 2005, as adjusted	(2,536)	76	2	1,930	**(528)**
Recognised income and expense for the year	–	–	(3)	–	**(3)**
Ordinary shares transferred by ESOP Trusts	68	–	–	–	**68**
Write-down of shares held by ESOP Trusts	155	–	–	–	**155**
At 31st December 2005	(2,313)	76	(1)	1,930	**(308)**

Other reserves include the merger reserve created on the merger of Glaxo Wellcome and SmithKline Beecham amounting to £1,561 million at 31st December 2005 (2004 – £1,561 million; 2003 – £1,561 million). Other reserves also include the capital redemption reserve created as a result of the share buy-back programme amounting to £81 million at 31st December 2005 (2004 – £81 million, 2003 – £76 million).

33 Related party transactions

GlaxoSmithKline held an 18.4% interest in Quest Diagnostics Inc. at 31st December 2005 (2004 – 18.6%). The Group and Quest Diagnostics are parties to a long-term contractual relationship under which Quest Diagnostics is the primary provider of clinical laboratory testing to support the Group's clinical trials testing requirements worldwide. During 2005, Quest Diagnostics provided services of £39 million (2004 – £35 million) to the Group. At 31st December 2005 the balance payable by GlaxoSmithKline to Quest Diagnostics was £5 million (2004 – £6 million).

In 2005, both the Group and Shionogi & Co. Ltd. entered into transactions with their 50/50 US joint venture company in support of the research and development activities conducted by that joint venture company. During 2005, GlaxoSmithKline provided services to the joint venture of £1 million (2004 – £1 million). At 31st December 2005 the balance due to GlaxoSmithKline from the joint venture was £1 million (2004 – £2 million).

Dr Shapiro, a Non-Executive Director of GlaxoSmithKline plc, received fees of $85,000 (2004 – $85,000) of which $30,000 (2004 – $30,000) was in the form of ADSs, from a subsidiary of the company, for her membership of the Group's Scientific Advisory Board. These fees are included within 'Annual remuneration' in the Remuneration Report on pages 37 to 54.

Dr Barzach, a former Non-Executive Director of GlaxoSmithKline plc, received fees of €84,244 (2004 – €83,005) from a subsidiary of the company for healthcare consultancy provided. These are included within 'Annual remuneration' in the Remuneration Report.

The aggregate compensation of the Directors, CET and Company Secretary is given in Note 8, 'Employee Costs'.

34 Acquisitions and disposals

Details of the acquisition and disposal of subsidiary and associated undertakings, joint ventures and other businesses are given below:

2005

Acquisitions

On 8th December 2005, the Group acquired 100% of the issued share capital of ID Biomedical Corporation, a biotechnology company based in Canada specialising in the development and manufacture of vaccines, particularly influenza vaccines, for a cash consideration of £874 million. This transaction has been accounted for by the purchase method of accounting. The goodwill arising on the acquisition results from benefits which cannot be separately quantified and recorded, including immediate access to additional 'flu vaccines manufacturing capacity, particularly in the event of a pandemic, a skilled workforce and good relations with the US and Canadian governments regarding the supply of 'flu vaccines. ID Biomedical Corporation had a turnover of £30 million (2004 – £23 million) and a loss of £83 million (2004 – loss £17 million) for the year, of which £1 million of turnover and £11 million of loss related to the period since acquisition and are included in the Group accounts.

	Book value £m	Fair value adjustment £m	Fair value £m
Net assets acquired			
Intangible assets	15	686	701
Property, plant and equipment	88	–	88
Other assets	74	23	97
Deferred tax provision	–	(225)	(225)
Other liabilities	(136)	(8)	(144)
	41	476	517
Goodwill	–	357	357
Total consideration	41	833	874

The total consideration included directly attributable costs of £3 million.

On 12th July 2005, the Group acquired 92% of the issued share capital of Corixa Corporation, a biotechnology company specialising in developing vaccine adjuvants and immunology based products, for a cash consideration of £150 million. This investment increased the Group's holding in Corixa to 100%. The Group had a number of business relationships with Corixa prior to the acquisition date, principally in relation to an adjuvant developed by Corixa and used in some of the Group's vaccines. This transaction has been accounted for by the purchase method of accounting. The existing 8% investment in Corixa, with a book value of £12 million, was previously classified as an available-for-sale investment and now forms part of the investment in the subsidiary. The existing 8% of the issued share capital had been acquired, in previous years, for a cash consideration of £24 million. Corixa Corporation had a turnover of £3 million and a loss of £49 million for the year, of which £1 million of turnover and £24 million of loss related to the period since acquisition and are included in the Group accounts.

	Book value £m	Fair value adjustment £m	Fair value £m
Net assets acquired			
Intangible assets	–	115	115
Other assets	91	29	120
Other liabilities	(95)	(4)	(99)
	(4)	140	136
Goodwill	–	26	26
Existing investment	(12)	–	(12)
Total consideration	(16)	166	150

The total consideration included directly attributable costs of £1 million.

Notes to the financial statements
continued

34 Acquisitions and disposals continued

Euclid SR Partners, LP
During 2005 an additional £2 million was invested in Euclid SR Partners, LP, an associate in which the Group has a 38.7% interest.

GlaxoSmithKline Consumer Healthcare Limited
In April 2005, an Indian subsidiary of the Group purchased 3.16% of the share capital held by minority shareholders, for a cash consideration of £16 million.

GlaxoSmithKline Pharmaceuticals Limited
In May and June 2005, an Indian subsidiary of the Group purchased 1.52% of the share capital held by minority shareholders, for a cash consideration of £26 million.

GlaxoSmithKline Biologicals (Shanghai) Limited
During 2005, a Chinese subsidiary of the Group purchased all of the share capital held by minority shareholders for a cash consideration of £4 million.

Disposals
Ideapharm SA
In December 2005, the Group disposed of Ideapharm SA, a subsidiary located in Romania, for cash proceeds of £3 million, which were received in January 2006. The net assets disposed of in the year included cash of £2 million.

Aseptic Technologies S.A.
In April 2005, the Group disposed of 16.22% of Aseptic Technologies S.A. to Societe Regionale d'Investissement de Wallonie S.A. for cash proceeds of £10 million.

Cash flows	GSK Biologicals (Shanghai) £m	Aseptic Tech. £m	GSK Pharma-ceuticals £m	GSK Consumer Healthcare £m	Ideapharm £m	Euclid SR £m	Corixa £m	ID Biomedical £m	Total
Cash consideration	4	–	26	16	–	2	150	874	1,072
Cash and cash equivalents acquired	–	–	–	–	–	–	(7)	9	2
Net cash payment on acquisitions	4	–	26	16	–	2	143	883	1,074
Cash and cash equivalents disposed	–	–	–	–	2	–	–	–	2
Net cash proceeds from disposals	–	10	–	–	–	–	–	–	10

34 Acquisitions and disposals continued

2004

Acquisitions

Fraxiparine, Fraxodi and Arixtra

In September 2004, the Group acquired *Fraxiparine, Fraxodi* and *Arixtra and* related assets including a manufacturing facility for a cash consideration of £297 million.

	Book value £m	Fair value adjustment £m	Net assets acquired £m
Intangible assets	–	262	262
Tangible fixed assets	56	(24)	32
Inventory	79	–	79
Provisions for onerous contracts	–	(76)	(76)
	135	162	297

Euclid SR Partners, LP

During 2004 an additional £2 million was invested in Euclid SR Partners, LP, an associate company in which the Group has a 38.7% interest.

Disposals

Quest Diagnostics Inc.

During 2004, the Group disposed of 3.8 million shares from its investment in Quest Diagnostics Inc. for cash proceeds of £188 million, reducing the Group's shareholding at 31st December 2004 to 18.6%. A profit of £150 million was recognised.

GlaxoSmithKline Vehicle Finance Ltd

During 2004, the Group disposed of its employee vehicle financing subsidiary resulting in a loss of £3 million.

GlaxoSmithKline Pharmaceuticals (Chongqing) Ltd

During 2004, the Group disposed of GlaxoSmithKline Pharmaceuticals (Chongqing) Ltd, a Group subsidiary located in China, for £7 million. A profit on disposal of £2 million was realised.

Beeyar Investments (Pty) Ltd

In July 2004, the Group disposed of Beeyar Investments (Pty) Ltd, a subsidiary located in South Africa, for cash proceeds of £1 million, realising a profit of £1 million.

OptiLead S.r.l.

During the year, part of the Group's holding in an associated undertaking, OptiLead S.r.l. was sold, resulting in a loss of £1 million.

Cash flows	*Fraxiparine Fraxodi and Arixtra* £m	Euclid SR £m	Quest Diagnostics £m	GSK Vehicle Finance £m	GSK Pharmaceuticals (Chongqing) £m	Beeyar Investments £m	Total £m
Cash consideration paid	297	2	–	–	–	–	299
Net cash proceeds from disposals	–	–	188	34	7	1	230

Notes to the financial statements
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34 Acquisitions and disposals continued

2003

Acquisitions

Europharm

During 2003, the Group completed the buyout of the minority interests in Europharm Holdings SA, a Group subsidiary located in Romania, for £3 million, giving rise to goodwill of a further £2 million, which has been capitalised.

	Book values £m	Fair value adjustments £m	Net assets acquired £m	Goodwill capitalised £m	Cost of acquisition £ m
Europharm	1	–	1	2	3

Iterfi – Sterilyo

During 2003, a further payment of £9 million was made pursuant to the 2002 acquisition agreement based on the financial performance of the acquired company. This amount has been included as deferred compensation in 2002.

Disposals

SB Clinical Laboratories

An additional cash refund of £3 million was received during 2003 in respect of indemnified liabilities arising from the SB Clinical Laboratories disposal which occurred in 1999. This refund follows the successful outcome of a case in the US Court of Appeal.

Cash flows	Iterfi-Sterilyo £m	Europharm £m	SB Clinical Laboratories £m	Other £m	Total £m
Cash consideration paid	9	3	–	3	15
Net cash proceeds from disposals	–	–	3	–	3

35 Commitments

Contractual obligations and commitments	**2005 £m**	2004 £m
Contracted for but not provided in the financial statements:		
Intangible assets	**1,833**	1,278
Plant, property and equipment	**376**	213
Pensions	**2,200**	–
Other commitments	**64**	84
Interest on loans	**3,067**	2,648
	7,540	4,223

A number of commitments were made in 2005 under licensing and other agreements, principally with Vertex Pharmaceuticals Inc. The commitments related to intangible assets include milestone payments, which are dependent on successful clinical development and which represent the maximum that would be paid if all milestones are achieved.

GSK has agreed with the trustees of the UK and US pension schemes to make additional contributions of approximately £370 million per year over a five-year period ending 31st December 2009 in order to eliminate the pension deficits on a IAS 19 basis, by that point. The table shows this commitment, which on the basis of the deficits at 31st December 2005 amounts to total contributions (normal plus additional) of approximately £550 million per year. No commitments have been made past 31st December 2009.

The Group also has other commitments relating to revenue payments to be made under licences and other alliances, principally to Exelixis Inc.

Commitments in respect of future interest payable on loans are disclosed after taking into account the effect of interest rate swaps.

Commitments under operating leases	**2005 £m**	2004 £m
Rental payments due within one year	**111**	83
Rental payments due between one and two years	**78**	73
Rental payments due between two and three years	**60**	54
Rental payments due between three and four years	**45**	42
Rental payments due between four and five years	**40**	36
Rental payments due after five years	**103**	119
Total commitments under operating lease	**437**	407

36 Financial instruments and related disclosures

Financial risk management

GlaxoSmithKline plc reports in sterling and pays dividends out of sterling profits. The role of Corporate Treasury in GSK is to manage and monitor the Group's external and internal funding requirements and financial risks in support of Group corporate objectives. Treasury activities are governed by policies and procedures approved by the Board and monitored by a treasury management group.

GSK maintains treasury control systems and procedures to monitor foreign exchange, interest rate, liquidity, credit and other financial risks.

GSK uses a variety of financial instruments, including derivatives, to finance its operation and to manage market risks from these operations. Financial instruments include cash and liquid resources, borrowings and spot foreign exchange contracts.

A number of derivative financial instruments are used to manage the market risks from Treasury operations. Derivative instruments, principally comprising forward foreign currency contracts and interest rate and currency swaps, are used to swap borrowings and liquid assets into the currencies required for Group purposes and to manage exposure to funding risks from changes in foreign exchange rates and interest rates.

GSK balances the use of borrowings and liquid assets having regard to the cash flow from operating activities and the currencies in which it is earned; the tax cost of intra-Group distributions; the currencies in which business assets are denominated; and the post-tax cost of borrowings compared to the post-tax return on liquid assets.

Liquid assets surplus to the immediate operating requirements of Group companies are generally invested and managed centrally by Corporate Treasury. Requirements of Group companies for operating finance are met whenever possible from central resources.

External borrowings, mainly managed centrally by Corporate Treasury, comprise a portfolio of long and medium-term instruments and short-term finance.

GSK does not hold or issue derivative financial instruments for trading purposes and the Group's Treasury policies specifically prohibit such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

Foreign exchange risk management

In GSK foreign currency transaction exposure arising on normal trade flows, in respect of both external and intra-Group trade, is not hedged. GSK's policy is to minimise the exposure of overseas operating subsidiaries to transaction risk by matching local currency income with local currency costs. For this purpose, intra-Group trading transactions are matched centrally and intra-Group payment terms are managed to reduce risk. Exceptional foreign currency cash flows are hedged selectively under the management of Corporate Treasury.

A significant proportion of Group borrowings, including the commercial paper programme, is in US dollars, to benefit from the liquidity of US dollar denominated capital markets. Certain of these and other borrowings are swapped into other currencies as required for Group purposes. The Group seeks to denominate borrowings in the currencies of its principal assets and cash flows.

Borrowings denominated in, or swapped into, foreign currencies that match investments in overseas Group assets are treated as a hedge against the relevant net assets.

At 31st December 2005, the Group had outstanding contracts to sell or purchase foreign currency having a total gross notional principal amount of £15,974 million (2004 – £11,137 million). The majority of contracts are for periods of 12 months or less.

Based on the composition of net debt at 31st December 2005, a 10% appreciation in sterling against major currencies would result in a reduction in the Group's net debt of approximately £61 million. A 10% weakening in sterling against major currencies would result in an increase in the Group's net debt of approximately £75 million.

Interest rate risk management

GSK's policy on interest rate risk management requires that the amount of net borrowings at fixed rates increases with the ratio of forecast net interest payable to trading profit.

The Group uses a limited number of interest rate swaps to redenominate external borrowings into the interest rate coupon required for Group purposes. The duration of these swaps matches the duration of the principal instruments. Interest rate derivative instruments are accounted for as fair value or cash flow hedges of the relevant assets or liabilities.

The Group manages centrally the short-term cash surpluses or borrowing requirements of subsidiary companies and uses forward contracts to hedge future repayments back into originating currency.

Sensitivity analysis considers the sensitivity of the Group's net debt to hypothetical changes in market rates and assumes that all other variables remain constant. Based on the composition of net debt and financing arrangements at 31st December 2005, and taking into consideration all fixed rate borrowings in place, a one percentage point (100 basis points) decrease in average interest rates would result in an increase in the Group's annual net interest charge of approximately £19 million.

Market risk of financial assets

The Group invests centrally managed liquid assets in government bonds, short-term corporate debt instruments with a minimum short-term credit rating of A-1/P-1, money market funds with a credit rating of AAA/Aaa and other structured investments (credit ratings shown are from Standard and Poor's and Moody's Investors' Services, respectively). These investments are classified as available-for-sale.

Equity investments are classified as available-for-sale investments and the Group manages disposals to meet overall business requirements as they arise. The Group regularly monitors the value of its equity investments and only enters into hedges selectively with the approval of the Board.

Credit risk

In the USA, in line with other pharmaceutical companies, the Group sells its products through a small number of wholesalers in addition to hospitals, pharmacies, physicians and other groups. Sales to the three largest wholesalers amounted to approximately 80% of the Group's US pharmaceutical sales. At 31st December 2005, the Group had trade receivables due from these three wholesalers totalling £1,051 million (31st December 2004 – £710 million).

Notes to the financial statements
continued

36 Financial instruments and related disclosures continued

The Group is exposed to a concentration of credit risk in respect of these wholesalers such that, if one or more of them is affected by financial difficulty, it could materially and adversely affect the Group's financial results.

The Group does not believe it is exposed to major concentrations of credit risk on other classes of financial instruments. The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations. Where the Group has significant investments with a single counterparty, collateral is obtained in order to reduce risk.

The Group applies Board-approved limits to the amount of credit exposure to any one counterparty and employs strict minimum credit worthiness criteria as to the choice of counterparty.

Liquidity

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. Due to the nature of the Group's business with patent protection on many products in the Group's portfolio, the Group's products compete largely on product efficacy rather than on price. Selling margins are sufficient to exceed normal operating costs and the Group's operating subsidiaries are substantially cash generative.

Operating cash flow is used to fund investment in the research and development of new products as well as routine outflows of capital expenditure, tax, dividends and repayment of maturing debt. The Group may, from time to time, have additional demands for finance, such as for share purchases and acquisitions.

GSK operates with a high level of interest cover and at low levels of net debt relative to its market capitalisation. In addition to the strong positive cash flow from normal trading activities, additional liquidity is readily available via its commercial paper programme and short-term investments. The Group also has a European Medium Term Note programme of £5 billion, of which £3.5 billion was in issue at 31st December 2005. In March 2004, the Group established a US Shelf Registration of $5 billion; at 31st December 2005 $2.4 billion (£1.4 billion) was in issue.

Fair value of financial assets and liabilities

The table on page 125 presents the carrying amounts under IFRS and the fair values of the Group's financial assets and liabilities at 31st December 2005. Comparative information is presented in the table on page 129. The carrying amounts at 31st December 2004 are recorded on the UK GAAP basis applicable at that date rather than in accordance with IAS 32 and IAS 39 as described in Note 1.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Equity investments – investments traded in an active market, determined by reference to the relevant stock exchange quoted bid price; other investments determined by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets
- Cash and cash equivalents – approximates to the carrying amount
- Liquid investments – based on quoted market prices in the case of marketable securities; based on principal amounts in the case of non-marketable securities because of their short repricing periods
- Short-term loans and overdrafts – approximates to the carrying amount because of the short maturity of these instruments
- Long-term loans – based on quoted market prices in the case of the Eurobonds and other fixed rate borrowings; approximates to the carrying amount in the case of floating rate bank loans and other loans
- Forward exchange contracts – based on market prices and exchange rates at the balance sheet date
- Currency swaps – based on market valuations at the balance sheet date
- Quest equity collar and Theravance put and call options – based on an option pricing model which uses significant assumptions in respect of price volatility, dividend yield and interest rates
- Interest rate instruments – based on the net present value of discounted cash flows
- Receivables and payables – approximates to the carrying amount
- Provisions – approximates to the carrying amount
- Lease obligations – approximates to the carrying value.

In the year ended 31st December 2005, the total amount of the change in fair values estimated using valuation techniques referred to above resulted in a credit to the income statement of £1 million.

Fair value of investments in GSK shares

At 31st December 2005 the ESOP Trusts held GSK ordinary shares with a carrying value of £2,313 million (2004 – £2,574 million) with a fair value of £2,459 million (2004 – £2,123 million) based on quoted market price. The shares represent purchases by the ESOP Trusts to satisfy future exercises of options and awards under employee incentive schemes. The carrying value, which is the lower of cost or expected proceeds, of these shares has been recognised as a deduction from other reserves. At 31st December 2005, GSK held Treasury shares at a cost of £1,799 million (2004 – £799 million) which has been deducted from retained earnings.

Committed facilities

The Group has committed facilities to back up the commercial paper programme of $900 million (£523 million) (2004 – $900 million (£469 million)) of 364 days duration, renewable annually. At 31st December 2005, undrawn committed facilities totalled $900 million (£523 million) (2004 – $900 million (£469 million)).

36 Financial instruments and related disclosures continued

2005 – IFRS disclosures

The Group adopted IAS 32 and IAS 39 on 1st January 2005. The following disclosures are included as at 31st December 2005 to meet the requirements of IAS 32.

Classification and fair values of financial assets and liabilities

The following table sets out the classification of financial assets and liabilities. Receivables and payables have been included to the extent they are classified as financial assets and liabilities in accordance with IAS 32. Provisions have been included where there is a contractual obligation to settle in cash. Where appropriate, currency and interest rate swaps have been presented alongside the underlying principal instrument. The carrying amounts of these instruments have been adjusted for the effect of the currency and interest rate swaps acting as hedges.

At 31st December 2005	**Carrying value £m**	**Fair value £m**
Liquid investments	**1,025**	**1,025**
Cash and cash equivalents	**4,209**	**4,209**
Current asset financial instruments	**5,234**	**5,234**
£ notes and bonds	**(976)**	**(1,097)**
US$ notes, bonds and private financing	**(1,929)**	**(1,932)**
Notes and bonds swapped into US$	**(502)**	**(501)**
Currency swaps	**54**	**54**
Interest rate swaps	**(47)**	**(47)**
	(2,424)	**(2,426)**
Notes swapped into Yen	**(342)**	**(348)**
Currency swaps	**10**	**10**
	(332)	**(338)**
€ notes	**(1,702)**	**(1,705)**
Interest rate swap	**5**	**5**
	(1,697)	**(1,700)**
Other short-term borrowings	**(909)**	**(909)**
Other long-term borrowings	**(111)**	**(111)**
Total borrowings and related swaps	**(6,449)**	**(6,581)**
Equity investments	**362**	**362**
Receivables	**4,934**	**4,934**
Payables	**(4,754)**	**(4,754)**
Provisions	**(1,533)**	**(1,533)**
Other derivatives – assets	**126**	**126**
Other derivatives – liabilities	**(150)**	**(150)**
Other financial assets	**271**	**271**
Other financial liabilities	**(391)**	**(391)**
Total financial assets and liabilities	**(2,350)**	**(2,482)**
Total financial assets	**10,996**	**10,996**
Total financial liabilities	**(13,346)**	**(13,478)**
Reconciliation to net debt		
Liquid investments	**1,025**	**1,025**
Cash and cash equivalents	**4,209**	**4,209**
Total borrowings	**(6,449)**	**(6,581)**
	(1,215)	**(1,347)**
Less net effect of interest rate and currency swaps	**(22)**	**(22)**
Net debt	**(1,237)**	**(1,369)**

Notes to the financial statements
continued

36 Financial instruments and related disclosures continued

Interest rate profiles of financial assets and liabilities

The following tables set out the exposure of financial assets and liabilities to either fixed interest rates, floating interest rates or no interest rates. The maturity profile of financial assets and liabilities exposed to interest rate risk in the tables below indicates the contractual repricing and maturity dates of these instruments.

At 31st December 2005 **Financial assets**	Investments £m	Liquid investments £m	Cash and cash equivalents £m	Receivables £m	Other financial assets £m	**Total** **£m**
Less than one year	–	1,025	4,188	204	94	**5,511**
Between one and two years	–	–	–	8	–	**8**
Between two and three years	–	–	–	13	–	**13**
Between three and four years	–	–	–	12	–	**12**
Between four and five years	–	–	–	–	–	**–**
Greater than five years	–	–	–	–	117	**117**
Total interest earning	–	1,025	4,188	237	211	**5,661**
Analysed as:						
Fixed rate interest	–	292	–	207	117	**616**
Floating rate interest	–	733	4,188	30	94	**5,045**
Total interest earning	–	1,025	4,188	237	211	**5,661**
Non-interest earning	362	–	21	4,697	255	**5,335**
Total	362	1,025	4,209	4,934	466	**10,996**

At 31st December 2005 **Financial liabilities**	Debt £m	Effect of interest rate swaps £m	Obligations under finance leases £m	Payables £m	Provisions £m	Other financial liabilities £m	**Total** **£m**
Less than one year	(1,176)	(2,348)	(103)	(148)	–	(61)	**(3,836)**
Between one and two years	(287)	291	(3)	–	–	(23)	**(22)**
Between two and three years	(1,190)	1,185	(3)	–	–	–	**(8)**
Between three and four years	(343)	–	(2)	–	–	–	**(345)**
Between four and five years	–	–	(2)	–	–	–	**(2)**
Greater than five years	(3,354)	872	(8)	–	–	–	**(2,490)**
Total interest bearing	(6,350)	–	(121)	(148)	–	(84)	**(6,703)**
Analysed as:							
Fixed rate interest	(5,527)	2,348	(21)	–	–	(24)	**(3,224)**
Floating rate interest	(823)	(2,348)	(100)	(148)	–	(60)	**(3,479)**
Total interest bearing	(6,350)	–	(121)	(148)	–	(84)	**(6,703)**
Non-interest bearing	–	–	–	(4,606)	(1,533)	(504)	**(6,643)**
Total	(6,350)	–	(121)	(4,754)	(1,533)	(588)	**(13,346)**

Maturity analysis of interest earning financial assets

The maturity analysis of interest earning financial assets is equivalent to the maturity analysis presented in the interest rate profile table above.

Maturity analysis of interest bearing financial liabilities

At 31st December 2005 **Financial liabilities**	Debt £m	Finance leases £m	Payables £m	Other financial liabilities £m	**Total** **£m**
Within one year or on demand	(1,162)	(38)	(148)	(61)	**(1,409)**
Between one and two years	(287)	(30)	–	(23)	**(340)**
Between two and three years	(1,203)	(21)	–	–	**(1,224)**
Between three and four years	(343)	(11)	–	–	**(354)**
Between four and five years	(1)	(8)	–	–	**(9)**
After five years	(3,354)	(13)	–	–	**(3,367)**
	(6,350)	(121)	(148)	(84)	**(6,703)**

36 Financial instruments and related disclosures continued

Currency profiles of financial assets and liabilities

The Group's currency exposures that give rise to net currency gains and losses that are recognised in the income statement arise principally in companies with sterling functional currency. The table below sets out these exposures on financial assets and liabilities held in currencies other than the functional currencies of Group companies after the effect of currency swaps.

At 31st December 2005 **Financial assets**	Sterling £m	US$ £m	Euro £m	Yen £m	Other £m	**Total** **£m**
Investments	8	108	3	–	11	**130**
Cash and cash equivalents	1	46	10	2	19	**78**
Receivables	7	123	89	–	91	**310**
	16	277	102	2	121	**518**

At 31st December 2005 **Financial liabilities**	Sterling £m	US$ £m	Euro £m	Yen £m	Other £m	**Total** **£m**
Debt	–	–	(497)	–	–	**(497)**
Obligations under finance lease	–	(2)	–	–	–	**(2)**
Payables	(7)	(18)	(13)	(1)	(30)	**(69)**
Provisions	–	(56)	–	–	–	**(56)**
	(7)	(76)	(510)	(1)	(30)	**(624)**

Derivative financial instruments

The table below sets out the net principal amount and fair value of derivative contracts held by GSK:

	Contract or underlying principal amount 2005 £m	**Fair value** Assets 2005 £m	**Fair value** Liabilities 2005 £m
Currency and interest related instruments:			
Foreign exchange contracts	**(4,665)**	**102**	**(85)**
Cross currency swaps	**842**	**64**	**–**
Interest rate swaps	**1,848**	**5**	**(47)**
Equity related instruments:			
Options and warrants	**290**	**21**	**(49)**
Equity collar	**299**	**–**	**(14)**
Embedded derivatives	**34**	**3**	**(2)**
Total derivative financial instruments		**195**	**(197)**

In 2002, GSK hedged part of the equity value of its holdings in its largest equity investment Quest Diagnostics Inc. through a series of variable sale forward contracts. The contracts ('the equity collar') are structured in five series, each over one million Quest shares, and mature between 2006 and 2008.

The Group has entered into a put option agreement whereby Theravance's shareholders can sell up to half of their Theravance shares to GSK at a pre-determined price ($19.375). Given the maximum number of shares subject to the put option, the Group's obligation is capped at $525 million. At 31st December 2005, this option is recorded as a liability of $81 million (2004 – $132 million). As at 31st December 2005, the maximum potential exposure to GSK from fair value movements of these options is therefore approximately $444 million. The expiry date is August 2007.

The Group has entered into a call option agreement whereby it can purchase half of the outstanding Theravance shares in issue at a predetermined price ($54.25). At 31st December 2005, this option is recorded as an asset of $28 million (2004 – $31 million). As at 31st December 2005, the maximum potential exposure to GSK from fair value movements of this option is therefore $28 million. The expiry date is July 2007.

Notes to the financial statements
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36 Financial instruments and related disclosures continued

The following table sets out the principal amount and fair values of derivative contracts which qualify for hedge accounting treatment

	Contract or underlying principal amount	Fair value of derivative contract
	2005 £m	2005 £m
Cash flow hedges:		
Cross currency swaps	**342**	**10**
Fair value hedges:		
Foreign exchange contracts	**2,151**	**74**
Interest rate swaps	**1,848**	**(42)**
Cross currency swaps	**500**	**3**
Net investment hedges:		
Foreign exchange contracts	**(6,816)**	**(57)**
Cross currency swaps	**500**	**51**

Cash flow hedges
The Group has entered into a cross currency swap and designated it a cash flow hedge converting fixed Euro coupons, payable annually, to fixed Yen payments. The bond matures in 2009. The risk being hedged is the variability of cash flows arising from currency fluctuations.

Fair value hedges
Foreign exchange contracts, designated as fair value hedges, have been entered in order to hedge the foreign currency risk associated with intercompany loans and deposits, commercial paper borrowings and other liabilities.

The Group has designated interest rate swaps and the interest element of cross currency swaps as fair value hedges. The risk being hedged is the variability of the fair value of the bonds arising from interest rate fluctuations.

Net investment hedges
Foreign exchange contracts and the currency element of cross currency swaps have been designated as net investment hedges in respect of the foreign currency translation risk arising on consolidation of the Group's net investment in its US dollar, Euro and Yen foreign operations.

2004 – UK GAAP disclosures
The Group exercised the IFRS 1 exemption to record financial instruments in the comparative period on the existing UK GAAP basis. The following disclosures are included, as at 31st December 2004 to meet the requirements of Financial Reporting Standard 13 'Derivatives and other financial instruments: disclosures'.

UK GAAP accounting policy for derivative financial instruments
The Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are used to manage exposure to market risks from treasury operations. The principal derivative instruments are currency swaps, forward foreign exchange contracts and interest rate swaps. The derivative contracts are treated from inception as an economic hedge of the underlying financial instrument, with matching accounting treatment and cash flows. The derivative contracts have a high correlation with the specific financial instrument being hedged both at inception and throughout the hedge period. Derivative instruments no longer designated as hedges are restated at market value and any future changes in value are taken directly to the income statement.

Currency swaps and forward foreign exchange contracts used to fix the value of the related asset or liability in the contract currency and at the contract rate are accrued to the income statement over the life of the contract.

Gains and losses on foreign forward exchange contracts designated as hedges of forecast foreign exchange transactions are deferred and included in the measurement of the related foreign currency transactions in the period they occur. Gains and losses on balance sheet hedges are accrued and are taken directly to reserves, except that forward premiums/discounts are recognised as interest over the life of the contracts.

Interest differentials under interest swap agreements are recognised in the income statement by adjustment of interest expense over the life of the agreement.

36 Financial instruments and related disclosures continued

Classification and fair values of financial assets and liabilities

The following table sets out the classification of financial assets and liabilities and provides a reconciliation to Group net debt in Note 30. Short-term payables and receivables have been excluded from financial assets and liabilities. Provisions have been included where there is a contractual obligation to settle in cash. Where appropriate, currency and interest rate swaps have been presented alongside the underlying principal instrument. The carrying amounts of these instruments have been adjusted for the effect of the currency and interest rate swaps acting as hedges.

At 31st December 2004 **Net debt**	Carrying value £m	Fair value £m
Liquid investments	1,512	1,514
Cash and cash equivalents	2,467	2,467
Current asset financial instruments	3,979	3,981
£ notes and bonds	(1,475)	(1,533)
	(1,475)	(1,533)
US$ notes, bonds and private financing	(1,828)	(1,817)
Notes and bonds swapped into US$	(498)	(497)
Currency swaps	–	92
Interest rate swaps	–	(28)
	(2,326)	(2,250)
Notes swapped into Yen	(348)	(338)
Currency swaps	–	10
	(348)	(328)
€ notes	(705)	(717)
Interest rate swap	–	12
	(705)	(705)
Other long-term borrowings	(79)	(79)
Other short-term loans and overdrafts	(1,030)	(1,030)
Total borrowings and related swaps	(5,963)	(5,925)
Total net debt	(1,984)	(1,944)
Equity investments	298	350
Receivables	597	499
Payables	(244)	(244)
Provisions	(256)	(256)
Other foreign exchange derivatives	(67)	(79)
Non-hedging derivatives	–	(59)
Total financial assets and liabilities	(1,656)	(1,733)
Total financial assets	4,874	4,830
Total financial liabilities	(6,530)	(6,563)

Notes to the financial statements
continued

36 Financial instruments and related disclosures continued

Currency and interest rate risk profile of financial liabilities

Financial liabilities, after taking account of currency and interest rate swaps, are analysed below.

Total financial liabilities comprise total borrowings of £5,963 million, other long-term payables of £244 million and provisions of £256 million but exclude short-term payables and foreign exchange derivatives of £67 million.

The benchmark rate for determining interest payments for all floating rate financial liabilities in the tables below is LIBOR.

	Fixed rate			Floating rate	Non-interest bearing		
At 31st December 2004 **Currency**	£m	Weighted average interest rate %	Weighted average years for which rate is fixed	£m	£m	Weighted average years to maturity	Total £m
US$	571	5.9	13.8	1,764	411	8.9	2,746
Sterling	1,489	6.4	19.3	842	123	2.1	2,454
Euro	–	–	–	747	44	5.3	791
Yen	348	0.4	4.6	–	–	–	348
Other currencies	–	–	–	89	35	6.1	124
	2,408	5.4	15.9	3,442	613	4.6	6,463

Currency and interest rate risk profile of financial assets

Total financial assets comprise other investments of £298 million, liquid investments of £1,512 million, cash and cash equivalents of £2,467 million and long-term receivables of £597 million. The benchmark rate for determining interest receipts for all floating rate assets in the tables below is LIBID.

			Fixed rate	Floating rate	Non-interest bearing	
At 31st December 2004 **Currency**	Fixed rate £m	Weighted average interest rate %	Weighted average years for which rate is fixed	£m	£m	Total £m
US$	164	6.2	11.9	1,429	757	2,350
Sterling	–	–	–	1,088	89	1,177
Euro	–	–	–	629	57	686
Yen	–	–	–	1	28	29
Other currencies	155	3.0	0.2	353	124	632
	319	4.7	6.2	3,500	1,055	4,874

36 Financial instruments and related disclosures continued

Currency exposure of net monetary assets/(liabilities)

The Group's currency exposures that give rise to net currency gains and losses that are recognised in the income statement arise principally in companies with sterling functional currency. Monetary assets and liabilities denominated in overseas functional currency and borrowings designated as a hedge against overseas net assets are excluded from the table below.

At 31st December 2004 **Net monetary assets/(liabilities) held in non-functional currency**	Functional currency of Group operation					
	Sterling £m	US$ £m	Euro £m	Yen £m	Other £m	Total £m
Sterling	–	5	(53)	–	(130)	(178)
US$	234	–	18	(1)	(23)	228
Euro	(97)	(15)	–	–	(46)	(158)
Yen	29	–	1	–	1	31
Other	39	(8)	(4)	–	–	27
	205	(18)	(38)	(1)	(198)	(50)

Maturity of financial liabilities	Debt £m	Finance leases £m	Other £m	Total 2004 £m
Within one year or on demand	1,547	35	120	1,702
Between one and two years	262	27	88	377
Between two and five years	1,817	24	132	1,973
After five years	2,244	7	227	2,478
	5,870	93	567	6,530

Hedges	2004		
	Gains £m	Losses £m	Net £m
Unrecognised gains and losses at the beginning of the year	171	(60)	111
Unrecognised gains and losses arising in previous years and recognised in the year	(27)	–	(27)
Unrecognised gains and losses arising in the year	8	(77)	(69)
Total unrecognised gains and losses at the end of the year	152	(137)	15
Expected to be recognised within one year	–	(9)	(9)
Expected to be recognised after one year	152	(128)	24
Total unrecognised gains and losses at the end of the year	152	(137)	15

The unrecognised gains and losses above represent the difference between the carrying amount and the fair value of the currency swaps, interest rate swaps, equity collar and other foreign exchange derivatives.

Impact of IAS 32 and IAS 39 adoption on comparative information

The nature of the main adjustment that would make the comparative information comply with IAS 32 and IAS 39 would be the recognition at fair value of financial instruments classified as fair valued through profit and loss and as available-for-sale.

37 Employee share schemes

The Group operates share option schemes, whereby options are granted to employees to acquire shares or ADSs in GlaxoSmithKline plc at the grant price, and share award schemes, whereby awards are granted to employees to acquire shares or ADSs in GlaxoSmithKline plc at no cost, subject to the achievement by the Group of specified performance targets. In 2004, the Group introduced a new share award scheme, the Restricted Share Plan, whereby awards are granted to employees to acquire shares or ADSs in GlaxoSmithKline plc at no cost after a three year vesting period. The granting of restricted share awards has replaced the granting of options to certain employees as the cost of the scheme more readily equates to the potential gain to be made by the employee.

The Group operates share option schemes and savings-related share option schemes. Grants under share option schemes are normally exercisable between three and ten years from the date of grant. Grants of restricted shares and share awards are normally exercisable at the end of the three year vesting/performance period. Grants under savings-related share option schemes are normally exercisable after three years' saving. Options under the share option schemes are normally granted at the market price ruling at the date of grant. In accordance with UK practice, the majority of options under the savings-related share option schemes are granted at a price 20% below the market price ruling at the date of grant.

Share options awarded to the Directors and, with effect from the 2004 grant, the CET are subject to performance criteria as laid out in the Remuneration Report.

Option pricing

For the purposes of valuing options to arrive at the stock-based compensation charge, the Black-Scholes option pricing model has been used. The assumptions used in the model for 2003, 2004 and 2005 are as follows:

	2005	2004	2003
Risk-free interest rate	**4.0% – 4.8%**	3.3% – 4.6%	4.2% – 4.9%
Dividend yield	**3.0%**	3.2%	2.9%
Volatility	**21% – 28%**	26% – 29%	34%
Expected lives of options granted under:			
Share option schemes	**5 years**	5 years	5 years
Savings-related share option schemes	**3 years**	3 years	3 years
Weighted average share price for grants in the year:			
Ordinary shares	**£13.15**	£11.25	£12.66
ADSs	**$47.42**	$43.23	$43.39

Volatility was determined based on the three year share price history. The fair value of performance share plan grants take into account market conditions. Expected lives of options were determined based on weighted average historic exercises of options.

The stock-based compensation charge has been recorded in the income statement as follows:

	2005	2004	2003
Cost of sales	**17**	35	42
Selling, general and administration	**150**	207	224
Research and development	**69**	91	109
	236	333	375

Options outstanding	Share option schemes – shares			Share option schemes – ADSs			Savings-related share option schemes		
	Number (000)	Weighted exercise price	Weighted fair value	Number (000)	Weighted exercise price	Weighted fair value	Number (000)	Weighted exercise price	Weighted fair value
At 1st January 2003	197,472	£15.20		90,877	$47.34		12,988	£10.29	
Options granted	32,750	£12.88	£3.13	23,630	$43.36	$10.92	1,416	£10.20	£4.15
Options exercised	(4,728)	£7.92		(1,828)	$24.33		(112)	£10.23	
Options cancelled	(19,789)	£16.48		(6,150)	$52.65		(3,709)	£12.23	
At 31st December 2003	205,705	£14.89		106,529	$46.58		10,583	£9.59	
Options granted	9,837	£11.23	£2.49	9,222	$42.99	$8.54	1,580	£9.52	£3.30
Options exercised	(5,764)	£6.54		(1,845)	$25.65		(232)	£9.18	
Options cancelled	(11,997)	£15.33		(3,427)	$48.28		(1,790)	£10.46	
At 31st December 2004	197,781	£14.92		110,479	$46.57		10,141	£9.44	
Options granted	516	£12.57	£2.76	956	$45.66	$9.90	5,167	£11.45	£3.68
Options exercised	(10,483)	£9.91		(7,537)	$38.83		(5,732)	£9.16	
Options cancelled	(20,888)	£17.16		(8,306)	$50.26		(810)	£11.02	
At 31st December 2005	166,926	£14.97		95,592	$46.86		8,766	£10.66	
Range of exercise prices	£5.61 –	£19.77		$22.32 –	$61.35		£9.16 –	£11.45	

The average share price in 2005 was £13.42 and $48.88

37 Employee share schemes continued

In order to encourage employees to convert options, excluding savings-related share options, held over Glaxo Wellcome or SmithKline Beecham shares or ADSs, into those over GlaxoSmithKline shares or ADSs, a programme was established to give an additional cash benefit of 10% of the exercise price of the original option provided that the employee did not voluntarily leave the Group for two years from the date of the merger and did not exercise the option before the earlier of six months from the expiry date of the original option and two years from the date of the merger. The cash benefit will also be paid if the options expire unexercised if the market price is below the exercise price on the date of expiry.

Options outstanding at 31st December 2005

	Share option schemes – shares			Share option schemes – ADSs			Savings-related share option schemes		
Year of grant	Number (000)	Weighted exercise price	Latest exercise date	Number (000)	Weighted exercise price	Latest exercise date	Number (000)	Exercise price	Latest exercise date
1996	2,015	£8.44	01.12.06	592	$28.04	21.11.06	–	–	–
1997	6,059	£11.71	13.11.07	2,876	$40.23	13.11.07	–	–	–
1998	14,654	£16.91	23.11.08	5,556	$54.26	23.11.08	–	–	–
1999	15,739	£18.19	01.12.09	7,096	$60.13	24.11.09	–	–	–
2000	16,451	£14.88	11.09.10	334	$58.88	16.03.10	–	–	–
2001	45,323	£18.12	28.11.11	31,169	$51.84	28.11.11	–	–	–
2002	28,077	£11.94	03.12.12	16,642	$37.54	03.12.12	1,429	£9.16	31.05.06
2003	28,876	£12.66	15.12.13	21,597	$43.42	15.12.13	789	£10.20	31.05.07
2004	9,502	£11.23	02.12.14	9,243	$43.03	02.12.14	1,390	£9.52	31.05.08
2005	230	£13.04	31.10.15	487	$47.33	31.10.15	5,158	£11.45	31.05.09
Total	166,926	£14.97		95,592	$46.86		8,766	£10.66	

All of the above options are exercisable, except all options over shares and ADSs granted in 2003, 2004 and 2005 and the savings-related share options granted in 2003, 2004 and 2005.

There has been no change in the effective exercise price of any outstanding options during the year.

Options exercisable

	Share option schemes – shares		Share option schemes – ADSs		Savings-related share option schemes	
	Number (000)	Weighted exercise price	Number (000)	Weighted exercise price	Number (000)	Weighted exercise price
At 31st December 2003	79,693	£14.56	22,364	$49.82	192	£16.48
At 31st December 2004	126,917	£16.49	57,421	$51.75	270	£14.12
At 31st December 2005	128,316	£15.77	64,265	$48.56	1,429	£9.16

GlaxoSmithKline share award schemes

Performance Share Plan

The Group operates a Performance Share Plan whereby awards are granted to Directors and senior executives at no cost. The percentage of each award that vests is based upon the performance of the Group over a three year measurement period. The performance conditions consist of two parts, each of which applies to 50% of the award. For awards granted in 2003, the first part of the condition compares GlaxoSmithKline's Total Shareholder Return (TSR) over the period with the TSR of companies in the UK FTSE 100 Index over the same period. For awards granted in 2004, and subsequent years, the first part of the condition compares GlaxoSmithKline's TSR over the period with the TSR of 13 pharmaceutical companies in the comparator group over the same period. The second part of the performance condition compares GlaxoSmithKline's earnings per share growth to the increase in the UK Retail Prices Index over the three year performance period. Awards granted to Directors and members of the CET from 15th December 2003 are subject to a single performance condition which compares GlaxoSmithKline's TSR over the period with the TSR of companies in the comparator group over the same period.

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37 Employee share schemes continued

Number of shares and ADSs issuable	Shares Number (000)	Weighted fair value	ADSs Number (000)	Weighted fair value
At 1st January 2003	3,164		1,943	
Awards granted	1,070	£7.00	832	$20.14
Awards exercised	(625)		(189)	
Awards cancelled	(109)		(107)	
At 31st December 2003	3,500		2,479	
Awards granted	1,778	£7.25	1,339	$23.89
Awards exercised	(409)		(187)	
Awards cancelled	(520)		(276)	
At 31st December 2004	4,349		3,355	
Awards granted	130	£9.02	88	$32.34
Awards exercised	(375)		(199)	
Awards cancelled	(477)		(237)	
At 31st December 2005	3,627		3,007	

Restricted Share Plan

The Group operates a Restricted Share Plan whereby awards are granted, in the form of shares, to certain employees at no cost. The awards vest after three years. There are no performance criteria attached.

Number of shares and ADSs issuable	Shares Number (000)	Weighted fair value	ADSs Number (000)	Weighted fair value
At 1st January 2004	–		–	
Awards granted	4,419	£10.07	3,562	$38.14
At 31st December 2004	4,419		3,562	
Awards granted	403	£12.00	511	$44.39
Awards exercised	(138)		(143)	
Awards cancelled	(170)		(81)	
At 31st December 2005	4,514		3,849	

Employee Share Ownership Plan Trusts

The Group sponsors Employee Share Ownership Plan (ESOP) Trusts to acquire and hold shares in GlaxoSmithKline plc to satisfy awards made under employee incentive plans and options granted under employee share option schemes. The trustees of the ESOP Trusts purchase shares on the open market with finance provided by the Group by way of loans or contributions. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves and held at the value of proceeds receivable from employees on exercise. If there is deemed to be a permanent diminution in value this is reflected by a transfer to retained earnings.

Shares held for share award schemes	2005	2004
Number of shares (000)	**22,169**	22,992
	£m	£m
Nominal value	**6**	6
Carrying value	**116**	213
Market value	**326**	281

Shares held for share option schemes	2005	2004
Number of shares (000)	**145,267**	151,535
	£m	£m
Nominal value	**36**	38
Carrying value	**2,197**	2,361
Market value	**2,134**	1,852

The Trusts also acquire and hold shares to meet notional dividends re-invested on deferred awards under the SmithKline Beecham Mid-Term Incentive Plan. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

38 Reconciliation to US accounting principles

The analyses and reconciliations presented in this Note represent the financial information prepared on the basis of US Generally Accepted Accounting Principles (US GAAP) rather than IFRS.

Summary of material differences between IFRS and US GAAP

Acquisition of SmithKline Beecham

The Group has exercised the exemption available under IFRS 1 'First-time Adoption of IFRS' not to restate business combinations prior to the date of transition of the Group's reporting GAAP from UK Generally Accepted Accounting Principles (UK GAAP) to IFRS. Therefore the combination in 2000 of Glaxo Wellcome plc and SmithKline Beecham plc continues to be accounted for as a merger (pooling of interests) in accordance with UK GAAP at that time. Under US GAAP, this business combination did not qualify for pooling of interests accounting and Glaxo Wellcome was deemed to be the accounting acquirer in a purchase business combination.

Accordingly the net assets of SmithKline Beecham were recognised at fair value as at the date of acquisition. As a result of the fair value exercise, increases in the values of SmithKline Beecham's inventory, property, plant and equipment, intangible assets, investments and pension obligations were recognised and fair market values attributed to its internally-generated intangible assets, mainly product rights (inclusive of patents and trademarks) and in-process research and development, together with appropriate deferred taxation effects. The difference between the cost of acquisition and the fair value of the assets and liabilities of SmithKline Beecham is recorded as goodwill.

Capitalised interest

Under IFRS, the Group does not capitalise interest. US GAAP requires interest incurred as part of the cost of constructing a fixed asset to be capitalised and amortised over the life of the asset.

Goodwill

The Group has exercised the exemption available under IFRS 1 not to restate business combinations prior to the date of transition of the Group's reporting GAAP from UK GAAP to IFRS. Under UK GAAP, goodwill arising on acquisitions before 1998 accounted for under the purchase method was eliminated against equity, and under IFRS, on future disposal or closure of a business, any goodwill previously taken directly to equity under a former GAAP will not be charged against income. Under UK GAAP, goodwill arising on acquisitions from 1998 was capitalised and amortised over a period not exceeding 20 years. On the date of the Group's transition to IFRS, 1st January 2003, amortisation ceased in accordance with IFRS 3 'Business combinations'. The Group must instead identify and value its reporting units for the purpose of assessing, at least annually, potential impairment of goodwill allocated to each reporting unit. As permitted by the business combinations exemption available under IFRS 1, amortisation arising prior to 2003 was not reversed.

Under US GAAP, goodwill arising on acquisitions prior to 30th June 2001 was capitalised and amortised over a period not exceeding 40 years. In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) 142, 'Goodwill and Other Intangible Assets'.

Like IFRS 3, SFAS 142 requires that goodwill must not be amortised and that annual impairment tests of goodwill must be undertaken. The implementation of SFAS 142 in 2002, a year earlier than the Group's transition to IFRS, results in goodwill balances acquired between 1998 and 2003 reflecting one year less of amortisation under US GAAP than under IFRS.

Under IFRS, costs to be incurred in integrating and restructuring the Wellcome, SmithKline Beecham and Block Drug businesses following the acquisitions in 1995, 2000 and 2001 respectively were charged to the income statement post acquisition. Similarly, integration and restructuring costs arising in respect of the acquisitions of Corixa and ID Biomedical in 2005 have been charged to the income statement under IFRS. Under US GAAP, certain of these costs are considered in the allocation of purchase consideration thereby affecting the goodwill arising on acquisition.

In-process research & development (IPR&D)

Under IFRS, IPR&D projects acquired in a business combination are capitalised and remain on the balance sheet, subject to any impairment write-downs. Amortisation is charged over the assets' estimated useful lives from the point when the assets became available for use. Under US GAAP, such assets are recognised in the opening balance sheet but are then written off immediately to the income statement, as the technological feasibility of the IPR&D has not yet been established and it has no alternative future use. Under IFRS, deferred tax is provided for IPR&D assets acquired in a business combination. US GAAP does not provide for deferred tax on these assets, resulting in a reconciling adjustment to deferred tax and goodwill.

IPR&D acquired in transactions other than business combinations is discussed under Intangible assets below.

Intangible assets

Under IFRS, certain intangible assets related to specific compounds or products which are purchased from a third party and are developed for commercial applications are capitalised but not subject to amortisation until regulatory approval is obtained. Under US GAAP, payments made in respect of these compounds or products which are still in development and have not yet received regulatory approval are charged directly to the income statement.

Under IFRS, intangible assets are amortised over their estimated useful economic life except in the case of certain acquired brands where the end of the useful economic life of the brand cannot be foreseen. Under US GAAP, until the implementation of SFAS 142 'Goodwill and Other Intangible Assets' in 2002, all intangible assets, including brands, were amortised over a finite life. On implementation of SFAS 142 in 2002, intangible assets deemed to have indefinite lives were no longer amortised. As a result of the difference in accounting treatment prior to the implementation of SFAS 142, the carrying values of indefinite lived brands are affected by amortisation charged before 2002 under US GAAP.

Notes to the financial statements
continued

38 Reconciliation to US accounting principles continued

Restructuring costs
Under IFRS, restructuring costs incurred following acquisitions were charged to the profit and loss account post acquisition. For US GAAP purposes, certain of these costs were recognised as liabilities upon acquisition in the opening balance sheet.

Other restructuring costs are recorded as a provision under IFRS when a restructuring plan has been announced. Under US GAAP, a provision may only be recognised when further criteria are met or the liability is incurred. Therefore adjustments have been made to eliminate provisions for restructuring costs that do not meet US GAAP requirements.

Marketable securities
Marketable securities consist primarily of equity securities and certain other liquid investments, principally government bonds and short-term corporate debt instruments. Under SFAS 115 'Accounting for Certain Investments in Debt and Equity Securities', these securities are considered available for sale and are carried at fair value, with the unrealised gains and losses, net of tax, recorded as a separate component of shareholders' equity. Under IFRS, these are accounted for as available-for-sale financial assets in accordance with IAS 39 'Financial Instruments : Recognition and Measurement'.

The accounting treatment for marketable securities under US GAAP and IFRS is similar. However, differences do arise, principally as a result of the category of marketable securities as defined by SFAS 115 being smaller than the category of available-for-sale financial assets as defined by IAS 39. Investments which are not marketable securities under the SFAS 115 definition are accounted for at cost less impairments under US GAAP rather than at fair value.

The Group did not adopt IAS 39 until 1st January 2005, and, in accordance with the exemption available under IFRS 1, has presented financial instruments in the comparative periods in accordance with UK GAAP. Therefore in 2004 these securities are stated at the lower of cost and net realisable value.

Marketable securities are reviewed at least every six months for other than temporary impairment. For equity securities, the factors considered include:

- the investee's current financial performance and future prospects
- the general market condition of the geographic or industry area in which the investee operates
- the duration and extent to which the market value has been below cost.

Gross unrealised gains and losses on marketable securities were £36 million and £4 million, respectively, at 31st December 2005 (2004 –£60 million and £3 million, respectively). The fair value of marketable securities with unrealised losses at 31st December 2005 is £62 million (2004 – £21 million). All of these marketable securities have been in a continuous loss position for less than 12 months. Deferred tax provided against unrealised gains and losses at 31st December 2005 was £4 million (2004 – £16 million). Gains of £7 million were reclassified out of accumulated other comprehensive income into the income statement on disposals of equity investments during the year.

The proceeds from sale of marketable securities under US GAAP were £19,416 million in the year ended 31st December 2005. The proceeds include the roll-over of liquid funds on short-term deposit. The gross gains and losses reflected in the consolidated income statement in respect of marketable securities were £7 million and £nil, respectively.

Pensions and other post-retirement benefits
The key difference between IFRS and US GAAP is the method of recognition of actuarial gains and losses. GSK has opted under IFRS to recognise actuarial gains and losses in the statement of recognised income and expense in the year in which they arise. Under US GAAP actuarial gains and losses are recognised using the 10% corridor approach and deferred actuarial gains and losses are amortised. Therefore the pension liability recognised under IFRS is greater than under US GAAP.

Stock-based compensation
Under IFRS 2 'Share-based Payment', share options are fair valued at their grant dates and the cost is charged to the income statement over the relevant vesting periods. Under US GAAP, the Group applies SFAS 123 'Accounting for Stock-Based Compensation' and related accounting interpretations in accounting for its option plans, which also require options to be fair valued at their grant date and included in the income statement over the vesting period of the options. Differences arise as a result of the application of differing measurement bases in respect of performance conditions attaching to share-based payments and in the treatment of lapsed grants.

Derivative instruments
SFAS 133, 'Accounting for Derivative Instruments and Hedging Activities', as amended by SFAS 137 and SFAS 138 and as interpreted by the Derivatives Implementation Group, was adopted by the Group with effect from 1st January 2001. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively, referred to as derivatives) and for hedging activities. SFAS 133 requires that an entity recognise all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. Changes in fair value over the period are recorded in current earnings unless hedge accounting is obtained. SFAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting.

The Group also evaluates contracts for 'embedded' derivatives. In accordance with SFAS 133 requirements, if embedded derivatives are not clearly and closely related to the host contract, they are accounted for separately from the host contract as derivatives.

The key differences between IFRS under which the Group's financial statements are prepared and US GAAP, and in the Group's application of their respective requirements, are:

- certain derivatives which are designated by the Group as hedging instruments under IAS 39 are not designated as hedging instruments under SFAS 133. Accordingly, hedge accounting is not applied under US GAAP in respect of these arrangements

38 Reconciliation to US accounting principles
continued

- the definition of derivatives within the scope of SFAS 133 excludes instruments for which there is no liquid market. This leads to certain items not being recognised on the balance sheet, although they are accounted for as derivatives under IFRS, most notably the call option over Theravance shares

- IAS 39 has an exemption from the requirement to recognise embedded foreign currency derivatives where the currency is commonly used in the economic environment of the host contract. SFAS 133 does not grant a similar exemption and so the Group identifies and separately accounts for more embedded derivatives under US GAAP than it does under IFRS.

The Group has exercised the exemption available under IFRS 1 to present financial instruments in the comparative periods in accordance with UK GAAP. Under UK GAAP, some derivative instruments used for hedges were not recognised on the balance sheet and the matching principle was used to match the gain or loss under these hedging contracts to the foreign currency transaction or profits to which they related. Gains and losses related to the fair value adjustments on these derivative instruments are therefore reconciling items. As in 2005, the Group did not designate any of its derivatives as qualifying hedge instruments under SFAS 133.

The fair value and book value of derivative instruments as at 31st December 2004 is disclosed in the 'Classification and fair value of financial assets and liabilities' table in Note 36.

Valuation of derivative instruments
The fair value of derivative instruments is sensitive to movements in the underlying market rates and variables. The Group monitors the fair value of derivative instruments on at least a quarterly basis. Derivatives, including interest rate swaps and cross-currency swaps, are valued using standard valuation models, counterparty valuations, or third party valuations. Standard valuation models used by the Group consider relevant discount rates, the market yield curve on the valuation date, forward currency exchange rates and counterparty risk. All significant rates and variables are obtained from market sources. All valuations are based on the remaining term to maturity of the instrument.

Foreign exchange contracts are valued using forward rates observed from quoted prices in the relevant markets when possible. The Group assumes parties to long-term contracts are economically viable but reserves the right to exercise early termination rights if economically beneficial when such rights exist in the contract.

Dividends
Under IFRS, GSK plc's quarterly dividends are recognised only on payment. Under US GAAP, the dividends are recognised in the financial statements when they are declared.

Other
The following adjustments are also included in the reconciliations:

- computer software – under IFRS, the Group capitalises costs incurred in acquiring and developing computer software for internal use where the software supports a significant business system and the expenditure leads to the creation of a durable asset. For US GAAP, the Group applies SOP 98-1, 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use', which restricts the categories of costs which can be capitalised.

- guarantor obligations – under US GAAP, the Group applies the FASB's Financial Interpretation No. 45 (FIN 45), 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others'. This requires that the Group recognise certain guarantees issued, measured at fair value. Under IFRS, such guarantor obligations are recognised when further additional criteria are met or the liability is incurred.

- variable interest entities – under the FASB's Interpretation No. 46 Revised (FIN 46R), 'Consolidation of Variable Interest Entities', certain entities, known as Variable Interest Entities (VIEs), must be consolidated by the 'primary beneficiary' of the entity. The primary beneficiary is generally defined as having the majority of the risks and rewards arising from the VIE. Additionally, for VIEs in which a significant, but not majority, variable interest is held, certain disclosures are required. The Group has completed a review of potential VIEs and, as a consequence, has consolidated Theravance Inc. from May 2004 (see Note (c) on page 142). No other VIEs of which the Group is the primary beneficiary were identified.

- fixed asset and inventory impairments – reversals of impairments previously recorded against the carrying value of assets are permitted under IFRS in certain circumstances. US GAAP does not permit reversals of these impairments.

- various other small adjustments.

Consolidated summary statement of cash flows
The US GAAP cash flow statement reports three categories of cash flows: operating activities (including tax and interest); investing activities (including capital expenditure, acquisitions and disposals together with cash flows from available-for-sale current asset investments); and financing activities (including dividends paid). A summary statement of cash flows is presented on page 140.

Comprehensive income statement
The requirement of SFAS 130, 'Reporting comprehensive income', to provide a comprehensive income statement is met under IFRS by the Statement of recognised income and expense (page 88).

38 Reconciliation to US accounting principles
continued

Recent Financial Accounting Standards Board (FASB) pronouncements

FSP FIN 46(R)-5

In March 2005, the FASB issued FASB Staff Position (FSP) FIN 46 (R)-5, 'Implicit Variable Interests under FASB Interpretation No. 46 (R), Consolidation of Variable Interest Entities'. The FSP requires a reporting enterprise to consider whether it holds an implicit variable interest in the VIE or potential VIE. The determination of whether an implicit variable interest exists involves determining whether an enterprise may be indirectly absorbing or receiving the variability of the entity. The FSP is effective in the first reporting period beginning after 3rd March 2005. The adoption of the FSP by the Group has not had an impact on its overall results of operations or financial position under US GAAP.

EITF 05-06

In June 2005 the Emerging Issues Task Force (EITF) reached consensus on Issue 05-6, 'Determining the Amortisation Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination'. EITF 05-6 requires leasehold improvements acquired in a business combination to be amortised over the shorter of the useful life of the assets or a term that includes required lease periods and renewals deemed to be reasonably assured at the date of acquisition. Additionally, the Issue requires improvements placed in service significantly after and not contemplated at or near the beginning of the lease term to be amortised over the shorter of the useful life of the assets or a term that includes required lease periods and renewals deemed to be reasonably assured at the date the leasehold improvements are purchased.

EITF 05-6 is effective immediately. The adoption of EITF 05-6 has not had a material impact on the Group's consolidated financial position, results of operations or cash flows under US GAAP.

SFAS 123R and related FSPs

In December 2004, the FASB issued SFAS 123 (revised 2004), 'Share-Based Payment'. SFAS 123R replaces SFAS 123 and supersedes APB 25. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognised in the financial statements at fair value and that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS 123R is effective for the Group from 1st January 2006. From the effective date, compensation cost is recognised based on the requirements of SFAS 123R for all new share-based awards and based on the requirements of SFAS 123 for all awards granted prior to the effective date of SFAS 123R that remain unvested on the effective date.

During 2005 the FASB issued FSP 123R-1, FSP 123R-2 and FSP 123R-3. These FSPs detail with various aspects of the implementation of SFAS 123R. GSK is in the process of assessing the impact of the adoption of SFAS 123R on the Group's consolidated financial position, results of operations and cash flows under US GAAP.

Other recent FASB pronouncements

In November 2004, the FASB issued SFAS 151, 'Inventory Costs – an amendment of ARB No. 43, Chapter 4'. SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognised as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after 15th June 2005.

In December 2004, the FASB issued SFAS 153, 'Exchanges of Non-monetary Assets - an amendment of APB Opinion 29', which amends APB Opinion 29, 'Accounting for Non-monetary Transactions' to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS 153 is effective for non-monetary asset exchanges occurring in fiscal years beginning after 15th June 2005.

In March 2005, the FASB published FASB Staff Position (FSP) FIN 47, 'Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143' which clarifies the application of SFAS 143 'Accounting for Obligations Associated with the Retirement of Long-Lived Assets' in respect of conditional asset retirement obligations. The FSP is effective in the first period beginning after 15th December 2005.

In November 2005, the FASB issued FSP 115-1 and FSP 124-1, 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments' which nullify certain requirements of EITF 03-1 and supersede EITF D-44. The FSPs provide guidance for identifying impaired investments and new disclosure requirements for investments that are deemed to be temporarily impaired. The FSPs are effective for fiscal years beginning after 15th December 2005.

In November 2005, the FASB issued FSP FIN 45-3 to provide clarification with respect to the application of FIN 45, 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others'. FSP FIN 45-3 includes within its scope and provides guidance concerning the application of FIN 45 to a guarantee granted to a business (or to its owners) that the entity's revenue (or the revenue of a specified portion of the entity) will meet a minimum amount (referred to as a minimum revenue guarantee).

The Group does not expect the adoption of the above pronouncements to have a material impact on its consolidated financial position, results of operations or cash flows under US GAAP.

In May 2005, SFAS 154, 'Accounting Changes and Error Corrections – replacement of APB Opinion 20 and SFAS 3,' was issued. SFAS 154 changes the accounting for and reporting of a change in accounting principle by requiring retrospective application to prior periods' financial statements of changes in accounting principle unless impracticable. SFAS 154 is effective for accounting changes made in fiscal years beginning after 15th December 2005. The Group cannot determine the impact of SFAS 154 as it depends in part upon future changes to US accounting principles.

38 Reconciliation to US accounting principles continued

The following is a summary of the material adjustments to profit and shareholders' funds which would be required if US GAAP had been applied instead of IFRS.

Profit	Notes	**2005 £m**	2004 £m	2003 £m
Profit after taxation for the year under IFRS		**4,816**	4,022	4,308
Profit attributable to minority interests		**(127)**	(114)	(107)
Profit attributable to shareholders under IFRS		**4,689**	3,908	4,201
US GAAP adjustments:				
Amortisation and impairment of intangible assets	b	**(1,584)**	(1,441)	(2,303)
Acquisition and disposal of product rights	b	**(72)**	(210)	(105)
Write-off of in-process R&D acquired in business combinations	b	**(26)**	–	–
Capitalised interest		**(1)**	(17)	23
Disposal of interests in associates and subsidiaries		**–**	(97)	–
Investments		**(2)**	(30)	(31)
Pensions and post-retirement benefits	f	**(127)**	(126)	(130)
Stock-based compensation		**6**	13	(2)
Derivative instruments and hedging		**(30)**	33	(41)
Fair value of put option granted to minority shareholders	c	**–**	17	–
Restructuring		**1**	(12)	98
Tax benefits on exercise of stock options	d	**(47)**	(10)	(13)
Deferred taxation	d	**585**	757	740
Other		**(56)**	(53)	(17)
Net income under US GAAP		**3,336**	2,732	2,420

Earnings per share under US GAAP	**2005 p**	2004 p	2003 p
Basic net income per share	**58.8**	47.6	41.7
Diluted net income per share	**58.3**	47.5	41.6

Earnings per ADS under US GAAP	**2005 $**	2004 $	2003 $
Basic net income per ADS	**2.14**	1.74	1.37
Diluted net income per ADS	**2.12**	1.74	1.36

Equity shareholders' funds	Notes	**2005 £m**	2004 £m
Total equity under IFRS		**7,570**	5,937
Minority interests		**(259)**	(213)
Shareholders' equity under IFRS		**7,311**	5,724
US GAAP adjustments:			
Goodwill	a	**17,976**	17,817
Product rights	b	**12,065**	13,756
Pension intangible asset	f	**86**	102
Property, plant and equipment		**33**	43
Capitalised interest		**179**	180
Marketable securities		**–**	49
Other investments		**576**	532
Pensions and other post-retirement benefits	f	**1,163**	1,128
Restructuring costs		**65**	80
Derivative instruments and hedging		**(33)**	(15)
Fair value of put option granted to minority shareholders	c	**–**	17
Dividends		**(568)**	(571)
Deferred taxation	e	**(4,531)**	(4,840)
Other		**(40)**	40
Shareholders' equity under US GAAP		**34,282**	34,042

Notes to the financial statements
continued

38 Reconciliation to US accounting principles continued

Consolidated statement of cash flows under US GAAP	2005 £m	2004 £m	2003 £m
Net cash provided by operating activities	**5,751**	4,618	4,895
Net cash used in investing activities	**(1,843)**	(988)	(904)
Net cash used in financing activities	**(2,409)**	(3,038)	(3,051)
Net increase in cash and cash equivalents	**1,499**	592	940
Exchange rate movements	**237**	(93)	(36)
Cash and cash equivalents at beginning of year	**2,485**	1,986	1,082
Cash and cash equivalents at end of year	**4,221**	2,485	1,986

Notes to the Profit and Equity shareholders' funds reconciliations

(a) Goodwill
The following tables set out the IFRS to US GAAP adjustments required to the IFRS balance sheet in respect of goodwill including goodwill in respect of associated undertakings:

Balance sheet	2005 £m	2004 £m
Goodwill under IFRS	**696**	304
Goodwill under US GAAP	**18,672**	18,121
IFRS to US GAAP adjustments	**17,976**	17,817

Of the £18,672 million (2004 – £18,121 million) US GAAP goodwill balance at 31st December 2005, £15,875 million (2004 – £15,875 million) is in respect of the goodwill arising on the acquisition of SmithKline Beecham by Glaxo Wellcome in 2000.

The following tables present the changes in goodwill allocated to the Group's reportable segments:

	Pharmaceuticals £m	Consumer healthcare £m	Total £m
At 1st January 2004	15,668	2,461	18,129
Asset written off	(1)	–	(1)
Exchange adjustments	5	(12)	(7)
At 31st December 2004	15,672	2,449	18,121
Additions	528	–	528
Disposals	(1)	–	(1)
Exchange adjustments	5	19	24
At 31st December 2005	16,204	2,468	18,672

(b) Intangible assets
The following tables set out the IFRS to US GAAP adjustments required to the IFRS income statement and balance sheet in respect of intangible assets:

Income statement	2005 £m	2004 £m	2003 £m
Amortisation charge under IFRS	**109**	75	58
Amortisation charge under US GAAP	**1,674**	1,516	1,641
IFRS to US GAAP adjustment for amortisation	**1,565**	1,441	1,583
Impairment charge under IFRS	**99**	26	46
Impairment charge under US GAAP	**118**	26	766
IFRS to US GAAP adjustment for impairment	**19**	–	720

In addition to the above adjustments for amortisation and impairments, further IFRS to US GAAP adjustments arose during the year of £98 million (2004 – £173 million; 2003 – £105 million) in respect of the acquisition and disposal of in-process R&D, licences, patents etc. which are capitalised under IFRS but charged directly to research and development expense under US GAAP, and £nil million (2004 – £37 million; 2003 – £nil) in respect of disposals of product rights which have a higher carrying value under US GAAP than under IFRS.

38 Reconciliation to US accounting principles continued

Balance sheet	**2005 £m**	2004 £m
Product rights intangible assets under IFRS	**3,120**	2,241
Product rights intangible assets under US GAAP	**15,185**	15,997
Net IFRS to US GAAP product rights adjustments	**12,065**	13,756

Product rights intangible assets under US GAAP are analysed as follows:

2005	Acquired products £m	Licenses, patents, etc. £m	Brands subject to amortisation £m	Indefinite lived brands £m	Total £m
Cost	20,857	512	1,096	4,722	27,187
Accumulated amortisation and impairment	(11,115)	(72)	(185)	(630)	(12,002)
Carrying value	9,742	440	911	4,092	15,185
2004					
Cost	20,061	398	1,096	4,652	26,207
Accumulated amortisation and impairment	(9,472)	(27)	(134)	(577)	(10,210)
Carrying value	10,589	371	962	4,075	15,997

The acquired products are pharmaceutical products, principally arising from the acquisition of SmithKline Beecham plc, with book values net of accumulated amortisation and impairment as follows:

	2005 £m	2004 £m
Avandia	**3,841**	4,190
Seroxat/Paxil	**1,410**	1,879
Augmentin	**1,142**	1,318
Fluviral	**683**	–
Havrix	**363**	387
Infanrix	**294**	314
Coreg	**240**	320
Twinrix	**235**	250
Engerix-B	**224**	239
Hycamtin	**212**	248
Others	**827**	1,444
Acquired products intangible assets under US GAAP	**9,471**	10,589

The indefinite lived brands relate to a large number of Consumer Healthcare products, principally arising from the acquisitions of SmithKline Beecham plc (including products previously acquired by SmithKline Beecham from Sterling Winthrop Inc.) and the Block Drug Company, with book values as follows:

	2005 £m	2004 £m
Panadol	**730**	692
Aquafresh	**347**	347
Lucozade	**324**	324
Horlicks	**319**	319
Ribena	**309**	309
Nicorette	**292**	292
Odol	**228**	228
Tums	**226**	226
Sensodyne	**225**	221
Nicoderm	**224**	224
Others	**868**	893
Indefinite lived brands intangible assets under US GAAP	**4,092**	4,075

Notes to the financial statements
continued

38 Reconciliation to US accounting principles continued

Each of these brands is considered to have an indefinite life, given the strength and durability of the brand and the level of marketing support. The brands are in relatively stable and profitable market sectors, and their size, diversification and market shares mean that the risk of market-related factors causing a shortening of the brands' lives is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives. Accordingly, they are not amortised. Each brand is tested annually for impairment applying a fair value less costs to sell methodology and using five year post-tax cash flow forecasts with a terminal value calculation and applying a discount rate of the Group post-tax weighted average cost of capital of 8%. This approximates to applying a pre-tax discount rate to pre-tax cash flows.

The carrying values of certain intangibles subject to amortisation were reviewed and an impairment of £68 million (2004 – £26 million) has been recorded. Of this, £46 million (2004 – £nil) relates to pharmaceutical products and £22 million (2004 – £26 million) to Consumer Healthcare products. An impairment charge in respect of Consumer Healthcare intangible assets not subject to amortisation of £50 million was recognised during 2005 (2004 – £nil).

As discussed in Note 41 'Legal proceedings', a number of distributors of generic drugs have filed applications to market generic versions of a number of the Group's products prior to the expiration of the Group's patents. If generic versions of products are launched in future periods at earlier dates than the Group currently expects, impairments of the carrying value of the products may arise.

The estimated future amortisation expense for the next five years for intangible assets subject to amortisation as of 31st December 2005 is as follows:

Year	£m
2006	**1,447**
2007	**1,430**
2008	**1,430**
2009	**774**
2010	**756**
Total	**5,837**

In-process R&D of £26 million (2004 – £nil; 2003 – £nil) arising on the acquisitions of ID Biomedical and Corixa Corporation has been written-off. This has been valued on the same basis as the other intangible assets acquired and relates to various development projects in the pre-approval stage where the technological feasibility of the projects had not been established at the point of acquisition.

(c) Theravance
In May 2004, the Group formed a strategic alliance with Theravance Inc. to develop and commercialise novel medicines across a variety of important therapeutic areas. Under the terms of the alliance, Theravance received $129 million, a significant part of which related to the Group's purchase of Theravance shares. The Group has a call option in 2007 to further increase its ownership to over 50% at a significant premium to the price paid in the 2004 transaction. Theravance's shareholders have a put option at a lower exercise price to cause GlaxoSmithKline to acquire up to half of their outstanding stock in 2007. Given the maximum number of shares subject to the put option, the Group's obligation is capped at $525 million. The Group has an exclusive option to license potential new medicines from all of Theravance's programmes until August 2007. Upon exercising its option over a Theravance programme, the Group will be responsible for the relevant development, manufacturing and commercialisation activities. Depending on the success of such programmes, Theravance will receive clinical, regulatory and commercial milestone payments and royalties on the subsequent sales of medicines. Based on the assessment performed, the Group was the primary beneficiary of Theravance, as defined by FIN 46R, and as a result Theravance has been consolidated into the Group's US GAAP financial statements from May 2004. The net assets acquired were measured at fair value. The principal adjustment to the carrying value of the net assets in Theravance's balance sheet prior to the acquisition was recognition of in-process research and development (IPR&D) at a valuation of £273 million. The IPR&D was written off immediately after the acquisition in accordance with US GAAP purchase accounting. The effect of consolidating Theravance, including reversal of fair value gains recorded for the investment under IFRS, has been to decrease shareholders' equity by £10 million (2004 – £60 million) and net income by £16 million (2004 – £60 million).

Additionally, the Group has accounted for the Theravance put option discussed above in accordance with SFAS 150, 'Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity', which requires the Group to record the fair value of the put option as a liability. The fair value of the Theravance put option at 31st December 2005 is £47 million (2004 – £69 million). In accordance with SFAS 133 'Accounting for Derivative Instruments and Hedging Activities' the call option is not recognised in the financial statements as it is not readily convertible into cash.

38 Reconciliation to US accounting principles continued

(d) Taxation

Total tax expense	**2005 £m**	2004 £m	2003 £m
IFRS:			
Current tax expense	**2,019**	1,667	1,961
Deferred tax (credit)/expense	**(103)**	90	(310)
Total tax expense	**1,916**	1,757	1,651
US GAAP:			
Current tax expense	**2,103**	1,717	2,014
Deferred tax credit	**(688)**	(667)	(1,050)
Total tax expense	**1,415**	1,050	964
IFRS to US GAAP adjustments:			
Current tax expense	**84**	50	53
Deferred tax credit	**(585)**	(757)	(740)
Total tax expense	**(501)**	(707)	(687)

The IFRS to US GAAP adjustment in respect of current tax expense includes £37 million (2004 – £40 million; 2003 – £40 million) for the Group's share of the tax expense of associates. This is recognised in the Taxation charge in the income statement under US GAAP but recorded in Share of after tax profits of associates in the income statement presented in accordance with IFRS.

(e) Deferred taxation under US GAAP

Classification of GSK's deferred taxation liabilities and assets under US GAAP is as follows:

	2005 £m	2004 £m
Liabilities		
Stock valuation adjustment	**(42)**	(52)
Other timing differences	**63**	70
Current deferred taxation liabilities	**21**	18
Accelerated capital allowances	**(187)**	(621)
Product rights	**(4,035)**	(4,264)
Product and business disposals	**13**	(32)
Pensions and other post-retirement benefits	**25**	294
Other timing differences	**25**	37
Total deferred taxation liabilities	**(4,138)**	(4,568)
Assets		
Intra-Group profit	**619**	594
Stock valuation adjustment	**(72)**	(62)
Other timing differences	**614**	523
Current deferred taxation assets	**1,161**	1,055
Accelerated capital allowances	**(492)**	(54)
Product and business disposals	**(9)**	–
Pensions and other post-retirement benefits	**43**	(253)
Tax losses	**125**	61
Restructuring	**53**	51
Legal and other disputes	**160**	149
Share option and award schemes	**276**	179
Other timing differences	**(3)**	45
Valuation allowances	**(62)**	(42)
Total deferred taxation assets	**1,252**	1,191
Net deferred taxation under US GAAP	**(2,886)**	(3,377)
Net deferred taxation under IFRS	**1,645**	1,463
IFRS to US GAAP adjustment	**(4,531)**	(4,840)

Notes to the financial statements
continued

38 Reconciliation to US accounting principles continued

(f) Pensions and post-retirement costs under US GAAP	**2005 £m**	2004 £m	2003 £m
UK pension schemes	**218**	225	278
US pension schemes	**55**	54	79
Other overseas pension schemes	**87**	77	83
Unfunded post-retirement healthcare schemes	**114**	96	118
Post-employment costs	**2**	18	24
	476	470	582
Analysed as:			
Funded defined benefit/hybrid schemes	**306**	298	389
Unfunded defined benefit schemes	**29**	37	26
Defined contribution schemes	**25**	21	25
Unfunded post-retirement healthcare schemes	**114**	96	118
Post-employment costs	**2**	18	24
	476	470	582

The disclosures below include the additional information required by SFAS 132R. The pension costs of the UK, US and major overseas defined benefit pension plans have been restated in the following tables in accordance with US GAAP. Minor retirement plans with pension costs in 2005 of £8 million (2004 – £5 million; 2003 – £9 million), have not been recalculated in accordance with the requirements of SFAS 87, and have been excluded.

Net periodic pension cost for the major retirement plans	**2005 £m**	2004 £m	2003 £m
Service cost	**223**	213	211
Interest cost	**408**	400	392
Expected return on plan assets	**(444)**	(431)	(408)
Amortisation of prior service cost	**13**	14	17
Amortisation of transition obligation	**2**	2	3
Amortisation of net actuarial loss	**107**	115	79
Net periodic pension cost under US GAAP	**309**	313	294
Termination benefits and curtailment costs	**19**	13	112

Major assumptions used in computing pension costs	**2005 % pa**	2004 % pa	2003 % pa
Rates of future pay increases	**4.00**	4.25	4.25
Discount rate	**4.75**	5.25	5.50
Expected long-term rates of return on plan assets	**6.75**	7.00	7.50

In aggregate, average international plan assumptions did not vary significantly from US assumptions.

Estimated future benefit payments	**£m**
2006	**339**
2007	**353**
2008	**365**
2009	**381**
2010	**400**
2011–2015	**2,272**

38 Reconciliation to US accounting principles continued

Change in benefit obligation	2005 £m	2004 £m
Benefit obligation at 1st January	**(8,171)**	(7,866)
Amendments	**(1)**	(2)
Service cost	**(223)**	(213)
Interest cost	**(408)**	(400)
Plan participants' contributions	**(15)**	(15)
Actuarial loss	**(1,334)**	(137)
Benefits paid	**372**	345
Termination benefits and curtailment costs	**(15)**	(5)
Exchange adjustments	**(202)**	122
Benefit obligation at 31st December	**(9,997)**	(8,171)
Benefit obligation at 31st December for pension plans with accumulated benefit obligations in excess of plan assets	**(8,748)**	(5,554)

The accumulated benefit obligation at 31st December 2005 was £9,294 million (31st December 2004 – £7,691 million).

Change in plan assets	2005 £m	2004 £m
Fair value of plan assets at 1st January	**6,690**	5,968
Actual return on plan assets	**1,113**	651
Employer contributions	**661**	465
Plan participants' contributions	**15**	15
Benefits paid	**(372)**	(345)
Exchange adjustments	**191**	(64)
Fair value of plan assets at 31st December	**8,298**	6,690
Fair value of plan assets at end of year for pension plans with accumulated benefit obligations in excess of plan assets	**7,735**	4,519

Plan assets consist primarily of investments in UK and overseas equities, fixed interest securities, index-linked securities and property. At 31st December 2005 UK equities included 1.9 million GSK shares (2004 – 0.3 million shares) with a market value of £28 million (2004 – £4 million). An analysis of the percentage of total plan assets for each major category is disclosed in Note 26. This analysis includes assets valued at £101 million in minor retirement plans, which have been excluded from these tables.

Funded status	2005 £m	2004 £m
Funded status	**(1,699)**	(1,481)
Unrecognised net actuarial loss	**2,499**	1,900
Unrecognised prior service cost	**60**	75
Unrecognised transition obligation	**21**	24
Net amount recognised	**881**	518

Amounts recognised in the statement of financial position	2005 £m	2004 £m
Prepaid benefit cost	**8**	365
Accrued pension liability	**(1,027)**	(1,065)
Intangible asset	**86**	102
Accumulated other comprehensive income	**1,814**	1,116
Net amount recognised	**881**	518

Notes to the financial statements
continued

38 Reconciliation to US accounting principles continued

Post-retirement healthcare under US GAAP
The post-retirement healthcare costs of the UK, US and major overseas post-retirement healthcare schemes have been restated in the following tables in accordance with US GAAP. Minor healthcare plans with costs in 2005 of £5 million (2004 – £nil; 2003 – £13 million) have not been recalculated and have been excluded.

Net healthcare cost	**2005 £m**	2004 £m	2003 £m
Service cost	**37**	32	29
Interest cost	**57**	55	64
Amortisation of prior service cost	**(2)**	(1)	(2)
Amortisation of net actuarial loss	**15**	11	14
Net healthcare cost	**107**	97	105
The major assumptions used in calculating the net healthcare cost were:	**%pa**	%pa	%pa
Rate of future healthcare inflation	**10.0 to 5.0**	9.0 to 5.0	10.0 to 5.0
Discount rate	**5.50**	5.75	6.25

The rate of future healthcare inflation reflects the fact that the benefits of certain groups of participants are capped.

Change in benefit obligation	**2005 £m**	2004 £m
Benefit obligation at 1st January	**965**	975
Service cost	**37**	32
Interest cost	**57**	55
Plan participants' contributions	**8**	8
Actuarial loss	**82**	6
Benefits paid	**(43)**	(47)
Exchange	**105**	(64)
Benefit obligation at 31st December	**1,211**	965
Change in plan assets		
Fair value of plan assets at 1st January	**–**	–
Employer and plan participants' contributions	**43**	47
Benefits paid	**(43)**	(47)
Fair value of plan assets at 31st December	**–**	–
Funded status		
Funded status	**(1,211)**	(965)
Unrecognised net actuarial loss	**450**	340
Unrecognised prior service cost	**(14)**	(14)
Accrued post-retirement healthcare cost	**(775)**	(639)

Impact of a 1% variation in the rate of future healthcare inflation	1% decrease £m	1% increase £m
Effect on total service and interest cost for post-retirement healthcare	**(7)**	**10**
Effect on obligation for post-retirement healthcare	**(81)**	**90**

Estimated future benefit payments	Gross £m	Medicare subsidy £m	Net £m
2006	42	(3)	39
2007	46	(3)	43
2008	49	(4)	45
2009	53	(4)	49
2010	56	(4)	52
2011–2015	317	(29)	288

39 Principal Group companies

The following represent the principal subsidiary and associated undertakings of the GlaxoSmithKline Group at 31st December 2005. Details are given of the principal country of operation, the location of the headquarters, the business segment and the business activities. The equity share capital of these undertakings is wholly owned by the Group except where its percentage interest is shown otherwise. All companies are incorporated in their principal country of operation except where stated.

Europe	Location	Subsidiary undertaking	Segment	Activity	%
England	Brentford	+GlaxoSmithKline Holdings (One) Limited	Ph,CH	h	
	Brentford	+GlaxoSmithKline Services Unlimited	Ph,CH	s	
	Brentford	+GlaxoSmithKline Finance plc	Ph,CH	f	
	Brentford	GlaxoSmithKline Capital plc	Ph	f	
	Brentford	SmithKline Beecham p.l.c.	Ph,CH	d e h m p r	
	Brentford	Wellcome Limited	Ph,CH	h	
	Greenford	Glaxo Group Limited	Ph	h	
	Greenford	Glaxo Operations UK Limited	Ph	p	
	Brentford	Glaxo Wellcome International B.V. (i)	Ph,CH	h	
	Brentford	Glaxo Wellcome Investments B.V. (i)	Ph,CH	h	
	Stockley Park	Glaxo Wellcome UK Limited	Ph	h m p	
	Brentford	GlaxoSmithKline Export Limited	Ph	e	
	Brentford	GlaxoSmithKline Research & Development Limited	Ph	d r	
	Brentford	GlaxoSmithKline UK Limited	Ph	m p	
	Brentford	SmithKline Beecham (Investments) Limited	Ph,CH	f	
	Brentford	SmithKline Beecham (SWG) Limited	CH	e m	
	Brentford	SmithKline Beecham Research Limited	Ph	m	
	Brentford	Stafford-Miller Limited	CH	m p	
	Greenford	The Wellcome Foundation Limited	Ph	p	
Austria	Vienna	GlaxoSmithKline Pharma G.m.b.H	Ph	m	
Belgium	Genval	GlaxoSmithKline S.A.	Ph	m	
	Rixensart	GlaxoSmithKline Biologicals S.A.	Ph	d e m p r	
	Rixensart	GlaxoSmithKline Biologicals Manufacturing S.A.	Ph	h	
Guernsey	St. Peter Port	SmithKline Beecham Limited	Ph,CH	i	
Denmark	Ballerup	GlaxoSmithKline Consumer Healthcare A/S	CH	m	
	Brøndby	GlaxoSmithKline Pharma A/S	Ph	m	
Finland	Espoo	GlaxoSmithKline Oy	Ph	m	
France	Marly le Roi	Groupe GlaxoSmithKline S.A.S.	Ph	h	
	Marly le Roi	Laboratoire GlaxoSmithKline S.A.S.	Ph	m	
	Marly le Roi	Glaxo Wellcome Production S.A.S.	Ph	m p	
	Marly le Roi	GlaxoSmithKline Sante Grand Public S.A.S.	CH	m	
Germany	Buehl	GlaxoSmithKline Consumer Healthcare GmbH & Co. KG	CH	d h m p r s	
	Munich	GlaxoSmithKline Pharma GmbH	Ph	h	
Greece	Athens	GlaxoSmithKline A.E.B.E	Ph,CH	h m	
Hungary	Budapest	GlaxoSmithKline Medicine and Healthcare Products Limited	Ph,CH	e m	
Italy	Verona	GlaxoSmithKline S.p.A.	Ph	d h m r	
	Milan	GlaxoSmithKline Consumer Healthcare S.p A.	CH	h m	
Luxembourg	Mamer	GlaxoSmithKline International (Luxembourg) S.A.	Ph,CH	f h	

Notes to the financial statements
continued

39 Principal Group companies continued

Europe	Location	Subsidiary undertaking	Segment	Activity	%
Netherlands	Zeist	GlaxoSmithKline B.V.	Ph	m	
	Zeist	GlaxoSmithKline Consumer Healthcare B.V.	CH	m	
Norway	Oslo	GlaxoSmithKline AS	Ph	m	
Poland	Poznan	GlaxoSmithKline Pharmaceuticals S.A.	Ph	m p	97
	Warsaw	GlaxoSmithKline Consumer Healthcare Sp.Zo.o.	CH	m e	
Portugal	Lisbon	GlaxoSmithKline-Produtos Farmaceuticos, Limitada	Ph	m	
Republic of Ireland	Dublin	GlaxoSmithKline Consumer Healthcare (Ireland) Limited (ii)	CH	m	
	Carrigaline	SmithKline Beecham (Cork) Limited (ii)	Ph	p	
	Carrigaline	SmithKline Beecham (Manufacturing) Limited (ii)	Ph	p	
Spain	Tres Cantos	GlaxoSmithKline S.A.	Ph	m p	
	Alcala de Henares	SmithKline Beecham S.A.	Ph	p	
Sweden	Solna	GlaxoSmithKline AB	Ph	m	
Switzerland	Muenchenbuchsee	GlaxoSmithKline Investments (Switzerland) GmbH	Ph,CH	h	
	Muenchenbuchsee	GlaxoSmithKline AG	Ph	m	
	Zug	Adechsa GmbH	Ph	e	
USA					
USA	Philadelphia	SmithKline Beecham Corporation	Ph,CH	d e h m p r s	
	Pittsburgh	GlaxoSmithKline Consumer Healthcare, L.P.	CH	m p	88
	Pittsburgh	Block Drug Company, Inc.	CH	h m p	
	Wilmington	GlaxoSmithKline Financial Inc.	Ph	f	
	Wilmington	GlaxoSmithKline Holdings (Americas) Inc.	Ph,CH	h	
Americas					
Bermuda	Hamilton	GlaxoSmithKline Insurance Ltd	Ph,CH	i	
Canada	Mississauga	GlaxoSmithKline Inc.	Ph,CH	m p r	
	Vancouver	ID Biomedical Corporation	Ph	d m p r	
Asia Pacific					
Australia	Boronia	Glaxo Wellcome Australia Pty Ltd	Ph,CH	d e m p r	
China	Hong Kong	GlaxoSmithKline Limited	Ph,CH	m	
	Tianjin	Sino-American Tianjin Smith Kline & French Laboratories Ltd	Ph	d m p r	55
India	Mumbai	GlaxoSmithKline Pharmaceuticals Limited	Ph	m p	51
	Nabha	GlaxoSmithKline Consumer Healthcare Limited (iii)	CH	m p	43
Malaysia	Petaling Jaya	GlaxoSmithKline Pharmaceutical Sdn Bhd	Ph	m	
New Zealand	Auckland	GlaxoSmithKline NZ Limited	Ph,CH	m	
Pakistan	Karachi	GlaxoSmithKline Pakistan Limited	Ph,CH	m p e	79
Philippines	Makati	GlaxoSmithKline Philippines Inc	Ph,CH	m	
Singapore	Singapore	Glaxo Wellcome Manufacturing Pte Ltd	Ph	p	
	Singapore	GlaxoSmithKline Pte Ltd	Ph	m	
South Korea	Seoul	GlaxoSmithKline Korea	Ph	m p	
Taiwan	Taipei	Glaxo Wellcome Taiwan Limited	Ph	m p	

39 Principal Group companies continued

Japan	Location	Subsidiary undertaking	Segment	Activity	%
Japan	Tokyo	GlaxoSmithKline K.K.	Ph,CH	d m p r	85
Latin America					
Argentina	Buenos Aires	GlaxoSmithKline Argentina S.A.	Ph,CH	m p	
Brazil	Rio de Janeiro	GlaxoSmithKline Brasil Ltda	Ph,CH	m p	
Colombia	Bogota	GlaxoSmithKline Colombia S.A.	Ph,CH	m	
Mexico	Delegacion Tlalpan	GlaxoSmithKline Mexico S.A. de C.V.	Ph,CH	e m p s	
Puerto Rico	Guaynabo San Juan	GlaxoSmithKline Puerto Rico Inc. SB Pharmco Puerto Rico Inc.	Ph Ph	m p	
Venezuela	Caracas	GlaxoSmithKline Venezuela C.A.	Ph,CH	m	
Middle East & Africa					
Egypt	Cairo	GlaxoSmithKline S.A.E	Ph	m p	90
South Africa	Bryanston	GlaxoSmithKline South Africa (Pty) Ltd	Ph,CH	m p	
Turkey	Istanbul	GlaxoSmithKline Ilaclari Sanayi ve Ticaret A.S.	Ph	m p	

USA	Location	Associated undertaking	Business	%
USA	Teterboro	Quest Diagnostics Incorporated (iv)	Clinical testing	18

i) Incorporated in the Netherlands.

ii) Exempt from the provisions of Section 7 of the Companies (Amendment) Act 1986 (Ireland).

iii) Consolidated as a subsidiary undertaking in accordance with Section 258 (4)(a) of the Companies Act on the grounds of dominant influence.

iv) Equity accounted on the grounds of significant influence.

\+ Directly held wholly owned subsidiary of GlaxoSmithKline plc.

Key

Business segment: Ph Pharmaceuticals, CH Consumer Healthcare

Business activity: d development, e exporting, f finance, h holding company, i insurance, m marketing, p production, r research, s service

Full details of all Group subsidiary and associated undertakings will be attached to the company's Annual Return to be filed with the Registrar of Companies.

40 Transition to IFRS

Background

The IFRS project

In June 2002, the Council of the European Union adopted a Regulation requiring listed companies in its Member States to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) from 2005.

The GlaxoSmithKline Annual Report for the year ending 31st December 2005 is the first Annual Report prepared under IFRS.

As 2003 is the earliest year for which full IFRS financial statements are presented in the Annual Report 2005, the transition date to IFRS for GlaxoSmithKline is 1st January 2003. Normally, accounting changes of this nature would require full retrospective application, but GSK has taken advantage of exemptions available under the IFRS transitional rules to apply certain requirements only with effect from the transition date of 1st January 2003 or, in the case of financial instruments, from 1st January 2005.

Financial instruments

GSK has adopted IAS 39 as endorsed by the European Union. However, one of the exemptions available under IFRS 1 relaxes the requirement for comparative information presented in the Annual Report 2005 to comply with IAS 32 and IAS 39. GlaxoSmithKline has taken advantage of this exemption, and so, in 2003 and 2004, financial instruments are accounted for and presented on a UK GAAP basis.

On 1st January 2005 there was an adjustment of £12 million to the opening balance sheet to reflect the movements from the UK GAAP carrying values to the IAS 39 values, which for many financial instruments will be fair value.

The financial instruments concerned are:

- Held at fair value under IFRS with movements recorded in equity:
  - Equity investments
  - Liquid investments
  - Derivatives classified as cash flow hedging instruments
- Held at fair value under IFRS with movements recorded in the income statement:
  - Equity collar linked to the Group's investment in Quest Diagnostics Inc.
  - Put and call options linked to the Group's strategic alliance with Theravance Inc.
  - Other derivatives not classified as hedging instruments, including embedded derivatives
  - Derivatives classified as fair value hedges together with the hedged element of the relevant asset or liability
- Presentation differences only:
  - Non-equity minority interests (repaid during 2004).

If the IAS 39 valuation rules had been applied in 2004 there would have been a charge to profit before tax, the largest elements of which arise from the Quest collar (£42 million; 2003 – £42 million) and the Theravance put and call options (£53 million; 2003 – nil). Valuations are inherently unpredictable and changes in the fair values of financial instruments could have a material impact on the future results and financial position of GSK.

IFRS adjustments

A summary of the principal differences between UK GAAP and IFRS as they apply to GSK is set out below and the financial effect is shown on pages 153 to 156.

Customer allowances

This adjustment is a reclassification between turnover and expenses with no profit or cash flow effect. IFRS has no detailed rules in relation to when certain marketing and promotional expenditure should be deducted from turnover rather than recorded as an expense. However, these rules do exist under US GAAP in EITF 01-09, 'Accounting for Consideration Given by a Vendor to a Customer', which requires most marketing, advertising, and promotion payments made to customers to be deducted from turnover. This has the most significant impact in the Consumer Healthcare business where payments to large retailers for in-store advertising, preferential shelf-space, product listings etc. are commonplace.

GSK believes that this reflects best practice in revenue recognition and hence, in the absence of detailed guidance under IFRS, has decided to adopt a revenue recognition policy under IFRS in line with EITF 01-09. Therefore there is not expected to be any difference between turnover reported under IFRS and turnover reported under US GAAP. This adjustment has no impact on profit before tax or EPS.

Share-based payments

The previous UK GAAP approach to share-based payments was to record any intrinsic loss on grant suffered by the company. This means that for share options granted at the market price, there was no charge to the income statement. Where shares or options were granted at no cost to the employee (e.g. under long-term incentive plans) the income statement was charged with an amount equal to the market price on the date of the award, spread over the performance period (usually three years).

IFRS 2, 'Share-based Payment', and its UK GAAP equivalent FRS 20, 'Share-based Payment', both of which came into force in 2005, require the fair value of the equity instruments issued to be charged to the income statement. The Group has chosen to recognise all unvested options and awards retrospectively.

GSK receives a tax credit, as appropriate, which relates to share options and awards when exercised, based on the gains the holders make and dependent on the tax rules in the country in which the deduction is claimed. The deferred tax asset represents an estimate of future tax relief for this gain and is based on the potential gains available to the option or award holders at the balance sheet date. The movement in deferred tax asset from one balance sheet to the next may result in either a tax credit or a tax charge recorded in the income statement. The amount of any tax credit recognised in the income statement is capped at the cumulative amount of the tax effect of the share-based payment charge. Any excess credit is taken to equity.

This adjustment reduced profit before tax in 2004 by £309 million (2003 – £368 million), earnings by £314 million (2003 – £344 million) and EPS by 5.5 pence (2003 – 5.9 pence).

40 Transition to IFRS continued

IFRS adjustments

The share-based payments charge reduced to a more normal level of £236 million in 2005. The considerably higher charge in 2004 and 2003 arises from two main factors. Relatively few share options were granted during 2000 when the GW/SB merger was being finalised, but then in 2001 there was a full "catch-up" grant early in the year followed by the normal annual grant in November 2001. In addition, the grants in 2001 were made at an average share price in excess of £18. These share options became exercisable in 2004 and therefore fell out of the charge in 2005, which now reflects more current share prices and more normal grant levels.

Coreg capitalisation and amortisation

The North American rights to *Coreg* were acquired at the time of the GW/SB merger as partial consideration for the required disposal of Kytril to Roche. Under UK GAAP this was accounted for as an exchange of assets with no value being attributed to *Coreg* on the balance sheet. IFRS, however, requires the acquired rights to *Coreg* to be added to intangible assets at their fair value on the date of acquisition of $400 million, and then amortised over their remaining useful life of eight years. This adjustment reduces 2004 profit before tax by £27 million (2003 – £31 million) and EPS by 0.3 pence (2003 – 0.3 pence).

Other intangible assets amortisation

Under UK GAAP, GSK amortised intangible assets over their estimated expected useful lives from acquisition, which was up to a maximum of 15 years. IFRS only permits amortisation to commence when the asset becomes available for use, with annual impairment testing required before this point. GSK has determined that the point at which amortisation of product-related assets commences under IFRS will normally be regulatory approval. The majority of the Group's intangible assets relates to the acquisition of rights to compounds in development and so has not reached the point at which amortisation commences. This has led to a reduction in the amortisation charge, which is likely to reverse in the future as these compounds reach regulatory approval and amortisation is then charged over a shorter period. Profit before tax in 2004 increased by £43 million (2003 – £43 million) and EPS by 0.5 pence (2003 – 0.5 pence).

Goodwill amortisation

UK GAAP required goodwill to be amortised over its estimated expected useful life, which GSK had determined to be normally no longer than 20 years. Under IFRS, however, goodwill is considered to have an indefinite life and so is not amortised, but is subject to annual impairment testing. This adjustment therefore reverses the goodwill amortisation charged under UK GAAP, including that recorded in the profit on share of associates line relating to the acquisition of the Group's interest in Quest Diagnostics Inc. Under the business combinations exemption of IFRS 1, goodwill previously written off direct to reserves under UK GAAP is not recycled to the income statement on the disposal or part-disposal of the subsidiary or associate, as it would be under UK GAAP. The adjustment increases 2004 profit before tax by £37 million (2003 – £26 million) and EPS by 0.7 pence (2003 – 0.4 pence).

Pensions and other post-employment benefits

GlaxoSmithKline accounted under UK GAAP for pensions and other post-employment benefits (OPEBs) in accordance with SSAP 24, which spread the costs of providing the benefits over the estimated average service lives of the employees.

IAS 19, 'Employee Benefits', recognises surpluses and deficits in the accounts, and in accordance with the transitional provisions of IFRS 1, the surpluses and deficits have been recognised in full on the balance sheet at the transition date of 1st January 2003. In addition, following an amendment to IAS 19 issued by the IASB in December 2004, it is permitted to recognise any movements in the surpluses or deficits immediately in the balance sheet, but outside the income statement, in the Statement of recognised income and expense. This means that, in most cases, the balance sheet reflects the full surplus or deficit positions of the funds.

The Group's policy is to charge out to the operating businesses the service cost element of the pension charge, which then gets reported within cost of sales, selling, general and administrative expenditure or research and development as appropriate, but not to charge out the element related to the funding deficit, which is all reported in selling, general and administrative expenditure. Under IAS 19, the service cost element of the total charge is considerably higher than under SSAP 24 and the funding deficit element lower. This has led to an additional reclassification adjustment between the income statement expense headings.

The overall impact of the adjustments to pensions and OPEBs in 2004 was a decrease in profit before tax of £36 million (2003 – increase of £11 million) and a decrease in EPS of 0.4 pence (2003 – nil).

Share of profits of associates

Under UK GAAP the share of profits of associates was reported within profit before tax for the Group. However, IFRS requires this share of profits to be the net profit attributable to the Group, i.e. after interest, tax and minority interests of the associate. This has led to a reclassification adjustment removing the share of the associates' interest, tax and minority interests from those lines in the income statement and netting them all together in the share of profits of associates line. This adjustment reduced 2004 profit before tax by £42 million (2003 – £42 million) but did not affect EPS.

Deferred tax on intercompany profit

Under UK GAAP, deferred tax on the provision for intercompany profit held in inventory is calculated at the supplying company's effective tax rate. IFRS, however, takes a balance sheet approach to the recognition of deferred tax which results in the tax rate of the company holding the inventory at the balance sheet date being applied to the provision. If the proportions of the Group's inventory held in specific locations change significantly from one balance sheet date to the next there could be a significant change in the value of the deferred tax asset, which is reflected through the tax charge for the year.

Notes to the financial statements
continued

40 Transition to IFRS continued

Other adjustments
There are a number of other minor adjustments and reclassifications, including:

- Computer software, which is recorded as an intangible asset unless it forms an integral part of the operating system of a tangible fixed asset
- Deferred tax on brands acquired with a company, where if there is a difference between the fair value of the brands on acquisition and the tax value, a taxable temporary difference arises
- Cash equivalents reclassification, where liquid investments with maturities of less than three months at acquisition are included within cash and cash equivalents
- Provisions reclassification, where the elements of provisions expected to be paid within one year of the balance sheet date, with the exception of pensions and OPEBs, are presented within current liabilities.

Cash flow statement
The move from UK GAAP to IFRS does not change any of the cash flows of the Group. The IFRS cash flow format is similar to UK GAAP but presents various cash flows in different categories and in a different order from the UK GAAP cash flow statement. All of the IFRS accounting adjustments net out within cash generated from operations except for the intangible assets reclassification and the inclusion of liquid investments with a maturity of less than three months on acquisition, together with related exchange adjustments, within cash and cash equivalents under IFRS.

IFRS 1 exemptions and elections
IFRS 1, First-Time Adoption of International Financial Reporting Standards, permits those companies adopting IFRS for the first time to take some exemptions from the full requirements of IFRS in the transition period or to make elections to apply IFRS with full retrospective effect where not required to do so. GSK has adopted the following key exemptions and elections:

- Business combinations: Business combinations prior to the transition date (1st January 2003) have not been restated onto an IFRS basis. If the merger of Glaxo Wellcome and SmithKline Beecham in 2000 had been restated onto an IFRS basis it would have been accounted for as an acquisition. Fair value adjustments to the net assets of the acquired company would have been required, including the recognition of significant intangible asset balances for product rights relating to both marketed products and in-process R&D, which were not recognised under merger accounting. A significant goodwill balance would also have been recorded
- Goodwill written off to reserves prior to 1998 under old UK GAAP is not written back to goodwill. If the business combinations exemption had not been taken, additional goodwill balances relating to acquisitions prior to 1998 would have been recognised on the IFRS balance sheet
- Amortisation of goodwill under UK GAAP prior to the date of transition to IFRS, 1st January 2003, has not been reversed. Accordingly, goodwill recognised on the IFRS balance sheet is lower in this respect than it would have been if GSK had not taken advantage of the business combinations exemption
- Share-based payments: IFRS 2, Share-based Payment, applies to equity instruments, such as share options granted since 7th November 2002, but GlaxoSmithKline has elected to adopt full retrospective application of the standard
- Financial instruments: Financial instruments in the comparative periods presented in the Annual Report 2005 (i.e. 2004 and 2003) are recognised and measured on the UK GAAP basis applicable in those years, rather than in accordance with IAS 39 ‘Financial Instruments: Recognition and Measurement’. As a result, certain derivative instruments, are not recognised in the comparative periods. IFRS hedge accounting is not applied in the comparative periods so hedged borrowings are recorded at amortised cost rather than at fair value. Also, available-for-sale financial assets such as equity investments and liquid investments are recorded at cost less impairments rather than at fair value.

40 Transition to IFRS continued

IFRS Consolidated income statement

	12 months 2004			12 months 2003		
	UK GAAP £m	**Adjustments £m**	**IFRS £m**	UK GAAP £m	Adjustments £m	IFRS £m
Turnover	**20,359**	**(373)**	**19,986**	21,441	(371)	21,070
Cost of sales	**(4,309)**	**(51)**	**(4,360)**	(4,544)	(33)	(4,577)
Gross profit	**16,050**	**(424)**	**15,626**	16,897	(404)	16,493
Selling, general and administration	**(7,061)**	**(140)**	**(7,201)**	(7,597)	(291)	(7,888)
Research and development	**(2,839)**	**(65)**	**(2,904)**	(2,791)	(74)	(2,865)
Other operating income	**(60)**	**295**	**235**	(133)	443	310
Operating profit	**6,090**	**(334)**	**5,756**	6,376	(326)	6,050
Finance income	**102**	**74**	**176**	61	40	101
Finance costs	**(305)**	**(57)**	**(362)**	(222)	(32)	(254)
Share of profits/(losses) of associates and joint ventures	**95**	**(35)**	**60**	93	(36)	57
Profit on disposal of interests in associates	**138**	**11**	**149**	–	–	–
Profit before taxation	**6,120**	**(341)**	**5,779**	6,308	(354)	5,954
Taxation	**(1,701)**	**(56)**	**(1,757)**	(1,729)	78	(1,651)
(Loss)/profit on disposal of businesses	**(1)**	**1**	**–**	5	–	5
Profit after taxation for the year	**4,418**	**(396)**	**4,022**	4,584	(276)	4,308
Profit attributable to minority interests	**116**	**(2)**	**114**	106	1	107
Profit attributable to shareholders	**4,302**	**(394)**	**3,908**	4,478	(277)	4,201
Earnings per share (pence)	**75.0p**	**(6.9)p**	**68.1p**	77.1p	(4.8)p	72.3p
Diluted earnings per share (pence)	**74.8p**	**(6.8)p**	**68.0p**	76.9p	(4.8)p	72.1p

IFRS Consolidated statement of recognised income and expense

	31st December 2004			31st December 2003		
	UK GAAP £m	**Adjustments £m**	**IFRS £m**	UK GAAP £m	Adjustments £m	IFRS £m
Exchange movements on overseas net assets	**(54)**	**7**	**(47)**	113	(60)	53
Tax on exchange movements and unrealised gains	**(73)**	**–**	**(73)**	(92)	2	(90)
Goodwill written back	**20**	**(20)**	**–**	–	–	–
Revaluation of goodwill due to exchange	**6**	**–**	**6**	(7)	–	(7)
Unrealised (loss)/profit on disposal of intellectual property	**(1)**	**1**	**–**	7	(7)	–
Actuarial gains/(losses) on defined benefit plans	**–**	**108**	**108**	–	(432)	(432)
Deferred tax on actuarial movements on defined benefit plans	**–**	**(17)**	**(17)**	–	121	121
Net (losses)/gains recognised directly in equity	**(102)**	**79**	**(23)**	21	(376)	(355)
Profit for the year	**4,418**	**(396)**	**4,022**	4,584	(276)	4,308
Total recognised income and expense for the year	**4,316**	**(317)**	**3,999**	4,605	(652)	3,953

Notes to the financial statements
continued

40 Transition to IFRS continued

IFRS Consolidated balance sheet

	31st December 2004			31st December 2003		
	UK GAAP £m	**Adjustments £m**	**IFRS £m**	UK GAAP £m	Adjustments £m	IFRS £m
Non-current assets						
Property, plant and equipment	**6,471**	**(274)**	**6,197**	6,441	(285)	6,156
Goodwill	**139**	**165**	**304**	143	151	294
Other intangible assets	**2,003**	**510**	**2,513**	1,697	533	2,230
Investments in associates and joint ventures	**187**	**22**	**209**	196	14	210
Other investments	**298**	**–**	**298**	262	–	262
Deferred tax assets	**1,537**	**495**	**2,032**	1,441	498	1,939
Other non-current assets	**597**	**14**	**611**	522	9	531
Total non-current assets	**11,232**	**932**	**12,164**	10,702	920	11,622
Current assets						
Inventories	**2,192**	**1**	**2,193**	2,109	–	2,109
Current tax recoverable	**–**	**155**	**155**	–	239	239
Trade and other receivables	**5,175**	**(724)**	**4,451**	4,934	(439)	4,495
Liquid investments	**2,818**	**(1,306)**	**1,512**	2,493	(1,024)	1,469
Cash and cash equivalents	**1,161**	**1,306**	**2,467**	962	1,024	1,986
Assets held for sale	**–**	**2**	**2**	–	–	–
Total current assets	**11,346**	**(566)**	**10,780**	10,498	(200)	10,298
Total assets	**22,578**	**366**	**22,944**	21,200	720	21,920
Current liabilities						
Short-term borrowings	**(1,582)**	**–**	**(1,582)**	(1,452)	–	(1,452)
Trade and other payables	**(5,542)**	**1,275**	**(4,267)**	(5,561)	1,364	(4,197)
Current tax payable	**(1,598)**	**(155)**	**(1,753)**	(1,458)	(239)	(1,697)
Short-term provisions	**–**	**(962)**	**(962)**	–	(968)	(968)
Total current liabilities	**(8,722)**	**158**	**(8,564)**	(8,471)	157	(8,314)
Non-current liabilities						
Long-term borrowings	**(4,381)**	**–**	**(4,381)**	(3,651)	–	(3,651)
Deferred tax provision	**(710)**	**141**	**(569)**	(618)	253	(365)
Pensions and other post-employment benefits	**(785)**	**(1,734)**	**(2,519)**	(807)	(2,137)	(2,944)
Other provisions	**(1,534)**	**965**	**(569)**	(1,617)	962	(655)
Other non-current liabilities	**(244)**	**(161)**	**(405)**	(232)	(161)	(393)
Total non-current liabilities	**(7,654)**	**(789)**	**(8,443)**	(6,925)	(1,083)	(8,008)
Total liabilities	**(16,376)**	**(631)**	**(17,007)**	(15,396)	(926)	(16,322)
Net assets	**6,202**	**(265)**	**5,937**	5,804	(206)	5,598
Equity						
Share capital	**1,484**	**–**	**1,484**	1,487	–	1,487
Share premium account	**304**	**–**	**304**	264	–	264
Retained earnings	**4,781**	**(239)**	**4,542**	4,112	(153)	3,959
Other reserves	**(644)**	**38**	**(606)**	(804)	11	(793)
Shareholders' equity	**5,925**	**(201)**	**5,724**	5,059	(142)	4,917
Minority interests	**277**	**(64)**	**213**	745	(64)	681
Total equity	**6,202**	**(265)**	**5,937**	5,804	(206)	5,598

40 Transition to IFRS continued

Analysis of IFRS adjustments to the Income Statement

Year ended 31st December 2004

	Customer allowances £m	Share-based payments £m	*Coreg* amortisation £m	Other intangible assets amortisation £m	Goodwill amortisation £m	Pensions and OPEBS £m	Share of profits of associates £m	Other £m	**IFRS adjustments £m**
Turnover	(373)	–	–	–	–	–	–	–	**(373)**
Cost of sales	14	(36)	–	–	–	(16)	–	(13)	**(51)**
Gross profit	(359)	(36)	–	–	–	(16)	–	(13)	**(424)**
Selling, general and administration	359	(182)	(27)	–	12	(3)	–	(299)	**(140)**
Research and development	–	(91)	–	43	–	(17)	–	–	**(65)**
Other operating income	–	–	–	–	–	–	–	295	**295**
Operating profit	–	(309)	(27)	43	12	(36)	–	(17)	**(334)**
Finance income	–	–	–	–	–	–	–	74	**74**
Finance costs	–	–	–	–	–	–	7	(64)	**(57)**
Share of profits/(losses) of associates and joint ventures	–	–	–	–	14	–	(49)	–	**(35)**
Profit on disposal of interests in associates	–	–	–	–	11	–	–	–	**11**
Profit before taxation	–	(309)	(27)	43	37	(36)	(42)	(7)	**(341)**
Taxation	–	(5)	9	(12)	–	13	40	(101)	**(56)**
Profit on disposal of businesses	–	–	–	–	1	–	–	–	**1**
Profit after taxation for the year	–	(314)	(18)	31	38	(23)	(2)	(108)	**(396)**
Profit attributable to minority interests	–	–	–	–	–	–	(2)	–	**(2)**
Profit attributable to shareholders	–	(314)	(18)	31	38	(23)	–	(108)	**(394)**
Earnings per share (pence)	–	(5.5)p	(0.3)p	0.5p	0.7p	(0.4)p	–	(1.9)p	**(6.9)p**

Reconciliation of opening equity by component of equity

At 1st January 2003

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total shareholders' equity £m	Minority interests £m	Total equity £m
UK GAAP	**1,506**	**224**	**(921)**	**3,031**	**3,840**	**807**	**4,647**
IFRS adjustments (net of tax):							
Pensions	–	–	–	(1,456)	(1,456)	–	(1,456)
Deferred profit on stock	–	–	–	249	249	–	249
Dividends	–	–	–	1,287	1,287	–	1,287
Deferred tax on indefinite life assets	–	–	–	(300)	(300)	–	(300)
Coreg	–	–	–	126	126	–	126
Other intangible assets	–	–	–	45	45	–	45
Share-based payments	–	–	(5)	5	–	–	–
Tax on share-based payments	–	–	–	48	48	–	48
Other	–	–	–	30	30	(64)	(34)
Total IFRS adjustments	–	–	(5)	34	29	(64)	(35)
IFRS	**1,506**	**224**	**(926)**	**3,065**	**3,869**	**743**	**4,612**

Notes to the financial statements
continued

40 Transition to IFRS continued

Analysis of IFRS balance sheet adjustments

At 31st December 2004

	Dividend deferred £m	Share-based payments £m	*Coreg* capitalisation and amortisation £m	Other intangible assets amortisation £m	Goodwill amortisation reversal £m	Pensions and OPEBS £m	Other £m	**IFRS adjustments £m**
Non-current assets								
Property, plant and equipment	–	–	–	–	–	–	(274)	**(274)**
Goodwill	–	–	–	–	26	–	139	**165**
Other intangible assets	–	–	104	148	–	–	258	**510**
Investments in associates and joint ventures	–	–	–	–	22	–	–	**22**
Other investments	–	–	–	–	–	–	–	**–**
Deferred tax assets	–	67	(34)	(29)	–	324	167	**495**
Other non-current assets	–	–	–	–	–	14	–	**14**
Total non-current assets	–	67	70	119	48	338	290	**932**
Current assets								
Inventories	–	–	–	–	–	–	1	**1**
Current tax recoverable	–	–	–	–	–	–	155	**155**
Trade and other receivables	–	–	–	–	–	(724)	–	**(724)**
Liquid investments	–	–	–	–	–	–	(1,306)	**(1,306)**
Cash and cash equivalents	–	–	–	–	–	–	1,306	**1,306**
Assets held for sale	–	–	–	–	–	–	2	**2**
Total current assets	–	–	–	–	–	(724)	158	**(566)**
Total assets	–	67	70	119	48	(386)	448	**366**
Current liabilities								
Short-term borrowings	–	–	–	–	–	–	–	**–**
Trade and other payables	1,254	–	–	–	–	21	–	**1,275**
Current tax payable	–	–	–	–	–	–	(155)	**(155)**
Short-term provisions	–	–	–	–	–	–	(962)	**(962)**
Total current liabilities	1,254	–	–	–	–	21	(1,117)	**158**
Non-current liabilities								
Long-term borrowings	–	–	–	–	–	–	–	**–**
Deferred tax provision	–	–	–	(27)	–	472	(304)	**141**
Pensions and other post-employment benefits	–	–	–	–	–	(1,734)	–	**(1,734)**
Other provisions	–	–	–	–	–	3	962	**965**
Other non-current liabilities	–	–	–	–	–	–	(161)	**(161)**
Total non-current liabilities	–	–	–	(27)	–	(1,259)	497	**(789)**
Total liabilities	1,254	–	–	(27)	–	(1,238)	(620)	**(631)**
Net assets	1,254	67	70	92	48	(1,624)	(172)	**(265)**
Equity								
Share capital	–	–	–	–	–	–	–	**–**
Share premium account	–	–	–	–	–	–	–	**–**
Retained earnings	1,254	29	70	92	48	(1,619)	(113)	**(239)**
Other reserves	–	38	–	–	–	–	–	**38**
Shareholders' equity	1,254	67	70	92	48	(1,619)	(113)	**(201)**
Minority interests	–	–	–	–	–	(5)	(59)	**(64)**
Total equity	**1,254**	**67**	**70**	**92**	**48**	**(1,624)**	**(172)**	**(265)**

41 Legal proceedings

The Group is involved in significant legal and administrative proceedings, principally product liability, intellectual property, tax, antitrust and governmental investigations and related private litigation. The Group makes provision for these proceedings on a regular basis as summarised in Notes 2 and 27. The Group may make additional significant provisions for such legal proceedings as required in the event of further developments in these matters, consistent with generally accepted accounting principles. Litigation, particularly in the USA, is inherently unpredictable and excessive awards that may not be justified by the evidence may occur. The Group could in the future incur judgments or enter into settlements of claims that could result in payments that exceed its current provisions by an amount that would have a material adverse effect on the Group's financial condition, results of operations and/or cash flows.

Intellectual property claims include challenges to the validity of the Group's patents on various products or processes and assertions of non-infringement of those patents. A loss in any of these cases could result in loss of patent protection for the product at issue. The consequences of any such loss could be a significant decrease in sales of that product and could materially affect future results of operations for the Group.

Legal expenses incurred and provisions related to legal claims are charged to selling, general and administration costs. Provisions are made, after taking appropriate legal advice, when a reasonable estimate can be made of the likely outcome of the dispute. In 2004 the Group established an actuarially determined provision for product liability claims incurred but not yet reported as described in Note 27. At 31st December 2005 the Group's aggregate provision for legal and other disputes (not including tax matters described under 'Taxation' in Note 12) was over £1.1 billion. The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

The most significant of those matters are described below.

Intellectual property

Advair

In September 2004, the Group applied to the US Patent and Trademark Office (USPTO) for re-issue of its combination patent for *Advair*, an inhaled combination of salmeterol and fluticasone propionate, which expires in September 2010. This followed an internal review which concluded that the language in the patent may not accurately describe all of the circumstances of the invention and may not claim the invention as precisely as it could. The objective of seeking re-issuance is to strengthen the protection afforded by the patent. In January 2006, the USPTO issued a final office action rejecting that application. The Group will seek reconsideration of the rejection, and a response to the USPTO is expected in the first half of the year. While the application for re-issue remains pending, the patent remains in force and is listed in the register of pharmaceutical patents maintained by the US Food and Drug Administration (FDA) (the Orange Book).

The Group holds other US patents relating to *Advair* which are not affected by the re-issue application, including the compound patent related to the active ingredient salmeterol which affords protection through August 2008 (after giving effect to an expected grant of paediatric exclusivity by the FDA) and various patents relating to the *Diskus* device which expire over a period from 2011 to 2016.

Avandia and Avandamet

In August 2003, the Group filed an action in the US District Court for the District of New Jersey against Teva Pharmaceuticals USA Inc. for infringement of the Group's patent relating to the maleate salt form of rosiglitazone, the active ingredient in *Avandia*, which expires in 2015. In September 2003, the Group filed a comparable action in the same court against Dr Reddy's Laboratories, alleging infringement of the same patent. Those actions were filed in response to Abbreviated New Drug Application (ANDA) filings with the FDA by Dr Reddy's Laboratories and Teva with certifications that the Group's maleate salt patent is invalid. FDA approval of those ANDAs is stayed until the earlier of November 2006 or resolution of the respective patent infringement actions.

Teva subsequently filed an additional certification challenging the validity of the Group's basic compound patent for rosiglitazone, and in January 2004 the Group commenced an action against Teva in the same court for infringement of that patent. The basic compound patent currently expires in 2012 after giving effect to patent term restoration and paediatric exclusivity.

In January 2005, the Group filed an action in the US District Court for the District of New Jersey against Teva for infringement of the same two patents – the basic compound and maleate salt patents for rosiglitazone. Teva had filed an ANDA with the FDA for a generic version of *Avandamet* with a certification that those patents are invalid or not infringed. FDA approval of that ANDA is stayed until the earlier of June 2007 or resolution of the patent infringement action. Since *Avandamet* is protected by the same patents as *Avandia*, any earlier holding of invalidity in the *Avandia* cases would be dispositive for *Avandamet* as well.

Imitrex

In December 2003, the Group commenced an action in the US District Court for the Southern District of New York against Dr Reddy's Laboratories, alleging infringement of one of the two primary compound patents for sumatriptan, the active ingredient in *Imitrex*. The patent at issue affords protection through February 2009 after giving effect to a grant of paediatric exclusivity by the FDA. The defendant had filed an ANDA with the FDA for sumatriptan oral tablets with a certification of invalidity of that compound patent but did not certify invalidity or non-infringement of the other compound patent that expires in June 2007 after giving effect to paediatric exclusivity.

In March 2004, the Group commenced an infringement action against Cobalt Pharmaceuticals which was transferred to the US District Court for the Southern District of New York. The defendant had filed an ANDA for sumatripan oral tablets with a certification of invalidity or non-infringement of the same compound patent at issue in the Dr Reddy's case. Final pre-trial conference in the consolidated Dr Reddy's and Cobalt case is scheduled for May 2006.

41 Legal proceedings continued

In February 2005, the Group commenced an infringement action in the US District Court for the District of Delaware against Spectrum Pharmaceuticals. The defendant had filed an ANDA for injectable sumatriptan with a certification of invalidity or non-infringement of the same compound patent at issue in the Dr Reddy's and Cobalt cases. Trial date in this case is set at November 2006.

Lamictal

In August 2002, the Group commenced an action in the US District Court for the District of New Jersey against Teva Pharmaceuticals USA Inc., alleging infringement of the Group's compound patent for lamotrigine, the active ingredient in *Lamictal* oral tablets. That patent affords protection through January 2009 after giving effect to a grant of paediatric exclusivity by the FDA. Teva had filed an ANDA with the FDA with a certification of invalidity of the Group's patent. The parties reached a settlement agreement pursuant to which the Group has granted Teva an exclusive royalty-bearing license to distribute in the USA a generic version of lamotrigine chewable tablets. In addition, Teva was granted the exclusive right to manufacture and sell Teva's own generic version of lamotrigine tablets in the USA with an expected launch date in 2008.

Paxil/Seroxat

In the USA a number of distributors of generic drugs filed applications with the FDA to market generic versions of *Paxil/Seroxat* (paroxetine hydrochloride) prior to the expiration in 2007 (after giving effect to a grant of paediatric exclusivity by the FDA) of the Group's patent on paroxetine hyrdrochloride hemihydrate. These distributors sought to bring to market anhydrate or other versions of paroxetine hydrochloride and in one case paroxetine mesylate. In response the Group filed actions against all those distributors for infringement of various of the Group's patents on the basis that the generic anhydrate and other versions infringe because they contain and/or convert to the hemihydrate form and/or infringe other Group patents.

In July 1998, GSK filed an action against Apotex in the US District Court for the Northern District of Illinois for infringement of the Group's patent for paroxetine hydrochloride hemihydrate. Apotex had filed an ANDA with the FDA seeking approval to introduce a generic form of *Paxil*. Following a trial in February 2003 the judge ruled GSK's patent valid but not infringed by Apotex's product. On the Group's appeal the US Court of Appeals for the Federal Circuit (CAFC), which hears all appeals from US District Courts on patent matters, ruled that the Group's patent was infringed but invalid based upon 'public use' in clinical trials prior to the filing date in the USA. The Group filed a petition to the CAFC for rehearing on its appeal by the full court and in April 2005 the full CAFC vacated that judgment and remanded the matter to the same panel. Concurrently with entry of that decision, the panel issued a new opinion ruling the same patent invalid under an alternative theory. The Group's request for a rehearing by the full court of the panel's new decision was denied and the Group has filed a petition for review by the US Supreme Court.

Between 1999 and 2001, the Group filed further actions against Apotex in the US District Court for the Eastern District of Pennsylvania for infringement of additional of the Group's patents. In December 2002, the judge granted in part and denied in part summary judgment motions filed by Apotex with the result that issues of validity and infringement of three of the four additional patents remained for trial. In July 2004, the judge certified the patent that had been held invalid for appeal to the CAFC. In February 2006, the CAFC affirmed the judge's ruling of invalidity of that patent.

The Group also commenced actions in the US District Court for the Eastern District of Pennsylvania against Geneva, Alphapharm, Andrx Pharmaceuticals, Zenith and Teva Pharmaceuticals in connection with their ANDA filings for *Paxil* and BASF and Sumika Fine Chemicals in connection with their supply of paroxetine hydrochloride for use in ANDAs. Those lawsuits have been settled or stayed pending resolution of the appeals in the Apotex case. Apotex launched its generic product in the USA in September 2003. Additional generic products were launched by other defendants after March 2004.

The Group's US patent litigation with Synthon BV was settled in December 2003 enabling US marketing of Synthon's paroxetine mesylate product. This was followed with settlement in August 2004 of most of the Group's non-US patent litigation with Synthon as a consequence of which Synthon is free to market its paroxetine mesylate product in many markets globally where it has obtained marketing authorisations. Resolution of damages in respect of several country markets remains outstanding. Paroxetine mesylate is a different salt form of paroxetine than that used in the marketed form of *Seroxat/Paxil*. In certain markets litigation with Synthon is ongoing and Synthon is asserting counterclaims for unfair competition against the Group.

Generic products containing the anhydrate form of paroxetine hydrochloride are now on the market in most European countries. Whilst some of these products are the subject of continuing litigation, most actions have now been settled and it is expected that more will be settled in the future. In the UK, litigation of several years standing between the Group and Apotex culminated in an Appeal Court decision that the Group's anhydrate process patent was valid but not infringed. As a result of the litigation, Apotex was enjoined from launching a product for about one year but is now on the market. A damages enquiry relating to the injunction is ongoing. A settlement of damages claim has been reached with one of Apotex's local distributors.

Paxil CR

In November 2005, Mylan Pharmaceuticals filed an ANDA for Paxil CR (paroxetine hydrochloride controlled release formulation) with a certification of invalidity and non-infringement of several patents listed in the FDA Orange Book. There was no certification of invalidity or non-infringement of the patent covering paroxetine hydrochloride hemihydrate, which Mylan admitted is the active ingredient in its product. That patent expires in June 2007 after giving effect to a grant of paediatric exclusivity by the FDA. As the Group did not file a patent infringement action against Mylan within the 45-day period provided under Hatch-Waxman, there will be no 30-month stay against FDA approval of the Mylan ANDA to conduct patent litigation.

41 Legal proceedings continued

Requip

In April 2005, the Group commenced an action in the US District Court for the District of Delaware against Teva Pharmaceutical USA Inc. alleging infringement of the Group's compound patent for ropinirole hydrochloride (the active ingredient in *Requip*) and a method of use patent for treatment of Parkinson's disease, both of which are listed in the FDA Orange Book. The compound patent expires in December 2007 and the method of use patent in May 2008. The defendant filed an ANDA with the FDA with a certification of invalidity and non-infringement of those patents. FDA approval of that ANDA is stayed until the earlier of August 2007 or resolution of the patent infringement action. The case is progressing through the discovery stage.

Valtrex

In May 2003, the Group commenced an action in the US District Court for the District of New Jersey against Ranbaxy Laboratories, alleging infringement of the Group's compound patent for valaciclovir, the active ingredient in *Valtrex*. That patent expires in 2009. The defendant has filed an ANDA with the FDA with a certification the Group's compound patent was invalid or not infringed. In August 2004, Ranbaxy filed a motion for partial summary judgment on grounds that the patent was invalid for being in 'public use' more than one year before the filing of the patent application and the Group filed a motion that the patent was not invalid on those grounds. In March 2005, the court ruled in the Group's favour that the patent was not invalid on those grounds. Discovery is substantially completed.

Wellbutrin XL

In December 2004, Biovail commenced actions in the US District Court for the Central District of California against Anchen Pharmaceuticals and in the US District Court for the Southern District of Florida against Abrika Pharmaceuticals, in each case alleging infringement of Biovail formulation patents for *Wellbutrin XL*. In April 2005, Biovail filed an action in the US District Court for the Eastern District of Pennsylvania against Impax Laboratories for infringement of the same patents. Those patents expire in 2018. Each of Anchen, Abrika and Impax had filed an ANDA with the FDA with a certification of invalidity or non-infringement of the Biovail patents. The Group is the licensee under those patents. A hearing on Abrika's motion for summary judgment was heard in November 2005 but as of the date of this report no decision has been announced. A trial date for Biovail's action against Anchen has been set for 12th September 2006. The Group is not a party to any of those actions. In September 2005, Biovail commenced actions in the US District Court for the Southern District of New York against Watson Laboratories alleging infringement of the Biovail formulation patents. The Group remains a third party counterclaim defendant based on listing activities associated with the FDA Orange Book.

In December 2005, Andrx Pharmaceuticals filed an action against the Group in the US District Court for the Southern District of Florida, alleging that the manufacture, importation and sale of the 150 mg *Wellbutrin XL* product infringes a patent issued to Andrx in June 2005 and asking for treble damages, attorneys' fees and that the Group and others acting in concert with it be enjoined. The case is in its early stages.

Zofran

In August 2001, the Group commenced an action in the US District Court for the District of New Jersey against Reddy-Cheminor and Dr Reddy's Laboratories. Dr Reddy had certified invalidity of three patents for ondansetron, the active ingredient in *Zofran* tablets, including the compound patent that expired in July 2005 and two method of use patents, the later of which expires in December 2006, in both instances taking into account the extension for paediatric exclusivity. In July 2003, the Group filed an action against Dr Reddy's Laboratories in the same district court for infringement of the Group's patents related to the orally disintegrating tablet presentation of *Zofran*. In October 2003, the Group filed an action against West-ward Pharmaceuticals, Inc. in the same district court for infringement of the Group's patents related to an injectable presentation of *Zofran*. Both the Dr Reddy disintegrating tablet case and the West-ward case were consolidated with the earlier Dr Reddy case.

Prior to the trial both Reddy-Cheminor and West-ward withdrew their challenge to the compound patent. The trial over infringement and validity of the Group's method of use and process patents was completed in June 2004 and closing arguments were heard in May 2005 but as of the date of this report no decision has been announced.

In March 2002, the Group filed a similar action against Teva Pharmaceuticals USA Inc. in the US District Court for the District of Delaware alleging infringement of the two method of use patents for ondansetron. Teva had certified invalidity or non-infringement of the two method of use patents. Teva did not challenge the compound patent. The trial judge ruled in the Group's favour, upholding the validity of the method of use patents. Following an appeal by Teva to the CAFC, the parties reached a settlement agreement, the terms of which are confidential.

In January 2003, the Group commenced an action against Kali Laboratories (now Par Pharmaceutical Company) in the US District Court for the District of New Jersey involving orally disintegrating *Zofran* tablets. The trial judge denied Kali's summary judgment motion and granted the Group's summary judgment motions in June 2005 and July 2005, affirming the validity of the Group's method of use patents and holding that Kali's proposed generic product would infringe those patents. Kali has filed a notice of appeal with the CAFC from that ruling. As of the date of this report no hearing date for that appeal has been announced.

In June 2003, the Group commenced an action in the US District Court for the District of New Jersey against the Faulding Pharmaceutical Company (now Mayne Pharma Inc.) alleging infringement of the two method of use patents for ondansetron. Faulding did not challenge the compound patent. That case, as of the date of this report, has been stayed pending decisions in the Reddy/West-ward case.

Additional actions remain pending against generic distributors which are asserting that their products do not infringe the Group's patent for a reduced crystal size of ondansetron, which expires in March 2012 taking into account the extension for paediatric exclusivity, but which are not asserting invalidity or non-infringement of the Group's compound patents or emesis use patent.

Notes to the financial statements
continued

41 Legal proceedings continued

Product Liability

Paxil

The Group has received lawsuits and claims filed on behalf of patients alleging that they have suffered symptoms on discontinuing treatment with *Paxil* (paroxetine). Separately, the Group has received lawsuits and claims that patients who had commenced *Paxil* treatment committed or attempted to commit suicide and/or acts of violence. There are also private consumer lawsuits alleging that the Group concealed and misrepresented data from paediatric clinical trials of *Paxil*.

The Group has received lawsuits filed in state and federal courts in the USA and Canada on behalf of thousands of plaintiffs, including purported class actions, alleging that paroxetine (the active ingredient in *Paxil*) is addictive and causes dependency and withdrawal reactions. Plaintiffs sought remedies including compensatory, punitive and statutory damages and the cost of a fund for medical monitoring. In 2003, a federal judge in the US District Court for the Central District of California denied class action certifications for a nationwide class and a California statewide class as to cases filed in federal court in that district. Subsequently, on petition from plaintiffs' counsel all federal court cases were transferred to that District Court for consolidation in Multidistrict Litigation (MDL). In January 2006, the Group concluded settlement of more than 90% of the pending claims based on symptoms on discontinuing *Paxil* treatment. Most of the pending purported class actions are being dismissed as part of the settlement. The Group did not, as part of the settlement, admit any liability with respect to the allegations in any of the suits. Litigation in respect of the balance of the lawsuits, including a purported class action in California state court, continues.

The Group has received numerous claims and lawsuits alleging that treatment with *Paxil* has caused homicidal or suicidal behaviour exhibited by users of the product. None of these are or purport to be class actions. In January 2005, the FDA approved a black box warning about suicidal thoughts or behaviour in paediatric patients and other strengthened warnings for selective serotonin reuptake inhibitor (SSRI) products, including *Paxil*, as a class.

Avandia

The Group has received lawsuits and claims filed in state and federal courts in the USA on behalf of numerous patients alleging that rosiglitazone (the active ingredient in *Avandia*) has caused congestive heart failure or liver damage. None of the cases purports to be a class action. Most of the cases are in their early stages.

Phenylpropanolamine

Following a report from the Yale Haemorrhagic Stroke Project that found a suggestion of an association between first use of phenylpropanolamine (PPA) decongestant and haemorrhagic stroke, the Group and most other manufacturers have voluntarily withdrawn consumer healthcare products in which PPA was an active ingredient. Since the PPA product withdrawal the Group has been named as a defendant in numerous personal injury and class action lawsuits filed in state and federal courts alleging personal injury or increased risk of injury from use of products containing PPA and unfair and deceptive business practices. Plaintiffs seek remedies including compensatory and punitive damages and refunds.

The federal cases have been consolidated in a multidistrict litigation proceeding in the US District Court for the District of Washington. The judge responsible for those proceedings has denied class certification and struck all class allegations in the federal personal injury and consumer refund class actions. Class certification has been denied in California state court and a Pennsylvania state court putative class action has been dismissed, leaving no putative class actions pending against the Group in this litigation. A substantial number of cases in which the Group or other manufacturers are defendants have reached trial in state and federal courts. Manufacturers have for the most part received favourable outcomes at trial.

Baycol

In August 2001, Bayer AG withdrew *Baycol* (cerivastatin sodium) worldwide in light of reports of adverse events, including deaths, involving rhabdomyolosis. GSK had participated in the marketing of *Baycol* in the USA pursuant to a co-promotion agreement with Bayer which was the licence holder and manufacturer of the product.

Following the withdrawal, Bayer and GSK have been named as defendants in thousands of lawsuits filed in state and federal courts in the USA on behalf of both individuals and putative classes of former *Baycol* users. A number of the suits allege that the plaintiffs have suffered personal injuries, including rhabdomyolosis, from the use of *Baycol*. Others claim that persons who took *Baycol*, although not injured, may be at risk of future injury or may have suffered economic damages from purchasing and using *Baycol*. Plaintiffs seek remedies including compensatory, punitive and statutory damages and creation of funds for medical monitoring.

GSK and Bayer Corporation, the principal US subsidiary of Bayer AG, have signed an allocation agreement under which Bayer Corporation has agreed to pay 95% of all settlements and compensatory damages judgments with each party retaining responsibility for its own attorneys' fees and any punitive damages. The federal cases have been consolidated in a multidistrict litigation proceeding in the US District Court for the District of Minnesota. Numerous cases are scheduled for trial in state and federal courts during 2006. To date two statewide class actions have been certified – a medical monitoring case in Pennsylvania and a Consumer Fraud and Deceptive Business Practices Act case in Illinois. The medical monitoring action was dismissed by the court on summary judgment. Another class action, in which GSK was not named as a defendant, has been certified in Oklahoma. A substantial number of claims for death or serious injury have been settled and many others alleging muscle aches and pains have been voluntarily or involuntarily dismissed.

41 Legal proceedings continued

Fen-Phen

In 1997, the FDA became aware of reports of cardiac valvular problems in individuals for whom fenfluramine or dexfenfluramine alone or in combination with phentermine was prescribed as part of a regimen of weight reduction and requested the voluntary withdrawal of fenfluramine and dexfenfluramine from the market. The reports of cardiac valvular problems and the subsequent withdrawal of those products from the market spawned numerous product liability lawsuits filed against the manufacturers and distributors of fenfluramine, dexfenfluramine and phentermine. As one of a number of manufacturers of phentermine, the Group remains a defendant in approximately two hundred of several thousand lawsuits that were filed in various state and federal district courts in the USA against the Group and other defendants.

Most of the lawsuits seek relief including some combination of compensatory and punitive damages, medical monitoring and refunds for purchases of drugs. In 1997, the Judicial Panel on Multidistrict Litigation issued an order consolidating and transferring all federal actions to the District Court for the Eastern District of Pennsylvania. That court approved a global settlement proposed by defendant Wyeth, which sold fenfluramine and dexfenfluramine. The settlement, subsequently approved by the Third Circuit Court of Appeals, does not include any of the phentermine defendants, including the Group. Individual plaintiffs may elect to opt out of the class settlement and pursue their claims individually and tens of thousands of plaintiffs have elected to do so. Wyeth continues to settle individual state court cases before trial and the Group continues to be dismissed from lawsuits as they are settled by Wyeth.

Thimerosal

GSK, along with a number of other pharmaceutical companies, has been named as a defendant in numerous individual personal injury lawsuits in state and federal district courts in the USA alleging that thimerosal, a preservative used in the manufacture of vaccines, causes neurodevelopmental disorders and other injuries, including autism. Three of the cases are purported class actions although there has been no determination whether any of those cases will be permitted to proceed as a class action. A number of purported class actions in other jurisdictions have been withdrawn or dismissed. Plaintiffs seek remedies including compensatory, punitive and statutory damages and the cost of a fund for medical monitoring and research. As of the date of this report there are no cases scheduled for trial in 2006.

Lotronex

Following the voluntary withdrawal of *Lotronex* in the USA in November 2000 a number of lawsuits have been filed against the Group in state and federal district courts, including individual personal injury actions and purported class actions asserting product liability and consumer fraud claims. Plaintiffs seek remedies including compensatory, punitive and statutory damages. The class previously certified in West Virginia has been decertified and the action has been dismissed. A large number of claims brought following the withdrawal have now been settled. *Lotronex* was reintroduced in the USA in 2002 subject to a risk management plan imposing additional protections around the prescribing and dispensing of *Lotronex*.

Sales and Marketing and Regulation

Marketing and Promotion

In February 2004, GSK received a subpoena from the US Attorney's office in Colorado regarding the Group's sales and promotional practices relating to nine of its largest selling products for the period from January 1997 to the present. In particular the government has inquired about alleged promotion of these drugs for off-label uses as well as Group sponsored continuing medical education programmes, other speaker events, special issue boards, advisory boards, speaker training programmes, clinical studies, and related grants, fees, travel and entertainment. Although the original subpoena issued from the US Attorney's office in Colorado, the scope of the inquiry is nationwide. The Group is co-operating with the investigation and providing the requested information. The Group had earlier responded to an October 2002 letter from the FDA's Division of Drug Marketing, Advertising and Communication requesting information on the Group's alleged promotion of *Wellbutrin SR* for off-label use.

In June 2005, the Group and other pharmaceutical manufacturers received a letter from the Senate Finance Committee in which the Committee expressed concern that educational grants were being improperly used to promote drug products and requesting that each company provide detailed information and documents about its use of educational grants. In January 2006, the Group and the same manufacturers received a second letter from the Committee asking for additional information on the Group's internal grant approval process, grants to medical/physician/professional organizations, academic institutions or state agencies to support journal articles and other publications and grants to patient education or advocacy groups. The Group is co-operating in the Committee's investigation and providing the requested information.

On 22nd February 2006, the FDA approved an ANDA filed by Roxane Laboratories for a generic form of *Flonase* nasal spray and denied two citizens petitions that had been filed by the Group concerning regulatory criteria that should be applied in determining whether proposed generic products are bioequivalent to, and have the same quality control standards as, *Flonase*. On 23rd February the US District Court for the District of Maryland granted a temporary restraining order suspending the FDA's approval of the Roxane ANDA for ten days. The Group will file a motion for a preliminary injunction to continue the interim relief granted in the temporary restraining order and will request a ruling on such motion before the temporary restraining order (as it may be extended for up to an additional ten days) expires.

In February 2003, the Verona Public Prosecutor commenced a criminal investigation into GSK's sales and marketing practices in Italy. Specific areas of investigation include medical education programmes, clinical studies and congresses as well as the interaction between GSK representatives and physicians. Similar issues are being investigated by the Bari public prosecutor. The US Securities and Exchange Commission (SEC) staff has initiated an informal investigation into the allegations. The Group is co-operating with all these investigations.

In February 2006, the Group received a subpoena from the SEC in respect of the Group's participation in the United Nations Oil for Food Programme. The Group is co-operating with the SEC and providing documents responsive to the subpoena.

41 Legal proceedings continued

Average wholesale price

GSK has responded to subpoenas from the Office of the Inspector General of the US Department of Health and Human Services (HHS), the US Department of Justice and the states of Texas and California in connection with allegations that pharmaceutical companies, including GSK, have violated federal fraud and abuse laws such as the Federal False Claims Act (and, with respect to Texas and California, comparable state laws) as a result of the way 'average wholesale price' (AWP) was determined and reported for certain drugs and the way the Medicare and Medicaid programmes reimburse for those drugs. In September 2005, the Group reached a civil settlement with the US Department of Justice, the US Attorney for the District of Massachusetts and the Office of the Inspector General for HHS. The Group agreed to pay the government a civil settlement of $149 million. As part of the settlement the corporate integrity agreement which the Group signed in April 2003 in connection with a prior government investigation of Medicaid rebate issues was amended to address issues raised in the course of this investigation.

Subsequent to the initial subpoenas, several states through their respective attorneys general and several counties in New York state filed civil lawsuits in state and federal court against GSK and several other drug companies. The actions claim, on behalf of the states as payers and on behalf of in-state patients as consumers, damages and restitution due to AWP-based price reporting for an undefined set of pharmaceutical products covered by the states' Medicaid programmes. In addition, private payer class action lawsuits have been filed against GSK in several federal district and state courts. All the federal cases have been consolidated in a multidistrict litigation proceeding in the US District Court for the District of Massachusetts. In August 2005, the judge in that MDL proceeding granted in part and denied in part the private-payer plaintiffs' motion for class certification, thereby narrowing the scope of the class claim. Fact discovery in that proceeding closed as to the Group at the end of August 2005 and expert discovery is under way. Discovery is proceeding in some of the suits filed by state attorneys general in state courts.

Nominal pricing

The Group responded to two letter requests from the US Senate Committee on Finance, dated April 2004 and February 2005, for documents and information relating to the nominal price exception to the best price reporting requirements under the Medicaid Drug Rebate Programme. There has been no further activity in connection with this inquiry by the Committee as to the Group since September 2005. In May 2004, the Group was advised by the US Department of Justice that they are investigating certain of the Group's nominal pricing arrangements to determine whether those arrangements qualify under the exception to the best price reporting requirements or violate civil statutes or laws. The Group is co-operating in that investigation and has provided documents and information to the Department of Justice regarding nominal pricing arrangements for a number of the Group's products.

Paxil/Seroxat

Following announcement of the New York State Attorney General's office of the state's lawsuit, subsequently settled in August 2004, alleging failure to disclose data on the use of *Paxil* in children and adolescents, similar cases, some of which purport to be class actions, have been filed in state and federal and Canadian courts by private plaintiffs. The Group is responding to discovery requests in those cases.

In the UK an investigation remains pending by the UK Medicines and Healthcare products Regulatory Agency (MHRA) to determine whether the Group has complied with its pharmacovigilence obligations in reporting data from clinical trials for *Seroxat/Paxil* in children and adolescents.

Cidra, Puerto Rico manufacturing site

Following FDA inspections in October 2003 and November 2004 which resulted in observations of possible deficiencies in manufacturing practices at the Group's manufacturing facility in Cidra, Puerto Rico, in March 2005 the FDA halted distribution of supplies of *Paxil CR* and *Avandamet* due to manufacturing issues. The FDA observations related to certain aspects of production controls, process validation and laboratory investigations.

The Cidra site is engaged in tableting and packaging for a range of GSK products – primarily for the US market – including *Paxil*, *Paxil CR*, *Coreg*, *Avandia* and *Avandamet*. In April 2005, the Group reached agreement with the FDA on a Consent Decree. The Consent Decree provides for an independent expert to review manufacturing processes at the site for compliance with FDA Good Manufacturing Practice (GMP) requirements. As provided in the Consent Decree, the Group provided a report to the FDA on the deficiencies identified in this review, setting out a corrective plan and timetable for completion. FDA inspectors recently conducted a general GMP inspection and follow-up to the Group's report. In January 2006, the FDA issued a Form 483, listing five observations that were made during the inspection to which the Group responded in February. Those observations were consistent with the findings of the independent expert and effectively already included as part of the Group's remediation plan for the site. The Group remains fully committed to working co-operatively with the FDA to address any issues in a timely fashion. The Group has resumed manufacture of products at the site.

No financial penalties have been imposed under the Consent Decree. The Consent Decree allows for potential future penalties up to a maximum of $10 million a year if the Group fails to meet the terms of the Decree.

The Group was also required to post a bond to ensure that product previously seized by the FDA was appropriately destroyed or reconditioned. The Group has met all the requirements of the bond, which expires in March 2006.

In April 2005, the Group received a subpoena from the US Attorney's Office in Boston requesting production of records regarding manufacturing at the Cidra site covering the same type of information as that collected by the US government in Puerto Rico in 2003.

41 Legal proceedings continued

Anti-trust

Paxil/Seroxat

In the paroxetine patent infringement actions brought by the Group as described under 'Intellectual property' above, Apotex, Alphapharm, BASF and Sumike have filed anti-trust and unfair competition counterclaims against the Group in the US District Court for the Eastern District of Pennsylvania based on allegations that the Group monopolised a 'market' for *Paxil* by bringing allegedly sham patent litigation and allegedly abusing the regulatory procedures for the listing of patents in the FDA Orange Book. Whilst the Apotex matter remains in the discovery stage, the three other actions have been stayed.

In November 2000, the US Federal Trade Commission (FTC) staff advised the Group that they were conducting a non-public investigation to determine whether the Group was violating Section 5 of the Federal Trade Commission Act by 'monopolizing or attempting to monopolize' the market for paroxetine hydrochloride by preventing generic competition to *Paxil* and requested the Group to submit certain information in connection with that investigation. In October 2003 the FTC closed its investigation on the basis of its finding that no further action was warranted.

Following public reference to the FTC investigation regarding *Paxil*, purported class actions were filed in the US District Court for the Eastern District of Pennsylvania on behalf of indirect purchasers based on allegations similar to those in the anti-trust counterclaims brought by Apotex. Similar actions were filed by the City of New York in the Eastern District of Pennsylvania and by indirect purchasers in Florida, California and Minnesota. The Pennsylvania class actions have been settled and the class settlements have been approved, although certain objectors have appealed the approval of the indirect purchaser settlement. The City of New York action has been settled, the action in Minnesota and one of the California actions have been dismissed and the Florida action and another California action have been stayed. The Group has also settled similar threatened claims by a group of chain drug stores and has conditionally settled threatened claims by state attorneys general, but it remains to be seen how many states will join in the settlement. Similar class actions have been filed in provincial courts in Canada on behalf of direct and indirect purchasers. All those cases are in their early stages.

In October 2005, the Competition Directorate of the European Commission initiated an inspection concerning allegations that the Group has abused a dominant position in the marketplace concerning enforcement of its intellectual property rights, litigation surrounding regulatory approvals and marketing of *Seroxat* in Europe. The Group is co-operating fully with the Commission.

Relafen

In August 2001, the US District Court for the District of Massachusetts ruled the Group's patent for nabumetone (*Relafen*) invalid for anticipatory art and unenforceable on the grounds of inequitable conduct. In August 2002, the CAGC issued a decision affirming the District Court judgment of invalidity but declining to rule on the judgment of inequitable conduct.

Following the District Court decision, anti-trust claims alleging competitive injury and overcharges were filed by Teva and Eon Pharmaceuticals, generic manufacturers of nabumetone, by purported classes of direct and indirect purchasers and payers and by individual retail chains. All aspects of this litigation have been concluded with the exception of an appeal taken by certain indirect purchasers to the trial judge's order giving final approval to the settlement with that class. The appeal is pending before the US Circuit Court of Appeals for the First Circuit.

Canadian importation

The Group, along with eight other pharmaceutical companies, has been named in seven purported class action lawsuits. Following the Group's actions in 2003 to reduce illegal importation of prescription drugs from Canada, the lawsuits alleged that the companies entered into an unlawful conspiracy to prevent Canadian pharmacies from selling their products to US customers. Those lawsuits were consolidated into one action before the US District Court for the District of Minnesota. The Group's motion to dismiss the consolidated action was granted by the court and that decision was appealed to the US Circuit Court of Appeals for the Eighth Circuit. As of the date of this report no date for oral argument had been announced.

In relation to the same matter, the Minnesota state attorney general has filed a civil investigative demand and, subsequently, a complaint alleging that the Group has violated state anti-trust and commercial laws. The Group has filed a motion to dismiss the complaint. Oral argument on that motion was completed in November 2005 but as of the date of this report no decision has been announced.

The Group has also been named as a defendant, along with thirteen other drug companies, in a state court action in California, in which the plaintiffs, independent pharmacies, allege that the defendants unlawfully conspired to keep prices artificially high in the USA to the detriment of the plaintiffs. The parties are involved in extensive discovery. A trial date has been set for 25th September 2006.

Wellbutrin SR

In December 2004, and January and February 2005, lawsuits, several of which purported to be class actions, were filed in the US District Court for the Eastern District of Pennsylvania against the Group on behalf of direct and indirect purchasers of *Wellbutrin SR*. The complaints allege violations of US anti-trust laws through sham litigation and fraud on the patent office by the Group in obtaining and enforcing patents covering *Wellbutrin SR*. The complaints follow the introduction of generic competition to *Wellbutrin SR* in April 2004 after district and appellate court rulings that a generic manufacturer did not infringe the Group's patents. Oral argument on the Group's motion to dismiss was completed in February 2006 but as of the date of this report no decision has been announced.

41 Legal proceedings continued

Commercial and corporate

Relenza
In May 2004, Biota Holdings Limited filed a complaint in the Victorian Supreme Court in Australia alleging that the Group had failed to fulfil its development, promotion and production obligations for zanamivir (*Relenza*) under the terms of the licence agreement between the Group and Biota. Biota is seeking substantial cash damages. The Group believes that it has adhered to its obligations under the licence agreement. The parties are involved in extensive discovery.

Securities class action
In September 2005, attorneys representing a purported class of purchasers of GSK shares and American Depositary Shares (ADSs) filed a second amended securities class action complaint against the Group in the US District Court for the Southern District of New York alleging that the Group violated US securities laws through failure to disclose unfavourable clinical data from studies on *Paxil*, misrepresentation of the remaining patent protection for *Paxil* and *Augmentin* and violation of the Federal False Claims Act on the basis of the Group's recent AWP settlement with the government. The Group has filed a motion to dismiss.

Environmental matters
GSK has been notified of its potential responsibility relating to past operations and its past waste disposal practices at certain sites, primarily in the USA. Some of these matters are the subject of litigation, including proceedings initiated by the US federal or state governments for waste disposal site remediation costs and tort actions brought by private parties.

GSK has been advised that it may be a responsible party at approximately 28 sites, of which 14 appear on the National Priority List created by the Comprehensive Environmental Response Compensation and Liability Act (Superfund).

These proceedings seek to require the operators of hazardous waste facilities, transporters of waste to the sites and generators of hazardous waste disposed of at the sites to clean up the sites or to reimburse the government for cleanup costs. In most instances, GSK is involved as an alleged generator of hazardous waste although there are a few sites where GSK is involved as a current or former operator of the facility. Although Superfund provides that the defendants are jointly and severally liable for cleanup costs, these proceedings are frequently resolved on the basis of the nature and quantity of waste disposed of at the site by the generator. GSK's proportionate liability for cleanup costs has been substantially determined for about 20 of the sites referred to above.

GSK's potential liability varies greatly from site to site. While the cost of investigation, study and remediation at such sites could, over time, be substantial, GSK routinely accrues amounts related to its share of the liability for such matters.

Tax matters
Pending tax matters, including disclosure of the tax liability of £2.3 billion (2004 – £1.8 billion), are described in Note 12, 'Taxation'.

Investor information

This section includes the financial record presenting historical information analysed in accordance with current reporting practice. The transition date to IFRS for GSK is 1st January 2003. Therefore, the 2005, 2004 and 2003 information included in the Five Year Record is in accordance with IFRS. The 2002 and 2001 information is in accordance with UK GAAP.

To provide a link between IFRS and UK GAAP, 2003 information is presented also under UK GAAP. The accounting policies used in the preparation of the UK GAAP information are disclosed in the 2004 Annual Report. Information prepared under IFRS is not directly comparable with information prepared under UK GAAP.

The Five year record also presents information in accordance with US GAAP.

This section also discusses shareholder return, in the form of dividends and share price movements, and provides other information for shareholders.

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Financial record

Quarterly trend

An unaudited analysis is provided by quarter of the Group results in sterling for the financial year 2005. The analysis comprises statutory results and pharmaceutical sales by therapeutic area.

Income statement	12 months 2005			Q4 2005		
	£m	CER %	£%	£m	CER %	£%
Turnover – Pharmaceuticals	18,661	8	9	5,108	10	14
– Consumer Healthcare	2,999	2	4	799	1	5
Total turnover	21,660	7	8	5,907	8	13
Cost of sales	(4,764)	8	9	(1,298)	8	10
Selling, general and administrative expenditure	(7,250)	–	1	(2,040)	(2)	–
Research and development expenditure	(3,136)	8	8	(968)	11	13
Other operating income	364			32		
Operating profit	6,874	16	19	1,633	20	32
Finance income	257			85		
Finance costs	(451)			(125)		
Share of after tax profits/(losses) of joint ventures and associated undertakings	52			13		
Profit on disposal of interests in associates	–			–		
Profit before taxation	6,732	13	16	1,606	11	21
Taxation	(1,916)			(455)		
Tax rate %	*28.5 %*			*28.3 %*		
Profit after taxation for the period	4,816	17	20	1,151	31	44
Profit attributable to minority interests	127			29		
Profit attributable to shareholders	4,689			1,122		
Earnings per share	82.6p	18	21	19.8p	33	47
Diluted earnings per share	82.0p			19.6p		

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Financial record
continued

Q3 2005			Q2 2005			Q1 2005		
£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
4,709	10	12	4,505	6	6	4,339	6	4
762	3	6	741	3	3	697	2	1
5,471	9	11	5,246	6	6	5,036	5	4
(1,184)	6	7	(1,155)	10	11	(1,127)	9	9
(1,884)	13	14	(1,681)	(6)	(6)	(1,645)	(3)	(5)
(803)	15	15	(702)	1	1	(663)	2	1
183			3			146		
1,783	14	19	1,711	13	12	1,747	18	17
67			56			49		
(113)			(115)			(98)		
16			10			13		
–			–			–		
1,753	16	21	1,662	9	8	1,711	18	17
(500)			(473)			(488)		
28.5 %			*28.5 %*			*28.5 %*		
1,253	15	20	1,189	8	7	1,223	17	15
46			31			21		
1,207			1,158	8	6	1,202	17	16
21.3p	16	20	20.4p	10	8	21.1p		
21.1p			20.2p			21.0p		

Financial record
continued

Pharmaceutical turnover – total Group

	Q4 2005			Q3 2005			Q2 2005			Q1 2005		
	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
Respiratory	**1,407**	**16**	**21**	**1,235**	**13**	**16**	**1,214**	**13**	**12**	**1,198**	**12**	**11**
Seretide/Advair	851	23	29	737	20	22	725	22	21	690	22	20
Flixotide/Flovent	174	1	4	151	3	7	159	2	2	154	–	–
Serevent	87	–	2	79	(6)	(4)	85	(9)	(9)	79	(11)	(11)
Flixonase/Flonase	171	13	20	166	12	14	148	13	11	171	12	9
Central Nervous System	**886**	**1**	**6**	**806**	**(5)**	**(3)**	**769**	**(12)**	**(12)**	**758**	**(15)**	**(17)**
Seroxat/Paxil	158	(35)	(35)	142	(44)	(42)	152	(47)	(46)	163	(43)	(44)
Paxil IR	122	(15)	(15)	118	(20)	(18)	126	(33)	(33)	122	(36)	(36)
Paxil CR	36	(64)	(63)	24	(77)	(76)	26	(73)	(73)	41	(57)	(59)
Wellbutrin	217	25	32	192	9	11	167	(11)	(13)	163	(23)	(26)
Wellbutrin IR, SR	24	(26)	(20)	23	(52)	(49)	13	(81)	(83)	32	(75)	(76)
Wellbutrin XL	193	36	44	169	31	32	154	34	32	131	56	49
Imigran/Imitrex	188	1	6	180	2	3	162	3	3	167	–	(3)
Lamictal	228	19	26	210	20	22	216	28	26	195	30	27
Requip	50	57	56	42	41	45	34	21	17	30	15	15
Anti-virals	**697**	**11**	**15**	**664**	**9**	**11**	**634**	**7**	**7**	**603**	**9**	**7**
HIV	**406**	**5**	**9**	**399**	**5**	**7**	**386**	**6**	**5**	**363**	**6**	**4**
Combivir	148	(3)	1	147	–	2	148	6	5	140	2	1
Trizivir	77	–	3	77	(5)	(3)	75	(13)	(14)	74	(7)	(9)
Epivir	62	(18)	(15)	65	(13)	(11)	68	(11)	(12)	66	(6)	(7)
Ziagen	34	(16)	(11)	33	(20)	(21)	36	(6)	(3)	33	(12)	(13)
Retrovir	8	(35)	(27)	12	9	9	10	(4)	9	11	8	10
Agenerase, Lexiva	33	59	57	31	66	72	26	72	73	22	>100	>100
Epzicom/Kivexa	44	>100	>100	34	>100	–	23	>100	>100	17	–	–
Herpes	**224**	**17**	**22**	**210**	**16**	**17**	**195**	**8**	**7**	**197**	**16**	**13**
Valtrex	190	23	30	179	20	22	162	13	12	164	28	23
Zovirax	34	(8)	(8)	31	(4)	(3)	33	(11)	(11)	33	(20)	(20)
Zeffix	42	20	24	37	9	12	37	7	12	29	–	(3)
Anti-bacterials	**405**	**–**	**3**	**349**	**(2)**	**–**	**348**	**(10)**	**(9)**	**417**	**(1)**	**(1)**
Augmentin	170	(3)	–	149	(6)	(4)	155	(14)	(13)	192	(6)	(6)
Augmentin IR	142	2	4	127	(1)	2	129	(3)	(3)	154	10	11
Augmentin ES, XR	28	(20)	(18)	22	(29)	(29)	26	(44)	(59)	38	(40)	(41)
Zinnat/Ceftin	54	(6)	(4)	41	(4)	(2)	40	(19)	(17)	62	3	5
Metabolic	**387**	**12**	**19**	**396**	**21**	**24**	**393**	**17**	**16**	**319**	**22**	**19**
Avandia	289	26	35	299	29	33	323	27	25	243	27	23
Avandamet	46	(41)	(37)	56	(5)	(5)	29	(43)	(43)	44	11	7
Bonviva/Boniva	11	>100	>100	3	–	–	4	–	0	–	–	–
Vaccines	**420**	**17**	**20**	**399**	**20**	**22**	**322**	**15**	**16**	**248**	**3**	**4**
Hepatitis	113	(1)	4	121	18	20	116	10	10	94	4	4
Infanrix/Pediarix	121	17	22	125	31	32	102	18	19	83	9	9
Oncology and emesis	**271**	**12**	**18**	**262**	**5**	**7**	**248**	**6**	**5**	**235**	**9**	**6**
Zofran	229	14	21	215	6	7	204	7	6	189	8	5
Hycamtin	25	2	4	26	(2)	–	23	(8)	(8)	25	7	4
Cardiovascular and urogenital	**366**	**26**	**31**	**343**	**44**	**48**	**312**	**43**	**42**	**310**	**57**	**55**
Coreg	159	29	38	154	39	40	125	13	11	135	50	44
Levitra	10	(26)	(17)	9	(20)	(18)	11	35	22	10	(39)	(41)
Avodart	39	71	70	36	98	>100	28	>100	>100	26	>100	>100
Arixtra	8	>100	>100	7	>100	>100	5	–	–	4	–	–
Fraxiparine	55	24	28	49	>100	>100	55	–	–	52	–	–
Vesicare	5	–	–	4	–	–	1	–	–	3	–	–
Other	**269**	**(11)**	**(8)**	**255**	**8**	**11**	**265**	**7**	**7**	**251**	**(2)**	**(3)**
Zantac	64	(11)	(7)	61	(8)	(8)	60	(15)	(14)	59	(13)	(13)
Total	**5,108**	**10**	**14**	**4,709**	**10**	**12**	**4,505**	**6**	**6**	**4,339**	**6**	**4**

Pharmaceutical turnover includes co-promotion income.

Pharmaceutical turnover – USA

	Q4 2005			Q3 2005			Q2 2005			Q1 2005		
	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
Respiratory	**733**	**21**	**29**	**651**	**16**	**17**	**605**	**21**	**18**	**591**	**12**	**8**
Seretide/Advair	493	26	34	417	20	22	397	34	31	380	25	20
Flixotide/Flovent	72	4	13	65	8	10	64	1	(2)	61	1	(3)
Serevent	29	–	7	25	(17)	(17)	26	(27)	(28)	24	(30)	(33)
Flixonase/Flonase	134	20	28	139	16	17	113	15	13	120	–	(5)
Central Nervous System	**585**	**3**	**9**	**517**	**(6)**	**(5)**	**471**	**(17)**	**(19)**	**478**	**(18)**	**(22)**
Seroxat/Paxil	32	(73)	(70)	21	(83)	(82)	30	(80)	(79)	50	(64)	(66)
Paxil IR	–	(100)	(100)	1	(98)	(94)	6	(88)	(88)	11	(76)	(77)
Paxil CR	32	(67)	(66)	20	(80)	(80)	24	(75)	(74)	39	(59)	(61)
Wellbutrin	212	26	33	187	10	11	164	(12)	(14)	160	(23)	(26)
Wellbutrin IR, SR	20	(23)	(20)	19	(54)	(54)	11	(83)	(85)	30	(76)	(77)
Wellbutrin XL	192	35	43	168	30	32	153	33	32	130	56	48
Imigran/Imitrex	138	(1)	6	131	2	3	112	5	3	123	2	(2)
Lamictal	163	35	44	145	35	37	140	38	35	120	38	32
Requip	*29*	88	93	23	62	77	15	25	15	13	14	8
Anti-virals	**346**	**11**	**19**	**333**	**7**	**8**	**305**	**5**	**3**	**301**	**16**	**11**
HIV	**203**	**2**	**9**	**198**	**(1)**	**–**	**187**	**(1)**	**(2)**	**178**	**8**	**3**
Combivir	74	(2)	6	71	(3)	(3)	70	4	1	68	4	–
Trizivir	44	6	16	43	(8)	(9)	40	(18)	(18)	39	(4)	(9)
Epivir	22	(35)	(31)	22	(39)	(37)	24	(37)	(38)	25	(20)	(24)
Ziagen	14	(24)	(18)	13	(34)	(35)	15	(20)	(17)	13	(24)	(28)
Retrovir	1	(78)	(75)	5	7	–	4	(9)	–	4	6	–
Agenerase, Lexiva	20	28	33	20	43	54	16	37	33	14	>100	>100
Epzicom/Kivexa	28	–	–	24	–	–	18	–	–	15	–	–
Herpes	**132**	**29**	**39**	**123**	**23**	**24**	**107**	**15**	**10**	**114**	**33**	**28**
Valtrex	131	31	42	121	24	26	106	15	12	112	36	30
Zovirax	1	(20)	(67)	2	(47)	(33)	1	6	(50)	2	(51)	(33)
Zeffix	3	7	–	3	11	–	3	17	50	3	7	–
Anti-bacterials	**74**	**(18)**	**(13)**	**56**	**(24)**	**(21)**	**55**	**(37)**	**(38)**	**76**	**(29)**	**(32)**
Augmentin	35	(33)	(30)	29	(34)	(31)	29	(45)	(45)	46	(39)	(41)
Augmentin IR	12	(46)	(37)	9	(38)	(36)	7	(31)	(36)	12	(18)	(20)
Augmentin ES, XR	23	(25)	(26)	20	(32)	(29)	22	(44)	(52)	34	(43)	(46)
Zinnat/Ceftin	4	30	100	2	>100	100	1	(66)	(50)	3	(2)	(25)
Metabolic	**245**	**4**	**12**	**268**	**22**	**24**	**267**	**18**	**15**	**215**	**21**	**16**
Avandia	209	27	36	226	35	38	248	35	31	181	28	22
Avandamet	25	(64)	(61)	39	(24)	(25)	15	(65)	(65)	34	(6)	(11)
Bonviva/Boniva	10	–	–	3	–	–	4	–	–	–	–	–
Vaccines	**95**	**14**	**20**	**123**	**82**	**84**	**66**	**2**	**(1)**	**54**	**2**	**(2)**
Hepatitis	35	(6)	3	43	26	26	33	(3)	(6)	26	(13)	(16)
Infanrix, Pediarix	37	(10)	(8)	48	44	45	32	2	–	28	20	17
Oncology and emesis	**207**	**18**	**25**	**199**	**8**	**9**	**184**	**10**	**7**	**171**	**12**	**7**
Zofran	179	20	28	167	8	10	154	12	9	139	10	5
Hycamtin	17	8	13	18	2	6	14	(10)	(13)	17	10	6
Cardiovascular and urogenital	**217**	**35**	**44**	**205**	**43**	**44**	**168**	**21**	**19**	**176**	**43**	**36**
Coreg	158	30	39	153	40	42	124	13	11	133	52	46
Levitra	9	81	80	7	>100	>100	10	>100	>100	9	(12)	(18)
Avodart	21	81	91	20	>100	100	12	70	71	12	>100	100
Arixtra	6	>100	100	4	>100	>100	3	–	–	2	–	–
Fraxiparine	–	–	–	–	–	–	–	–	–	–	–	–
Vesicare	5	–	–	4	–	–	1	–	–	3	–	–
Other	**19**	**(16)**	**(10)**	**17**	**(21)**	**(19)**	**16**	**(32)**	**(33)**	**17**	**(19)**	**(23)**
Zantac	17	(4)	6	15	(16)	(12)	13	(35)	(35)	13	(19)	(24)
Total	**2,521**	**12**	**19**	**2,369**	**11**	**12**	**2,137**	**3**	**1**	**2,079**	**4**	**(1)**

Pharmaceutical turnover includes co-promotion income.

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Financial record
continued

Pharmaceutical turnover – Europe

	Q4 2005			Q3 2005			Q2 2005			Q1 2005		
	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
Respiratory	**436**	**11**	**10**	**388**	**8**	**10**	**420**	**5**	**6**	**416**	**10**	**12**
Seretide/Advair	277	21	19	246	17	18	259	9	10	251	19	21
Flixotide/Flovent	49	(3)	(2)	42	(6)	(2)	48	1	–	49	(4)	2
Serevent	39	(4)	(3)	38	(3)	(3)	43	1	5	40	(7)	(5)
Flixonase/Flonase	13	(2)	(7)	14	(4)	17	19	4	–	14	(2)	–
Central Nervous System	**168**	**(8)**	**(8)**	**171**	**(6)**	**(6)**	**181**	**(6)**	**(5)**	**184**	**(7)**	**(5)**
Seroxat/Paxil	40	(23)	(27)	49	(19)	(16)	46	(30)	(31)	52	(29)	(27)
Paxil IR	40	(23)	(27)	49	(19)	(16)	46	(30)	(30)	52	(29)	(27)
Paxil CR	–	–	–	–	–	–	–	–	–	–	–	–
Wellbutrin	1	31	–	–	–	–	1	35	–	–	–	–
Wellbutrin IR, SR	1	31	–	–	–	–	1	35	–	–	–	–
Wellbutrin XL	–	–	–	–	–	–	–	–	–	–	–	–
Imigran/Imitrex	38	9	9	36	1	–	37	(1)	3	33	(6)	(6)
Lamictal	51	(10)	(11)	50	(10)	(7)	62	11	11	63	20	24
Requip	19	27	27	17	22	21	17	17	21	15	16	15
Anti-virals	**194**	**3**	**3**	**194**	**13**	**14**	**199**	**9**	**9**	**186**	**–**	**2**
HIV	**152**	**5**	**5**	**154**	**15**	**17**	**157**	**11**	**11**	**144**	**1**	**3**
Combivir	53	(9)	(10)	58	5	7	60	6	7	56	(2)	–
Trizivir	30	(5)	(6)	30	–	–	32	(5)	(6)	31	(10)	(9)
Epivir	29	(8)	(3)	30	8	11	33	14	14	30	2	3
Ziagen	11	(22)	(31)	13	(7)	(7)	16	1	7	14	(4)	(7)
Retrovir	4	(17)	–	4	5	–	4	(6)	–	4	(7)	–
Agenerase, Lexiva	11	>100	>100	10	>100	>100	8	>100	>100	7	>100	>100
Epzicom/Kivexa	14	>100	>100	9	>100	>100	4	–	–	2	–	–
Herpes	**34**	**1**	**(3)**	**35**	**8**	**13**	**34**	**(3)**	**(3)**	**36**	**(4)**	**(3)**
Valtrex	24	8	4	25	10	14	24	5	4	25	13	14
Zovirax	10	(13)	(17)	10	2	11	10	(17)	(17)	11	(29)	(27)
Zeffix	6	(21)	–	4	(11)	(33)	7	6	(40)	4	(4)	(20)
Anti-bacterials	**184**	**2**	**1**	**157**	**3**	**4**	**155**	**(7)**	**(6)**	**222**	**13**	**17**
Augmentin	80	3	3	68	7	8	70	(7)	(7)	98	16	20
Augmentin IR	77	2	1	66	6	6	67	(9)	(8)	95	13	17
Augmentin ES, XR	3	43	50	2	79	100	3	55	>100	3	>100	>100
Zinnat/Ceftin	29	(14)	(15)	19	(14)	(14)	22	(22)	(19)	42	10	14
Metabolic	**56**	**50**	**51**	**49**	**28**	**36**	**45**	**45**	**50**	**40**	**31**	**33**
Avandia	30	19	20	27	9	13	29	23	22	26	24	29
Avandamet	16	>100	>100	13	>100	>100	10	>100	>100	6	>100	>100
Bonviva/Boniva	1	>100	>100	–	–	–	–	–	–	–	–	–
Vaccines	**169**	**9**	**9**	**162**	**7**	**8**	**147**	**26**	**27**	**114**	**10**	**14**
Hepatitis	54	(3)	(4)	60	16	18	62	18	22	48	13	14
Infanrix/Pediarix	54	16	15	57	35	39	51	34	34	40	12	14
Oncology and emesis	**39**	**(5)**	**(7)**	**40**	**(5)**	**(5)**	**42**	**(6)**	**(5)**	**43**	**–**	**2**
Zofran	30	(4)	(6)	29	(7)	(9)	32	(8)	(6)	33	(1)	3
Hycamtin	6	(14)	(25)	7	(3)	–	7	(5)	–	7	–	–
Cardiovascular and urogenital	**105**	**12**	**9**	**103**	**55**	**63**	**104**	**98**	**96**	**103**	**>100**	**>100**
Coreg	–	–	–	–	–	–	–	–	–	–	–	–
Levitra	1	(82)	(83)	1	(76)	(80)	1	(77)	(80)	1	(79)	(80)
Avodart	15	52	50	14	75	100	14	>100	>100	12	>100	>100
Arixtra	2	77	100	2	>100	100	2	–	–	2	–	–
Fraxiparine	46	19	21	43	>100	>100	45	–	–	45	–	–
Vesicare	–	–	–	–	–	–	–	–	–	–	–	–
Other	**85**	**(22)**	**(21)**	**76**	**15**	**15**	**80**	**8**	**10**	**80**	**2**	**4**
Zantac	17	(9)	–	16	(7)	(6)	15	(23)	(17)	16	(18)	(20)
Total	**1,436**	**4**	**4**	**1,340**	**9**	**11**	**1,373**	**9**	**10**	**1,388**	**10**	**12**

Pharmaceutical turnover includes co-promotion income.

Pharmaceutical turnover – International

	Q42005			Q3 2005			Q2 2005			Q1 2005		
	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
Respiratory	**238**	**12**	**18**	**196**	**18**	**26**	**189**	**6**	**10**	**191**	**18**	**16**
Seretide/Advair	81	17	29	74	26	37	69	12	17	59	11	11
Flixotide/Flovent	53	–	–	44	7	13	47	3	9	44	4	2
Serevent	19	8	6	16	13	23	16	2	–	15	30	36
Flixonase/Flonase	24	(8)	–	13	(5)	(7)	16	13	14	37	>100	>100
Central Nervous System	**133**	**10**	**13**	**118**	**2**	**7**	**117**	**8**	**9**	**96**	**(11)**	**(12)**
Seroxat/Paxil	86	9	9	72	–	1	76	5	7	61	(13)	(15)
Paxil IR	82	7	8	68	(1)	(1)	74	5	6	59	(15)	(17)
Paxil CR	4	47	33	4	35	45	2	12	100	2	74	100
Wellbutrin	4	(26)	–	5	(25)	–	2	>100	>100	3	(28)	(25)
Wellbutrin IR, SR	3	(51)	(25)	4	(42)	(21)	1	>100	>100	2	(41)	(50)
Wellbutrin XL	1	>100	>100	1	–	–	1	>100	>100	1	88	–
Imigran/Imitrex	12	(4)	–	13	–	8	13	(1)	–	11	(1)	–
Lamictal	14	12	27	15	20	25	14	18	27	12	9	9
Requip	2	34	–	2	24	–	2	16	–	2	13	100
Anti-virals	**157**	**20**	**25**	**137**	**10**	**14**	**130**	**10**	**12**	**116**	**8**	**7**
HIV	**51**	**12**	**19**	**47**	**7**	**12**	**42**	**16**	**17**	**41**	**13**	**14**
Combivir	21	16	24	18	(1)	6	18	15	13	16	4	7
Trizivir	3	(21)	(40)	4	4	11	3	(6)	(25)	4	(6)	–
Epivir	11	(2)	–	13	19	18	11	17	22	11	18	22
Ziagen	9	19	80	7	(4)	(13)	5	23	25	6	14	20
Retrovir	3	(10)	–	3	20	50	2	8	(33)	3	40	50
Agenerase, Lexiva	2	66	–	1	1	8	2	46	–	1	>100	>100
Epzicom/Kivexa	2	>100	>100	1	–	–	1	–	–	–	–	–
Herpes	**58**	**6**	**9**	**52**	**6**	**6**	**54**	**3**	**8**	**47**	**1**	**(2)**
Valtrex	35	13	13	33	10	14	32	14	19	27	11	8
Zovirax	23	(3)	5	19	(1)	(5)	22	(10)	(4)	20	(9)	(13)
Zeffix	33	32	32	30	14	25	27	6	4	22	(1)	–
Anti-bacterials	**147**	**11**	**17**	**136**	**3**	**6**	**138**	**5**	**8**	**119**	**1**	**(2)**
Augmentin	55	22	31	52	–	2	56	10	12	48	13	9
Augmentin IR	53	22	29	52	1	6	55	11	12	47	13	9
Augmentin ES, XR	2	20	100	–	–	–	1	(22)	–	1	(6)	–
Zinnat/Ceftin	21	1	5	20	2	5	17	(9)	(11)	17	(10)	(6)
Metabolic	**86**	**17**	**25**	**79**	**11**	**16**	**81**	**3**	**8**	**64**	**20**	**19**
Avandia	50	29	43	46	15	24	46	16	24	36	26	29
Avandamet	5	(14)	–	4	(8)	–	4	(8)	–	4	83	100
Bonviva/Boniva	–	–	–	–	–	–	–	–	–	–	–	–
Vaccines	**156**	**30**	**36**	**114**	**–**	**3**	**109**	**11**	**15**	**80**	**(4)**	**(5)**
Hepatitis	24	18	26	18	9	13	21	11	11	20	13	18
Infanrix/Pediarix	30	98	>100	20	(1)	(5)	19	11	19	15	(13)	(12)
Oncology and emesis	**25**	**(1)**	**14**	**23**	**1**	**5**	**22**	**(1)**	**5**	**21**	**6**	**5**
Zofran	20	–	11	19	5	12	18	2	6	17	6	6
Hycamtin	2	20	100	1	(29)	(50)	2	(4)	–	1	4	–
Cardiovascular and urogenital	**44**	**22**	**33**	**35**	**22**	**30**	**40**	**48**	**54**	**31**	**39**	**41**
Coreg	1	(35)	–	1	(29)	(50)	1	(29)	–	2	(29)	(33)
Levitra	–	(99)	(100)	1	(90)	(67)	–	–	–	–	–	–
Avodart	3	>100	50	2	>100	>100	2	>100	100	2	–	–
Arixtra	–	–	–	1	>100	>100	–	–	–	–	–	–
Fraxiparine	9	55	80	6	>100	>100	10	–	–	7	–	–
Vesicare	–	–	–	–	–	–	–	–	–	–	–	–
Other	**165**	**(4)**	**1**	**162**	**9**	**14**	**169**	**12**	**12**	**154**	**(2)**	**(3)**
Zantac	30	(15)	(17)	30	(5)	(6)	32	3	–	30	(6)	(3)
Total	**1,151**	**13**	**18**	**1,000**	**8**	**13**	**995**	**9**	**12**	**872**	**5**	**4**

Pharmaceutical turnover includes co-promotion income.

Financial record
continued

Five year record

A record of financial performance is provided analysed in accordance with current reporting practice. The transition date to IFRS for GlaxoSmithKline is 1st January 2003. Therefore, the 2005, 2004 and 2003 information included in the Five year record is in accordance with IFRS as adopted for use in the European Union. For GSK there are no differences between IFRS as adopted for use in the European Union and full IFRS as published by the International Accounting Standards Board. The 2002 and 2001 information is in accordance with UK GAAP.

To provide a link between IFRS and UK GAAP, 2003 information is also presented under UK GAAP. The accounting policies used in the preparation of the UK GAAP information are disclosed in the 2004 Annual Report. Information prepared under IFRS is not directly comparable with information prepared under UK GAAP.

The Five year record also presents information in accordance with US GAAP.

Turnover by business segment – IFRS	**2005 £m**	2004 £m	2003 £m
Pharmaceuticals	**18,661**	17,100	18,114
Consumer Healthcare	**2,999**	2,886	2,956
	21,660	19,986	21,070

Turnover by business segment – UK GAAP	2003 £m	2002 £m	2001 £m
Pharmaceuticals	18,181	17,995	17,205
Consumer Healthcare	3,260	3,217	3,284
	21,441	21,212	20,489

Pharmaceutical turnover by therapeutic area – IFRS	**2005 £m**	2004 £m	2003 £m
Respiratory	**5,054**	4,394	4,390
Central nervous system	**3,219**	3,462	4,446
Anti-bacterials	**1,519**	1,547	1,800
Anti-virals	**2,598**	2,359	2,345
Metabolic	**1,495**	1,251	1,077
Vaccines	**1,389**	1,194	1,121
Oncology and emesis	**1,016**	934	1,000
Cardiovascular and urogenital	**1,331**	932	770
Others	**1,040**	1,027	1,165
	18,661	17,100	18,114

Pharmaceutical turnover by therapeutic area – UK GAAP	2003 £m	2002 £m	2001 £m
Respiratory	4,417	3,987	3,537
Central nervous system	4,455	4,511	4,007
Anti-bacterials	1,815	2,210	2,604
Anti-virals	2,349	2,299	2,128
Metabolic	1,079	960	875
Vaccines	1,123	1,080	948
Oncology and emesis	1,001	977	838
Cardiovascular and urogenital	771	661	591
Others	1,171	1,310	1,677
	18,181	17,995	17,205

Pharmaceutical turnover by geographic area – IFRS	**2005 £m**	2004 £m	2003 £m
USA	**9,106**	8,425	9,410
Europe	**5,537**	5,084	5,050
International:			
Asia Pacific	**1,324**	1,161	1,138
Japan	**854**	769	751
Middle East, Africa	**746**	669	693
Latin America	**651**	581	598
Canada	**443**	411	474
International	**4,018**	3,591	3,654
	18,661	17,100	18,114

Financial record
continued

Pharmaceutical turnover by geographic area – UK GAAP	2003 £m	2002 £m	2001 £m
USA	9,410	9,797	9,037
Europe	5,114	4,701	4,561
International:			
Asia Pacific	1,140	1,100	1,047
Japan	753	712	741
Middle East, Africa	693	652	611
Latin America	597	606	790
Canada	474	427	418
International	3,657	3,497	3,607
	18,181	17,995	17,205

Pharmaceutical turnover in 2005, 2004 and 2003 includes co-promotion income.

Consumer healthcare turnover – IFRS	**2005 £m**	2004 £m	2003 £m
OTC medicines	**1,437**	1,400	1,472
Oral care	**943**	913	915
Nutritional healthcare	**619**	573	569
	2,999	2,886	2,956

Consumer healthcare turnover – UK GAAP	2003 £m	2002 £m	2001 £m
OTC medicines	1,556	1,586	1,603
Oral care	1,082	1,052	1,106
Nutritional healthcare	622	579	575
	3,260	3,217	3,284

Financial results – IFRS	**2005 £m**	2004 £m	2003 £m
Turnover	**21,660**	19,986	21,070
Operating profit	**6,874**	5,756	6,050
Profit before taxation	**6,732**	5,779	5,954
Profit after taxation	**4,816**	4,022	4,308
Basic earnings per share (pence)	**82.6**	68.1p	72.3p
Diluted earnings per share (pence)	**82.0**	68.0p	72.1p
Weighted average number of shares in issue:			
Basic	**5,674**	5,736	5,806
Diluted	**5,720**	5,748	5,824
Return on capital employed (%)	**99.7**	100.2	116.6

Financial results – UK GAAP	2003 £m	2002 £m	2001 £m
Turnover	21,441	21,212	20,489
Operating profit	6,376	5,569	4,701
Profit before taxation	6,313	5,524	4,484
Profit after taxation	4,584	4,060	3,158
Basic earnings per share (pence)	77.1p	66.5p	49.9p
Diluted earnings per share (pence)	76.9p	66.3p	49.5p
Weighted average number of shares in issue:			
Basic	5,806	5,912	6,064
Diluted	5,824	5,934	6,116
Return on capital employed (%)	120.8	110.6	75.6

Return on capital employed is calculated as statutory profit before taxation as a percentage of average capital employed over the year.

Financial record
continued

Amounts in accordance with US GAAP	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Turnover	**21,660**	19,986	21,117	21,212	20,489
Net income/(loss)	**3,336**	2,732	2,420	413	(143)
Basic net income/(loss) per share (pence)	**58.8p**	47.6p	41.7p	7.0p	(2.4)p
Diluted net income/(loss) per share (pence)	**58.3p**	47.5p	41.6p	7.0p	(2.4)p

The information presented in accordance with US GAAP is derived from financial information prepared under IFRS, as adopted for use in the European Union, for 2003-2005 and from UK GAAP for 2001-2002.

The information below presents US GAAP net income/(loss) and net income/(loss) per share as if the results for the year ended 31st December 2001 were adjusted to reverse the amortisation expense for goodwill and indefinite-lived intangible assets, that is, as if SFAS 142 had also applied in those years.

	2001 £m
Adjusted net income/(loss)	1,456
Adjusted basic net income/(loss) per share (pence)	24.0p
Adjusted diluted net income/(loss) per share (pence)	23.8p

Exchange rates

As a guide to holders of ADRs, the following tables set out, for the periods indicated, information on the exchange rate of US dollars for sterling as reported by the Federal Reserve Bank of New York ('noon buying rate').

	2005	2004	2003	2002	2001
Average	**1.81**	1.84	1.63	1.51	1.44

The average rate for the year is calculated as the average of the noon buying rates on the last day of each month during the year.

	Feb 2006	Jan 2006	Dec 2005	Nov 2005	Oct 2005	Sept 2005
High	1.78	1.79	1.77	1.78	1.79	1.84
Low	1.73	1.74	1.72	1.71	1.75	1.76

The noon buying rate on 24th February 2006 was £1= US$1.74.

Number of employees

	2005	2004	2003	2002	2001
USA	**23,822**	23,782	24,036	23,527	23,613
Europe	**43,999**	44,679	44,559	46,028	46,508
International:					
Asia Pacific	**15,991**	16,109	18,373	17,289	18,364
Japan	**3,098**	2,965	2,842	2,952	2,985
Middle East, Africa	**5,682**	5,134	3,400	5,973	6,344
Latin America	**5,664**	5,603	5,916	6,876	7,800
Canada	**2,472**	1,747	1,793	1,854	1,856
International	**32,907**	31,558	32,324	34,944	37,349
	100,728	100,019	100,919	104,499	107,470
Manufacturing	**31,615**	31,143	32,459	35,503	36,849
Selling	**44,393**	44,646	43,978	43,994	44,499
Administration	**9,225**	9,193	9,550	10,378	11,081
Research and development	**15,495**	15,037	14,932	14,624	15,041
	100,728	100,019	100,919	104,499	107,470

The number of employees is the number of permanent employed staff at the end of the financial period. It excludes those employees who are employed and managed by GlaxoSmithKline on a contract basis.

Financial record
continued

Balance sheet – IFRS

	2005 £m	2004 £m	2003 £m
Non-current assets	**14,021**	12,164	11,622
Current assets	**13,177**	10,780	10,298
Total assets	**27,198**	22,944	21,920
Current liabilities	**(9,511)**	(8,564)	(8,314)
Non-current liabilities	**(10,117)**	(8,443)	(8,008)
Total liabilities	**(19,628)**	(17,007)	(16,322)
Net assets	**7,570**	5,937	5,598
Equity			
Shareholders' equity	**7,311**	5,724	4,917
Minority interests	**259**	213	681
	7,570	5,937	5,598

Balance sheet – UK GAAP

	2003 £m	2002 £m	2001 £m
Fixed assets	8,575	8,752	8,984
Current assets	12,625	10,749	10,423
Total assets	21,200	19,501	19,407
Current liabilities	(8,471)	(8,724)	(9,398)
Non-current liabilities	(6,925)	(6,130)	(4,664)
Total liabilities	(15,396)	(14,854)	(14,062)
Net assets	5,804	4,647	5,345
Equity			
Shareholders' equity	5,059	3,840	4,483
Minority interests	745	807	862
	5,804	4,647	5,345

Amounts in accordance with US GAAP

	£m 2005	£m 2004	£m 2003	£m 2002	£m 2001
Total assets	**57,218**	55,841	56,400	57,671	61,341
Net assets	**34,599**	34,429	34,861	35,729	40,969
Long-term borrowings	**(5,293)**	(4,374)	(3,640)	(3,085)	(2,116)
Shareholders' equity	**34,282**	34,042	34,116	34,922	40,107

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INVESTOR INFORMATION

Shareholder information

Share price

	2005 £	2004 £	2003 £
At 1st January	**12.22**	12.80	11.92
High during the year	**15.44**	12.99	13.90
Low during the year	**11.75**	10.42	10.00
At 31st December	**14.69**	12.22	12.80
Increase/(Decrease)	**20%**	(5)%	7%

The table above sets out the middle market closing prices derived from the London Stock Exchange Daily Official List. The company's share price increased by 20% in 2005 from a price of £12.22 at 1st January 2005 to £14.69 at 31st December 2005. This compares with an increase in the FTSE 100 index of 17% during the year.

Market capitalisation

The market capitalisation, based on shares in public issue, of GlaxoSmithKline at 31st December 2005 was £85 billion. At that date GSK was the fourth largest company by market capitalisation on the FTSE index.

SmithKline Beecham plc Floating Rate Unsecured Loan Stock 1990/2010

The loan stock is not listed on any exchange but holders may require SmithKline Beecham plc to redeem their loan stock at par, i.e. £1 for every £1 of loan stock held, on the first business day of March, June, September and December. Holders wishing to redeem all or part of their loan stock should complete the notice on the back of their loan stock certificate and return it to the registrar, to arrive at least 30 days before the relevant redemption date.

Taxation

General information concerning the UK and US tax effects of share ownership is set out in 'Taxation information for shareholders' on page 180.

Dividends

GlaxoSmithKline pays dividends quarterly. Details of the dividends declared, the amount and the payment dates are given in Note 14.

Dividends per share

The table below sets out the dividends per share paid in the last five years.

Year	pence
2005	44.0
2004	42.0
2003	41.0
2002	40.0
2001	39.0

Dividends per ADS

The table below sets out the dividends per ADS paid in US dollars in the last five years, translated into US dollars at applicable exchange rates.

Year	US$
2005	1.57
2004	1.53
2003	1.39
2002	1.24
2001	1.11

Dividend calendar

Fourth quarter 2005

Ex-dividend date	15th February 2006
Record date	17th February 2006
Payable	6th April 2006

First quarter 2006

Ex-dividend date	10th May 2006
Record date	12th May 2006
Payable	6th July 2006

Second quarter 2006

Ex-dividend date	2nd August 2006
Record date	4th August 2006
Payable	5th October 2006

Third quarter 2006

Ex-dividend date	1st November 2006
Record date	3rd November 2006
Payable	4th January 2007

INTERNET

Information about the company including details of the share price is available on GSK's website at www.gsk.com.

Information made available on the website does not constitute part of this Annual Report.

ORDINARY SHARES

The company's shares are listed on the London Stock Exchange.

Registrar

The company's registrars are:

Lloyds TSB Registrars
The Causeway, Worthing, West Sussex BN99 6DA
www.shareview.co.uk
Tel: 0870 600 3991 inside the UK
Tel: +44 (0)121 415 7067 outside the UK

The registrars also provide the following services:

- GlaxoSmithKline Investment Plan
- GlaxoSmithKline Individual Savings Account
- GlaxoSmithKline Corporate Sponsored Nominee
- Shareview service
- Shareview dealing service

Shareholder information
continued

Analysis of shareholdings

Analysis of shareholdings at 31st December 2005:	Number of accounts	% of total accounts	% of total shares	Number of shares
Holding of shares				
Up to 1,000	139,372	70	1	50,069,101
1,001 to 5,000	45,478	23	2	97,708,958
5,001 to 100,000	12,085	6	3	183,117,826
100,001 to 1,000,000	1,082	1	6	372,632,157
Over 1,000,000	491	–	88	5,259,323,214
Totals	198,508	100	100	5,962,851,256
Held by				
Nominee companies	30,696	15	77	4,583,100,614
Investment and trust companies	64	–	1	46,855,187
Insurance companies	16	–	–	107,531
Individuals and other corporate bodies	167,730	85	6	363,755,128
BNY (Nominees) Limited	1	–	14	826,253,118
Held as Treasury shares by GlaxoSmithKline	1	–	2	142,779,678
Totals	198,508	100	100	5,962,851,256

The Bank of New York's holding held through BNY (Nominees) Limited represents the company's ADR programme, whereby each ADS represents two Ordinary Shares of 25p nominal value.

At 24th February 2006, the number of holders of record of shares in the USA was 1,190 with holdings of 1,543,844 shares, and the number of registered holders of the ADRs was 41,589 with holdings of 415,217,646 ADRs. Certain of these shares and ADRs were held by brokers or other nominees. As a result the number of holders of record or registered holders in the USA is not representative of the number of beneficial holders or of the residence of beneficial holders.

Control of company
As far as is known to the company, it is not directly or indirectly owned or controlled by one or more corporations or by any government. The company does not know of any arrangements, the operation of which might result in a change in control of the company.

Major shareholders have the same voting rights per share as all other shareholders.

Substantial shareholdings
At 24th February 2006, the company had received notification of the following interests of 3% or more in the shares in issue, excluding Treasury shares:

- BNY (Nominees) Limited holds 830,443,108 shares representing 14.26%. These shares are held on behalf of holders of ADRs, which evidence ADSs.
- Legal & General Investment Management Limited holds 212,219,375 shares representing 3.64%.
- Barclays PLC holds 221,114,143 shares representing 3.80%.

As far as is known to the company, no other person was the owner of 3% or more of the shares in issue, excluding Treasury Shares of the company.

Directors and Officers
The interests of the Directors and Officers of the company, as defined in the Companies Act 1985, in share options of the company are given in the Remuneration Report (pages 37 to 54).

Exchange controls and other limitations affecting security holders
There are currently no UK laws, decrees or regulations restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of the company's shares who are non-residents of the UK. There are no limitations relating only to non-residents of the UK under English law or the company's Memorandum and Articles of Association on the right to be a holder of, and to vote in respect of, the company's shares.

Documents on display
The Memorandum and Articles of Association of the company and other documents referred to in this Annual Report are available for inspection at the Registered Office of the company.

Publications
In late March 2006 GSK will publish on the website its Corporate Responsibility Report covering performance in areas including community investment, ethics and integrity, access to medicines, R&D and environment health and safety.

Shareholder information
continued

Nature of trading market

The Ordinary Shares of the company were listed on the London Stock Exchange on 27th December 2000. The shares were also listed on the New York Stock Exchange (NYSE) (in the form of American Depositary Shares 'ADSs') from the same date.

The following tables set out, for the periods indicated, the high and low middle market closing quotations in pence for the shares on the London Stock Exchange, and the high and low last reported sales prices in US dollars for the ADSs on the NYSE.

GlaxoSmithKline

	Pence per share	
	High	Low
Quarter ended 31st March 2006*	1500	1424
February 2006*	1500	1434
January 2006	1496	1424
December 2005	1483	1434
November 2005	1544	1429
October 2005	1473	1395
September 2005	1442	1343
Quarter ended 31st December 2005	1544	1395
Quarter ended 30th September 2005	1442	1308
Quarter ended 30th June 2005	1377	1201
Quarter ended 31st March 2005	1318	1175
Quarter ended 31st December 2004	1222	1101
Quarter ended 30th September 2004	1209	1042
Quarter ended 30th June 2004	1201	1067
Quarter ended 31st March 2004	1299	1060
Year ended 31st December 2003	1390	1000
Year ended 31st December 2002	1780	1057
Year ended 31st December 2001	2032	1626

	US dollars per ADS	
	High	Low
Quarter ended 31st March 2006*	52.77	50.15
February 2006*	52.15	50.31
January 2006	52.77	50.15
December 2005	51.97	50.17
November 2005	53.53	49.16
October 2005	52.39	49.36
September 2005	51.28	49.45
Quarter ended 31st December 2005	53.53	49.16
Quarter ended 30th September 2005	51.28	46.47
Quarter ended 30th June 2005	51.40	45.19
Quarter ended 31st March 2005	50.50	44.48
Quarter ended 31st December 2004	47.50	41.15
Quarter ended 30th September 2004	43.84	39.04
Quarter ended 30th June 2004	43.50	39.44
Quarter ended 31st March 2004	46.93	39.38
Year ended 31st December 2003	47.40	32.75
Year ended 31st December 2002	50.87	32.86
Year ended 31st December 2001	57.76	48.80

* to 24th February 2006

Shareholder information
continued

Share dealing service
Hoare Govett operate a postal dealing service in the company's ordinary shares. It enables investors to buy or sell shares at competitive commission charges. Further details may be obtained by telephoning +44 (0) 207 661 6555.

Glaxo Wellcome and SmithKline Beecham corporate PEPs
The Share Centre Limited
Oxford House, Oxford Road, Aylesbury, Bucks HP21 8SZ
Tel: +44 (0)1296 414141

The provision of the details above is not intended to be an invitation or inducement to engage in an investment activity. Advice on share dealing should be obtained from a stockbroker or independent financial adviser.

AMERICAN DEPOSITARY SHARES
The company's shares are listed on the NYSE in the form of American Depositary Shares and these are evidenced by American Depositary Receipts (ADRs), each one of which represents two ordinary shares.

In general, the NYSE's rules permit the company to follow UK corporate governance practices instead of those that apply in the USA, provided that the company explains any significant variations. This explanation is provided on the company's website.

ADR programme administrator
The ADR programme is administered by:

The Bank of New York
Shareholder Relations
PO Box 11258, Church Street Station
New York
NY 10286-1258
www.adrbny.com
Tel: 1 877 353 1154 toll free
Tel: +1 212 815 3700 outside the USA

Customer Response Center
Tel: 1 888 825 5249 toll free

The administrators also provide Global BuyDIRECT, a direct ADS purchase/sale and dividend reinvestment plan for ADR holders.

INVESTOR RELATIONS
Investor Relations may be contacted as follows:

UK
980 Great West Road, Brentford, Middlesex TW8 9GS
Tel: +44 (0)20 8047 5557 / 5558
Fax: +44 (0)20 8047 7807

USA
One Franklin Plaza, PO Box 7929, Philadelphia PA 19101
Tel: 1 888 825 5249 toll free
Tel: +1 215 751 4638 outside the USA
Fax: +1 919 315 3344

Annual General Meeting 2006

The Queen Elizabeth II Conference Centre, 17th May 2006
Broad Sanctuary, Westminster,
London SW1P 3EE

The Annual General Meeting is the company's principal forum for communication with private shareholders. In addition to the formal business there will be a presentation by the Chief Executive Officer on the performance of the Group and its future development. There will be opportunity for questions to the Board, and the Chairmen of the Board's committees will take questions on matters relating to those committees.

Investors holding shares in the company through a nominee service should arrange with that nominee service to be appointed as a corporate representative or proxy in respect of their shareholding in order to attend and vote at the meeting.

ADR holders wishing to attend the meeting must obtain a proxy from The Bank of New York which will enable them to attend the meeting and vote on the business to be transacted. ADR holders may instruct The Bank of New York as to the way in which the shares represented by their ADRs should be voted by completing and returning the voting card provided by the bank in accordance with the instructions given.

Financial reporting

Financial reporting calendar 2006

Announcement of 1st Quarter Results	April 2006
Announcement of 2nd Quarter Results	July 2006
Announcement of 3rd Quarter Results	October 2006
Preliminary Announcement of Annual Results	February 2007
Publication of Annual Report/Review	March 2007

Results Announcements
Results Announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are issued to the media, are made available on the website and sent to the US Securities and Exchange Commission and the NYSE.

Financial reports
The company publishes an Annual Report and, for the investor not needing the full detail of the Report, an Annual Review. These are available from the date of publication on the website.

The Annual Review is sent to all shareholders on the date of publication. Shareholders may also elect to receive the Annual Report by writing to the company's registrars. Alternatively shareholders may elect to receive notification by email of the publication of financial reports by registering on www.shareview.co.uk.

Copies of previous financial reports are available on the website. Printed copies can be obtained from the registrar in the UK and from the Customer Response Center in the USA.

Taxation information for shareholders

Information for shareholders

A summary of the main tax consequences for holders of shares and ADRs who are citizens or residents of the UK or the USA is set out below. It is not a complete analysis of all the possible tax consequences of purchase or ownership of these securities. It is intended only as a general guide. Holders are advised to consult their advisers with respect to the tax consequences of the purchase and ownership of their shares or ADRs, and the consequences under state and local tax laws in the USA and the implications of the new UK/US Income Tax convention.

This statement is based upon UK and US tax laws and practices at the date of this report.

The new UK/US Income Tax Convention came into force on 31st March 2003. The provisions of the new treaty apply for UK tax purposes from 1st April 2003 (UK Corporation Tax), 6th April 2003 (UK Income Tax and Capital Gains Tax) and 1st May 2003 (Withholding Taxes). For US tax purposes, the provisions of the new treaty apply from 1st May 2003 (Withholding Taxes) and 1st January 2004 (all other US taxes). However, holders of shares or ADRs have the ability to elect to continue to use the provisions of the previous treaty for 12 months following the new treaty's entry into force. An election must be made in advance of the first event to which the new treaty would apply.

US holders of ADRs generally will be treated as the owners of the underlying shares for the purposes of the current USA/UK double taxation conventions relating to income and gains (Income Tax Convention), estate and gift taxes (Estate and Gift Tax Convention) and for the purposes of the US Internal Revenue Code of 1986, as amended (the Code).

The following analysis deals with dividends paid after 6th April 1999 when Advance Corporation Tax (ACT) was abolished.

UK shareholders

Taxation of dividends

From 6th April 1999, the rate of tax credits was reduced to one ninth. As a result of compensating reductions in the rate of tax on dividend income, there is no increase in the tax borne by UK resident individual shareholders. Tax credits are, however, no longer repayable to shareholders with a tax liability of less than the associated tax credit.

Taxation of capital gains

UK shareholders may be liable for UK tax on gains on the disposal of shares or ADRs. They may also be entitled to indexation relief and taper relief on such sales. Indexation relief is calculated on the market value of shares at 31st March 1982 and on the cost of any subsequent purchases from the date of such purchase. Indexation relief for individual shareholders ceased on 5th April 1998. Taper relief is available to individual shareholders who hold or are deemed to hold shares for at least three years before they are sold.

Inheritance tax

Individual shareholders may be liable to inheritance tax on the transfer of shares or ADRs. Tax may be charged on the amount by which the value of the shareholder's estate is reduced as a result of any transfer by way of gift or other disposal at less than full market value.

Such a gift or other disposal is subject to both UK inheritance tax and US estate or gift tax. The Estate and Gift Tax Convention would generally provide for tax paid in the USA to be credited against tax payable in the UK.

Stamp duty

UK stamp duty or stamp duty reserve tax (SDRT) will, subject to certain exemptions, be payable on the purchase of shares at a rate of 0.5% of the purchase price. There is a minimum charge of £5 where a stamp duty liability arises.

US shareholders

The following is a summary of certain UK taxation and USA federal income tax considerations that may be relevant to a US holder of shares or ADRs. This summary only applies to a shareholder that holds shares or ADRs as capital assets, is a citizen or resident of the USA or a domestic corporation or that is otherwise subject to United States federal income taxation on a net income basis in respect of the shares or ADRs, and is not resident in the UK for UK tax purposes and does not hold shares for the purposes of a trade, profession or vocation that is carried on in the UK through a branch or agency.

Taxation of dividends

The gross amount of dividends received (without reduction for any UK withholding tax) is treated as foreign source dividend income for US tax purposes. It is not eligible for the dividend received deduction allowed to US corporations. Dividends on ADRs are payable in US dollars; dividends on shares are payable in Sterling. Dividends paid in pounds Sterling will be included in income in the US dollar amount calculated by reference to the exchange rate on the day the dividends are received by the holder. Subject to certain exceptions for short-term or hedged positions, an individual eligible US holder will be subject to US taxation at a maximum rate of 15% in respect of qualified dividends received before 2009. Shareholders are advised to consult their own Tax Advisers to confirm their eligibility.

Taxation of capital gains

Generally, US holders will not be subject to UK capital gains tax, but will be subject to US tax on capital gains realised on the sale or other disposal of shares or ADRs.

Estate and gift taxes

Under the Estate and Gift Tax Convention, a US shareholder is not generally subject to UK inheritance tax.

Stamp duty

UK stamp duty or SDRT will, subject to certain exemptions, be payable on any issue or transfer of shares to the ADR custodian or depository at a rate of 1.5% of their price (if issued), the amount of any consideration provided (if transferred on sale), or their value (if transferred for no consideration).

No SDRT would be payable on the transfer of an ADR. No UK stamp duty should be payable on the transfer of an ADR provided that the instrument of transfer is executed and remains at all times outside the UK. Any stamp duty on the transfer of an ADR would be payable at a rate of 0.5% of the consideration for the transfer. Any sale of the underlying shares would result in liability to UK stamp duty or, as the case may be, SDRT at a rate of 0.5%. There is a minimum charge of £5 where a stamp duty liability arises.

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Glossary of terms

Terms used in the Annual Report	US equivalent or brief description
Accelerated capital allowances	Tax allowance in excess of depreciation arising from the purchase of fixed assets that delay the charging and payment of tax. The US equivalent of tax depreciation.
Advance Corporation Tax (ACT)	An advance payment of UK tax that was made when dividends are paid. No direct US equivalent.
American Depositary Receipt (ADR)	Receipt evidencing title to an ADS. Each GlaxoSmithKline ADR represents two ordinary shares.
American Depositary Shares (ADSs)	Ordinary Shares registered on the New York Stock Exchange.
Basic earnings per share	Basic income per share.
Called-up share capital	Ordinary Shares, issued and fully paid.
CER growth	Growth at constant exchange rates.
Combined Code	Guidelines required by the Listing Rules of the Financial Services Authority to address the principal aspects of Corporate Governance.
The company	GlaxoSmithKline plc.
Creditors	Accounts payable.
Currency swap	An exchange of two currencies, coupled with a subsequent re-exchange of those currencies, at agreed exchange rates and dates.
Debtors	Accounts receivable.
Defined benefit plan	Pension plan with specific employee benefits, often called ‘final salary scheme’.
Defined contribution plan	Pension plan with specific contributions and a level of pension dependent upon the growth of the pension fund.
Derivative financial instrument	A financial instrument that derives its value from the price or rate of some underlying item.
Diluted earnings per share	Diluted income per share.
Employee Share Ownership Plan Trusts	Trusts established by the Group to satisfy share based employee incentive plans.
Finance lease	Capital lease.
Freehold	Ownership with absolute rights in perpetuity.
Gearing ratio	Net debt as a percentage of total equity.
The Group	GlaxoSmithKline plc and its subsidiary undertakings.
Hedging	The reduction of risk, normally in relation to foreign currency or interest rate movements, by making off-setting commitments.
Intangible fixed assets	Assets without physical substance, such as brands, licences, patents, know-how and marketing rights purchased from outside parties.
Non-equity minority interest	Preference shares issued by a subsidiary to outside parties.
Preference shares	Shares issued at varying dividend rates that are treated as outside interests.
Profit	Income.
Profit attributable to shareholders	Net income.
Share capital	Ordinary Shares, capital stock or common stock issued and fully paid.
Shareholders’ funds	Shareholders’ equity.
Share option	Stock option.
Share premium account	Additional paid-up capital or paid-in surplus (not distributable).
Shares in issue	Shares outstanding.
Statement of recognised income and expense	Statement of comprehensive income.
Stocks	Inventories.
Subsidiary undertaking	An affiliate in which GlaxoSmithKline holds a majority shareholding and/or exercises control.
Treasury share	Treasury stock.
Turnover	Revenue.

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Cross reference to Form 20-F

This table has been provided as a cross reference from the information included in this Annual Report to the requirements of Form 20-F.

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Footnote
(i) See the company's Form 20-F filing with the Securities and Exchange Commission

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GlaxoSmithKline

Do more, feel better, live longer

Head Office and Registered Office
GlaxoSmithKline plc
980 Great West Road
Brentford, Middlesex TW8 9GS
United Kingdom
Tel: +44 (0)20 8047 5000
www.gsk.com

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Item 19 Exhibits

Exhibit Index

Exhibit No.	Description
1.1	Memorandum and Articles of Association of the Registrant as in effect on the date hereof.
2.1	Deposit Agreement among the Registrant and The Bank of New York, as Depositary, and the holders from time to time of the American Depositary Receipts issued thereunder, including the form of American Depositary Receipt is incorporated by reference to the Registration Statement on Form F-6 (No. 333-12248) filed with the Commission on July 5, 2000.
4.1	Service Agreement between SmithKline Beecham Corporation and Jean-Pierre Garnier is incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 20-F filed with the Commission on March 8, 2005.
4.2	Service Agreement between SmithKline Beecham Corporation and Tadataka Yamada is incorporated by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 20-F filed with the Commission on March 8, 2005.
4.3	Service Agreement between GlaxoSmithKline Services Unlimited and Julian Heslop.
8.1	A list of the Registrant's principal subsidiaries is incorporated given on pages 147 to 149 of this Report on Form 20-F.
12.1	Form of Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 – Jean-Pierre Garnier.
12.2	Form of Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 – Julian Heslop.
13.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).
15.1	Consent of PricewaterhouseCoopers LLP.
15.2	The Five year record of selected financial information on pages 160 to 162 of the company's Annual Report on Form 20-F for 2004, the discussion of the 2004 Year on pages 61 to 70 in the Operating and financial review and prospects section thereof and the Financial statements and supporting notes on pages 87 to 152 thereof, in each case for the purpose of meeting the US reporting requirements applicable to first-time adopters of IFRS are all incorporated by reference to those pages in the Registrant's Annual Report on Form 20-F filed with the Commission on March 8, 2005.

Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

GlaxoSmithKline plc

March 3, 2006

By: /s/ Julian Heslop
Julian Heslop
Chief Financial Officer

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Company No. 3888792

MEMORANDUM

(As altered by Written Resolutions

passed on 19 May 2000 and 4 July 2000)

AND

ARTICLES OF ASSOCIATION

(As adopted by Written Resolution passed on 4 July 2000

and amended by Special Resolutions passed on 21 May 2001,

20 May 2002, 19 May 2003, 17 May 2004 and 25 May 2005)

OF

GlaxoSmithKline plc

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Company No. 3888792

The Companies Acts 1948 to 1985

COMPANY LIMITED BY SHARES

SPECIAL RESOLUTIONS

GlaxoSmithKline plc

Passed: 21st May 2001

At the FIRST ANNUAL GENERAL MEETING of the Company held on Monday, 21ST May 2001, the following resolutions were duly passed as a SPECIAL RESOLUTIONS:-

20 **Authority to allot ordinary shares**
THAT the Directors be and they are hereby generally and unconditionally authorised in substitution for all subsisting authorities to exercise all powers of the company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £519 million, which authority shall expire at the end of Annual General Meeting of the company in 2006 or, if earlier, on 20th May 2006 (unless previously revoked or varied by the company in general meeting) provided that this authority shall be without prejudice to any allotments of relevant securities made prior to the date of the company's first Annual General Meeting pursuant to the authority conferred by the shareholders of the company on 19th May 2000.

21 **Disapplication of pre-emption rights**
THAT the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of the Act) pursuant to the authority conferred by Resolution 20 above as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment, other than allotments in connection with a rights issue (as defined in Article 12.5 of the company's Articles of Association), of equity securities up to an aggregate nominal amount of £77 million and shall expire at the end of the next Annual General Meeting of the company or, if earlier, on 20th August 2002.

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22 **Purchase of own shares by the company**
THAT the company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Act to make market purchases (within the meaning of Section 163 of the Act) of its own Ordinary Shares of 25p each provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 623 million;

(b) the minimum price which may be paid for each Ordinary Share is 25p;

(c) the maximum price which may be paid for each Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for the company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Shares are contracted to be purchased; and

(d) the authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next Annual General Meeting of the company to be held in 2002 or, if earlier, on 20th November 2002 (provided that the company may enter into a contract for the purchase of Ordinary Shares before the expiry of this authority which would or might be completed wholly or partly after such expiry).

Simon Bicknell
Company Secretary

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Company No. 3888792

The Companies Acts 1948 to 1985

COMPANY LIMITED BY SHARES

SPECIAL RESOLUTIONS

GlaxoSmithKline plc

Passed: 20th May 2002

At the SECOND ANNUAL GENERAL MEETING of the Company held on Monday, 20th May 2002, the following resolutions were duly passed as a SPECIAL RESOLUTIONS:-

7 **Disapplication of pre-emption rights**
THAT for the purposes of Article 12 of the Company's Articles of Association the Directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of the Act) pursuant to the authority conferred by Resolution 20 passed at the Annual General Meeting held on 21st May 2001, as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited

(a) to the allotment of equity securities in connection with a rights issue (as defined in Article 12.5 of the Company's Articles of Association);

(b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate normal amount of £77million,

and shall expire at the end of the next Annual General Meeting of the Company to be held in 2003 or, if earlier, on 19th November 2003.

8 **Purchase of own shares by the Company**
THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Act to make market purchases (within the meaning of section 163 of the Act) of its own Ordinary Shares of 25p each provided that:

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(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 617 million;

(b) the minimum price which may be paid for each Ordinary Share is 25p;

(c) the maximum price which may be paid for each Ordinary Share is an amount equal to 105% of the average of the middle market quotations for the Company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and

(d) the authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next Annual General Meeting of the Company to be held in 2003 or, if earlier, on 19th November 2003 (provided that the Company may enter into a contract for the purchase of Ordinary Shares before the expiry of this authority which would or might be completed wholly or partly after such expiry).

Simon Bicknell
Company Secretary

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Company No. 3888792

The Companies Acts 1948 to 1985

COMPANY LIMITED BY SHARES

SPECIAL RESOLUTIONS

GlaxoSmithKline plc

Passed: 19th May 2003

At the THIRD ANNUAL GENERAL MEETING of the Company held on Monday, 19th May 2003, the following resolutions were duly passed as a SPECIAL RESOLUTIONS:-

16 Disapplication of pre-emption rights

THAT for the purposes of Article 12 of the company's Articles of Association the Directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of the Act) pursuant to the authority conferred by Resolution 20 passed at the Annual General Meeting held on 21st May 2001, as if section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited:

(a) to the allotment of equity securities in connection with a rights issue (as defined in Article 12.5 of the company's Articles of Association); and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £75 million, and shall expire at the end of the next Annual General Meeting of the company to be held in 2004 or, if earlier, on 18th November 2004.

17 Purchase of own shares by the company

THAT the company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Act to make market purchases (within the meaning of section 163 of the Act) of its own Ordinary Shares of 25p each provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 600 million;

(b) the minimum price which may be paid for each Ordinary Share is 25p;

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(c) the maximum price which may be paid for each Ordinary Share is an amount equal to 105% of the average of the middle market quotations for the company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and

(d) the authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next Annual General Meeting of the company to be held in 2004 or, if earlier, on 18th November 2004 (provided that the company may enter into a contract for the purchase of Ordinary Shares before the expiry of this authority which would or might be completed wholly or partly after such expiry).

Simon Bicknell
Company Secretary

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Company No. 3888792

The Companies Acts 1948 to 1985

COMPANY LIMITED BY SHARES

SPECIAL RESOLUTIONS

GlaxoSmithKline plc

Passed: 17th May 2004

At the FOURTH ANNUAL GENERAL MEETING of the Company held on Monday, 17th May 2004, the following resolutions were duly passed as a SPECIAL RESOLUTIONS:-

11 Disapplication of pre-emption rights (Special resolution)

THAT for the purposes of Article 12 of the company's Articles of Association the Directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by Resolution 20 passed at the Annual General Meeting held on 21st May 2001 which expires at the end of the company's Annual General Meeting in 2006 or, if earlier, on 20th May 2006, and / or where such allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Act as if section 89 (1) of the Act did not apply to such allotment, provided that this power shall be limited:

(a) to the allotment of equity securities in connection with a rights issue (as defined in Article 12.5 of the company's Articles of Association) provided that an offer of equity securities pursuant to any such rights issue need not be open to any shareholder holding ordinary shares as treasury shares; and

(b) to the allotment (otherwise than pursuant to subparagraph (a) above) of equity securities up to an aggregate nominal amount of £74,330,954,

and shall expire at the end of the next Annual General Meeting of the company to be held in 2005 or, if earlier, on 16th November 2005.

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12 Purchase of own shares by the company (Special resolution)

THAT the company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Act to make market purchases (within the meaning of section 163 of the Act) of its own Ordinary Shares of 25p each provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 594,647,632;

(b) the minimum price which may be paid for each Ordinary Share is 25p;

(c) the maximum price which may be paid for each Ordinary Share is an amount equal to 105% of the average of the middle market quotations for the company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and

(d) the authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next Annual General Meeting of the company to be held in 2005 or, if earlier, on 16th November 2005 (provided that the company may enter into a contract for the purchase of Ordinary Shares before the expiry of this authority which would or might be completed wholly or partly after such expiry).

Simon Bicknell
Company Secretary

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Company No. 3888792

The Companies Acts 1948 to 1985

COMPANY LIMITED BY SHARES

SPECIAL RESOLUTIONS

GlaxoSmithKline plc

Passed: 25th May 2005

At the FIFTH ANNUAL GENERAL MEETING of the Company held on Wednesday, 25th May 2005, the following resolutions were duly passed as a SPECIAL RESOLUTIONS:-

13 Disapplication of pre-emption rights (Special resolution)

THAT for the purposes of Article 12 of the company's Articles of Association the Directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by Resolution 20 passed at the Annual General Meeting held on 21st May 001 which expires at the end of the company's Annual General Meeting n 2006 or, if earlier, on 20th May 2006, and / or where such allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Act as if section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited:

(a) to the allotment of equity securities in connection with a rights issue (as defined in Article 12.5 of the company's Articles of Association) provided that an offer of equity securities pursuant to any such rights issue need not be open to any shareholder holding ordinary shares as treasury shares; and

(b) to the allotment (otherwise than pursuant to subparagraph (a)above) of equity securities up to an aggregate nominal amount of £73,301,955,

and shall expire at the end of the next Annual General Meeting of the company to be held in 2006 or, if earlier, on 24th November 2006.

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14 Purchase of own shares by the company (Special resolution)

THAT the company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Act to make market purchases (within the meaning of section 163 of the Act) of its own Ordinary Shares of 25p each provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 586,415,642;

(b) the minimum price which may be paid for each Ordinary Share is 25p;

(c) the maximum price which may be paid for each Ordinary Share is an amount equal to 105% of the average of the middle market quotations for the company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and

(d) the authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the next Annual General Meeting of the company to be held in 2006 or, if earlier, on 24th November 2006 (provided that the company may enter into a contract for the purchase of Ordinary Shares before the expiry of this authority which would or might be completed wholly or partly after such expiry).

15 Insertion of new Article 48A into the Articles of Association (Special resolution)

THAT the Articles of Association of the company be amended by inserting a new Article 48A as follows:

"48A. Resolutions of members at Annual General Meetings

48A.1 If, on or before, 31st January in any year any members shall, in accordance with section 376 of the Act, require the Company, in relation to the Annual General Meeting to be held in that year, to give notice of a resolution which may properly be moved or to circulate a statement in acceptable form, the company shall circulate that resolution or statement with the notice of the Annual General Meeting without cost to the requisitionists.

48A.2 If any requisition is made in accordance with section 376 of the Act after 31st January in any year and prior to the annual general meeting to be held in that year, the Company shall require that the requisitionists deposit or tender a sum sufficient to meet the Company's reasonable expenses in complying with such requisition."

16 Deletion of Article 154.2 of the Articles of Association (Special resolution)

THAT the Articles of Association of the company be amended by the deletion of Article 154.2 and the consequential re-numbering of Article 154.3 as Article 154.2.

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17 Amendment to Article 81 of the Articles of Association (Special resolution)

THAT the Articles of Association of the company be amended by amending Article 81 so that it reads as follows:

“A proxy or an Appointed Proxy may speak at a meeting.”

Simon Bicknell
Company Secretary

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THE COMPANIES ACT 1985

COMPANY LIMITED BY SHARES

Memorandum of Association

of

GlaxoSmithKline plc

(as altered by Written Resolutions passed on 19 May 2000 and 4 July 2000)

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1 The Company's name is "GlaxoSmithKline plc".[1]

2 The Company is to be a public company.

3 The registered office of the Company will be situate in England.

4 The Company's objects are:

4.1 To acquire and hold the whole or any part of the share capital of Glaxo Wellcome plc. and of the share capital of SmithKline Beecham plc. whether directly or through any subsidiary and generally to carry on business as an investment holding company and for that purpose to acquire debenture stock, bonds, notes, options, obligations and securities issued or guaranteed by any company wherever incorporated or carrying on business and debentures, debenture stock, bonds, notes, obligations and securities issued or guaranteed by any government, sovereign ruler, commissioners, public body or authority, supreme, dependent, municipal, local or otherwise in any part of the world and to exercise and enforce all rights and powers conferred by or incidental to the ownership of any such shares, stock, obligations or other securities including, without prejudice to the generality of the foregoing all such powers of veto or control as may be conferred or capable of exercise whether by virtue of the holding by the Company of some special proportion of the issued or nominal amount thereof or otherwise and to provide managerial, financial and other executive, supervisory and consultant services for or in relation to any company in which the Company is interested and all or any part of the businesses or operations of any such company upon such terms as may be thought fit.

4.2 To carry on business as a general commercial company and to carry on any trade or business or activity of any nature whatsoever which may seem to the directors to be capable of being conveniently or advantageously carried on, or to be expedient with a view to directly or indirectly enhancing the value of or to rendering profitable or more profitable any of the Company's assets or utilising or developing its skills, know-how or expertise.

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[1] The Company was incorporated as Trushelfco (no. 2577) on 6 December 1999.
On 14 January 2000 the Company's name was changed to Glaxo SmithKline Limited.
On 22 May 2000, the Company was re-registered as a public company with the name Glaxo SmithKline plc.
On 21 June 2000, the Company's name was changed to GlaxoSmithKline plc.

4.3 To subscribe, underwrite, purchase, or otherwise acquire, and to hold, dispose of, and deal with, any shares or other securities or investments of any nature whatsoever, and any options or rights in respect thereof or interests therein, and to buy and sell foreign exchange.

4.4 To draw, make, accept, endorse, discount, negotiate, execute and issue, and to buy, sell and deal with bills of exchange, promissory notes, and other negotiable or transferable instruments or securities.

4.5 To amalgamate or enter into partnership or any joint venture or profit/loss-sharing arrangement or other association with any company, firm, person or body.

4.6 To purchase or otherwise acquire and undertake all or any part of the business, property and liabilities of any company, firm, person or body carrying on any business which the Company is authorised to carry on or possessed of any property suitable for the purposes of the Company.

4.7 To promote, or join in the promotion of, any company, whether or not having objects similar to those of the Company.

4.8 To borrow and raise money and to secure or discharge any debt or obligation of or binding on the Company in such manner as may be thought fit and in particular by mortgage and charges upon all or any part of the undertaking, property and assets (present and future) and the uncalled capital of the Company, or by the creation and issue of debentures, debenture stock or other securities of any description.

4.9 To advance, lend or deposit money or give credit to or with any company, firm or person on such terms as may be thought fit and with or without security.

4.10 To guarantee or give indemnities or provide security, whether by personal covenant or by mortgage or charge upon all or any part of the undertaking, property and assets (present and future) and the uncalled capital of the Company, or by all or any such methods, for the performance of any contracts or obligations, and the payment of capital or principal (together with any premium) and dividends or interest on any shares, debentures or other securities, of any person, firm or company including (without limiting the generality of the foregoing) any company which is for the time being a holding company of the Company or another subsidiary of any such holding company or is associated with the Company in business.

4.11 To issue any securities which the Company has power to issue for any other purpose by way of security or indemnity or in satisfaction of any liability undertaken or agreed to be undertaken by the Company.

4.12 To procure the registration, recognition or incorporation of the Company in or under the laws of any territory outside England.

4.13 To subscribe or guarantee money for any national, charitable, benevolent, public, general or useful object or for any purpose which may be considered likely directly or indirectly to further the interests of the Company or of its members.

4.14 (i) To establish and maintain or contribute to any pension or superannuation funds for the benefit of, and to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any individuals who are or were at any time in the employment or service of the Company or of any associated company, or who are or were at any time directors or officers of the Company or of any associated company, and the wives, widows, families and dependants of any such individuals; to establish and subsidise or subscribe to any institutions, associations, clubs or funds which may be considered likely to benefit any such persons or to further the interests of the Company or of any associated company; and to make payments for or towards the insurance of any such persons.

(ii) To establish and maintain, and to lend or contribute to, any scheme for encouraging or facilitating the holding of shares or debentures or other securities in the Company or any associated company by or for the benefit of its employees or former employees, or those of any associated company, or by or for the benefit of such other persons as may for the time being be permitted by law, or any scheme for sharing profits with its employees or those of its associated companies, and (so far as for the time being permitted by law) to lend money to employees of the Company or of any associated company with a view to enabling them to acquire shares in the Company or any associated company.

(iii) (a) To purchase and maintain insurance for or for the benefit of any persons who are or were at any time directors, officers or employees or auditors of the Company, or of any associated company, or who are or were at any time trustees of any pension fund in which any employees of the Company or of any associated company are interested, including (without prejudice to the generality of the foregoing) insurance against any liability incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or in the exercise or purported exercise of their powers and/or otherwise in relation to the Company or associated company or pension fund and (b) to such extent as may be permitted by law otherwise to indemnify or to exempt any such person against or from any such liability.

(iv) In this paragraph 4.14:

(a) an "**associated company**" is any company (i) which is the Company's holding company or (ii) in which the Company or its holding company or any of the predecessors of the Company or of such holding company has any interest whether direct or indirect or (iii) which is in any way allied to or associated with the Company or its holding company or any of the predecessors of the Company or of such holding company, or (iv) which is a subsidiary undertaking of any other associated company; and

(b) "**holding company**" and "**subsidiary undertaking**" have the same meanings as in the Companies Act 1985 as amended by the Companies Act 1989.

4.15 To distribute among members of the Company *in specie* or otherwise, by way of dividend or bonus or by way of reduction of capital, all or any of the property or assets of the Company, or any proceeds of sale or other disposal of any property or assets of the Company, with and subject to any incident authorised and consent required by law.

4.16 To do all or any of the things and matters aforesaid in any part of the world, and either as principals, agents, contractors, trustees or otherwise, and by or through trustees, agents, subsidiary companies or otherwise, and either alone or in conjunction with others.

4.17 To do all such other things as may be considered to be incidental or conducive to any of the above objects.

And it is hereby declared that (a) the objects set forth in each sub-clause of this clause shall not be restrictively construed but the widest interpretation shall be given thereto, and (b) the word "company" in this clause, except where used in reference to the Company, shall be deemed to include any partnership or other body of persons, whether corporate or unincorporated and whether domiciled in the United Kingdom or elsewhere, and (c) except where the context expressly so requires, none of the several paragraphs of this clause, or the objects therein specified, or the powers thereby conferred shall be limited by, or be deemed merely subsidiary or auxiliary to, any other paragraph of this clause, or the objects specified in such paragraph, or the

powers thereby conferred but may be carried out in as full and ample manner and shall be construed in as wide a sense as if each of the said paragraphs defined in the objects of a separate, distinct and independent company.

5 The liability of the members is limited.

6 The Company's share capital is £100 divided into 100 Shares of £1 each and the company shall have the power to divide the original or any increased capital into several classes, and to attach thereto any preferential, deferred, qualified or other special rights, privileges, restrictions or conditions.(2), 3), (4)

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(2) By a Written Resolution passed on 19 May 2000 each ordinary share of £1 each in the capital of the Company was sub-divided into four ordinary shares of 25 pence each.

(3) By a Written Resolution passed on 19 May 2000 the authorised share capital of the Company was increased to £2,500,000,000 divided into 9,999,800,000 ordinary shares of 25 pence each and 50,000 redeemable preference shares of £1 each.

(4) On 31 August 2001 50,000 redeemable preference shares of £1 each were redeemed in accordance with Article 3.2 of the Company's Articles of Association. The nominal amount of such shares was converted into 200,000 ordinary shares of 25 pence each, resulting in the Company's authorised share capital of £2,500,000,000 being comprised of 10,000,000,000 ordinary shares of 25 pence each.

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We, the several persons whose names and addresses are subscribed, are desirous of being formed into a company, in pursuance of the Memorandum of Association, and we respectively agree to take the number of shares in the capital of the Company set opposite our respective names.

NAMES, ADDRESSES AND DESCRIPTIONS OF SUBSCRIBERS	Number of Shares taken by each Subscriber
For and on behalf of TRUCIDATOR NOMINEES LIMITED, 35 Basinghall Street, London EC2V 5DB J.S. HAW Director	One
For and on behalf of TREXCO LIMITED, 35 Basinghall Street, London EC2V 5DB D.C.J. ROWE Authorised Signatory	One

Dated the 26th day of November 1999

WITNESS to the above signatures:-

R.H. Smith
35 Basinghall Street,
London EC2V 5DB

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Company No. 3888792

The Companies Act 1985

Company Limited by Shares

ARTICLES OF ASSOCIATION

of

GlaxoSmithKline plc

(adopted by a Written Resolution passed on 4 July 2000 and altered by Written Resolutions passed on 25 May 2005)

PRELIMINARY ARTICLES

1 Table A and other standard regulations do not apply

The regulations in Table A of the Companies (Tables A to F) Regulations 1985, and any similar regulations in any other legislation relating to companies, do not apply to the Company.

2 The meaning of the Articles

2.1 The following table gives the meaning of certain words and phrases as they are used in these Articles. However, the meaning given in the table does not apply if that is inconsistent with the context in which a word or phrase appears. After the Articles there is a glossary which explains various words and expressions. The glossary also explains some of the words in the Memorandum. But the Glossary is not part of the Memorandum or Articles, and it does not affect their meaning. In the table below and the rest of Article 2 the words which are explained in the Glossary are printed in italics.

Words	Definitions
amount (of a share)	This refers to the *nominal value* of the share.
Approved Depositary	This means someone appointed: (a) to hold the Company's shares or any rights or interests in any of the Company's shares; and (b) to issue securities, documents of title or other documents which evidence that the holder of them owns or is entitled to receive the shares, rights or interests held by the Approved Depositary. A nominee acting for someone appointed to do these things will also be treated as an Approved Depositary. But the arrangements for the Approved Depositary to do the things described above must be approved by the directors. The trustees of any scheme or arrangements for or principally for the benefit of employees of the Group will also be treated as an Approved Depositary unless the directors decide otherwise. References in the Articles to an Approved Depositary or to shares held by it refer only to an Approved Depositary and to its shares held in its capacity as an Approved Depositary.

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Articles	The Company's Articles of Association, including any changes made to them.
Companies Act	The Companies Act 1985.
company	Includes any corporate body.
the Company	GlaxoSmithKline plc
CREST Regulations	The Uncertificated Securities Regulations 1995 (SI 1995 No 95/3272).
director	A director of the Company.
dividend arrears	This includes any dividends on shares with *cumulative* rights which could not be paid, but which have been carried forward.
electronic mail	Includes any electronic transmission in any form through any medium.
existing shares (of any kind)	Shares which are in *issue* at the relevant time.
General Meeting	A meeting of holders of the Company's shares held in accordance with these Articles.
Group	The Company and its subsidiaries.
holder	A person whose name is entered in the Register as a holder of any of the Company's shares.
legislation	The Companies Act, the CREST Regulations and all other laws and regulations applying to the Company.
London Stock Exchange	London Stock Exchange plc.
Official List	The Official List of the UK Listing Authority
Operator	A person who is approved by the Treasury under the Crest Regulations as an operator of a relevant system.
Ordinary Shareholder	A holder of the Company's Ordinary Shares.
paid-up share or other security	Includes a share or other security which is treated ("credited") as *paid up*.
pay	Includes any kind of reward or payment for services.
proxy	This includes a person appointed as a proxy or entitled to the same rights as a person so appointed in accordance with Article 70.

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recognised clearing house	A clearing house granted recognition under the Financial Services Act 1986.
recognised investment exchange	An investment exchange granted recognition under the Financial Services Act 1986.
Register	The Company's register of *members*.
Registered Office	The Company's registered office.
relevant system	A relevant system as defined in the CREST Regulations in which the Operator of the relevant system has permitted the Company's shares or securities (or the relevant shares or securities) to be transferred.
rights of any share	The rights attached to the share when it is issued, or afterwards.
Seal	The Company's Common Seal, or any official seal kept by the Company under section 40 of the Companies Act (called a Securities Seal).
Secretary	Any person appointed by the directors to do work as the Company Secretary including but not limited to any joint, assistant or deputy secretary.
shareholders' meeting	Includes both a General Meeting of the Company and a meeting of any class of holders of the Company's shares.
subsidiary	A "*subsidiary undertaking*", as defined in section 258 of the Companies Act.
terms of a share	The terms on which a share was issued.
United Kingdom	Great Britain and Northern Ireland.
United States	The United States of America.
in writing	In writing, or any substitute for writing, or a combination of the two.

2.2 References to a **debenture** include **debenture stock** and references to a **debenture holder** include a **debenture stockholder**.

2.3 Where the Articles refer to a person who is **automatically entitled to a share by law**, this includes a person who is entitled to the share as a result of the death, or bankruptcy, of a shareholder.

2.4 Words which refer to a single number also refer to plural numbers, and the other way around.

2.5 Words which refer to males also refer to females, to companies and so on.

2.6 References to a **person** or **people** include companies, *unincorporated associations* and so on.

2.7 References to **the directors** refer to the directors acting as the board of directors, unless this meaning is inconsistent with the context in which this expression appears.

2.8 References to **an officer** shall include a director, manager and the Secretary, but shall not include an auditor.

2.9 Any headings in these Articles are only included for convenience. They do not affect the meaning of the Articles.

2.10 When any legislation, or a specific provision of legislation, is referred to, this includes any amendment to such legislation or provision, as well as any later legislation in which the legislation or provision is included.

2.11 When any legislation or the Articles are referred to, the version which is current at any particular time will apply.

2.12 Any word or expression which is defined in the Companies Act or the CREST Regulations means the same in the Articles, unless the Articles define it differently, or the way in which the word is used is inconsistent with the definition given in the Companies Act or the CREST Regulations.

2.13 Where the Articles give a power or authority to anybody, this power or authority can be used on any number of occasions, unless the way in which the word is used does not allow this meaning.

2.14 Where the Articles say that anything can be done by passing an *Ordinary Resolution*, this can also be done by passing a *Special Resolution* or an *Extraordinary Resolution* and where they say anything can be done by passing an *Extraordinary Resolution*, this can also be done by passing a *Special Resolution*.

2.15 All such of the provisions of these Articles as are applicable to paid-up shares shall apply to stock and the words “share” and “shareholder” shall be construed accordingly.

2.16 Where the Articles refer to any document being **made effective** this means being signed, sealed or executed in some other legally valid way.

2.17 Where the Articles refer to **months** or **years**, these are calendar months or years.

2.18 Where the Articles refer to **clear days**, the number of days does not include the two days between which the interval is measured. For example if notice is required to be given a number of clear days before a meeting, neither the date notice is delivered nor the date of the meeting are taken into account.

2.19 Where the Articles refer to a share being (or to shares held) in certificated form, this means that title to the share is recorded on the *Register* and is evidenced by a share certificate.

2.20 Where the Articles refer to a share being (or to shares held) in uncertificated form, this means that title to the share is recorded on the *Register* but is not evidenced by a share certificate, and that it may be transferred by means of the relevant system.

SHARE CAPITAL

3 Form of the Company’s share capital

The Company’s share capital at the date when these Articles are adopted is £2,500,000,000 made up of 9,999,800,000 Ordinary Shares of 25 pence each and 50,000 redeemable preference shares of £1 each. The rights attaching to the redeemable preference shares shall be as follows:-

3.1 As regards income and capital:

(a) on a return of capital on winding-up or otherwise the assets of the Company available for distribution among the members shall be applied first in repaying in full the holders of the redeemable preference shares the amounts paid up on such shares; and

(b) except as provided in Article 3.1(a) above the redeemable preference shares shall carry no right to participate in the profits of the Company available for distribution by way of dividend or otherwise or the assets of the Company.

3.2 As regards redemption:

(a) subject to the provisions of the Companies Act and Article 3.2(b) below, the Company shall redeem the redeemable preference shares at par either:

(i) on sixty business days' notice given at any time after the date on which the merger of Glaxo Wellcome plc and SmithKline Beecham plc to be effected by way of a scheme of arrangement becomes effective, such notice to be given by either the directors of the Company or the holders of the redeemable preference shares; or

(ii) on 31 December 2000;

(b) if the Company shall at any time be unable in compliance with the provisions of the Companies Act to redeem the redeemable preference shares on the date specified in accordance with Article 3.2(a) above, then the Company shall redeem such shares as soon as it is able to comply with such provisions of the Companies Act;

(c) on the redemption of any redeemable preference shares the nominal amount of such redeemable preference shares comprised in the authorised share capital of the Company shall thereafter be converted into ordinary shares of 25 pence each in the Company without any further resolution or consent; and

(d) subject to paragraphs 3.2(a) and 3.2(b) above any notice of redemption served shall specify the date fixed for redemption and upon such date the holders of the redeemable preference shares shall be bound to present the certificate in respect thereof in order that the certificate may be cancelled. Upon delivery the Company shall pay to such holders the amount due to them in respect of such redemption.

3.3 As regards voting, the holders of the redeemable preference shares shall not be entitled to receive notice of or to attend and vote at any general meeting of the Company unless a resolution is to be proposed:

(a) to wind up the Company; or

(b) which varies, modifies, alters or abrogates any of the rights attaching to the redeemable preference shares.

4 The power to increase capital

4.1 The Company's shareholders can increase the Company's share capital by passing an Ordinary Resolution. The resolution will fix the amount of the increase and the nominal amount of the new shares and the currency or currencies of the shares.

4.2 Any legislation and the provisions of the Articles about payment of calls, transfer, automatic entitlement by law, forfeiture, lien and all other things apply to new shares under Article 4.1 in the same way as if they were part of the Company's existing share capital.

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5 The power to change capital

The Company's shareholders can pass Ordinary Resolutions to do any of the following:

(a) to consolidate, or consolidate and then divide, all or any of its share capital into shares of a larger nominal amount than the existing shares;

(b) to cancel any shares which have not been taken, or agreed to be taken, by any person at the date of the resolution, and reduce the amount of the Company's share capital by the amount of the cancelled shares;

(c) to divide some or all of its shares into shares which are of a smaller nominal amount than is fixed in the Memorandum of Association. This is subject to any restrictions under the legislation. The resolution may provide that, as between the holders of the divided shares, different rights and restrictions of a kind which the Company can apply to new shares may apply to different divided shares.

6 Fractions of shares

6.1 If any shares are consolidated or divided, the directors have power to deal with any fractions of shares which result or any other difficulty that arises. For example the directors can sell any shares representing fractions to any person (including the Company, if the legislation allows this) and can authorise someone to transfer the shares sold to the new holder. If the directors decide to sell, they can distribute the proceeds of sale among members in proportion to their fractional entitlements or retain some or all of the net proceeds for the benefit of the Company. The buyer does not need to take any steps to see how any money he is paying is used. Nor will his ownership be affected if the sale was irregular or invalid in any way.

6.2 So far as the legislation allows, in effecting divisions and/or consolidations the directors can treat a shareholder's shares held in certificated form and uncertificated form as separate holdings. The directors can also cause any shares which result and which represent fractions to be entered in the Register as shares in certificated form where this is desirable in order to sell them.

7 The power to reduce capital

7.1 The Company's shareholders can pass a Special Resolution to:

(a) reduce its share capital in any way; or

(b) reduce any capital redemption reserve, share premium account or other undistributable reserve in any way.

7.2 This is subject to any restrictions under the Companies Act.

8 Buying back shares

8.1 The Company can buy back, or agree to buy back in the future, any shares of any class (including redeemable shares), if the legislation allows this. However, if the Company has existing shares with special rights, then the Company can only buy back shares if it is allowed by the special rights of those shares to do so or if the holders of that class of shares pass an Extraordinary Resolution agreeing that the Company may do so.

8.2 The Company can pay any price permitted by the legislation for shares which it buys back (including buying back at above or below the nominal value of the shares).

8.3 It can use any method for selecting which shares are to be bought back.

SHARES

9 The special rights of new shares

9.1 If the Company issues new shares, the new shares can have any rights or restrictions attached to them. The rights can take priority over the rights of existing shares, or existing shares can take priority over them, or the new shares and the existing shares can rank equally. These rights and restrictions can apply to sharing in the Company's profits or assets. Other rights and restrictions can also apply, for example special voting rights or restrictions on the right to vote.

9.2 The rights and restrictions referred to in Article 9.1 can be decided by an Ordinary Resolution. The directors can also take these decisions if they do not conflict with any resolution passed by the shareholders.

9.3 If the legislation allows this, the rights of any new shares can include rights for the holder and/or the Company to have them redeemed. These rights can either be set out in the Articles or be decided by a Special Resolution passed by the shareholders.

9.4 The ability to attach particular rights and restrictions to new shares may be restricted by special rights previously given to holders of any existing shares.

10 The directors' power to deal with shares

The directors can decide how to deal with any shares which have not been issued. The directors can allot them at any time and on any terms except that Article 9.3 applies to redeemable shares. The directors can also grant options to give people a right to acquire shares in the future, or the directors can dispose of the shares in any other way. The directors are free to decide who they deal with, when they deal with the shares, and the terms on which they deal. But they must obey:

(a) the other provisions of the Articles; and

(b) the provisions of the legislation relating to authority, pre-emption rights and other matters;

(c) any resolution passed by the shareholders of the Company under those provisions of the legislation.

11 The directors' authority to allot "relevant securities"

11.1 This Article regulates the authority of the directors to allot relevant securities. The meaning of **relevant securities** is given in section 80 of the Companies Act.

11.2 The directors are authorised, generally and without conditions, under section 80 of the Companies Act, to allot shares, and rights to shares, which are relevant securities. They are authorised to allot them for each period decided on by the shareholders as referred to in Article 11.3. But this authority is restricted by the limit on the maximum amount of relevant securities set out in the resolution which decides on, renews or extends the period for which the authority is to last or in any other resolution passed by the shareholders (including a resolution passed before these Articles were adopted).

11.3 The shareholders can decide on any period for which the authority under Article 11.2 is to last by passing an Ordinary Resolution.

11.4 During the period specified in any resolution under Article 11.3, the directors can make offers, and enter into agreements, which would, or might, need shares to be allotted after those periods.

11.5 In working out any maximum amount of securities referred to in this Article, the nominal value of rights to subscribe for shares, or to convert any securities into shares, will be taken as the nominal value of the shares which would be allotted if the subscription or conversion takes place.

12 The directors' authority to allot "equity securities"

12.1 This Article regulates the power of the directors to allot equity securities for cash. The meaning of **equity securities** is given in section 94 of the Companies Act.

12.2 Where the directors have general authority under section 80 of the Companies Act under Article 11.2, they have the power to allot equity securities, entirely paid for in cash under that authority, free of the restriction in section 89(1) of the Companies Act. This power will be for each period decided on by the shareholders as referred to in Article 12.3.

12.3 The shareholders can decide on any period for which the power under Article 12.2 is to last by passing a Special Resolution.

12.4 There is no limit on the maximum amount of equity securities which can be allotted under the power in Article 12.2 where the allotment is in connection with a rights issue (which is defined in Article 12.5). In all other cases, the maximum amount of equity securities which can be allotted under that power is the amount stated in the Special Resolution which decides on the period for which the power is to last as referred to in Article 12.3.

12.5 In Article 12.4 **rights issue** means an offer of equity securities which is open to the following people for a period decided on by the directors:

(a) people who are registered holders of Ordinary Shares on a particular date, in proportion to their holdings of Ordinary Shares; and

(b) people who are registered on a particular date as holders of other classes of equity securities which give them the right to receive the offer or which permit them to receive the offer and the directors decide that it is appropriate for them to do so.

12.6 However, the directors may do the following things, and the issue will still be treated as a rights issue for the purpose of this Article if they do so:

(a) sell any fractions of equity securities to which people would be entitled and keep the net proceeds for the Company's benefit;

(b) make the rights issue subject to any limits or restrictions which the directors think are necessary or appropriate to deal with legal or practical problems under the laws of any territory, or under the requirements of any recognised regulatory body, or stock exchange, in any territory (other than the United Kingdom); or

(c) treat a shareholder's holdings in certificated form and in uncertificated form separately.

12.7 During the period specified in any Special Resolution under Article 12.3, the directors can make offers, and enter into agreements, which would, or might, need shares to be allotted after those periods.

12.8 In working out any maximum amounts of securities referred to in this Article, the nominal value of rights to subscribe for shares, or to convert any securities into shares, will be taken as the nominal value of the shares which would be allotted if the subscription or conversion takes place.

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13 Power to pay commission and brokerage

The Company can use all the powers given by the legislation to pay commission or brokerage (a special form of commission) to any person who:

(a) applies, or agrees to apply, for any new shares; or

(b) gets anybody else to apply, or agree to apply for, any new shares.

14 Renunciations of allotted but unissued shares

The directors can allot shares on terms which include the right to transfer the allotment to another person before any person has been entered on the Register. This is known as the right to renounce the allotment. The directors can impose terms and conditions regarding rights to renounce.

15 No trusts or similar interests recognised

15.1 The Company will only be affected by, or recognise, a current and absolute right to whole shares. The fact that any share, or any part of a share, may not be owned outright by the registered owner, for example if a share is held on any kind of trust, is not of any concern to the Company.

15.2 The only exception to what is said in Article 15.1 is for any right:

(a) which is expressly given by these Articles; or

(b) which the Company has a legal duty to recognise.

SHARE CERTIFICATES

16 Certificates

16.1 When a shareholder is first registered as the holder of any class of shares in certificated form, he is entitled, without payment, to one certificate for all the shares in certificated form of that class which he holds and if he holds shares in certificated form of more than one class he is entitled to a separate share certificate for each class of shares.

16.2 If a shareholder gets more shares of any class he is entitled, to the extent that these extra shares are to be held in certificated form and provided that he pays such reasonable charge as the directors may decide, to another certificate for the extra shares.

16.3 If a shareholder transfers part of his shares covered by a certificate, he is entitled, without payment, to a new certificate for the balance to the extent that the balance is to be held in certificated form.

16.4 The Company does not have to issue more than one certificate for any share held in certificated form, even if that share is held jointly.

16.5 When, in the case of a share held in certificated form jointly by several persons, the Company delivers a certificate to one joint shareholder, this is treated as delivery to all of the joint shareholders.

16.6 The Company can deliver a certificate to a broker or agent who is acting for a person who is buying the shares in certificated form, or who is having the shares in certificated form transferred to him.

16.7 The directors can decide how share certificates are made effective. For example, they can be:

(a) signed by, or printed with a copy of the signature(s) of, one or more directors;

(b) sealed with the Seal; or

(c) printed with a copy of the Seal.

16.8 A share certificate must state the number, class and any distinguishing numbers of the shares to which it relates and the amount paid up on those shares. It cannot be for shares of more than one class.

16.9 Unless the legislation requires otherwise, the time limit for the Company to provide a share certificate under this Article in respect of shares in certificated form is:

(a) one month after the allotment of a new share (or any longer period provided by its terms of issue);

(b) five business days after a transfer of fully paid shares is presented for registration; or

(c) two months after a transfer of partly paid shares is presented for registration.

16.10 The Company does not have to issue a certificate to a recognised clearing house or to its nominee, or to the nominee of a recognised investment exchange.

17 Replacement share certificates

17.1 If a shareholder has two or more share certificates for shares of the same class, he can ask the Company for these to be cancelled and replaced by a single new certificate. The Company must comply with such a request, but may request that the shareholder pays such reasonable charge as the directors may decide.

17.2 A shareholder can ask the Company to cancel and replace a single share certificate with two or more certificates, for the same total number of shares. The Company may comply with such a request and may request that the shareholder pays such reasonable charge as the directors may decide.

17.3 A shareholder can ask the Company for a new certificate if the original is:

(a) worn out or defaced; or

(b) said to be lost, stolen, or destroyed.

17.4 If a certificate has been worn out or defaced, the Company can require the certificate to be delivered to it before issuing a replacement. If a certificate is said to be lost, stolen or destroyed, the Company can require satisfactory evidence, and an indemnity, before issuing a replacement.

17.5 The Company can require the shareholder to pay any exceptional out-of-pocket expenses which the Company reasonably incurs in investigating the evidence or preparing a form of indemnity when issuing any replacement share certificates under Article 17.4. Otherwise, the replacement will be issued free of charge.

17.6 In the case of joint shareholders, only the shareholder whose name is listed before the names of the other joint shareholders on the Register for the shares concerned can request replacement certificates under this Article.

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CALLS ON SHARES

18 The directors can make calls on shares

18.1 The directors can call on shareholders to pay any money which has not yet been paid to the Company for their shares. This includes both the nominal value of the shares and any premium which may apply. They can also make calls on people who are automatically entitled to shares by law. A shareholder who is called on to pay money on his shares is required to pay even if he later transfers those shares to someone else. If the terms of issue of the shares allow this, the directors can:

(a) make calls as often, and whenever, they think fit;

(b) decide when and where the money is to be paid;

(c) decide that the money may be paid by instalments;

(d) wholly or partially revoke or postpone any call; and

(e) fix a rate of interest applicable to late payments.

18.2 A call is treated as having been made as soon as the directors pass a resolution authorising it.

19 The liability for calls

A member who has received at least 14 clear days' notice stating the amount called and when and where payment must be made must pay the call as required by the notice. Joint shareholders are liable jointly and severally (which, in general terms, means together and separately) to pay any money called for.

20 Interest on unpaid calls

If the person due to pay any money called for in this way does not pay it by the day that it is due, he is liable to pay interest on the money. This interest will run from the day the money is due until it has actually been paid. The yearly interest rate is that fixed by the terms of issue of the share, failing which it is that stated in the notice of call, or the "appropriate rate" as defined in the Companies Act. But the directors can decide not to require any or all of this interest to be paid.

21 Sums which are payable when a share is allotted are treated as a call

If the terms of a share require any money to be paid at the time the share is allotted, or at any fixed date, then this money will be treated in the same way as a valid call for money on shares which is due on the same date. If this money is not paid, everything in the Articles relating to non-payment of calls applies. This includes Articles which allow the Company to forfeit or sell shares and to claim interest.

22 Calls can be for different amounts

On or before an issue of shares, the directors can decide that shareholders may be called on to pay different amounts, or that they may be called on at different times.

23 Paying calls early

The directors can accept payment in advance of some or all of the money from a shareholder before he is called on to pay the money. The directors can agree to pay interest on money paid in

advance until it would otherwise be due to the Company. The rate of interest can be agreed upon by the directors and the shareholder except that it must not be higher than the “appropriate rate” as defined in the Companies Act (except as stated in a resolution of the shareholders passed at a General Meeting).

FORFEITING SHARES AND LIENS OVER SHARES

24 Notice following non-payment of a call

Articles 24 to 34 apply if a shareholder fails to pay the whole of the amount payable under the terms of allotment of a share, or amount of a call, or an instalment of a call, by the day that it is due. They also apply in the same way to a person who is automatically entitled to a share by law. The directors can serve a notice on him any time after the date it is due, if the whole amount immediately due has not been paid.

25 Contents of the notice of non-payment

This notice must:

(a) demand payment of the amount immediately payable, and may also require payment of any interest and any of the Company’s expenses caused by the failure to pay;

(b) give a date by when the total referred to immediately above must be paid, but this must be at least 14 clear days after the notice is served on the shareholder;

(c) say where the payment must be made; and

(d) say that if the full amount demanded is not paid by the time stated, and where stated, the Company can forfeit the shares on which the amount payable was due.

26 Forfeiture if the notice is not complied with

If the notice is not complied with, the shares that it relates to can be forfeited at any time while any amount (including interest and expenses) is still outstanding. This is done by the directors passing a resolution stating that the shares have been forfeited. The directors can accept the surrender of any share that would otherwise be forfeited. If a share is surrendered it will be treated as if it had been forfeited.

27 Forfeiture will include unpaid dividends

All dividends or other amounts which are due on the forfeited shares, but have not yet been paid, will also be forfeited.

28 Dealing with forfeited shares

28.1 The Company must notify a person whose shares have been forfeited. This includes a person who was entitled to the share by law. An entry of the notice and the date of forfeiture must be made in the Register. If the Company does not comply with the requirements of this Article 28.1, the forfeiture is still valid.

28.2 A share forfeited or surrendered under Article 26 belongs to the Company. The directors can sell or dispose of any forfeited share on any terms, and in any way that they decide. This can be with, or without, a credit for any amount previously paid up for the share. It can be sold or disposed of to any person, including the previous shareholder, or the person who was previously

automatically entitled by law to the share. The directors can, if necessary, authorise any person to transfer a forfeited share to the new holder.

29 Cancelling forfeiture

After a share has been forfeited, the directors can cancel the forfeiture. But they can only do this before the share has been sold or disposed of. This can be on any terms that they decide.

30 The position of shareholders after forfeiture

A shareholder loses all rights in connection with forfeited shares and, if the shares are in certificated form, must surrender any certificate for those shares to the Company for cancellation. A person is still liable to pay calls which had been made, but not paid, before the forfeiture of his shares. He must also pay interest on the unpaid amount, until it is paid. The interest rate will be the rate payable before the shares were forfeited (or, if no interest was payable, at the "appropriate rate" as defined in the Companies Act). He continues to be liable for all claims and demands which the Company could have made relating to the forfeited share. He is not entitled to any credit for the value of the share when it was forfeited or for money received by the Company under Article 28 unless the directors decide to allow credit for all or any of that value. None of the rights relating to the forfeited share continue to exist after forfeiture unless the Articles or the legislation require it.

31 The Company's lien on shares

The Company has a lien on all partly paid shares. This lien has priority over claims of others to the shares. This lien is for any money owed to the Company for the shares. This includes money called or payable at a fixed time on the share, even if it is not yet payable. The directors can decide to give up any lien which has arisen. They can also decide to suspend or cancel any lien which would otherwise apply to particular shares. The lien extends also to dividends and other amounts payable in respect of the share.

32 Enforcing the lien by selling the shares

If the directors want to enforce the lien referred to in Article 31, they can sell some or all of the shares in any way they decide. The directors can authorise someone to transfer the shares sold to the new holder. But they cannot sell the shares until all of these conditions are met:

(a) the money owed by the shareholder must be immediately payable;

(b) the directors must have given a written notice to the shareholder. This notice must say how much is due. It must also demand that this money is paid, and say that the shareholder's shares can be sold if the money is not paid;

(c) the notice just referred to must have been served on the shareholder, or on any person who is automatically entitled to the shares by law; and

(d) the money has not been paid by at least 14 clear days after the notice has been served.

33 Using the proceeds of the sale

If the directors sell any shares under Article 32, the net proceeds will first be used to pay the Company's expenses associated with the sale and then to pay off the amount which is then payable to the Company. The directors will pay any money left over to the former shareholder, or

to anybody who would otherwise have been automatically entitled to the shares by law. But the Company's lien will also apply to any money left over, to cover any money still due to the Company which is not yet payable: the Company has the same rights over this money as it had over the shares immediately before they were sold. The Company need not pay over anything left under this Article, in the case of shares in certificated form, until the certificate representing the shares sold has been delivered to the Company for cancellation.

34 Evidence of forfeiture or sale and position of new holder

34.1 A director, or the Secretary, can make a statutory declaration which declares:

(a) that he is a director or the Secretary of the Company;

(b) that a share has been properly surrendered, forfeited or sold to satisfy a lien under the Articles; and

(c) when the share was surrendered, forfeited or sold.

34.2 This will be evidence of these facts which cannot be disputed. If this declaration is delivered to the new holder of a share, with any completed transfer form which is required, this gives the new holder good title to the share.

34.3 The new holder of a share which has been forfeited, surrendered or sold under Article 32 does not need to take any steps to see how any money he may be paying for the share is used, including whether that money is transferred to the person whose shares are being transferred. The new shareholder's ownership of the share will not be affected if the steps taken to surrender or forfeit the share, or the sale or disposal of the share, were invalid or irregular, or if anything that should have been done was not done.

CHANGING SHARE RIGHTS

35 Changing the special rights of shares

35.1 If the Company's share capital is split into different classes of shares, the special rights which are attached to any of these classes can be varied or abrogated if this is approved by an Extraordinary Resolution. This must be passed at a separate meeting of the holders of the relevant class of shares. This is called a **class meeting**. Alternatively, the holders of at least three-quarters of the existing shares of the class (by nominal value) can give their consent in writing. But this does not apply if the variation or abrogation is not permitted by the legislation or the terms of issue of the shares.

35.2 The special rights of a class of shares can be varied or abrogated while the Company is a going concern, or while the Company is being wound up, or winding up is being considered.

35.3 All the Articles relating to General Meetings apply, with any necessary changes, to a class meeting, except as set out in Article 35.4.

35.4 At least two people who hold (or who act as proxies for) at least one-third of the total nominal value of the existing shares of the class are a quorum at a class meeting. However, if this quorum is not present at an adjourned meeting, one person who holds a share or shares of the class (or his proxy) is a quorum. One person can be treated as constituting a meeting for this purpose.

35.5 This Article also applies to the variation or abrogation of special rights of shares forming part of a class. Each part of the class which is being treated differently is viewed as a separate class in operating this Article.

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36 More about the special rights of shares

36.1 The special rights of existing shares are not regarded as varied:

(a) if new shares are created or issued; or

(b) if the Company buys back any of its own shares.

36.2 But this does not apply if the terms or rights of the existing shares expressly say otherwise or on the allotment of new shares with more favourable voting rights than the existing shares.

TRANSFERRING SHARES

37 General provisions about transfers of shares

37.1 Unless the Articles say otherwise, any shareholder can transfer some or all of his shares to another person. Every transfer of shares which are in certificated form must be in writing, and either in the usual standard form, or in any other form approved by the directors. Every transfer of shares which are in uncertificated form must be carried out by means of a relevant system.

37.2 No fee is payable to the Company for transferring shares or registering changes relating to the ownership of shares.

38 More about transfers of shares in certificated form

38.1 The transfer form must be delivered to the office where the Register is kept or another place determined by the directors. The transfer form must have with it:

(a) the share certificate for the shares to be transferred; and

(b) any other evidence which the directors ask for to prove that the person wishing to make the transfer is entitled to do this.

38.2 However, if a transfer is by a recognised clearing house or its nominee or by a recognised investment exchange, a share certificate is only needed if a certificate has been issued for the shares in question.

38.3 A share transfer form must be signed, or made effective in some other way, by the person making the transfer. It need not be made effective by using a seal of that person.

38.4 A share transfer form must also be signed, or made effective in some other way, by the person the share is being transferred to, if the share is not a fully paid-up share. It need not be made effective by using a seal of that person.

38.5 The person making a transfer will be treated as continuing to be the shareholder until the name of the person to whom a share is being transferred is put on the Register for that share.

38.6 If the Company registers a transfer, it may keep the transfer form.

38.7 A transfer form must be properly stamped (for payment of stamp duty) where this is required.

39 Transfers which may not be registered

39.1 The directors can refuse to register a transfer of any shares in certificated form which are not fully paid-up. They do not have to give any reasons for refusing. But, if any of the class of shares which are not fully paid-up are admitted to the Official List, the directors cannot refuse to register a transfer if this would stop dealings in those shares from taking place on an open and proper basis.

39.2 The directors can refuse to register a transfer of shares in certificated form if a single transfer form is used to transfer more than one class of shares. Each class needs a separate form.

39.3 The directors can refuse to register an allotment or transfer of shares which is in favour of more than four joint holders.

39.4 If the directors decide not to register an allotment or transfer of a share, they must notify the person to whom the shares were to be allotted or transferred and, in the case of shares in certificated form, the Company must return the letter of allotment or transfer form to the person who delivered it to the Company. This must be done no later than two months after:

(a) the Company receives the letter of allotment or transfer (in the case of shares held in certificated form); or

(b) the instruction from the Operator of the relevant system was received by the Company (in the case of shares held in uncertificated form).

40 Closing the Register

40.1 In the case of shares in certificated form, the directors can decide to suspend the registration of transfers by closing the Register for no more than 30 days a year. This can be for part of a day, a day, or more than a day. Suspension periods can vary between different classes of shares.

40.2 In the case of shares in uncertificated form, the Register shall not be closed without the consent of the Operator of a relevant system.

41 Overseas branch registers etc.

The Company can use all the powers that the legislation gives to keep an overseas branch register, local register or other register, or to keep duplicate registers, in any place. The directors can make and change any regulations they decide on relating to these registers, so far as the legislation allows this.

PERSONS AUTOMATICALLY ENTITLED TO SHARES BY LAW

42 Death of a shareholder

42.1 When a sole shareholder dies (or a shareholder who is the last survivor of joint shareholders dies), his legal personal representatives will be the only people whom the Company will recognise as being entitled to his shares.

42.2 If a shareholder who is a joint shareholder dies, the remaining joint shareholder or shareholders will be the only people whom the Company will recognise as being entitled to his shares.

42.3 But this Article does not discharge the estate of any shareholder from any liability.

43 Registering persons automatically entitled by law

Someone who becomes automatically entitled to a share by law can either be registered as the shareholder, or can select someone else to have the share transferred to. The person who is automatically entitled by law must provide any evidence of his entitlement which is reasonably required by the directors.

44 A person who wants to be registered must give notice

If someone who is automatically entitled to shares by law wants to be registered as a shareholder, he must deliver or send a notice to the Company saying that he has made this decision. He must sign this notice, and it must be in the form which the directors require. All of the provisions of these Articles about registering transfers of shares apply to it. The directors have the same power to refuse to register the automatically entitled person as they would have had in deciding whether to register a transfer by the person who was previously entitled to the shares.

45 Having another person registered

45.1 If someone who is automatically entitled to a share by law wants the share to be transferred to someone else, he must do this:

(a) if the share is in certificated form, by signing a transfer form transferring the share to the person he has selected; or

(b) if the share is in uncertificated form, by a transfer by means of a relevant system.

45.2 The directors have the same power to refuse to register the person selected as they would have had in deciding whether to register a transfer by the person who was previously entitled to the shares.

46 The rights of people automatically entitled to shares by law

46.1 A person who is automatically entitled to a share by law and who gives appropriate evidence of this to the Company is entitled to any dividends or other money relating to the share, even though he is not registered as the holder of that share. But the directors can withhold the dividend and other money until a person has been properly registered as the shareholder as laid down in the Articles. They can do this if the person is notified that he is required to be registered and does not comply within 60 days. They can also withhold the dividend if the person who was previously entitled to the share could have had his dividend withheld.

46.2 Unless he is registered as the holder of the share the person automatically entitled to a share by law is not entitled:

(a) to receive notices of shareholders' meetings, or to attend or vote at these meetings;

(b) to any of the other rights and benefits of being a shareholder;

unless the directors decide to allow this.

SHAREHOLDERS WHO CANNOT BE TRACED

47 Shareholders who cannot be traced

47.1 Subject to the CREST Regulations, the Company can sell any shares (by instructing such person as the Company thinks appropriate to sell them at the best price reasonably obtainable at the time of sale) if:

(a) during the 10 years before the earliest of the advertisements referred to in the next point, at least three dividends have been paid and none have been claimed;

(b) after this 10-year period, the Company announces that it intends to sell the shares by placing an advertisement in a national newspaper and in a newspaper appearing in the area which includes the address held by the Company for serving notices relating to the shares; and

(c) during this 10-year period, and for three months after the advertisements appear, the Company has not heard from the shareholder or any person who is automatically entitled to the shares by law or received any indication of the whereabouts or existence of such shareholder or other person.

If during the 10 year period, further shares have been issued to the shareholder, and all these requirements (other than 47.1(a)) have been satisfied in regard to the further shares, the Company may also sell the further shares.

47.2 To sell any shares in this way, the Company can authorise someone to transfer the shares to the new holder. This transfer will be just as effective as if it had been made by the registered holder of the shares, or by a person who is automatically entitled to the shares by law. The ownership of the person to whom the shares are transferred will not be affected even if the sale is irregular or invalid in any way.

47.3 The net sale proceeds belong to the Company until claimed under this Article, but it must pay these to the shareholder who could not be traced, or to the person who is automatically entitled to his shares by law, if that shareholder, or that other person, asks for it.

47.4 The Company must record the name of that shareholder, or the person who was automatically entitled to the shares by law, as a creditor for this money in its accounts. The money is not held on trust, and no interest is payable on the money. The Company can keep any money which it has earned by using the net sale proceeds. The Company can use the money for its business, or it can invest the money in any way that the directors decide. But the money cannot be invested in the Company's shares, or in the shares of any holding company of the Company.

GENERAL MEETINGS

48 The Annual General Meeting

The Company must hold an Annual General Meeting once every year, in addition to any other General Meetings which are held in the year. The notice calling the meeting must say that the meeting is the Annual General Meeting. There must not be a gap of more than 15 months between one Annual General Meeting and the next. The directors will decide when and where to hold the Annual General Meeting.

48A. Resolutions of members at Annual General Meetings

48A.1 If, on or before, 31st January in any year any members shall, in accordance with section 376 of the Act, require the Company, in relation to the Annual General Meeting to be held in that year, to give notice of a resolution which may properly be moved or to circulate a statement in acceptable form, the Company shall circulate that resolution or statement with the notice of the Annual General Meeting without cost to the requisitionists.

48A.2 If any requisition is made in accordance with section 376 of the Act after 31st January in any year and prior to the annual general meeting to be held in that year, the Company shall require that the requisitionists deposit or tender a sum sufficient to meet the Company's reasonable expenses in complying with such requisition.

49 Extraordinary General Meetings and Separate General Meetings

49.1 If a General Meeting is not an Annual General Meeting, it is called an Extraordinary General Meeting.

49.2 If a separate meeting of holders of shares of a class is called, otherwise than for varying or abrogating the rights of the shares of that class, the provisions of these Articles relating to General Meetings will apply to such a meeting with any necessary changes. Any such meeting is called a separate general meeting. For the purposes of this Article 49.2, a General Meeting where Ordinary Shareholders are the only shareholders who can attend and vote in their capacity as shareholders will also constitute a separate general meeting of the holders of the Ordinary Shares.

50 Calling an Extraordinary General Meeting

The directors can decide to call an Extraordinary General Meeting at any time. Extraordinary General Meetings must also be called promptly in response to a requisition by shareholders under the legislation.

51 Notice of meetings

51.1 At least 21 clear days' notice in writing (which includes, subject to the legislation, electronic mail) must be given for every Annual General Meeting and for any other meeting where it is proposed to pass a Special Resolution or to pass on some other resolution of which "special notice" under the Companies Act has been given to the Company. For every other General Meeting at least 14 clear days' notice in writing (which includes, subject to the legislation, electronic mail) must be given. However, a shorter period of notice can be given:

(a) for an Annual General Meeting, if all the members who are entitled to attend and vote agree; or

(b) for an Extraordinary General Meeting, if a majority of the members agree and those members hold at least 95 per cent by nominal value of the shares which can be voted at the meeting.

51.2 Any notice of meeting must:

(a) say, if applicable, that it is an Annual General Meeting;

(b) say where the meeting is to be held;

(c) give the date and time of the meeting;

(d) give the general nature of the business of the meeting;

(e) say if any resolution will be proposed as a Special Resolution or Extraordinary Resolution; and

(f) say with reasonable prominence that a shareholder who can attend and vote can appoint one or more proxies (who need not be shareholders) to vote for him on a poll.

51.3 Subject to Article 51.4, notices of meetings must be given to the shareholders, unless the Articles or the rights of the share say they are not entitled to receive them from the Company. Notice must also be given to each of the directors and to the Company's auditors. The day when the notice is served or is treated as served (see Article 146), and the day of the meeting do not count towards the period of notice.

51.4 The Company can decide that only those persons entered on the Register at the close of business on a day fixed by the Company are entitled to receive notice of a meeting. This day must not be more than 21 days before the day that the notice is sent.

51.5 If the Company cannot effectively call a General Meeting by sending notices through the post, because the postal service is suspended or restricted in either the United Kingdom or the United States (in this Article called the "affected territory"), the directors can give notice of the meeting to shareholders with addresses in the affected territory by publishing a notice in the affected territory. If it becomes possible to use the postal service again more than seven days before the meeting, the Company must send confirmation of the notice through the post. Article 142.3 describes how the advertising must be carried out. Notice published in this way will be treated as being properly served on shareholders who are entitled to receive it at noon on the day when the advertisement appears.

52 The proceedings at a General Meeting will still be valid if a person who is entitled to these things:

(a) is not given notice of the meeting;

(b) is not sent a form of proxy;

but this only applies if the omission was accidental.

53 A General Meeting can be moved at short notice

53.1 If the directors consider that it is impractical, or unreasonable, to hold a General Meeting on the date or at the time or place stated in the notice calling the meeting, they can move or postpone the meeting, or do both of these things. If the directors do this, an announcement of the date, time and place of the rearranged meeting will, if practical, be published:

(a) in the United Kingdom, in at least two United Kingdom national newspapers; and

(b) in the United States, in The Wall Street Journal and The New York Times or such other newspaper published in the United States as the directors consider to be appropriate.

53.2 Notice of the business of the meeting does not need to be given again. The directors must take reasonable steps to ensure that any shareholder trying to attend the meeting at the original time and place is informed of the new arrangements. If a meeting is rearranged in this way, proxy forms can be delivered, in the way required by Article 79, until 48 hours before the rearranged meeting. The directors can also move or postpone the rearranged meeting, or both, under this Article.

PROCEEDINGS AT GENERAL MEETINGS

54 The chairman of a meeting

54.1 The Chairman of the directors will be the chairman at every General Meeting, if he is willing and able to take the chair.

54.2 If the Company does not have a Chairman, or if the Chairman is not willing and able to chair the meeting, a Vice-Chairman will chair the meeting if he is willing and able to take the chair. If more than one Vice-Chairman is present, they will agree between themselves who will chair the meeting and if they cannot agree, the Vice-Chairman who has been a director longest will chair the meeting.

54.3 If the Company does not have a Chairman or a Vice-Chairman, or if neither the Chairman or any Vice-Chairman are willing and able to chair the meeting, after waiting 5 minutes from the time that the meeting is due to start, the directors who are present will choose one of themselves to act as chairman. If there is only one director present, he will be chairman, if he agrees.

54.4 If there is no director willing and able to be chairman or if no director is present after waiting 5 minutes from the time that a meeting is due to start, then the shareholders who are present at the meeting and entitled to vote will decide which one of them is to be chairman.

54.5 To avoid any doubt, nothing in the Articles restricts or excludes any of the powers or rights of a chairman of a meeting which are given by the general law.

55 Special Business at General Meetings

All the things which take place at an Extraordinary General Meeting are regarded as “special”. The same is true for the things done at an Annual General Meeting except for:

(a) the declaration of dividends;

(b) the consideration and adoption of the accounts and balance sheet and the reports of the directors and auditors and other documents which are required to be annexed to the accounts;

(c) the appointment and re-appointment of directors;

(d) the appointment of the auditors (unless the Companies Act requires special notice of this resolution);

(e) fixing or determining the method of fixing the remuneration of the directors or the auditors, or both.

56 Security, other arrangements and orderly conduct at General Meetings

56.1 The directors or the Company Secretary can take any action and can put in place any arrangements both before and during any General Meeting that they consider appropriate for:

(a) the safety of people attending a General Meeting;

(b) proper and orderly conduct at a General Meeting; or

(c) the meeting to reflect the wishes of the majority.

This includes the power to refuse entry to, or eject from meetings, people who fail to comply with any arrangements made.

56.2 The chairman of a meeting may take any action he considers appropriate for proper and orderly conduct at a general meeting. The chairman has the final decision on matters of procedure and on matters that arise incidentally from the business of the meeting. The chairman also has the final decision on whether a matter is procedural or incidental.

57 Overflow meeting rooms

The directors can arrange for any people who they consider cannot be seated in the main meeting room, where the chairman will be, to attend and take part in a General Meeting in an overflow room or rooms. Any overflow room will have a live video link from the main room, and a two-way sound link. The notice of the meeting does not have to give details of any arrangements

under this Article. The directors can decide on how to divide people between the main room and any overflow room. If any overflow room is used, the meeting will be treated as being held, and taking place, in the main room.

58 Telephone Meetings

58.1 If the directors so decide, any or all of the members (or their proxies) can take part in a general meeting by way of a conference telephone or using video teleconference equipment or by use of similar equipment designed to allow everybody to take part in the meeting.

58.2 Taking part in this way will be counted as being present at the meeting and entitles a member (or his proxy) to vote and count in the quorum. A meeting which takes place by conference telephone or using video teleconference equipment will be treated as taking place at the place where the chairman is.

59 The quorum needed for meetings

Before a General Meeting starts to do business, there must be a quorum present. If there is not, the meeting cannot carry out any business. The meeting can still choose a chairman, which does not count as carrying out business for these purposes. Unless the Articles say otherwise, a quorum for all purposes is two people who are entitled to vote. They can be personally present or proxies for shareholders or a combination of shareholders and proxies. In the Articles, a shareholder which is a company is considered to be present if it is represented by a duly authorised representative.

60 The procedure if there is no quorum

This Article applies if a quorum is not present within five minutes of the time fixed for a General Meeting to start or if there is no longer a quorum present at any time during a General Meeting. If the meeting was called by shareholders it is dissolved. Any other meeting is adjourned to any day, time and place stated in the notice of meeting. If the notice does not provide for this, the meeting is adjourned to a day, time and place decided on by the chairman. At the reconvened meeting, a quorum is one shareholder personally present or a proxy for one shareholder.

61 Directors and other persons at General Meetings

61.1 All of the directors can attend and speak at shareholders' meetings. The directors can do this whether or not they are also shareholders.

61.2 The chairman of a meeting may also allow any other person to attend and speak where he considers that this will help the business of the meeting.

62 Adjourning meetings

62.1 The chairman of a meeting can adjourn a meeting which has a quorum present for any reason, whether or not this is agreed by the meeting. For example, the chairman may adjourn the meeting if he considers that:

(a) there is not enough room for the number of shareholders who wish to attend the meeting;

(b) the behaviour of the people present prevents, or is likely to prevent, the business of the meeting being carried out in an orderly way; or

(c) an adjournment is necessary for any other reason, so that the business of the meeting can be properly carried out.

62.2 The adjournment can be to a time, date and place proposed by the chairman. It can also be an indefinite adjournment.

62.3 The chairman must adjourn a meeting if the meeting directs him to do this. In these circumstances the meeting will decide how long the adjournment will be, and where it will adjourn to.

62.4 If a meeting is adjourned indefinitely, the directors will fix the time, date and place of the adjourned meeting.

62.5 Meetings can be adjourned more than once. But if a meeting is adjourned for three months or more or indefinitely, at least 7 clear days' notice must be given for the adjourned meeting in the same way as was required for the original meeting. If a meeting is adjourned for less than three months, there is no need to give notice about the adjourned meeting, or about the business to be considered there.

62.6 A reconvened meeting can only deal with business that could have been dealt with at the meeting which was adjourned.

62.7 Meetings can only be adjourned as set out in this Article 62, or in Article 60 above.

63 Confidential information

No shareholder at a shareholders' meeting is entitled to require disclosure of or any information about any detail of the Company's trading, or any matter that is or may be in the nature of a trade secret, commercial secret or secret process, or that may relate to the conduct of the business of the Company, if the directors decide it would be inexpedient in the interests of the Company to make that information public.

64 Amending resolutions

64.1 Amendments can be proposed to any resolution if they are only clerical amendments, or amendments to correct some other obvious error in the resolution.

64.2 No other amendments can be proposed to any Special or Extraordinary Resolution.

64.3 Amendments to an Ordinary Resolution which are within the scope of the resolution can be proposed if:

(a) notice of the proposed amendment is delivered to the Registered Office at least 48 hours before the time of the meeting, or adjourned meeting; or

(b) the chairman of the meeting decides that the amendment is appropriate for consideration by the meeting.

No other amendments can be proposed to an Ordinary Resolution.

64.4 If the Chairman, acting in good faith, rules an amendment out of order, any error in that ruling will not affect the validity of a vote on the resolution.

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VOTING PROCEDURES

65 How votes are taken

If a resolution is put to the vote at a General Meeting, it will be decided by poll.

66 How a poll is taken

66.1 The chairman of the meeting decides how a poll will be carried out. The result is treated as the decision of the meeting where the poll was demanded, even if the poll is carried out after the meeting.

66.2 The chairman can:

(a) appoint scrutineers (who need not be shareholders);

(b) set a day, time and place which he decides on for the result of the poll to be declared.

66.3 If a poll is called, a shareholder can vote either personally or by his proxy. If a shareholder votes on a poll, he does not have to use all of his votes; nor does he have to cast all his votes in the same way.

67 Timing of a poll

A poll on a vote to elect the chairman of the meeting or to adjourn the meeting must be taken immediately at the meeting. Any other poll can either be taken immediately at the meeting or at another time (within 30 days of the meeting) and place as decided by the chairman. No notice is required for a poll which is not taken immediately if the time and place of the poll are announced at the meeting. Otherwise 7 clear days' notice must be given of the time and place of the poll.

68 The chairman's casting vote

If the votes are equal the chairman of the meeting is entitled to a further, casting vote. This is in addition to any other votes which he may have as a shareholder, or as a proxy.

69 Shareholders which are companies

69.1 A shareholder which is a company can appoint any one person it chooses to act as its representative at a shareholders' meeting.

69.2 Anyone appointed under Article 69.1 can exercise any powers which the shareholder appointing him would have if it were an individual shareholder.

69.3 If a person appointed under Article 69.1 attends a General Meeting or other meeting for which he is appointed, he is treated for the purpose of these Articles as if he were a shareholder present in person and holding the shares to which the appointment relates.

70 Approved Depositaries

70.1 Subject to these Articles and the legislation, an Approved Depositary can appoint as its proxy or proxies in relation to any Ordinary Shares which it holds, anyone it thinks fit and can decide how and on what terms to appoint them. Each appointment must state the number of Ordinary Shares it relates to and the total number of Ordinary Shares in respect of which appointments exist at any time must not be more than the total number of Ordinary Shares (the **Depositary Shares**) which are registered in the name of the Approved Depositary or its nominee at that time.

70.2 The Approved Depositary must keep a register (the **Proxy Register**) of each person it has appointed as a proxy under Article 70.1 (an **Appointed Proxy**) and the number of Depositary Shares (his **Appointed Number**) to which the appointment relates. The directors will decide what information about each Appointed Proxy is to be recorded in the Proxy Register. Any person authorised by the Company may inspect the Proxy Register during usual business hours and the Approved Depositary will give such person any information which he requests as to the contents of the Proxy Register.

70.3 An Appointed Proxy may only attend a General Meeting if he provides the Company with written evidence of his appointment as such. This must be in a form agreed between the directors and the Approved Depositary.

70.4 Subject to the legislation and to these Articles, and so long as the Approved Depositary or a nominee of the Approved Dispositary holds at least his Appointed Number of Ordinary Shares, an Appointed Proxy is entitled to attend a General Meeting which holders of Ordinary Shares are entitled to attend, and he is entitled to the same rights, and subject to the same obligations, in relation to his Appointed Number of Depositary Shares as if he had been validly appointed in accordance with Articles 78 and 79 by the registered holder of these shares as its proxy in relation to those shares.

70.5 An Appointed Proxy may appoint another person as his proxy for his Appointed Number of Depositary Shares, as long as the appointment is made and deposited in accordance with Articles 78 and 79, and these Articles apply to that appointment and to the person so appointed as though those Depositary Shares were registered in the name of the Appointed Proxy and the appointment was made by him in that capacity. The directors may require such evidence as they think appropriate to decide that such appointment is effective.

70.6 For the purposes of determining who is entitled as an Appointed Proxy to exercise the rights conferred by Articles 70.4 and 70.5 and the number of Depositary Shares in respect of which a person is to be treated as having been appointed as an Appointed Proxy for these purposes, the Approved Depositary can decide that the Appointed Proxies who are so entitled are the people entered in the Proxy Register at a time and on a date (a **Record Time**) agreed between the Approved Depositary and the Company.

70.7 When a Record Date is decided for a particular purpose:-

(a) an Appointed Proxy is to be treated as having been appointed for that purpose for the number of shares appearing against his name in the Proxy Register as at the Record Time; and

(b) changes to entries in the Proxy Register after the Record Time will be ignored for this purpose.

70.8 Except for recognising the rights given in relation to General Meetings by appointments made by Appointed Proxies pursuant to Article 70.5, the Company is entitled to treat any person entered in the Proxy Register as an Appointed Proxy as the only person (other than the Approved Depositary) who has any interest in the Depositary Shares in respect of which the Appointed Proxy has been appointed.

70.9 At a General Meeting the Chairman has the final decision as to whether any person has the right to vote or exercise any other right relating to any Depositary Shares. In any other situation, the Directors have the final decision as to whether any person has the right to exercise any right relating to any Depositary Shares.

71 Written resolutions

Subject to the legislation, the Company may pass a resolution in the form of a written resolution. It is just as effective as if it were passed at a General Meeting which had been convened and held properly. The resolution must be signed by or on behalf of each shareholder who would have been entitled to vote on it at a General Meeting if he was present and it was proposed. For this purpose, different shareholders can sign different copies of the resolution provided that the copies are all the same. These copies can be fax or electronic copies.

72 The effect of a declaration by the chairman

72.1 Any of the following declarations by the chairman of the meeting which is entered in the minutes of the meeting is conclusive proof that:

(a) a resolution has been carried;

(b) a resolution has been carried unanimously;

(c) a resolution has been carried by a particular majority;

(d) a resolution has been lost; or

(e) a resolution has been lost by a particular majority.

72.2 There is no need to prove the number, or proportion, of votes recorded for or against the resolution.

VOTING RIGHTS

73 The votes of shareholders

73.1 Where there is a poll, a shareholder who is present in person or by proxy has one vote for every share which he holds. This is subject to Article 73.2 below and to the other provisions of the Articles and to any special rights or restrictions which are given to any class of shares. A representative of a company has one vote for every share which he is treated as holding (see Article 69).

73.2 For the purposes of determining which people may attend or vote at a meeting and how many votes such people have, the notice of the meeting may give a time by which people must be entered on the Register in order to be entitled to attend or vote at the meeting. This time must be not more than 48 hours before the time fixed for the meeting.

74 Shareholders who owe money to the Company

Unless the directors decide otherwise, the only people who can attend or vote at shareholders' meetings are shareholders who have paid the Company all calls, and all other sums, relating to their shares which are due at the time of the meeting. This applies both to attending a meeting personally and to appointing a proxy.

75 Failure to comply with a notice under Section 212 of the Companies Act

75.1 This Article applies if any shareholder, or any person appearing to be interested in shares held by such holder, has been properly served with a notice under Section 212 of the Companies Act, requiring information about interests in shares, and has failed for a period of 14 days to supply to the Company the information required by that notice. Then (unless the directors otherwise

decide) the shareholder is not (for so long as the failure continues) entitled to attend or vote either personally or by proxy at a shareholders' meeting or to exercise any other right in relation to shareholders' meetings as holder of:

(a) the shares in relation to which the default occurred (called **default shares**);

(b) any further shares which are issued in respect of default shares; and

(c) any other shares held by the shareholder holding the default shares.

75.2 Any person who acquires shares subject to restrictions under Article 75.1 is subject to the same restrictions, unless:

(a) the transfer was an approved transfer (see Article 75.11);

(b) the transfer was by a shareholder who was not himself in default in supplying the information required by the notice under Article 75.1 and a signed declaration as referred to in Article 75.3 is provided.

75.3 Where the default shares represent 0.25 per cent or more of the existing shares of a class, the directors can in their absolute discretion direct, by giving notice (a direction notice) to the shareholder, that:

(a) any dividend or part of a dividend or other money which would otherwise be payable on the default shares shall be retained by the Company (without any liability to pay interest when such money is finally paid to the shareholder); and/or

(b) the shareholder shall not be entitled to elect to receive shares in place of dividends withheld; and/or

(c) (subject to the requirements of the relevant system in relation to shares in uncertificated form) no transfer of any of the shares held by the shareholder shall be registered unless:

(i) **either** the transfer is an approved transfer (see Article 75.11);

(ii) **or** the shareholder is not himself in default as regards supplying the information required; and (in this case)

(a) the transfer is of part only of his holding; and

(b) when presented for registration, the transfer is accompanied by a signed declaration by the shareholder. This must be in a form satisfactory to the directors and state that after due and careful enquiry the shareholder is satisfied that none of the shares included in the transfer are default shares.

75.4 Any direction notice may treat certificated and uncertificated shares of a shareholder as separate holdings and either apply only to certificated shares or to uncertificated shares or make different provision for certificated and uncertificated shares. In the case of shares in uncertificated form the directors can only use their discretion to prevent a transfer if this is allowed by the CREST Regulations.

75.5 The Company must send a copy of the direction notice to each other person who appears to be interested in the shares covered by the notice, but if it fails to do so, this does not invalidate the direction notice.

75.6 Once a direction notice has been given, the directors are free to cancel it or exclude any shares from it at any time they think fit, but otherwise it has the effect which it states while the default resulting in the notice continues. In addition, a direction notice ceases to apply when the directors

decide that the default resulting in the notice has been cured (which they must do within one week of the default being cured). The Company must give the shareholder immediate written notice of the directors' decision.

75.7 A direction notice also ceases to apply to any shares which are transferred by a shareholder in a transfer which would be permitted under Article 75.3 even where a direction notice restricts transfers.

75.8 Where a person who appears to be interested in shares has been served with a notice under Section 212 of the Companies Act and the shares in which he appears to be interested are held by an Approved Depositary, this Article shall be treated as applying only to the shares which are held by the Approved Depositary in which that person appears to be interested and not (so far as that person's apparent interest is concerned) to any other shares held by the Approved Depositary.

75.9 Where the shareholder on which a notice under Section 212 of the Companies Act is served is an Approved Depositary, the obligations of the Approved Depositary as a shareholder will be limited to disclosing to the Company any information relating to any person who appears to be interested in the shares held by it which has been recorded by it in accordance with the arrangement under which it was appointed as an Approved Depositary.

75.10 For the purposes of this Article a person is treated as appearing to be interested in any shares if the shareholder holding such shares has been served with a notice under Section 212 of the Companies Act and:

(a) the shareholder has named such person as being so interested; or

(b) (after taking into account the response of the shareholder to such notice and any other relevant information) the Company knows or has reasonable cause to believe that the person in question is or may be interested in the shares.

75.11 For the purposes of this Article a transfer of shares is an **approved transfer** if:

(a) it is a transfer of shares to an offeror under an acceptance of a takeover offer (as defined in Section 428 of the Companies Act); or

(b) the directors are satisfied that the transfer is made pursuant to a bona fide sale of the whole of the beneficial ownership of the shares to a party unconnected with the shareholder or with any person appearing to be interested in the shares. This includes such a sale made through the London Stock Exchange or any other stock exchange outside the United Kingdom on which the Company's shares are normally traded. For this purpose any associate (as that term is defined in Section 435 of the Insolvency Act 1986) is included amongst the persons who are connected with the shareholder or any person appearing to be interested in the shares.

75.12 This Article does not restrict in any way the provisions of the Companies Act which apply to failures to comply with notices under Section 212 of that Act.

76 Votes of shareholders who are of unsound mind

This Article applies where a court or official with powers relating to mental disorder has appointed a person to manage a shareholder's affairs, including the exercise of voting rights on shares. The person appointed to act for the shareholder can vote for the shareholder and exercise other rights at shareholders' meetings. This includes appointing a proxy and voting on a poll. However, this only applies if any evidence which the directors may require of the person's authority to do these

things is delivered to the office where the Register is kept or some other place specified in accordance with the Articles for delivery of proxies at least 24 hours before the time fixed for the relevant meeting (or adjourned meeting).

77 The votes of joint holders

This Article applies to shares held by joint shareholders. If more than one of the joint shareholders votes, the only votes which will count are the votes of the person whose name is listed before the names of the other(s) of these voters on the Register for the share.

78 Completing proxy forms

78.1 A proxy form can be in any form which is commonly used, or in any other form which the directors approve. It must provide for two-way voting on all resolutions to be proposed at a meeting other than those relating to procedure. A proxy form must be sent by post or, subject to the legislation, by fax or by electronic mail, by the Company to all persons entitled to notice of a meeting and to attend and vote at it.

78.2 A proxy form must be in writing. A proxy form given by an individual must be signed by the shareholder appointing the proxy, or by an attorney who has been properly appointed in writing. If a proxy is appointed by a company, the form should be either sealed with the company's seal or signed by an officer or an attorney who is properly authorised to act on behalf of the company. Signatures need not be witnessed.

78.3 The directors may decide to allow a proxy to be appointed in electronic form, for example via the Internet , by telephone, or by fax, subject to any limitations, restrictions or conditions they decide, and subject to the legislation, and Article 78.2 does not apply to a proxy form delivered in such a way but the directors may require such evidence as they think appropriate to decide that the proxy appointment is effective.

78.4 A proxy need not be a shareholder. A shareholder can appoint more than one proxy for the same meeting. He can appoint a proxy and still attend and vote in person.

79 Delivering proxy forms

79.1 A proxy form must be delivered to the place or places within the United Kingdom or in the United States, or, if the directors decide to accept proxy forms delivered electronically , by telephone, or by fax in the way, stated in the notice of meeting, or in the proxy form. If no other place is stated, it must be delivered to the office where the Register is kept. It must be delivered at least:

(a) 48 hours before the time fixed for the meeting, or adjourned meeting; or

(b) 48 hours before a poll is taken, if the poll is not taken on the same day as the meeting or adjourned meeting.

79.2 If a proxy form is signed by an attorney, the power of attorney or other authority relied on to sign it, or a copy which has been certified by a notary or in accordance with the Powers of Attorney Act 1971, or an office copy, must be delivered with the proxy form, unless the power of attorney has already been registered with the Company.

79.3 If Article 79 is not complied with, the proxy will not be able to act for the person who appointed him.

79.4 A proxy form delivered by an Approved Depositary except in respect of a person appointed in accordance with Article 70 may be delivered to the appropriate place referred to in Article 79.1 by fax or in any other way the directors decide.

79.5 If a proxy form which relates to several meetings has been properly delivered for one meeting, or adjourned meeting, it does not need to be delivered again for any later meeting which the proxy form covers.

80 Revocation of proxies

80.1 Any vote by a proxy or by a company representative will be valid even though:

(a) the person who appointed the proxy has died or is of unsound mind;

(b) the proxy form has been revoked;

(c) the appointment of the company representative has been revoked; or

(d) the authority of the person who signed the proxy form for the shareholder has been revoked.

80.2 However, this does not apply if written notice of such a fact has been received at the office where the Register is kept or at any other place specified as a place where the proxy could be delivered (or such notice has been given electronically or by telephone if the appointment could have been made in these ways) at least 24 hours before:

(a) the meeting or adjourned meeting starts; or

(b) the time fixed on a later day to take a poll.

81 Proxies speaking at meetings

A proxy or an Appointed Proxy may speak at a meeting.

82 Proxies for amendments and adjournments

A proxy is entitled to vote on any amendment of a resolution put to the meeting to which his appointment relates. The proxy can vote as he thinks fit. His appointment as proxy is equally valid for the original meeting and any adjournment.

83 Expiry of proxies

83.1 The appointment of a proxy other than an Appointed Proxy only remains valid for 12 months.

83.2 Where more than one valid proxy form is delivered for the same meeting in respect of the same shares, the one delivered last is taken to replace the others. If the proxy forms conflict and the Company cannot tell which was delivered last, none is valid.

84 Challenging votes

Any objection to the right of any person to vote must be made at the meeting (or adjourned meeting) or poll at which the vote is cast. If a vote is not disallowed at the meeting or poll, it is valid for all purposes and if a vote is not counted at a meeting, this will not affect the decision of the meeting. Any objection must be raised with the chairman of the meeting. His decision is final.

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DIRECTORS

85 The number of directors

There must be at least six directors, and not more than 24. This does not include alternate directors. But the shareholders can vary this maximum and/or minimum by passing an Ordinary Resolution.

86 Qualification to be a director

A director need not be a shareholder.

87 Directors' fees and expenses

87.1 The directors can decide on the amount, timing and manner of payment of fees to be paid by the Company to the directors for acting as directors. These fees can be satisfied in cash or in any other form.

87.2 If the directors decide to satisfy any of these fees in shares or in any other non-cash form, the value of the shares or other assets to be counted towards this limit will be their value at the time the entitlement to them is first allocated, or provisionally allocated, to the director. This value will be taken into account for the purpose of the limit in the year in which the entitlement is first allocated, or provisionally allocated, and not in any later year when the fees, shares or other assets are actually paid or delivered to the director. This paragraph applies even if:

(a) the director's entitlement to the fees, or to receive the assets, is subject to conditions which will, or may, be fulfilled at a later time;

(b) the fees, shares or other assets are to be, or may be, paid or delivered to the director at a later time or the director elects, agrees or is required to receive the cash equivalent of the shares or other assets as determined by reference to their value at such later time;

(c) the Company has not paid for the relevant shares or other assets at the time the director first becomes, or becomes provisionally, entitled to them, and their value subsequently changes.

87.3 Unless an Ordinary Resolution is passed saying otherwise, the fees will be divided between some or all of the directors in the way that they decide. If they fail to decide, the fees will be shared equally by the directors, except that any director holding office as a director for only part of the period covered by the fee is only entitled to a pro rata share covering that part period.

88 Special pay

88.1 The directors can award special pay to any director who:

(a) holds any executive post;

(b) acts as Chairman or Vice-Chairman;

(c) serves on any committee of the directors; or

(d) performs any other services which the directors consider to extend beyond the ordinary duties of a director.

88.2 Special pay can take the form of salary, commission or other benefits or can be paid in some other way. This is decided on by the directors.

89 Directors' expenses

89.1 The directors can also repay to a director all reasonable travelling, hotel and other expenses properly incurred:

(a) to attend and return from shareholders' or debenture holders' meetings;

(b) to attend and return from directors' meetings;

(c) to attend and return from meetings of committees of the directors; or

(d) in other ways in connection with performance of their duties for the Company.

89.2 The directors can award extra pay to any director who, at the request of the directors, performs special services or goes or lives abroad for any purposes of the Company.

90 Directors' pensions and other benefits

90.1 It is entirely for the directors to decide whether to provide:

(a) pensions;

(b) insurance;

(c) gratuities; or

(d) other allowances or benefits

to any people who are, or who were, directors or employees of the Company or any of its subsidiaries or any associated or acquired company or business. The directors can decide to extend these arrangements to any family member of such a person or anyone who is or was dependent on him. This includes a present or former spouse. The directors can decide to contribute to any scheme or fund or to pay premiums to a third party for these purposes.

90.2 As permitted by section 719 of the Companies Act, the directors can make appropriate provision for the benefit of any present or former employee of the Company or any of its subsidiaries in connection with the cessation or the transfer of all or some of the undertaking of the Company or that subsidiary. The directors must decide on any provision of this kind by passing a resolution in accordance with section 719 of the Companies Act.

91 Appointing directors to various posts

91.1 Subject to the legislation, the directors can appoint any director as Chief Executive, and can appoint one or more directors as managing director or to any other executive position (except the Company's auditor) they decide on. So far as the legislation allows, they can decide on how long these appointments will be for, and on their terms. They can also vary or end such appointments.

91.2 A director will automatically stop holding any executive office if he is no longer a director. If a director's appointment ends by virtue of this Article, this does not prejudice any claim for breach of contract against the Company which may otherwise apply. He will not stop being a director because he stops holding the executive office.

91.3 The directors can determine the pay and benefits of any managing director or other director appointed to an executive position. The pay and benefits can take any form at all. It may include membership of any pension or life assurance scheme or similar arrangement or any payment to him or his dependants after retirement or death.

91.4 The directors can give a managing director or any other director appointed to an executive post any of the powers which they jointly have as directors. These powers can be given on terms and conditions decided on by the directors either in parallel with, or in place of, the powers of the directors acting jointly. The directors can change the basis on which such powers are given or withdraw such powers from the executive.

CHANGING DIRECTORS

92 Age limits

Provisions of the legislation which, read with these Articles, would restrict the appointment of a director or require him to stop being a director because he has reached a particular age do not apply to the Company. This includes restrictions and requirements involving special formalities once an age limit is reached.

93 Retiring by rotation

At every Annual General Meeting one-third of the current directors must retire as directors. If one-third is not a whole number, the number of directors to retire is the number which is nearest to one-third. If there are less than three directors, they will all retire.

94 Selecting the directors to retire by rotation

94.1 This Article states, subject to the legislation, which directors must retire at an Annual General Meeting under Article 93:

(a) first, any director who was in office at the time of the two previous annual general meetings and who did not retire by rotation at either of them;

(b) secondly, if the number of directors retiring remains less than the minimum number who must retire by rotation under these Articles, additional directors up to that number must retire. The directors who must retire in this manner are those who have been directors longest since they were last elected. If there are directors who were last elected on the same date, they can agree on who is to retire. If they do not agree, they must draw lots to decide.

94.2 The selection of directors to retire is based on the number and identity of the directors when the notice of the Annual General Meeting is given. It is not affected by anything which happens between then and the meeting.

95 Re-electing a director who is retiring

95.1 At the General Meeting at which a director retires the shareholders can pass an Ordinary Resolution to re-elect the director or to elect some other eligible person in his place. If such an Ordinary Resolution is not passed, the retiring director is automatically re-elected unless:

(a) the meeting expressly resolves not to appoint a director to fill the vacancy;

(b) the director has told the Company in writing that he does not wish to be re-elected;

(c) the Ordinary Resolution is not passed because Article 96 is breached; or

(d) a resolution to re-appoint the director is put to the meeting and not passed.

95.2 A director retiring at a General Meeting retires at the end of that meeting or (if earlier) when a resolution is passed to appoint someone in his place or when a resolution to re-appoint him as a director is lost. Where a retiring director is re-elected (or treated as re-elected under Article 95.1) he continues as a director without a break.

96 Election of two or more directors

A single resolution for the election of two or more directors is void unless the putting of the resolution in this form has been approved by an earlier procedural vote taken at the General Meeting, with no votes cast against.

97 People who can be directors

97.1 Only the following people can be elected as directors at a General Meeting:

(a) a director who is retiring at the meeting;

(b) a person who is recommended by the directors;

(c) a person who has been proposed in the following way. A shareholder who is entitled to attend and vote at the meeting (other than the proposed director) must deliver a written notice to the Company saying that he intends to propose the person for election. This notice must be delivered at least 14 clear days before the meeting, but not more than 35 clear days before. The person to be proposed must confirm in writing that he is willing to be elected, and his confirmation must be included with the notice. The notice must include the details which would need to be included in the Company's register of directors.

98 The power to fill vacancies and appoint extra directors

98.1 The directors can appoint any person as an extra director (if Article 85 allows this), or to fill a vacancy. Any director appointed in this way must retire at the first Annual General Meeting after his appointment. At this Annual General Meeting he can be elected by the shareholders as a director. A director who retires in this way is not taken into account in deciding which and how many directors should retire by rotation at the Annual General Meeting (see Article 94).

98.2 At a General Meeting the shareholders can also pass an Ordinary Resolution to fill a vacancy or to appoint an extra director (if Article 85 allows this). The shareholders can also decide the rotation in which any extra directors must retire. The new director must be willing to act.

99 Removing and appointing directors by an Ordinary Resolution

99.1 The shareholders can pass an Ordinary Resolution to remove a director, even though his time in office has not ended. This applies despite anything else said in the Articles, or in any agreement between the Company and any director. Special notice of the Ordinary Resolution must be given to the Company as required by the legislation. But if a director is removed in this way, it will not affect any claim which he may have for damages for breach of any contract of service he may have.

99.2 For a period of three years from the date of the completion of the merger of Glaxo Wellcome plc and SmithKline Beecham plc, the service contract of any executive director can only be terminated if two-thirds of the directors present and voting at a board meeting vote in favour of a resolution to do so.

99.3 The shareholders can pass an Ordinary Resolution to appoint a person to replace a director who has been removed in this way. A person appointed under this Article to replace a director who has been removed retires by rotation under Article 94 when the director he replaces would have been due to retire. If no director is appointed under this Article, the vacancy can be filled under Article 98.

100 When directors are disqualified

100.1 Any director automatically ceases to be a director in any of the following circumstances:

(a) If a bankruptcy order is made against him.

(b) If he makes any arrangement or composition with his creditors or applies for an interim order under Section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement under that Act.

(c) If he is or may be suffering from mental disorder and either:

(i) he is admitted to hospital as a result of an application under the Mental Health Act 1983 or any similar law of any jurisdiction; or

(ii) a court order has been made for his detention or for the appointment of someone to exercise powers over his property or affairs.

(d) If he has missed directors' meetings for a continuous period of six months, without permission from the directors, and the directors pass a resolution stating that he has ceased to be a director.

(e) If he is prohibited from being a director under the legislation.

(f) If (not being appointed for a fixed term) he gives the Company notice of his resignation.

(g) If he gives the Company a letter in which he offers to resign and the directors decide to accept this offer.

(h) If there are at least 3 other directors, and all of the other directors sign a notice requiring the director to resign. He will cease to be a director when the notice is served on him. But if a director is removed in this way this is an act of the Company which does not affect any claim for damages for breach of any contract of service which he may have.

100.2 If a director stops being a director for any reason, he will also automatically cease to be a member of any committee or sub-committee of the directors.

DIRECTORS' MEETINGS

101 Directors' meetings

The directors can decide when to have meetings and how they shall be conducted, and on the quorum. They can also adjourn their meetings. This is subject to the provisions of these Articles.

102 Who can call directors' meetings

A meeting can be called by any director. The Company Secretary must also call a meeting if a director requests a meeting.

103 How directors' meetings are called

Meetings are called by serving a notice on all the directors. Any director can waive notice of any meeting, including one which has already taken place. Notice is served personally or by word of mouth or sent in writing to the director's last known address or any other address supplied to the Company. The address may be in the United Kingdom or elsewhere, and notice given to a director who is out of the United Kingdom does not need to be given any earlier than notice given to directors who are in the United Kingdom. Any director can waive notice of any directors' meeting, including one which has already taken place.

104 Quorum

If no other quorum is fixed by the directors, four directors are a quorum. A meeting at which a quorum is present can exercise all the powers and discretions of the directors. If no director objects, a director who ceases to be a director at a meeting can stay and be counted in the quorum if a quorum would not otherwise be present.

105 The chairman of directors' meetings

The directors can elect any directors as Chairman or as one or more Vice-Chairmen and may at any time remove any of them from that office. If the Chairman is at a meeting, he will chair it unless he does not wish to do so. If the Chairman does not take the chair, a Vice-Chairman will do so, if one is present and willing to do so. If more than one Vice-Chairman is present, the most senior Vice-Chairman is entitled to take the chair, unless the directors decide otherwise. If there is no Chairman or Vice-Chairman present and willing to take the chair within five minutes of the time when the meeting is due to start, the directors who are present can choose which one of them will be the chairman of the meeting.

106 Voting at directors' meetings

Matters for decision which arise at a directors' meeting will be decided by a majority vote. If votes are equal, the chairman of the meeting shall have a second, casting vote.

107 Directors can act even if there are vacancies

107.1 The remaining directors or a sole remaining director can continue to act even if one or more of them ceases to be a director. But if the number of directors falls below the number fixed as a quorum the remaining director(s) can only:

(a) either appoint further directors to make up the shortfall; or

(b) convene a General Meeting.

107.2 If no director or directors are willing or able to act under this Article, any two shareholders can call a General Meeting to appoint extra directors.

108 Telephone meetings

108.1 Any or all of the directors, or members of a committee, can take part in a meeting of the directors or of a committee:

(a) by way of a conference telephone or video teleconference equipment or by use of similar equipment designed to allow everybody to take part in the meeting; or

(b) by a series of telephone calls from the chairman of the meeting.

108.2 Taking part in this way will be counted as being present at the meeting and entitles a director to vote and count in the quorum. A meeting which takes place by conference telephone or using video conference equipment or by a series of calls from the chairman will be treated as taking place at the place where the chairman is.

109 Resolutions in writing

This Article applies to a written resolution which is signed by all of the directors who would be entitled to vote on the resolution at a directors' meeting or committee meeting and who are at least sufficient in number to form a quorum. This kind of resolution is just as valid and effective as a resolution passed by the directors at a meeting or committee meeting which is properly called and held. The resolution can be passed using several copies of a document, if each document is signed by one or more directors. These copies can be fax or electronic copies. This Article also applies to written resolutions by committees of directors. A resolution agreed and signed by an alternate director need not be agreed and signed by his appointor, and vice versa.

110 The validity of directors' actions

Everything which is done by any directors' meeting, or by a committee of the directors, or by a person acting as a director, or as an alternate director, or as a member of a committee, will be valid even though it is discovered later that any director, or person acting as a director, was not properly appointed. This also applies if it is discovered later that anyone was disqualified from being a director, or had ceased to be a director, or was not entitled to vote. In any of these cases in favour of anyone dealing with the Company in good faith anything done will be as valid as if there was no defect or irregularity of the kind referred to in this Article.

DIRECTORS' INTERESTS

111 Directors' interests in transactions with the Company

111.1 If the legislation allows and he has disclosed the nature and extent of his interest to the directors, a director can:

(a) hold any other position (other than auditor) in the Company as well as being a director;

(b) have any kind of interest in any existing or proposed contract, transaction or arrangement with or involving the Company or in which the Company has an interest;

(c) have any kind of interest in any existing or proposed contract, transaction or arrangement with or involving another company in which the Company has some interest;

(d) be a director or other officer of, or employed by, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested;

(e) either alone or through some firm with which he is associated do paid professional work for the Company (other than as auditor of the Company).

111.2 A director does not have to hand over to the Company any benefit he receives as a result of anything allowed under Article 111.1. Nothing allowed under Article 111.1 will be invalidated just because of the interest or benefit which the director has.

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112 When directors can vote on things which they are interested in

112.1 Unless the Articles say otherwise, a director cannot cast a vote at a directors' meeting or a committee meeting on any contract, arrangement or any other kind of proposal in which he has an interest or duty, and which he knows is a material one. A director may not be included in the quorum of a meeting in relation to any resolution he is not allowed to vote on.

112.2 For the purposes of Article 112:

(a) interests of a person who is connected with a director under section 346 of the Companies Act are added to the interests of the director himself;

(b) interests or duties purely as a result of an interest in the Company's shares, debentures or other securities are disregarded; and

(c) in relation to an alternate director, an interest of his appointor is treated as an interest of the alternate director in addition to any interest which the alternate director has otherwise.

112.3 But, if the legislation allows this, a director can vote, and be counted in the quorum, on any resolution about any of the following things, as long as the only material interests he has in it are included in the following list:

(a) a resolution to give him, or any other person, any guarantee, any security, or any indemnity, for any money which he, or that other person, has lent at the request of, or for the benefit of the Company, or any of its subsidiaries;

(b) a resolution to give him, or any other person, any guarantee, any security, or any indemnity, for any liability which he, or that other person, has incurred at the request of, or for the benefit of, the Company, or any of its subsidiaries;

(c) a resolution to give any guarantee, security or indemnity to any other person for a debt or obligation which is owed by the Company or any of its subsidiaries, to that other person, if the director has (by giving a guarantee, indemnity or security), taken any responsibility for some or all of that debt or obligation;

(d) a resolution about any proposal relating to an offer for subscription, purchase or exchange of any shares or debentures, or other securities, of or by the Company, or any of its subsidiaries, if the director takes part or intends to take part in the underwriting or sub-underwriting of the offer;

(e) a resolution about any proposal involving any other company if the director (together with any person connected with the director under section 346 of the Companies Act) has a direct or indirect interest of any kind in that company (including an interest by holding any position in that company, or by being a shareholder of that company). But this does not apply if he knows that he, and any persons connected with him, hold an interest in shares (as defined for sections 198 to 211 of the Companies Act) representing 1 per cent or more of:

(i) any class of equity share capital; or

(ii) the voting rights in any such company;

Any of these interests of 1 per cent or more are treated for the purposes of this Article as being material interests (but see Article 112.5);

(f) any arrangement for the benefit of employees of the Company, or any of its subsidiaries, which limits the privileges or benefits which he can receive to those generally given to the employees to whom the arrangement relates; or

(g) a resolution about any proposal relating to any insurance which the Company can buy and renew for the benefit of directors, or of a group of people which includes directors.

112.4 This Article 112.4 applies if the directors are considering proposals about appointing two or more directors to positions with the Company or any company in which the Company is interested. It also applies if the directors are considering setting or changing the terms of the appointment. These proposals can be split up to deal with each director separately. If this is done, each director can vote and be included in the quorum for each resolution, except the one concerning him. But he cannot vote if the resolution relates to appointing him to a company which the Company is interested in if he has an interest of 1 per cent or more in that company in the way described in Article 112.3.

112.5 For the purposes of determining whether a proposal concerns a company in which a director is interested, the following are to be ignored:

(a) any shares held by a director as bare or custodian trustee and in which he has no beneficial interest;

(b) any shares comprised in a trust in which the director's interest is in reversion or remainder if and so long as some other person is entitled to receive the income thereof; and

(c) any shares comprised in an authorised unit trust in which the director is only interested as a unit holder.

112.6 A director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

112.7 If any question comes up at a meeting about whether a director has a material interest, or whether he can vote, and the director does not agree to abstain from voting on the issue, the question shall be referred to the chairman of the meeting. The chairman's ruling about any other director is final and conclusive, unless the kind and extent of the director's interests have not been fairly disclosed to the directors. If a question arises in respect of the Chairman, it shall be determined by a resolution on which the Chairman shall not vote. The resolution is final and conclusive, unless the kind and extent of the Chairman's interests have not been fairly disclosed to the directors.

113 More about directors' interests

For the purpose of Articles 111 and 112:

(a) a general notice given to the directors that a director has an interest of the kind stated in the notice in any contract, transaction or arrangement involving any company or person identified in the notice is treated as a standing disclosure that the director has such interest;

(b) interests which are unknown to the director and which it is unreasonable to expect him to know about are ignored; and

(c) subject to the legislation, the Company may by Ordinary Resolution suspend or relax the provisions of Articles 111 and 112 to any extent or ratify any contract which has not been properly authorised in accordance with Article 111 and/or 112.

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DIRECTORS' COMMITTEES

114 Delegating powers to committees

114.1 The directors can delegate any of their powers or discretions to committees. This includes powers or discretions relating to directors' pay or giving benefits to directors. Any committee may consist of any persons selected by the directors and must comply with any regulations laid down by the directors. If the directors have delegated any power or discretion to a committee, any references in these Articles to the directors exercising that power or discretion include its exercise by the committee.

114.2 Unless the directors decide not to allow this, a committee can sub-delegate powers and discretions to sub-committees. References in these Articles to committees include sub-committees permitted under this Article.

115 Committee procedure

The Articles which regulate directors' meetings and their procedure will also apply to committee meetings (if they can apply to committee meetings), unless these are inconsistent with any regulations for the committee which have been laid down under Article 114.

DIRECTORS' POWERS

116 The directors' management powers

116.1 The directors shall manage the Company's business. They can exercise all the Company's powers. But this does not apply where the Articles, or the legislation, say that powers can only be exercised by the shareholders voting to do so at a General Meeting. The general management powers under this Article are not limited in any way by specific powers given to the directors by other Articles.

116.2 The directors are, however, subject to:

(a) the provisions of the legislation;

(b) the requirements of the Memorandum of Association of the Company and these Articles; and

(c) any regulations laid down by the shareholders by passing a Special Resolution at a General Meeting.

116.3 However, if any alteration is made to the Memorandum or Articles or the shareholders lay down any regulation relating to something which the directors have already done which was within their powers, such alteration or regulation cannot invalidate the directors' previous action.

117 The power to appoint attorneys and agents

117.1 The directors can appoint anyone (including the members of a group which changes over time) as the Company's attorney or agent by granting a power of attorney or by authorising them in some other way. The directors can decide on the powers, authorities and discretions of attorneys or agents. But they cannot give an attorney or agent any power, authority or discretion which the directors do not have under these Articles. They can revoke or vary any appointment of an attorney or agent.

117.2 The directors can decide how long the appointment of an agent or attorney will last for, and they can attach any conditions to it. The appointment can also include any provisions which the directors decide on for the protection and convenience of anybody dealing with the agent or attorney. They can also allow the agent or attorney to delegate any or all of his powers, authorities or discretions to any other person.

117.3 The directors may:

(a) delegate any of their authority, powers or discretions to any manager or agent of the Company;

(b) allow managers or agents to delegate to other persons;

(c) remove any people they have appointed in any of these ways; and

(d) cancel or change anything that they have delegated, although this will not affect anybody who acts in good faith who has not had any notice of any cancellation or change.

117.4 Any appointment or delegation which is referred to in this Article 117 can be on any conditions decided on by the directors.

117.5 The ability of the directors to delegate under this Article 117 applies to all their powers and is not limited because certain Articles refer to powers being exercised by the directors or by a committee authorised by the directors, while other Articles do not.

118 Shares held by the Company

The directors can exercise the voting power of any shares in any company held by the Company. They can decide how to do this. This includes voting for any resolution appointing its members or any of the directors of that company, or voting on or providing for the payment of the directors of that company.

119 Borrowing powers

So far as the legislation allows, the directors may exercise all the powers of the Company:

(a) to borrow money;

(b) to mortgage or charge all or any of the Company's undertaking, property (present and future) and uncalled capital;

(c) to issue debentures and other securities; and

(d) to give security either outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

ALTERNATE DIRECTORS

120 Alternate Directors

120.1 Any director (other than an **alternate director**) may appoint any person (including another director) to act in his place (called an **alternate director**). That appointment requires the approval of the directors, unless the appointment of the appointee as the relevant director's alternate has previously been approved or the appointee is another director. A director appoints an alternate director by delivering a signed notice to the Company.

120.2 Except as set out in this Article, an alternate director does not have power to act as a director and is not deemed to be a director for the purposes of these Articles.

120.3 The appointment of an alternate director ends on the expiry of the period for which he was appointed if any has been specified, or on the happening of any event which, if he were a director, would cause him to vacate such office. It also ends if his appointor ceases to be a director, unless that director retires at a General Meeting at which he is elected again. He can resign his office by notice to the Company. A director can also remove his alternate by a written notice delivered to the Company.

120.4 An alternate director is entitled to receive notices of meetings of the directors, or of committees of which his appointor is a member. He is entitled to attend and vote as a director at any such meeting at which the director appointing him is not personally present and generally at such meeting to perform all functions of his appointor as a director. The provisions of the Articles regulating the meeting apply as if he (instead of his appointor) were a director. If he is himself a director or attends any such meeting as an alternate for more than one director, he can vote cumulatively for himself and for each other director he represents but he may not be counted more than once for the purposes of the quorum. An alternate director's signature to any resolution in writing of the directors is as effective as the signature of his appointor.

120.5 An alternate director is entitled to contract and be interested in and benefit from contracts, transactions or arrangements and be repaid expenses and to be indemnified to the same extent as if he were a director, but is not entitled to receive any pay from the Company as alternate director.

120.6 Except if the Articles say otherwise, an alternate director is responsible for his own acts and defaults. No one else is responsible for him. He is not the agent of the appointing director.

THE COMPANY SECRETARY AND MINUTES

121 The Secretary

121.1 The Secretary is appointed by the directors. The directors decide on the terms and period of his appointment. The directors may also remove the Secretary, but this does not affect any claim for damages against the Company for breach of any contract of employment he may have.

121.2 The directors can also appoint one or more people to be deputy or assistant Secretary. The directors decide on the terms and period of their employment. The directors can also remove any deputy or assistant Secretary, but this does not affect any claim for damages against the Company for breach of any contract of service he may have. Anything which the Articles require, or allow, to be done by the Secretary can also be done by any deputy or assistant Secretary.

121.3 Where the legislation or the Articles require or authorise something to be done by a director and the Secretary, it must not be done by one person alone acting as both a director and as, or in place of, the Secretary.

122 Minutes

The directors must keep minutes of all appointments of officers made by the directors. They must also keep minutes of all shareholders' meetings, directors' meetings and meetings of committees of the directors. The minutes must include the names of the directors present. If the minutes appear to be signed by the Chairman of the particular meeting, they are sufficient evidence of the facts they contain.

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THE SEAL

123 The Seal

123.1 The Seal can only be used with the authority of the directors or of a committee authorised by the directors.

123.2 The directors can decide who is to sign any document which is sealed using the Seal. Where they do not decide, it can be signed by a director and the secretary or by two directors.

123.3 The directors can use all the powers given by the legislation relating to official seals for use abroad.

123.4 The directors can decide to print share or debenture certificates which are sealed with the Seal with a copy of a signature or with no signature at all. The directors can decide this either in relation to a particular certificate, or in general.

AUTHENTICATING DOCUMENTS

124 Establishing that documents are genuine

124.1 Any director, or the Secretary, has power to authenticate any of the following things, and to certify copies or extracts from them as true copies or extracts:

(a) any documents relating to the Company's constitution;

(b) any resolutions passed by the shareholders or by any class of shareholders, or by the directors or by a committee of the directors; and

(c) any books, documents, records or accounts which relate to the Company's business.

124.2 The directors can also give this power to others. When any books, documents, records and accounts are not kept at the Registered Office, the officer of the Company who holds them is treated as a person who has been authorised by the directors to authenticate any of them, and to provide certified copies or extracts from them.

124.3 This Article 124.3 applies to a document which appears to be a copy of a resolution or an extract from the minutes of any meeting, and which is certified as a copy or extract as described in Article 124.1 or 124.2. This document is conclusive evidence for anyone who deals with the Company on the strength of the document that:

(a) the resolution has been properly passed; or

(b) the minutes or extract are a true and accurate record of the proceedings of a valid meeting.

DIVIDENDS

125 Final dividends

As far as the legislation allows, the Company's shareholders can declare dividends by passing an Ordinary Resolution. No such dividend can exceed the amount recommended by the directors.

126 Interim and fixed dividends

126.1 As far as the legislation allows, the directors can, if they consider that the profits of the Company justify such payments:

(a) declare and pay interim dividends on shares of any class of such amounts and on such dates and for such periods as they decide; and

(b) declare and pay the fixed dividends on any class of shares carrying a fixed dividend on the dates prescribed for the payment of such dividends.

126.2 No interim dividend can be declared or paid on shares which do not have preferred rights, if at the time of declaration any dividend on shares which have preferred dividend rights is in arrears.

126.3 If the directors act in good faith, they are not liable to the holders of any shares for any loss they may suffer because a lawful dividend has been paid under this Article on other shares which rank behind their shares.

127 Currency of payment

127.1 Unless the rights or terms of any shares, or the Articles, say otherwise, a dividend or any other money payable in respect of a share can be declared or paid in whatever currency the directors decide.

127.2 The directors can decide that a particular Approved Depositary should be able to receive dividends in a currency other than the currency in which it is declared and can make arrangements accordingly. In particular, if an Approved Depositary has chosen or agreed to receive dividends in another currency, the directors can make arrangements with the Approved Depositary for payment to be made to the Approved Depositary for value on the date on which the relevant dividend is paid, or a later date decided on by the directors.

127.3 When a dividend is to be paid in a currency other than the currency in which it was declared the exchange rate to be used for conversion of the dividend is whatever market rate the directors consider to be appropriate as at the close of business on the last business day before:

(a) the date when the directors publicly announce their intention to recommend the particular dividend, if it is a dividend declared by the shareholders passing a resolution at a General Meeting; or

(b) the date when the directors declare the particular dividend, in any other case.

127.4 The decision of the directors regarding the exchange rate is conclusive and binding.

128 Distributions in kind

128.1 If the directors recommend this, the Company's shareholders can pass an Ordinary Resolution to direct all or part of a dividend to be paid by distributing specific assets (and in particular paid-up shares or debentures of any other company). The directors must give effect to such resolution.

128.2 Where any difficulty arises on such a distribution, the directors can settle it as they think appropriate. In particular, they can:

(a) issue certificates for fractions, or authorise any person to sell and transfer fractions, or ignore fractions altogether;

(b) value assets for distribution purposes;

(c) pay cash of a similar value to adjust the rights of shareholders; and/or

(d) vest any assets in trustees.

129 No dividends are payable except out of profits

No dividend can be paid otherwise than out of profits available for distribution under the legislation.

130 Apportioning dividends according to amounts paid up

All dividends will be divided and paid in proportions based on the amounts which have been paid up on the shares during any of the period for which the dividend is paid. Sums which have been paid up in advance of calls do not count as paid up for this purpose. But if the rights or terms of any share say that it will be entitled to a dividend as if it were a fully paid-up, or partly paid-up, share from a particular date (in the past or the future), it will be entitled to a dividend on this basis. This Article applies unless the rights or terms of any shares say otherwise.

131 Deducting amounts owing from dividends and other money

131.1 If a shareholder owes any money for calls on shares, or money relating in any other way to shares, the directors can deduct any of this money from:

(a) any dividend on any shares held by the shareholder; or

(b) any other money payable by the Company in connection with the shares.

131.2 Money deducted in this way can be used to pay amounts owed to the Company in connection with the shares.

132 Payments to shareholders

132.1 Any dividend or other money payable in cash relating to a share (in whatever currency) can be paid by cheque or warrant payable to the shareholder who is entitled to it, and sent to the address recorded for him on the Register, or to someone else named in a written instruction from the shareholder (or from all joint shareholders). In the case of shares held in uncertificated form, such payment can also be made by means of a relevant system. A dividend can also be paid by inter-bank transfer or a similar automated payment method to an account named in a written instruction from the person receiving the payment. Alternatively, a dividend can be paid in some other way authorised by the shareholder (or all joint shareholders).

132.2 For joint shareholders, the dividend will be paid to the person whose name appears first in the Register. In the case of joint shareholders, or persons jointly and automatically entitled to shares by law, the Company can rely on a receipt for a dividend or other money paid on shares from any one such person.

132.3 Cheques and warrants are sent, and payment in any other way is made, at the risk of the people who are entitled to the money. The Company is treated as having paid a dividend if such a cheque or warrant is cleared, or if a payment by means of a relevant system or a transfer of funds by a bank is made in accordance with instructions given by the Company.

132.4 No dividend or other sum payable by the Company on or in respect of any of its shares carries a right to interest from the Company, unless the rights of the shares say otherwise.

132.5 The directors can pay the dividends or interest relating to a share to the person who is entitled to the share by transmission. He must first produce any certificate or other evidence which he would need to produce when applying to be registered as a shareholder in respect of the share.

133 Record date

Any dividend on any shares can be paid to the holder or holders of the shares shown on the Register at a particular time on a particular date stated in the resolution passed for payment of the dividend. It will be based on the number of shares registered at that time. This Article applies whether what is being done is the result of a resolution of the directors or a resolution passed at a General Meeting. The date can be before the relevant resolution was passed. This Article does not affect any rights to payments or other benefits on shares as between a person who has transferred the shares and the person who has acquired them.

134 Dividends which are not claimed

134.1 The directors can invest any dividends or other amounts payable on a share which have not been claimed until the dividends or other amounts are claimed or the directors can use them in any other way for the Company's benefit until they are claimed.

134.2 The Company will not be a trustee of the money and will not be liable to pay interest on it. If a dividend has not been claimed for 12 years after the passing of the resolution for payment of that dividend, the Company will no longer have to pay the dividend.

134.3 The Company can stop paying dividends by cheque or other payment order if cheques or other payment orders for two dividends in a row are sent back or not cashed. It can also stop after one such dividend if it cannot establish a new address for the shareholder after making reasonable enquiries. The Company must start paying dividends in this way again if the shareholder or a person automatically entitled to the shares by law claims a dividend or cashes a dividend cheque or warrant.

CAPITALISING RESERVES

135 Capitalising reserves

135.1 Without any need of approval from the Company's shareholders, the directors can change into capital any sum:

(a) which is part of any of the Company's reserves (including premiums received when any shares were issued, capital redemption reserves or other undistributable reserves); or

(b) which the Company is holding as net profits which are not required for paying any preferential dividend (whether or not available for distribution).

135.2 The directors can use the sum which is changed into capital by setting it aside for the ordinary shareholders on the Register at the close of business on the date stated in the resolution or fixed as stated in the resolution. The sum set aside can be used to pay up in full shares of the Company and allot such shares and distribute them to shareholders as bonus shares in proportion to their holdings of Ordinary Shares at the time. The shares can be Ordinary Shares or shares of some other class. Alternatively, debentures or other obligations can be allotted in the same way. The sum set aside can also be used for or towards paying up any amounts which are unpaid on partly paid shares held by the ordinary shareholders in the same proportion. A combination of these things can also be done. However, profits which are not available for distribution can only be used to pay up shares to be allotted to shareholders fully paid. This Article is subject to the rights of any existing shares.

135.3 If any difficulty arises in operating this Article, the directors can resolve it in any way which they decide. For example, they can deal with entitlements to fractions of a share. They can decide that the benefit of share fractions belongs to the Company or that share fractions are ignored or deal with fractions in some other way.

135.4 The directors can appoint any person to sign any contract with the Company on behalf of those who are entitled to shares under the resolution. Such a contract is binding on all concerned. The contract can provide for either:

(a) allotment of fully paid shares, debentures or other obligations to the shareholders entitled upon capitalisation; or

(b) proportional payment by the Company of the amounts unpaid on existing shares.

SCRIP DIVIDENDS AND DIVIDEND REINVESTMENT

136 Shareholders can be offered the right to receive new shares instead of cash dividends

136.1 The directors can offer Ordinary Shareholders the right to choose to receive new Ordinary Shares, which are fully paid up, instead of all or part of their cash dividend. Before they can do this, the Company's shareholders must have passed an Ordinary Resolution authorising the directors to make this offer.

136.2 The Ordinary Resolution can apply to a particular dividend or dividends, or it can apply to some or all of the dividends which may be declared or paid in a specified period.

136.3 The directors can offer shareholders the right to request new shares instead of cash for:

(a) the next dividend; or

(b) all future dividends (if a share alternative is made available), until they tell the Company that they no longer wish to receive new shares.

136.4 The directors can also allow shareholders to choose between these alternatives.

136.5 A shareholder is entitled to Ordinary Shares whose total relevant value is as near as possible to the cash dividend he would have received but not in excess of it. The **relevant value** of a share is the average market value of the Company's Ordinary Shares for the five dealing days starting from, and including, the day when the shares are first quoted "ex-dividend" or a later day chosen by the directors. This average market value is worked out from the average middle market quotations for the Company's Ordinary Shares on the London Stock Exchange, as published in its Daily Official List.

136.6 No shareholders will receive a fraction of a share. The directors can decide how to deal with any fraction left over. For example, the directors can decide that:

(a) the Company can have the benefit of the left over fractions;

(b) the fractions will be retained and accumulated for the benefit of the relevant shareholder (without interest) and later used up in the allotment of fully paid shares by a capitalisation made in the same way as under Article 136.10;

(c) the fractions will be accumulated for the benefit of the relevant shareholder (without interest) and later used to acquire further fully paid shares by cash subscription; or

(d) the fractions will be paid to the shareholder either at the time of payment of the dividend or at some later time such as when the shareholder transfers his shares.

136.7 The directors must notify shareholders in writing of their right to request new shares instead of cash and of the procedure which they must follow in order to exercise this right.

136.8 The directors can exclude or restrict the right to opt for new shares in the case of shareholders with registered addresses in places other than the United Kingdom or the United States, where they decide that this is necessary or convenient because:

(a) in the absence of a registration statement or other formalities, the offer of this right would be, or might be considered to be, unlawful; or

(b) they consider that compliance with such formalities would be impracticable;

where special formalities would otherwise apply in connection with the offer of new shares.

136.9 The directors can exclude or restrict the right to opt for new shares in the case of any shareholder who is an Approved Depositary or a nominee for an Approved Depositary. They can do this if the offer or exercise of the right to or by the people on whose behalf the Approved Depositary holds the shares would suffer from legal or practical problems of the kind mentioned in Article 136.8. If other shareholders (other than those excluded under Article 136.8) have the right to opt for new shares, the directors must be satisfied that an appropriate dividend reinvestment plan or similar arrangement is available to a substantial majority of the people on whose behalf the Approved Depositary holds shares or that such arrangements will be available promptly. The first sentence of this Article 136.9 does not apply until the directors are satisfied of this.

136.10 So far as a shareholder opts to receive new shares, the dividend, or the part of the dividend, on the shares for which he has opted to receive new shares (which are called the elected shares), will not be declared or payable. Instead, new Ordinary Shares will be allotted on the basis set out earlier in this Article 136. To do this the directors will convert into capital the sum equal to the total nominal amount of the new Ordinary Shares to be allotted. They will use this sum to pay up in full the appropriate number of new Ordinary Shares. These will then be allotted and distributed to the holders of the elected shares as set out above. The sum to be converted into capital can be taken from any amount which is then in any reserve or fund (including the share premium account and any capital redemption reserve or any of the Company's distributable profits). Article 135 applies to this process, so far as it is consistent with this Article 136.

136.11 The new Ordinary Shares rank equally in all respects with the existing fully paid-up Ordinary Shares at the time when the new Ordinary Shares are allotted. But they are not entitled to share in the dividend from which they arose and do not allow the holder to opt for new shares instead of that dividend.

137 Dividend plans generally

137.1 The directors can implement and maintain one or more share dividend or distribution reinvestment plans including or instead of offering new shares under Article 136. The terms and conditions of any plan can be decided by the directors, who can change them if they choose. They can decide to make a plan available to some shareholders only, or to part of the dividends only. It is for the directors to decide to suspend or terminate a plan at any time.

137.2 The terms of a plan can give shareholders the right to:

(a) choose to receive new fully paid shares;

(b) subscribe for cash for unissued shares in the Company, payable in full or by instalments;

(c) apply cash in paying up in full or by instalments any unpaid or partly paid shares held on the terms of the plan;

(d) forgo a dividend and receive instead fully paid bonus shares; or

(e) accept any other option or participate in any other arrangements thought by the directors to be appropriate.

137.3 This Article 137 is, as regards an offer of new shares instead of a cash dividend, subject to the provisions of Article 136 and of any Ordinary Resolution passed under Article 136.1.

ACCOUNTS

138 Accounting and other records

The directors must make sure that proper accounting records that comply with the legislation are kept to record and explain the Company's transactions.

139 Location and inspection of records

139.1 The accounting records must be kept:

(a) at the Registered Office; or

(b) at any other place which the legislation allows, and the directors decide on.

139.2 The Company's officers always have the right to inspect the accounting records.

139.3 Anyone else (including a shareholder) does not have any right to inspect any books or papers of the Company unless:

(a) the legislation or a proper court order gives him that right; or

(b) the directors authorise him to do so.

140 Sending copies of accounts and other documents

140.1 This Article applies to every balance sheet and profit and loss account to be laid before the Company's shareholders at a General Meeting with any other document which the law requires to be attached to these.

140.2 Copies of the documents set out in Article 140.1 must be sent to the Company's shareholders and debenture holders and all other people to whom the Articles, or the legislation, require the Company to send them. This must be done at least 21 days before the relevant General Meeting. But the Company need not send these documents to:

(a) shareholders who are sent summary financial statements in accordance with the legislation;

(b) more than one joint holder of shares or debentures; or

(c) any person for whom the Company does not have a current address.

AUDITORS

141 Appointment of Auditors

141.1 The appointment, duties and pay of the auditors are governed by the legislation.

141.2 Subject to the legislation, all acts done by any person acting as an Auditor shall, as regards all persons dealing in good faith with the Company, be valid, even if he was not properly appointed or he was at the time of his appointment not qualified for appointment or subsequently became disqualified.

141.3 The auditors may speak at any General Meeting on any part of the business of the meeting which concerns them as Auditors.

NOTICES

142 Serving and delivering notices and other documents

142.1 The Company can serve or deliver any notice or other document, including a share certificate, on or to a shareholder:

(a) personally;

(b) by posting it in a letter (with postage paid) to the address recorded for him on the Register;

(c) by delivering it to that address;

(d) by fax (except in the case of a share certificate) to a fax number given by him to the Company;

(e) by electronic mail (except in the case of a share certificate) to an electronic address given by him to the Company;

(f) as authorised in writing by the relevant shareholder; or

(g) through CREST, where the notice or document relates to uncertificated shares.

142.2 However, these Articles do not affect any provision of the legislation requiring offers, notices or documents to be served in a particular way.

142.3 Where the Articles or the rights of any shares allow notices to be given to shareholders by advertisement, the notice must be published as set out in this Article. A notice in the United Kingdom must be published in at least two national newspapers. A notice in the United States must be published in The Wall Street Journal and The New York Times or such other newspapers published in the United States as the directors consider to be appropriate.

143 Notices to joint holders

When a notice or document is to be given to joint shareholders it shall be given to the joint shareholder who is listed first on the Register for the share or shares, but ignoring any joint shareholder without a United Kingdom or United States address. A notice given in this way is treated as given to all of the joint holders.

144 Notices for shareholders with foreign addresses

This Article applies to a shareholder whose address on the Register is outside the United Kingdom or the United States. He can give the Company a United Kingdom or United States address where notices or documents can be given to him. If he does, he is entitled to have notices or documents given to him at that address. Otherwise, he is not entitled to receive any notices from the Company.

145 Shareholders attending meetings

A shareholder who attends any shareholders' meeting is considered to have received notice of that meeting and, if required, of the purpose for which it was called. This applies to a shareholder who attends in person or by proxy.

146 When notices are served

146.1 It is conclusive evidence that a notice or other document has been given if it is shown that:

(a) the envelope containing the notice or document was properly addressed; and

(b) it was put into the postal system with postage paid.

146.2 Letters sent by first class post from and to addresses in the United Kingdom or from and to addresses in the United States are treated as given the day after posting. In all other cases, letters are treated as having been given on the third day after posting.

146.3 A notice given by fax is treated as being served or delivered the day after the fax was sent.

146.4 A notice given by electronic mail is treated as being served or delivered when it is sent.

146.5 A notice sent through CREST is treated as being served or delivered when the Company or any CREST participant acting for the Company, sends the instruction relating to the notice.

146.6 A notice or document served or delivered by the Company by any other means authorised in writing by a shareholder is treated as being served or delivered when the Company has done what it was authorised to do by that shareholder for service or delivery.

147 Serving notices and documents on shareholders who have died or are bankrupt

This Article applies where a shareholder has died, or become bankrupt or is in liquidation, or suffers from mental disorder but is still registered as a shareholder. It applies whether he is registered as a sole or joint shareholder. A person who is automatically entitled to such shareholder's shares by law and who proves this to the reasonable satisfaction of the directors can give a United Kingdom address for service of notices and documents. If this is done, notices and documents must be sent to that address. Otherwise, if any notice, or other document, is served on the shareholder named on the Register, or sent to him in accordance with the Articles, this will be valid despite his death, bankruptcy or liquidation or mental disorder. This applies even if the Company knew about these things. If notices or documents are served or sent in accordance with this Article, there is no need to send them to, or serve them in any other way on any other people who may be involved.

148 Notices to predecessors

Anyone who becomes entitled to a share is bound by any notice in respect of that share which was properly given to a person from whom he derives his title before his name is entered in the Register. This does not apply to a direction notice under Article 75.

149 Notices to directors

The Company can give any notice or other document to a director:

(a) personally; or

(b) by posting it in a letter (with postage paid) to the address given by him to the Company for this purpose; or

(c) by delivering it to that address; or

(d) by faxing it to the number given by him to the Company for this purpose; or

(e) by electronic mail to an electronic address given by him to the Company for this purpose.

150 Notices to the Company

Anyone can serve any summons, notice, order or other document on the Company or any officer of the Company:

(a) by posting it in a letter (with postage paid) to the Company or any officer of the Company at the Registered Office; or

(b) by delivering it to that address.

WINDING UP

151 Directors' power to petition

The directors can present a petition to the Court in the name and on behalf of the Company for the Company to be wound up.

152 Distribution of assets in kind

152.1 If the Company is wound up (whether the liquidation is voluntary, under supervision of the Court, or by the Court) the liquidator can, with the authority of an Extraordinary Resolution passed by the shareholders, divide among the shareholders in kind the whole or any part of the assets of the Company. This applies whether the assets consist of property of one kind or different kinds. For this purpose, the liquidator can set such value as he considers fair upon any property and decide how such division is carried out as between shareholders or different groups of shareholders. The liquidator can also, with the authority of an Extraordinary Resolution passed by the shareholders, transfer any part of the assets to trustees upon such trusts for the benefit of shareholders as the liquidator decides. The liquidation of the Company can then be closed and the Company dissolved. However, no past or present shareholder can be compelled to accept any shares or other property under this Article which carries a liability.

152.2 The power of sale of a liquidator includes a power to sell wholly or in part for shares or debentures or other obligations of another company, whether it is already in existence or is about to be formed for the purpose of the sale.

DESTROYING DOCUMENTS

153 Destroying documents

153.1 Provided that it complies with the rules (as defined in the CREST Regulations) which apply to shares held in uncertificated form, the Company can destroy:

(a) all transfer forms for shares, and documents sent to support a transfer, and any other documents which were the basis for making an entry on the Register, after six years from the date of registration;

(b) all dividend payment instructions and notifications of a change of address or name, after two years from the date these were registered;

(c) all cancelled share certificates, after one year from the date they were cancelled;

(d) all paid dividend warrants and cheques, after one year from the date of payment; and

(e) all proxy forms, after one year from the poll at which they were used or after one month from the meeting to which they relate if there was no poll.

153.2 If the Company destroys a document in accordance with Article 153.1, it is conclusively treated as having been a valid and effective document in accordance with the Company's records relating to the document. Any action of the Company in dealing with the document in accordance with its terms before it was destroyed is conclusively treated as properly taken. This Article only applies to documents which are destroyed in good faith and if the Company is not on notice of any claim to which the document may be relevant.

153.3 This Article does not make the Company liable:

(a) if it destroys a document earlier than referred to in Article 153.1; or

(b) if the Company would not be liable if this Article did not exist.

153.4 This Article applies whether a document is destroyed or disposed of in some other way.

INDEMNITY AND INSURANCE

154 Indemnity

154.1 So far as the legislation allows, every director, Secretary or other officer of the Company shall be indemnified by the Company out of its own funds against all costs, charges, losses, expenses and liabilities incurred by him:

(a) in performing his duties; and/or

(b) in exercising his powers; and/or

(c) in supposedly doing any of these things; and/or

(d) otherwise in relation to or in connection with his duties, powers or office.

154.2 So far as the legislation allows, every director, Secretary or other officer of the Company is exempted from any liability to the Company where that liability would be covered by the indemnity in Article 154.1.

155 Insurance

155.1 For the purpose of this Article each of the following is a **Relevant Company**:

(a) the Company;

(b) any holding company of the Company;

(c) any body, whether or not incorporated, in which the Company or such holding company or any of the predecessors of the Company or of such holding company has or had any interest, whether direct or indirect; and

(d) any body, whether or not incorporated, which is in any way allied to or associated with the Company, or any subsidiary of the Company or such other body.

155.2 Without limiting Article 154 in any way, the directors can arrange for the Company to purchase and maintain insurance for or for the benefit of any persons who are or were at any time:

(a) directors, officers or employees of any Relevant Company; or

(b) trustees of any pension fund or employees' share scheme in which employees of any Relevant Company are interested.

155.3 This includes, for example, insurance against any liability incurred by such persons for any act or omission:

(a) in performing their duties; and/or

(b) in exercising their powers; and/or

(c) in supposedly doing any of these things; and/or

(d) otherwise in relation to their duties, powers or offices.

FURTHER PROVISIONS ON SHARES HELD IN UNCERTIFICATED FORM

156 Holding shares in uncertificated form

156.1 Subject to the Articles and legislation, the directors can decide that any class of shares can be held in uncertificated form and that title to such shares can be transferred by means of a relevant system, and the directors may make arrangements for any class of shares to be held and transferred in this form. The directors can also decide that shares of any class must cease to be held and transferred in uncertificated form.

156.2 Shares held in uncertified form may be changed to become shares held in certificated form and shares held in certificated form may be changed to become shares held in uncertificated form, provided the requirements of the CREST regulations are met.

157 Predominance of CREST Regulations

The provisions of these Articles do not apply to shares of any class which are held in uncertificated form to the extent that the Articles are inconsistent with:

(a) the holding of shares of that class in uncertificated form;

(b) the transfer of title to shares of that class by means of a relevant system; or

(c) any provision of the CREST Regulations.

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GLOSSARY

About the glossary

This glossary is to help readers understand the Company's Articles of Association. Words are explained as they are used in the Articles – they might mean different things in other documents. The glossary is not legally part of the Articles, and it does not affect their meaning. The definitions are intended to be a general guide – they are not precise. Words which are printed in **bold** in a definition have their own definition in the glossary.

abrogate If the **special rights** of a share are abrogated, they are cancelled or withdrawn.

adjourn Where a meeting breaks, to be continued at a later time or day, at the same or a different place.

allot When new shares are allotted, they are set aside for the person they are intended for. This will normally be after the person has agreed to pay for a new share, or has become entitled to a new share for any other reason. As soon as a share is allotted, that person gets the right to have his name put on the register of shareholders. When he has been registered, the share has also been **issued**.

asset Anything which is of any value to its owner.

attorney An attorney is a person who has been appointed to act for another person. The person is appointed by a formal document, called a **power of attorney**.

automatically entitled to a share by law In some situations, a person will be entitled to have shares which are registered in somebody else's name registered in his own name, or he can require the shares to be transferred to another person. When a shareholder dies, or the sole survivor of joint shareholders dies, his personal representatives have this right. If a shareholder is made bankrupt, his trustee in bankruptcy has the right.

beneficial interest The person to whom something really belongs has the beneficial interest in it. This person may not be the registered (or "legal" owner) of the thing. For example, if a parent holds shares for his or her child, the child is the beneficial owner, and the parent is the legal owner. See also **trustee**.

brokerage Commission which is paid to a broker by a company **issuing** shares, where the broker's clients have applied for shares.

call A call to pay money which is due on shares which has not yet been paid. This happens if the Company issues shares which are **partly paid**, where money remains to be paid to the Company for the shares. The money which has not been paid can be called for. If all the money to be paid on a share has been paid, the share is called a **fully paid** share.

capitalise To convert some or all of the **reserves** of a company into capital (such as shares).

capital redemption reserve A reserve of funds which a company may have to set up to keep its capital base when shares are **redeemed** or bought back.

charge See **lien and charge**.

company representative If a company owns shares, it can appoint a company representative to attend a shareholders' meeting to speak and vote for it.

consolidate When shares are consolidated, they are combined with other shares – for example every three £1 shares might be consolidated into one new £3 share.

debenture A typical debenture is a long-term borrowing by a company. The loan usually has to be repaid at a fixed date in the future, and carries a fixed rate of interest.

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declare When a dividend is declared, it becomes due to be paid.

dividend warrant A dividend warrant is similar to a cheque for a dividend.

documents of title The documents which show that a person owns something (for example, a share certificate).

equity securities For section 89 of the Companies Act this means all the shares of a company except:

(a) shares which only have a limited right to share in the company's income or assets;

(b) shares held as a result of share schemes for employees (such as profit sharing schemes);

(c) some shares held by the founders of the company; and

(d) bonus shares issued when the company **capitalises reserves**.

Also included are securities which can be converted into such shares, or which allow their holder to **subscribe** for such shares.

ex-dividend When a share goes ex-dividend, a person who buys it will not be entitled to the dividend which has been **declared** shortly before he bought it. When a share has gone ex- dividend, the seller is entitled to this dividend, even though it will be paid after he has sold his share.

executed A document is executed when it is signed, or sealed or made valid in some other way.

exercise When a power is exercised, it is put to use.

forfeit When a share is forfeited it is taken away from the shareholder and goes back to the Company. This process is called "**forfeiture**". This can happen if a call on a partly paid share is not paid on time.

fully paid shares When all of the money which is due to the Company for a share has been paid, a share is called a fully paid share.

good title If a person has good title to a share, he owns it outright.

holding company A company which controls another company (for example by owning a majority of its shares) is called the holding company of that other company. The other company is the **subsidiary** of the holding company.

indemnity If a person gives another person an indemnity, he promises to make good any losses or damage which the other might suffer. The person who gives the indemnity is said to "indemnify" the other person.

in issue See **issue**.

instruments Formal legal documents.

issue When a share has been issued, everything has been done to make the shareholder the owner of the share. In particular, the shareholder's name has been put on the register of shareholders. Existing shares which have been issued and not cancelled are **in issue**.

liabilities Debts and other obligations.

lien and charge Where the Company has a lien and charge over shares, it can take the dividends, and any other payments relating to the shares which it has a charge over, or it can sell the shares, to repay the debt and so on.

members Shareholders.

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nominal amount or value The value of the share in the Company's accounts. The nominal value of the £1 Ordinary Shares is £1. This value is shown on the share certificate for a share in certificated form. When the Company issues new shares this can be for a price which is at a **premium** to the nominal value. When shares are bought and sold on the stock market this can be for more, or less, than the nominal value. The nominal value is sometimes also called the "par value".

office copy An exact copy of an official document, supplied by the office which holds, or issued, the original.

Ordinary Resolution A decision reached by a simple majority of votes – that is by more than 50 per cent of the votes cast.

paid up If no money remains to be paid on a share, it is said to be **paid up**.

partly paid shares If any money remains to be paid on a share, it is said to be **partly paid**. The unpaid money can be "**called**" for.

personal representatives A person who is entitled to deal with the property (the estate) of a person who has died. If the person who has died left a valid will, the will appoints executors who are personal representatives. If the person died without a will, the courts will appoint one or more administrators to be the personal representatives.

poll On a poll vote, the number of votes which a shareholder has will depend on the number of shares which he owns. An Ordinary Shareholder has one vote for each share he owns. A poll vote is different to a show of hands vote, where each person who is entitled to vote has just one vote, however many shares he owns.

power of attorney A formal document which legally appoints one or more persons to act on behalf of another person.

pre-emption rights The right of some shareholders which is given by the Companies Act to be offered a proportion of certain classes of newly **issued** shares and other securities before they are offered to anyone else. This offer must be made on terms which are at least as favourable as the terms offered to anyone else.

premium If the Company **issues** a new share for more than its **nominal value** (for example because the market value is more than the nominal value), the amount above the nominal value is the premium.

proxy A proxy is a person who is appointed by a shareholder to attend a meeting and vote for that shareholder. A proxy is appointed by using a **proxy form**. A proxy does not have to be a shareholder. A proxy can only vote on a **poll**, and not on a show of hands.

proxy form A form which a shareholder uses to appoint a **proxy** to attend a meeting and vote for him. The proxy form must be delivered to the Company before the meeting to which it relates.

quorum The minimum number of shareholders who must be present before a meeting can start. When this number is reached, the meeting is said to be quorate.

rank or **ranking** When either capital or income is distributed to shareholders, it is paid out according to the rank (or ranking) of the shares. For example, a share which ranks before (or above) another share in sharing in the Company's income is entitled to have its dividends paid first, before any dividends are paid on shares which rank below (or after) it. If there is not enough income to pay dividends on all shares, the available income must be used first to pay dividends on shares which rank first, and then to shares which rank below. The same applies for repayments of capital. Capital must be paid first to shares which rank first in sharing in the Company's capital, and then to shares which rank below.

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recognised clearing house A clearing house which has been authorised to carry on business by the UK authorities. A clearing house is a central computer system for settling transactions between members of the clearing house.

recognised investment exchange An investment exchange which has been officially recognised by the UK authorities. An investment exchange is a place where investments, such as shares, are traded. The London Stock Exchange is a recognised investment exchange.

redeem and redemption When a share is redeemed, it goes back to the Company in return for a sum of money (the redemption price) which was fixed before the share was issued. This process is called redemption. A share which can be redeemed is called a redeemable share.

relevant securities Any shares of a company, except shares held as a result of share schemes for employees (such as profit sharing schemes) and some shares held by the founders of the company. Also included are any securities which can be converted into such shares, or which allow their holders to **subscribe** for such shares.

relevant system A computer based system and procedures enabling title to shares to be evidenced and transferred without a written instrument, currently operated by CrestCo.

renunciation Where a share has been **allotted**, but nobody has been entered on the share register for the share, it can be **renounced** to another person. This transfers the right to have the share registered to another person. This process is called renunciation.

requisition of a meeting A formal process which shareholders can use to call a meeting of shareholders. Generally speaking the shareholders who want to call a meeting must hold at least 10 per cent of the **issued** shares.

reserve fund A fund which has been set aside in the accounts of a company – profits which are not paid out to shareholders as dividends, or used up in some other way, are held in a reserve fund by the company.

retire by rotation At every Annual General Meeting a proportion of the directors retires in turn. This gives the shareholders the chance to confirm their appointments by voting on whether to re-elect them.

revoke To withdraw, or cancel.

rights issue A way by which companies raise extra share capital. Usually the existing shareholders will be offered the chance to buy a certain number of new shares, depending on how many they already have. For example, shareholders may be offered the chance to buy one new share for every four they already have.

share premium account If a new share is issued by the Company for more than its **nominal value** (because the market value is more than the nominal value) then the amount above the nominal value is the premium, and the total of these premiums is held in a **reserve fund** (which cannot be used to pay dividends) called the share premium account.

Special Resolution A decision reached by a majority of at least 75 per cent of votes cast. Shareholders must be given at least 21 days' notice of any Special Resolution.

special rights These are the rights of a particular class of shares, as distinct from rights which apply to all shares generally. Typical examples of special rights are where the shares **rank**, their rights to sharing in income and assets and voting rights.

statutory declaration A formal way of declaring something in writing. Particular words and formalities must be used – these are laid down by the Statutory Declarations Act of 1835.

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subscribe for shares To agree to take new shares in a company (usually for a cash payment).

subdividing shares When shares are subdivided they are split into shares which have a smaller **nominal amount**. For example, a £1 share might be subdivided into two 50p shares.

subject to Means that something else has priority, or prevails, or must be taken into account. When a statement is subject to another statement this means that the first statement must be read in the light of the other statement, which will prevail if there is any conflict.

subscribers to shares The people who first buy the shares.

subsidiary A company which is controlled by another company (for example because the other company owns a majority of its shares) is called a subsidiary of that company.

subsidiary undertaking This is a term used by the Companies Act. It is a wider definition than **subsidiary**. Generally speaking it is a company which is controlled by another company because the other company:

(a) has a majority of the votes in the company either alone, or acting with others;

(b) is a shareholder who can appoint or remove a majority of the directors; or

(c) can exercise dominant influence over the company because of anything in the company's memorandum or articles, or because of a certain kind of contract.

trustees People who hold property of any kind for the benefit one or more other people under a kind of arrangement which the law treats as a trust. The people whose property is held by the trustees are called the **beneficial owners**.

underwrite A person who agrees to buy new shares if they are not bought by other people underwrites the share offer.

unincorporated associations Associations, partnerships, societies and other bodies which the law does not treat as a separate legal person to their members.

warrant See the definition of **dividend warrant**.

wind up The formal process to put an end to a company. When a company is wound up its assets are distributed. The assets go first to creditors who have supplied property and services, and then to shareholders. Shares which **rank** first in sharing in a company's assets will receive any funds which are left over before any shares which rank after (or below) them.

Dated

GLAXOSMITHKLINE SERVICES UNLIMITED

and

JULIAN HESLOP

UK SERVICE AGREEMENT

This Agreement is made on 2005 **between**:

(1) **GLAXOSMITHKLINE SERVICES UNLIMITED** whose registered office is at GSK House, Brentford, Middlesex, TW8 9GS (the "**Company**"); and

(2) **JULIAN HESLOP (**the "**Executive**").

1 **Interpretation**

1.1 In this Agreement (and any schedules to it)

"**Accrued Obligations**" means:

1.1.1 the Executive's base salary under this Agreement through to the end of the month in which the Termination Date occurs at the rate in effect on the Termination Date and the reimbursement (in accordance with Group policy) of any expenses incurred by the Executive prior to the Termination Date;

1.1.2 any unpaid bonus pertaining to the previous financial year and the product of any target bonus for the financial year in which the Termination Date occurs and a fraction, the numerator of which is the number of days in the Company's current financial year up to the Termination Date and the denominator of which is 365;

1.1.3 any remuneration previously deferred by the Executive (together with any accrued interest) and not yet paid by the Company including payment for any accrued holiday not taken by the Executive; and

1.1.4 any other benefits to which the Executive is entitled, as determined in accordance with the applicable plans and policies of the Company;

"**Board**" means the board of directors of the Company from time to time or any person or committee nominated by that board as its representative for the purposes of this Agreement;

"**Chief Executive Officer**" means the Chief Executive Officer of GSK plc from time to time;

"**Employment**" means the employment governed by this Agreement;

"**Group**" means the Company and any other Company controlling, controlled by or under the direct or indirect common control of the Company, including, without limitation, GSK plc and any of its subsidiaries from time to time;

"**Group Company**" means a member of the Group and "**Group Companies**" will be interpreted accordingly;

"GSK Board" means the board of directors of GSK plc from time to time or any person or committee nominated by the GSK Board as its representative for the purposes of this Agreement;

"**GSK plc**" means GlaxoSmithKline plc;

"**Termination Date**" means the date on which the Employment terminates, whether on the expiration of notice to terminate the Employment pursuant to Section 3 or otherwise pursuant to this Agreement.

1.2 References to any statutory provisions include any modifications or re-enactments of those provisions.

1.3 In this Agreement terms used in the context of the GlaxoSmithKline Share Option Plan and Performance Share Plan shall have the meaning ascribed to them in such plans.

2 Employment

The Company confirms the employment of the Executive, and the Executive confirms his employment with the Company, on the terms and conditions set out in this Agreement.

3 Termination by Notice

3.1 The Executive's continuous employment began on 1st April 1998.

3.2 The Employment under the terms of this Agreement shall be deemed to have commenced on 1st April 2005 and the Employment shall continue until:

(i) the Employment is otherwise terminated in accordance with this Agreement; or

(ii) not less than 12 calendar months' notice in writing is given by the Company to the Executive; or

(iii) not less than 12 calendar months' notice in writing is given by the Executive to the Company.

3.3 The Company may, in its absolute discretion, lawfully terminate the employment of the Executive at any time by paying to the Executive a sum equal to his basic salary and bonus (excluding any other benefits) for the period this Agreement would otherwise continue. For this purpose, salary shall be the basic salary in effect at the date of termination of the employment and bonus shall be calculated on the basis of the Executive achieving 100 per cent of the target bonus at Bonus level 1.

4 Duties and Responsibilities

4.1 The Executive shall be appointed as Chief Financial Officer of GSK plc and be compensated at GSK grade A03. The Executive shall have such powers and duties as are from time to time given to him by the Chief Executive Officer or, if different, the person to whom the Executive reports, consistent with the Employment and this Agreement. The Executive agrees that for the purposes of the Working Time Regulations 1998 he is a managing executive.

4.2 During the Employment, the Executive shall devote his full business time and energies to the business and affairs of the Company and GSK plc, consistent with any other duties and responsibilities he may have to any Group Companies. The Executive's time shall be allocated among the Group Companies in accordance with the Executive's reasonable judgment and dependent upon the level of his responsibilities to any other Group Company, subject to the overall supervision and direction of the Chief Executive Officer or, if different, the person to whom the Executive reports.

4.3 The Executive shall not, without the prior written consent of the GSK Board, accept directorships, trusteeships and other appointments (other than of Group Companies) or carry on or be engaged, concerned or interested either directly or indirectly in any other business or activity. A list of the directorships and outside interests of the Executive approved by the GSK Board as at the date of this Agreement is attached as Appendix I to this Agreement. Any fees earned by the Executive in respect of such authorised activities may be retained by the Executives.

4.4 The location of the Executive's activities shall be at GSK House, but subject to the overall supervision and direction of the Chief Executive Officer, and to perform properly his duties, he may be required to undertake reasonable travel elsewhere in the world. The Executive is required to reside at a location convenient to the Company's offices at GSK House (or such other location as the Company may determine) during the Employment.

5 Salary, etc.

5.1 In consideration of the services to be rendered by the Executive under this Agreement the Executive shall be paid a salary at the rate of £320,000 per annum payable in accordance with the Company's pay practices for its executives from time to time in force (but not less frequently than calendar monthly). The salary will be credited to the Executive's bank account notified to the Company for the purpose. Salary shall be reviewed annually in accordance with the Company's normal administrative practices for its executives and may be increased (but not reduced) by the Company by such amount (if any) as it shall think fit.

5.2 The Executive shall be entitled subject to Section 6.5 to participate

(i) in all such cash bonus plans and programmes as are made available from time to time for executives of the Company generally of the same grade in the relevant jurisdiction in accordance with the Company's policy (or GSK plc's policy, as applicable); and

(ii) in respect of the salary provided by Section 5.1, in such incentive programmes as are made available from time to time for executives of the Company and/or GSK plc generally who are of the same grade in the relevant jurisdiction,

in each case subject to the terms and conditions of such bonus plans and programmes from time to time in force. Any grant of share options or awards of performance shares under such plans and programmes shall be granted subject to performance conditions as determined by the GSK Board. Any shares received under the GlaxoSmithKline Performance Share Plan concerning Target Awards granted in respect of any Performance Period commencing on or after 1st January 2005 must be held by the Executive for a period of 2 years following vesting. For the avoidance of doubt, the two year period commences the day next after the cessation of the Performance Period notwithstanding that the Executive may defer payment of such a Final Award in accordance with the rules of the plan. The Executive's future participation in certain of these plans and programmes may be affected if he does not satisfy the Share Ownership Requirements (as amended from time to time). It is agreed that in the event of the Executive retiring from the Company, the Executive will retain the relevant number of shares (as set out in the Share Ownership Requirements) until at least one year after the earlier of (i) the Executive's Retirement Date contemplated by Section 14 of this Agreement, or (ii) the date on which the Executive retires from the Company in accordance with the terms of any Company policy (as may be in force from time to time)

5.3 The Executive's salary under Section 5.1 of this Agreement shall be inclusive of any fees or other remuneration to which the Executive may be entitled or receives as a Director, alternate Director, specialist adviser, consultant or by virtue of any other office or appointment in any Group Company. The Executive shall account to the Company for all such fees or other remuneration by paying over or procuring to be paid over the same to the Company.

5.4 GSK shall not be liable for any costs or expenses, including any costs or expenses pertaining to travel undertaken by the Executive, incurred as a result of any activity or participation in any role or capacity external to and unrelated to GSK or any Group Company. It is agreed that the Executive will promptly reimburse GSK against any such costs that may be incurred by GSK. Further, the Executive authorises the Company at any time to deduct from his salary, or any other monies payable to him by the Company, all sums which he owes the Company. If this is insufficient, the Company will require repayment of the balance.

6 Expenses and other Benefits

6.1 The Company shall promptly reimburse to the Executive all reasonable travel and other out of pocket expenses properly incurred by him in the performance of his duties under the Employment. The Executive will submit claims for expenses reimbursement to the Company regularly with appropriate supporting documentation.

6.2 The Executive is eligible to participate in the GlaxoSmithKline Car Allowance and Employee Car Ownership Scheme (ECOS) subject to the rules of the Scheme as amended from time to time provided that pursuant to the Sarbanes-Oxley Act 2002, the Executive shall not be entitled to receive the cash loan component of the ECOS. The Executive will receive a cash allowance which will be appropriate to a GSK Band A tranche 3. Full details of the Scheme are available on the *TotalReward* section on myGSK.

6.3 The medical benefit arrangements for the Executive and his family are as set out in the GlaxoSmithKline Executive Medical Plan (as amended from time to time). Details, including eligibility criteria, are set out in the *TotalReward* section on myGSK.

6.4 The Company at its expense shall provide the Executive with other benefits provided to executives of the Company of the same grade, and the Executive shall be entitled to participate in all benefit plans, practices and policies as are made available by the Company from time to time to its executives generally of the same grade subject to their terms and conditions from time to time in force. A list of all plans and programmes currently in operation is set out in Appendix 2. Details of the relevant plans and programmes are set out in the *TotalReward* section on my GSK.

6.5 The Company (and GSK plc, as applicable) reserves the absolute right and discretion to amend, modify or terminate all such benefits, plans and programmes as are referred to in Sections 5.2, 6.2, 6.3, 6.4 and 8 at any time and for any reason.

7 Holidays

In addition to all statutory and Bank Holidays, the Executive shall be entitled to 28 days' holiday in each year at full pay, which shall accrue rateably during the calendar year. Up to four days of such holiday shall be taken at times to be designated by the Company and the remainder shall be taken at such times as the business of the Company may permit. On termination of the Employment the Executive will be entitled to be paid for any accrued holiday not taken and will reimburse the Company for any holiday taken but not accrued.

Holiday which is not taken in the year in which it is accrued may be carried forward, in accordance with the Company's rules on the banking of holidays outlined in its Holiday Policy, as amended from time to time. Any holiday which is not banked in accordance with these rules will be lost.

8 Pension and Life Insurance

The Executive is entitled to be a member of the Glaxo Wellcome Executive Pension Plan arrangements subject to the terms from time to time in force of that Plan. Details of the current Plan are contained on the *TotalReward* section onmyGSK. Any contributions payable by the Executive to the pension plan will be deducted from salary. The Plan is subject to amendment or withdrawal at the Company's discretion.

9 Sickness

9.1 The Executive shall comply with the Company's sick pay rules from time to time in force.

9.2 Without prejudice to the Company's right to terminate the Employment in accordance with Sections 3, 13, 15 and 16 and to automatic termination in accordance with Section 14, if the Executive is absent from the Employment as a result of sickness or injury he shall be paid his full salary for the first 26 weeks' absence (whether or not consecutive) and half of his salary for the second 26 weeks (whether or not consecutive) in aggregate in any period of 24 calendar months. The amount of any benefit which the Executive is entitled to claim during that period of absence under any Social Security or National Insurance Scheme and/or any Scheme of which the Executive is a non-contributory member by virtue of the Employment, will be deducted from any salary paid to him. The Company will pay the Executive statutory sick pay under the Social Security Contributions and Benefits Act 1992 (as amended) and any salary paid to him will be deemed to include statutory sick pay. The Company reserves the right to offset the amount of these benefits against salary paid to the Executive even if the Executive has not recovered them.

9.3 The Company may require the Executive to have a medical examination every year (or at such shorter intervals as they may agree between them), by a doctor approved by the Company. The costs of such examinations shall be borne by the Company. The Executive shall authorise such doctor to submit to the Director of Human Resources of the Company a copy of the medical report or results of any tests prepared or obtained as a result of that examination (which shall omit reference to any medical condition which in the doctor's opinion would not affect the Executive's capability to perform his duties then or in the future).

10 Inventions and Copyright

The Company's standard policy on inventions and copyright from time to time in force shall apply to the Executive.

11 Confidentiality; Company Securities

11.1 Without prejudice to any other duty owed to the Company or to any Group Company, the Executive shall not, except in the proper performance of his duties or as authorised by the Board, during or after the Employment, use or disclose to any person any Confidential Information obtained by him during the Employment.

11.2 In the course of the Employment, the Executive is likely to obtain trade secrets and confidential information belonging to or relating to Group Companies and other persons. He will treat such information as if it falls within the terms of Section 11.1 and Section 11.1 will apply with any necessary amendments to such information. If requested to do so by the Company, the Executive will enter into an agreement with other Group Companies and any other persons in the same terms as Section 11.1 with any amendments necessary to give effect to this provision.

11.3 For the purposes of this Agreement, the term "**Confidential Information**" shall include, but not be limited to confidential commercial, financial and strategic data pertaining to the Group and any other confidential information relating to the business or affairs of the Group including, without limitation, any invention, trade secret, manufacturing process or patent information. The term "Confidential Information" shall not include any information:

11.3.1 which is or becomes generally available to the public; or

11.3.2 which is acquired by the Executive apart from his association with the Group

other than, in each case, as a result of disclosure by the Executive or by any person to whom he has supplied information or by any person in breach of a duty of confidentiality.

In addition, the term "Confidential Information" shall not include any information which the Executive is required to disclose by applicable law or regulation or by order of a court or governmental body of competent jurisdiction, so long as the Executive gives the Chief Executive Officer of the Company reasonable prior notice of such required disclosure. This does not affect any rights the Executive has under Part IVA of the Employment Rights Act 1996.

11.4 During the Employment, the Executive shall be bound, in respect of transactions in securities issued by any Group Company, by the Company's and GSK plc's policies from time to time in effect on employee securities dealing. In particular, the Executive shall advise either the Company Secretary or Chief Executive Officer or Chairman of GSK plc before he or any member of his immediate family seeks to trade in such securities and shall be bound by any directions given by the Company Secretary, CEO or Chairman.

12 General Termination Provisions

12.1 On the termination of the Employment for whatever reason, or at any other time when requested to do so by the Company, the Executive, upon receipt of written request from the Company, shall promptly

(i) deliver up to the Company any property belonging to the Company or any other Group Company which may be in his possession or under his control including Confidential Information, lists of customers, correspondence, documents and other property. The Executive will not retain any copies of any materials or other information. The Company shall promptly return to the Executive and permit him to remove from the premises of the Company and any other Group Company, any property, personal records, files, etc. belonging to the Executive; and

(ii) resign on request by the Company or the GSK Board (if he has not already done so) from all offices held by him in the Company and any other Group Company (except for any he is entitled to retain under any separate agreement with any Group Company), failing which the Executive irrevocably authorises the Company or GSK plc to appoint an officer of the Company or GSK plc to execute all documents on his behalf and do all things necessary to effect such resignations; PROVIDED, however, that any such resignations pursuant to this Section 12.1(ii) shall be without prejudice to the Executive's rights under this Agreement.

12.2 Any termination of the Employment shall be without prejudice to the Executive's and the Company's continuing obligations under this Agreement.

12.3 Upon the termination of the Executive's employment for whatever reason, the Executive shall immediately repay all outstanding debts or loans due to the Company or any Group Company and the Company is hereby authorised to deduct from any payment of wages any sum in repayment of all or any part of such debts or loans.

12.4 The terms of the GSK Redundancy Policy as in force from time to time, shall not apply to the Executive who shall only be entitled to statutory redundancy pay in addition to any other entitlement under this Agreement if his Employment is terminated by reason of redundancy.

13 Termination due to Death or Disability

13.1 In the event of the Executive's death, the Employment will terminate automatically on the date of his death, which shall be the Termination Date for the purposes of this Agreement. His duly qualified executor shall be entitled to receive the Accrued Obligations.

13.2 The Company may elect to terminate the Employment immediately without notice or payment in lieu of notice by serving written notice ("**Termination Notice for Disability**"), if an independent physician selected by the Company has certified in writing that, by reason of a physical or mental illness or other condition of the Executive, the Executive is unlikely to be able to resume performance of duties under the Employment for the foreseeable future. The Employment will terminate on the Termination Date specified in the Termination Notice for Disability. Provided that the Company shall not be entitled to terminate the employment by reason of physical or mental illness or other condition if this would lead to the Executive becoming dis-entitled to benefits under the Company's or GSK plc's permanent health insurance plan.

13.3 In the event the Company delivers a Termination Notice for Disability, the Executive shall immediately be relieved from all offices, appointments and responsibilities that he may then hold under the Employment and be relieved of any duty to work for or serve the Company or any Group Company. The Executive shall be entitled only to the Accrued Obligations, together with such rights as are provided for in the applicable benefits plan(s) in which the Executive participates.

14 Termination on Retirement

The Employment shall automatically terminate on the last day of the month in which the Executive reaches his sixtieth (60th) birthday (the "**Retirement Date**") and the Executive shall thereafter be entitled only to payment of the Accrued Obligations.

15 Termination for Cause

15.1 The Company shall be entitled to terminate the Employment immediately without notice or payment in lieu of notice for Cause (as defined in this Section 15) by serving written notice ("**Notice of Termination for Cause**").

15.2 "**Cause**" shall mean:

15.2.1 the Executive is convicted of any criminal offence which in the reasonable opinion of the Chairman of GSK plc or the GSK Board affects the Executive's position as Chief Financial Officer of GSK plc (other than a motoring offence for which no custodial sentence is given to him); or

15.2.2 the Executive, in carrying out his duties under the Employment, is found guilty of gross neglect or gross misconduct; or

15.2.3 the Executive shall become bankrupt or have an order under Section 252 of the Insolvency Act 1986 made in respect of him or if an interim receiver of his property is appointed under Section 286 of the Act; or

15.2.4 the Executive shall be or become prohibited by law from being a director; or

15.2.5 the Executive commits a material breach of any term of this Agreement.

15.3 Any delay or forbearance by the Company in exercising any right of termination shall not constitute a waiver of it.

15.4 In the event that the Employment is terminated for Cause, the Employment shall terminate upon the date on which the Board serves Notice of Termination for Cause and the Executive shall be entitled only to payment of all previously accrued and unpaid salary then due and owing under this Agreement, up to the date of termination including reimbursement for expenses previously incurred and, save for the provisions of this Section 15.4, the Executive will have no claim for damages or any other remedy against the Company or any Group Company.

16 Termination by Notice

16.1 If either notice to terminate the Employment is given by the Executive according to Section 3.2(iii) above, or if the Executive resigns without giving due notice and the Company does not accept his resignation or the Company has given notice in accordance with Section 3.2(ii) above then the Company may require the Executive to comply with any and all of the provisions in this Section 16.1 for a maximum period of 12 months (the "**Garden Leave Period**").

16.1.1 The Company may require that the Executive does not:

(i) enter or attend the premises of the Company, or any Group Company; or

(ii) contact or have any communication with any customer or client of the Company, or any Group Company in relation to the business of the Company, or any Group Company; or

(iii) contact or have any communication with any employee, officer, director, agent or consultant of the Company, or any Group Company in relation to the business of the Company, or any Group Company; or

(iv) become employed or engaged by any company, partnership or other entity whether as an employee, director, partner or consultant or carry on any business either on his own account or for any other person whether directly or indirectly (except as the holder, directly or indirectly, of less than 5 per cent of the shares or save for those activities permitted in accordance with Section 4.3);

(v) remain or become involved in any aspect of the business of the Company, or any Group Company except as required by such companies.

16.1.2 The Company may require the Executive:

(i) to comply with the provisions of Section 12; and

(ii) to immediately resign from any directorship which he holds in the Company, and any Group Company or any other company where such directorship is held as a consequence or requirement of the Employment, unless he is required to perform duties to which any such directorship relates in which case he may retain such directorships while those duties are ongoing. The Executive hereby irrevocably appoints the Company to appoint an officer of GSK plc as his attorney to execute any instrument and do anything in his name and on his behalf to effect his resignation if he fails to do so in accordance with this Section 16.1.2(ii).

16.1.3 During any Garden Leave Period the Company may appoint another individual to carry out the duties of the Executive and the Executive shall:

(i) continue to be bound by the provisions of this Agreement and conduct himself with good faith towards the Company and not do anything that is harmful to the Company or any Group Company;

(ii) remain available to perform any reasonable duty requested by the Company or any Group Company and to co-operate generally with the Company or any Group Company to ensure a smooth handover of his duties (provided that if the Executive should fail to make himself available for such work having been requested by the Company or any Group Company to attend he shall, notwithstanding any other provision of this Agreement forfeit his right to salary and contractual benefits in respect of such period of non-availability).

16.1.4 During the Garden Leave Period, the Executive will be entitled to receive his salary and benefits in accordance with the terms of this Agreement including any bonus payable in accordance with Section 5.2 but excluding any share entitlements under Section 5.2 above.

16.1.5 Where the Company gives notice to terminate the Employment in accordance with Section 3.2 (except where termination is effected pursuant to the terms of Section 15) above then notwithstanding the continuation of the Employment during any period after notice has been given, including, any Garden Leave Period, within 30 days of the date such notice was given to the Executive, the Company shall pay to the Executive as a lump sum his full salary and bonus in respect of the entire period of notice (except for any part of it attributable to the period falling after the Executive's Retirement Date and subject to deduction of tax and any other deductions required to be made) (the "**Lump Sum**"). For this purpose, full salary shall be the basic salary in effect at the date such notice is given to the Executive, and bonus shall be calculated on the basis of the Executive achieving 100 per cent of the target bonus at Bonus Level 1. For the avoidance of doubt, the payment by the Company to the Executive of the Lump Sum will extinguish any and all liability imposed on the Company under this Agreement to make any further payment to the Executive in respect of salary and bonus under this Agreement during any period after notice has been given, including, any Garden Leave Period.

16.1.6 After the payment of a Lump Sum pursuant to Section 16.1.5, at the end of or at any time during the Garden Leave Period the Company may at its sole and absolute discretion terminate the Employment by further written notice to the Executive without any further payment. In any event at the end of the 12 month Garden Leave Period the Employment will also terminate automatically and the Company shall be under no obligation to make any further payment to the Executive, save for in respect of any Accrued Obligations that may exist.

16.1.7 However, in the event that the Executive obtains an offer of future alternative employment with another employer, or otherwise wishes to take up alternative business activities, and he can satisfy the GSK Board that such employment/activities are not in breach of Section 17, the Company shall waive the balance of any unexpired notice period or the Garden Leave Period so as to enable the Executive to take up such alternative employment/activities; whereupon, subject to Section 12.3 above, the Company's obligations to the Executive under this Section 16.1 shall cease with effect from the agreed revised Termination Date.

16.1.8 The Company and the Executive agree that if the Company shall fully perform, when due, all its obligations under this Section 16, such performance shall be in full and final settlement of all and any claims or rights of action which the Executive might have against the Company, or any Group Company arising out of this Agreement or its termination or otherwise howsoever relating to the Employment.

16.1.9 A removal by the Company of the Executive from his current position which results in a demotion to a position with less responsibility than his current position, or a change in reporting relationships which results in the Executive no longer reporting directly to the Chief Executive Officer, will be deemed to be a termination by the Company on notice pursuant to Section 16 of this Agreement.

17 Restrictions during and after Termination of Employment

17.1 In this Section:

"**Restricted Business**" means the businesses of the Company or any Group Company at the Termination Date (or if earlier the start of any Garden Leave Period ending on the Termination Date) with which the Executive was involved to a material extent during the last 12 months of the Employment.

"**Restricted Period**" means any period during which the Executive is employed by the Company (including for the avoidance of doubt, any Garden Leave Period) and the period of 12 months, less any Garden Leave Period imposed by the Company under Section 16 and less any period of notice worked by the Executive during the notice period set out in Section 3, commencing on the Termination Date.

17.2 The Executive is likely to obtain trade secrets and confidential information and personal knowledge of and influence over customers, clients and employees of the Company, GSK plc and its Group Companies during the course of the Employment. To protect these interests, the Executive agrees with the Company and GSK plc that the Executive will be bound by the following covenants:

17.2.1 During the Restricted Period he will not be engaged in (except as the holder, directly or indirectly, of less than 5 per cent of the shares) any business which is or is about to be in competition with the Restricted Business.

17.2.2 During the Restricted Period the Executive will not canvass or solicit in competition with the Company, or any Group Company, the custom of any person who was during the last 12 months of the Employment a customer, or client of, or in the habit of dealing with, the Company, or (as the case may be) any Group Company and in respect of which the Executive had access to confidential information or with whose custom or business the Executive is or was personally concerned, during that 12 month period with a view to providing goods or services to that person in competition with any Restricted Business.

17.2.3 During the Restricted Period he will not, in the course of any business concern which is in competition with the Restricted Business provide goods or services to or otherwise have any dealings with any person who was during the last 12 months of the Employment a customer, or client of, or in the habit of dealing with the Company, or any Group Company, and in respect of which the Executive had access to confidential information or with whose custom or business the Executive is or was personally concerned during that 12 month period.

17.2.4 During the Restricted Period he will not, interfere or endeavour to interfere with the continuance of the provision of goods or services to the Company, or any Group Company, by any supplier which was a supplier of goods or services to the Company, or any Group Company during the last 12 months of the Employment and with whom the Executive dealt to a material extent during that period.

17.2.5 During the Restricted Period he will not entice or try to entice away from the Company or any Group Company any person who is still employed by the Company or a Group Company during the Restricted Period and is a senior employee, director or full time senior consultant of such a company and with whom he worked closely in the last six months of the Employment.

17.3 Each of the obligations imposed on the Executive by this Section 17 extend to him acting not only on his own account but also on behalf of any other firm, company or other person and shall apply whether he acts directly or indirectly.

17.4 Following the Termination Date, the Executive will not represent himself as being in any way connected with the businesses of the Company, GSK plc or of any other Group Company (except to the extent agreed in writing by such a company).

17.5 Any benefit given or deemed to be given by the Executive to any Group Company under the terms of Section 17 is received and held on trust by the Company for the relevant Group Company. The Executive will enter into appropriate restrictive covenants directly with other Group Companies if asked to do so by the Company or GSK plc.

18 Reasonableness of Restrictions

18.1 Each of the obligations on the Executive contained in Section 17 constitutes a separate and independent restriction on the Executive notwithstanding that they may be contained in the same Section, paragraph or sentence.

18.2 Should the restrictions contained in Section 17 be found to be void but would be valid if some part thereof were deleted or the period or radius of application reduced, then such restriction shall apply with such modification as may be necessary to make it valid and effective. In particular, the Executive agrees that the restrictions are reasonable and necessary for the protection of the Company and the Group Companies.

18.3 If the Executive shall, during the Restricted Period, receive from any person, firm or company, an offer to provide services in any capacity whatsoever, or to enter into employment where acceptance of such offer, or the taking of such employment, might render him in breach of the provisions of this Agreement, he shall promptly advise the offeror of the existence of the restrictions set forth in Section 17 of this Agreement.

18.4 The Executive acknowledges that the Company may have no adequate remedy at law and would be irreparably harmed if the Executive breaches or threatens to breach the provisions of Section 17 above and, therefore, agrees that the Company shall be entitled to injunctive relief to prevent any breach or threatened breach of Section 17 above, and to specific performance of the terms of each such Section in addition to any other legal or equitable remedy it may have. The Executive further agrees that he shall not, in any equity proceedings involving him relating to the enforcement of Section 17 above raise the defence that the Company has an adequate remedy at law. Nothing in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies at law or in equity that it may have.

19 Severability

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions or portions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

20 Successors and Assigns

20.1 This Agreement shall be binding upon and inure to the benefit of the Company or any corporation or other entity to which the Company may transfer all or substantially all of its assets and business and to which the Company may assign this Agreement, in which case "**Company**", as used in this Agreement, shall mean such corporation or other entity. The foregoing shall not relieve the Company of any of its obligations under Section 16 of this Agreement. The rights of the Executive shall inure to the benefit of his heirs, executors, administrators and other personal representatives.

20.2 The Executive may not assign this Agreement or any part of it or any rights thereunder or delegate any duties to be performed by him under it to anyone else.

21 Survivorship

To the extent contemplated by this Agreement, respective rights and obligations of the parties set out in this Agreement shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations.

22 Notices

Any notice (including any Termination Notice) required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or sent by courier, duly addressed to the party concerned at such address as the party may notify to the other. Any notice delivered personally under this Section 22 shall be deemed given on the date delivered and any notice sent by courier shall be deemed given on the date delivery is recorded by such courier.

23 Entire Agreement

23.1 This Agreement supersedes any previous written or oral agreement between the parties in relation to the matters dealt within it. It contains the whole agreement between the parties relating to the Employment at the date the Agreement was entered into (except for those terms implied by law which cannot be excluded by the agreement of the parties). The Executive acknowledges that he has not been induced to enter into this Agreement by any representation, warranty or undertaking not expressly incorporated into it.

23.2 Neither party's rights or powers under this Agreement will be affected if:

23.2.1 one party delays in enforcing any provision of this Agreement; or

23.2.2 one party grants time to the other party.

24 Amendment or Modification; Waiver

No provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to in writing, signed by the Executive and by a duly authorised officer of the Company who shall supply the Executive with evidence of such authority.

25 Withholding

Anything to the contrary notwithstanding, all payments required to be made by the Company under this Agreement to the Executive, or to his estate or beneficiaries, shall be subject to withholding of such amounts relating to taxes as the Company may be required to withhold pursuant to any applicable statute, law or regulation.

26 Indemnification and Insurance

26.1 The Company agrees that if the Executive is made a party or is threatened to be made a party to any action, suit, proceeding or governmental or other investigation by reason of the fact of the Employment or that he is or was a director, officer or employee of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another Group Company or entity except for any action instigated by the Company or the Executive (a "**Proceeding**"), he shall be indemnified by the Company to the fullest extent permitted by applicable law against all expenses, liabilities and losses reasonably incurred or suffered by the Executive in connection with such a Proceeding (including any tax payable by the Executive as a result of payments made by the Company pursuant to this indemnity), including, without limitation, payment of expenses incurred in defending a Proceeding prior to the final disposition of such Proceeding; PROVIDED, however, that written notice of such Proceeding is given promptly to the Company by the Executive and the Company is permitted (where appropriate) to participate in and assume the defence of such Proceeding. The provisions of this Section 26 shall survive the

termination of the Employment and shall be in addition to any other rights to indemnification to which the Executive may from time to time be entitled, whether under any applicable insurance policies or otherwise.

26.2 The Company will provide the Executive with Legal Expenses Insurance and Directors' and Officers' Liability Insurance under the Company's policy current from time to time in force subject to such cover being available at reasonable commercial rates.

27 Collective Agreements – Disciplinary Rules and Procedures

There are no collective agreements which directly affect the terms and conditions set out in this Agreement.

The Company's harassment and bullying policies, disciplinary rules and procedures and grievance procedures, as in force from time to time, shall apply to the Executive. The Company reserves the right to leave out any or all of the stages of those rules and procedures where it considers it appropriate to do so.

28 Data Protection

The Executive consents to the Company or any Group Company holding and processing both electronically and manually the data it collects which relates to the Executive for the purpose of the administration and management of its employees and its business and for compliance with applicable procedures, laws and regulations. The Executive also consents to the transfer of such personal information to other offices the Company may have or to a Group Company or to other third parties whether or not outside the European Economic Area for administration purposes and other purposes in connection with the Executive's employment where it is necessary or desirable for the Company to do so.

29 Governing Law

This Agreement shall be deemed a contract made under, and for all purposes shall be construed in accordance with, the laws of England. Each of the parties submits to the exclusive jurisdiction of the English courts as regards any claim or matter under this Agreement.

30 Titles

Titles to the Sections in this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the title of any Section.

In witness whereof the parties hereto have executed this Agreement as a deed on the day and year first above written

THE COMMON SEAL of
GLAXOSMITHKLINE SERVICES UNLIMITED was hereunto affixed in the presence of: }

Director

Secretary

Signed Sealed and Delivered by the said **JULIAN HESLOP** in the presence of: }
Name:

Address:

Occupation

Appendix 1: Schedule of Directorships and Outside Interests

A list of the directorships and outside interests of the Executive approved by the GSK Board as at the date of this Agreement is out below:

Glaxo Finance Bermuda Limited	Director
Glaxo Group Limited	Chairman
Glaxo Investments (UK) Limited	Director
Glaxo Venture Limited	Director
Glaxo Wellcome Holdings Limited	Director
Glaxo welcome International B.V.	Director
Glaxo Wellcome Investments B.V.	Director
GlaxoSmithKline Insurance Limited	Director
SmithKline Beecham Pension Trustees Limited	Director
Sterwin Dungarven	Director
The Wellcome Foundation	Director
Wellcome Limited	Director

Appendix 2: Other Benefits

TotalReward makes the spirit of GSK an everyday reality for our people and is a major building block for achieving our mission. The principles have been developed to ensure that the interest of our employees is very closely aligned with GSK's.

TotalReward is a competitive package designed to attract, retain, motivate and develop the best talent. At the same time, it is cost-effective, benefiting GSK and our employees. Below is a list providing examples of the benefits currently provided as at the date of the contract.

TotalReward includes:

- Total Cash opportunities – Salary, Bonus, Share Option Plan, Performance Share Plan, Annual Investment Plan
- Lifestyle Benefits -Total Care, Holidays, Corporate Discounts and Car Ownership Scheme
- Savings Choices – ShareReward, ShareSave and Pension Plan

The Executive's future participation in certain of these plans and programmes may be affected if he does not satisfy the Share Ownership Requirements (as amended from time to time).

Details of the relevant plans and programmes and Share Ownership Requirements are set out in the CET *TotalReward* section on myGSK.

The Company reserves the right to amend, modify or withdraw the benefits, from time to time.

Section 302 Certificate

Form of Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934

I, Dr Jean-Pierre Garnier, certify that:

1. I have reviewed this annual report on Form 20-F of GlaxoSmithKline plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 3, 2006

/s/ Dr Jean-Pierre Garnier

Dr Jean-Pierre Garnier
Chief Executive Officer

Section 302 Certificate

Form of Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934

I, Julian Heslop, certify that:

1. I have reviewed this annual report on Form 20-F of GlaxoSmithKline plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 3, 2006

/s/ Julian Heslop

Julian Heslop
Chief Financial Officer

Section 906 Certificate

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of GlaxoSmithKline plc, a public limited company incorporated under English law (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2005 (the "Form 20-F") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 3, 2006

/s/ Dr. Jean-Pierre Garnier

Dr. Jean-Pierre Garnier
Chief Executive Officer

Date: March 3, 2006

/s/ Julian Heslop

Julian Heslop
Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3, as currently amended (No. 333-104121) and in the Registration Statements on Form S-8 (Nos. 333-13022, 333-88966 and 333-100388) of GlaxoSmithKline plc of our report dated 1 March 2006, relating to the financial statements of GlaxoSmithKline plc, which appears in GlaxoSmithKline plc's Annual Report on Form 20-F for the year ended 31 December 2005, and of our report dated 2 March 2005, except for the Cidra, Puerto Rico manufacturing site matter discussed in Note 30, for which the date is 8 March 2005, relating to the financial statements of GlaxoSmithKline plc, which appears in GlaxoSmithKline plc's Annual Report on Form 20-F for the year ended 31 December 2004. We also consent to the reference to us under the heading Experts in the Registration Statement on Form F-3.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
London, England
3 March 2006