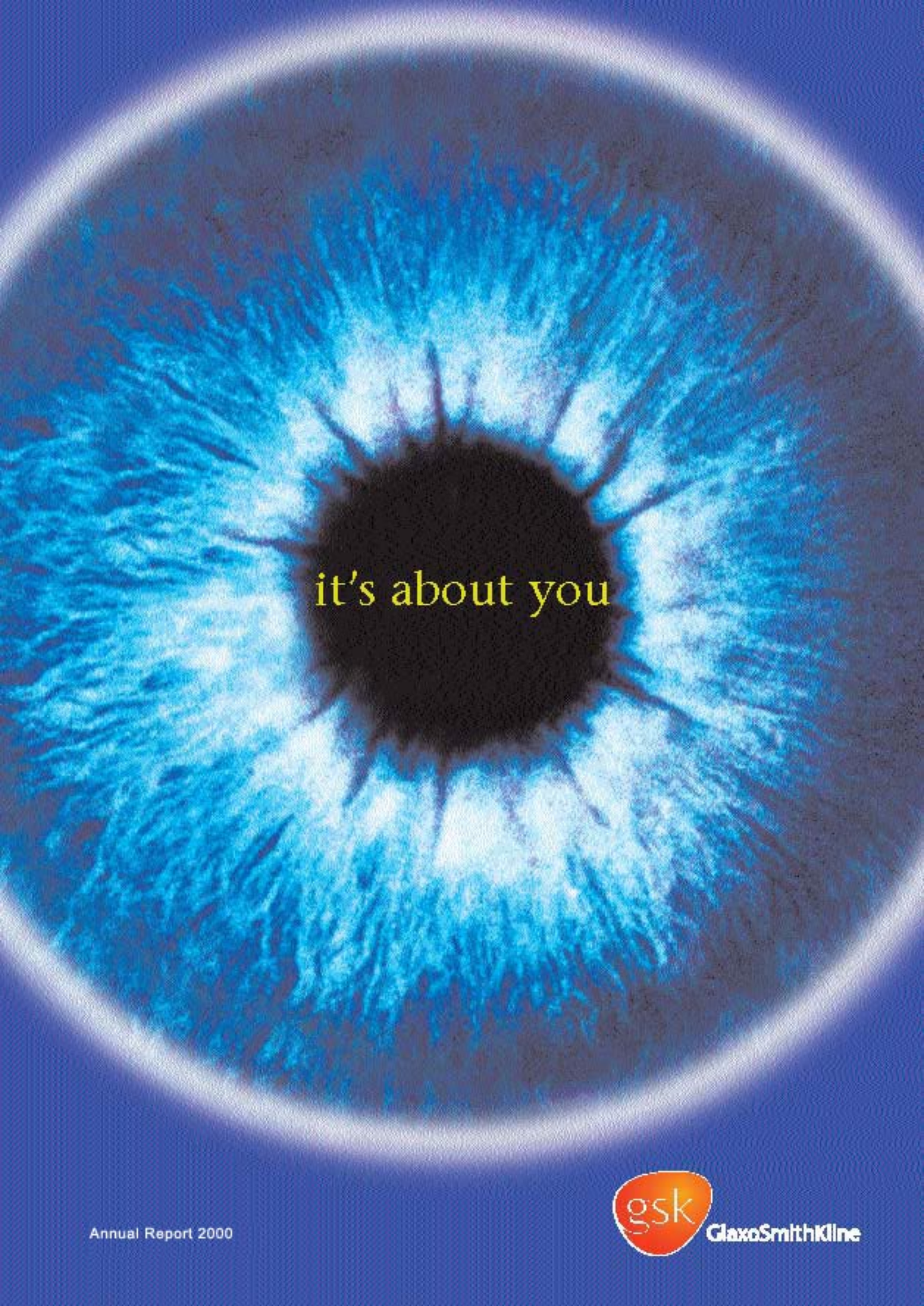


Annual Report 2000

GlaxoSmithKline

GlaxoSmithKline plc
Annual Report
for the year ended 31st December 2000

Contents

The Annual Report was approved by the Board of Directors on 22nd March 2001 and published on 12th April 2001.

Financial summary

Business performance	2000 £m	1999 £m	Increase CER %	Increase £ %
Sales	**18,079**	16,164	9	12
Trading profit	**5,026**	4,378	12	15
Profit before taxation	**5,327**	4,708	11	13
Earnings/Net income	**3,697**	3,222	13	15
Earnings per Ordinary Share	**61.0p**	52.7p	14	16

Total results		
Profit before taxation	**6,029**	4,236
Earnings/Net income	**4,154**	2,859
Earnings per Ordinary Share	**68.5p**	46.7p

Business performance: results exclude merger items and restructuring costs; 1999 sales and trading profit exclude the Healthcare Services businesses which were disposed of in 1999.

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

Financial highlights

Pharmaceutical sales up 10 per cent
Sales growth in key therapeutic areas:
- Central nervous system up 16 per cent
- Respiratory up 15 per cent
- Anti-virals up 14 per cent

New products contributed nearly £1 billion in growth, up 60 per cent:
- *Avandia* achieved sales of £462 million
- *Seretide* achieved sales of £208 million, with US launch planned for April 2001

Business performance pre-tax profit up 11 per cent
Business performance earnings per share up 14 per cent

Shareholder return	2000	1999
Dividends per GlaxoSmithKline share:		
former Glaxo Wellcome shareholder	**38.0p**	37.0p
former SmithKline Beecham shareholder	**29.7p**	26.7p
Share price (London Stock Exchange):		
GlaxoSmithKline share at 31st December 2000	**£18.90**	–
Glaxo Wellcome share at 26th December 2000/31st December 1999	**£18.42**	£17.50
SmithKline Beecham share at 26th December 2000/31st December 1999	**£8.33**	£7.90

1 Glaxo Wellcome share is equivalent to 1 GlaxoSmithKline share.
1 SmithKline Beecham share is equivalent to 0.4552 GlaxoSmithKline shares.

Cautionary statement regarding forward-looking statements

Under the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995, the company cautions investors that any forward-looking statements or projections made by the company, including those made in this document, are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Factors that may affect the company's operations are discussed under 'Risk Factors' on page 57 of this Annual Report.

Joint statement by the Chairman and the Chief Executive Officer

This past year has been momentous for everyone at GlaxoSmithKline. Our big event during the Millennium year was the announcement on 17th January 2000 of our intention to merge Glaxo Wellcome and SmithKline Beecham to create one of the world's leading research-based healthcare companies.

Following regulatory and shareholder approval, the two companies became one on 27th December 2000. Throughout the year, our employees worked hard to achieve two objectives: maintain the momentum of both existing businesses and plan the merger of two strong companies, each with a rich heritage of pharmaceutical discovery and development and a proven record of success in the marketplace. They have succeeded in doing both.

Delivering results

Despite all the uncertainty of the integration planning process, we were able to turn in a strong set of results for the year 2000. Sales for the combined group reached £18 billion with growth of nine per cent (at constant exchange rates, excluding Healthcare Services). Pharmaceuticals had a great year, with particularly good results in the United States – our largest market – which reported sales of £7.7 billion, up 15 per cent. New products – those launched in a major market within the last five years – contributed £2.6 billion of sales, represent 17 per cent of our total pharmaceutical sales, and grew at 60 per cent in 2000.

The business climate in Europe remains demanding but our growth there of six per cent in 2000 was broadly in line with the market. In the rest of the world, sales grew by eight per cent reflecting double-digit growth in Asia Pacific, the Middle East and Africa and Canada. *Zeffix* and *Paxil* were launched in Japan in late 2000 and both products are off to a strong start.

Our Consumer Healthcare business performance was affected by competition in the smoking cessation area. We are confident that the business performance will improve in 2001 and we will also be realising the benefits from our acquisition of Block Drug, completed in January 2001. Block Drug, with sales in more than 100 countries, adds approximately £600 million to GlaxoSmithKline's Consumer Healthcare business and some well-known brands such as *Sensodyne*.

Our vaccines business continues to do well with double-digit growth (11 per cent) resulting from new products such as our combination vaccine, *Infanrix*, which grew by 47 per cent. Continued strength in the near term is expected to be driven by our new vaccines, including the launch in 2001 of five new vaccines.

Financial outlook

Pharmaceutical sales growth is a key driver of GlaxoSmithKline's current strong business performance. The company will also benefit from the delivery of at least £1.6 billion in cost savings by 2003 as a result of both the merger and the manufacturing restructuring plans already in place.

These benefits and the performance of the business have led the company to forecast earnings per share growth (excluding merger and restructuring costs and the effects of currency) for 2001 of around 13 per cent. This is despite the impact of product divestments required by regulatory bodies in order to complete the merger which will have the effect of reducing the company's earnings per share expectation for the year by six per cent.

In 2002, the company expects earnings per share growth to accelerate to the mid teens, reflecting strong business performance boosted by cost savings.

Becoming the industry leader

We have started life as a new company at a rapid pace, implementing many of the plans we worked on last year.

Our mission is nothing less than to improve the quality of human life by enabling people to do more, feel better and live longer. That mission gives us purpose. Our size gives us opportunity. But it is our spirit as a company – our passion for innovation and achievement, coupled with an unmatched sense of urgency – that we believe will enable us to attain success as a world class leader.

Bringing two companies together is complex and full of challenge. We must complete the integration quickly to realise the full benefits of the merger, with proper respect for our employees. That will be done. Beyond integration, our priorities are to improve R&D productivity, achieve excellence in product commercialisation, be the partner of choice for in-licensing and work in partnership with governments, agencies and charities to expand access to our medicines.

Building our new product portfolio

In 2000 we invested £2.5 billion in R&D. That, and our previous investment in key technologies – now fully integrated into our business – have yielded a formidable early stage pipeline of promising compounds that offer great hope for better medicines against diseases such as cancer, obesity, diabetes and heart disease.

We have also radically redesigned our R&D organisation to achieve the benefits of scale without sacrificing the advantages of a small, flexible working environment. The strong link between research and commercial operations built into the new structure will also enable us to maximise the value of our medicines through excellence in product commercialisation – another key driver of our business. As a current market leader in four of the five top therapeutic areas – central nervous system (CNS), respiratory, metabolic/gastro-intestinal (GI) and anti-infectives – we are in a strong position to achieve that goal.

CNS is our largest product sales category, led by *Seroxat/Paxil* which became number one in the US selective serotonin reuptake inhibitor market for new retail prescriptions in 2000. We expect to expand its value in 2001 from approvals to market the product to treat general anxiety disorder and post traumatic stress disorder.

In respiratory, *Flixotide/Flovent* remains the world's leading asthma medicine. *Seretide* has enjoyed strong launches in Europe and will be launched in the USA as *Advair* in April 2001 where we have high hopes for its success.

We are also the industry leaders in medicines that treat HIV/AIDS with *Combivir* and *Ziagen* both growing well. In December 2000, we launched the first triple combination medicine to fight HIV/AIDS – *Trizivir* – in the USA and will be launching it across Europe in 2001.

Our metabolic/GI business suffered a blow in 2000 with the withdrawal of our recently launched medicine, *Lotronex* – the first effective treatment for irritable bowel syndrome – as a result of the US Food and Drug Administration concerns over side effects. However, in the same therapeutic category, *Avandia*, our new diabetes treatment, had an exceptional year and was the single biggest contributor to the company's growth in 2000. This market has great growth potential, and we will be expanding the treatment options for *Avandia* in order to provide its benefits to even more patients.

So, we have strong products growing in the marketplace and many promising compounds coming through early stage R&D. Meanwhile, we will add new compounds to the portfolio through intelligent in-licensing. We have already announced an unprecedented nine licensing agreements in the last 12 months, most recently E Merck's partial agonist for depression and Sepsicure's endotoxin binder for sepsis, both in Phase II of clinical trials.

Meeting society's challenges

Leadership and size bring visibility and accountability. We recognise our responsibility to society wherever we operate, and we will listen to and address legitimate concerns as they affect our business. Shareholders will be aware that the creation of GlaxoSmithKline has coincided with an upsurge of public comment and concern on two issues in particular: the use of animals in the discovery and testing of medicines and access to medicines in the developing world.

GlaxoSmithKline is required by governmental regulatory agencies to submit data on the safety and efficacy of new medicines derived from animal models. We make every effort to reduce the number of animals used in our research through computer modelling and other techniques. However, those methods cannot yet replicate the complex physiological processes in living creatures which can influence whether a drug substance is safe or toxic to different organs. So, while we must continue to use animals to discover and develop new medicines, we ensure that they are well cared for, beyond the high standards set by regulators. We unreservedly condemn the use of threats and intimidation against any individual engaged in legitimate and lawful activity – in our case, employees engaged in the discovery and development of medicines with the potential to save or prolong human life.

The devastating impact of the HIV/AIDS epidemic on the populations and economies of developing countries, particularly in sub-Saharan Africa, has thrown the role and responsibilities of the pharmaceutical industry – as providers of medicines effective in the treatment of the disease – into sharp relief. GlaxoSmithKline has moved quickly to build on the leadership exhibited by our two previous companies, which included in May 2000 a groundbreaking pledge to supply three HIV/AIDS medicines to developing country governments at price reductions of around 90 per cent. In February 2001 we extended our commitment by offering to supply these same deep discounts to non-governmental organisations, UN agencies and also to employers in Africa that have direct access to patients through their own clinics and hospitals.

As the world leader in the discovery and development of medicines that effectively treat HIV/AIDS, GlaxoSmithKline is determined to play its full part in dealing with this desperate humanitarian crisis which is blighting and destroying the lives of so many millions of people. Yet it disappoints our employees and our other stakeholders that much of the public comment has so far failed to convey the immense complexity of the issue or give due credit for the substantial contribution your company is already making.

Real progress in increasing the number of patients treated will only come through concerted action whereby companies such as GlaxoSmithKline work actively in partnership with governments that have the political will to develop real solutions; donor funders who can help buy medicines; and organisations on the ground working to provide medical facilities, establish reliable drug distribution systems, and provide patients with proper care and treatment. We will keep shareholders updated on our progress.

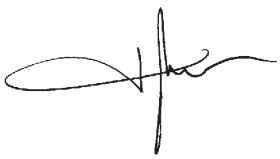
Acknowledgements

Despite the merger activity, both companies were honoured with awards, recognising excellence in a wide range of activities. Our first award as GlaxoSmithKline came even before the merger was completed, when we were voted Britain's Most Admired Company in the annual Management Today Awards, an accolade we are determined to live up to.

We are deeply indebted to all our employees for their commitment and are proud of what they achieved this year. Their success has laid the strong foundations on which we are now building GlaxoSmithKline.

We wish to thank those former Directors of Glaxo Wellcome and SmithKline Beecham who have left the company as a consequence of the merger. Executive Directors Andrew Bonfield, James Cochrane and Jeremy Strachan all made extremely valuable contributions to the success of the former businesses and in helping bring about the merger. Arthur Li and Baroness Hooper departed after giving valuable service as Non-Executive Directors. Derek Bonham has decided not to seek election as a Non-Executive Director at the forthcoming AGM and he too is thanked for his services to Glaxo Wellcome and to GlaxoSmithKline.

On behalf of your Board and Corporate Executive Team, we also thank shareholders for their support towards the creation of GlaxoSmithKline. We are committed to achieving the best return for all shareholders and stakeholders in our vibrant new company.



Sir Richard Sykes
Chairman

J P Garnier
Chief Executive Officer

Description of business

The Description of business discusses the activities, the resources and the operating environment of the business and identifies developments and achievements in 2000, under the following headings:

Discussion of the Group's management structures and corporate governance procedures is set out in Corporate governance (pages 29 to 36).

Discussion of the Group's operating and financial performance and financial resources is given in the Operating and financial review and prospects (pages 47 to 68).

In this report: 'GlaxoSmithKline' or the 'Group' means GlaxoSmithKline plc and its subsidiary and associated undertakings and the 'company' means GlaxoSmithKline plc; 'GlaxoSmithKline share' means an Ordinary Share of GlaxoSmithKline plc of 25p.

Throughout this report, figures quoted for market size, market share and market growth rates relate to the year ended 30th September 2000 (or later where available). These are GlaxoSmithKline 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 GlaxoSmithKline and licensees.

The business

History and development of the company

GlaxoSmithKline plc, and its subsidiary and associated undertakings, constitute a major global healthcare group engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products, vaccines, over-the-counter (OTC) medicines and health-related consumer products.

GlaxoSmithKline has its corporate head office in the London area at:

Glaxo Wellcome House
Berkeley Avenue
Greenford
Middlesex UB6 0NN
England
Tel: 020 8966 8000

GlaxoSmithKline has an operational headquarters in Philadelphia, USA, and operating companies in some 70 countries, with products sold in over 140 countries. The principal research and development (R&D) facilities are in the UK, USA, Japan, Italy and Belgium and products are currently manufactured in some 41 countries.

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

GlaxoSmithKline plc is a public limited company incorporated on 6th December 1999 under English law. 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.

Business segments

GlaxoSmithKline operates principally in two industry segments:

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

The businesses in the Healthcare Services segment (primarily Clinical Laboratories and Diversified Pharmaceutical Services) were disposed of in 1999.

Products – pharmaceuticals

Therapeutic area	Trade mark	Compound	Mechanism	Indication (may vary by country)
CNS disorders	*Seroxat/Paxil*	paroxetine	selective serotonin reuptake inhibitor	depression, panic, anxiety
	Wellbutrin	bupropion	noradrenaline reuptake inhibitor	depression
	Imigran/Imitrex	sumatriptan	5-HT_1 agonist	migraine, cluster headache
	Naramig/Amerge	naratriptan	5-HT_1 agonist	migraine
	Lamictal	lamotrigine	sodium channel modulator	epilepsy
	Requip	ropinirole	dopamine D2 agonist	Parkinson's disease
	Zyban	bupropion SR	noradrenaline reuptake inhibitor	smoking addiction
Respiratory	*Flixotide/Flovent*	fluticasone propionate	inhaled anti-inflammatory	asthma, bronchial conditions
	Serevent	salmeterol xinafoate	bronchodilator	bronchial asthma, bronchitis
	Seretide/Advair	salmeterol and fluticasone propionate	bronchodilator/anti-inflammatory	asthma
	Flixonase/Flonase	fluticasone propionate	intranasal anti-inflammatory	hayfever, perennial rhinitis
	Ventolin	salbutamol/albuterol	bronchodilator	bronchial asthma, bronchitis
	Becotide/Beclovent	beclomethasone dipropionate	inhaled anti-inflammatory	bronchial asthma, bronchitis
	Beconase	beclomethasone dipropionate	intranasal anti-inflammatory	hayfever, perennial rhinitis
Anti-bacterials	*Augmentin*	amoxycillin/ clavulanate potassium	broad spectrum antibiotic	common infections
	Zinnat/Ceftin	cefuroxime axetil	oral antibiotic	common infections
	Fortum/Fortaz	ceftazidime	injectable antibiotic	severe, life threatening infections
	Amoxil	amoxycillin	broad spectrum antibiotic	common infections
	Zinacef	cefuroxime	injectable antibiotic	surgical infections
Anti-virals	*Trizivir*	lamivudine, zidovudine and abacavir	reverse transcriptase inhibitor	HIV/AIDS
	Combivir/Biovir	lamivudine and zidovudine	reverse transcriptase inhibitor	HIV/AIDS
	Epivir/3TC	lamivudine	reverse transcriptase inhibitor	HIV/AIDS
	Retrovir/AZT	zidovudine	reverse transcriptase inhibitor	HIV/AIDS
	Ziagen	abacavir	reverse transcriptase inhibitor	HIV/AIDS
	Agenerase	amprenavir	protease inhibitor	HIV/AIDS
	Valtrex/Zelitrex	valaciclovir	DNA polymerase inhibitor	shingles, genital herpes
	Zovirax	aciclovir	DNA polymerase inhibitor	herpes infections, shingles, chicken pox, cold sores
	Zeffix/Heptavir/ Heptodin/Epivir HBV	lamivudine	reverse transcriptase inhibitor	chronic hepatitis B infection
	Relenza	zanamavir	neuraminidase inhibitor	influenza treatment
	Malarone	atovaquone	electron transport system inhibitor	malaria treatment/prophylaxis
Metabolic and gastro-intestinal	*Avandia*	rosiglitazone	PPAR-gamma agonist	type 2 diabetes
	Zantac	ranitidine hydrochloride	anti-secretory	duodenal ulcers, stomach ulcers, reflux and dyspepsia
	Pylorid/Tritec	ranitidine bismuth citrate	anti-secretory plus antibiotic	eradication of H pylori
Vaccines	*Havrix*			hepatitis A
	Engerix-B			hepatitis B
	Twinrix			hepatitis A and B
	Infanrix			diphtheria, tetanus, acellular pertussis
Oncology and emesis	*Zofran*	ondansetron	5-HT_3 receptor antagonist	nausea and vomiting from cancer therapy
	Hycamtin	topotecan	topoisomerase 1 inhibitor	ovarian cancer, small cell lung cancer
	Navelbine	vinorelbine	cytotoxic	non-small cell lung cancer, breast cancer
	Panorex	Mab17-1A	monoclonal antibody	colorectal cancer as adjuvant therapy
Cardiovascular	*Coreg*	carvedilol	alpha/betablocker	congestive heart failure
	Lanoxin	digoxin	cardiac anti-arrhythmic	congestive heart failure, cardiac arrhythmia
	Flolan	epoprostenol	inhibitor of blood clotting	primary pulmonary hypertension
	Lacipil	lacidipine	calcium channel blocker	hypertension
	Pritor	telmisartan	angiotensin II antagonist	hypertension

Products – Pharmaceuticals

GlaxoSmithKline's principal pharmaceutical products are presently directed to 10 major therapeutic areas. An analysis of sales by these therapeutic areas, and a description of the principal products, are set out below:

Sales by therapeutic area	2000 £m	1999 £m	1998 £m
Central nervous system disorders	**3,279**	2,720	2,400
Respiratory	**2,789**	2,382	2,096
Anti-bacterials	**2,472**	2,383	2,278
Anti-virals	**1,899**	1,610	1,347
Metabolic and gastro-intestinal	**1,232**	886	908
Vaccines	**842**	776	726
Oncology and emesis	**710**	613	549
Cardiovascular	**463**	449	390
Dermatologicals	**249**	254	243
Arthritis	**210**	275	301
Others	**837**	842	949
Divested products	**447**	428	376
	15,429	13,618	12,563

Central nervous system (CNS) disorders

Seroxat/Paxil is a selective serotonin reuptake inhibitor (SSRI) approved for depression, panic, obsessive compulsive disorder and social anxiety disorder, with approvals being obtained for generalised anxiety disorder and post traumatic stress disorder.

Wellbutrin is also an anti-depressant, available in the USA in normal or sustained release tablet formulations.

Imigran/Imitrex is a $5HT_1$ 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 the Group's newer migraine product.

Lamictal is a treatment for epilepsy. Used alone or in combination with other products, it has achieved penetration of this mature market through successful treatment of severe cases.

Requip is a specific dopamine D2-like receptor for the treatment of Parkinson's disease.

Zyban is a novel, nicotine-free prescription medicine, available as a sustained-release tablet, for treating the problem of smoking addiction.

Respiratory

Serevent is a long-acting bronchodilator, and *Ventolin* a selective short-acting bronchodilator, for the treatment of asthma.

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

Seretide/Advair, a combination of *Serevent* and *Flixotide*, offers a long-acting bronchodilator and an anti-inflammatory in a single inhaler.

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

The Group's respiratory products are now available in a wide choice of delivery systems, including the *Diskus/Accuhaler*, a dry powder multi-dose inhaler.

Anti-bacterials

The Group markets a range of antibiotics.

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.

Zinnat is an oral antibiotic used primarily for community-acquired infections of the lower respiratory tract. *Fortum* and *Zinacef* are used in the hospital-based injectable antibiotics market.

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 the Group's new reverse transcriptase inhibitor. The product's potency, ease of use and resistance profile will 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.

Agenerase is a new protease inhibitor for the treatment of HIV, the first medicine of this class to be brought to the market by GlaxoSmithKline. *Agenerase* has a twice daily dosing regime and no significant food or drink restrictions.

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

Zovirax is used for the treatment of herpes infections such as chicken pox, genital herpes, shingles and cold sores. The newer anti-herpes compound, *Valtrex*, reinforces the Group's presence in this market as a treatment for zoster and the episodic and long-term suppression of genital herpes.

Relenza, the Group's novel treatment for influenza, is the first of a new class of drug known as a neuraminidase inhibitor, and targets the primary site of viral replication through direct delivery to the airways via an inhaler.

Metabolic and gastro-intestinal

Avandia is the most potent of a novel class of oral anti-diabetic agents called thiazolidinediones or PPAR-gamma agonists, for the treatment of type 2 diabetes.

Zantac, for the treatment of peptic ulcer disease and a range of gastric acid related disorders, continues to play a major role in treatment in a number of markets, even where patent protection has been lost. *Pylorid/Tritec* is used, in combination with antibiotics, for the eradication of helicobacter pylori, a causative agent in ulcers.

Lotronex, a novel treatment for the multiple symptoms of irritable bowel syndrome, was approved for use in the USA following priority review and launched in 2000, but was subsequently withdrawn following discussions with the US Food and Drug Administration over the interpretation of data relating to gastro-intestinal side effects.

Vaccines
GlaxoSmithKline markets a range of hepatitis vaccines. *Havrix* protects against hepatitis A and *Engerix-B* against hepatitis B. *Twinrix* is a combined hepatitis A and B vaccine, protecting against both diseases with one vaccine and available in both adult and paediatric strengths.

Infanrix is a range of paediatric vaccine combinations. *Infanrix* provides protection against diphtheria, tetanus and pertussis (whooping cough). *Infanrix PeNta* provides additional protection against hepatitis B and polio, and *Infanrix HeXa* further adds protection against haemophilus influenzae type b, which causes meningitis.

Additionally GlaxoSmithKline markets *Priorix,* a measles, mumps and rubella vaccine, *Typherix*, a vaccine for protection against typhoid fever, *LYMErix*, a vaccine for protection against LYME disease.

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.

Panorex is the first monoclonal antibody to be licensed for cancer therapy.

Cardiovascular
Coreg is a blocking agent which has been proven to be effective in treating mild and moderate congestive heart failure.

Dermatologicals
The Group's principal dermatological products, *Betnovate*, the higher potency *Dermovate* and the newer *Cutivate* are anti-inflammatory steroid products used to treat skin diseases such as eczema and psoriasis.

Divested products
In accordance with agreements for regulatory approvals of the merger between Glaxo Wellcome and SmithKline Beecham, the products *Kytril*, for the treatment of chemotherapy – and radiotherapy – induced nausea and vomiting, and *Famvir*, an anti-viral for the treatment of shingles and herpes, were divested in December 2000.

Products – Consumer Healthcare

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

	2000 £m	1999 £m	1998 £m
Over-the-counter medicines	**1,454**	1,434	1,328
Oral care	**642**	614	584
Nutritional healthcare	**535**	488	459
Divested products	**19**	10	4
	2,650	2,546	2,375

Category	Product
Over-the-counter medicines	
Analgesics	*Panadol*
Dermatologicals	*Oxy*
Gastro-intestinal	*Tums*
	Tagamet HB
	Zantac Relief
Respiratory tract	*Contac*
	Beechams
	Beconase Hayfever
Smoking control	*Nicorette*
	NicoDerm CQ
	NiQuitin CQ
	Nicabate
Vitamins and naturals	*Abtei*
Oral care	*Aquafresh*
	Macleans
	Odol
	Dr Best
Nutritional healthcare	*Lucozade*
	Ribena
	Horlicks

Over-the-counter medicines
The most significant products are *Panadol*, a widely available non-aspirin analgesic; the smoking cessation products *Nicorette*, *NicoDerm CQ*, *NiQuitin CQ* and *Nicabate*; *Tums*, the calcium-based antacid and *Tagamet HB* for the prevention and relief of heartburn; *Contac* and the *Beechams* range for the treatment of colds and influenza; and a variety of vitamin and tonic products led by *Abtei* in Germany. Consumer Healthcare will market additionally OTC versions of *Zantac* and *Beconase.*

Oral care
The leading oral care products are *Aquafresh*, *Macleans* and *Odol* toothpastes and toothbrushes sold under the *Aquafresh* and *Dr Best* trademarks.

Nutritional healthcare
In this category the principal products are *Lucozade*, the glucose energy drink; *Ribena*, a line of juice drinks rich in vitamin C; and *Horlicks*, a range of milk-based malted food and chocolate drinks.

Block Drug
In January 2001 GlaxoSmithKline completed the acquisition of Block Drug. This will add to the product range *Sensodyne* toothpaste, *Poli-Grip* denture adhesive and *Polident* denture cleaner.

Operating environment

Competition – Pharmaceuticals

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

Medicines may be subject to competition from different therapies during the period of patent protection and, once off patent, from generic versions. The manufacturers of generic products typically do not bear research and 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 and to fund research for the future.

Competition from generic products generally occurs as GlaxoSmithKline's patents in major markets expire. In response, GlaxoSmithKline undertakes a range of activities, including:

- introducing innovative products into as many markets as possible
- accelerating the process by which new products are brought to market
- increasing brand share among customers.

Ultimately, GlaxoSmithKline believes that its competitive position 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 product replacement, and there can be no assurance that GlaxoSmithKline's products may not become outmoded, notwithstanding patent or trademark protection. In addition, increasing government and other pressure for physicians and patients to use generic pharmaceuticals rather than brand-name medicines may increase competition for products that have gone off patent.

CNS disorders

Major competitors to *Paxil* in the US selective serotonin reuptake inhibitor (SSRI) market are Prozac from Eli Lilly, Zoloft from Pfizer and Forest Laboratories' Celexa. The success of *Seroxat/Paxil* has made it a target for generic manufacturers, against whom GlaxoSmithKline continues to respond appropriately (see note 31 to the Financial statements, 'Legal proceedings').

Imigran has grown to be one of GlaxoSmithKline's leading products through addressing the previously unmet needs of migraine sufferers. Although other companies have launched competing products, newer formulations of *Imigran,* such as the nasal spray, and the introduction of *Naramig* have helped GlaxoSmithKline to retain its lead over its competitors in the migraine market.

Respiratory

Growth of GlaxoSmithKline's newer respiratory products, *Flixotide*, *Serevent* and the recently launched *Seretide*, have continued to drive growth in this market. The established products such as *Ventolin* and *Becotide* have faced generic competition for some years but have maintained significant sales. A major competitor to GlaxoSmithKline's respiratory products is Singulair from Merck.

Anti-bacterials

Major products competing with GlaxoSmithKline's semi-synthetic penicillins are other anti-infectives including, but not limited to, generic brands, cephalosporins and, to an increasing degree, particularly in Japan, quinolones. *Augmentin* has been experiencing increased competition in the USA, particularly from Pfizer's Zithromax, Bayer's Cipro and Abbott's Biaxin, and has lost patent protection in various countries in Europe. *Amoxil* has been without patent protection for a number of years and is subject to competition from generic brands.

Anti-virals

GlaxoSmithKline's drive to create sustainable leadership in selected therapy areas is underlined by its pioneering role in the HIV market, with *Retrovir* and *Epivir* acting as the cornerstone of combination therapy, and available as *Combivir* in a single tablet. The launch of *Ziagen* and *Agenerase* and more recently *Trizivir* further broaden the Group's portfolio of HIV products. *Zovirax* faces competition from generic acyclovir, although *Valtrex* has helped strengthen the company's position in the anti-herpes area.

Metabolic and gastro-intestinal

Major competitors for *Avandia* are Takeda Chemical's Actos, which is co-promoted with Eli Lilly in the USA. In the gastro-intestinal market, *Zantac* faces significant competition from omeprazole, a proton pump inhibitor, and from generic ranitidine hydrochloride.

Vaccines

GlaxoSmithKline's major competitors in the vaccine market include Aventis Pasteur, Merck and American Home Products. *Engerix-B* and *Havrix* compete with vaccines produced by Merck – Comvax and Recombivax HB for hepatitis B and Vaqta for hepatitis A. *Infanrix's* major competitors are Aventis Pasteur's Tripedia and TriHIBit, and Wyeth Ayerst's Acel-Imune and Tetramune.

Competition – Consumer Healthcare

The major competitors in the consumer healthcare markets are Procter & Gamble, Colgate-Palmolive, American Home Products, Unilever and Johnson & Johnson. All of these companies are major international companies and continue to be extremely active in what is a highly competitive market. In addition, there are many other large and small companies that compete with GlaxoSmithKline in selected markets.

In the USA, the major competitor products in OTC medicines are: Tylenol Cold (cold remedy), Clearasil (acne treatment), Pepcid (indigestion) and private label in smoking cessation. In the UK the major competitor products are: Lemsip (cold remedy), Nurofen and Anadin (analgesics) and Nicotinell (smoking cessation remedy).

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 companies while *Lucozade* competes with other energy drinks.

The Consumer Healthcare business relies on the development of high-quality branded products with good consumer acceptance, supported by advertising and brand promotion, line extensions, new formulations and packaging innovations. GlaxoSmithKline's ability to compete effectively is dependent on its skills in developing new scientifically supported products and line extensions with performance superior to those of its competitors, backed up by compelling advertising.

Regulation – Pharmaceuticals

The international pharmaceutical industry is highly regulated. National regulatory authorities administer a panoply of laws and regulations governing the testing, approval, manufacturing, labelling and marketing of drugs and also review the safety and effectiveness of pharmaceutical products. These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product and the amount of time and expense associated with such development.

Of particular importance is the requirement in many countries that products be authorised or registered prior to marketing and that such authorisation or registration be maintained subsequently.

The national regulatory authorities in many jurisdictions, including the USA, the European Union, Japan and Australia, have high standards of technical appraisal and consequently the introduction of new pharmaceutical products generally entails a lengthy approval process.

In the European Union, there are two procedures for obtaining marketing authorisations for medicinal products:

- The Centralised Procedure, with applications made direct to the European Medicines Evaluation Agency and leading to an authorisation valid in all member states, is compulsory for products derived from biotechnology and optional for new active substances and other innovative medicinal products
- The Mutual Recognition Procedure, which is applicable to the majority of conventional medicinal products, operates by mutual recognition of national marketing authorisations; where this is not possible, the matter is resolved by a binding arbitration. National authorisations are still available for medicinal products to be marketed in only one member state.

Grant of a marketing authorisation affords the company a data protection period during which a competitor cannot rely on confidential data in the regulatory file as a basis for its own marketing authorisation. The data protection period begins on the date an authorisation is first granted in the European Union and expires after ten years for authorisations granted via the Centralised Procedure, or ten or six years for authorisations granted via the Mutual Recognition procedure, depending on the country concerned.

GlaxoSmithKline anticipates that the introduction of new products will continue to require substantial effort, time and expense to comply with regulatory requirements.

Price controls

In addition to the forms of regulation already referred to, in many countries the prices of pharmaceutical products are controlled by law.

Governments may also influence the prices of pharmaceutical products through their control of national healthcare organisations which may bear a large part of the cost of supplying such products to consumers.

In some countries, such as France and Japan, the prices of individual products are regulated. In the UK, prices are controlled by reference to limits upon the overall profitability, measured by the rate of return on capital employed, of sales of products supplied under the National Health Service.

In the USA, debate over the reform of the healthcare system has resulted in an increased focus on pricing. Although there are currently no government price controls over private sector purchases in the USA, federal legislation requires pharmaceutical manufacturers to pay prescribed rebates on certain drugs to enable them to be eligible for reimbursement under Medicaid healthcare programmes.

During 2000 the pharmaceutical market worldwide continued to experience increasing pressure on pricing and reimbursement from governments and healthcare providers, though it is non-price factors (new products and higher volumes) which are principally driving the growth of pharmaceutical expenditure.

In Europe, historically affected by government regulation in pricing and reimbursement, the pharmaceutical industry continued to experience pressure on its prices through a range of measures, including across-the-board price cuts, linking of prices to low-cost countries (price referencing) and delays in agreeing reimbursement. There is an increasing pressure for generic substitution and demonstration of the added value of new medicines. In some countries cross-border imports from low-priced markets exert a commercial pressure on in-country pricing.

In Japan the government has measures to curb the growth of healthcare expenditure including biennial price cuts.

Value for money

It is becoming increasingly necessary to demonstrate the value for money of new products, in particular the overall effect on healthcare costs. In some markets, the need to satisfy healthcare purchasers as to value for money is becoming a hurdle in terms of product acceptance additional to the regulatory tests of safety, efficacy and quality.

In most markets it is difficult to obtain a premium price for new chemical entities, even if they represent a significant improvement over existing therapy. In the USA, however, some new products have been able to command prices reflecting a clear recognition of their value.

Future developments

It is not possible to predict whether, and to what extent, the Group's business may be affected by future legislative and regulatory developments relating to specific pharmaceutical products or the pricing of such products.

Regulation – Consumer Healthcare

The consumer healthcare industry is subject to national regulation regarding the testing, approval, manufacturing, labelling and marketing of products. In many countries high standards of technical appraisal entail 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 can easily be diagnosed by the consumer.

Operating activities

Marketing and distribution

GlaxoSmithKline sells its products worldwide through an extensive network of subsidiaries, licensees and distributors.

The gross profit margins earned on sales of pharmaceutical products are generally higher than those earned on sales of consumer products, reflecting the many risks and uncertainties inherent in developing and marketing pharmaceuticals. These risks include the high level of research and development expenditure required to discover, test and obtain patent protection for new products and the competition from new and generic products.

GlaxoSmithKline's worldwide business is subject to a number of risks inherent in conducting business in certain countries, including possible nationalisation, expropriation and other restrictive government actions such as capital regulation. In addition, currency fluctuations and other changes in economic conditions occur from time to time, which can have either a favourable or unfavourable effect on trading income. GlaxoSmithKline does not regard these factors as deterrents to further expansion of its international operations. However, the company closely reviews its methods of operation, particularly in developing countries, and develops strategies to respond to changing economic and political conditions.

Marketing and distribution – Pharmaceuticals

An analysis of pharmaceutical sales by geographic region is set out below:

Sales by geographic region	**2000 £m**	1999 £m	1998 £m
USA	**7,705**	6,276	5,635
Europe	**4,268**	4,288	4,059
Rest of World:			
Asia Pacific	**1,049**	929	876
Japan	**832**	704	592
Latin America	**682**	636	662
Middle East, Africa	**511**	461	468
Canada	**382**	324	271
	15,429	13,618	12,563

GlaxoSmithKline sells its prescription medicines primarily to wholesale drug distributors, independent and chain retail pharmacies, physicians, hospitals, clinics, government entities and other institutions. These products are ordinarily dispensed to the public by pharmacies through prescriptions written by physicians.

In the USA, the world's largest pharmaceutical market, the pressure to contain healthcare costs has encouraged the growth of managed care organisations and pharmacy benefit managers. These intermediaries use a range of methods to lower costs, including the substitution of generic products or other cheaper therapies for branded products prescribed by doctors. GlaxoSmithKline contracts with the managed care sector due to its increasing importance as a supplier of healthcare to the community.

In each market, GlaxoSmithKline deploys sales forces of representatives and supporting medical staff to promote its prescription products to medical prescribers and healthcare purchasers through personal visits.

Promotion of GlaxoSmithKline's products is supplemented by scientific seminars, advertising in medical and other journals, television advertising, the provision of samples, the direct mailing of printed material and information contained on the company's site on the World Wide Web.

Direct-to-consumer (DTC) advertising is a major component of product marketing in the USA. DTC advertisements are now the primary source of information for patients requesting specific brand name products from their physicians in the USA.

Outside the USA, DTC is either prohibited or has a more limited role in informing patients. In the European Union and in Canada, DTC is currently prohibited. In Australia, the government allow DTC advertising of pharmacy-only products subject to certain safeguards. In New Zealand, DTC is allowed and self regulated by the industry in collaboration with the Advertising Standards Agency. Other markets allow DTC, but to date the impact has been more limited.

In addition to the direct marketing of products by its subsidiaries and associates, GlaxoSmithKline has entered into agreements with other pharmaceutical companies for the co-marketing and co-promotion of its products in many markets.

Marketing and distribution – Consumer Healthcare

The principal markets for Consumer Healthcare's OTC medicines are the US, the UK, Germany, Australia, Argentina, Italy, Mexico, Japan, South Africa and France. The nutritional drinks business is particularly strong in the UK, Ireland and India, though the range of products is available in other markets. The principal markets for the Oral Care products are the US, Germany and the UK.

OTC products are distributed to retail outlets directly or through wholesalers.

Distribution of oral care and nutritional healthcare products are made through a wide selection of outlets either directly or through wholesalers. The organisation of the selling teams is dependent on the outlet pattern of individual countries.

Manufacture and supply

GlaxoSmithKline has a portfolio of over 1,000 different products, ranging from tablets and toothpaste to inhalers and complex capsules, in over 32,000 different pack sizes and presentations.

Manufacture of medicines begins with the development of a therapeutic active ingredient in a selected formulation. Global Manufacture & 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.

Following the merger between Glaxo Wellcome and SmithKline Beecham in December 2000, GMS operates as a single global network of 108 sites in 41 countries employing over 39,000 people. Each year GMS produces around 5,900 tonnes of bulk actives and over 3.8 billion packs, which are packaged and delivered for sale in 138 countries. It also manages approximately 1,800 new product launches a year.

GMS is focused on delivering:

- a secure source of supply of high quality products
- compliance with regulatory requirements and customer expectations
- best in class cost
- leading edge practices and performance – at sites, in procurement and in other global functions.

Organisation

GMS operations are structured into Supply Chains and Regions.

Actives supply. The active ingredients of non-antibiotic products are produced at ten sites across the network, located in Australia, India, Ireland, Singapore, the UK and the USA. Approximately 3,750 staff are employed in manufacturing and supplying these active ingredients to the secondary pharmaceutical sites.

Antibiotics supply. This is a global organisation with 18 sites, spread across 11 countries. In total, around 6,200 staff are employed across all of these sites, where a broad range of antibiotic products are manufactured and packaged.

European region. There are 15 sites in the European region spread across nine countries employing around 9,250 people in total. Between them the European sites manufacture nearly all of the major pharmaceutical products marketed by GlaxoSmithKline in a wide variety of finished dosage forms.

North America region. There are three pharmaceutical sites in the North America region located in Puerto Rico, Canada and the USA. These sites employ around 1,750 staff.

International region. The International region comprises 38 manufacturing sites in 20 countries spread across five distinct areas and employs around 10,600 people. There are five sites in Middle East/Africa, 19 sites spread across the Asia Pacific area, five sites in China and two in Japan. In Latin America there are seven sites.

Consumer Healthcare supply. There are 24 Consumer Healthcare manufacturing sites spread across 16 countries, employing around 7,000 staff. The Consumer Healthcare supply chain is diverse and includes the manufacturing and supply of OTC medicines, oral care, nutritional healthcare and smoking cessation products.

Strategic Master Plan

The Strategic Master Plan (SMP) is a long-term programme of integrated changes to enhance competitiveness and productivity in Glaxo Wellcome manufacturing sites announced in October 1999. It is based around three interdependent initiatives – Manufacturing Excellence, Network Rationalisation and Procurement Excellence, applied across the whole network of manufacturing and supply locations.

The programme includes using LeanSigma tools and techniques to challenge current ways of working. As well as the forecast financial benefits this leads to improvements in areas such as reduced cycle time, increased productivity and improved delivery performance. SMP implementation is proceeding as planned for completion in 2003.

Global Supply initiative

Global Supply Initiative (GSI) is a four year programme, announced in February 1999, to restructure the SmithKline Beecham supply network to align manufacturing strategy with business needs through network rationalisation and purchasing initiatives. Implementation is at an advanced stage, with 65 per cent of benefits delivered. Sites at Plelan, France; Camacari, Brazil; Toledo, Spain and Baranzate, Italy were sold during 2000.

GlaxoSmithKline integration

The merger of Glaxo Wellcome and SmithKline Beecham manufacturing and supply organisations presents synergy opportunities in addition to the significant savings already forecast from the Glaxo Wellcome SMP and SmithKline Beecham GSI programmes. SMP and GSI implementation programmes will be aligned with integration related changes to deliver these synergies while maintaining security of supply.

Vaccines

Vaccine production is located principally at Rixensart, Belgium and at Dresden, Germany.

External suppliers

Procurement is a global function supporting all functions and areas of the GlaxoSmithKline business. Manufacturing is one of the largest areas with over £2 billion spend with external suppliers every year, including the purchase of active ingredients, chemical intermediates, part finished and finished products. GMS has taken appropriate steps to protect its supply chains from any disruption resulting from interrupted external supply through appropriate stock holding, contracting and alternative registered suppliers.

Block Drug

The acquisition of Block Drug Company Inc in January 2001 has added seven further sites and over 1,450 employees to GMS, within the Consumer Healthcare Supply chain.

Research and development – Pharmaceuticals

The global biological and pharmaceutical Research and Development (R&D) function in GlaxoSmithKline is responsible for the generation of information and the acquisition of knowledge required to discover, develop, register, commercialise and effectively market innovative prescription medicines, vaccines and delivery systems for the treatment and prevention of human disease.

Fundamental to this goal is a thorough understanding of the diseases under investigation, increasingly through original work in genetics and predictive medicine research. In addition to the work to create new medicines and vaccines, extensive efforts are made to gain a clear understanding of the unmet needs of patients and healthcare providers as a contribution to the overall direction of R&D.

In 2000 Glaxo Wellcome and SmithKline Beecham together invested over £2.4 billion in pharmaceuticals R&D.

Approximately 16,000 staff are involved in biological and pharmaceutical R&D activities, at more than 20 sites worldwide. These sites include:

- UK: Beckenham, Cambridge, Dartford, Greenford, Harlow, Stevenage, Tonbridge, Ware, Welwyn Garden City
- USA: Research Triangle Park, North Carolina; Philadelphia, Upper Merion and Upper Providence, Pennsylvania; Santa Clara and Palo Alto, California
- Belgium: Rixensart
- Canada: Mississauga
- France: Les Ulis, Rennes
- Italy: Verona, Milan
- Japan: Tsukuba Science City and Takasaki
- Spain: Madrid
- Switzerland: Geneva.

During 2000 a significant amount of work in R&D went into preparing plans and procedures for the optimal integration of key Glaxo Wellcome and SmithKline Beecham R&D processes, so that GlaxoSmithKline would be able to operate effectively and efficiently from day one of the merger. Despite the resources devoted to these activities, several significant new medicines were delivered on schedule to the markets.

Product approvals and submissions

In 2000 approvals were received for a number of new medicines and vaccines as well as several significant new indications and formulations for existing products, as summarised in the table opposite.

A number of other approvals were also received during 2000. Notable among these were US approvals for *Malarone,* a combination of atovaquone and proguanil to treat and prevent malarial infections and for the paediatric use of *Relenza* to treat influenza. European and US approvals were also received for a 2mg chewable-dispersible tablet formulation of *Lamictal* for the treatment of paediatric epilepsy.

A number of significant regulatory submissions were made during 2000. In the USA these included:

- the first submission for GI198745, a 5-alpha reductase inhibitor for the treatment of benign prostatic hyperplasia, submitted to the FDA in late December 2000
- a submission for a non-CFC metered dose inhaler formulation of *Advair* for asthma
- a submission for the use of *Avandia* in combination with insulin, for the treatment of type 2 diabetes
- a revised submission for an extra strength formulation of the antibiotic *Augmentin* for use in children
- a submission for a sustained release formulation of the antibiotic *Augmentin* for use in adults (both Europe and USA)
- a submission for the adolescent use of intranasal *Imitrex* for the treatment of migraine
- submissions for *Seroxat/Paxil* for the treatment of Generalised Anxiety Disorder and Post-Traumatic Stress Disorder
- submissions for *Infanrix PeNta 5*, a combined diptheria, tetanus, pertussis, polio and hepatitis B paediatric prophylactic vaccine
- a submission for *Twinrix*, a combined hepatitis A and B prophylactic vaccine
- in addition, the BLA for *Bexxar*, a novel treatment for non-Hodgkins lymphoma, was re-submitted to the FDA in September and is now under priority review.

In Europe significant regulatory submissions in 2000 included:

- a once-daily dosing regimen for *Epivir* for HIV infections
- the fluoroquinolone antibiotic *Factive*
- a malaria prophylaxis indication for *Malarone*.

The product development pipeline, set out on pages 16–19, shows considerable breadth and depth.

During 2000 several discovery projects were progressed through non-clinical safety testing and into early (Phase I) clinical development. These are listed in the table opposite.

These compounds are now undergoing rigorous non-clinical, clinical and commercial assessments leading to ‘proof of concept’ decisions over the next 12–18 months.

In addition to those compounds identified in the table opposite, the following compounds were also in-licensed during 2000:

- GW650250, a mixed monoamine re-uptake inhibitor in Phase II development, in-licensed from NeuroSearch in January 2000
- SB596168, a selective RNA polymerase inhibitor in Phase II development, for the treatment of solid tumours, in-licensed from Taiho in July 2000
- repifermin, keratinocyte growth factor-2 in Phase II development, for wound care, mucositis and the treatment of inflammatory bowel disease, in-licensed from Human Genome Sciences in October 2000
- SB683698, a dual alpha4 integrin antagonist entering Phase II development, for the treatment of a range of inflammatory diseases including asthma, rheumatoid arthritis, inflammatory bowel disease and multiple sclerosis, in-licensed from Tanabe in December 2000.

In February 2001 GlaxoSmithKline completed two further in-licensing agreements. The first was with E Merck for SB 659746, a SSRI + 5HT1a receptor partial agonist in Phase II development for the treatment of depression and other mood disorders. The second was with Sepsicure for GR270773, a phospholipid anti-endotoxin emulsion entering Phase II development for the treatment of sepsis.

Products delivered to market

Product	Approval date (Country/Region)	Description
Advair	August 2000 (USA)	A dry powder combination formulation of the long-acting bronchodilator salmeterol and the glucocorticoid anti-inflammatory agent fluticasone in the *Diskus* delivery system for the treatment of asthma
Agenerase	October 2000 (Europe)	A potent protease inhibitor for the treatment of HIV infections
Avandia	July 2000 (Europe)	A selective (PPAR agonist) oral combination treatment for type 2 diabetes in specific sub-groups of patients in combination with metformin or sulphonylurea
Flovent Diskus	September 2000 (USA)	A dry powder formulation of fluticasone in the multi-dose *Diskus* delivery system for the treatment of asthma
Infanrix HeXa	October 2000 (Europe)	A conjugated, recombinant paediatric vaccine for diphtheria, tetanus, pertussis, hepatitis B, inactivated polio prophylaxis and *H. influenzae* type B prophylaxis
Infanrix PeNta	October 2000 (Europe)	A recombinant paediatric vaccine for diphtheria, tetanus, pertussis, hepatitis B, and inactivated polio prophylaxis
Seretide	June 2000 (UK, as *Viani)* December 2000 (Europe)	A non-CFC metered dose inhaler formulation of the long-acting bronchodilator salmeterol and the glucocorticoid anti-inflammatory agent fluticasone for the treatment of asthma
Seroxat	September 2000 (Europe)	A selective serotonin reuptake inhibitor for the treatment of Post-Traumatic Stress Disorder
Seroxat	November 2000 (Europe)	A selective serotonin reuptake inhibitor for the treatment of Generalised Anxiety Disorder
Trizivir	November 2000 (USA) January 2001 (Europe)	A combination of three reverse transcriptase inhibitors in a single tablet that will significantly reduce the 'pill burden' and improve compliance for patients with HIV infections

Compounds progressed into Phase I clinical development

Compound	Mechanism	Indication
GW473178	thrombin inhibitor	atrial fibrillation and venous thrombosis
GW501516	peroxisome proliferator-activator receptor agonist	dyslipidaemia
GW660511	ACE/NEP inhibitor	hypertension (in-licensed from Zambon in October 2000)
SB 435495	Lp-PLA2 inhibitor	atherosclerosis
SB 207266	5HT receptor antagonist	atrial fibrillation
SB 273005	osteoclast vitronectin receptor antagonist	osteoporosis & rheumatoid arthritis
SB 418790	beta3 adrenergic receptor agonist	type 2 diabetes and obesity (in-licensed from Asahi in February 2000)
GW406381	second generation COX-2 inhibitor	inflammatory pain
GW468816	glycine receptor antagonist	migraine prophylaxis & smoking cessation
SB 641257	reversible proton pump inhibitor	gastro-esopahgeal reflux disease (in-licensed from Yuhan in October 2000)
GW572016	Erb-B2 & EGRF dual kinase inhibitor	solid tumours
GW150013	CCK-B receptor antagonist	anxiety disorders
GW597599	NK1 receptor antagonist	depression
Vaccines	conjugated vaccine	prophylaxis against S. pneumoniae infections in the elderly population
	recombinant vaccine	prophylaxis against hepatitis E
	subunit vaccine	prophylaxis against influenza with new delivery method

Discontinuations

Following a request from the FDA, *Lotronex*, a treatment for irritable bowel syndrome, was voluntarily withdrawn from the US market in November 2000. This step was taken after in-depth discussions with the FDA about the interpretation of data relating to gastro-intestinal side effects which have occurred among patients treated with the product. These have included rare reports of fatalities, although no causal relationship with *Lotronex* has been established. Regulatory submissions in the rest of the world have now also been withdrawn.

The final analysis of data from the second of two Phase III clinical trials with GV150526, a glycine antagonist for the acute treatment of stroke, demonstrated no difference in clinical outcome from that seen with placebo and further work with this product has now been stopped. In addition, development of lotrafiban, an oral platelet aggregation inhibitor was stopped because of concerns over the safety of the compound.

Product development pipeline – as published in February 2001

Key

MAA Marketing authorisation application (EU)
NDA New drug application (USA)
***** New indications and line extensions for marketed product
(v) Vaccine
(p) Pharmaccine
S Date of first submission to regulatory agency
A Date of first regulatory approval (for MAA, this is the first EU approval date)
AL Approvable letter
† Label update

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

Compound	Type	Indication	Phase	Estimated filing dates MAA	NDA
Anti-microbials & Host Defence					
SB 275833	bacterial protein synthesis inhibitor (BPSI)	prevention of recurrent sinusitis	I		
SB 249417	anti-Factor IX monoclonal antibody	severe sepsis & septic shock (also stroke)	I		
Factive	broad spectrum fluoroquinolone antibiotic	respiratory tract infections – i.v. formulation	III	2003	2003
Factive	broad spectrum fluoroquinolone antibiotic	respiratory & urinary tract infections – oral formulation	Submitted	S:Feb00	S:Dec99
Bactroban	nasopharyngeal BPSI	prevention of recurrent sinusitis	II		
tafenoquine (SB 252263)	8-aminoquinoline	malaria prophylaxis (adults)	III	2002	2002
Augmentin SR	beta lactam antibiotic	respiratory tract infections (incl. penicillin-resistant S. pneumoniae) – modified release formulation	Submitted	S:Dec00	S:Dec00
Augmentin ES	beta lactam antibiotic	acute otitis media (incl. penicillin-resistant S. pneumoniae) – paediatric high-dose suspension	Submitted	N/A	S:Oct97
Malarone	electron transport system inhibitor	malaria treatment & prophylaxis	Approved	S:Sep00	A:Jul00
Anti-virals					
GR270773	phospholipid anti-endotoxin emulsion	sepsis	II		
Ziagen	reverse transcriptase inhibitor	HIV infection – in combination with Epivir	II	2003	2003
GW433908	protease inhibitor; Agenerase pro-drug	HIV infection	III	2002	2002
Epivir	reverse transcriptase inhibitor	HIV infection – once daily dosing	Submitted	S:Sep00	2001
Trizivir	Epivir/Retrovir/Ziagen combination tablet	HIV infection	Approved	A:Jan01	A:Nov00
Zeffix	reverse transcriptase inhibitor	paediatric hepatitis B	III	2001	2001
Valtrex/Zelitrex	nucleoside analogue	cold sores	III	N/A	2001
Valtrex/Zelitrex	nucleoside analogue	HSV suppression in immunocompromised patients	III	N/A	2002
Valtrex/Zelitrex	nucleoside analogue	prevention of HSV transmission	III	2002	2002
Relenza	neuraminidase inhibitor	influenza prophylaxis	III	2001	2001
Relenza	neuraminidase inhibitor	influenza treatment in patients with asthma/COPD†	III	2001	2001
Cardiovascular & Urogenital					
GW409544	PPAR alpha/gamma dual agonist	dyslipidaemia	I		
GW473178	thrombin inhibitor	atrial fibrillation & venous thrombosis	I		
GW501516	PPAR agonist	dyslipidaemia	I		
GW660511	ACE/NEP inhibitor	hypertension	I		
SB 223412	tachykinin (NK3) receptor antagonist	urinary incontinence (also COPD)	I		
SB 249417	anti-Factor IX monoclonal antibody	stroke (also severe sepsis & septic shock)	I		
SB 424323	indirect thrombin inhibitor	atrial fibrillation & stroke prevention	I		
SB 435495	Lp-PLA2 inhibitor	atherosclerosis	I		
SB 207266	$5HT_4$ receptor antagonist	atrial fibrillation	II		
SB 237376	potassium-calcium channel blocker	cardiac arrhythmia	II		
enrasentan (SB 217242)	endothelial cell receptor antagonist	congestive heart failure	II	2004	2004
telmisartan	angiotensin II antagonist	hypertension – in combination with hydrochlorothiazide	III	2001	N/A
GI198745	5-alpha reductase inhibitor	benign prostatic hyperplasia (also alopecia)	Submitted	2001	S:Dec00
GI198745	5-alpha reductase inhibitor	alopecia (also BPH)	II		
Tranilast	endothelial cell proliferation/migration inhibitor	restenosis	III	2001	2001
Coreg	beta blocker	severe heart failure	III	N/A	2001

Compound	Type	Indication	Phase	Estimated filing dates MAA	NDA
Metabolic & Musculoskeletal					
repifermin	Keratinocyte Growth Factor-2	wound care & IBD	II		
GI181771	CCK-A receptor agonist	obesity & gallstone prophylaxis	I		
GW427353	beta3 adrenergic receptor agonist	type 2 diabetes & obesity	I		
SB 418790	beta3 adrenergic receptor agonist	type 2 diabetes & obesity	I		
GI262570	PPAR gamma agonist	type 2 diabetes	III	2003	2003
Avandia	insulin action enhancer	type 2 diabetes – in combination with insulin	Submitted		S:Feb00
SB 273005	osteoclast vitronectin receptor antagonist	osteoporosis (also rheumatoid arthritis)	I		
Neurology & Gastro-intestinal					
GW273293	sodium channel inhibitor	epilepsy (also bipolar disorder)	II		
GW406381	Cox-2 inhibitor (second generation)	pain including inflammatory pain	I		
GW468816	glycine receptor antagonist	migraine prophylaxis (also smoking cessation)	I		
SB 204269	anticonvulsant	epilepsy	II		
SB 271046	$5HT_6$ receptor antagonist	cognitive impairment	I		
SB 641257 (YH 1885)	reversible proton pump antagonist	gastro-esophageal reflux disease	I		
ReQuip	non-ergot dopamine agonist	Parkinson's disease – controlled release formulation	II	2003	2003
nabumetone Q	non-steroidal anti-inflammatory	osteoarthritis & pain	III	2002	2002
Imigran/Imitrex	$5HT_1$ agonist	migraine – needle-free injection formulation	II	2003	2003
Imigran/Imitrex	$5HT_1$ agonist	adolescent migraine – nasal formulation	Submitted	S:Feb00	S:Dec99
Naramig/Amerge	$5HT_1$ agonist	menstrual migraine prophylaxis	III	2001	2001
Oncology					
GW572016	Erb-B2 and EGFR dual kinase inhibitor	solid tumours	I		
SB 251353	CXC chemokine	prevention of chemotherapy-induced cytopaenias & stem cell mobilisation	I		
SB 408075	tumour activated pro-drug (maytansine-antibody conjugate)	colorectal cancer – second line therapy	I		2004
SB 596168	selective RNA polymerase inhibitor	solid tumours	II		
Hycamtin	topo-isomerase I inhibitor	colorectal cancer – second line therapy	II	2004	2004
Hycamtin	topo-isomerase I inhibitor	small cell & non-small cell lung cancer – first line therapy	II	2004	2004
Hycamtin	topo-isomerase I inhibitor	myelodysplastic syndrome	III	2001	2001
Hycamtin	topo-isomerase I inhibitor	small cell lung cancer – oral second line therapy	III	2002	2002
Hycamtin	topo-isomerase I inhibitor	ovarian cancer – first line therapy	III		2004
Bexxar	I^{131} radiolabelled anti-B1 monoclonal antibody	non-Hodgkin's lymphoma	Submitted	N/A	S:Sep00
Psychiatry					
GW468816	glycine receptor antagonist	smoking cessation (also migraine)	I		
GW150013	CCK-B receptor antagonist	anxiety disorders	II		
GW597599	NK1 receptor antagonist	depression	I		
SB 243213	$5HT_{2c}$ receptor antagonist	depression	I		
SB659746A (EMD68843)	SSRI + $5HT_{1a}$ receptor partial agonist	depression	II		2004
GW320659 (1555U88)	noradrenaline re-uptake inhibitor	attention deficit hyperactivity disorder	II		2004
GW650250	mixed monoamine reuptake inhibitor	depression	II		
Seroxat/Paxil	selective serotonin reuptake inhibitor	depression – dispersible tablets	III	2002	TBD
Seroxat/Paxil CR	selective serotonin reuptake inhibitor	premenstrual dysphoric disorder – controlled release formulation	III	TBD	2002
Seroxat/Paxil	selective serotonin reuptake inhibitor	generalised anxiety disorders	Approved	A:Nov00	S:Apr00
Seroxat/Paxil	selective serotonin reuptake inhibitor	post-traumatic stress disorder	Approved	A:Sep00	S:Jul00

Compound	Type	Indication	Phase	Estimated filing dates MAA	NDA
Respiratory & Inflammation					
GW328267	adenosine A2 agonist	asthma & COPD	I		
fluticasone/salmeterol	beta2 agonist/inhaled corticosteroid	rhinitis – intranasal combination product	I	2003	2003
SB 223412	tachykinin (NK3) receptor antagonist	COPD (also urinary incontinence)	I		
SB 683698 (TR14035)	dual alpha4 integrin antagonist (VLA4)	asthma & rheumatoid arthritis	II		
SB 273005	osteoclast vitronectin receptor antagonist	rheumatoid arthritis (also osteoporosis)	I		
Ariflo	PDE IV inhibitor	asthma	II		
Ariflo	PDE IV inhibitor	COPD	III	TBD	2002
mepolizumab (SB240563)	anti-IL 5 monoclonal antibody	asthma – steroid sparing	II		
Flovent	inhaled corticosteroid	asthma – once daily dosing	III	N/A	2001
Flixotide/Flovent	inhaled corticosteroid	COPD	Approved	A:Sep99	2001
Non-CFC Metered Dose Inhaler propellants (GR106642)					
Serevent	beta2 agonist	asthma & COPD	III	2003	2003
Flixotide/Flovent	inhaled corticosteroid	asthma & COPD	Approved	A:Apr97	2001
Ventolin	beta2 agonist	asthma & COPD	Approved	A:Jun97	AL:Jan01
Seretide/Advair	beta2 agonist/inhaled corticosteroid	asthma	Approved	A:Jun00	S:Dec00
Diskus/Accuhaler (dry powder inhaler)					
Seretide/Advair	beta2 agonist/inhaled corticosteroid	COPD	III	2001	2001
Seretide/Advair	beta2 agonist/inhaled corticosteroid	paediatric asthma	Approved	A:Sep98	2002
Seretide/Advair	beta2 agonist/inhaled corticosteroid	asthma – first line therapy	III	2001	2001
Serevent	beta2 agonist	COPD	III	2001	2001
Ventolin	beta2 agonist	asthma & COPD	Approved	A:Dec95	AL:Jul00
Hepatitis Vaccines (child/adol.)					
Twinrix 2 doses	recombinant	combined hepatitis A and B prophylaxis (child/adol.)	III	2001	2002
Twinrix 3 doses (US)	recombinant	combined hepatitis A and B prophylaxis (adults)	Submitted	N/A	Submitted
Extra strength hepatitis B	recombinant	extra strength hepatitis B prophylaxis (poor/non-responders)	III	2001	TBD
Hepatitis E	recombinant	hepatitis E prophylaxis	I		
Paediatric Vaccines					
Infanrix PeNta-HepB-IPV	recombinant	diphtheria, tetanus, pertussis, hepatitis B and inactivated polio prophylaxis	Approved	Approved	Submitted
Infanrix HeXa-Hep B-IPV/Hib	conjugated/recombinant	diphtheria, tetanus, pertussis, hepatitis B, inactivated polio prophylaxis and Haemophilus influenzae type B prophylaxis	Approved	Approved	TBD
S. pneumoniae paediatric	conjugated	S. pneumoniae disease prophylaxis for children	III	2003	
MMR – varicella	live attenuated	measles, mumps, rubella and varicella prophylaxis	III	2002	TBD
Rotarix	live attenuated – oral	rotavirus prophylaxis	II	2004	2004
N. meningitidis A/C	conjugated	meningitis prophylaxis	II	2004	
Meningitis B (Cuba)	subunit	meningitis B prophylaxis	II		TBD
Other Vaccines					
Boostrix	subunit	adolescent/adult booster for diphtheria, tetanus and pertussis	Approved	Approved	2002
Epstein-Barr Virus	recombinant	EBV prophylaxis	II		
Malaria	recombinant	malaria prophylaxis	II		
Human papillomavirus	recombinant	prophylaxis of HPV infections	II		
Simplirix	recombinant	genital herpes prophylaxis	II		
New influenza	subunit	influenza prophylaxis (new delivery)	I	2004	
HIV	recombinant	HIV prophylaxis	I		
S. pneumoniae elderly	conjugated	S. pneumoniae disease prophylaxis	I		
Pharmaccines for Treatment of Chronic Infectious Diseases or Cancer					
SB M00026	recombinant	treatment of chronic hepatitis B	II		
SB 249553	recombinant	treatment of lung cancer/melanoma	II		
GW419458	DISC	treatment of genital herpes	II		
GW/PowderJect	recombinant	hepatitis B treatment	I		

Summary of pipeline

Phase I	Phase II	Phase III	Filed
SB 275833	*Bactroban**	*Factive**	*Factive*
SB 249417	*Ziagen**	tafenoquine (SB 252263)	*Augmentin**
GW409544	SB 207266	GW433908	*Malarone**
GW473178	SB 237376	*Zeffix**	*Epivir**
GW501516	enrasentan (SB 217242)	*Valtrex/Zelitrex**	*Trizivir*
GW660511	GI198745	*Relenza**	GI198745
SB 223412	*ReQuip**	telmisartan*	*Imigran/Imitrex**
SB 424323	*Imigran/Imitrex**	*Tranilast*	*Bexxar*
SB 435495	*Hycamtin**	GI262570	*Seroxat/Paxil**
GI181771	GW320659 (1555U88)	nabumetone Q*	*Flixotide/Flovent**
GW427353	GW650250	*Naramig/Amerge**	*Ventolin**
SB 418790	mepolizumab (SB 240563)	*Hycamtin**	*Seretide/Advair**
SB 273005	GR270773	*Seroxat/Paxil**	*Avandia**
GW406381	GW273293	*Ariflo*	*Twinrix* 3 doses (v)
GW468816	SB 596168	*Flovent**	*Infanrix PeNta* – Hep B-IPV (v)
SB 271046	SB 683698 (TR14035)	*Serevent**	*Infanrix HeXa* – Hep B-IPV/Hib (v)
SB 641257 (YH1885)	*Ariflo*	*Seretide/Advair**	*Boostrix* (v)
GW572016	repifermin	*Coreg**	
SB 251353	SB 204269	*Twinrix 2 doses* (v)	
SB 408075	GW150013	Extra strength Hepatitis B (v)	
GW597599	SB 659746A (EMD 68843)	S pneumoniae (v)	
SB 243213	N. Meningitidis A/C (v)	MMR-varicella (v)	
GW328267	*Rotarix* (v)		
fluticasone/salmeterol*	Epstein-Barr virus (v)		
SB 223412	Malaria (v)		
Hepatitis E (v)	Human papilloma virus (v)		
New Influenza (v)	*Simplirix* (v)		
HIV (v)	Meningitis B (Cuba) (v)		
S. pneumoniae (v)	SB-M00026 (p)		
GW/PowderJect technology (p)	SB 249553 (p)		
	GW419458 (p)		

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, it is not unusual for some compounds, especially those in early stages of investigation, to be terminated as they progress through development.

For competitive reasons, new projects in pre-clinical development have not been disclosed and some project types may not have been identified.

R&D processes

Much of the process re-design work conducted by Glaxo Wellcome and SmithKline Beecham in earlier years has now been fully implemented within R&D. In both organisations the focus during 2000 was on the consolidation of these new processes within a unified GlaxoSmithKline organisation. Considerable effort has gone into aligning quantitative performance measures with the new processes, so that the productivity of R&D can be effectively monitored in terms of the value added to the overall business. There are already benefits from these initiatives and many high quality new molecules are now in early clinical assessment. There is also good evidence from independent benchmarking that both Glaxo Wellcome and SmithKline Beecham have some of the fastest product development times within the industry.

The learnings from previous re-design work have been brought into full effect within GlaxoSmithKline so that the traditional functional barriers between Research, Development, Commercial and Manufacturing no longer exist within the organisation. Several key multi-disciplinary matrix organisations have been created to ensure continuity across the whole discovery to launch process. These include:

- Centres of Excellence for Drug Discovery to effectively integrate late-stage research and early-stage development
- New Product Development to integrate clinical, regulatory and commercial activities
- New Product Supply to align the scale-up and subsequent manufacture of the physical product.

These are described in more detail below.

There is now a clear focus on a unified approach to the generation and demonstration of commercial product value to customers. These customers include patients, healthcare professionals, budget holders and regulators, and each population has its own needs in terms of assessing the value of a new product. R&D is now positioned to ensure that, as well as developing the right products, it also generates the right information about these products. Increasingly this means not only safety, efficacy and quality information but also evidence of product value through measures such as overall reductions in healthcare utilisation, increasing length or quality of life and increased workplace productivity.

Early drug discovery and new technologies

Over the past five years both Glaxo Wellcome and SmithKline Beecham invested heavily in establishing and integrating new technologies that will harness the full therapeutic potential offered by the elucidation of the human genome. High-throughput (HT) technologies such as HT gene sequencing, HT chemistry and HT screening are now fully established and mean that GlaxoSmithKline has substantial resources to identify significant numbers of novel molecular targets, make structurally diverse compounds and efficiently screen these compounds against such targets. In addition, HT biology technologies will help us determine the most relevant therapeutic applications of new drugs modulating pathological mechanisms that may underpin several different diseases. These technologies are the cornerstone of activities within Genetics and Discovery Research and are designed to provide a steady stream of validated drug targets and suitable series of lead compounds to the newly-created Centres of Excellence for Drug Discovery.

Complementary to these new technologies has been the work carried out in Glaxo Wellcome over the past three years to develop ways of associating disease with a patient's genetic make up. GlaxoSmithKline now aims to identify the genes most relevant to common diseases with large unmet medical needs, such as asthma, non-insulin dependent diabetes, migraine, osteoarthritis, metabolic syndrome, depression, chronic obstructive pulmonary disease, early onset heart disease and Alzheimer's disease. To further these initiatives, large international collaborative studies have now been initiated for six of these diseases. These networks bring together clinicians and other experts in the diagnosis of these diseases with centres skilled in analysing genetic and clinical data.

Many of the applications of genetic science to healthcare will be driven by single nucleotide polymorphism (SNP) high-density mapping. This new technology can be likened to a road map, with SNPs acting as signposts that tell scientists where they are on the genome. Both Glaxo Wellcome and SmithKline Beecham were members of The SNP Consortium launched in April 1999. The consortium, which comprises 12 pharmaceutical and technology companies, five academic centres and The Wellcome Trust, is producing an ordered high-density SNP map of the human genome. This work has progressed ahead of schedule, and the data are being placed in the public domain.

Centres of Excellence for Drug Discovery

Both Glaxo Wellcome and SmithKline Beecham have experimented with a number of ways to manage drug discovery in order to optimise the progression of new medicines. During 2000, it was agreed that, for GlaxoSmithKline, a novel approach to the integration of late-stage discovery and early-stage development – the critical drug discovery phase – would be adopted. This approach is based on a sound understanding of the creative and entrepreneurial environment needed to enhance the scientific knowledge and expertise required to discover new drugs of proven value.

Six Centres of Excellence for Drug Discovery (CEDDs) have been created in GlaxoSmithKline, each focusing on specific disease areas, as summarised below:

- **Anti-bacterials & Host Defence**, centred in Upper Providence (USA)
- **Cardiovascular, Cancer and Urogenital**, centred in Upper Merion (USA)
- **Metabolic, Musculoskeletal & Viral Diseases**, centred in Research Triangle Park (USA)
- **Neurology**, centred in Harlow (UK)
- **Psychiatry**, centred in Verona (Italy)
- **Respiratory, Inflammation and Respiratory Pathogens**, centred in Stevenage (UK).

CEDDs have the autonomy to select new compounds from either internal or external sources. Each CEDD is responsible for selecting the optimal candidate from a series of similar chemical compounds and for ensuring this candidate is safe in animal models and can be developed from a technical perspective. Once this is achieved, the CEDDs are responsible for conducting the pre-clinical and early clinical work required to prove that the compound is safe and efficacious in patients – the proof-of-concept or provision-of-confidence decision point. Following a thorough senior review of the information generated, a decision is then made to progress the compound into late stage drug development where the necessary large-scale clinical trials are conducted to successfully register and commercialise the product.

New product development

To provide focus for the development and commercialisation process, which must proceed in unison, all the major functional components, Medical, Regulatory and Product Strategy, have been integrated into one management organisation. Late-stage product development in both Glaxo Wellcome and SmithKline Beecham was organised by therapeutic areas and eight such areas have been identified for GlaxoSmithKline:

- Anti-microbials & Host Defence
- Anti-virals
- Cardiovascular & Urogenital
- Metabolic & Musculoskeletal
- Neurology & Gastro-intestinal
- Oncology
- Psychiatry
- Respiratory & Inflammation.

Worldwide vaccines R&D is conducted by the Biologicals Division, located principally at Rixensart, Belgium. It is managed independently from pharmaceuticals development. However, essentially similar approaches to development are adopted for both vaccines and prescription medicines.

The eight pharmaceutical therapy areas and vaccines development are managed by cross-functional matrix teams responsible for maximising the worldwide development opportunities for each product. The teams work to ensure that there is alignment between regional marketing needs and the clinical and commercial information generated for a new product as it is developed. The teams also collaborate at an early stage with integrated technical development and manufacturing functions to ensure rapid, effective launch and delivery of the product.

By increasingly incorporating genetic research into clinical trials of new and innovative medicines, GlaxoSmithKline will enable healthcare providers to prescribe medicines more accurately based on a patient's predicted response profile (in terms of both drug safety and efficacy). In addition, genetic research will enable a better understanding of the causes of common diseases. Many such diseases arise through complex interactions between a number of gene variants and environmental factors. Identifying the genes that predispose patients to a particular disease and understanding their role in disease progression will lead to the identification of new ways to intervene in these diseases. This understanding will also provide greater confidence that existing drug targets are relevant to the disease.

New product supply

The efficient delivery and rapid worldwide uptake of our new products are closely linked to their ease of manufacture. Such issues as scale-up and manufacturing technology are considered at an early stage of product development, so that the process of moving from small-scale production of experimental materials for early clinical studies through to large-scale industrial manufacturing for product supply can be fast and efficient. This is the responsibility of 'New Product Supply', a partnership between R&D preclinical staff and Global Manufacturing & Supply. The partnership ensures that the Development organisation delivers a product that has already been optimised in terms of large-scale commercial manufacturing.

Animals and research

For ethical, scientific and legal reasons, animal experimentation remains essential in the discovery and subsequent safety evaluation of new medicines. GlaxoSmithKline policy is to replace animal experiments where at all possible and use alternatives such as *in vitro* cell culture or computer modelling techniques. If animal experiments are unavoidable, our approach is to seek to reduce the number of animals used, through improved techniques and methodology. Examples of this approach include:

- the use of transgenic animals bred with genetic changes that better model human disease
- work to use non-invasive imaging to understand pathological processes and the effects of experimental drugs in far fewer animals than are required by traditional *in vivo* pharmacological methods
- the development of more sensitive assay methodologies to reduce the number of animals required to assess the effects of novel drug candidates.

Additionally, every effort is made to minimise discomfort in those animals used for such studies.

Research and development – Consumer Healthcare

The principal centres for Consumer Healthcare research and development are in the UK and in the USA. Consumer Healthcare liaises closely with Pharmaceuticals to ensure that commercial opportunities in the OTC field are identified as quickly as possible. GlaxoSmithKline also pursues, whenever possible, opportunities to switch prescription products to OTC products.

Operating resources

Intellectual property – Pharmaceuticals

The table below sets out patent expiry dates for the active ingredients in significant GlaxoSmithKline products.

Therapeutic area	Product	Active ingredient(s)	Patent expiry dates for active ingredient(s) in major countries
CNS disorders	*Seroxat/Paxil*	paroxetine	During or after 2006
	Wellbutrin	bupropion	Basic compound patents have expired. Formulation patents will expire during or after 2013
	Imigran/Imitrex	sumatriptan	During or after 2003 (USA 2006/8)
	Naramig/Amerge	naratriptan	During or after 2010
	Lamictal	lamotrigine	During or after 2005
	Requip	ropinirole	During or after 2007
	Zyban	bupropion	Basic compound patents have expired. Formulation patents will expire during or after 2013
Respiratory	*Flixotide/Flovent*	fluticasone propionate	During or after 2003
	Serevent	salmeterol xinafoate	During or after 2003 (USA 2008)
	Seretide/Advair	fluticasone propionate & salmeterol xinafoate	Patents covering the combination will expire during or after 2010
	Flixonase/Flonase	fluticasone propionate	During or after 2003
Anti-bacterials	*Augmentin*	co-amoxiclav	Basic compound patents have expired, with the exception of the USA (2017), France (2002) and Italy (2007)
	Zinnat/Ceftin	cefuroxime axetil	Patents to cefuroxime axetil per se have generally expired, although SPCs exist in Europe until 2002. Patents on the amorphous form of cefuroxime axetil will expire during or after 2003
	Fortum/Fortaz	ceftazidime	Basic compound patents have expired
	Amoxil	amoxycillin	Basic compound patents have expired
Anti-virals	*Combivir*	lamivudine + zidovudine	Patents on the combination of the two active ingredients will expire during or after 2012
	Epivir	lamivudine	During or after 2009
	Retrovir	zidovudine	Basic compound patents have expired. Patents on use in HIV infection will expire during or after 2005
	Ziagen	abacavir	During or after 2009
	Agenerase	amprenavir	During or after 2013
	Valtrex	valaciclovir	During or after 2009
	Zovirax	aciclovir	Basic compound patents have expired
	Zeffix/Epivir-HBV	lamivudine	During or after 2009
	Relenza	zanamivir	During or after 2013
Metabolic and gastro-intestinal	*Avandia*	rosiglitazone	During or after 2013
	Zantac	ranitidine	Basic compound patents have expired.
Oncology and emesis	*Zofran*	ondansetron	During or after 2005. During or after 2006 for patents to its use in emesis

The patent position on Hepatitis vaccines (*Engerix* and *Havrix*) and on *Infanrix* and *LYMErix* is highly complex. GlaxoSmithKline is licensed under several US patents pertaining to *Engerix*, the latest of which expires in 2014. A recently granted US patent pertaining to *Havrix* expires in 2017. For *Infanrix* US patents expire during or after 2014. GlaxoSmithKline is licensed under a US patent covering *LYMErix* that will provide protection until 2014.

GlaxoSmithKline highly values its intellectual property and believes that its worldwide portfolio of patents and trade marks is of particular value.

Intellectual property includes patents, trade marks, registered designs and copyrights.

Patents

GlaxoSmithKline has obtained patents in many countries for the significant products discovered or developed throughout its R&D activities. Patent protection is available in the United States, Europe, Japan and most other significant markets for new active ingredients, as well as for pharmaceutical formulations, manufacturing processes and medical uses.

GlaxoSmithKline continues to have patent protection for one or more forms of most of its key pharmaceutical products in major markets and, in addition, either has obtained patents or anticipates that patent protection will be granted for the new drugs, which are in development. However, the absence of effective patent protection for pharmaceuticals in some developing countries continues to have an adverse effect on pharmaceutical companies, including GlaxoSmithKline.

GlaxoSmithKline is routinely engaged in disputes over its patented products and processes to protect its intellectual property rights (see Note 31 to the Financial statements 'Legal proceedings').

Trade marks

All GlaxoSmithKline's pharmaceuticals products are protected by registered trade marks in major markets, and GlaxoSmithKline pursues a policy of enforcing its trade mark rights vigorously against infringements and other unauthorised uses. These trade marks are used in many countries, although there may be local variations for each. For example, in the United States, the trade mark *Paxil* is used instead of *Seroxat* and *Advair* is used instead of *Seretide*.

Trade mark protection continues in some countries as long as a trade mark is used and renewed at appropriate times. GlaxoSmithKline's trade mark with respect to a pharmaceutical product generally assumes increasing importance when the patent for that product expires in a particular country.

Intellectual property – Consumer Healthcare

GlaxoSmithKline's Consumer Healthcare businesses are brand-oriented and the company considers its trademarks for these products to be of particular value. Consumer brands are protected by trademarks in the majority of the markets where these brands are sold, and GlaxoSmithKline vigorously protects these trademarks from infringement.

Information technology

Information technology plays three strategic roles in GlaxoSmithKline:

- it facilitates communication and access to information on a global basis
- it supports key business processes at the local, regional, functional and global levels
- it enables the transformation and extension of key business activities.

Support for the merger process

Information technology played a key part in providing the planning information for the merger, much of which was derived from the existing systems in Glaxo Wellcome and SmithKline Beecham. Of major importance was ensuring that the new company had the IT systems in place to function effectively as soon as the merger was complete. From the first day of GlaxoSmithKline, the 80,000 employees in 58 countries with e-mail accounts were able to contact their colleagues electronically. Employees could also use short codes for dialling between sites, search on-line phone directories, and access both companies' intranet sites. Cross-site links to key business applications were provided.

Global communications

The past year has seen major growth in the number of internal websites. These allow information to be shared across the company on a global basis and are supported by internal search engines analogous to those used externally on the Internet. The ability to provide shared access to information has enabled the growing use of 'virtual teams', that work collaboratively, spanning multiple geographies and time zones, often subject to stringent time constraints.

Information is also exchanged electronically with a broad array of suppliers, customers and partners. Hence, protection against unauthorised access to key systems, and the growing risks posed by computer viruses, is a major issue. Intruder detection software has been added to company firewalls and virus scanning has been implemented at the gateway, server and desktop levels. The separate approaches adopted by Glaxo Wellcome and SmithKline Beecham are being integrated in a common standard approach for GlaxoSmithKline.

Enhancing business performance

Virtually all GlaxoSmithKline's major business processes rely heavily on the use of information technology. Within R&D in both SmithKline Beecham and Glaxo Wellcome there have been major programmes to capture key information, at source, in electronic form and make it available wherever required. As a result of these efforts, it was possible to make a number of regulatory drug submissions during the past year solely in electronic form. New drug submissions can be 50,000 to 250,000 pages in size and the ability to avoid generating paper submissions gives rise to significant savings in time and cost.

As part of the project to implement standard systems for Manufacturing Resource Planning in Glaxo Wellcome, eight sites, seven in the UK and one in Jurong, Singapore, have been supported for the past year from a single system. Further along the supply chain, SmithKline Beecham introduced standard enterprise financial and commercial software into 108 locations. The ability to consolidate mission critical operations in this way reflects the growing availability and reliability of global data networks and ensures that common processes and standards are implemented across sites, in addition to providing lower operating costs.

Both Glaxo Wellcome and SmithKline Beecham have installed major systems in the USA to analyse commercially available prescribing data. By better understanding locally of how GlaxoSmithKline's products are used in the marketplace, it is possible to target promotional and detailing activities and measure the market response. Information from these systems is transmitted electronically to the field sales forces and their responses are then uploaded to the system. With the growing availability of the required technology and infrastructure, sales force automation systems are being deployed in most major commercial markets.

Transforming and extending business activities

Insights gained from genomics and proteomics are transforming the way that disease targets are identified and validated. Information generated from a variety of external sources needs to be integrated with internally generated information in a rapid and flexible manner that relies heavily on information technology support. The analysis of these databases also requires significant amounts of processing power, taking full advantage of advances in computer technology.

e-business

Both Glaxo Wellcome and SmithKline Beecham recognised the growing importance of e-business and had already put small dedicated teams in place. Web based interfaces to major customers have been implemented in the USA. Current projects span a broad range of key audiences including opinion leaders, healthcare professionals, patients and the public.

GlaxoSmithKline people

The skills and intellect of GlaxoSmithKline employees are fundamental to the current and future success of the business. It is GlaxoSmithKline's human capital that maximises the potential of the Group's scientific, commercial and financial assets. The objective of human resources policy is to maintain the reputation of GlaxoSmithKline as an employer of choice: the role of Human Resources is to provide alignment between business strategy and people strategy.

Performance and reward

The importance of people as an operating resource has to translate into employment practices that recognise the value of each individual. Compensation and benefit packages are designed to be enlightened, competitive and attuned to the local market.

Compensation includes both skill- and performance-based pay, contributing to retention of key skills and consistent recognition and reward of superior performance and accomplishment of business targets.

Alternative work schedules, such as flex-time, teleworking, adjusted work weeks, recognise that employees work best in an environment that integrates both their family and personal life.

Communication and involvement

An extensive range of communications programmes stimulates involvement in GlaxoSmithKline goals and progress, including presentations of business results, Group-wide magazines, site newspapers, videos, recorded voice mail messages from senior executive officers and access to the GlaxoSmithKline intranet.

Share ownership schemes encourage participation as owners of the business, increasing awareness of short- and long-term business objectives.

Diversity

Diversity is central to the effective deployment of the skills needed to compete in the modern global economy. The Group values diversity of opinion, perspective and background.

GlaxoSmithKline remains committed to employment policies which do not discriminate between potential or existing staff on the grounds of colour, race, ethnic and national origin, gender, marital status, religious beliefs or disability. In the UK, if an employee becomes disabled whilst in employment and, as a result, is unable to perform normal duties, every effort is made to offer suitable alternative employment and assistance with retraining.

Training and development

Comprehensive training and development opportunities are available to all employees at all levels, including access to self-help computer-based training modules. Development planning is a key element in overall performance planning each year.

Executive and leadership development programmes have been designed to identify and prepare the key talent necessary for growing the business worldwide. In particular, these programmes develop skills identified as critical to future business success, such as entrepreneurship, partnering, cross-functional collaboration and global problem solving.

Property, plant and equipment

GlaxoSmithKline has operating establishments in some 70 countries. The geographical spread of the Group's activities, and the headquarters' location in each country, are indicated in the list of Group companies (page 136). GlaxoSmithKline conducts research and development at more than 20 sites and manufactures product at more than 100 sites in 41 countries. Refer to 'Research and development – Pharmaceuticals' (page 14) and 'Manufacture and supply' (page 13).

GlaxoSmithKline has invested nearly £4 billion in its property, with a carrying value in the financial statements of £3 billion, with a further £3.5 billion at carrying value invested in plant and equipment. In 2000 GlaxoSmithKline invested £1 billion in new and renewal property, plant and equipment. Property is mainly held freehold. New investment is financed from existing Group liquid resources. The Group had at 31st December 2000 contractual commitments for future expenditure of some £300 million and operating lease commitments in 2001 of approximately £130 million.

GlaxoSmithKline's business is science-based, technology-intensive and highly regulated by governmental authorities. GlaxoSmithKline allocates significant financial resources to the renewal and maintenance of its property and plant to minimise risks of interruption of production and to achieve compliance with regulatory standards. The research and development and manufacture of active pharmaceutical ingredient require the use of chemicals and hazardous materials. GlaxoSmithKline 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 referenced under Environment, health and safety (page 25) and in Note 31 to the Financial statements.

GlaxoSmithKline believes that its facilities are adequate for its current needs. The integration of Glaxo Wellcome and SmithKline Beecham operations in 2001 and subsequently is likely to involve the rationalisation, and disposal, of a number of sites and properties.

The business and the community

Environment, health and safety

In keeping with GlaxoSmithKline's global quest to improve the quality of human life, environment, health and safety (EHS) issues are very important to the new company. The GlaxoSmithKline Vision for Environment, Health and Safety has been adopted and work is proceeding on agreeing the EHS policy. A corporate EHS function has been formed and is responsible for recommending policy and strategy, providing direction and support for significant issues. It will also develop standards appropriate to business needs.

The main task in 2001 will be to integrate programmes from both companies into new GlaxoSmithKline EHS programmes that take the best from both companies. In view of the similarities and the commitment of all managers and staff to high standards of EHS practice, it is expected that the merger will result in continued improvement in EHS performance. GlaxoSmithKline will monitor progress and report against a set of goals and targets that will be developed during 2001.

Further information on EHS in GlaxoSmithKline can be found in the EHS Review available from the Secretariat at the company's head office.

EHS management system

Successful management of environment, health and safety has been a high priority for both Glaxo Wellcome and SmithKline Beecham. Both companies had global standards and guidelines on Environment, Health and Safety issues. These set key requirements for implementation of policy and programmes based on the management systems model of the International Standards Organisation (ISO). The GlaxoSmithKline EHS department will be evaluating the possibility of Group-wide ISO certification of the new EHS management system that will be put in place.

Glaxo Wellcome and SmithKline Beecham both performed audits to assess and report on implementation of corporate policy and performance against the established global standards. In 2000 the two companies performed over 57 audits in 26 countries including 19 contract manufacturing and key supplier audits.

EHS awards

Both Glaxo Wellcome and SmithKline Beecham had internal award schemes designed to reward innovation and outstanding achievements in EHS management. Further information can be found in the EHS Review.

Goals and targets

The broad goal for EHS in the new company is to integrate the best of each company into a combined EHS programme that will be recognised as a leader in the industry. In the first year the Group expects to develop EHS standards and a management system and start the process for company-wide ISO 14001 certification. The data that each company has collected will be analysed and evaluated to develop a baseline for the combined company with annual improvement targets through to 2005.

It is also intended to explore the impact of implementation of sustainable development principles in GlaxoSmithKline.

Chlorofluorocarbons (CFCs)

As the world's leading provider of metered-dose-inhalers (MDIs) for the treatment of respiratory tract diseases, GlaxoSmithKline is currently changing the propellant in MDIs from CFCs to non-ozone depleting HFC 134a. *Ventolin* MDIs using the new propellant have been launched in 41 countries and *Flixotide* MDIs using HFC134a launched in 22 countries. The aim is to make the transition as smooth as possible so that doctors, nurses, pharmacists and most importantly, patients feel comfortable with, and continue to use, the reformulated products. In addition, sales of *Diskus*, the dry powder inhaler continue to grow and demonstrate the commitment to providing choice for healthcare providers and patients.

Contract manufacturing

Because of the increasing use of external contract manufacturers and suppliers for supplying active ingredients, fine chemical intermediates and finished products, GlaxoSmithKline will continue to integrate EHS into contracts, audit contract manufacturers and key suppliers against GlaxoSmithKline EHS standards and measure their EHS performance to manage potential threats to supply chain security.

Contaminated land

In the UK, statutory provisions for dealing with historically contaminated land have been introduced by virtue of Part IIA of the Environmental Protection Act 1990 (by insertion of Section 56 of the Environment Act 1995). A review has been carried out of all available data at 12 operational facilities in the UK to determine if any could be designated as contaminated land under the new regime. The review indicated that eight facilities are unlikely to be designated as contaminated land and that additional data was needed for the other four facilities. Further studies at these sites are being arranged to collect more data. In the USA in 2000, the Group remained actively involved in the resolution of 11 remedial sites, all of which are in mid to late stages of remediation.

More recent contaminated land issues include a site in the UK for which agreement has been reached with the local planners regarding demolition and remediation. Negotiations are currently underway to agree cleanup standards with the North Carolina State regulatory agency to remediate soil and groundwater contamination at two sites.

Provision has been made in the financial statements for estimated costs of remediation.

Regulatory compliance

Although every effort is made to ensure full and effective legal compliance, an occasional event may result in permit or regulatory breaches. If they occur, they are taken very seriously and steps are taken to prevent any future occurrences.

Major environmental improvement projects

The Ulverston antibiotics site in the UK is currently engaged in a £7 million project to upgrade the treatment of its site wastewater. At the Irvine, Scotland antibiotics facility, £8 million has been approved for the construction of a high temperature composting unit for waste sludge generated by the onsite wastewater treatment plant.

Global community partnerships

GlaxoSmithKline recognises that corporate social responsibility in today's business environment requires innovative programmes to help build healthy and successful communities around the world.

By creating a blend of traditional philanthropy with major commitments to new partnerships in public health for the developing world, GlaxoSmithKline is working harder and more creatively than ever to enable people to do more, feel better and live longer.

The remit of GlaxoSmithKline's Global Community Partnerships encompasses some of the greatest challenges facing society and includes some of the most ambitious corporate citizenship projects ever embarked upon:

- efforts to tackle parasitic diseases such as malaria and lymphatic filariasis in the developing world and to combat the scourge of human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS) in countries without the safety net of a state-funded healthcare system
- the challenge of empowering communities to affect their own social environments, both through traditional 'philanthropic' means and through innovative programmes designed to further strengthen those who are already expert in their particular field
- the management of an active programme of science education for children of all ages who live in the communities around major GlaxoSmithKline locations.

HIV and AIDS

GlaxoSmithKline has provided further support for the existing UN-led programme to reduce Mother-to-Child Transmission of HIV in 25 developing countries.

Positive Action – the long-term international programme of HIV education and community care – launched a new initiative to increase the involvement of people living with HIV in support of the UN International Partnership Against AIDS in Africa.

In July 2000 GlaxoSmithKline was a principal sponsor of the 13th World AIDS Conference in Durban, South Africa, reinforcing the company's commitment to the fight against HIV/AIDS.

Lymphatic Filariasis

In the third year of its global humanitarian programme to help eliminate lymphatic filariasis (LF, a disabling tropical disease also known as elephantiasis) GlaxoSmithKline donated over 34 million treatments of its antiparasitic drug albendazole to more than 20 developing world countries in 2000.

It is estimated that GlaxoSmithKline will provide about five billion treatments of albendazole over the next 20 years in the fight to break transmission of LF, a parasitic disease that is spread by mosquitoes. To prevent the disease, the World Health Organisation advises that albendazole is co-administered with either diethylcarbamazine (DEC) or ivermectin as a single annual treatment for four to six years to entire endemic communities.

GlaxoSmithKline also actively participates in the LF Global Alliance – a coalition of GlaxoSmithKline, the World Health Organisation and some 30 public, private and academic institutions and the Ministries of Health in the 80 endemic countries.

Malaria

GlaxoSmithKline is working in partnership with Roll Back Malaria and other international and national stakeholders to develop and implement innovative and sustainable plans to reduce suffering and deaths from malaria.

The company has been undertaking pilot programmes in Kenya and Uganda to assess the feasibility of using donations of its product *Malarone*. In order to preserve the efficacy of *Malarone* and, as far as possible, prevent the emergence of resistance to it, it is important that the product is reserved for use when first and second-line anti-malarials are ineffective. Pilot sites have been successfully following a protocol for determining which patients require treatment with *Malarone* and which patients can be treated with standard therapies.

Tuberculosis

Action TB was launched in July 1993 when GlaxoSmithKline committed £10 million over five years to fund research in universities in the UK, South Africa and Canada. On World TB day in 1998, GlaxoSmithKline announced a further £10 million to fund Action TB for another five years.

The goals of the programme are to deliver: a drug in early stages of development together with a backup or alternative candidate; a vaccine in early stages of development including identification of candidate antigens; and identification of surrogate markers for use in drug and vaccine trials.

Community programmes – United Kingdom

The company's partnership with the Department of Health and the charity Barnardo's to establish the Right Fit programme is in its third year. Right Fit is a major initiative which helps young people, teachers and youth workers tackle smoking, diet and fitness. GlaxoSmithKline's donation of £3 million, spread over the three-year life of the project, is the largest single contribution made by the company in the UK. The objective of the programme is to make a positive impact on the health of young people in the UK and the results so far have been very encouraging with 175 projects being supported, benefiting over 150,000 young people.

GlaxoSmithKline provided £500,000 for medical research. This is an annual scheme, with £3.7 million awarded to over 40 medical research projects in the last eight years. Eight charities are invited to apply each year and five projects are selected for funding of approximately £100,000 each. The charities funded through this programme in 2000 were: Diabetes UK, Cystic Fibrosis Trust, Digestive Disorders Foundation, Meningitis Research Foundation and the Motor Neurone Disease Association.

GlaxoSmithKline's annual IMPACT Awards programme recognises the excellent work of small charities working in the healthcare sector. Ten winners each received an award of an unrestricted £25,000. Winning charities ranged from those supporting the health needs of male and female sex workers to community care services and carer support in isolated areas of the Scottish Highlands.

A joint venture between VSO and the Royal College of Paediatrics and Child Health received a £150,000 donation to fund ten trainee consultant paediatricians (five in 2000 and five in 2001), to spend a year of their higher specialist training in a developing country as a VSO volunteer. The focus is on providing and sharing paediatric skills in areas where they are most needed for the benefit of poor and disadvantaged children.

A £45,000 donation enabled the charity Beating Bowel Cancer to provide equipment for centres which will assist in the early diagnosis of the disease. Bowel cancer is the second biggest cancer killer in the UK and causes almost 50 per cent more deaths than breast cancer.

Community programmes – Europe

Programmes in Europe focused on children's health:

Support was provided for Reaching Young Europe, run by Befrienders International (the umbrella organisation for the Samaritan movement worldwide), which helps children develop skills to cope with stress (£200,000).

Funding was provided for two programmes run by the aid organisation, Project HOPE: in Russia, to combat substance abuse (£100,000); in Bosnia, a paediatric rehabilitation programme (£130,000).

The Barretstown Gang Camp in Ireland, which supports seriously ill children from all over Europe, received £420,000.

Community programmes – North America

Community Partnership focused on better access to better healthcare. Grants of $4.0 million were awarded through the North America Community Partnership Team.

There is a $4.5 million (three-year) initiative by GlaxoSmithKline and the University of Pennsylvania's Institute on Ageing.

A three-year Children's Health Fund grant of $2.1 million was made to support the Referred Initiative Programme, ensuring children without medical insurance receive healthcare services.

In the US IMPACT Awards programme, ten grants of $40,000 were made to healthcare organisations in recognition of their exceptional work in the delivery of community healthcare.

Community programmes – Rest of World

Outside Europe and the USA the focus was on health education.

GlaxoSmithKline's PHASE (Personal Hygiene and Sanitation Education) is a health education programme that targets primary school children aged 6 to 13 years, with the goal of reducing diarrhoea-related disease associated with poor hygiene. This schools initiative was extended from its pilot countries of Kenya and Côte d'Ivoire to include Uganda, Peru and Nicaragua (£575,000).

GlaxoSmithKline's two indigenous community healthcare initiatives in Northern Queensland, Australia, are designed to implement community-led programmes that will improve the health of indigenous communities. These are now developing into replicable community-led models (£110,000).

Charitable support

Charitable donations by GlaxoSmithKline companies around the world totalled approximately £30 million in 2000.

In the UK GlaxoSmithKline made charitable donations of some £6 million for projects both in the UK and in the developing world, with particular emphasis in the areas of UK and international healthcare, medical and scientific education, the environment and the arts. Additionally GlaxoSmithKline UK operating companies contributed a further £1 million by way of community investment in the communities local to their factories and sites.

Access to medicines

GlaxoSmithKline is determined to play its full part in improving access to medicines for the world's poorest people. Millions of people in developing countries do not have ready access to basic healthcare services, including safe and effective medicines.

The company is involved in many initiatives to improve health in the developing world, including tackling major killers such as HIV/AIDS, malaria and TB. Both Glaxo Wellcome and SmithKline Beecham had a history of addressing developing world diseases, in terms both of the R&D they undertook and the efforts made to improve access to existing medicines.

R&D for diseases of the developing world

GlaxoSmithKline makes very significant investments in researching new products to prevent and treat developing world diseases. The company has extensive research programmes into both the prevention and treatment of the three diseases that are the focus of international efforts – HIV/AIDS, malaria and TB. GlaxoSmithKline is the only company working to develop vaccines for all three diseases. It also has a dedicated specialist team within the company working on treatments for tropical diseases, with programmes to develop anti-malarials, de-worming agents and anti-diarrhoeals.

Development of these drugs and vaccines involves external research collaborations. For example, the company has an agreement with the Malaria Vaccine Initiative, a non-profit organisation, to test the only malaria vaccine candidate yet to show effectiveness in preventing malaria. This will speed the development of the vaccine, with the potential to save the lives of millions of children.

Other collaborative projects include two commissioned under the Medicines for Malaria Venture and the Action TB programme which harnesses academic expertise in order to develop new TB treatments.

However, efforts to develop incentives and joint funding are essential to stimulate such research. In addition to its own research efforts, GlaxoSmithKline will continue to work with donor agencies to identify additional research and development funding so that developing country diseases can be effectively tackled.

Commitment to lower prices

Both Glaxo Wellcome and SmithKline Beecham have offered lower prices for a range of medicines for use in developing countries. Most significantly this has covered vaccines and anti-retroviral therapies for HIV/AIDS. The company is a leading provider of vaccines to the developing world, and has been offering very substantial discounts to governments, charities and agencies for public health programmes for nearly 20 years.

GlaxoSmithKline is one of five companies offering low price anti-retrovirals as part of the Accelerating Access Initiative (AAI). This aims to accelerate sustained access to appropriate interventions for the prevention, care and treatment of people living with HIV/AIDS. AAI is a partnership between the pharmaceutical industry and five UN agencies, which works with governments to ensure appropriate treatment of patients, both in terms of their overall health care and their use of drugs.

The prices available through the AAI – which represent discounts of some 90 per cent on world prices – are also being offered by GlaxoSmithKline to not-for-profit organisations that are able to deliver anti-retrovirals to patients in developing countries, including selling directly to aid organisations and UN agencies for use in their own programmes.

Additionally, the company is working with employers in Africa who offer HIV/AIDS care and treatment directly to their staff through their own workplace clinics.

Working in partnership

GlaxoSmithKline is committed to maximising affordable access to medicines in the developing world and is exploring a framework in which the company can offer lower prices for all medicines for those who most need them in developing countries.

In addition to the acknowledgement that improving access to medicines is a shared responsibility, this framework needs to embrace three core principles – partnership, protection of products from diversion and parallel trade, and agreement that developing country prices should not be used as a benchmark for prices in developed countries. Although this framework does not currently exist, the company is working hard with all stakeholders to make products available at discounted prices while the framework develops.

To make real progress in tackling the HIV/AIDS pandemic, particularly in Sub-Saharan Africa, increased donor funding from the developed world is needed to enhance healthcare capacity and to facilitate the purchase of the anti-retroviral medicines. Even at such significantly reduced prices, the cost of the anti-retroviral therapy and the associated health care infrastructure that is necessary to deliver this to patients is way beyond the means of many developing country governments.

While the pharmaceutical industry has a role to play in improving access, significant barriers exist, most notably poverty, inadequate public spending and weak healthcare infrastructures. These problems must be addressed as a shared responsibility by all sectors of society, including governments in both the developed and developing world, international agencies, non-governmental agencies and pharmaceutical companies.

Corporate governance

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

The Board

Sir Richard Sykes[c] (Aged 58)
Non-Executive Chairman. Sir Richard was Chairman of Glaxo Wellcome plc from 1997 until the completion of the merger to form GlaxoSmithKline plc. He is Rector of Imperial College of Science, Technology & Medicine. He has a Doctorate in Microbial Biochemistry from Bristol University and a Doctor of Science degree from the University of London. A Fellow of the Royal Society, he sits on a number of government and scientific committees. He received his knighthood for services to the pharmaceutical industry. He is also a Non-Executive Director of Rio Tinto plc.

Sir Roger Hurn[df] (Aged 62)
Non-Executive Deputy Chairman. Sir Roger was appointed a Non-Executive Director of Glaxo Wellcome plc in 1996 and Deputy Chairman in 1997. He is Non-Executive Chairman of Marconi plc and Prudential public limited company and a Non-Executive Director of ICI plc. He is also Chairman of the Court of Governors of the Henley Management Centre.

Sir Peter Walters[bd] (Aged 70)
Non-Executive Deputy Chairman. Sir Peter had been a Non-Executive Director of SmithKline Beecham plc since 1989 and Chairman from 1994 until completion of the merger. His other appointments include those of Non-Executive Deputy Chairman of HSBC Holdings PLC and Chairman of the Institute of Economic Affairs. He was a Non-Executive Director of Saatchi & Saatchi PLC.

Dr Jean-Pierre Garnier[d] (Aged 53)
Chief Executive Officer. Dr Garnier was appointed an Executive Director of SmithKline Beecham plc in 1992. He served as Chairman, Pharmaceuticals from 1994 until his appointment as Chief Operating Officer in 1995 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.

John Coombe[d] (Aged 56)
Chief Financial Officer. Mr Coombe was formerly an Executive Director of Glaxo Wellcome plc where he was responsible for Finance and Investor Relations. He is a member of the UK Accounting Standards Board and Chairman of The Hundred Group.

Paul Allaire[f] (Aged 62)
Non-Executive Director. Mr Allaire was formerly a Non-Executive Director of SmithKline Beecham plc. He is Chairman of Xerox Corporation and a Non-Executive Director of J P Morgan & Co. Inc., Lucent Technologies Inc., Sara Lee Corporation and priceline.com Inc.

Dr Michèle Barzach[f] (Aged 57)
Non-Executive Director. Dr Barzach was formerly a Non-Executive Director of Glaxo Wellcome plc. She is Chairman of the External Advisory Panel for Health, Nutrition and Population for the World Bank and Director of the Board of International AIDS Vaccine Initiative. A consultant on health strategy, she was formerly French Minister of Health and the Family.

Derek Bonham[a] (Aged 57)
Non-Executive Director and Chairman of GlaxoSmithKline's Audit Committee. Mr Bonham was formerly a Non-Executive Director of Glaxo Wellcome plc. He is Non-Executive Chairman of Cadbury Schweppes plc, Imperial Tobacco Group plc and Fieldens plc and a Non-Executive Director of TXU Corporation.

Mr Bonham will not be seeking election to the Board at the Annual General Meeting in May 2001.

Sir Christopher Hogg[bd] (Aged 64)
Non-Executive Director. Sir Christopher was formerly a Non-Executive Director of SmithKline Beecham plc. He is Non-Executive Chairman of Reuters Group PLC and Allied Domecq PLC and a Non-Executive Director of Air Liquide S.A. He is also Chairman of The Royal National Theatre Board.

Peter Job[b] (Aged 59)
Non-Executive Director. Mr Job was formerly a Non-Executive Director of Glaxo Wellcome plc. He is the Chief Executive of Reuters Group PLC and is a Non-Executive Director of Schroders plc.

John McArthur[f] (Aged 66)
Non-Executive Director. Mr McArthur was formerly a Non-Executive Director of Glaxo Wellcome plc. He is a former Dean of the Harvard Business School, and is a Non-Executive Director of BCE Inc., Cabot Corporation, Rohm and Haas Company, Springs Industries Inc. and The AES Corporation.

Donald McHenry[f] (Aged 64)
Non-Executive Director. Mr McHenry was formerly a Non-Executive Director of SmithKline Beecham plc. He is a Distinguished Professor in the Practice of Diplomacy at the School of Foreign Service at Georgetown University and President of the IRC Group, LLC. His other Non-Executive Directorships include Coca-Cola Company, FleetBoston Financial Corporation and AT&T Corporation. He previously served as Ambassador and US Permanent Representative to the United Nations.

Sir Ian Prosser[b] (Aged 57)
Non-Executive Director. Sir Ian was formerly a Non-Executive Director of SmithKline Beecham plc. He is Chairman of Bass PLC and Non-Executive Deputy Chairman of BP Amoco plc. He is also a member of the World Travel & Tourism Council and the CBI President's Committee.

Dr Ronaldo Schmitz[b] (Aged 62)
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. He was formerly a member of the Board of Executive Directors of Deutsche Bank AG.

Dr Lucy Shapiro (Aged 60)
Non-Executive Director. Dr Shapiro was formerly a Non-Executive Director of SmithKline Beecham plc. She is Professor in the Department of Developmental Biology and Director of the Beckman Centre at the Stanford University School of Medicine. She holds a PhD in molecular biology from Albert Einstein College of Medicine.

John Young[e] (Aged 68)
Non-Executive Director and Chairman of GlaxoSmithKline's Remuneration & Nominations Committee. Mr Young was formerly Non-Executive Vice Chairman of SmithKline Beecham plc. His other non-executive appointments include directorships of Chevron Corporation, Lucent Technologies Inc, Affymetrix Inc and Perlegen Sciences Inc and the Vice-Chairmanship of Novell, Inc.

Membership of Board committees is indicated by the following symbols:

	Chairman	Member
Audit	a	b
Finance	c	d
Remuneration & Nominations	e	f

Corporate Executive Team

JP Garnier
Chief Executive Officer

Dr Garnier was the Chief Executive Officer of SmithKline Beecham. He joined SmithKline Beecham in 1990 as president of its pharmaceutical business in North America and served as Chairman, Pharmaceuticals, from 1994 until his appointment as Chief Operating Officer in 1995. He was elected to SmithKline Beecham's Board of Directors in 1992.

Jim Beery
Senior Vice President & General Counsel

Mr Beery was the Senior Vice President, General Counsel and Corporate Secretary, for SmithKline Beecham, having joined the company in 1994. He is responsible for legal matters across the Group. He will retire from GlaxoSmithKline in June 2001.

John Coombe
Chief Financial Officer

Mr Coombe was the Group Finance Director of Glaxo Wellcome plc. He joined Glaxo in 1986 as Group Financial Controller and was appointed to the Board in 1992 as the Executive Director responsible for finance. He subsequently added responsibility for investor relations.

Bob Ingram
Chief Operating Officer & President Pharmaceutical Operations

Mr Ingram was Chief Executive of Glaxo Wellcome plc and Chairman of its US subsidiary, Glaxo Wellcome Inc. He joined Glaxo Inc. in 1990 from Merck, and was appointed to the Board of Glaxo Wellcome in 1995. In 1997 he became Chief Executive of Glaxo Wellcome, responsible for global business operations.

Jim Niedel
Chief Science & Technology Officer

Dr Niedel was the Glaxo Wellcome Executive Director responsible for Science & Technology. He was appointed to the Glaxo Wellcome Board in 1995 with responsibility for Group Research and Development. Before he joined Glaxo Wellcome in 1988, he was Professor of Medicine and Chief of the Division of Clinical Pharmacology at Duke University Medical Center.

James Palmer
Senior Vice President Clinical Development Pharmaceuticals R&D

Dr Palmer was responsible for all Glaxo Wellcome's medical, regulatory and product strategy activities worldwide. A physician by training, he joined Glaxo in 1985. He was a member of Glaxo Wellcome's Commercial Operations Committee.

Dan Phelan
Senior Vice President Human Resources

Mr Phelan was appointed Senior Vice President and Director, Human Resources, SmithKline Beecham, in 1994. Before that he was Senior Vice President and Director, Operations and Administration, Research and Development. In 1989, he was appointed Vice President and Director, Personnel – US, Pharmaceuticals. He joined SmithKline Beecham as Manager of Labour Relations in 1981.

Howard Pien
President Pharmaceuticals International

Mr Pien became President, Pharmaceuticals, SmithKline Beecham, in 1998, with responsibility for the commercial operations of the worldwide Pharmaceuticals business. He has held key positions in the USA, the UK and north Asia. He joined SmithKline Beecham in 1991 having worked at Abbott Laboratories and Merck.

David Stout
President US Pharmaceuticals

Mr Stout was appointed President, Pharmaceuticals, North America, SmithKline Beecham, in 1998. He joined SmithKline Beecham in 1996 as Senior Vice President and Director, Sales and Marketing – US. Before that he was President of Schering Laboratories with responsibilities including US pharmaceutical operations and worldwide manufacturing.

Tim Tyson
President Global Manufacturing & Supply

Mr Tyson was appointed Senior Vice President and Director, Worldwide Manufacturing & Supply, Glaxo Wellcome, in 1998. He was previously Vice President and General Manager of Business Operations for Glaxo Wellcome Inc. He joined the company in 1988. He was a member of the Glaxo Wellcome Commercial Operations Committee.

Chris Viehbacher
President Pharmaceuticals Europe

Mr Viehbacher was appointed to the Glaxo Wellcome Commercial Operations Committee as the Regional Director for Europe. He became Director, Continental Europe, in January 1999 in addition to his role as Chairman and Chief Executive (President Directeur General) of Glaxo Wellcome France. He joined Glaxo Wellcome in 1988.

Tachi Yamada
Chairman Research & Development

Previously President, SmithKline Beecham Healthcare Services, Dr Yamada was appointed Chairman, Research and Development, Pharmaceuticals, in 1999. He is a former Director of SmithKline Beecham. He was formerly 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.

Jack Ziegler
President Consumer Healthcare

Appointed as President of Consumer Healthcare, SmithKline Beecham, in 1998, Mr Ziegler was responsible for the company's global Consumer Healthcare operations. He joined SmithKline Beecham in 1991 as head of the North American Consumer Healthcare division, became President of the North America Division and in 1996 was appointed Executive Vice President.

Merger of Glaxo Wellcome and SmithKline Beecham

GlaxoSmithKline plc acquired Glaxo Wellcome plc and SmithKline Beecham plc by way of a scheme of arrangement for the merger of the two companies that became effective on 27th December 2000. Until that date Glaxo Wellcome and SmithKline Beecham operated as separate companies under the management of their respective Boards of Directors.

The Directors of Glaxo Wellcome and SmithKline Beecham during the year 2000 were:

Glaxo Wellcome plc

Sir Richard Sykes, Chairman
Sir Roger Hurn, Non-Executive Deputy Chairman
Robert Ingram, Chief Executive
Dr Michèle Barzach, Non-Executive
Derek Bonham, Non-Executive
James Cochrane
John Coombe
Peter Job, Non-Executive
Professor Arthur Li, Non-Executive
John McArthur, Non-Executive
Dr James Niedel
Dr Ronaldo Schmitz, Non-Executive
Jeremy Strachan

SmithKline Beecham plc

Sir Peter Walters, Non-Executive Chairman
Jan Leschly, Chief Executive. Retired 28th April 2000
Jean-Pierre Garnier, Chief Executive from 28th April 2000
Paul Allaire, Non-Executive
Andrew Bonfield
Sir Christopher Hogg, Non-Executive
Baroness Hooper, Non-Executive
Donald McHenry, Non-Executive
Sir Ian Prosser, Non-Executive
Dr Lucy Shapiro, Non-Executive
Dr Tadataka Yamada
John Young, Non-Executive

Incorporation of GlaxoSmithKline

The company was incorporated as a limited company on 6th December 1999 and subsequently changed its name to GlaxoSmithKline plc. It converted to a public limited company on 22nd May 2000. The company did not itself trade from incorporation until 27th December 2000, when it acquired Glaxo Wellcome and SmithKline Beecham. The first report and financial statements of the company cover the period from incorporation to 31st December 2000, and include the results of the separate Glaxo Wellcome and SmithKline Beecham businesses for the year 2000.

Directors of GlaxoSmithKline

During the period from incorporation to 23rd May 2000, the following served as directors of the company:

Drusilla Rowe	6th December 1999 to 13th January 2000
Eleanor Zuercher	6th December 1999 to 13th January 2000
Antonia Rees	13th January 2000 to 28th January 2000
Hackwood Directors Limited	28th January 2000 to 15th May 2000
Robert Stern	13th January 2000 to 15th May 2000
Rupert Bondy	16th May 2000 to 23rd May 2000
Stephen Cowden	16th May 2000 to 23rd May 2000

The directors listed under 'The Board' (page 30) were appointed on 23rd May 2000 and have served since that date.

The Board and Executive

Board

The Board of GlaxoSmithKline plc is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy and financial performance. The Board comprises Executive and Non-Executive Directors. The role of Non-Executive Directors is to bring independent judgement to Board deliberations and decisions.

Sir Richard Sykes is Non-Executive Chairman and Dr Jean-Pierre Garnier is Chief Executive.

Sir Roger Hurn and Sir Peter Walters are Non-Executive Deputy Chairmen.

Sir Richard Sykes was employed by Glaxo Wellcome plc as Executive Chairman. All of the other Non-Executive Directors are considered to be independent. Given that two Non-Executive Deputy Chairmen have been appointed, each independent, the company does not consider it necessary to appoint either one as senior independent director.

The Board meets regularly throughout the year. It has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities to Board committees, as described below. The Board works to an agreed agenda in reviewing the key activities of the business, and receives papers and presentations to enable it to do so effectively. Minutes of Board committees, except the Remuneration & Nominations Committee, are placed on the agenda of the Board. 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.

Board committees

The Audit Committee reviews the financial and internal reporting process, the system of internal control and management of risks and the external and internal audit process. The Committee consists entirely of Non-Executive Directors. It meets four times a year with the Chief Executive Officer, the Chief Financial Officer, the heads of internal audit and corporate compliance and the external auditors in attendance.

The Finance Committee reviews and approves the major financial and securities transactions of the company, as well as dividends, results announcements and the business of the Annual General Meeting.

The Remuneration & Nominations Committee determines the terms of service and remuneration of the Executive Directors and Corporate Officers and considers appointments of Directors and Corporate Officers. The Committee consists entirely of Non-Executive Directors. The Chief Executive Officer attends meetings except when his own remuneration is being considered.

Corporate Executive Team

The executive management of the Group is the responsibility of the Chief Executive Officer and other senior managers, who form the Corporate Executive Team. The members of the Corporate Executive Team and their responsibilities are listed under 'Corporate Executive Team' (page 31).

Remuneration of Directors

Information on the remuneration of Directors is given in the Remuneration report.

Dialogue with shareholders

The company reports formally to shareholders twice a year, when its half-year and full-year results are announced and a full Report and/or summary Review are issued to shareholders. At the same time the Chief Executive Officer and Chief Financial Officer give presentations on the results to institutional investors, analysts and the media in London and in New York.

The company announces financial results quarterly.

The Annual General Meeting of the company 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 are available, formally during the Meeting, and informally afterwards, for questions. Details of the 2001 Annual General Meeting are set out in the following section 'Annual General Meeting'.

The Chief Executive Officer and Chief Financial Officer maintain a dialogue with institutional shareholders on company plans and objectives through a programme of regular meetings. They both speak regularly at external conferences and presentations.

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

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

Annual General Meeting

The company's Annual General Meeting will be held at 2.30pm on 21st May 2001 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

Directors

All the Directors are required to retire under article 98 of the company's Articles of Association. With the exception of Mr Bonham, all the Directors are presenting themselves for election at the Annual General Meeting. Biographical details of each Director are given under 'The Board' (page 30).

Auditors

Resolutions will be proposed to appoint PricewaterhouseCoopers as auditors and to authorise the Directors to determine their remuneration.

Special business

The company will seek to:

- authorise donations to EU Political Organisations and incur EU Political Expenditure
- authorise the Directors to allot shares up to a maximum of one third of the current issued share capital
- give the Directors authority to dis-apply pre-emption rights when allotting new shares in certain circumstances up to a maximum of five per cent of the current issued share capital
- obtain authority to purchase its own Ordinary Shares up to a maximum of just under ten per cent of the current issued share capital.

Accountability and control

Glaxo Wellcome and SmithKline Beecham

Glaxo Wellcome and SmithKline Beecham operated as separate companies under the management of their respective Boards of Directors until completion of the merger on 27th December 2000.

Both companies operated broadly similar processes of internal control, based on an assessment of risks and a framework of control procedures to manage risks and to monitor compliance with procedures. In the case of both companies the process accorded with the guidance on internal control issued by the Turnbull Committee in 1999.

In Glaxo Wellcome, co-ordination of internal control reporting was the responsibility of the Company Secretary, who received reports from functional and operational compliance groups for upwards reporting to the Executive Committee and the Audit Committee. SmithKline Beecham had established a Risk Oversight Compliance Council, supported by a Corporate Compliance department, to co-ordinate internal control and risk management activities and to assist the Audit Committee to perform its responsibilities with respect to internal control.

GlaxoSmithKline has brought together and adopted the procedures previously operated by Glaxo Wellcome and SmithKline Beecham. The discussion which follows sets out the procedures of accountability and control that will operate in GlaxoSmithKline, which are consistent with those followed by Glaxo Wellcome and SmithKline Beecham throughout 2000.

GlaxoSmithKline – control framework

GlaxoSmithKline operates, and attaches importance to, clear principles and procedures designed to achieve the accountability and control appropriate to a science-based business operating multinationally in a highly regulated business sector. There is central direction, resource allocation and risk management of the key functional activities of commercial strategy, research and development, manufacture, information systems, human resources and financial practice. Commercial and financial responsibility is clearly delegated to local operating units, supported by a regional management structure.

These principles are designed to provide an environment of central leadership and local operating autonomy as the framework for the exercise of accountability and control within the Group. The key functional activities and management sectors are represented on the Corporate Executive Team.

There is an ongoing process for identifying, evaluating and managing the significant risks affecting the business and the policies and procedures by which these risks are managed. The process accords with the guidance on internal control issued by the Turnbull Committee in 1999. The assessment of Group risks is reviewed and updated at least annually. At the operating level, business units are required to have processes of risk mapping and assessment. Independent specialist teams review and report on compliance.

The company has identified a number of key areas of risk which are subject to regular reporting.

Environment and safety

Risk management is addressed through a comprehensive architecture that sets targets and provides guidance on how they can be achieved.

Manufacturing
GlaxoSmithKline's policy is for all manufacturing to be carried out to corporate standards which meet or exceed the applicable requirements of regulatory bodies such as the US Food and Drug Administration. Regular audits of manufacturing facilities against these standards are carried out by an independent internal specialist team.

Clinical trials
All trials are carried out in accordance with strict Good Clinical Practice guidelines and regulations aimed at ensuring the integrity of the resulting data and the safety of all human subjects in the trials. These procedures are subject to audit by an independent internal specialist team.

Pre-clinical studies
All trials undertaken to support the safety of new compounds are required to be conducted using Good Laboratory Practices (GLP). These GLPs are dictated by strict worldwide regulations. All elements of these studies are subject to audit by an independent internal specialist team to monitor compliance.

Financial reporting
There is a comprehensive budgeting system with an annual plan approved by the Directors. The results of operating units are reported monthly and compared to the plan. Forecasts are prepared regularly throughout the year. The company announces results on a quarterly basis.

Investment appraisal
There is a clearly defined framework for controlling capital expenditure including the use of appropriate authorisation levels. Capital expenditure applications are made in a consistent format which includes review of the commercial and strategic rationale for the investment.

Treasury operations
Treasury operations are governed by policies approved by the Board and are subject to internal and external audits.

Operating unit controls
Financial controls and procedures including information systems controls are detailed in policies and procedures manuals. Written confirmation of compliance with internal control policies is obtained from the Finance Directors and General Managers of all operating units annually. Operating units complete Self-Assessment Questionnaires on business risks and internal controls which are reviewed by both the company's internal and external auditors.

Risk Oversight and Compliance Council (ROCC)
The ROCC is responsible for co-ordinating the internal control and risk management activities of the company and ensuring the assignment of designated managers to manage significant risks. Membership comprises the heads of department with internal control, risk management, audit and/or compliance responsibilities. The terms of reference also include ensuring that regular 'gap analysis' is carried out to identify gaps in internal controls and providing reports to the Audit Committee in addition to the reports provided by the separate internal control, audit and compliance departments within the company. The ROCC is supported by the Corporate Compliance department.

Audit Committee and Board
The Audit Committee of the Board has responsibility for reviewing the effectiveness of the system of internal control and management of risks and the process for monitoring compliance with laws and regulations and ethical codes of practice.

The Board receives regular reports on areas of significant risk to the company, and on related internal controls. In addition to its consideration of these reports, the Board reviews annually the overall framework and effectiveness of controls.

Such controls may mitigate but cannot eliminate the risks covered. In addition, there are a number of areas of risk inherent in the company's business where it is necessary to take risk in order to achieve a satisfactory return for shareholders. For example, the development of potential products through clinical trials involves a risk that such products will fail to demonstrate the efficacy or safety necessary to obtain marketing approvals from regulatory bodies. In these cases, it is the company's objective to apply its expertise in prudent management of risk rather than the elimination of risk.

Associated company
The company has a 27 per cent interest in Quest Diagnostics Inc., which is accounted for as an associated company. The activities of Quest are not part of the company's core business and competencies, and the interest in Quest is held only as an investment. The company has not therefore reviewed Quest's system of internal control.

The Combined Code

The company seeks to uphold, and to report on compliance with, best practice in corporate governance. 'The Combined Code – Principles of Good Governance and Code of Best Practice' (the Combined Code) is issued by the UK Listing Authority for the guidance of listed companies.

The Combined Code comprises recommendations as to best practice in terms of the control and reporting functions of the Board of a company. The Combined Code sets out principles under the headings of:

- directors
- directors' remuneration
- relations with shareholders
- accountability and audit

and prescribes more detailed provisions in respect of each principle. Specifically the provisions require directors to report in the Annual Accounts on:

- directors' remuneration
- directors' responsibility for the accounts
- going concern
- internal control.

Compliance
The Directors' report on compliance with the Combined Code, and their reports in accordance with the provisions of the Combined Code, are set out under Directors' statements of responsibility (page 70).

Memorandum and Articles of Association of GlaxoSmithKline

This being the first Annual Report of GlaxoSmithKline plc, the following summary is provided of the principal provisions of the company's Memorandum of Association and Articles of Association, a copy of which has been filed with the Registrar of Companies. The Memorandum contains the fundamental provisions of the company's constitution. The Articles contain the rules for the internal management and control of the company.

Memorandum of Association

The Memorandum of Association of GlaxoSmithKline provides that its principal objects are, among other things, to be the holding company of Glaxo Wellcome and SmithKline Beecham and to carry on business as a general commercial company and to carry on any trade or business or activity of any nature which may seem to the Directors to be capable of being conveniently or advantageously carried on.

Articles of Association

(a) Voting

All resolutions put to the vote at general meetings will be decided by poll. On a poll, every member who is present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder. Unless the Directors otherwise decide, voting rights may not be exercised by a member who has not paid to the company all calls and other sums then payable by him in respect of shares in the company. Unless the Directors otherwise decide, voting rights may not be exercised by a member who has failed for a period of 14 days to provide GlaxoSmithKline with information concerning interests in shares required to be provided under the Companies Act.

(b) Transfer of Ordinary Shares

Any member may transfer his Ordinary Shares which are in certificated form by an instrument of transfer in any usual form or in any other form which the Directors may approve. Such instrument must be properly stamped and lodged with GlaxoSmithKline accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. Every transfer of Ordinary Shares which are in uncertificated form must be carried out by means of a relevant system, as defined in the Regulations.

The Directors may, in their absolute discretion and without giving any reason, decline to register any transfer of any share which is not a fully paid share. The Articles contain no other restrictions on the transfer of fully paid shares provided (i) the transfer is in favour of not more than four transferees; (ii) the transfer is in respect of only one class of shares; and (iii) the holder of the shares is not in default under the terms of a notice served on him by GlaxoSmithKline pursuant to the provisions of Section 212 of the Companies Act. Notice of refusal to register a transfer must be sent to the transferee within two months of the instrument of transfer being lodged.

The Directors may decline to register a transfer of Ordinary Shares by a person holding 0.25 per cent or more of the existing shares of a class if such person has been served with a direction notice after failure to provide GlaxoSmithKline with information concerning interests in those shares required to be provided under the Companies Act, unless the transfer is shown to the Directors to be an approved transfer (as defined in the Articles) or the transferor is not himself in default and he meets certain conditions set out in the Articles.

The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Directors may from time to time determine and which have been filed with the Registrar of Companies, either generally or in respect of any class of shares.

Provisions in the Articles will not apply to uncertified shares to the extent that they are inconsistent with:

(i) the holding of shares in uncertified form;
(ii) the transfer of title to shares by means of a system such as CREST; and
(iii) any provisions of the Regulations.

(c) Dividends and distribution of assets on liquidation

The profits of GlaxoSmithKline which are available for distribution and permitted by law to be distributed and which GlaxoSmithKline may from time to time determine, upon the recommendation of the Directors, to distribute by way of dividend in respect of any accounting reference period shall be distributed by way of dividend among holders of Ordinary Shares.

If in their opinion GlaxoSmithKline's profits justify such payments, the Directors may, as far as any applicable legislation allows, pay interim dividends on shares of any class, of such amounts and in respect of such periods as they think fit.

The Directors may withhold payment of all or any part of any dividends or other monies payable in respect of Ordinary Shares from a person who holds a 0.25 per cent or more of the existing shares of a class by serving such a person with a direction notice after his failure to provide GlaxoSmithKline with information concerning interests in those shares required to be provided under the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends will be declared, apportioned and paid pro rata according to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.

As GlaxoSmithKline has only one class of Ordinary Shares, the holders of such shares will under general law be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings. A liquidator may, with the sanction of an extraordinary resolution, divide among the members in kind all or part of the assets of GlaxoSmithKline (whether they shall consist of property of the same kind or not) as the liquidator deems fair.

(d) Variation of rights and changes in capital

Subject to the provisions of the Companies Act and to the terms of issue of the shares concerned, the rights attached to any class of shares may be varied with the written consent of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of shares of that class.

At every such separate meeting, the provisions of the Articles relating to general meetings shall apply, except the necessary quorum shall be at least two persons holding or representing as proxy at least one-third in nominal value of the issued shares of the class (but provided that at any adjourned meeting any holder of shares of the class present in person or by proxy shall be a quorum).

GlaxoSmithKline may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger nominal amount, cancel any shares not taken or agreed to be taken by any person and, subject to any applicable legislation, sub-divide its shares into shares of a smaller nominal amount.

GlaxoSmithKline may, subject to the provisions of the Companies Act, by special resolution reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve. GlaxoSmithKline may also, subject to the requirements of the Companies Act and the rights of any of the holders of any class of shares, purchase its own shares.

(e) Unclaimed dividends

Any dividend unclaimed after a period of 12 years from the date when a resolution was passed for payment will be forfeited and revert to GlaxoSmithKline.

GlaxoSmithKline may stop sending dividend warrants by post in respect of any shares if at least two consecutive payments have remained uncashed or are returned undelivered or if one payment has remained uncashed or is returned undelivered and GlaxoSmithKline cannot establish a new address for the holder after making reasonable enquiries but in either case GlaxoSmithKline must resume sending warrants if the holder or any person entitled to the shares by transmission claims the arrears.

(f) Untraced shareholders

GlaxoSmithKline may sell any shares in GlaxoSmithKline after advertising its intention and waiting for three months if the shares have been in issue for at least ten years and during that period at least three dividends have become payable on them and have not been claimed and, so far as any Director is aware, GlaxoSmithKline has not received any indication during the relevant period of the whereabouts of the holder of the shares or any person entitled to them by transmission. Upon any such sale, GlaxoSmithKline will become indebted to the former holder of the shares or the person entitled to them by transmission for an amount equal to the net proceeds of sale.

(g) Limitations on rights of non-resident or foreign shareholders

There are no limitations imposed by the Articles of Association on the rights of non-resident or foreign shareholders except that there is no requirement for GlaxoSmithKline to serve notices on shareholders outside the United Kingdom and the United States.

(h) General meetings of shareholders

GlaxoSmithKline is required to hold an annual general meeting each year. Extraordinary general meetings of shareholders may be called as necessary by the Board and must be called promptly upon receipt of a requisition from shareholders.

(i) Directors' voting powers

Subject to the provisions of the Companies Act, and provided the nature of a Director's interest has been declared to the Directors, a Director is not disqualified by that office from contracting with GlaxoSmithKline in any manner, nor is any contract in which he is interested liable to be avoided, and any Director who is so interested is not liable to account to GlaxoSmithKline or the members for any benefit realised by the contract by reason of the Director holding that office or of the fiduciary relationship thereby established. However, no Director may vote on any resolution relating specifically to his own remuneration.

A Director may (or any firm of which he is a partner, employee or member may) act in a professional capacity for GlaxoSmithKline (other than as auditor) and be remunerated for so doing. A Director may also be or become director or other officer of, or be otherwise interested in, any company promoted by GlaxoSmithKline or in which GlaxoSmithKline may be interested and will not be liable to account to GlaxoSmithKline or the members for any benefit received by him.

(j) Directors' remuneration

Each of the Directors will be paid a fee at such rate as may from time to time be determined by the Directors. Such fees may be satisfied in shares or in any other non-cash form. Any Director who is appointed to any executive office, acts as chairman or vice-chairman, serves on any committee of the directors or performs any other services which the Directors consider to extend beyond the ordinary services of a director shall be entitled to receive such remuneration (whether by way of salary, commission or otherwise) as the Directors or any committee authorised by the Directors may decide. Each Director may be paid reasonable travelling, hotel and other expenses he incurs in attending and returning from meetings of the Directors, of committees of the Directors or of GlaxoSmithKline or otherwise incurred in connection with the performance of his duties for GlaxoSmithKline.

(k) Pensions and gratuities for Directors

The Directors or any committee authorised by the Directors may provide benefits by the payment of gratuities, pensions or insurance or other allowances or benefits for any Director or former Director or their relations, connected persons or dependants.

(l) Borrowing powers

So far as the legislation allows, the Directors may exercise all GlaxoSmithKline's powers to borrow money; to mortgage or charge all or any of GlaxoSmithKline's undertaking, property (present and future), and uncalled capital; to issue debentures and other securities; and to give security either outright or as collateral security for any debt, liability or obligation or GlaxoSmithKline or of any third party.

(m) Retirement and removal of Directors

At every annual general meeting of GlaxoSmithKline, firstly, one-third of the Directors will retire by rotation and be eligible for re-election (or, 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. The Directors to retire will be those who were in office at the time of the two previous annual general meetings and who did not retire by rotation at either of them, and, secondly, if the number of directors retiring remains less than the minimum required to retire, those who have been longest in office or, in the case of those who were appointed or re-appointed on the same day, will be (unless they otherwise agree) determined by lot.

No Director is required to retire by reason of his age, nor do any special formalities apply to the appointment or re-election of any Director who is over any age limit.

For the first three years following completion of the merger, termination of the service contracts of Executive Directors will require a board majority of two-thirds.

Remuneration report

The Remuneration report sets out, prospectively, the remuneration policies to be operated by GlaxoSmithKline plc from completion of the merger on 27th December 2000 and, historically, the remuneration earned by Directors of Glaxo Wellcome plc and SmithKline Beecham plc in 2000 in accordance with the remuneration policies and programmes operated by Glaxo Wellcome and SmithKline Beecham as independent companies.

Additional disclosures in accordance with statutory requirements are included in Note 36 to the Financial statements.

References to GlaxoSmithKline shares and ADSs mean, respectively, an Ordinary Share of GlaxoSmithKline plc of 25p and an ADS of GlaxoSmithKline plc. Each ADS represents two GlaxoSmithKline shares. Throughout the Remuneration report, shares and ADSs of Glaxo Wellcome plc and SmithKline Beecham plc at 31st December 1999 and at dates prior to the merger on 27th December 2000, including options, awards and participations over shares and ADSs, have been restated, both as regards number and price, in terms of shares and ADSs of GlaxoSmithKline, as follows:

- for 1 Glaxo Wellcome share – 1 GlaxoSmithKline share
- for 1 SmithKline Beecham share – 0.4552 GlaxoSmithKline shares
- for 1 Glaxo Wellcome ADS – 1 GlaxoSmithKline ADS
- for 1 SmithKline Beecham ADS – 1.138 GlaxoSmithKline ADSs

Remuneration policy – GlaxoSmithKline

GlaxoSmithKline remuneration policy

As a leading global healthcare company, GlaxoSmithKline aims to have remuneration policies and programmes that will enable it to recruit, retain and motivate the top calibre executive talent which it needs and for which it competes in an international market place.

GlaxoSmithKline believes that its remuneration policies and programmes represent a competitive advantage and best practice through a heavy emphasis on pay for performance and 'at risk' compensation for its top executives. Long-term incentive plans have been designed to align executive reward with shareholders' interests, in particular, the creation of enhanced shareholder value.

The Remuneration & Nominations Committee

GlaxoSmithKline has established a committee of the Board called the Remuneration & Nominations (R&N) Committee to develop the company's policy on Executive Directors' remuneration for approval by the Board and to determine the remuneration package of each Executive Director. The R&N Committee consists exclusively of independent Non-Executive Directors. The current members of the Committee are Mr John Young (Chairman), Mr Paul Allaire, Dr Michèle Barzach, Sir Roger Hurn, Mr John McArthur and Mr Donald McHenry.

Remuneration of the company's Non-Executive Directors is determined by the GlaxoSmithKline Board itself, upon receipt of advice from external consultants.

Policy on remuneration of Executive Directors

The R&N Committee, with advice from a leading firm of compensation and benefit consultants, aims to provide a package of incentives and rewards which will be competitive by reference to other global healthcare companies as well as other multinational companies considered similar to GlaxoSmithKline in terms of size, geographical spread and complexity of business.

In constructing and reviewing remuneration packages, the emphasis is on linking pay to performance by rewarding effective management as well as individual achievement. The mix within a package is designed to align personal reward with enhanced shareholder value over both the short and the long term. The Executive Directors' remuneration consists of four components:

- Salary
- Performance bonus
- Long-term incentives
- Benefits

Salary

This reflects an Executive Director's experience, responsibility and market value.

Performance bonus

This is based on annual performance by business teams against demanding financial targets and individual accomplishments against objectives. Bonuses are subject to upper limits. On target business performance brings total compensation into line with the competitor panel. Pay rises if the target performance is exceeded but the executives' total compensation falls well below the level of compensation of competitors if these targets are not achieved. There is an option to invest the bonus in GlaxoSmithKline shares, in which case the bonus is enhanced by ten per cent but the shares must be held for a minimum of three years.

Long-term incentives

These comprise share options and participation in a Performance Share Plan that link reward to shareholder value over the long and medium term respectively, as described below.

Share options

Share options allow the holder to buy shares at a future date at a price determined by reference to the open market price of shares at the time of grant. It is intended that share options will be granted to more than 10,000 managers at GlaxoSmithKline including Executive Directors.

Vesting of options granted to Executive Directors will be subject to the performance condition that earnings per share growth, excluding currency and exceptional items, should be at least nine per cent more than the increase in the UK Retail Price Index over any three-year measurement period. With respect to future grants, the R&N Committee will regularly review performance conditions against market conditions.

Performance Share Plan

Participations in the Performance Share Plan will be granted to approximately 700 top executives in the company, including Executive Directors, designating a target number of shares for each participant. Vesting of awards under the plan will be subject to a performance condition which applies during a three year measurement period. The performance condition consists of two parts, each of which applies to 50 per cent of the award.

The first part of the condition will compare GlaxoSmithKline's Total Shareholder Returns (TSR) over the period with the TSR of companies in the UK FTSE 100 Index over the same period. If GlaxoSmithKline is ranked in the top 20 of the FTSE 100 in relation to TSR performance, then 100 per cent of the shares subject to this part of the performance condition will vest. If the ranking is at the 50th position in the FTSE 100, 40 per cent of the shares will vest. If GlaxoSmithKline is ranked below 50th position, none of the shares subject to this part of the performance condition will vest. Between the 20th and 50th positions, vesting will occur on a sliding scale.

The second part of the performance condition requires GlaxoSmithKline earnings per share growth, excluding currency and exceptional items, to be at least nine per cent more than the increase in the UK Retail Price Index over the three-year performance period. If this condition is met, then all of the shares subject to this part of the performance condition will vest. If this condition is not met, then none of the shares subject to this part of the performance condition will vest.

Benefits

Executive Directors participate in Glaxo Wellcome's or SmithKline Beecham's senior executive pension plans. These are defined benefit plans in the UK and cash balance plans in the USA. Benefits are payable at age 60. The US cash balance plans provide a pension payable from a fund to which contributions of up to ten per cent of earnings are paid and interest accrues based on Treasury Bill rates. Bonuses are pensionable for all participating employees in the US plans, including Executive Directors.

Executive Directors participate in Glaxo Wellcome and SmithKline Beecham all employee share plans in either the UK or USA. This enables Glaxo Wellcome and SmithKline Beecham employees in the UK and SmithKline Beecham employees in the USA to contribute up to four per cent of pay to the plan with the company paying a maximum of four per cent of pay to purchase an interest in GlaxoSmithKline shares.

Other benefits, such as healthcare, are provided in line with the practice in the market where the executive is employed.

Executive Directors will also participate on the same basis as other senior employees in new GlaxoSmithKline benefit plans when these are established.

Share ownership guidelines

To align executive interest with that of shareholders, Executive Directors are required to hold shares in the company. The Chief Executive Officer is required to hold shares to the value of four times base pay. Other Executive Directors of GlaxoSmithKline are required to hold shares to the value of three times base pay.

For purposes of these requirements shares and ADSs held in SmithKline Beecham's bonus deferral plans and vested but deferred awards under long-term incentive plans are included. As at the year-end Dr Garnier's total shareholding on this basis was 109,098 ADSs and for Mr Coombe it was 109,820 shares and as a result both Directors exceeded the share ownership guidelines.

Directors' service contracts

Executive Directors are employed on service contracts under which GlaxoSmithKline is required to give two years' notice of termination and the Executive Directors are required to give 12 months' notice.

Dr Garnier's contract specifies the compensation to be paid by the company on termination of his employment, including an immediate payment of two years salary and bonus. Dr Garnier is also entitled to continue to participate in the company's long-term incentive plans for the first 12 months following notice of termination by the company. As agreed at the time, Dr Garnier's notice period was reduced to two years from three years in 1998. Dr Garnier will also receive three years' pension accrual on termination and, in certain circumstances, a further three years' accrual.

Mr Coombe's contract specifies compensation to be paid in the event of redundancy. In the event that notice of termination is given, other than in the case of redundancy, Mr Coombe is required to mitigate any loss of earnings resulting thereafter.

Provisions on termination of employment and compensation in the event of termination were previously approved by SmithKline Beecham and Glaxo Wellcome for Dr Garnier and Mr Coombe, respectively, and did not change upon the merger becoming effective. The R&N Committee of GlaxoSmithKline will keep under review contractual terms for Executive Directors of GlaxoSmithKline.

Executive Directors' service contracts contain garden leave, non-competition, non-solicitation and confidentiality clauses.

The R&N Committee believes that one year contracts would not be in the best interest of GlaxoSmithKline with regard to offering a globally competitive overall remuneration package and securing maximum protection for its intellectual property rights.

Non-Executive Directors of GlaxoSmithKline do not have service contracts.

Payment of Non-Executive Directors in GlaxoSmithKline shares

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 allocated to a share account and offers the opportunity to invest part or all of the balance of fees in a share account. These shares are not paid out until the Director's retirement from the Board, or at a later date, on the basis of dividends being reinvested in the interim.

Remuneration 2000 – GlaxoSmithKline Directors

Annual compensation

	Note	2000 Salary and fees £000	2000 Other emoluments and benefits £000	2000 Bonus £000	2000 **Total £000**	1999 Salary and fees £000	1999 Other emoluments and benefits £000	1999 Bonus £000	1999 Total £000
Executive Directors									
Dr J P Garnier	a	820	111	1,151	**2,082**	586	57	821	1,464
Mr J D Coombe	b	468	2	321	**791**	445	2	90	537
Total		1,288	113	1,472	**2,873**	1,031	59	911	2,001
Non-Executive Directors									
Sir Richard Sykes	c	1,034	3	708	**1,745**	983	2	198	1,183
Sir Roger Hurn	d	60	–	–	**60**	60	–	–	60
Sir Peter Walters	e,f,g	324	285	–	**609**	276	10	–	286
Mr P A Allaire	e	63	–	–	**63**	44	–	–	44
Dr M Barzach	d	35	37	–	**72**	35	37	–	72
Mr D C Bonham	d	35	–	–	**35**	35	–	–	35
Sir Christopher Hogg	e	65	–	–	**65**	51	–	–	51
Mr P J D Job	d	35	–	–	**35**	35	–	–	35
Mr J H McArthur	d	35	13	–	**48**	35	12	–	47
Mr D F McHenry	e	60	–	–	**60**	41	–	–	41
Sir Ian Prosser	e,h	53	–	–	**53**	19	–	–	19
Dr R Schmitz	d	35	–	–	**35**	35	–	–	35
Dr L Shapiro	e,f,i	63	–	–	**63**	43	–	–	43
Mr J A Young	e,f	66	–	–	**66**	54	–	–	54
Total		1,963	338	708	**3,009**	1,746	61	198	2,005
Total compensation		**3,251**	**451**	**2,180**	**5,882**	2,777	120	1,109	4,006

a Dr Garnier was an Executive Director of SmithKline Beecham during 1999 and 2000. He was appointed Chief Executive Officer of SmithKline Beecham on 28th April 2000, at which time his salary increased from £586,420 to £771,605. His salary and fees also include the company match on compensation that is deferred.

b Mr Coombe was an Executive Director of Glaxo Wellcome during 1999 and 2000.

c Sir Richard Sykes was Executive Chairman of Glaxo Wellcome during 1999 and 2000. He was remunerated as an Executive Director and received an annual performance bonus. From 1st January 2001 he has been remunerated as Non-Executive Chairman of GlaxoSmithKline. He receives fees consisting of a cash element of £300,000 and a share element of 6,000 GlaxoSmithKline shares. In addition the company has agreed to procure that Sir Richard's pension from the age of 60 will be calculated on the basis of his salary as at 31st December 2000 and as if he had remained in full-time employment until his 60th birthday.

d Non-Executive Director of Glaxo Wellcome during 1999 and 2000.

e Non-Executive Director of SmithKline Beecham during 1999 and 2000. In December 1999 the Board of SmithKline Beecham approved additional remuneration for Non-Executive Directors to be paid annually from 2000 entirely in the form of shares, comprising 6,000 SmithKline Beecham shares for the Chairman and 2,000 SmithKline Beecham shares or 400 SmithKline Beecham ADSs for the other Non-Executive Directors, allocated to share accounts on 30th March each year. On 30th March 2000, the SmithKline Beecham share price was £8.06 per share and $64.19 per ADS. The value of these shares and ADSs allocated on that date has been included in the figures for Salary and fees shown above at the market value of the shares and ADSs on the date of allocation. These shares are also included in Directors' interests (page 46).

f Sir Peter Walters, Dr Shapiro and Mr Young elected to receive £25,000, $10,000 and $40,000 respectively of their fees above in the form of shares in both 2000 and 1999. The shares allocated to their accounts are included in Directors' interests (page 46).

g Sir Peter Walters' Other emoluments and benefits include a payment of £274,667, representing the difference between his remuneration under his arrangements as Non-Executive Deputy Chairman of GlaxoSmithKline and those which applied under his previous arrangements as Non-Executive Chairman of SmithKline Beecham for the balance of the period to April 2002. Under his arrangements with SmithKline Beecham, Sir Peter Walters received annual fees and benefits totalling £286,000 together with a share allocation of 6,000 SmithKline Beecham shares.

h Sir Ian Prosser became a Director of SmithKline Beecham on 1st August 1999. Payment in 1999 was for five months only.

i Dr Shapiro was a member of SmithKline Beecham's Scientific Advisory Board (SAB) until completion of the merger with Glaxo Wellcome. She received fees of $155,400 in 2000 which included Directors' fees of $70,400 and $85,000 for services on SmithKline Beecham's SAB. Dr Shapiro elected to receive $30,000 of her SAB fees in the form of ADSs.

Share options

Options – ADSs	Average grant price	At 31.12.00	Exercised	Lapsed Number	Lapsed Grant price	Granted Number	Granted Grant price	At 31.12.99
Dr J P Garnier	$43.26	2,074,813	15,523	–	–	–	–	2,090,336

No options were granted to Dr Garnier during 2000.

Options – shares	Average grant price	At 31.12.00	Exercised	Lapsed Number	Lapsed Grant price	Granted Number	Granted Grant price	At 31.12.99
Mr J D Coombe	£14.81	287,948	–	–	–	245,479	£14.60	42,469
Sir Richard Sykes	£14.82	634,949	34,965	482	£13.27	542,465	£14.60	127,931

None of the other Directors had an interest in any option over the company's shares.

As a consequence of the merger all options listed above have become exercisable, with the exception of the options granted to Mr Coombe during 2000, which will become exercisable from February 2003. In connection with the merger, a circular and listing particulars were sent to shareholders in July 2000, at which time holders of options over Glaxo Wellcome and SmithKline Beecham shares and ADSs were offered the opportunity to exchange those options for options over GlaxoSmithKline shares. Each of the Directors above elected to exchange all of their then outstanding Glaxo Wellcome or SmithKline Beecham options, as applicable, into new options over GlaxoSmithKline shares and, along with all other Glaxo Wellcome and SmithKline Beecham share option plan participants who elected to exchange their options, will receive an additional benefit of a cash sum equal to ten per cent of the exercise price of the original option. This additional benefit will be given when the new option is exercised, provided the exercise is on or after the second anniversary of the effective date of the merger (or, as in the case of Sir Richard Sykes, on cessation of executive employment, if earlier).

The Directors held these options under the Glaxo Wellcome and SmithKline Beecham share option plans referred to in Note 33 to the financial statements. The options under the Glaxo Wellcome share option plans are exercisable from August 2002 to February 2010. The options under the SmithKline Beecham share option plans are exercisable from November 1996 to November 2009. The share price on 15th March 2001 was £18.00 per GlaxoSmithKline Share and $51.80 per GlaxoSmithKline ADS.

The highest and lowest share prices during the year ended 31st December 2000 for GlaxoSmithKline shares were £21.10 and £14.40, respectively. The highest and lowest prices for GlaxoSmithKline ADSs during the year to 31st December 2000 were $63.75 and $46.00, respectively. The market prices for GlaxoSmithKline shares and GlaxoSmithKline ADSs on 31st December 2000 were £18.90 and $56.00, respectively.

Options exercised – ADSs	Date	Number	Grant price	Market price
Dr J P Garnier	12.05.00	15,523	$12.88	$58.69

Options exercised – shares	Date	Number	Grant price	Market price
Sir Richard Sykes	18.09.00	34,965	£5.72	£19.29

The gain on options exercised by Directors during the year to 31st December 2000 was £936,315, comprising £461,840 relating to Dr Garnier and £474,475 relating to Sir Richard Sykes. This compares to a gain on exercise of options during the year to 31st December 1999 of £1,084,540, comprising £945,226 relating to Dr Garnier, £123,529 relating to Mr Coombe and £15,785 relating to Sir Richard Sykes.

SmithKline Beecham incentive plans

Mid-Term Incentive Plan – GSK ADSs	Vested and deferred participations at 31.12.00	Unvested participations at 31.12.00	Participations lapsed in 2000	Participations awarded in 2000	Participations granted in 2000	Unvested participations at 31.12.99
Dr J P Garnier	56,231	92,861	1,133	36,649	–	130,643

No Mid-Term Incentive Plan (MTIP) participations were granted to Dr Garnier in 2000.

Where a final award of shares is made, receipt of the award may be deferred by a Director. Dr Garnier deferred receipt of the full amount awarded in 1999 and 2000. The deferred awards, together with any additional ADSs subsequently received through dividend reinvestment, are not included as Directors' interests (page 46) since technically they are retained in the MTIP until paid out.

Under the terms of the MTIP the number of shares or ADSs actually awarded was determined following the end of the relevant measurement period and depended on SmithKline Beecham's relative performance during that period. The measurement period, relating to participations granted in November 1996 and March 1997 ended on 31st December 1999 and an award equivalent to 97 per cent of the participations then granted was made on 9th March 2000, when the market price of a GlaxoSmithKline share and a GlaxoSmithKline ADS (restated to reflect the merger) was £15.59 and $49.42 respectively.

In connection with the merger, the performance conditions in respect of grants made in 1997 (after March 1997), 1998 and 1999 have been waived, although the final award will not be made to employees who resign before the end of the relevant measurement period. The measurement period relating to participations granted in November 1997 ended on 31st December 2000 and a final award of 100 per cent of the target number of shares in that grant was confirmed on 8th February 2001. At that time the market price of a GlaxoSmithKline share and a GlaxoSmithKline ADS was £18.38 and $53.52 respectively.

Stock Appreciation Rights (SARs) – GSK ADSs	Average grant price	At 31.12.00	Exercised	Granted	At 31.12.99
Dr L Shapiro	$50.34	1,487	887	–	2,374

Dr Shapiro was a member of SmithKline Beecham's Scientific Advisory Board (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 that, in general, vested three 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 accounts for accrued gains on SARs from the date of granting them. In connection with the merger, all previously granted SARs became immediately exercisable.

The market price of a GlaxoSmithKline ADS on 31st December 2000 was $56.00.

SARs exercised	Date	Number	Grant Price	Market Price
Dr L Shapiro	24.04.00	887	$28.16	$59.86

The gain on the SARs exercised by Dr Shapiro during 2000 amounted to £18,517.

Glaxo Wellcome incentive plans

Annual Incentive Plan – GSK shares	Shares at 31.12.00	Shares exercised: Number	Shares exercised: Average market price on exercise £	Shares exercised: Gain on exercise £	Shares granted	Shares at 31.12.99
Mr J D Coombe	–	32,656	18.29	82,766	–	32,656
Sir Richard Sykes	–	72,893	18.37	115,780	–	72,893

Sir Richard Sykes and Mr Coombe exercised their options on shares awarded under the Annual Incentive Plan that was operated by Glaxo Wellcome between 1996 and 1998. The awards were released to Directors in March 2000 in respect of the award in 1996 and on completion of the merger in respect of the awards in 1997 and 1998. The gain on exercise in the table above represents the difference between the money value on exercise and the amount included as remuneration in the year to which the award related.

Long-Term Incentive Plan – GSK shares	Shares at 31.12.00	Shares exercised: Number	Shares exercised: Average market price on exercise £	Shares exercised: Money value on exercise £	Shares not vesting	Shares granted	Shares at 31.12.99
Mr J D Coombe	66,220	29,712	17.36	515,800	7,428	23,013	80,347
Sir Richard Sykes	147,344	66,852	17.01	1,137,153	16,713	50,856	180,053

The awards made in March 1997 vested on 27th March 2000; based on the performance of Glaxo Wellcome over the three-year period ended on that date the awards vested as to 80 per cent. Both Mr Coombe and Sir Richard Sykes exercised these awards during the year.

The awards made in March 1998, March 1999 and February 2000 vest in March 2001, March 2002 and February 2003 respectively. Performance conditions lapsed upon completion of the merger. Shares under the Glaxo Wellcome Long-Term Incentive Plan are awarded at nil cost.

Pensions

Pension benefits are accruing to the following Directors under defined benefit schemes. The accrued annual benefits for individual Directors on retirement are set out below:

	Age	31.12.00 £000	Change over year net of inflation £000
Dr J P Garnier	53	833	48
Mr J D Coombe	56	258	39
Sir Richard Sykes	58	657	100

Dr Garnier is a member of the SmithKline Beecham all-employee US Pension Plans. He has no entitlement to a spouse's or children's pension other than by surrendering a part of his own pension. On early retirement, his pension will be reduced by the same factors, relating to age and service, that apply to all employees. However, in Dr Garnier's case, he receives an additional three years' service when he retires from GlaxoSmithKline. Pension increases may be granted on a discretionary basis. No transfer values are payable on leaving the Plans.

Mr Coombe and Sir Richard Sykes are members of the Glaxo Wellcome UK Pension Plan. Their spouses would be provided with a pension of two-thirds of the executive's pension in the event of their death. In the event that either decided to retire early, the pension would be reduced by three per cent for each year before the age of 60 that they retire. Pensions are guaranteed to increase in payment by the rate of increase in the UK Retail Price Index (RPI) up to a maximum of 12 per cent a year. Discretionary increases may be paid in addition. No allowance would be made for discretionary increases in the transfer values on leaving.

Remuneration 2000 – Glaxo Wellcome and SmithKline Beecham Directors

Glaxo Wellcome Directors	Fees and salary £000	Other emoluments and benefits £000	Bonus £000	Contractual termination payments £000	**Total 2000 £000**	Total 1999 £000
Mr R A Ingram	708	118	484	–	**1,310**	861
Mr J M T Cochrane	412	14	282	1,198	**1,906**	482
Dr J E Niedel	468	27	321	–	**816**	568
Mr J A W Strachan	434	3	297	1,265	**1,999**	498
Executive Directors	2,022	162	1,384	2,463	**6,031**	2,409
Professor A Li (Non-Executive)	35	–	–	–	**35**	35
Total compensation 2000	**2,057**	**162**	**1,384**	**2,463**	**6,066**	–
Total compensation 1999	1,915	150	379	–	**–**	2,444
Payments made to former Directors					**249**	455
Total					**6,315**	2,899

Executive Directors above exercised their options on shares awarded under the Annual Incentive Plan that was operated by Glaxo Wellcome between 1996 and 1998. The awards were released to Directors in March 2000 in respect of the award in 1996 and on completion of the merger in respect of the awards in 1997 and 1998. The gains on exercise, representing the difference between the money value on exercise and the amount included as remuneration in the year to which the award related, were £44,731 for Mr Ingram, £65,931 for Mr Cochrane, £78,628 for Dr Niedel, and £70,265 for Mr Strachan.

The awards made in March 1997 under the Long-Term Incentive Plan vested in March 2000; based on the performance of Glaxo Wellcome over the three-year period ended on that date the awards vested as to 80 per cent. The money value on exercise was £718,664 for Mr Ingram, £515,020 for Mr Cochrane, £505,401 for Dr Niedel, and £467,503 for Mr Strachan. Shares under the Long-Term Incentive Plan were awarded at nil cost.

The gains on options exercised during the year to 31st December 2000 were £200,940 for Mr Ingram and £2,544,502 for Dr Niedel. Mr Cochrane and Mr Strachan did not exercise any options.

In accordance with the terms of termination of his contract of employment in 1997, Mr S P Lance exercised in 2000 shares awarded to him under the cycle of the Long-Term Incentive Plan which vested in March 2000 and under the 1996 award of the Annual Incentive Plan. The gain arising was £249,287.

Pensions	Age	31st December 2000 £000	Change over year net of inflation £000
Mr R A Ingram	58	483	91
Mr J M T Cochrane	56	235	38
Dr J E Niedel	56	154	37
Mr J A W Strachan	56	243	37

Mr Ingram is a member of Glaxo Wellcome Inc's pension plan. He is entitled to a pension benefit of two-thirds of the highest three-year average earnings upon completion of 19 years of service, with a tapering reduction in entitlement in the event of completion of a shorter period of service. The unreduced benefit is payable at age 62. For retirement between ages 55 and 62 the benefit is reduced by three per cent per year. Upon retirement, the benefit is guaranteed to be paid for at least a 15-year period. There is no automatic increase in the benefit on account of inflation.

Mr Ingram is also a member of a money purchase scheme. Pension contributions of £67,000 (1999 – £38,000) were made to the scheme in respect of Mr Ingram.

Mr Cochrane, Dr Niedel and Mr Strachan are members of the Glaxo Wellcome UK Pension Plan. Their spouses would be provided with a pension of two thirds of the executive's pension in the event of their death. In the event that any of the executives decided to retire early, the pension would be reduced by three per cent for each year before the age of 60 that they retire. Pensions are guaranteed to increase in payment by the rate of increase in UK RPI up to a maximum of 12 per cent a year. Discretionary increases may be paid in addition. No allowance would be made for discretionary increases in the transfer values on leaving.

SmithKline Beecham Directors	Salary and fees £000	Other emoluments and benefits £000	Bonus £000	Contractual termination payments £000	**Total 2000 £000**	Total 1999 £000
Mr J Leschly	339	26	435	–	**800**	2,188
Mr A R J Bonfield	288	47	340	1,052	**1,727**	482
Dr T Yamada	372	150	340	–	**862**	718
Executive Directors	999	223	1,115	1,052	**3,389**	3,388
Baroness Hooper (Non-Executive)	61	–	–	–	**61**	53
Total compensation 2000	**1,060**	**223**	**1,115**	**1,052**	**3,450**	–
Total compensation 1999	1,490	204	1,747	–	**–**	3,441
Payments made to former Directors					**3,318**	3,737
Total					**6,768**	7,178

The gains on options exercised during the year to 31st December 2000 were £3,094,973 for Mr Leschly and £149,490 for Mr Bonfield. Dr Yamada did not exercise any options.

On 9th March 2000 an award equivalent to 97 per cent of the MTIP participations granted in November 1996 and March 1997 was made to the following Directors: Mr Leschly 24,726 shares and 49,453 ADSs, Mr Bonfield 2,649 shares, Dr Yamada 9,272 ADSs. The market price of a share and an ADS on that date was £15.59 and $49.42 respectively.

Mr Leschly realised a gain on exercise of SARs over SmithKline Beecham ADSs of £1,703,350 during the year to 31st December 2000. He realised a gain on exercise of SARs over SmithKline Beecham shares of £2,056,605.

Mr Leschly retired as Chief Executive Officer and a Director of SmithKline Beecham after the Annual General Meeting on 28th April 2000. Under the terms of his retirement arrangements, he continued to be remunerated under the terms of his contract until his contractual retirement date in September 2000 at which time his employment terminated. Payments made after April 2000 are included in the payments to former Directors figure above.

Mr Bonfield retired as a Director of SmithKline Beecham with effect from the completion of the merger on 27th December 2000. Under the terms of his contract, on completion of the merger, Mr Bonfield received a payment of two years' salary, benefits and bonus which is included in the table above. In addition, Mr Bonfield received an option over 109,248 GlaxoSmithKline shares under the SmithKline Beecham Employee Share Option Plan and an award of 19,665 GlaxoSmithKline shares under the SmithKline Beecham MTI Plan when the market price of a share was £19.00.

Dr Yamada's benefits for 2000 include £72,145 (1999 – £86,333) for accommodation in the UK up until August 2000, which was provided by the company to enable him to carry out his duties as Chairman, Research and Development.

Payments to former Directors in 2000 include £854,531 in pension payments and other payments of £2,463,248, including £818,000 in payment to Mr W R Grant under a deferred fees plan relating to the period during which Mr Grant was a Director of SmithKline Beckman prior to the merger with Beecham Group in 1989. The deferred fees are payable over five years following Mr Grant's retirement in 1998 and are fully provided for.

Pensions	Age	31st December 2000 £000	Change over year net of inflation £000
Mr J Leschly	60	604	69
Mr A R J Bonfield	38	63	14
Dr T Yamada	55	67	16

Executives are expected to retire at age 60. Mr Leschly ceased to be Chief Executive Officer and a Director of SmithKline Beecham after the SmithKline Beecham Annual General Meeting on 28th April 2000. Under the terms of his retirement arrangements, he continued to be remunerated under his contract until he reached his contractual retirement age of 60, in September 2000. At that time, he became entitled to a pension at a rate of two-thirds of his final year's base salary. Mr Leschly's spouse would be provided with a pension of 50 per cent of Mr Leschly's pension in the event of Mr Leschly's death. His pension is guaranteed to increase in payment by the rate of increase in UK RPI up to a maximum of five per cent a year. Discretionary increases may be paid in addition.

Mr Bonfield is a deferred member of the SmithKline Beecham UK Senior Executive Pension Plan. Mr Bonfield's spouse would be provided with a pension of 50 per cent of Mr Bonfield's pension in the event of Mr Bonfield's death. In the event that he chooses to draw an early pension, the annual benefit would be reduced by four per cent for each year before the age of 60. His pension is guaranteed to increase in payment by the rate of increase in UK RPI up to the maximum of five per cent a year. Discretionary increases may be paid in addition. No allowance is made for discretionary increases in transfer values on leaving.

Dr Yamada is a member of the SmithKline Beecham all-employee US Pension Plans. He has no entitlement to a spouse's or children's pension other than by surrendering a part of his own pension. On early retirement, his pension will be reduced by the same factors, relating to age and service, that apply to all employees. Pension increases may be granted on a discretionary basis. No transfer values are payable on leaving the Plans.

Directors and Senior Management – GlaxoSmithKline

Directors' interests

Directors' interests at 31st December 1999 have been converted into GlaxoSmithKline shares and ADSs at the relevant merger ratios. 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		
	Note	15 March 2001	**31 December 2000**	31 December 1999	15 March 2001	**31 December 2000**	31 December 1999
Dr J P Garnier		–	**–**	–	53,183	**52,867**	36,550
Mr J D Coombe	a,b	160,759	**164,203**	130,409	–	**–**	–
Sir Richard Sykes	a,c	492,365	**538,665**	535,982	–	**–**	–
Sir Roger Hurn		10,887	**10,539**	10,035	–	**–**	–
Sir Peter Walters		31,816	**31,486**	27,317	–	**–**	–
Mr P A Allaire		–	**–**	–	6,148	**6,148**	11,380
Dr M Barzach		986	**812**	560	–	**–**	–
Mr D C Bonham		8,619	**8,445**	8,193	–	**–**	–
Sir Christopher Hogg		5,128	**5,128**	4,172	–	**–**	–
Mr P J D Job		2,178	**2,003**	1,738	–	**–**	–
Mr J H McArthur		–	**–**	–	3,712	**3,558**	3,428
Mr D F McHenry	d	–	**–**	–	6,047	**6,043**	2,784
Sir Ian Prosser		2,321	**2,321**	1,161	–	**–**	–
Dr R Schmitz		–	**–**	–	3,840	**3,752**	1,540
Dr L Shapiro		1,490	**1,372**	1,006	1,174	**1,174**	455
Mr J A Young		5,269	**5,144**	3,694	7,286	**7,286**	6,828

A GlaxoSmithKline ADS represents two GlaxoSmithKline shares.

a Figures for 1999 include deposited shares under the Glaxo Wellcome Annual Incentive Plan.

b Includes a non-beneficial interest in trusts which hold 20,396 shares at 31st December 2000 (1999 – 24,012) and 16,901 shares at 15th March 2001.

c Includes a non-beneficial interest in trusts which hold 36,612 shares at 31st December 2000 (1999 – 38,300) and at 15th March 2001.

d In addition to the interests shown above, Mr McHenry has interests in a deferred fees plan relating to the period during which Mr McHenry was a Director of SmithKline Beckman prior to the merger with Beecham Group in 1989. The deferred fees are now indexed to the total return on GlaxoSmithKline shares and are payable over seven years following Mr McHenry's retirement. The total accumulated value of deferred fees on 31st December 2000 (restated to reflect the merger) was equivalent to 20,890 GlaxoSmithKline ADSs and has been fully provided for.

The interests of the above-mentioned Directors at 15th March 2001 reflect changes between the end of the financial year and 15th March 2001.

Directors' interests in contracts

Except as described, 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.

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 Corporate Executive Team and the Company Secretary at 15th March 2001 (28 persons). In respect of the financial year 2000, the total compensation paid to the group was £13,915,000 and the aggregate increase in accrued pension benefits was £519,000. As of 15th March 2001, the group owned 1,028,116 shares and 166,356 ADSs, constituting less than one per cent of the outstanding share capital of the company. The group also held, as of that date, options to purchase 2,644,645 shares and 2,835,113 ADSs, all of which were issued pursuant to Glaxo Wellcome and SmithKline Beecham executive share option plans. The group may also be awarded shares and ADSs under SmithKline Beecham's Mid-Term Incentive Plan and had entitlements under Glaxo Wellcome's Long-Term Incentive Plan.

Operating and financial review and prospects

The Operating and financial review and prospects discusses the operating and financial performance of the Group, the financial outlook and the financial resources of the Group, under the following headings:

Additionally, in accordance with US requirements:

The results for each year are compared primarily with the results for the preceding year. Reference is made also to quarterly and half-yearly trends within the results.

Exchange

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.

The company uses the average exchange rates prevailing during the period to translate the results and cash flows of overseas Group subsidiary, joint venture and associated undertakings into sterling and period end rates 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 business performance, excluding the effect of exchange rate movements on translation, 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 translate the results of overseas companies into sterling had remained unchanged from those used in the previous period. The discussion in this review is therefore in terms of CER unless otherwise stated.

Financial trends and ratios

Business peformance	2000 £m	2000 % of total	2000 % CER	1999 £m	1999 % of total	1999 % CER	1998 £m	1998 % of total
Sales:								
Pharmaceuticals	**15,429**	85.3	10	13,618	84.2	7	12,563	84.1
Consumer Healthcare	**2,650**	14.7	3	2,546	15.8	8	2,375	15.9
Total	**18,079**	100.0	9	16,164	100.0	7	14,938	100.0
Cost of sales	**(3,811)**	(21.1)		(3,499)	(21.6)		(3,300)	(22.1)
Selling, general and administration	**(6,732)**	(37.2)		(6,002)	(37.2)		(5,375)	(35.9)
Research and development	**(2,510)**	(13.9)		(2,285)	(14.1)		(2,072)	(13.9)
Trading profit – retained businesses	**5,026**	27.8	12	4,378	27.1	3	4,191	28.1
Trading profit – divested businesses				25			76	
Trading profit – total	**5,026**			4,403			4,267	
Profit before taxation	**5,327**		11	4,708		6	4,375	
Earnings	**3,697**		13	3,222		8	2,947	
Earnings per share (pence)	**61.0p**		14	52.7p		8	48.3p	

Business performance: results exclude merger items and restructuring costs; sales in 1999 and earlier years exclude Healthcare Services.

Total results			
Profit before taxation	**6,029**	4,236	3,564
Earnings	**4,154**	2,859	2,435
Earnings per share (pence)	**68.5p**	46.7p	39.9p

Research and development			
Pharmaceuticals	**2,435**	2,211	2,004
Consumer Healthcare	**75**	74	68
Total	**2,510**	2,285	2,072

Interest			
Net interest payable	**182**	162	192
Interest cover	**34 times**	27 times	20 times

Interest cover is calculated as total profit before interest divided by net interest payable.

Tax rate			
Business performance	**27.3%**	28.2%	29.2%
Total results	**28.2%**	28.8%	27.4%

Borrowings			
Net debt	**611**	2,357	2,717
Gearing ratio	**7%**	36%	49%

The gearing ratio is calculated as net debt as a percentage of shareholders' funds and minority interests.

2000 Year

World economy

The year 2000 commenced with the world economy showing signs that the economic slowdown of 1998 and the turbulent financial events of early 1999 had been successfully negotiated. Whole-year data for 1999 showed that world economic growth had recovered momentum. The outlook for the world economy was favourable and growth estimates for 2000 generally were being revised upwards.

The US economy was showing continued robust growth and two other favourable features of the OECD (Organisation for Economic Co-operation and Development) economy were continued low inflation nearly everywhere and some signs of falling unemployment in Europe. Attention was fixed firmly on oil markets, with concern being focused on production stability and the economic consequences of continued significant strengthening of prices.

The first half of the year passed without a recurrence of severe financial shocks such as those seen in 1999. By the mid-year it had become apparent that the world economy was developing more favourably, at global and regional levels, than it had for more than a decade. Nearly all OECD countries were delivering overall growth with falling unemployment. Japan was the major exception to the uniformly favourable economic landscape, but it too was showing some signs of recovery. Non-OECD countries also delivered above-forecast economic growth in the first half-year.

Projections for overall OECD area economic growth in 2000 reached levels last seen in 1998 and expectations for world trade, similarly, were at high levels. Confidence levels appeared to be high or rising but, amongst the releases of official figures, US economic growth data began to show some signs of slowing, bringing attention back to the key question of prospects for the US economy after a record period of economic growth.

In August the International Monetary Fund announced that it had revised upwards its forecast for world economic growth but tempered its optimism with fundamental concerns regarding oil markets. Prices for oil had tripled between early 1999 and mid-2000 and, whilst consensus thinking was that the price would probably weaken, higher energy costs broadly were feeding through into higher prices and slowing growth.

Pharmaceutical markets showed consistent growth throughout the year but prices remained under pressure with legislators and regulators in several of the world's largest and wealthiest economies introducing, or proposing, legislative measures to cut prices and/or slow the rate of growth of spending on medicines.

In late October the US Department of Commerce advance estimate for US GDP growth showed a significant slowing of growth during the third quarter. Global markets received these data as the long-anticipated indicator that the record-breaking period of strong US growth was reaching the turning point. The US GDP data were reinforced in late November when a downward revision of the Commerce Department estimate confirmed the slowdown had brought the overall US economic growth rate close to European levels – its lowest rate of growth for four years. Global markets welcomed projections from the US Federal Reserve that the US economy could be managed through a 'soft landing'.

World market – pharmaceuticals

Global pharmaceutical sales increased by 11 per cent in 2000 to £215 billion, compared to an increase of 8.5 per cent in 1999.

World market by geographic region	Value £bn	% of total	Growth %
USA	91	42	16
Europe	55	25	8
Germany	11	5	4
France	11	5	8
UK	7	3	9
Italy	7	3	12
Japan	32	15	5
Latin America	14	7	7
Asia Pacific	12	6	11
Middle East, Africa	7	3	10
Canada	4	2	15
Total	215	100	11

The US market remained buoyant, and now represents 42 per cent of the global prescription pharmaceutical market, compared to 31 per cent a decade ago. There was significant recovery in Japan.

GlaxoSmithKline holds second position in the world pharmaceutical market with a market share of 6.8 per cent (excluding products divested as a result of the merger), behind Pfizer with a market share of 7 per cent. Rankings in the world pharmaceutical market have changed significantly over the past year due to the impact of mergers within the industry; notably between Glaxo Wellcome and SmithKline Beecham, Pfizer and Warner-Lambert, and Monsanto and Pharmacia & Upjohn.

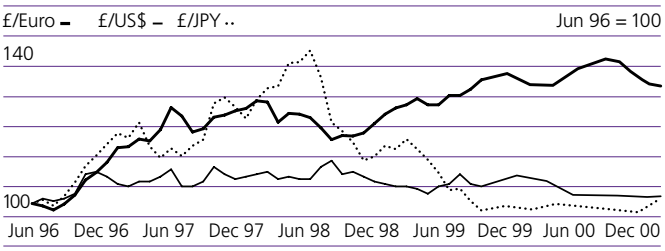
GlaxoSmithKline has six products in the world's Top 50 products; these are *Seroxat/Paxil, Augmentin, Flixotide, Imigran, Zantac,* and *Serevent.*

World market – top five therapeutic classes	Value £bn	% of total	Growth %
Cardiovascular	38	18	10
Central nervous system	31	15	16
Alimentary tract and metabolic	30	14	11
Anti-infectives (bacterial, viral and fungal) excluding vaccines	25	11	5
Respiratory	17	8	11

(Note: Data based on year to 30th September 2000.)

Exchange

As indicated in the chart, on average during 2000 sterling exchange rates were weaker against the US dollar and the yen and stronger against European currencies than in 1999. In aggregate, currency movements had a net favourable effect on sterling results in 2000 compared to 1999 of three per cent in respect of sales and two per cent in respect of business performance earnings per share.



Pharmaceutical sales

GlaxoSmithKline pharmaceutical sales in 2000 amounted to £15,429 million, compared to £13,618 million in 1999, an increase of 10 per cent. Excluding the sales of divested products (products divested in 2000 to fulfil regulatory conditions for approval of the Glaxo Wellcome/SmithKline Beecham merger), sales growth of the continuing business was 11 per cent. The growth was substantially all volume increase, with only a minor net increase from price.

Sales of new products (those launched in a major market within the last five years) were £2,646 million, representing 17 per cent of sales, and grew by 60 per cent. Sales of franchise products (established products) were £8,077 million, representing 52 per cent of sales, and grew by 11 per cent. Sales of older products, now less actively promoted, were £4,259 million, representing 28 per cent of sales, and declined by eight per cent.

In the fourth quarter 2000 pharmaceutical sales growth was five per cent (excluding divested products, six per cent). Sales growth in the USA was affected by the impact of wholesaler stocking in the third quarter 2000 in anticipation of price increases. Key products, such as *Paxil*, *Augmentin* and *Wellbutrin*, achieved significantly higher growth in prescription volume than in reported sales, indicating that underlying business performance remained strong. Sales growth in Europe was affected by generic competition and mild 'flu season demand for anti-bacterial products.

Pharmaceutical sales by therapeutic area

Central nervous system

In the anti-depressant sector sales of £2 billion were achieved, with strong growth of *Seroxat/Paxil* and *Wellbutrin* contributing to growth of 17 per cent. In the important US market, *Paxil* was supported by a successful direct-to-consumer (DTC) campaign and promotional efforts also enabled *Wellbutrin* to increase its market share. Both products benefited from overall growth in the US anti-depressant market. New Drug Application (NDA) dossiers for *Paxil* as a treatment for generalised anxiety disorder and for post traumatic stress disorder were filed with the US Food and Drug Administration (FDA) in 2000. *Paxil* was launched in November 2000 in Japan as the only once-a-day selective serotonin reuptake inhibitor for treatment of both depression and panic disorder.

The migraine portfolio of *Imigran/Imitrex* and *Naramig/Amerge* grew by five per cent. This reflects a return to growth in the USA, which accounts for three-quarters of sales, where DTC marketing campaigns and migraine awareness programmes were instrumental in increasing sales. In Europe sales were stable, with strong growth in France offsetting declines in other markets. *Imigran* was launched in Japan in April 2000.

Sales of *Lamictal*, the epilepsy treatment, grew strongly worldwide and particularly in the USA where greater market penetration was achieved in an expanding market. *Requip*, for the treatment of Parkinson's disease, now marketed in 20 countries, increased sales by 20 per cent, benefiting from the positive outcome of a five-year comparative study published in May 2000. In the smoking cessation market, *Zyban*'s growth of 54 per cent reflects its rollout into European markets following European Union approval in April 2000. Initial sales were particularly strong in the UK and Germany.

Respiratory

Flixotide/Flovent continues to be the world's highest selling asthma medication and is also indicated for chronic obstructive pulmonary disease (COPD). Sales increased by 29 per cent, notably in the USA where DTC promotion and an expanding market led to a 57 per cent increase in sales. In Europe, where the Group's new combination product, *Seretide*, has been launched in most markets, sales of *Flixotide* were maintained despite *Seretide*'s success. *Serevent* grew by eight per cent. Again growth was particularly strong in the US market, where *Seretide* has yet to be launched.

Seretide, the new combination of *Flixotide* and *Serevent*, continues to be successfully rolled out in markets around the world, generating sales of over £200 million in 2000. Significant new markets in 2000 included Spain, Italy and Australia. In the UK and Germany, where *Seretide* has been available for over a year, it continues to make strong gains in market share. Launch in the USA under the name *Advair* is planned for April 2001. Approval was received at the end of 2000 to market the product in the European Union in the metered dose inhaler delivery device.

Whilst there is an impact on sales of *Flixotide* and *Serevent* from the introduction of *Seretide*, both continue to be leading asthma medications as individual products. Combined sales of *Flixotide*, *Serevent* and *Seretide* increased by almost one-third, indicating their collective strength.

In total, anti-asthma/COPD sales grew by 16 per cent. This reflects the strong performance of *Flixotide*, *Serevent* and *Seretide*, offset by declining sales of the older asthma products, *Ventolin* and *Becotide*, as patients convert to newer products.

In the rhinitis sector, growth of *Flixonase/Flonase* is similarly offset by decline in the older product, *Beconase*. Overall, the Group's products in this sector grew by 12 per cent, supported by DTC advertising in the USA, where over two-thirds of sales are made.

Pharmaceutical sales by therapeutic area 2000

Therapeutic area/ major products	% of total	0 500 1,000 1,500 2,000 2,500 3,000 3,500	Total 2000 £m	Total 1999 £m	Total % CER* growth	USA 2000 £m	USA % CER growth	Europe 2000 £m	Europe % CER growth	RoW 2000 £m	RoW % CER growth
CNS	**21**		**3,279**	**2,720**	**16**	**2,307**	**15**	**678**	**16**	**294**	**28**
Depression			**2,002**	**1,636**	**17**	**1,495**	**18**	**334**	**11**	**173**	**31**
Seroxat/Paxil			1,550	1,283	17	1,057	18	334	11	159	29
Wellbutrin			452	353	19	438	19	–	–	14	58
Migraine			**782**	**716**	**5**	**588**	**5**	**152**	–	**42**	**11**
Imigran/Imitrex			705	653	3	542	4	127	(2)	36	6
Naramig/Amerge			77	63	20	46	20	25	15	6	51
Lamictal			289	223	28	138	34	116	20	35	35
Requip			58	49	20	26	19	30	20	2	26
Zyban			115	72	54	60	1	34	>100	21	23
Respiratory	**18**		**2,789**	**2,382**	**15**	**1,122**	**26**	**1,117**	**9**	**550**	**10**
Flixotide/Flovent			880	666	29	414	57	305	2	161	49
Serevent			622	569	8	330	24	253	(6)	39	14
Seretide			208	48	>100	–	–	179	>100	29	>100
Flixonase/Flonase			408	333	16	294	18	45	10	69	14
Ventolin			343	368	(7)	31	(21)	149	(5)	163	(6)
Becotide			205	277	(25)	4	(82)	152	(12)	49	(40)
Anti-bacterials	**16**		**2,472**	**2,383**	**2**	**1,142**	**7**	**705**	**(4)**	**625**	**1**
Augmentin			1,219	1,110	8	725	13	320	(3)	174	9
Zinnat/Ceftin			430	420	–	204	(7)	113	3	113	10
Fortum			213	232	(9)	40	(17)	88	(1)	85	(14)
Amoxil			199	197	1	52	55	61	(18)	86	–
Anti-virals	**12**		**1,899**	**1,610**	**14**	**917**	**17**	**531**	**13**	**451**	**12**
HIV			**1,145**	**982**	**14**	**686**	**16**	**345**	**18**	**114**	**(9)**
Trizivir			7	–	>100	6	>100	1	>100	–	–
Combivir			562	454	21	345	17	173	38	44	(5)
Epivir			309	325	(7)	164	–	100	(9)	45	(22)
Retrovir			61	86	(30)	25	(22)	23	(35)	13	(33)
Ziagen			154	86	75	100	46	44	>100	10	>100
Agenerase			52	31	60	46	52	4	81	2	>100
Herpes			**616**	**564**	**5**	**188**	**14**	**162**	**1**	**266**	**3**
Valtrex			242	177	32	147	24	58	22	37	>100
Zovirax			374	387	(7)	41	(12)	104	(8)	229	(6)
Zeffix			70	15	>100	5	>100	7	>100	58	>100
Relenza			32	16	97	14	29	6	51	12	>100
Metabolic and gastro-intestinal	**8**		**1,232**	**886**	**33**	**594**	**>100**	**248**	**(13)**	**390**	**3**
Avandia			462	89	>100	433	>100	8	>100	21	>100
Zantac			575	632	(11)	119	(18)	189	(16)	267	(4)
Lotronex			36	–	>100	36	>100	–	–	–	–
Vaccines	**6**		**842**	**776**	**11**	**212**	**(5)**	**390**	**11**	**240**	**29**
Hepatitis			462	480	(3)	168	(4)	210	(3)	84	(2)
Infanrix			171	120	47	35	59	98	34	38	84
Oncology and emesis	**5**		**710**	**613**	**11**	**499**	**12**	**129**	**9**	**82**	**10**
Zofran			491	416	13	338	15	93	12	60	6
Hycamtin			95	92	1	63	(5)	23	6	9	40
Cardiovascular	**3**		**463**	**449**	**–**	**282**	**(8)**	**120**	**19**	**61**	**10**
Coreg			148	125	11	148	17	–	–	–	–
Dermatologicals	**2**		**249**	**254**	**(4)**	**35**	**(20)**	**62**	**(5)**	**152**	**–**
Arthritis *(Relafen)*	**1**		**210**	**275**	**(28)**	**183**	**(30)**	**17**	**(7)**	**10**	**(23)**
Other	**5**		**837**	**842**	**(2)**	**171**	**(6)**	**228**	**(7)**	**438**	**2**
Total sales continuing business	**97**		**14,982**	**13,190**	**11**	**7,464**	**15**	**4,225**	**6**	**3,293**	**9**
Divested products	**3**		**447**	**428**	**(2)**	**241**	**(1)**	**43**	**(5)**	**163**	**(3)**
Famvir			152	132	11	114	20	18	(13)	20	(5)
Kytril			219	222	(7)	123	(14)	25	1	71	2
Other			76	74	(9)	4	(40)	–	–	72	(7)
Total pharmaceutical sales	**100**		**15,429**	**13,618**	**10**	**7,705**	**15**	**4,268**	**6**	**3,456**	**8**

*CER represents sales growth at constant exchange rates. Sterling growth can be calculated from the figures given above. An analysis of sales by quarter is given in the Financial record (page 146 to 149).

Anti-bacterials

Sales of anti-bacterial products increased by two per cent, with growth in *Augmentin* offset by flat sales of *Zinnat*/*Ceftin* and *Amoxil* and a decrease in *Fortum*.

With sales reaching £1.2 billion, *Augmentin* continued to perform strongly. In the USA sales grew 13 per cent, with a market share of nearly a quarter. Solid growth was achieved in Latin America and South East Asia. In Europe sales were affected by generic competition.

Zinnat/*Ceftin* declined by seven per cent in its largest market, the USA, but this was offset by growth in the emerging markets of the Middle East, Africa, Latin America and Asia Pacific.

Anti-virals

Growth in anti-viral sales of 14 per cent reflects strong growth in the HIV franchise, where the Group markets a range of reverse transcriptase inhibitors (RTIs) and a recently launched protease inhibitor, *Agenerase*, as well as steady growth in sales of herpes products and continued uptake of new products against other viral diseases.

Sales of RTIs increased by 12 per cent. *Combivir* again grew strongly, reflecting conversion of patients from its constituent single products, *Epivir* and *Retrovir*. In aggregate the three products achieved real growth of five per cent; excluding the effect of one-off contracts in Brazil in 1999 which were not repeated in 2000, underlying growth was nearer eight per cent.

The newer RTI, *Ziagen*, grew by 75 per cent, reflecting continued uptake in the USA and in Europe. *Trizivir*, which combines *Epivir*, *Retrovir* and *Ziagen*, was launched in the USA in December 2000 and in the European Union (the UK and France) in January 2001. The triple combination tablet simplifies the dosing regimen for patients who are often taking several tablets a day.

The new protease inhibitor, *Agenerase*, also offers some improvement in dosing regimen. The majority of its sales were in the USA, where it has been available since May 1999. European Union approval was received in October 2000, and the product was launched in some markets, including the UK and France, before the end of the year.

The Group's two herpes treatments, the newer *Valtrex* and the older *Zovirax*, grew at a combined rate of five per cent. *Valtrex* continues to protect the Group's franchise in this area, with strong increases in all regions and a successful launch in Japan in August.

Zeffix, for chronic hepatitis B, achieved sales of £70 million. First launched in the Asia Pacific region, it performed strongly in the Chinese and South Korean markets.

Relenza, the new influenza treatment, doubled its sales to £32 million and, following launch in Japan in December, is now available in most major markets.

Metabolic and gastro-intestinal

Avandia, GlaxoSmithKline's new treatment for type 2 diabetes, achieved sales approaching half a billion pounds, the majority in the USA, where it was first launched in 1999. *Avandia* scripts now account for over half of the US thiazolidinedione market, a market which grew by 75 per cent in 2000. In April 2000 the US FDA approved *Avandia* in combination with a sulphonylurea, having previously approved it both as a monotherapy and in combination with metformin. *Avandia* will be rolled out into Europe and Rest of the World markets in 2001. In August 2000 *Avandia* received a positive recommendation in the UK from the National Institute for Clinical Excellence (NICE).

Zantac continues to decline in the face of competition from generic products and alternative anti-ulcerant treatments. The rate of decline slowed to 11 per cent in 2000. *Zantac*'s largest market is now Japan, where sales remained stable.

Lotronex, a treatment for irritable bowel syndrome, was launched in the USA in March 2000 and generated sales of £36 million before being withdrawn in November 2000 following discussions with the US FDA over the interpretation of data relating to gastro-intestinal side effects. The company disagreed with the FDA's assessment of the safety profile of *Lotronex*, but agreed to withdraw it from the US market and has also withdrawn all other regulatory submissions worldwide.

Vaccines

Vaccines sales reached £842 million, an increase of 11 per cent. In the hepatitis franchise, *Engerix-B* declined eight per cent due to lower sales in the USA, *Havrix*, for hepatitis A, grew slightly and *Twinrix*, a combined hepatitis A and B vaccine in both adult and paediatric strengths, grew five per cent to £95 million.

Infanrix, GlaxoSmithKline's range of combination vaccines for diphtheria, tetanus, and pertussis (whooping cough), grew 47 per cent. In October 2000 the European Commission approved *Infanrix PeNta*, which provides additional protection for hepatitis B and polio and *Infanrix HeXa* which further adds protection against haemophilus influenzae type b disease.

Oncology and emesis

Zofran, for emesis, a now well-established product and a leader in its sector, benefited from market growth in the USA, where over two-thirds of its sales are generated.

Other therapeutic areas

Cardiovascular sales were stable, with 11 per cent growth in *Coreg* and recent launches of *Pritor* for hypertension in European markets offsetting declines in older products. Future sales should benefit from new data showing *Coreg*'s effectiveness in treating severe heart failure.

The disposal of the anaesthesia franchise in the USA at the end of 1999 contributed to a fall in this therapeutic area of 21 per cent. In October 2000, Glaxo Wellcome's US company also disposed of its portfolio of dermatological products, contributing to the four per cent decline in this sector.

Pharmaceutical sales by geographic area

USA

Sales in the US market, representing half of total Group pharmaceutical sales, grew by 15 per cent.

Avandia, launched in June 1999, achieved sales of £433 million and is the market leader in its class. It benefited from the withdrawal of a competitor product from the market in the first quarter of the year.

Respiratory sales increased by 26 per cent, reflecting in particular increased acceptance of inhaled steroids in the treatment of asthma. The planned launch of *Seretide/Advair* in April 2001 will further enhance the potential of the Group's range of asthma treatments.

CNS sales increased by 15 per cent. In the growing anti-depressant market, DTC campaigns focussing on social anxiety disorder helped *Paxil* to grow by 18 per cent. In the migraine portfolio growth of five per cent reversed the decline seen in the previous year, reflecting the promotional efforts in 2000 and some overall expansion in the market. *Lamictal*, although a smaller product, contributed significantly to growth as its sales increased by 34 per cent.

In the anti-viral sector, HIV sales grew by 16 per cent, reflecting continuing growth in the established products and uptake of the newer products: *Ziagen*, *Agenerase* and initial sales of *Trizivir* together generated over £150 million in sales. Approval to market *Trizivir* was received in November 2000. In the herpes sector strong sales of *Valtrex* benefited from the convenience of its once-daily dosage form and from its wider usage as a long-term herpes suppression therapy.

Strong growth in sales of *Augmentin* and *Amoxil* offset declines in *Ceftin* and *Fortum*, enabling sales in the anti-bacterial area to outperform market growth. *Augmentin* benefited from increased prescriber awareness of its effectiveness against bacteria resistant to other antibiotics.

There was a minor impact on sales growth from product disposals: the anaesthesia portfolio in 1999 and the dermatological range in October 2000. *Lotronex*, for irritable bowel syndrome, achieved sales of £36 million in 2000 prior to its withdrawal from the market.

Europe

Sales in Europe, representing 28 per cent of the Group's pharmaceutical sales, grew by six per cent.

In France, GlaxoSmithKline's largest market within the region, sales grew strongly, reflecting growth in the HIV portfolio and in the asthma franchise; the launch of *Trizivir* and *Seretide* in January 2001 add to sales potential. In the major markets of Italy, Germany and Spain, *Seretide* was a key contributor to growth. The UK market benefited from increased sales of *Seretide* and a successful launch of *Zyban*, but overall sales declined slightly due to generic competition and parallel trade.

The success of *Seretide* in those markets where it has already been launched contributed to a 10 per cent growth in the asthma/COPD range, while growth in *Lamictal* and launches of *Zyban* contributed to a 16 per cent increase in total CNS sales. Sales of HIV products increased by 18 per cent, a combination of solid growth in the established product range and uptake of the recently launched *Ziagen*. Sales of *Infanrix*, the combination vaccine for children, grew by over a third, with recent approvals for *Infanrix PeNta* and *Infanrix HeXa* offering further potential for growth. In the cardiovascular area, the launch of *Pritor* led to a 19 per cent increase in sales.

Pharmaceutical sales by geographic area 2000

Region/ major markets	% of total	0 2,000 4,000 6,000 8,000	2000 £m	1999 £m	% CER* growth
USA	**50**		**7,705**	**6,276**	**15**
Europe	**28**		**4,268**	**4,288**	**6**
France	5		786	774	10
UK	5		701	715	(2)
Italy	4		574	563	10
Germany	3		482	507	3
Spain	3		424	432	6
Central & Eastern Europe	3		472	460	6
Other Europe	5		829	837	6
Rest of World	**22**		**3,456**	**3,054**	**8**
Asia Pacific	7		1,049	929	12
Japan	5		832	704	5
Latin America	4		682	636	2
Middle East, Africa	3		511	461	12
Canada	3		382	324	10
	100		**15,429**	**13,618**	**10**

*CER represents sales growth at constant exchange rates. Sterling growth can be calculated from the figures given above. An analysis of sales by quarter is given in the Financial record (pages 146 to 149).

Offsetting these strong performances were a decline in sales of *Augmentin*, due to a mild 'flu season and the impact of generic competition in the UK and Germany, and the continuing decline in *Zantac*. *Avandia* was launched in the UK and Germany in late 2000 and is expected to be launched in other European markets in 2001.

Rest of World

Overall growth of eight per cent reflects a mix of double digit growth in Asia Pacific, Middle East and Africa, and Canada, with slower growth in Japan and Latin America.

In Asia Pacific, the markets principally contributing to sales growth were Australia, the area's largest market, with launches of *Seretide* in August and *Zyban* in November, and China, where *Zeffix*, launched in 1999, was the key factor in sales growth of 20 per cent.

In Japan, the Group's second largest market, sales grew by five per cent. Sales of asthma products grew by a quarter, and the launch of *Paxil* in November and *Relenza* in December together added £19 million to sales. This was offset by a decline in sales of antibiotics.

In Latin America, overall sales growth of two per cent was affected by difficult conditions in Brazil. Excluding Brazil, sales in the region grew by ten per cent. In Mexico, the Group's largest market in the region, sales grew by 14 per cent, with good performances in most therapeutic areas and particularly in vaccines. In Brazil sales were affected by a government drive to promote generic products and by the impact of HIV contracts in 1999 which were not repeated in 2000.

The Middle East and Africa region grew by 12 per cent, with notable increases in HIV products and in antibiotics.

In Canada sales grew by 10 per cent reflecting strong growth in *Paxil* and recent launches of *Seretide* and *Avandia*. The rest of the asthma/COPD range and *Wellbutrin* also contributed to growth, while *Zyban* declined by 13 per cent.

Consumer Healthcare sales

	2000 £m	1999 £m	CER%
OTC medicines	**1,454**	1,434	(1)
Oral care	**642**	614	6
Nutritional healthcare	**535**	488	9
Total sales continuing business	**2,631**	2,536	3
Divested products	**19**	10	73
Total Consumer Healthcare sales	**2,650**	2,546	3

GlaxoSmithKline Consumer Healthcare sales in 2000 amounted to £2,650 million, compared to £2,546 million in 1999, an increase of three per cent.

OTC medicines

Sales growth in vitamins and naturals and in dermatologicals was offset by declines in other categories, notably in smoking control. Gastro-intestinal sales were affected by lower sales of *Tums* in the competitive US market. Analgesics were affected by the voluntary recall of *Panadol* in Australia, a key market, following a tampering threat.

Smoking control sales declined eight per cent, reflecting competition in the US market following the introduction of private label *Nicotine Replacement Therapy* (*NRT*) gum and patch. The introduction of two new GlaxoSmithKline smoking control products in the US market, *Clear NicoDerm Patch* and *Nicorette Orange Gum*, prevented further inroads from private label brands. Excluding the USA, smoking control sales grew by 58 per cent.

Oral care

Sales of *Aquafresh* toothpastes and toothbrushes increased by 13 per cent, notably in the USA and in Rest of the World markets. This was offset by declines in other oral care brands. In Western Europe, GlaxoSmithKline continues to hold the number one oral care ranking.

Nutritional healthcare

Strong sales growth was achieved across the nutritional healthcare range. Sales of *Lucozade* benefited from strong growth of *Lucozade Sport* in the UK.

Block Drug

In January 2001 GlaxoSmithKline acquired Block Drug, the manufacturer of *Sensodyne* toothpaste and other oral healthcare and consumer products. The acquisition will extend the Consumer Healthcare product range and is expected to be earnings enhancing in 2001.

Trading profit – business performance

To illustrate GlaxoSmithKline business performance in 2000, the analysis below of trading profit and the subsequent discussion exclude merger items, restructuring costs and the costs arising from the disposal of the Healthcare Services businesses in 1999. The analysis and discussion focus on the retained businesses of Pharmaceuticals and Consumer Healthcare (the performance of Healthcare Services in 1999 is dealt with separately).

	2000		1999		Growth
	£m	%	£m	%	CER%
Sales	**18,079**	**100.0**	16,164	100.0	9
Cost of sales	**(3,811)**	**(21.1)**	(3,499)	(21.6)	(8)
Selling, general and administration	**(6,732)**	**(37.2)**	(6,002)	(37.2)	(9)
Research and development	**(2,510)**	**(13.9)**	(2,285)	(14.1)	(7)
Trading profit	**5,026**	**27.8**	4,378	27.1	12

Cost of sales

Cost of sales increased less than the increase in sales. In SmithKline Beecham this reflects the benefits of manufacturing rationalisation; changes in product mix, with benefit from newly launched products; and reduced external royalties. In Glaxo Wellcome cost of sales increased as a percentage of sales, reflecting lower production volumes following stockbuild in 1999, with a reduced rate of increase in the second half of the year as manufacturing rationalisation delivered efficiencies and some benefit from exchange.

Selling, general and administration

Selling, general and administration (SG&A) increased in line with sales growth. Higher selling costs, particularly to support product launches of *Avandia*, *Seretide* and *Paxil*, were offset by savings in administration costs.

Research and development

Research and development (R&D) expenditure increased less than the increase in sales. Pharmaceuticals R&D was £2,435 million and Consumer Healthcare R&D was £75 million.

Trading profit

Trading profit increased 12 per cent, more than the increase in sales, reflecting management of SG&A in line with sales growth and lower rates of increase on cost of sales and R&D.

Healthcare Services

The Healthcare Services businesses, divested during 1999, contributed £25 million of trading profit up to the dates of divestment in 1999.

Profit before taxation – business performance

The analysis and discussion below of profit before taxation relates to business performance.

Other operating income/(expense)	2000 £m	1999 £m
Royalties and other income	**153**	387
Other operating expense	**(63)**	(138)
	90	249
Income from equity investments	**184**	164
	274	413

Net operating income was lower in 2000 than in 1999 due to fewer disposals of older products. Income from equity investments includes further disposals of Affymetrix shares in the second half of the year, reducing the Group's holding to 16 per cent.

Disposal of interest in associate

The Group reduced its investment in Affymetrix Inc in the first half of 2000, realising a gain of £144 million which is accounted as the disposal of an interest in an associate. Subsequently the Group ceased to have significant influence over Affymetrix and at that time ceased to equity account for the investment. Further disposals of shares in Affymetrix were made in the second half of 2000, which are included as investment disposals in other operating income.

Profits/losses of associates and joint ventures

The share of profits of associates arises principally from SmithKline Beecham's holding in Quest Diagnostics, Incorporated, which has been held throughout 2000 but only from August in 1999.

Net interest payable	2000 £m	1999 £m
Interest payable	**(317)**	(293)
Investment income	**158**	138
	(159)	(155)
Share of interest payable of associate	**(23)**	(7)
	(182)	(162)

Net interest payable includes the Group's share of the net interest of the associate, Quest Diagnostics, for the whole of 2000 but only from August in 1999. Apart from the Quest Diagnostics interest, interest payable less investment income was broadly stable in 2000 compared to 1999, reflecting a consistent average level of net debt in 2000 and in 1999. The proceeds from the disposal of divested products were received in late December 2000, with only a minor benefit to net interest payable in 2000.

Profit before taxation

Other operating income, together with the disposal of the interest in an associate, added £418 million to profit before taxation in 2000, compared to £452 million in 1999. Taking account of the contribution from associates, comprising share of profit less share of interest, less the Group's own net interest payable, profit before tax was £5,327 million, compared to £4,708 million in 1999, an increase of 11 per cent.

Merger items, restructuring costs and divested businesses

The key items in 2000 are discussed below.

Merger

The costs of effecting the merger, referred to as 'transaction costs', amounted to £121 million. The costs comprise the expenses and fees in preparing and implementing the Scheme of Arrangement for the merger, including obtaining approvals from shareholders and regulatory authorities and securing the admission of GlaxoSmithKline shares to the Official List of the UK Listing Authority. The costs are higher than estimated at the time of issue of the Listing Particulars in July 2000, in part because of the delay in completion of the merger pending regulatory approvals.

Costs incurred in planning for, and arising from, the integration of the Glaxo Wellcome and SmithKline Beecham businesses into a unified GlaxoSmithKline business, referred to as 'integration costs', amounted in 2000 to £400 million. The costs in 2000 include consultancy fees in support of integration planning; severance costs recognised in 2000 arising from the initial stages of the integration appointment process; some initial asset write-offs; costs of £156 million recognised by SmithKline Beecham in respect of the accelerated vesting of share options and share incentive awards as a result of the merger; and costs recognised by Glaxo Wellcome arising from the lapse of performance conditions attaching to share incentive awards as a result of the merger. Implementation of integration plans in respect of business operations will commence substantively in 2001, and further significant costs are expected to be recognised in 2001 and the subsequent two years.

In order to obtain regulatory approval for the merger, Glaxo Wellcome and SmithKline Beecham agreed to a number of product divestments. The most significant of these divestments were *Famvir* and *Kytril*, which were sold in December 2000. *Famvir* was sold to Novartis and *Kytril* was sold to Roche. As part of the sale of *Kytril* to Roche, GlaxoSmithKline purchased the exclusive rights to *Coreg* in the USA and Canada. The net effect on profit before tax of all product divestments was income of £1,416 million.

Manufacturing and other restructuring

Costs of £120 million were incurred by Glaxo Wellcome and £51 million by SmithKline Beecham in implementation of their previously announced plans for restructuring of manufacturing and other activities.

Associate

These costs represent the Group's share of restructuring costs incurred by the associate, Quest Diagnostics.

Divested businesses

The impact of the disposal of the Healthcare Services businesses in August 1999 was £14 million in 2000 and £9 million net credit in 1999. Restructuring costs incurred by Healthcare Services in 1999 were £30 million.

Taxation	2000 £m	1999 £m
Business performance	**(1,454)**	(1,327)
Merger restructuring and disposal of subsidiaries	**(245)**	109
Total taxation	**(1,699)**	(1,218)

Business performance

The charge for taxation on business performance profit amounting to £1,454 million represents an effective tax rate of 27.3 per cent. This is consistent with the rate of 27.5 per cent expected by Glaxo Wellcome for 2000 and the rate of 27 per cent expected by SmithKline Beecham.

The tax rate benefits from lower rates of tax applicable to manufacturing operations in Singapore, Puerto Rico and Ireland. The tax rate benefits additionally from reduced uncertainties following resolution in 1999 of Glaxo Wellcome's long-standing UK transfer pricing issues and from lower statutory rates in a number of overseas territories.

Transfer pricing issues are nonetheless inevitable for a global business such as GlaxoSmithKline. 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 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 that fall to be taxed in individual territories. Resolution of such issues is a continuing fact of life for GlaxoSmithKline.

In the USA for a number of years Glaxo Wellcome has had significant open issues relating to transfer pricing. These issues, although principally relating to the success of *Zantac*, cover all years from 1989 to the present, and there remains a wide variation between the claims of the US Internal Revenue Service and the Group's estimation of its taxation liabilities. The issues are currently the subject of discussions between the US and UK tax authorities under the terms of the double taxation convention between the two countries.

GlaxoSmithKline uses the best advice in determining its transfer pricing methodology and in seeking to manage transfer pricing issues to a satisfactory conclusion and, based on external professional advice, continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments.

Merger and restructuring

The charge for taxation on merger and restructuring items amounting to £245 million reflects the estimated actual tax rate applicable to the transactions in the territories in which they arise.

Earnings	2000 £m	1999 £m
Earnings	**4,154**	2,859
Earnings per Ordinary Share	**68.5p**	46.7p
Earnings per ADS	**$2.08**	$1.51
Adjusted earnings	**3,697**	3,222
Adjusted earnings per Ordinary Share	**61.0p**	52.7p
Adjusted earnings per ADS	**$1.85**	$1.71
Weighted average number of shares (millions)	**6,065**	6,118

Adjusted earnings and adjusted earnings per share are presented above in order to illustrate business performance of GlaxoSmithKline.

Adjusted earnings increased by 13 per cent CER. Adjusted earnings per share increased by 14 per cent CER, reflecting the lower weighted average number of shares. The weighted average number of shares, for the purposes of earnings per share, decreased due to purchases of shares by the Employee Share Ownership Trust to satisfy future exercises of share options.

Outlook and risk factors

Outlook

Improving pharmaceutical sales growth – five per cent CER in 1998, seven per cent in 1999 and 10 per cent in 2000 – is a key driver of GlaxoSmithKline's current business performance. In 2001 the company expects to launch *Advair* in the USA and *Avandia* in Europe and other markets.

The company will also benefit from the delivery of at least £1.6 billion in cost savings by 2003 as a result of both the merger and the manufacturing plans already in place prior to the merger.

These benefits of the merger and the performance of the business have led the company to forecast EPS growth (excluding merger and restructuring costs and the effects of currency) for 2001 of around 13 per cent, despite the adverse effect of product divestments and reduced dependency on profits from disposals of investments. Importantly the divestments required by regulatory bodies in order to complete the merger have had the effect of reducing the company's EPS expectation for the year by six per cent. Additionally, the company expects a trading margin improvement of up to two per cent in 2001 as well as an improvement in the tax rate of a half per cent.

In 2002, the company expects EPS growth to accelerate to the mid-teens, reflecting strong business performance, boosted by cost savings. For the second year in a row, one-time gains are expected to decline.

While the immediate focus is on delivering a successful merger, the company has negligible net debt 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. 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 those that the Group thinks could cause the Group's actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect the Group.

Increased competition from other proprietary products (and in certain cases generic equivalents of such proprietary products upon patent expiration) in therapeutic areas important to the Group's long-term business performance.

Generic competition as several products face expiration of patent protection in the USA and other important markets commencing in 2001. The Group is routinely engaged in disputes over its patented products and processes in order to protect its intellectual property rights.

The difficulties, uncertainties and the high level of investment inherent in new product development. The outcome of the lengthy and complex process of new product development is inherently uncertain. A 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 fail to reach the market because of efficacy or safety concerns, the inability to obtain necessary regulatory approvals, the difficulty of excessive cost to manufacture and/or the infringement of patents or intellectual property rights of others. Furthermore, the sale of new products may prove to be disappointing and fail to reach anticipated levels.

Balancing current growth in sales and investment in research and development to fuel future growth remains a major challenge. The growth in the Group's ongoing investment in research and development and new product introductions could exceed corresponding sales growth. This could result in higher costs without a proportional increase in revenues.

Pricing pressures, in the USA and other countries around the world, including rules and practices of government sponsored health systems, managed care groups, judicial decisions and governmental laws and regulations related to Medicare, Medicaid and healthcare reform, pharmaceutical reimbursement and pricing in general.

Changes in government laws and regulations and the enforcement thereof affecting the Group's pharmaceutical and vaccine businesses.

Efficacy or safety concerns with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales.

Legal factors, including product liability claims, antitrust litigation, environmental concerns and patent disputes with competitors, any of which could preclude commercialisation of products or negatively affect the profitability of existing products.

Lost market opportunities resulting from delays and uncertainties in the approval process of the FDA, European and other regulatory authorities.

Changes in tax laws related to the taxation of the Group's earnings within and outside the UK, particularly with respect to jurisdictions in which the Group pays tax at rates lower than its overall effective rate.

Changes in applicable accounting standards that are adverse to the Group.

Economic factors over which the Group has no control, including changes in inflation, interest rates and foreign currency exchange rates and controls.

International operations could be affected by changes in intellectual property legal protections and remedies, trade regulations, and procedures and actions affecting approval, production, pricing, reimbursement and marketing of products, as well as by unstable governments and legal systems, intergovernmental disputes and possible nationalisation.

Growth in costs and expenses, including changes in product mix, and the impact of any acquisitions or divestitures, restructuring and other unusual items that could result from evolving business strategies, and changing organisational structures.

Continued consolidation in the pharmaceutical industry could affect the Group's competitive position.

This list should not be considered an exhaustive statement of all potential risks and uncertainties.

Financial position and resources

Cash flow

A summary of Group cash flow is set out below:

	2000 £m	1999 £m
Business performance operating cash flow	**5,900**	4,991
Merger and restructuring	**(459)**	(175)
Total operating cash flow	**5,441**	4,816
Earnings from joint ventures	**1**	2
Net interest and minority dividends	**(322)**	(315)
Tax payments	**(1,240)**	(1,095)
Free cash flow	**3,880**	3,408
Capital expenditure	**(1,057)**	(1,128)
Net cash from operations	**2,823**	2,280
Dividends on ordinary shares	**(2,028)**	(1,833)
Business acquisitions	**(25)**	(67)
Business disposal	**(62)**	1,002
Sales less purchase of equity investments	**227**	133
Sales less purchase of interest in associates	**153**	38
Purchase of own shares for share options	**(1,232)**	(1,291)
Use of own shares on exercise of share options	**206**	45
Shares issued on exercise of share options	**185**	171
Proceeds from product divestments	**1,529**	–
Other movements including exchange	**(30)**	(118)
Reduction in net debt	**1,746**	360

The net cash inflow from business performance operating activities was £5,900 million, an increase of nearly £1 billion over 1999. This reflects the increase in operating profit and, after several years of stock build to prepare for Year 2000 and new product launches, a lower increase in working capital.

After merger and restructuring items, net interest payments, minority dividends and tax payments, free cash flow, representing cash flow before discretionary spending, amounted to £3,880 million, an increase over 1999.

Capital expenditure on tangible and intangible fixed assets amounted to £1,103 million in 2000, consisting mainly of the routine investment in plant renewals and upgrades. Expenditure was lower than in 1999, reflecting a curtailment of projects pending completion of the merger. Disposals realised £46 million.

Net cash from operations of £2,823 million was sufficient to fund the payment of dividends, as well as the investment of £25 million in the acquisition of minority interests in Group subsidiaries. A total of £380 million was realised from sales, less purchases, of investments in equity shares.

Glaxo Wellcome and SmithKline Beecham funded the purchase by their respective Employee Share Ownership Trusts (ESOTs) of shares, now of GlaxoSmithKline plc, to satisfy future exercises of options and awards under employee share incentive schemes, at a total cost of £1,232 million. A total of £391 million was received on employees' exercise of share options: exercises satisfied from shares previously purchased by the ESOTs yielded £206 million; exercises satisfied from the issue of new shares yielded £185 million.

The major products divested to obtain regulatory approval for the merger generated proceeds of £1,529 million in December 2000.

Excluding the share option items and the product divestments, Group cash generation was substantially positive with a net inflow of more than £1 billion. Including the share option items, the product divestments and other movements, there was a reduction in net debt of £1,746 million.

Future cash flow

The Group expects that future operating cash flow will be sufficient to fund its operating and debt service costs and to satisfy normal levels of capital expenditure and other routine commitments including tax and dividends. In 2001 and subsequent years dividends are expected to take a lower proportion of cash flow: GlaxoSmithKline's intended dividend policy, as set out in 'Shareholder Return' (page 155), is to allow dividend cover to increase.

In 2001 and subsequent years the Group expects cash outflows from integrating the operations of Glaxo Wellcome and SmithKline Beecham into a unified GlaxoSmithKline business, as well as further cash outflows from the continued implementation of manufacturing restructuring plans.

The Group expects to continue to fund purchases by the ESOTs of GlaxoSmithKline shares to satisfy future exercises of share options. The amount and timing of such purchases will depend on market conditions.

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, in addition to the cash flow from operation, for such needs. In the absence of special calls on funds, net cash generation will be allowed to reduce net debt.

Financial position

A summarised, re-classified presentation of the Group balance sheet is set out below:

	2000 £m	1999 £m
Goodwill	**170**	160
Intangible fixed assets	**966**	926
Tangible fixed assets	**6,642**	6,402
Investments	**388**	361
Working capital	**4,801**	4,412
Other debtors and creditors	**(1,617)**	(1,192)
Provisions	**(1,657)**	(1,675)
Taxation	**(2,101)**	(1,495)
Deferred taxation	**889**	742
Net operating assets	**8,481**	8,641
Own shares	**2,327**	1,495
Dividend proposed	**(1,242)**	(1,172)
Net debt	**(611)**	(2,357)
Net assets	**8,955**	6,607
Shareholders' funds	**7,711**	5,464
Minority interests	**1,244**	1,143
Financing of net assets	**8,955**	6,607

The book value of Group net assets increased from £6,607 million at 31st December 1999 to £8,955 million at 31st December 2000. There was no significant net effect from exchange rate movements. The increase is represented by further purchases of own shares by the ESOTs and the reduction in net debt.

Investments

GlaxoSmithKline had investments at 31st December 2000 with a carrying value of £388 million. In the balance sheet in the financial statements, the investments are classified partly as fixed assets and partly as current assets. The investments are mainly in equity shares where the holding derives directly from the Group's business: either arising from a business divestment, or in connection with a research collaboration, or as access to biotechnology developments of potential interest to GlaxoSmithKline. The Group manages the investments for resale, although certain investments have restrictions on sale. The market value of the investments at 31st December 2000 was approximately £2 billion, but the market values can be volatile.

Provisions

The Group carried provisions of £1,657 million at 31st December 2000 in respect of estimated future liabilities, of which some £900 million related to unfunded pensions and other post-retirement benefits for employees. Provision has been made for the costs of manufacturing restructuring and merger integration to the extent that at the balance sheet date an actual or constructive obligation existed. In the case of merger integration the majority of the costs are expected to be recognised between 2001 and 2003.

Own shares

At 31st December 2000 the ESOTs held 161.3 million shares of GlaxoSmithKline against potential commitments under employee share incentive plans at that date of 228.1 million shares, of which 186.6 million were exercisable.

Net debt

Group net debt at 31st December comprised:

	2000 £m	1999 £m
Cash and liquid investments	**3,421**	2,359
Borrowings – repayable within one year	**(2,281)**	(2,819)
Borrowings – repayable after one year	**(1,751)**	(1,897)
Net debt	**(611)**	(2,357)

Cash and liquid investments include the proceeds from the product divestments received at the end of December 2000. During the year medium-term debt instruments of approximately £800 million were redeemed on maturity, financed primarily from additional issues under commercial paper programmes. Cash generated from operations was used to reduce short-term debt.

Shareholders' funds

A summary of the movements in equity shareholders' funds is set out below.

	2000 £m	1999 £m
At beginning of year	**5,464**	4,449
Profit for the year	**4,154**	2,859
Dividends	**(2,097)**	(2,005)
Shares issued on exercise of share options	**185**	171
Exchange movements on overseas net assets	**3**	(345)
Goodwill written off to profit and loss	**2**	335
At end of year	**7,711**	5,464

Shareholders' funds have increased from £5,464 million at 31st December 1999 to £7,711 million at 31st December 2000. This is due primarily to retained profits and also to shares issued under share option schemes.

For information on dividends and market capitalisation, refer to Shareholder Return (page 154).

Market capitalisation

The overall value of the company, as indicated by its stock market capitalisation, is considerably higher than the value of shareholders' funds shown on the Group balance sheet. This difference arises because the Group has significant internally generated intangible assets which are not included on the balance sheet. These include the intellectual property, particularly patents, created by the research and development process; the value of brands, as reflected in trade marks, arising from the Group's investment in marketing; as well as the value to the Group of the knowledge and know-how of its employees.

Payment policies

Group companies are responsible for monitoring and managing their working capital. The terms of sales collections and supplier payments will reflect local commercial practice.

In the UK, the company and each of its UK subsidiaries operate procedures 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 procedures include arrangements for accelerated payment of small suppliers.

Glaxo Wellcome, on behalf of itself and its UK subsidiaries, is a signatory to the Better Payment Practice Code of the Better Payment Practice Group, a successor code to the Prompt Payment Code of the Confederation of British Industry. It continues to be the company's policy to follow the Code in respect of all suppliers. Copies of the Code may be obtained from the Department of Trade and Industry.

SmithKline Beecham did not adopt a standard or code which deals specifically with the payment of suppliers.

Payment performance

At 31st December 2000, the average number of days' purchases represented by trade and fixed asset creditors of the company was nil days and in respect of the company and its UK subsidiaries in aggregate was 22 days (1999 – 21 days). Creditor days at 31st December 1999 reflected accelerated payments in December 1999 by way of contingency planning against the risk of disruption to bank transactions at the millennium change.

Treasury policies

Merger

Glaxo Wellcome plc and SmithKline Beecham plc merged on 27th December 2000 to form GlaxoSmithKline plc. Until that date, Glaxo Wellcome and SmithKline Beecham operated as separate businesses under the management of their respective Boards. The GlaxoSmithKline treasury policies noted below are those previously operated by both Glaxo Wellcome and SmithKline Beecham, except where indicated.

Treasury

GlaxoSmithKline plc is a UK-based business, reporting in sterling and paying dividends out of sterling profits.

The role of Corporate Treasury in GlaxoSmithKline will be to manage and monitor the Group's external and internal funding requirements and financial risks in support of Group corporate objectives. Treasury activities will be governed by policies and procedures approved and monitored by the Board. GlaxoSmithKline maintains treasury control systems and procedures to monitor foreign exchange, interest rate, liquidity, credit and other financial risks.

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 of the products in the Group's 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 and dividends. The Group will from time to time have additional demands for finance, such as for share purchases and acquisitions.

GlaxoSmithKline operates at low levels of net debt. In addition to the strong positive cashflow from normal trading activities, additional liquidity is readily available via the US$ commercial paper programme.

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.

GlaxoSmithKline uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from those operations.

Financial instruments comprise cash and liquid resources, borrowings and spot foreign exchange contracts.

GlaxoSmithKline uses a number of derivative financial instruments to manage the market risks from Treasury operations. Derivative instruments, principally comprising forward foreign currency contracts, interest rate and currency swaps, are used by Corporate Treasury to swap borrowings and liquid assets into the currencies required for Group purposes and to manage exposure to market risks from changes in foreign exchange rates and interest rates.

GlaxoSmithKline 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 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 medium-term instruments and short-term finance.

GlaxoSmithKline 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.

Maturity and counterparty risk

The Group invests centrally managed liquid assets primarily in Government bonds and short-term debt instruments with a minimum AA rating.

The Group manages its net borrowing requirement through a portfolio of medium-term borrowings, including bonds, together with short-term finance under a US$ commercial paper programme.

The Group's medium-term borrowings mature at dates between 2001 and 2006. The Group allows cash generation to finance repayment of medium-term debt and to reduce short-term borrowings.

GlaxoSmithKline's long-term debt rating is AA from Standard and Poor's and Aa2 from Moody's. The agencies' short-term rating for paper issued under the Group's commercial paper programme is A1+ and P1 respectively.

Interest rate risk management

Glaxo Wellcome operated to a fixed/floating interest-rate profile broadly consistent with the medium-term/short-term profile of borrowings.

SmithKline Beecham's policy on interest rate management required that the proportion of net borrowings at fixed rates rose with the ratio of forecast net interest payable to trading profit.

No changes to the interest rate profile of borrowings have taken place since the merger.

Foreign exchange risk management

In Glaxo Wellcome, foreign currency transaction exposure on normal trade flows arose primarily in Group companies with a sterling functional currency, both in respect of external and intra-Group trade and was not hedged. Glaxo Wellcome policy was 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 were matched centrally and intra-Group payment terms were managed to reduce risk. Exceptional foreign currency cash flows were hedged selectively under the management of Corporate Treasury.

SmithKline Beecham hedged its foreign exchange transaction exposures, both internal and external, on a rolling 12-month programme using forward foreign exchange contracts. GlaxoSmithKline has adopted the policy previously followed by Glaxo Wellcome. In consequence, SmithKline Beecham's forward contracts in respect of internal transactions at the merger date were terminated in January 2001. Forward contracts covering external currency sales and purchases will be allowed to run to maturity.

A high proportion of Group borrowings, including the commercial paper programme, is in US dollars, to benefit from the liquidity of US$ 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 overseas assets. Borrowings denominated in, or swapped into, foreign currencies which match investments in overseas Group assets are treated as a hedge against the relevant net assets.

Derivative financial instruments and hedging policy

The Group uses a limited number of currency swaps and forwards and interest rate swaps to redenominate external borrowings into the currencies and interest rate coupon required for Group purposes. The duration of these swaps matches the duration of the principal instruments.

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. The contracts are all of less than a year's duration.

Derivative instruments are accounted as hedges of the relevant assets or liabilities.

Equity risk management

The Group does not use derivative financial instruments to manage equity risk. Equity investments classified as current assets are available for sale and the Group manages disposal to optimise market price on realisation.

Financial assets and liabilities

An analysis of net debt is given in Note 26 to the financial statements. An analysis of financial assets and liabilities at carrying value and fair value and a reconciliation to net debt are given in Note 34, together with a discussion of derivative financial instruments and quantitative disclosures about market risk in accordance with the requirements of Financial Reporting Standard 13.

Group net debt reduced by £1.7 billion between 31st December 1999 and 31st December 2000. This was primarily due to the receipt in December 2000 of proceeds of £1.5 billion from product divestments. Apart from this, GlaxoSmithKline was cash positive in 2000.

The Group's financial assets and liabilities at 31st December 2000 are representative of the treasury policies and strategies of Glaxo Wellcome and SmithKline Beecham respectively, applied consistently during the year. There were no significant changes in such policies throughout the year. Since the year end there has been one significant change: GlaxoSmithKline has adopted Glaxo Wellcome's policy of not hedging foreign exchange transaction exposure on normal trade flows.

Share purchases

In 2000 the Group funded market purchases by Employee Share Ownership Trusts of shares in Glaxo Wellcome plc and SmithKline Beecham plc amounting to £1,232 million (1999 – £1,291 million). The shares are held by the Employee Share Ownership Trusts to satisfy future exercises of options and awards under the Group share option and award schemes. A proportion of the purchases are in respect of options where the rules of the scheme require the company to satisfy exercises through market purchases rather than the issue of new shares.

The greater part of the purchases represents an opportunity to acquire shares to satisfy future exercises at prices below the exercise price. The purchases are matched to options the majority of which have become exercisable as a result of the merger. These purchases diminish the dilutive effect of new share issues on shareholders' capital and earnings.

The company expects to seek shareholder approval, at the Annual General Meeting, to make market purchases of its own shares, if such purchases are considered to be in the best interests of shareholders generally.

European Monetary Union

GlaxoSmithKline's European companies are making preparations for the full introduction of the single currency within Europe in 2002. Preparations include the conversion of information systems and the training of staff in new business processes. Local implementation teams are supported by a central co-ordination team.

In the short-term the company does not expect the costs or benefits from the introduction of the euro to have a material effect on the Group's trading performance.

1999 Year

In accordance with US SEC disclosure requirements, the following discussion compares results for the year to 31st December 1999 with the results for the year to 31st December 1998.

Exchange

Average sterling exchange rates in 1999 were weaker against the US dollar and the yen and stronger against European currencies than in 1998. These currency movements had a small net favourable effect on sterling results for sales, operating profit, earnings and earnings per share in 1999 compared to 1998, overstating by approximately one per cent the underlying performance of the business.

Growth rates are stated at constant exchange rates.

Pharmaceutical sales

GlaxoSmithKline pharmaceutical sales in 1999 were £13,618 million, compared to £12,563 million in 1998, representing an increase of seven per cent. Although there were uncertainties as to likely buying patterns before the millennium change, there was only a minimal positive effect on Group sales.

In 1999, new products launched within the key franchises were *Avandia* (for metabolic & gastro-intestinal), *Seretide* (for asthma), *Ziagen* and *Agenerase* (for HIV), *Zeffix* (for hepatitis B), and *Relenza* (for influenza). Sales of these products were £285 million in 1999, and the growth is expected to continue in 2000.

Pharmaceutical sales by therapeutic area

Central nervous system

In the CNS franchise, a decline of four per cent in migraine was offset by growth of 21 per cent in *Seroxat/Paxil*, 25 per cent in *Lamictal* and 12 per cent in *Wellbutrin*.

Seroxat/Paxil, the first selective serotonin reuptake inhibitor (SSRI) approved for panic and social anxiety disorder, recorded global sales of £1.3 billion up 21 per cent. It is the number one or number two SSRI in 20 countries, including Belgium, France, Ireland, Italy, Germany, Greece, the Netherlands, Spain, the UK, Canada and Brazil.

Sales of the Group's migraine products, *Imigran/Imitrex* and *Naramig/Amerge*, declined by four per cent. In the USA, the decline was stabilised in the second half of the year. GlaxoSmithKline remains the market leader for migraine products in the US market, with a share of 77 per cent of the US select migraine market.

Wellbutrin, for depression, continues to show strong growth, substantially all of which is generated in the USA and Canada.

Lamictal, for epilepsy, has continued to develop into a major product with strong growth in many markets contributing to an increase in sales of 25 per cent.

Sales of *Zyban*, for treating the problem of smoking addiction, declined in the US market, with the decline in the first half of the year stabilised in the second half. This was partially offset by strong growth in Canada. In December 1999, the Group received regulatory approval in the Netherlands, acting as the reference state in Europe, to market *Zyban*.

Requip benefited from its continued rollout in Europe. Sales rose to £49 million, an increase of 76 per cent. A landmark study released in July 1999 at a scientific congress on Parkinson's disease showed that *Requip* is 15 times less likely to produce dyskinesias, involuntary body movements often associated with levodopa, a common Parkinson's disease therapy. In September 1999, the Group announced that it had entered into a licence agreement with SkyePharma to develop a once-daily version of *Requip*.

Respiratory

Growth in respiratory was driven by *Flixotide*, and by launches of *Seretide* in Europe. GlaxoSmithKline remained the leader in asthma products with a 31 per cent share of the global market.

Flixotide/Flovent, the inhaled corticosteroid, grew by 33 per cent. It was the world's leading asthma product and the Group's third largest product. Growth was strong across all geographic regions, with growth of 44 per cent in the USA, driven by direct-to-consumer television advertising and physician education programmes. Following launch in Japan in November 1998 as *Flutide*, the product is now available in all major markets.

In October 1999, *Flixotide* received approval for use in the treatment of Chronic Obstructive Pulmonary Disease (COPD) in Germany, the first approval from a series of applications. *Flixotide* is the first inhaled corticosteroid to be licensed for use in COPD.

Serevent, the long acting bronchodilator used for the treatment of both asthma and COPD, also contributed significantly to growth in the respiratory franchise.

The new asthma product, *Seretide* was launched in several West Europe markets, contributing nearly £50 million in sales.

In the UK, the *Diskus* inhaler, a novel delivery device for asthma treatments, won a 1999 Queen's Award for Technological Achievement.

Flixonase grew strongly, with an increase of 25 per cent in the USA. The Group remained the leader in the topical nasal decongestant market, with a global market share of 28 per cent.

Sales of older respiratory products in most major markets were affected by competition from both generic products and newer products, but growth was achieved in several emerging markets and in Australia from the introduction of a CFC-free version of *Ventolin*.

Anti-bacterials

Augmentin continued to deliver a strong performance, increasing 16 per cent worldwide. In the USA, *Augmentin* reached the $1 billion mark while the product's share rose to 23 per cent of the market.

In Europe, principally France, Belgium and Spain, *Augmentin* once again outperformed the market, enhancing its leadership position despite patent expiry in a number of countries.

Zinnat grew strongly in the emerging markets of Central and Eastern Europe, Africa and the Middle East and Latin America. Increased competition in the more established markets of USA and West Europe caused a decline of one per cent. Sales of *Fortum,* a mature product, declined. *Amoxil*, one of the main products for prescription medicines in France, showed growth of two per cent.

Pharmaceutical sales by therapeutic area 1999

Therapeutic area/ major products	% of total	Total 1999 £m	Total 1998 £m	Total % CER* growth	USA 1999 £m	USA % CER growth	Europe 1999 £m	Europe % CER growth	RoW 1999 £m	RoW % CER growth
CNS	**20**	**2,720**	**2,400**	**12**	**1,880**	**7**	**621**	**23**	**219**	**28**
Depression		**1,636**	**1,352**	**19**	**1,189**	**17**	**321**	**25**	**126**	**25**
Seroxat/Paxil		1,283	1,045	21	844	20	321	25	118	19
Wellbutrin		353	307	12	345	10	–	–	8	>100
Migraine		**716**	**732**	**(4)**	**520**	**(8)**	**160**	**9**	**36**	**6**
Imigran/Imitrex		653	698	(8)	484	(11)	137	2	32	(1)
Naramig/Amerge		63	34	84	36	73	23	90	4	>100
Lamictal		223	177	25	96	26	101	24	26	29
Requip		49	28	76	20	67	27	81	2	>100
Zyban		72	96	(26)	55	(41)	1	>100	16	>100
Respiratory	**17**	**2,382**	**2,096**	**13**	**829**	**16**	**1,076**	**11**	**477**	**11**
Flixotide/Flovent		666	498	33	245	44	319	17	102	72
Serevent		569	498	14	248	13	287	12	34	36
Seretide		48	–	>100	–	–	47	>100	1	>100
Flixonase/Flonase		333	273	19	233	25	43	1	57	11
Ventolin		368	380	(3)	37	(30)	163	(1)	168	4
Becotide		277	309	(11)	20	(26)	179	(8)	78	(14)
Anti-bacterials	**17**	**2,383**	**2,278**	**4**	**1,001**	**10**	**783**	**2**	**599**	**(1)**
Augmentin		1,110	954	16	600	26	353	5	157	9
Zinnat/Ceftin		420	411	2	205	(1)	118	3	97	5
Fortum		232	237	(5)	45	(4)	95	(5)	92	(6)
Amoxil		197	204	2	31	>100	81	(8)	85	(4)
Anti-virals	**12**	**1,610**	**1,347**	**17**	**733**	**26**	**506**	**14**	**371**	**7**
HIV		**982**	**779**	**26**	**550**	**31**	**311**	**24**	**121**	**10**
Trizivir		–	–	–	–	–	–	–	–	–
Combivir		454	267	71	275	37	134	>100	**45**	99
Epivir		325	359	(10)	152	(6)	118	(11)	**55**	(18)
Retrovir		86	150	(43)	31	(47)	37	(47)	**18**	(22)
Ziagen		86	3	>100	64	>100	19	>100	**3**	>100
Agenerase		31	–	>100	28	>100	3	>100	–	–
Herpes		**564**	**535**	**–**	**154**	**5**	**174**	**(2)**	**236**	**–**
Valtrex		177	133	32	110	29	51	38	16	32
Zovirax		387	402	(10)	44	(28)	123	(13)	220	(2)
Zeffix		15	2	>100	2	(12)	1	>100	12	>100
Relenza		16	–	>100	10	>100	5	>100	1	>100
Metabolic and gastro-intestinal	**7**	**886**	**908**	**(6)**	**233**	**6**	**303**	**(10)**	**350**	**(8)**
Avandia		89	–	>100	88	>100	–	–	1	>100
Zantac		632	755	(19)	135	(35)	240	(16)	257	(10)
Vaccines	**6**	**776**	**726**	**7**	**210**	**5**	**375**	**3**	**191**	**19**
Hepatitis		480	531	(9)	164	(11)	230	(4)	86	(20)
Infanrix		120	96	26	21	51	78	5	21	>100
Oncology and emesis	**5**	**613**	**549**	**10**	**417**	**11**	**126**	**11**	**70**	**(2)**
Zofran		416	389	5	275	7	88	7	53	(9)
Hycamtin		92	69	30	62	34	24	20	6	39
Cardiovascular	**3**	**449**	**390**	**14**	**287**	**19**	**109**	**2**	**53**	**17**
Coreg		125	69	75	118	>100	1	(84)	6	33
Dermatologicals	**2**	**254**	**243**	**4**	**42**	**(21)**	**68**	**–**	**144**	**16**
Arthritis *(Relafen)*	**2**	**275**	**301**	**(11)**	**245**	**(10)**	**18**	**(15)**	**12**	**(12)**
Other	**6**	**842**	**949**	**(11)**	**171**	**(32)**	**254**	**4**	**417**	**(7)**
Total sales continuing business	**97**	**13,190**	**12,187**	**7**	**6,048**	**8**	**4,239**	**8**	**2,903**	**4**
Divested products	**3**	**428**	**376**	**8**	**228**	**13**	**49**	**4**	**151**	**9**
Famvir		132	102	26	89	30	23	3	20	50
Kytril		222	205	4	133	–	26	5	63	14
Other		74	69	(8)	6	>100	–	–	68	(4)
Total pharmaceutical sales	**100**	**13,618**	**12,563**	**7**	**6,276**	**9**	**4,288**	**8**	**3,054**	**4**

*CER represents sales growth at constant exchange rates. Sterling growth can be calculated from the figures given above.

Anti-virals

The viral infections franchise benefited from the launch of the new HIV products, and from further growth of *Combivir*. The Group's HIV portfolio showed a growth of 26 per cent, with growth accelerating in the second half of the year.

GlaxoSmithKline remained the market leader in HIV. *Combivir* became the largest of the Group's HIV products, reflecting conversion from *Epivir* and *Retrovir*.

Product launches of *Ziagen* and *Agenerase* added £114 million to sales growth in 1999. *Ziagen*, a new generation reverse transcriptase inhibitor, was first launched in the USA in 1999 and received regulatory approval for European launch in July 1999. *Agenerase*, a protease inhibitor, was launched in the USA in May 1999.

In December 1999, the Group submitted regulatory applications to market *Trizivir*, a new triple combination therapy combining *Ziagen* and *Combivir*, in the European Union and the USA. *Trizivir* is the first medicine to combine three anti-HIV therapies in one tablet, offering a simple dosing regime to assist adherence to treatment.

In the herpes area, strong sales growth of *Valtrex*, notably in the USA, France and Italy, offset a modest decline in sales of *Zovirax* due to generic competition. Despite the competition from generic aciclovir, GlaxoSmithKline remained the leader in the global herpes market with a market share of 49 per cent.

The Group's influenza treatment, *Relenza*, was launched in North America and in West Europe markets and approval was received in Japan. In the UK the National Institute for Clinical Excellence issued guidance discouraging the prescribing of *Relenza* under the National Health Service until more extensive data on the product became available.

Zeffix, for the treatment of chronic hepatitis B, was launched in a number of markets in 1999 including Europe and the USA. But the principal markets for the product are in Asia Pacific where it was launched in Korea in May 1999 and in China and Taiwan later in the year.

Metabolic and gastro-intestinal

Sales of *Zantac* reduced by 19 per cent overall and by 35 per cent in the USA. Although the rate of decline had slowed following the 1997 patent expiries, generic competition continued to impact sales. *Zantac* was only five per cent of Group sales in 1999 and only two per cent of sales in the USA.

Sales of *Avandia* in 1999 were £89 million. During 1999 it was launched in 13 markets. An *Avandia* direct-to-consumer campaign was launched in the USA in late September. The campaign directs patients to the World Wide Web for *Avandia* and to a telephone number where they can receive information to help them manage their type 2 diabetes.

Vaccines

Twinrix, the world's first and only combined hepatitis A and B vaccine in both adult and paediatric strengths, was among the leading performers with a sales increase of 49 per cent in 1999. Launched in over 30 countries worldwide, *Twinrix* is currently under review by the US FDA. Overall sales of hepatitis vaccines were £480 million, a decline of nine per cent.

Infanrix, the range of combination vaccines for diphtheria, tetanus and pertussis (whooping cough), grew 26 per cent to £120 million helped by the strong performance of *Infanrix* in the USA and *Infanrix Hep B*, which provides additional protection against hepatitis B, and Cinquerix, in Italy.

First year sales of *LYMErix*, the world's first vaccine for the prevention of Lyme disease, reached £25 million. Lyme disease is a potentially debilitating condition, particularly prevelant in parts of North America, caused by the bite of infected ticks.

Oncology and emesis

Growth in the oncology area was driven by *Zofran* and in particular by the orally disintegrating tablet (ODT) formulation launched into the US market in 1999.

Hycamtin grew 30 per cent to £92 million. It is approved in 61 countries for second-line treatment of ovarian cancer, and 18 countries for second-line treatment of small cell lung cancer.

Other therapeutic areas

In the cardiovascular sector sales of *Coreg* grew 75 per cent to £125 million.

Sales of dermatological products increased to four per cent.

Sales of the arthritis treatment *Relifex/Relafen* (nabumetone), a non-steroidal anti-inflammatory drug, declined 11 per cent as a result of increased competition from COX-2 inhibitors.

Sales of 'other products' declined largely due to the disposal of various older products in certain markets and the cessation of sales under contracts for the manufacture of OTC products for Warner-Lambert.

Divested products

Sales of products divested as a result of the Glaxo Wellcome and SmithKline Beecham merger were £428 million in 1999. The two main products were *Kytril*, an anti-emetic to treat chemotherapy and radiotherapy induced nausea and vomiting and *Famvir*, an anti-viral. Sales of *Kytril* were £222 million and sales of *Famvir* were £132 million.

Pharmaceutical sales by geographic area

USA

Sales growth was fuelled by *Paxil, Augmentin, Avandia, Flixotide, Combivir, Ziagen, Coreg* and *Flonase.* Sales benefited from the launch of new products, supported by higher direct-to-consumer advertising. Growth was affected by wholesaler buying patterns in 1998. Generic competition continued to affect *Zantac* and a number of older products. Product disposals caused some year-on-year loss of sales.

In the Respiratory therapeutic area, sales growth was driven by increases of 44 per cent in *Flixotide*, reflecting the implementation of direct-to-consumer advertising campaigns, and 25 per cent in *Flonase*. The HIV portfolio contributed sales growth of 31 per cent, with the launches of *Ziagen* and *Agenerase* and with *Combivir* increasing market share in an expanding market.

Avandia was launched for the treatment of type 2 diabetes. The drug, which targets insulin resistance, received approval from the FDA for both monotherapy and in combination with metformin.

Europe

Growth in the European region, representing 32 per cent of total sales, was driven by the larger West Europe markets with significant individual contributions from France, Italy, Germany and Spain.

Pharmaceutical sales by geographic area 1999

Region/ major markets	% of total	1999 £m	1998 £m	% CER* growth
USA	**46**	**6,276**	**5,635**	**9**
Europe	**32**	**4,288**	**4,059**	**8**
France	6	774	726	
UK	5	715	730	
Italy	4	563	515	
Germany	4	507	492	
Spain	3	432	393	
Central & Eastern Europe	3	460	413	
Other Europe	7	837	790	
Rest of World	**22**	**3,054**	**2,869**	**4**
Asia Pacific	7	929	876	
Japan	5	704	592	
Latin America	5	636	662	
Middle East, Africa	3	461	468	
Canada	2	324	271	
	100	**13,618**	**12,563**	**7**

*CER represents sales growth at constant exchange rates. Sterling growth can be calculated from the figures given above.

In France, the Group's second largest individual market, the three key franchises of respiratory, anti-virals and CNS contributed most significantly to growth. In Italy, respiratory and anti-viral products led the growth. In Spain, a strong performance in the respiratory area from *Serevent* and *Flixotide* drove the growth. In the UK, growth was in part affected by parallel trade.

Across Europe as a whole CNS, respiratory, and anti-virals led the growth with strong performances from *Seroxat/Paxil, Flixot*ide, *Serevent, Seretide*, *Combivir* and *Requip*. In Central and Eastern Europe Poland showed strong growth in respiratory sales as the benefits of the acquisition of Polfa Poznan in January 1998 continued to flow through.

Rest of World

Strong performances in a number of markets, including Australia, Canada and Mexico offset the effects of adverse economic conditions in other markets. Across the region, growth was particularly strong in the respiratory area, notably *Flixotide*, with good growth in CNS, dermatologicals, and vaccines.

Sales grew in the Asia Pacific region, with significant contributions from the dermatologicals, respiratory and anti-viral therapy areas. Australia and India were the Group's most significant markets in this region. In Japan strong growth of *Flixotide* was offset by a decline in *Zantac*.

A number of markets in the Latin America region experienced difficult economic conditions. Mexico and Brazil provided growth, while sales in most other markets declined. Strong growth was achieved across the region for *Combivir*, with some offsetting effect on sales of *Epivir* and *Retrovir*. In the Middle East, Africa area, good performance was achieved in a number of markets. In Egypt, the acquisition of a local pharmaceutical company contributed to strong growth.

Sales in the Canadian market grew strongly, dominated by growth in the respiratory franchise. A successful launch of *Zyban* captured 78 per cent of the prescription smoking cessation market and contributed over £9 million to sales growth.

Consumer Healthcare sales

Consumer Healthcare sales grew eight per cent to £2,546 million.

	1999 £m	1998 £m
OTC medicines	**1,434**	1,328
Oral care	**614**	584
Nutritional healthcare	**488**	459
Divested products	**10**	4
	2,546	2,375

OTC medicines

Sales of OTC medicines increased by eight per cent. Growth in the sales of smoking cessation products was driven by the launch of *Nicorette CQ/Nicabate* in Europe and Australia. Analgesics sales increased two per cent. *Panadol* grew eight per cent, fuelled by strong performances in Australia and the Middle East, offsetting a decrease in sales of *Solpadeine*.

Oral care

Sales of oral care products reached £614 million, an increase of six per cent. This performance was driven by strong sales of *Aquafresh* in the US and International markets, and *Odol* and *Dr Best* in Germany. Global sales of the *Aquafresh* line of toothpastes and toothbrushes were £357 million, up nine per cent.

Nutritional healthcare

The nutritional healthcare business also turned in a strong performance in 1999. The drinks *Horlicks*, *Lucozade* and *Ribena* helped to advance sales to £488 million, an increase of seven per cent.

Healthcare Services sales

Healthcare Services principally comprised Diversified Pharmaceutical Services, the pharmaceutical benefits management company, which was sold on 1st April 1999, and Clinical Laboratories, which was sold on 16th August 1999. Sales for Healthcare Services were £632 million in 1999.

Trading profit – business performance

In order to illustrate business performance, the analysis below of trading profit, and the following discussion, exclude the manufacturing restructuring costs.

	1999 £m	1998 £m
Sales	**16,796**	16,002
Cost of sales	**(3,499)**	(3,300)
Selling, general and administration	**(6,002)**	(5,375)
Research and development	**(2,285)**	(2,072)
Operating costs – retained businesses	**(11,786)**	(10,747)
Operating costs – Healthcare Services	**(607)**	(988)
Trading profit	**4,403**	4,267

Cost of sales

Cost of sales, as a percentage of sales, increased to 20.8 per cent. This reflected the offset of the change in product mix with higher cost, particularly of respiratory devices and the new HIV products with increased sales of higher margin products, changing geographic mix of sales and benefits generated by global supply initiatives.

Selling, general and administration

Selling, general and administrative expenditure increased to 35.7 per cent of sales, reflecting a planned acceleration in marketing investment to support new product launches, particularly *Avandia, Seretide*, *Relenza* and *Lotronex,* and direct-to-consumer advertising in the USA. These expenses were partially offset by strict management of infrastructure costs.

Research and development

Research and development (R&D) expenditure increased to £2.3 billion, 13.6 per cent of sales. The increase was partly due to more products undergoing late-stage clinical trials including *Avandia*, *Ariflo* and *Factive* as well as continued investment in drug discovery. Pharmaceuticals R&D was £2,211 million and Consumer Healthcare R&D was £74 million.

Divested business – Healthcare Services

Sales for the year were £632 million and trading profit £25 million. Trading margin declined to four per cent due to higher managed care and billing costs and the costs associated with an incident at the Palo Alto facility.

Trading profit

Trading profit increased two per cent, less than the increase in sales mainly due to the increase in selling, general and administration expenditure of 11 per cent.

Profit before taxation – business performance

The analysis and discussion below of profit before taxation relates to business performance.

Other operating income/(expense)	1999 £m	1998 £m
Royalties and other income	**387**	257
Other operating expense	**(138)**	(80)
	249	177
Income from equity investments	**164**	44
	413	221

In 1999 the Group realised a profit of £113 million on disposal of part of its shareholding in BioChem Pharma, Inc. The holding had been acquired in 1990 when the Group first entered into its research collaboration with BioChem, a collaboration which led to the successful development and marketing of *Epivir*, *Combivir* and *Zeffix*. The disposal represented a realisation of value earned by the Group from the collaboration. GlaxoSmithKline committed to retaining its residual holding until 31st December 2000.

The Group disposed of a range of anaesthetic products in the USA and some minor products in Europe.

Additionally, the Group recognised the costs of termination or re-arrangement of certain supply contracts, including costs arising from the withdrawal of *Raxar*.

Joint ventures and associates

The Group reduced its interests in joint ventures. The Glaxo Wellcome Warner-Lambert OTC joint venture had been dissolved in December 1998 and the Healthmatics joint venture in the USA was closed during 1999. The Group's interest in an associated company was being marketed for sale, giving rise to the charge to the profit and loss account of goodwill previously written off to reserves, and in another associated company the Group reduced its holding.

The Group had a continuing investment in Affymetrix Inc. and disposed of some of its shares at a gain of £39 million.

As part consideration for the disposal of the Healthcare Services business, Clinical Laboratories, the Group acquired a 29.2 per cent equity interest in Quest Diagnostics, Incorporated.

Net interest payable

Net interest payable for 1999 was £162 million a decrease of £30 million compared to 1998, reflecting a lower level of net borrowings due to cash inflows from the sales of the Healthcare Services businesses and lower interest rates. The 1999 expense includes £7 million relating to the Group's share of Quest's interest expense.

Restructuring costs and divested business

Manufacturing and other restructuring

The Group announced a restructuring of its manufacturing operations, with the objective of optimising capacity utilisation and improving factory-to-market lead times along the Group supply chain. Costs of £443 million were recognised in 1999.

Divested business – Healthcare Services

Healthcare Services businesses were divested during the year. Diversified Pharmaceutical Services and Diversified Prescription Delivery were sold to Express Scripts, Inc. Clinical Laboratories was sold to Quest Diagnostics. Manufacturing and restructuring costs in 1999 include £30 million for restructuring Healthcare Services operations.

Taxation

The taxation charge on business performance for the year was £1,327 million. As a percentage of profit before taxation, this represents a rate of taxation of 28.2 per cent compared to 29.2 per cent in 1998, reflecting lower tax rates in a number of countries and a change in profit mix. After net tax credits in respect of restructuring and disposal of subsidiaries the total taxation charge for the year was £1,218 million.

Earnings	1999 £m	1998 £m
Earnings	**2,859**	2,435
Earnings per Ordinary Share	**46.7p**	39.9p
Earnings per ADS	**$1.51**	$1.32
Adjusted earnings	**3,222**	2,947
Adjusted earnings per Ordinary Share	**52.7p**	48.3p
Adjusted earnings per ADS	**$1.71**	$1.60
Weighted average number of shares (millions)	**6,118**	6,100

Adjusted earnings and adjusted earnings per share are presented above in order to illustrate business performance of GlaxoSmithKline. Adjusted earnings per share increased eight per cent during the year.

Selected financial data UK/US GAAP

Profit and loss account	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Amounts in accordance with UK GAAP					
Business performance – retained businesses					
Sales	**18,079**	16,164	14,938	14,736	14,911
Operating profit	**5,300**	4,791	4,412	4,471	4,691
Profit before taxation	**5,327**	4,683	4,299	4,242	4,415
Earnings/Net income	**3,697**	3,204	2,891	2,835	2,938

Business performance: results exclude merger items and restructuring costs, and in 1999 and earlier years exclude Healthcare Services.

Total results					
Sales	**18,079**	16,796	16,002	15,716	16,212
Operating profit	**4,729**	4,343	4,306	4,520	4,736
Profit before taxation	**6,029**	4,236	3,564	4,291	4,460
Earnings/Net income	**4,154**	2,859	2,435	2,884	2,983
Earnings per Ordinary Share	**68.5p**	46.7p	39.9p	47.7p	49.6p
Weighted average number of shares (million)	**6,065**	6,118	6,100	6,052	6,013
Dividends per GlaxoSmithKline ordinary share (p):					
Glaxo Wellcome shareholder	**38.0**	37.0	36.0	35.0	34.0
SmithKline Beecham shareholder	**29.66**	26.69	24.02	21.85	19.61
Dividends per GlaxoSmithKline ADS ($):					
Glaxo Wellcome shareholder	**1.16**	1.20	1.19	1.17	1.16
SmithKline Beecham shareholder	**0.91**	0.86	0.81	0.74	0.63

Dividends are expressed in terms of a GlaxoSmithKline share/ADS.

Amounts in accordance with US GAAP					
Total results					
Sales	**9,559**	8,490	7,983	7,980	8,341
(Loss)/income from operations	**(4,456)**	1,634	1,816	1,951	2,099
(Loss)/profit before tax	**(4,399)**	1,584	1,804	1,819	1,946
Net (loss)/income	**(5,228)**	913	1,010	952	979

Balance sheet	£m	£m	£m	£m	£m
Amounts in accordance with UK GAAP					
Total assets	**21,590**	18,774	18,104	16,514	16,064
Net assets	**8,955**	6,607	5,562	4,570	3,505
Equity shareholders' funds	**7,711**	5,464	4,449	3,468	2,470
Amounts in accordance with US GAAP					
Total assets	**65,140**	13,901	14,035	13,831	14,623
Net assets	**46,239**	7,281	8,073	7,839	8,195
Shareholders' equity	**44,995**	7,230	8,007	7,792	8,153

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').

Average	1.51	1.61	1.66	1.64	1.57

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 2001	Jan 2001	Dec 2000	Nov 2000	Oct 2000	Sept 2000
High	1.48	1.50	1.50	1.45	1.47	1.48
Low	1.44	1.46	1.44	1.40	1.43	1.40

The noon buying rate on 15th March 2001 was £1=US$1.44.

Results under US accounting principles 2000 and 1999

This review discusses the results of GlaxoSmithKline plc for the years 2000 and 1999 and the shareholders' equity at 31st December 2000 prepared under US accounting principles.

Merger of Glaxo Wellcome plc and SmithKline Beecham plc
GlaxoSmithKline plc acquired Glaxo Wellcome plc and SmithKline Beecham plc by way of a Scheme of Arrangement for the merger of the two companies which became effective on 27th December 2000.

Under UK GAAP the financial statements of GlaxoSmithKline plc for the period to 31st December 2000 have been prepared as a merger of Glaxo Wellcome plc and SmithKline Beecham plc. The results of Glaxo Wellcome plc and SmithKline Beecham plc for the year to 31st December 2000, and the balance sheets at 31st December 2000, have been combined, with comparative figures prepared on a similar basis for the years to 31st December 1999 and 31st December 1998 and at 31st December 1999.

Under US GAAP this business combination did not qualify for pooling of interests accounting and therefore the financial statements of GlaxoSmithKline plc for the period to 31st December 2000 have been prepared as an acquisition of SmithKline Beecham plc by Glaxo Wellcome plc at 27th December 2000. The results of SmithKline Beecham for all periods prior to that date have not been consolidated. The net assets of SmithKline Beecham have been incorporated in the consolidated balance sheet of GlaxoSmithKline plc at 31st December 2000 at their fair value.

Results 2000 and 1999

Summary of results	2000 £m	1999 £m	1998 £m
Sales	**9,559**	8,490	7,983
Trading profit	**2,348**	2,162	2,546
Operating (loss)/profit	**(4,456)**	1,634	1,816
(Loss)/profit before tax	**(4,399)**	1,584	1,804
Net (loss)/income	**(5,228)**	913	1,010
Basic earnings per share (pence)	**(145.6)**	25.2	28.1

The results reflect the trading operations of Glaxo Wellcome alone, with certain purchase acquisition accounting adjustments in 2000.

Sales of £9,559 million in 2000 represented an increase over 1999 of 10 per cent at constant exchange rates. Sales of £8,490 million in 1999 represented an increase over 1998 of 5 per cent. This demonstrates the accelerating trend of sales growth that Glaxo Wellcome expected to achieve, following a period of lower growth in the aftermath of the Zantac and Zovirax patent expiries in 1997.

Trading profit increased at a lower rate of growth than sales in both 2000 and 1999, reflecting higher manufacturing costs of new products and investment in selling to support product launches. Trading profit is lower on a US GAAP basis than a UK GAAP basis, resulting primarily from a charge under FAS 123 for stock-based compensation.

Operating (loss)/profit includes an annual charge for the amortisation of goodwill and intangible assets arising from Glaxo's acquisition of Wellcome in 1995. These assets are recognised on the balance sheet under US GAAP but not for UK GAAP. Additionally in 2000, a one-time charge of £6,324 million has been made to write off the in-process research and development acquired on the acquisition of SmithKline Beecham. The effect of these charges is to produce in 2000 a loss before tax of £4,399 million and, after tax and minority interest, a net loss for the year of £5,228 million, compared to a profit before tax of £1,584 million and net income of £913 million in 1999.

There is no charge for amortisation in 2000 in respect of the acquired intangible assets and goodwill of SmithKline Beecham, as for accounting purposes the effective date of acquisition is taken to be 31st December 2000.

Shareholders' equity at 31st December 2000

Changes in shareholders' equity	2000 £m	1999 £m
At beginning of year	**7,230**	8,007
Net (loss)/income	**(5,228)**	913
Shares issued on acquisition	**43,919**	–
Share issues (share options)	**121**	104
Treasury stock	**(218)**	(211)
Dividends	**(1,334)**	(1,305)
Other	**505**	(278)
At end of year	**44,995**	7,230

Shareholders' equity at 31st December 2000 under UK GAAP in respect of Glaxo Wellcome was £3,913 million.

The acquisition of SmithKline Beecham on 27th December 2000, financed by issuance of common stock at a premium to par, increased shareholders' equity by £43.9 billion. The consideration is represented by some £2.7 billion of assets at book value on a US GAAP basis (£3.8 billion on a UK GAAP basis), £34.9 billion fair value adjustments, principally in respect of intangible assets and goodwill, and a value of £6.3 billion ascribed to in-process research and development which has been written off in the income statement.

The book values of both Glaxo Wellcome and SmithKline Beecham net assets on a UK GAAP basis are adjusted for the normal UK/US GAAP differences. The principal adjustments are: the unamortised goodwill and intangible assets from Glaxo's acquisition of Wellcome; dividends on a paid rather than payable basis; the treatment of shares held by the employee share ownership trusts as treasury stock.

Prospects

Glaxo SmithKline has published expectations of future growth in earnings per share, on a UK GAAP basis, and excluding merger and restructuring items in 2001 and 2002. Refer to 'Outlook' (page 57).

Glaxo SmithKline expects to incur costs, and to deliver expense savings and synergies, from the integration of Glaxo Wellcome and SmithKline Beecham operations in 2001 and beyond. Under UK GAAP these costs will be expensed. Under US GAAP certain of these costs will be expensed and others will represent an adjustment to the value of the acquired goodwill.

The acquired SmithKline Beecham intangible assets and goodwill will be amortised over their estimated useful lives. In the case of goodwill this is expected to be 20 years. In upcoming years the expected additional annual charge related to the amortisation of intangibles and goodwill will be approximately £2.1 billion.

FAS 133
GlaxoSmithKline intends to adopt FAS 133 'Accounting for Derivative Instruments and Hedging Activities' on 1st January 2001. In order to determine the impact of adopting this US accounting standard, the Group has undertaken a review of its derivative instruments as well as its contracts and agreements which may contain possible embedded derivatives. Based on the results of this review, the Group has determined that the impact of adopting FAS 133 will not have a material impact on the Group's financial results or financial position, prepared under US GAAP. A further description of the requirements of FAS 133 is included in Note 37 to the financial statements.

Financial statements

This section comprises the Directors' statements, the auditors report on the financial statements, the financial statements consisting of the principal financial statements and supporting Notes, and additional financial data.

Directors' statements of responsibility

GlaxoSmithKline plc acquired Glaxo Wellcome plc and SmithKline Beecham plc by way of a scheme of arrangement for the merger of the two companies that became effective on 27th December 2000. Until that date Glaxo Wellcome and SmithKline Beecham operated separately under the management of their respective Boards of Directors.

The statements set out below are given by the Directors of GlaxoSmithKline plc in respect of GlaxoSmithKline plc from 27th December 2000 and having regard to the arrangements in operation in Glaxo Wellcome plc and SmithKline Beecham plc up to that date.

Directors' statement of responsibility in relation to the 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
- required by law to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the Group as at the end of the financial period and of the profit or loss for that period
- responsible also for 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 2000, comprising principal statements and supporting notes, are set out in Financial statements (pages 72 to 135 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; applicable accounting standards have been followed, and the financial statements have been prepared on the going concern basis.

The responsibilities of the auditors in relation to the financial statements are set out in the Report by the auditors (page 71 opposite).

The financial statements for the year ended 31st December 2000 are included in the Annual Report 2000, which is published by the company in hard-copy printed form and on the company's website on the internet. 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 (pages 37 to 46 of this report) describes the Board's policy on directors' remuneration that applies in GlaxoSmithKline plc and sets out details of the remuneration earned by the Directors of Glaxo Wellcome plc and SmithKline Beecham plc in 2000 under the respective remuneration policies of the Boards of the two companies.

For convenience, the Remuneration report includes other disclosable information relating to Directors and officers and their interests.

Statutory disclosures in respect of the remuneration attributable to Directors of GlaxoSmithKline plc are set out in Note 36 to the financial statements.

The Remuneration report complies with Section B of the Combined Code.

Going concern basis

After making enquiries, the Directors have a reasonable expectation that the Group and company have 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 accounts.

Internal control

The Board, through the Audit Committee, has reviewed the assessment of risks and the internal control framework that now operates in GlaxoSmithKline plc and has considered the effectiveness of the system of internal control in operation in the Group for the period covered by the accounts.

The Combined Code

The Board considers that GlaxoSmithKline plc applies, and up to 27th December 2000 Glaxo Wellcome plc and SmithKline Beecham plc applied, the principles of the Combined Code, as described under Corporate governance (pages 29 to 36), and, with the exception of the Code provisions relating to:

- the appointment of a senior independent director, where the company's position is described under Board and Executive
- directors' service contracts, pensionable bonuses and termination commitments, where the company's position is described in the Remuneration report.

has complied with the provisions of the Combined Code.

As required by the London Stock Exchange, 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 2000, comprising the Report of the Directors, the financial statements and additional information for investors, has been approved by the Board of Directors and signed on its behalf by

Sir Richard Sykes, Chairman
22nd March 2001

Report by the auditors

To the members of GlaxoSmithKline plc

We have audited the financial statements which comprise the profit and loss account, statement of total recognised gains and losses, cash flow statement, balance sheet and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also examined the amounts disclosed relating to the emoluments, share options and long-term incentives of the Directors which form part of the Remuneration report.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the report of the Directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the joint statement by the Chairman and the Chief Executive Officer, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the United Kingdom Auditing Practices Board and with Auditing Standards generally accepted in the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

United Kingdom Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 31st December 2000 and of the profit, total recognised gains and losses and cash flow of the Group for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.

United States Opinion

In our opinion the financial statements present fairly, in all material respects, the consolidated financial position of the Group at 31st December 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended 31st December 2000 in conformity with accounting principles generally accepted in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of net income expressed in sterling for each of the three years in the period ended 31st December 2000 and the determination of shareholders' equity also expressed in sterling at 31st December 2000 and 1999 to the extent summarised in Note 37 to the financial statements.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London, England
22nd March 2001

Consolidated statement of profit and loss

	Notes	2000 Business performance £m	2000 Merger, restructuring and disposal of subsidiaries £m	2000 Total £m	1999 Business performance: Retained businesses £m	1999 Business performance: Divested business £m	1999 Business performance: Total £m	1999 Restructuring and disposal of subsidiaries £m	1999 Total £m	1998 Business performance: Retained businesses £m	1998 Business performance: Divested business £m	1998 Business performance: Total £m	1998 Restructuring and disposal of subsidiaries £m	1998 Total £m
Turnover	7	**18,079**	**–**	**18,079**	16,164	632	16,796	–	16,796	14,938	1,064	16,002	–	16,002
Cost of sales		**(3,811)**	**(151)**	**(3,962)**	(3,499)	(436)	(3,935)	(399)	(4,334)	(3,300)	(622)	(3,922)	(46)	(3,968)
Gross profit		**14,268**	**(151)**	**14,117**	12,665	196	12,861	(399)	12,462	11,638	442	12,080	(46)	12,034
Selling, general and administrative expenditure		**(6,732)**	**(404)**	**(7,136)**	(6,002)	(170)	(6,172)	(74)	(6,246)	(5,375)	(365)	(5,740)	(136)	(5,876)
Research and development expenditure		**(2,510)**	**(16)**	**(2,526)**	(2,285)	(1)	(2,286)	–	(2,286)	(2,072)	(1)	(2,073)	–	(2,073)
Trading profit		**5,026**	**(571)**	**4,455**	4,378	25	4,403	(473)	3,930	4,191	76	4,267	(182)	4,085
Other operating income/(expense)	9	**274**	**–**	**274**	413	–	413	–	413	221	–	221	–	221
Operating profit	8,10	**5,300**	**(571)**	**4,729**	4,791	25	4,816	(473)	4,343	4,412	76	4,488	(182)	4,306
Share of profits/(losses) of joint ventures and associated undertakings	8,11	**65**	**(8)**	**57**	15	–	15	(8)	7	22	–	22	–	22
Profit on disposal of interest in associate	32	**144**	**–**	**144**	39	–	39	–	39	–	–	–	–	–
Profit on dissolution of joint venture		**–**	**–**	**–**	–	–	–	–	–	57	–	57	–	57
Product divestments	8	**–**	**1,416**	**1,416**	–	–	–	–	–	–	–	–	–	–
Merger transaction costs	8	**–**	**(121)**	**(121)**	–	–	–	–	–	–	–	–	–	–
Disposal of businesses:														
Provision for loss on disposal		**–**	**–**	**–**	–	–	–	–	–	–	–	–	(629)	(629)
Loss on disposal	8	**–**	**(14)**	**(14)**	–	–	–	(635)	(635)	–	–	–	–	–
Utilisation of provision	8	**–**	**–**	**–**	–	–	–	644	644	–	–	–	–	–
Profit before interest		**5,509**	**702**	**6,211**	4,845	25	4,870	(472)	4,398	4,491	76	4,567	(811)	3,756
Net interest payable	12	**(182)**	**–**	**(182)**	(162)	–	(162)	–	(162)	(192)	–	(192)	–	(192)
Profit on ordinary activities before taxation		**5,327**	**702**	**6,029**	4,683	25	4,708	(472)	4,236	4,299	76	4,375	(811)	3,564
Taxation	8,13	**(1,454)**	**(245)**	**(1,699)**	(1,320)	(7)	(1,327)	109	(1,218)	(1,256)	(20)	(1,276)	299	(977)
Profit on ordinary activities after taxation		**3,873**	**457**	**4,330**	3,363	18	3,381	(363)	3,018	3,043	56	3,099	(512)	2,587
Minority interests		**(120)**	**–**	**(120)**	(110)	–	(110)	–	(110)	(102)	–	(102)	–	(102)
Preference share dividends		**(56)**	**–**	**(56)**	(49)	–	(49)	–	(49)	(50)	–	(50)	–	(50)
Earnings (Profit attributable to shareholders)	14	**3,697**	**457**	**4,154**	3,204	18	3,222	(363)	2,859	2,891	56	2,947	(512)	2,435
Earnings per Ordinary Share	14	**–**		**68.5p**			–		46.7p			–		39.9p
Adjusted earnings per Ordinary Share	14	**61.0p**		**–**			52.7p		–			48.3p		–
Diluted earnings per Ordinary Share	14	**–**		**67.7p**			–		46.3p			–		39.4p
Profit attributable to shareholders				**4,154**					2,859					2,435
Dividends	15			**(2,097)**					(2,005)					(1,903)
Retained profit				**2,057**					854					532

All items dealt with in arriving at operating profit relate to continuing activities. There is no difference between the profit on ordinary activities before taxation and the retained profit stated above and their historical cost equivalents.

Consolidated statement of total recognised gains and losses

	2000 £m	1999 £m	1998 £m
Profit attributable to shareholders	**4,154**	2,859	2,435
Exchange movements on overseas net assets	**(23)**	(272)	4
UK tax on exchange movements	**16**	(44)	24
Total recognised gains and losses	**4,147**	2,543	2,463

Consolidated statement of cash flow

Reconciliation of operating profit to operating cash flows

	Notes	2000 £m	1999 £m	1998 £m
Business performance operating profit		**5,300**	4,816	4,488
Depreciation		**735**	650	608
Impairment (excluding restructuring)		**75**	12	11
Amortisation of goodwill and intangible fixed assets		**38**	55	93
Loss on sale of tangible fixed assets		**38**	8	8
Income from equity investments		**(225)**	(171)	(48)
Increase in stocks		**(17)**	(408)	(400)
Increase in trade and other debtors		**(333)**	(271)	(388)
Increase in trade and other creditors		**389**	153	9
(Decrease)/increase in pension and other provisions		**(60)**	152	32
Other		**(40)**	(5)	10
Net cash inflow from business performance operating activities		**5,900**	4,991	4,423
Manufacturing restructuring costs paid		**(159)**	(131)	(78)
Integration provision movement		**–**	–	(15)
Integration costs paid		**(203)**	(44)	(95)
Merger transaction costs		**(97)**	–	–
Net cash inflow from operating activities		**5,441**	4,816	4,235

Cash flow statement

Net cash inflow from operating activities		**5,441**	4,816	4,235
Earnings from joint ventures and associated undertakings		**1**	2	40
Returns on investment and servicing of finance		**(322)**	(315)	(327)
Taxation paid		**(1,240)**	(1,095)	(1,043)
Capital expenditure and financial investment		**(327)**	(2,241)	(1,206)
Acquisitions and disposals	32	**66**	973	(172)
Equity dividends paid		**(2,028)**	(1,833)	(1,817)
Net cash inflow/(outflow) before management of liquid resources and financing		**1,591**	307	(290)
Management of liquid resources		**(223)**	(36)	(178)
Financing		**(546)**	(175)	257
Increase/(decrease) in cash in the year		**822**	96	(211)

Reconciliation of net cash flow to movement in net debt

Net debt at beginning of year		**(2,357)**	(2,717)	(2,830)
Increase/(decrease) in cash in the year		**822**	96	(211)
Cash inflow from management of liquid resources		**223**	36	178
Net (increase in)/repayment of long-term loans		**(9)**	(114)	94
Net repayment of short-term loans		**706**	456	21
Net (increase in)/repayment of obligations under finance leases		**(13)**	5	4
Net non-cash funds of subsidiary undertakings acquired		**–**	–	1
Exchange adjustments		**24**	(113)	(44)
Other non-cash movements		**(7)**	(6)	70
Movement in net debt		**1,746**	360	113
Net debt at end of year	26	**(611)**	(2,357)	(2,717)

Analysis of cash flows

	2000 £m	1999 £m	1998 £m
Returns on investment and servicing of finance			
Interest received	**157**	139	146
Interest paid	**(328)**	(291)	(338)
Dividends paid to minority shareholders	**(95)**	(113)	(85)
Dividends paid on preference shares	**(56)**	(50)	(50)
	(322)	(315)	(327)
Taxation paid	**(1,240)**	(1,095)	(1,043)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	**(1,007)**	(1,139)	(1,032)
Sale of tangible fixed assets (including integration)	**46**	116	83
Purchase of intangible assets	**(96)**	(106)	(91)
Sale of intangible assets	**–**	1	8
Proceeds from product divestments	**1,529**	–	–
Purchase of own shares	**(1,232)**	(1,291)	(277)
Proceeds from own shares for staff options	**206**	45	124
Purchase of equity investments	**(62)**	(37)	(102)
Sale of equity investments	**289**	170	81
	(327)	(2,241)	(1,206)
Acquisitions and disposals (Note 32)			
Purchase of businesses	**(25)**	(67)	(174)
Disposal of businesses	**(62)**	1,002	20
Investment in joint ventures and associated undertakings	**(2)**	(3)	(18)
Disposal of interest in associate	**155**	41	–
	66	973	(172)
Financing			
Issue of Ordinary Share capital	**185**	171	361
Other financing cash flows	**(47)**	1	15
Increase in long-term loans	**12**	123	5
Repayment of long-term loans	**(3)**	(9)	(99)
Net repayment of short-term loans	**(706)**	(456)	(21)
Net increase in/(repayment of) obligations under finance leases	**13**	(5)	(4)
	(546)	(175)	257

Analysis of changes in net debt

	At 31.12.00 £m	Cash flow £m	Exchange £m	Other £m	At 1.1.00 £m
Cash repayable on demand	1,275	706	24	–	545
Overdrafts	(191)	116	(6)	–	(301)
	1,084	822	18	–	244
Debt due within one year:					
Commercial paper	(1,599)	(468)	(32)	(5)	(1,094)
Other	(491)	1,173	(35)	(205)	(1,424)
	(2,090)	705	(67)	(210)	(2,518)
Debt due after one year:					
Euro Bonds and Euro notes	(1,644)	(12)	(32)	200	(1,800)
Other	(107)	(9)	(5)	4	(97)
	(1,751)	(21)	(37)	204	(1,897)
Management of liquid resources					
Cash balances not repayable on demand	8	(27)	1	–	34
Liquid investments	2,138	250	109	(1)	1,780
	2,146	223	110	(1)	1,814
Net debt	(611)	1,729	24	(7)	(2,357)

Consolidated balance sheet

	Notes	2000 £m	1999 £m
Goodwill	16	**170**	160
Intangible assets	17	**966**	926
Tangible assets	18	**6,642**	6,402
Investments	19	**2,544**	1,804
Fixed assets		**10,322**	9,292
Equity investments	20	**171**	52
Stocks	21	**2,277**	2,243
Debtors	22	**5,399**	4,828
Liquid investments	26	**2,138**	1,780
Cash at bank	26	**1,283**	579
Current assets		**11,268**	9,482
Loans and overdrafts	26	**(2,281)**	(2,819)
Other creditors	23	**(6,803)**	(5,629)
Creditors: amounts due within one year		**(9,084)**	(8,448)
Net current assets		**2,184**	1,034
Total assets less current liabilities		**12,506**	10,326
Loans	26	**(1,751)**	(1,897)
Other creditors	23	**(143)**	(147)
Creditors: amounts due after one year		**(1,894)**	(2,044)
Provisions for liabilities and charges	24	**(1,657)**	(1,675)
Net assets		**8,955**	6,607
Called up share capital	28	**1,556**	1,549
Share premium account	28	**30**	–
Other reserves	30	**6,125**	3,915
Equity shareholders' funds		**7,711**	5,464
Non-equity minority interest	29	**1,039**	961
Equity minority interests		**205**	182
Capital employed		**8,955**	6,607

Approved by the Board
Sir Richard Sykes, Chairman
22nd March 2001

Reconciliation of movements in equity shareholders' funds

	Notes	2000 £m	1999 £m
Equity shareholders' funds at beginning of year		**5,464**	4,449
Total recognised gains and losses for the year		**4,147**	2,543
Dividends	15	**(2,097)**	(2,005)
Ordinary Shares issued		**185**	171
Exchange movements on goodwill written off to reserves		**10**	(29)
Goodwill written off to profit and loss account		**2**	335
Equity shareholders' funds at end of year		**7,711**	5,464

Company balance sheet

	Notes	2000 £m
Shares in subsidiary companies – at cost	6	**1,556**
Cash at bank		**30**
Net assets		**1,586**
Called up share capital	28	**1,556**
Share premium account	28	**30**
Equity shareholders' funds		**1,586**

The company was incorporated on 6th December 1999 and its first accounting period is from that date until 31st December 2000. The profit for this period was £nil.

The company acquired Glaxo Wellcome plc and SmithKline Beecham plc on 27th December 2000 and is now the holding company for the GlaxoSmithKline Group. The company expects to receive dividends from its subsidiary companies in 2001 in order to pay dividends to shareholders.

Approved by the Board
Sir Richard Sykes, Chairman
22nd March 2001

Notes to the financial statements

1 Presentation of 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, 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 disorders, respiratory, anti-bacterials, anti-virals, metabolic and gastro-intestinal, vaccines, oncology and emesis, cardiovascular, arthritis and dermatologicals.

Financial period
These accounts cover the financial year from 1st January to 31st December 2000, with comparative figures for the financial years from 1st January to 31st December 1999 and 1st January to 31st December 1998.

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 Group companies (pages 136 to 141).

Composition of financial statements
The consolidated financial statements are drawn up in accordance with UK generally accepted accounting principles (UK GAAP) and with UK accounting presentation.

The financial statements comprise:

- Consolidated statement of profit and loss
- Consolidated statement of total recognised gains and losses
- Consolidated statement of cash flow
- Consolidated balance sheet
- Reconciliation of movements in equity shareholders' funds
- Company balance sheet
- Notes to the financial statements.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the company is not presented.

The statement of total recognised gains and losses comprises:

- the realised profit attributable to shareholders as reflected in the consolidated profit and loss account
- the unrealised gain or loss in the value of the company's overseas net assets, less related foreign currency borrowings, attributable to currency movements over the period.

The reconciliation of movements in equity shareholders' funds comprises the items contributing to the increase or decrease over the period in shareholders' funds. Such items include:

- the total recognised gains and losses for the period
- dividends paid and proposed
- the proceeds of shares issued during the period
- changes to goodwill, arising on acquisitions prior to 1st January 1998, which has been set directly against reserves.

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 37 a statement of differences, and a reconciliation of net income and shareholders' equity, between UK and US GAAP are provided, and the principal financial statements are presented in accordance with US GAAP and in a US GAAP format.

Merger of Glaxo Wellcome plc and SmithKline Beecham plc
GlaxoSmithKline plc acquired Glaxo Wellcome plc and SmithKline Beecham plc by way of a scheme of arrangement for the merger of the two companies which became effective on 27th December 2000.

Under UK GAAP the financial statements of GlaxoSmithKline plc for the period to 31st December 2000 have been prepared as a merger of Glaxo Wellcome plc and SmithKline Beecham plc. The results of Glaxo Wellcome plc and SmithKline Beecham plc are included for the year to 31st December 2000, with comparative figures on a similar basis for the years to 31st December 1999 and 31st December 1998.

Under US GAAP the financial statements of GlaxoSmithKline plc for the period to 31st December 2000 have been prepared as an acquisition of SmithKline Beecham plc by Glaxo Wellcome plc at 27th December 2000. Accordingly the results of SmithKline Beecham for all periods prior to that date are not consolidated.

Presentation of statement of profit and loss
A columnar presentation has been adopted in the statement of profit and loss in order to illustrate underlying business performance. For this purpose certain items are identified separately and are excluded from business performance. These comprise: merger items, including product divestments; costs relating to previously announced manufacturing and other restructurings; the effect of business disposals in prior years.

Trading profit reflects sales less: cost of sales, comprising costs of manufacture and external royalties; selling, general and administrative expenditure, comprising the costs of selling and medical support of currently marketed products and the costs of administration; the costs of research and development to create future products for sale.

Accounting convention
The financial statements have been prepared using the historical cost convention.

Accounting standards
The financial statements comply with all applicable UK accounting standards.

Accounting principles and policies
The preparation of 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 accounts 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 company's accounting policies described in Note 3. The company has implemented two new Financial Reporting Standards as described in Note 4.

2 Post balance sheet event

On 18th January 2001 GlaxoSmithKline completed the acquisition of Block Drug Company Inc., a manufacturer of toothpaste and other oral healthcare and consumer products, for US$1,240 million (£832 million) paid in cash. Block Drug will be consolidated in the financial statements of GlaxoSmithKline from that date. The acquisition will add to the scale of GlaxoSmithKline's Consumer Healthcare business, providing additional annual sales of £600 million, and is expected to enhance earnings per share.

3 Accounting policies

Consolidation

The consolidated accounts include:

- the assets and liabilities, and the results and cashflow, of the company and its subsidiary undertakings, including employee share ownership trusts (ESOTs)
- the Group's share of the net assets and results of joint ventures and associated undertakings.

The accounts of undertakings consolidated are made up to 31st December.

Undertakings in which the Group has a material interest are accounted for as subsidiaries where the Group exercises dominant influence, as joint ventures where the Group exercises joint control and as associates where the Group can exercise significant influence. ESOTs are accounted for as subsidiaries on the grounds that the Group has de facto control.

Interests acquired in undertakings are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

Transactions and balances between subsidiary undertakings are eliminated; no profit is taken on sales between subsidiary undertakings or sales to joint ventures and associated undertakings until the products are sold to customers outside the Group.

Goodwill arising on the acquisition of interests in subsidiary undertakings, joint ventures and associated undertakings, representing the excess of the purchase consideration over the Group's share of the separable net assets acquired, is capitalised as a separate item in the case of subsidiary undertakings and as part of the cost of investment in the case of joint ventures and associated undertakings. Goodwill is denominated in the currency in which the acquisition is made and financed. In the case of acquisitions prior to 1998, goodwill was written off against reserves; on a subsequent disposal of assets from such acquisitions, any related goodwill is removed from consolidated reserves and charged to the consolidated profit and loss account.

The Group's interests in its joint ventures are accounted for using the gross equity method. The Group's interests in its associated undertakings are accounted for using the equity method.

Deferred taxation relief on unrealised intra-Group profit is accounted for only to the extent that the related taxation effect is expected to reverse.

Assets and liabilities of overseas subsidiary, joint venture and associated undertakings, including related goodwill, are translated into sterling at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiary, joint venture and associated undertakings 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 subsidiary, joint venture and associated undertakings are translated into sterling, less exchange differences arising on related foreign currency borrowings, are taken directly to reserves and reported in the statement of total recognised gains and losses.

In translating into sterling assets, liabilities, results and cash flows of overseas subsidiary, joint venture and associated undertakings 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 profit and loss account.

Foreign currency transactions

Foreign currency transactions by Group companies are booked in local currency at the exchange rate ruling on the date of transaction, or at the forward rate if hedged by a forward exchange contract. Foreign currency assets and liabilities are translated into local currency at rates of exchange ruling at the balance sheet date, or at the forward rate. Exchange differences are included in trading profit.

Revenue

Revenue is recognised in the profit and loss account when goods or services are supplied to external customers against orders received. Turnover represents the net invoice value, after the deduction of standard discounts given at the point of sale, of products despatched to, or available for collection by, customers, less accruals for estimated future rebates and returns. 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. Restructuring costs are recognised in respect of the direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred. Tangible fixed assets used for research and development are 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 profit and loss account. The Group determines its liability on a site-by-site basis and records a liability at the time when it is probable and can be reasonably estimated. This liability includes the Group's own portion of the costs and also the Group's portion of other potentially responsible parties when it is probable that they will not be able to satisfy their respective share of the clean-up obligation. When recoveries of reimbursements are virtually certain they are recorded as an asset.

Pensions and post-retirement benefits

The cost of providing pensions and other employee post-retirement benefits is charged to the consolidated profit and loss account on a systematic and rational basis, based on actuarial assumptions, over the period during which benefit is derived from employees' services. Any difference between this charge and the contributions paid is included as an asset or liability in the consolidated balance sheet.

3 Accounting policies continued

Employee share plans

Incentives in the form of shares are provided to employees under share option and share award schemes. In respect of award schemes and certain share option grants, the company provides finance to employee share ownership trusts to purchase company shares on the open market to meet the company's obligation to provide shares when employees exercise their option or award; the difference between the purchase price of the shares and the exercise price of the options and awards is charged, or credited, to the profit and loss account over the periods of service in respect of which the options and awards are granted. In respect of other share option grants, share options when exercised are accounted for as share issues at exercise price. Additional employer costs in respect of options and awards are charged to the profit and loss account over the periods of service.

Costs of running employee share ownership trusts are charged to the profit and loss account.

Shares held by employee share ownership trusts are accounted for as fixed asset investments at cost less accrual for costs charged.

Goodwill

Goodwill is stated at cost less a provision for amortisation. Amortisation is calculated to write off the cost in equal annual instalments over its expected useful life. The normal expected useful life is not expected to exceed 20 years.

Intangible fixed assets

Intangible assets are stated at cost less a provision for amortisation.

Acquired licences, patents, know-how and marketing rights are amortised over their estimated useful lives in equal instalments, but no longer than 20 years. Items capitalised are restricted to those related to specific compounds or products which are being developed for commercial applications. 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 as marketable products. Any development costs which are incurred by the Group and are associated with an acquired licence, patent, know-how or marketing rights are written off to the profit and loss account when incurred.

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 the estimated useful lives but no longer than 20 years, except where the end of the useful economic life of the brand cannot be forseen.

Prior to 1998, acquired minor brands and similar intangibles were eliminated in the Group balance sheet against reserves in the year of acquisition.

Tangible fixed assets

Tangible fixed assets are stated at cost less a provision for depreciation.

The costs of acquiring and developing computer software for internal use and internet sites for external use are capitalised as a tangible fixed asset where the software or site supports a significant business system and the expenditure leads to the creation of a durable asset.

Depreciation is calculated to write off the cost of tangible fixed assets, excluding freehold land, in equal annual instalments over their expected useful lives. The normal expected useful lives of the major categories of tangible fixed assets are:

Freehold buildings	20 to 50 years
Leasehold land and buildings	The shorter of lease term and 50 years
Plant and machinery	10 to 20 years
Fixtures and equipment	3 to 10 years
Computer software	3 to 5 years

On disposal of a tangible fixed asset, the cost and related accumulated depreciation are removed from the accounts and the net amount, less any proceeds, is taken to the consolidated profit and loss account.

Investments in joint ventures and associates

Investments in joint ventures and associated undertakings 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, net of amortisation.

Impairment of fixed assets

The carrying values of fixed assets are reviewed for impairment when there is an indication that the assets might be impaired. First year impairment reviews are conducted for acquired goodwill and intangible assets. Certain intangibles are considered to have an indefinite life and are therefore not amortised. Such intangibles are subject to annual impairment tests. Impairment is determined by reference to the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. Any provision for impairment is charged against profit in the year concerned.

Stocks

Stocks are included in the accounts at the lower of cost (including manufacturing overheads, where appropriate) and net realisable value. Cost is generally determined on a first in, first out basis.

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 tangible fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of the assets. The interest element of the lease rental is charged against profit.

All other leases are operating leases and the annual rentals are charged against profit on a straight-line basis over the lease term.

Taxation

Deferred taxation, calculated using the liability method, is accounted for by each Group company for taxation deferred or accelerated by reason of timing differences. Deferred taxation relief is accounted for in full on long-term timing differences in respect of provisions for unfunded retirement benefits. Taxation deferred or accelerated by reason of short-term and other timing differences is accounted for to the extent that it is probable that a liability or asset will crystallise.

3 Accounting policies continued

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

In the case of securities acquired at a significant premium or discount to maturity value, and intended to be held to redemption, cost is adjusted to amortise the premium or discount over the life to maturity of the security. Floating rate bonds are stated at cost. Interest income is taken to the consolidated profit and loss account on a receivable basis.

Equity investments are included as current assets when regarded as available for sale.

Debt instruments

Debt instruments are stated at the amount of net proceeds adjusted to amortise the finance cost of debt evenly over the term of the debt.

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 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 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 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 premium/discounts are recognised as interest over the life of the contracts.

Interest differentials under interest swap agreements are recognised in the consolidated profit and loss account by adjustment of interest expense over the life of the agreement.

4 New accounting policies and requirements

The company has implemented Financial Reporting Standard 15: 'Tangible fixed assets' and Financial Reporting Standard 16: 'Current tax'. Both FRSs update, and provide additional guidance on, existing accounting practice. Neither FRS has had a significant effect on the measurement or classification of assets or liabilities. FRS 15 permits, but does not require, the revaluation of properties and the capitalisation of interest or capital projects in progress. The company has adopted a policy of not revaluing properties and not capitalising interest.

The company will be required to implement in 2001 Financial Reporting Standard 18: 'Accounting policies'. The FRS updates an existing standard and provides new guidance. It is not expected to have a significant effect on measurement of the results and assets and liabilities of the company.

FRS 17: 'Retirement benefits' falls to be implemented by the company in 2001 and 2002 in terms of disclosures and in 2003 in terms of measurement. The FRS adopts a market value approach to the measurement of retirement benefits and requires expanded disclosures.

FRS 19: 'Deferred tax' falls to be implemented by the company in 2002. The FRS requires deferred tax to be accounted for on a full provision basis, rather than a partial provision basis as at present. At 31st December 2000 the effect of the full provision basis would be to reduce the deferred tax asset by approximately £121 million.

5 Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of overseas Group subsidiary, joint venture 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:

	2000	1999	1998
Average rates:			
£/US$	**1.52**	1.62	1.66
£/Euro	**1.64**	1.52	
£/Yen	**163.46**	184.05	216.67
Period end rates:			
£/US$	**1.49**	1.61	1.66
£/Euro	**1.61**	1.61	1.42
£/Yen	**171.00**	164.97	187.67

6 Merger of Glaxo Wellcome and SmithKline Beecham

Terms of the merger

GlaxoSmithKline plc was formed to give effect to a scheme of arrangement for the merger of Glaxo Wellcome plc and SmithKline Beecham plc. The scheme of arrangement became effective on 27th December 2000, at which point GlaxoSmithKline plc acquired the whole of the issued share capital of Glaxo Wellcome plc and SmithKline Beecham plc in exchange for shares in GlaxoSmithKline plc.

The terms agreed for the proposed merger, reflecting the relative stock market valuation of the two companies in the months preceding the announcement of the merger on 17th January 2000, envisaged that shareholders of Glaxo Wellcome plc would hold approximately 58.75 per cent and shareholders of SmithKline Beecham plc would hold approximately 41.25 per cent of the issued ordinary share capital of GlaxoSmithKline plc. Based on the number of shares of Glaxo Wellcome and SmithKline Beecham in issue at 31st December 1999, this had the effect that shareholders of Glaxo Wellcome plc and SmithKline Beecham plc would receive shares in GlaxoSmithKline plc as follows:

for each Glaxo Wellcome share – 1 GlaxoSmithKline share
for each SmithKline Beecham share – 0.4552 GlaxoSmithKline shares

In the case of shares held as American Depository Shares (ADSs) evidenced by American Depository Receipts (ADRs), each Glaxo Wellcome ADS represented two Glaxo Wellcome shares, each SmithKline Beecham ADS represented five SmithKline Beecham shares and each GlaxoSmithKline ADS now represents two GlaxoSmithKline shares. Accordingly holders of Glaxo Wellcome ADRs and holders of SmithKline Beecham ADRs receive:

for each Glaxo Wellcome ADS – 1 GlaxoSmithKline ADS
for each SmithKline Beecham ADS – 1.138 GlaxoSmithKline ADSs

On the merger date GlaxoSmithKline plc issued 6,222,462,894 ordinary shares of 25p each at par to acquire 3,653,435,656 ordinary shares of 25p each of Glaxo Wellcome plc and 5,643,732,950 ordinary shares of 6.25p each of SmithKline Beecham plc. The nominal value of the shares issued was £1,556 million and the market value of the shares at that date was £119 billion.

Accounting for the merger

Reflecting the intentions, and the respective sizes of the merging parties, the combination of Glaxo Wellcome plc and SmithKline Beecham plc has been treated as a merger at 27th December 2000 under UK GAAP.

Under merger accounting, the shares issued by GlaxoSmithKline plc to acquire Glaxo Wellcome and SmithKline Beecham are accounted for at par and no share premium arises; the shares acquired by GlaxoSmithKline in Glaxo Wellcome and SmithKline Beecham are similarly accounted for at the nominal value of the shares issued. In the consolidated accounts of GlaxoSmithKline, the results and net assets of Glaxo Wellcome and SmithKline Beecham are combined, at their book amounts, subject to the alignment adjustments discussed below.

Each of GlaxoSmithKline plc, Glaxo Wellcome plc and SmithKline Beecham plc has an accounting reference date of 31st December. In view of the proximity of the merger date to the financial year-end date, and the relative insignificance of any business activity between 27th December 2000 and 31st December 2000, the accounting date of the merger has for practical purposes been taken as 31st December 2000. The whole of the profit for the financial year 2000 of each of Glaxo Wellcome plc and SmithKline Beecham plc is deemed to relate to the period prior to the merger date.

Accounting alignment

Certain adjustments have been made, and reflected in the results of GlaxoSmithKline, to align the accounting policies and classifications previously adopted by Glaxo Wellcome and SmithKline Beecham, as follows:

Accounting policy:

(A) Interest on finance for major construction projects, previously capitalised by SmithKline Beecham, is now expensed

(B) Deferred tax relief on unfunded post-retirement benefits, previously recognised by SmithKline Beecham only on post-retirement healthcare is now recognised additionally on unfunded pension costs.

Accounting presentation:

(C) Standard sales discounts in the USA, previously classified by SmithKline Beecham to selling, general and administrative expenditure, are now reclassified as a deduction from sales

(D) Royalty and similar recurring income, and significant one-off items of operating income/expense, previously classified by SmithKline Beecham to selling, general and administrative expenditure, are now classified to other operating income/expense.

Balance sheet reclassification:

(E) Certain items have been reclassified for consistency.

Investment reclassification:

(F) Certain equity investments held by SmithKline Beecham have been reclassified in 2000 from fixed assets to current assets and written down to current market value, to reflect the fact that GlaxoSmithKline now considers these investments to be available for sale.

Consolidation adjustment:

(G) Royalties paid by Glaxo Wellcome to SmithKline Beecham have been eliminated on consolidation.

Segment reclassification:

Glaxo Wellcome's over-the-counter products are being managed in GlaxoSmithKline by Consumer Healthcare. The sales and profits of these products have been classified to the Consumer Healthcare sector.

The adjustments have been made for all years presented, with the exception of the investment reclassification, which has been made from the date of the merger. Only the accounting policy adjustments and the investment reclassification affect the book value of net assets. The adjustments are identified by the relevant letter in the following tables of balance sheet and profit and loss account.

6 Merger of Glaxo Wellcome and SmithKline Beecham continued

Consolidated balance sheet as at 31st December 2000	Glaxo Wellcome £m	SmithKline Beecham £m	Adjustments £m	Adjustments key	Glaxo-SmithKline plc £m	Consolidation elimination £m	**Glaxo-SmithKline £m**
Goodwill	154	16	–		–	–	**170**
Intangible assets	4	962	–		–	–	**966**
Tangible assets	3,664	3,068	(90)	A	–	–	**6,642**
Investments	872	1,987	(315)	E	1,556	(1,556)	**2,544**
Fixed assets	4,694	6,033	(405)		1,556	(1,556)	**10,322**
Equity investments	103	83	(15)	F	–	–	**171**
Stocks	1,556	721	–		–	–	**2,277**
Debtors	2,975	2,544	(120)	B,E	–	–	**5,399**
Liquid investments	2,065	73	–		–	–	**2,138**
Cash at bank	166	1,087	–		30	–	**1,283**
Current assets	6,865	4,508	(135)		30	–	**11,268**
Loans and overdrafts	(1,995)	(286)	–		–	–	**(2,281)**
Other creditors	(3,621)	(3,249)	67	E	–	–	**(6,803)**
Creditors: amounts due within one year	(5,616)	(3,535)	67		–	–	**(9,084)**
Net current assets	1,249	973	(68)		30	–	**2,184**
Total assets less current liabilities	5,943	7,006	(473)		1,586	(1,556)	**12,506**
Loans	(1,287)	(464)	–		–	–	**(1,751)**
Other creditors	(95)	(48)	–		–	–	**(143)**
Creditors: amounts due after one year	(1,382)	(512)	–		–	–	**(1,894)**
Provisions for liabilities and charges	(616)	(1,490)	449	E	–	–	**(1,657)**
Net assets	3,945	5,004	(24)		1,586	(1,556)	**8,955**
Called up share capital	913	353	–		1,556	(1,266)	**1,556**
Share premium account	1,337	514	–		30	(1,851)	**30**
Other reserves	1,633	2,955	(24)	A,B,F	–	1,561	**6,125**
Equity shareholders' funds	3,883	3,822	(24)		1,586	(1,556)	**7,711**
Non-equity minority interest	–	1,039	–		–	–	**1,039**
Equity minority interests	62	143	–		–	–	**205**
Capital employed	3,945	5,004	(24)		1,586	(1,556)	**8,955**

Key: A – Interest previously capitalised; B – Deferred tax; E – Reclassifications; F – Investment reclassification

6 Merger of Glaxo Wellcome and SmithKline Beecham continued

Consolidated profit and loss account	2000 Glaxo Wellcome £m	2000 SmithKline Beecham £m	2000 Business performance Adjustments £m	2000 Key	2000 Business performance Glaxo-SmithKline £m	2000 Merger, restruct & disposal of subsids. £m	2000 Total Glaxo-SmithKline £m	1999 Glaxo Wellcome £m	1999 SmithKline Beecham £m	1999 Business performance Adjustments £m	1999 Business performance Glaxo-SmithKline £m	1999 Restruct & disposal of subsids. £m	1999 Total Glaxo-SmithKline £m	1998 Glaxo Wellcome £m	1998 SmithKline Beecham £m	1998 Business performance Adjustments £m	1998 Business performance Glaxo-SmithKline £m	1998 Restruct & disposal of subsids. £m	1998 Total Glaxo-SmithKline £m
Turnover	9,559	8,612	(92)	C	**18,079**	**–**	**18,079**	8,490	8,381	(75)	16,796	–	16,796	7,983	8,082	(63)	16,002	–	16,002
Cost of sales	(2,033)	(1,790)	12	G	**(3,811)**	**(151)**	**(3,962)**	(1,700)	(2,246)	11	(3,935)	(399)	(4,334)	(1,545)	(2,386)	9	(3,922)	(46)	(3,968)
Gross profit	7,526	6,822	(80)		**14,268**	**(151)**	**14,117**	6,790	6,135	(64)	12,861	(399)	12,462	6,438	5,696	(54)	12,080	(46)	12,034
Selling, general and administrative expenditure	(3,407)	(3,423)	98	A,C,D	**(6,732)**	**(404)**	**(7,136)**	(2,991)	(3,261)	80	(6,172)	(74)	(6,246)	(2,688)	(3,120)	68	(5,740)	(136)	(5,876)
Research and development expenditure	(1,352)	(1,158)	–		**(2,510)**	**(16)**	**(2,526)**	(1,269)	(1,017)	–	(2,286)	–	(2,286)	(1,163)	(910)	–	(2,073)	–	(2,073)
Trading profit	2,767	2,241	18		**5,026**	**(571)**	**4,455**	2,530	1,857	16	4,403	(473)	3,930	2,587	1,666	14	4,267	(182)	4,085
Other operating income/(expense)	251	50	(27)	D,F,G	**274**	**–**	**274**	292	132	(11)	413	–	413	96	134	(9)	221	–	221
Operating profit	3,018	2,291	(9)		**5,300**	**(571)**	**4,729**	2,822	1,989	5	4,816	(473)	4,343	2,683	1,800	5	4,488	(182)	4,306
Share of profits/(losses) of joint ventures and associated undertakings	–	65	–		**65**	**(8)**	**57**	3	12	–	15	(8)	7	22	–	–	22	–	22
Profit on disposal of interest in associate	144	–	–		**144**	**–**	**144**	39	–	–	39	–	39	–	–	–	–	–	–
Profit on dissolution of joint venture	–	–	–		**–**	**–**	**–**	–	–	–	–	–	–	57	–	–	57	–	57
Product divestments	–	–	–		**–**	**1,416**	**1,416**	–	–	–	–	–	–	–	–	–	–	–	–
Merger transaction costs	–	–	–		**–**	**(121)**	**(121)**	–	–	–	–	–	–	–	–	–	–	–	–
Disposal of businesses:																			
Provision for loss on disposal	–	–	–		**–**	**–**	**–**	–	–	–	–	–	–	–	–	–	–	(629)	(629)
Loss on disposal	–	–	–		**–**	**(14)**	**(14)**	–	–	–	–	(635)	(635)	–	–	–	–	–	–
Utilisation of provision	–	–	–		**–**	**–**	**–**	–	–	–	–	644	644	–	–	–	–	–	–
Profit before interest	3,162	2,356	(9)		**5,509**	**702**	**6,211**	2,864	2,001	5	4,870	(472)	4,398	2,762	1,800	5	4,567	(811)	3,756
Net interest payable	(87)	(78)	(17)	A	**(182)**	**–**	**(182)**	(92)	(60)	(10)	(162)	–	(162)	(91)	(87)	(14)	(192)	–	(192)
Profit on ordinary activities before taxation	3,075	2,278	(26)		**5,327**	**702**	**6,029**	2,772	1,941	(5)	4,708	(472)	4,236	2,671	1,713	(9)	4,375	(811)	3,564
Taxation	(846)	(615)	7		**(1,454)**	**(245)**	**(1,699)**	(803)	(524)	–	(1,327)	109	(1,218)	(815)	(463)	2	(1,276)	299	(977)
Profit on ordinary activities after taxation	2,229	1,663	(19)		**3,873**	**457**	**4,330**	1,969	1,417	(5)	3,381	(363)	3,018	1,856	1,250	(7)	3,099	(512)	2,587
Minority interests	(21)	(99)	–		**(120)**	**–**	**(120)**	(18)	(92)	–	(110)	–	(110)	(20)	(82)	–	(102)	–	(102)
Preference share dividends	–	(56)	–		**(56)**	**–**	**(56)**	–	(49)	–	(49)	–	(49)	–	(50)	–	(50)	–	(50)
Earnings (Profit attributable to shareholders)	2,208	1,508	(19)		**3,697**	**457**	**4,154**	1,951	1,276	(5)	3,222	(363)	2,859	1,836	1,118	(7)	2,947	(512)	2,435

Key: A – Interest previously capitalised; C – Discounts; D – Other operating income/(expense); F – Investment reclassification; G – Royalty elimination

Consolidated statement of total recognised gains and losses	2000 Glaxo Wellcome £m	2000 SmithKline Beecham £m	2000 Adjustments £m	2000 Glaxo-SmithKline £m	1999 Glaxo Wellcome £m	1999 SmithKline Beecham £m	1999 Adjustments £m	1999 Glaxo-SmithKline £m	1998 Glaxo-Wellcome £m	1998 SmithKline Beecham £m	1998 Adjustments £m	1998 Glaxo-SmithKline £m
Profit attributable to shareholders	1,917	2,256	(19)	**4,154**	1,811	1,053	(5)	2,859	1,836	606	(7)	2,435
Exchange movement on overseas net assets	97	(120)	–	**(23)**	(115)	(157)	–	(272)	1	3	–	4
UK tax on exchange movements	(9)	25	–	**16**	–	(44)	–	(44)	–	24	–	24
Total recognised gains and losses	2,005	2,161	(19)	**4,147**	1,696	852	(5)	2,543	1,837	633	(7)	2,463

7 Segment information

An analysis of turnover, profit before taxation, total assets, net assets and tangible fixed assets by geographical and business segment are set out below. The business segments consist of Pharmaceuticals (prescription pharmaceuticals and vaccines), Consumer Healthcare (oral care, OTC medicines and nutritional healthcare) and Healthcare Services (clinical laboratory testing and pharmacy benefit management). The geographical segments reflect the Group's most significant regional markets and are consistent with the Group's regional market management reporting structure. Following the sale of Diversified Pharmaceutical Services and Clinical Laboratories in 1999, the Healthcare Services segment no longer forms part of the ongoing business of the Group. Business segment data includes a charge allocating all corporate costs to the segments; there are no intra-segment sales.

The Group's activities are organised on a global basis. The geographical segmental figures are therefore influenced by the location of the Group's operating resources, in particular manufacture and research, and by variations over time in intra-group trading and funding arrangements.

Turnover by business sector	2000 £m	1999 £m	1998 £m
Pharmaceuticals	**15,429**	13,618	12,563
Consumer Healthcare	**2,650**	2,546	2,375
Healthcare Services	**–**	632	1,064
External turnover	**18,079**	16,796	16,002

Turnover by location of customer			
USA	**8,554**	7,732	7,438
Europe	**5,264**	5,291	5,010
Rest of the World	**4,261**	3,773	3,554
External turnover	**18,079**	16,796	16,002

Profit before tax by business sector			
Pharmaceuticals	**4,316**	3,938	3,901
Consumer Healthcare	**413**	410	329
Healthcare Services	**–**	(5)	76
Operating profit	**4,729**	4,343	4,306
Share of profits/(losses) of joint ventures and associated undertakings	**57**	7	22
Profit on disposal of associate (1998 – dissolution of joint venture)	**144**	39	57
Divestments	**1,402**	9	(629)
Merger transaction costs	**(121)**	–	–
Net interest payable	**(182)**	(162)	(192)
Profit before taxation	**6,029**	4,236	3,564
Profit before taxation	**6,029**	4,236	3,564
Taxation	**(1,699)**	(1,218)	(977)
Minority interests	**(120)**	(110)	(102)
Preference share dividends	**(56)**	(49)	(50)
Earnings	**4,154**	2,859	2,435

Total assets by business sector		
Pharmaceuticals	**19,403**	16,520
Consumer Healthcare	**2,187**	2,254
Total assets	**21,590**	18,774

Net assets by business sector		
Pharmaceuticals	**7,739**	5,471
Consumer Healthcare	**1,216**	1,136
Net assets	**8,955**	6,607

7 Segment information continued

Turnover by location of subsidiary undertaking	2000 £m	1999 £m	1998 £m
USA	**8,850**	7,967	7,621
Europe	**9,970**	9,592	8,609
Rest of the World	**5,112**	5,232	3,964
Gross turnover	**23,932**	22,791	20,194
USA	**(297)**	(237)	(186)
Europe	**(4,294)**	(3,933)	(3,210)
Rest of the World	**(1,262)**	(1,825)	(796)
Inter-segment turnover	**(5,853)**	(5,995)	(4,192)
USA	**8,553**	7,730	7,435
Europe	**5,676**	5,659	5,399
Rest of the World	**3,850**	3,407	3,168
External turnover	**18,079**	16,796	16,002

Profit before tax by location of subsidiary undertaking			
USA	**2,270**	2,110	1,741
Europe	**1,369**	1,947	1,367
Rest of the World	**1,090**	286	1,198
Operating profit	**4,729**	4,343	4,306
Share of profits/(losses) of joint ventures and associated undertakings	**57**	7	22
Profit on disposal of associate (1998 – dissolution of joint venture)	**144**	39	57
Divestments	**1,402**	9	(629)
Merger transaction costs	**(121)**	–	–
Net interest payable	**(182)**	(162)	(192)
Profit before taxation	**6,029**	4,236	3,564
Profit before taxation	**6,029**	4,236	3,564
Taxation	**(1,699)**	(1,218)	(977)
Minority interests	**(120)**	(110)	(102)
Preference share dividends	**(56)**	(49)	(50)
Earnings	**4,154**	2,859	2,435

Total assets by location of subsidiary undertaking		
USA	**4,616**	3,847
Europe	**10,167**	9,270
Rest of the World	**3,386**	3,298
Total operating assets	**18,169**	16,415
Cash at bank and liquid investments	**3,421**	2,359
Total assets	**21,590**	18,774

Net assets by location of subsidiary undertaking		
USA	**573**	740
Europe	**6,287**	5,511
Rest of the World	**2,706**	2,713
Net operating assets	**9,566**	8,964
Net debt	**(611)**	(2,357)
Net assets	**8,955**	6,607

7 Segment information continued

Tangible fixed assets by location of subsidiary undertaking	Land and buildings £m	Plant, equipment and vehicles £m	Computer software £m	Assets in construction £m	Total £m
					At 31.12.00
USA	684	471	36	278	1,469
Europe	1,416	1,844	184	527	3,971
Rest of the World	613	453	9	127	1,202
Total	2,713	2,768	229	932	6,642

UK segment

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.

	2000 £m	1999 £m	1998 £m
Turnover by location of customer	**1,151**	1,158	1,127
Gross turnover	**3,306**	3,437	3,362
Inter-segment turnover	**(1,798)**	(1,939)	(1,810)
Turnover by location of subsidiary	**1,508**	1,498	1,552
Operating profit	**622**	1,195	553
Total assets	**7,152**	5,896	
Net assets	**4,425**	3,151	

8 Merger items, restructuring costs and divested businesses

	2000					1999			
	Merger £m	Restruc-turing £m	Associate £m	Disposal of subsidiaries £m	**Total £m**	Restruc-turing £m	Associate £m	Disposal of subsidiaries £m	Total £m
Manufacturing and other restructuring	–	(171)	–	–	**(171)**	(443)	–	–	(443)
Merger integration costs	(400)	–	–	–	**(400)**	–	–	–	–
Healthcare Services restructuring	–	–	–	–	**–**	–	–	(30)	(30)
Effect on operating profit	(400)	(171)	–	–	**(571)**	(443)	–	(30)	(473)
Share of associate	–	–	(8)	–	**(8)**	–	(8)	–	(8)
Product divestments	1,416	–	–	–	**1,416**	–	–	–	–
Merger transaction costs	(121)	–	–	–	**(121)**	–	–	–	–
Disposal of businesses:									
Loss on disposal	–	–	–	(14)	**(14)**	–	–	(635)	(635)
Utilisation of provision	–	–	–	–	**–**	–	–	644	644
Effect on profit before tax	895	(171)	(8)	(14)	**702**	(443)	(8)	(21)	(472)
Effect on taxation – operating items					**125**				108
Effect on taxation – non-operating items					**(370)**				1
Effect on taxation					**(245)**				109
Effect on earnings					**457**				(363)

Manufacturing and other restructuring costs were incurred by Glaxo Wellcome and SmithKline Beecham in 2000 and 1999 in implementation of previously announced plans for restructuring of manufacturing and other activities.

Merger integration costs were incurred relating to the integration of Glaxo Wellcome and SmithKline Beecham into a unified GlaxoSmithKline business. These costs include consultancy fees in respect of integration planning, initial severance costs, initial asset write-offs and costs related to the early vesting or lapse of performance conditions on share options and share incentive awards. Product divestment income arises from the disposal of *Famvir*, *Kytril* and other products required in order to obtain regulatory approval for the merger. Merger transaction costs were incurred in order to effect the merger. These costs comprise the fees and expenses incurred in preparing and implementing the scheme of arrangement for the merger.

The disposal of businesses relates to the disposal of Healthcare Services in 1999. Restructuring costs were incurred in Healthcare Services before its disposal.

The share of associate relates to restructured costs incurred by Quest Diagnostics.

8 Merger items, restructuring costs and divested businesses continued

In 1998 costs were incurred in respect of restructuring amounting to £90 million and in respect of litigation amounting to £92 million. A provision was made for the loss on disposal of the Healthcare Services businesses amounting to £629 million. Tax relief on these items was £24 million, £92 million and £183 million respectively.

9 Other operating income/(expense)

	2000 £m	1999 £m	1998 £m
Royalties and other income	**153**	387	257
Other operating expense	**(63)**	(138)	(80)
	90	249	177
Income from equity investments	**184**	164	44
	274	413	221

Royalties and other income comprises a core of recurring income in the form of royalties from the out-licensing of intellectual property and income from disposal or out-licensing of non-core commercial assets, such as older products. Other operating expense comprises non-recurring costs of defending intellectual property or commercial assets. Income from investments arises from management and disposal of investments in the Group's equity investment portfolio.

10 Operating profit

	2000 £m	1999 £m	1998 £m
The following items have been charged in operating profit:			
Employee costs (Note 35)	**4,487**	4,134	3,804
Advertising	**652**	607	563
Depreciation of tangible fixed assets:			
Owned assets	**733**	648	606
Leased assets	**2**	2	2
Amortisation of goodwill	**11**	27	75
Amortisation of intangible fixed assets	**27**	28	18
Loss on net monetary assets in hyper-inflationary economies	**1**	3	1
Exchange losses/(gains) on foreign currency deposits/loans	**3**	(13)	12
Operating lease rentals:			
Plant and machinery	**44**	39	41
Land and buildings	**70**	77	77
Audit fees	**6.3**	6.5	6.8
Fees to auditors for other work:			
Auditors' UK firm	**9.4**	5.2	2.4
Auditors' overseas firms	**15.3**	8.9	7.4

Included within audit fees above is a fee of £10,000 relating to the company audit of GlaxoSmithKline plc.

Included within fees to the auditors for other work is £4.4 million relating to the merger of Glaxo Wellcome and SmithKline Beecham.

11 Joint ventures and associated undertakings

	2000 £m	1999 £m	1998 £m
Share of profits/(losses) of joint ventures:			
Glaxo Wellcome Warner-Lambert	**–**	–	21
Other	**1**	(4)	(9)
	1	(4)	12
Associated undertakings:			
Share of profits of Quest Diagnostics Inc.	**64**	5	–
Share of profits/(losses) of other associated undertakings	**(1)**	18	10
Goodwill written off	**(7)**	(12)	–
	56	11	10
	57	7	22
Share of turnover of joint ventures			
Glaxo Wellcome Warner-Lambert	**–**	–	68
Other	**8**	7	7
Total	**8**	7	75
Sales to joint ventures and associated undertakings	**15**	14	44

12 Net interest payable

	2000 £m	1999 £m	1998 £m
Interest payable			
On bank loans and overdrafts	**(45)**	(53)	(56)
On other loans	**(271)**	(240)	(276)
In respect of finance leases	**(1)**	–	–
	(317)	(293)	(332)
Share of interest payable of associate	**(23)**	(7)	–
	(340)	(300)	(332)
Investment income			
Interest income	**159**	140	139
Realised gains	**–**	–	3
Provision for market value adjustments	**(1)**	(2)	(2)
	158	138	140
	(182)	(162)	(192)

13 Taxation

Taxation charge based on profits for the period	2000 £m	1999 £m	1998 £m
UK corporation tax at the UK statutory rate	**928**	844	862
Less double taxation relief	**(384)**	(355)	(296)
	544	489	566
Overseas taxation	**1,258**	733	796
Deferred taxation	**(103)**	(4)	(320)
ACT write-back	**–**	–	(65)
	1,699	1,218	977

£16 million (1999 – £1 million) of the taxation charge is attributable to associated undertakings.

13 Taxation continued

Reconciliation of the taxation rate	2000 %	1999 %	1998 %
UK statutory rate of taxation	**30.0**	30.3	31.0
Deferred taxation not provided on fixed assets	**(0.3)**	(0.1)	0.1
Effect of special taxation status in manufacturing locations	**(3.6)**	(3.4)	(1.8)
Net cost of different rates of taxation in overseas undertakings	**2.4**	2.3	2.1
Share option deductions in the USA	**(0.9)**	(0.7)	(1.5)
Tax losses and R&D credits not previously recognised	**(1.2)**	(2.7)	(0.4)
Prior year items	**–**	(0.6)	0.4
ACT written back	**–**	–	(1.5)
Other differences	**0.9**	3.1	0.8
Taxation rate on business performance	**27.3**	28.2	29.2
Merger and restructuring costs	**0.9**	0.6	(1.8)
Taxation rate on total group results	**28.2**	28.8	27.4

Profits arising from manufacturing operations in Singapore, Puerto Rico and Ireland are taxed at reduced rates. The effect of this reduction in the taxation charge increased earnings per Ordinary Share by 3.6p in 2000, by 2.3p in 1999 and by 1.0p in 1998.

The integrated nature of the Group's worldwide operations, with cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits that fall to be taxed in individual territories: resolution of such transfer pricing issues is an inevitable and continuing fact of life for the Group. For a number of years Glaxo Wellcome has had significant open issues relating to transfer pricing in the USA. The issues, principally relating to the success of *Zantac*, relate to all years from 1989 to the present and there remains a wide variation between the claims of the Internal Revenue Service and the Group's estimation of its taxation liabilities. These issues are now the subject of discussions between the US and UK tax authorities under the terms of the double tax convention between the two countries. Having taken appropriate professional advice in seeking to manage these issues to a satisfactory conclusion, the Directors continue to believe that the Group has made adequate provision for the liabilities likely to arise from open assessments.

Save as shown in these accounts, 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 2000 is required in such a way that incremental tax will arise.

Tax balances	Tax creditor £m	Deferred tax £m
At 1st January 2000	(1,495)	742
Exchange adjustments	(72)	44
(Charge)/credit to profit and loss account	(1,786)	103
Credit to reserves	16	–
Cash paid	1,240	–
Other movements	(4)	–
At 31st December 2000	(2,101)	889

	Full potential		Provided	
Deferred taxation asset/(liability)	**At 31.12.00 £m**	At 31.12.99 £m	**At 31.12.00 £m**	At 31.12.99 £m
Accelerated capital allowances	**(619)**	(604)	**(11)**	(14)
Unremitted foreign investment income	**–**	(3)	**–**	(3)
Stock valuation adjustment	**(64)**	(70)	**(64)**	(70)
Intra-Group profit	**314**	376	**44**	35
Diversified Pharmaceutical Services disposal	**10**	29	**10**	29
Pensions and other post-retirement benefits	**300**	311	**300**	311
Manufacturing restructuring	**55**	31	**55**	31
Tax losses	**209**	211	**209**	211
Other timing differences	**563**	388	**346**	212
	768	669	**889**	742

Of the above categories of provided deferred taxation, stock valuation adjustments, intra-group profit and other timing differences are current.

14 Earnings per Ordinary Share

	2000 p	1999 p	1998 p
Basic earnings per Ordinary Share	**68.5**	46.7	39.9
Adjustment for merger items, restructuring costs and disposal of subsidiaries:			
Merger integration and transaction costs	**6.8**	–	–
Product divestments	**(16.8)**	–	–
Restructuring costs	**2.2**	5.5	1.1
Disposal of subsidiaries	**0.2**	0.4	7.3
Associates	**0.1**	0.1	–
Adjusted earnings per Ordinary Share	**61.0**	52.7	48.3
Diluted earnings per Ordinary Share	**67.7**	46.3	39.4

Earnings per Ordinary Share has been calculated by dividing the profit attributable to shareholders by the weighted average number of Ordinary Shares in issue during the period. The numbers used in calculating basic and diluted earnings per Ordinary Share are reconciled below.

In order to illustrate business performance, excluding merger and manufacturing restructuring costs, adjusted earnings and adjusted earnings per share are presented.

Net profit for the period attributable to shareholders	£m	£m	£m
Earnings – basic and diluted	**4,154**	2,859	2,435
Adjustments for merger items, restructuring costs and disposal of subsidiaries	**(457)**	363	512
Adjusted earnings	**3,697**	3,222	2,947

Weighted average number of shares in issue	millions	millions	millions
Basic and adjusted	**6,065**	6,118	6,100
Dilution for share options	**69**	53	78
Diluted	**6,134**	6,171	6,178

Shares held by the Employee Share Ownership Trusts are excluded.

15 Dividends

	2000 £m	1999 £m	1998 £m
Glaxo Wellcome			
Interim	**538**	545	540
Second interim	**827**	–	–
Final	**–**	796	760
	1,365	1,341	1,300
SmithKline Beecham			
First interim	**162**	148	134
Second interim	**162**	148	134
Third interim	**163**	147	133
Fourth interim	**245**	221	202
	732	664	603
Total	**2,097**	2,005	1,903

Dividends are stated after deducting dividends receivable by the Trustees of Employee Share Ownership Plans Trusts, where applicable.

Dividends per share	2000 p	1999 p	1998 p
Glaxo Wellcome plc – per Glaxo Wellcome share			
Interim	**15**	15	15
Second interim	**23**	–	–
Final	**–**	22	21
	38	37	36

The equivalent dividend per GlaxoSmithKline share is the same as the dividend per Glaxo Wellcome share.

SmithKline Beecham plc – per SmithKline Beecham share			
First interim	**3.0**	2.7	2.425
Second interim	**3.0**	2.7	2.425
Third interim	**3.0**	2.7	2.425
Fourth interim	**4.5**	4.05	3.660
	13.5	12.15	10.935
Equivalent dividend per GlaxoSmithKline share			
First interim	**6.59**	5.93	5.33
Second interim	**6.59**	5.93	5.33
Third interim	**6.59**	5.93	5.33
Fourth interim	**9.89**	8.90	8.03
	29.66	26.69	24.02

16 Goodwill

	Total £m
Cost at 1st January 2000	174
Exchange adjustments	5
Additions	16
Cost at 31st December 2000	195
Amortisation at 1st January 2000	(14)
Provision for the year	(11)
Amortisation at 31st December 2000	(25)
Net book value at 1st January 2000	160
Net book value at 31st December 2000	170

17 Intangible assets

	Licences, patents, etc. £m	Brands £m	Total £m
Cost at 1st January 2000	349	640	989
Exchange adjustments	6	15	21
Additions	96	–	96
Assets written off	(27)	–	(27)
Cost at 31st December 2000	424	655	1,079
Amortisation at 1st January 2000	(63)	–	(63)
Exchange adjustments	(2)	–	(2)
Provision for the year	(27)	–	(27)
Assets written off	8	–	8
Amortisation at 31st December 2000	(84)	–	(84)
Impairment at 1st January 2000	–	–	–
Impairment loss	(6)	(23)	(29)
Impairment at 31st December 2000	(6)	(23)	(29)
Net book value at 1st January 2000	286	640	926
Net book value at 31st December 2000	334	632	966

Brands largely comprise a portfolio of Sterling products such as *Panadol*, *Solpadeine* and *Hedex*. Each of these is considered to have an indefinite life given the strength and durability of the brand and the level of marketing support. Accordingly, they are not amortised. The valuation of each brand is reviewed annually using a 10 year cash flow forecast as this was the basis for the original independent assessment when they were acquired in 1994. The impairment loss in 2000 has been calculated using a discount rate of 12 per cent.

18 Tangible fixed assets

	Land and buildings £m	Plant, equipment and vehicles £m	Computer software £m	Assets in construction £m	Total £m
Cost at 1st January 2000	3,522	6,144	250	855	10,771
Exchange adjustments	71	121	2	29	223
Additions	57	194	95	672	1,018
Disposals	(52)	(369)	(29)	(7)	(457)
Reclassifications	160	436	–	(596)	–
Cost at 31st December 2000	3,758	6,526	318	953	11,555
Depreciation at 1st January 2000	(815)	(3,356)	(28)	–	(4,199)
Exchange adjustments	(18)	(68)	–	–	(86)
Provision for the year	(120)	(553)	(62)	–	(735)
Disposals	16	283	1	–	300
Depreciation at 31st December 2000	(937)	(3,694)	(89)	–	(4,720)
Impairment at 1st January 2000	(66)	(95)	–	(9)	(170)
Impairment loss	(45)	(28)	–	(12)	(85)
Disposals	15	47	–	–	62
Reclassifications	(12)	12	–	–	–
Impairment at 31st December 2000	(108)	(64)	–	(21)	(193)
Net book value at 1st January 2000	2,641	2,693	222	846	6,402
Net book value at 31st December 2000	2,713	2,768	229	932	6,642

The net book value at 31st December 2000 of the Group's land and buildings comprises freehold properties £2,452 million (at 1st January 2000 – £2,400 million), properties with leases of 50 years or more £135 million (at 1st January 2000 – £136 million) and properties with leases of less than 50 years £126 million (at 1st January 2000 – £105 million).

Included in plant, equipment and vehicles at 31st December 2000 are leased assets with a cost of £20 million (at 1st January 2000 – £9 million), accumulated depreciation of £4 million (at 1st January 2000 – £6 million) and a net book value of £16 million (at 1st January 2000 – £3 million).

The impairment loss principally relates to reductions in forecast cash flows resulting from decisions to close manufacturing facilities and has been measured by reference to value in use, using a discount rate of 10 per cent.

19 Fixed asset investments

	Joint ventures £m	Associated undertakings £m	Equity investments £m	Own shares £m	Total £m
At 1st January 2000	1	116	192	1,495	1,804
Exchange adjustments	–	10	13	–	23
Additions	–	2	52	1,229	1,283
Charge for the year	–	–	–	(203)	(203)
Impairment	–	–	(21)	–	(21)
Transfer to current assets	–	(54)	(83)	–	(137)
Disposals	–	(11)	(20)	(194)	(225)
Retained profit for the year	–	27	–	–	27
Goodwill amortisation	–	(7)	–	–	(7)
At 31st December 2000	1	83	133	2,327	2,544

Investments in joint ventures comprise £1 million share of gross assets (1999 – £1 million) and £nil share of gross liabilities (1999 – £nil).

The principal associated undertaking is Quest Diagnostics, Incorporated, a US clinical laboratory business listed on the New York Stock Exchange with a book value of £78 million and a market value of £1,200 million at 31st December 2000. The Group owns 27.0 per cent of Quest. The cost includes goodwill of £137 million which is being amortised over 20 years; the amortisation charge for 2000 was £7 million. Goodwill of £131 million which relates to the continuing Group interest in Clinical Laboratories assets attributed to Quest, remains eliminated against Group reserves.

Equity investments comprise listed investments of £31 million and unlisted investments of £102 million. The market value of listed investments was £62 million.

Investments in own shares consist of shares held by Employee Share Ownership Trusts. Details are given in Note 33.

20 Equity investments

	£m
At 1st January 2000	52
Exchange adjustments	(1)
Additions	23
Transfer from fixed assets	137
Impairment	(17)
Disposals	(23)
At 31st December 2000	171

Equity investments comprise listed investments of £162 million (1999 – £41 million) and unlisted investments of £9 million (1999 – £11 million). The market value of listed investments was £851 million (1999 – £156 million).

21 Stocks

	2000 £m	1999 £m
Raw materials and consumables	**405**	471
Work in progress	**1,262**	1,123
Finished goods	**610**	649
	2,277	2,243

22 Debtors

	2000 £m	1999 £m
Amounts due within one year		
Trade debtors	**3,336**	2,972
Other debtors	**616**	493
Prepaid pension contributions	**1**	1
Other prepayments and accrued income	**197**	202
Amounts due after one year		
Other debtors	**360**	418
Deferred taxation (Note 13)	**889**	742
	5,399	4,828

Debtors include trading balances of £nil (1999 – £1 million) due from joint ventures and associated undertakings.

23 Other creditors

	2000 £m	1999 £m
Amounts due within one year		
Trade creditors	**812**	803
Taxation (Note 13)	**2,061**	1,429
Social security	**77**	81
Other creditors	**465**	423
Accruals and deferred income	**2,146**	1,721
Dividend proposed	**1,242**	1,172
	6,803	5,629
Amounts due after one year		
Taxation (Note 13)	**40**	66
Other creditors	**103**	81
	143	147

Creditors include trading balances of £1 million (1999 – £1 million) due to joint ventures and associated undertakings.

Accruals include accruals for wages and salaries of £252 million (1999 – £227 million).

24 Provisions for liabilities and charges

	Pensions and other post-retirement benefits £m	Manufacturing restructuring £m	Merger integration £m	Indemnified disposal liabilities £m	Legal and other disputes £m	Other provisions £m	Total £m
At 1st January 2000	869	213	–	150	292	151	1,675
Exchange adjustments	59	4	–	8	11	6	88
Charge for the year	83	21	18	60	29	15	226
Applied	(89)	(53)	(2)	(74)	(43)	(37)	(298)
Other movements	(26)	(11)	–	–	–	3	(34)
At 31st December 2000	896	174	16	144	289	138	1,657

The Group has continued to recognise costs in 2000 in respect of plans for manufacturing and other restructuring initiated in 1998 and 1999 and to be implemented over the period to 2003. Costs recognised as a provision, principally in respect of identified severances at sites where it has been announced that manufacturing activities will cease, are expected to be incurred mainly between 2001 and 2003. Costs of asset write-downs have been recognised as an impairment of fixed assets.

The Group has recognised costs in 2000 in respect of plans for the integration of the Glaxo Wellcome and SmithKline Beecham businesses, to be implemented largely between 2001 and 2003. Costs recognised as a provision, principally in respect of identified severances, are expected to be incurred in 2001.

The provision for indemnified disposal liabilities relates to indemnities granted to third parties in respect of operations disposed of in prior years, including provisions, indemnities and purchase price adjustments in respect of the exit from the Healthcare Services businesses.

Provisions for legal and other disputes and other matters include amounts relating to US anti-trust, product liability, intellectual property rights, contract terminations, self-insurance, environmental clean-up and property rental.

The amounts provided include estimates of obligations arising from quantified and unquantified claims. Although the outcome of claims, legal proceedings and other matters in which GlaxoSmithKline is involved cannot be predicted with any certainty, the Directors, having taken appropriate legal advice, do not expect GlaxoSmithKline's ultimate liability for such matters, after taking into account provisions, tax benefits and insurance, to have a material adverse effect on its financial condition, results of its operations or cash flows.

It is in the nature of the Group's business that a number of these matters may be the subject of negotiation and litigation over several years. The largest individual amounts are expected to be settled within one or two years.

For discussion of litigation issues, refer to 'Legal proceedings' in Note 31.

25 Contingent liabilities

Contingent liabilities, comprising warranties, discounted bills, performance guarantees and other items arising in the normal course of business, amounted at 31st December 2000 to £42 million (1999 – £48 million).

26 Net debt

	2000 £m	1999 £m
Liquid investments	**2,138**	1,780
Cash at bank	**1,283**	579
	3,421	2,359
Loans and overdrafts due within one year:		
Bank loans and overdrafts	**(447)**	(479)
Commercial paper	**(1,599)**	(1,094)
Eurobonds	**(221)**	(819)
Obligations under finance leases	**(2)**	(1)
Other loans	**(12)**	(426)
	(2,281)	(2,819)
Loans due after one year:		
Bank loans	**(4)**	(5)
Eurobonds	**(1,644)**	(1,800)
Loan Stock	**(18)**	(20)
Obligations under finance leases	**(14)**	(2)
Other loans	**(71)**	(70)
	(1,751)	(1,897)
Net debt	**(611)**	(2,357)

	Market value		Book value	
Liquid investments	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Government and equivalent investments	**177**	238	**177**	238
Other investments	**1,508**	1,345	**1,504**	1,342
Deposits at banks	**457**	200	**457**	200
	2,142	1,783	**2,138**	1,780

At the balance sheet date the Group's liquid investments included listed investments of £142 million (1999 – £161 million), with an aggregate market value of £143 million (1999 – £162 million).

Loans and overdrafts due within one year

Commercial paper comprises a US$5 billion programme, of which £1,599 million was in issue at 31st December 2000 (1999 – £1,094 million), backed up by committed facilities of 364 days duration of £940 million, renewable annually, and liquid investments of £850 million.

The weighted average interest rate on commercial paper borrowings at 31st December 2000 was 4.9 per cent. The weighted average interest rate on other loans and overdrafts due within one year of 31st December 2000 was 6.9 per cent.

Loans due after one year

Loans due after one year are repayable over various periods from 2002 to 2010 as follows:

	2000 £m	1999 £m
Between one and two years	**646**	211
Between two and three years	**3**	621
Between three and four years	**144**	1
Between four and five years	**936**	175
After five years	**22**	889
	1,751	1,897

The loans carry interest at effective rates between 0.76 per cent and 8.75 per cent.

26 Net debt continued

Secured loans

Loans amounting to £45 million (1999 – £31 million) are secured by charges on fixed and current assets.

Finance lease obligations	2000 £m	1999 £m
Rental payments due within one year	**2**	1
Rental payments due between one and two years	**13**	2
Rental payments due between two and three years	**1**	–
Total future rental payments	**16**	3
Future finance charges	**–**	–
Total finance lease obligations	**16**	3

Financial instruments

Further information is given in Note 34.

27 Commitments

Capital commitments	2000 £m	1999 £m
Contracted for but not provided in the accounts		
Intangible fixed assets	**546**	429
Tangible fixed assets	**312**	336
Acquisition of Block Drug Company Inc.	**832**	–
	1,690	765

Commitments under licensing and other agreements to purchase intangible assets became payable over a number of years if a series of future 'milestones' is achieved.

Commitments under operating leases to pay rentals for the next year		
Operating leases on land and buildings which expire:		
In one year or less	**8**	5
Between one and five years	**30**	30
After five years	**39**	36
	77	71
Operating leases on plant and equipment which expire:		
In one year or less	**14**	13
Between one and five years	**38**	40
	52	53

Commitments under operating leases to pay rentals in future years		
2001	**129**	124
2002	**97**	85
2003	**75**	67
2004	**51**	51
2005	**43**	41
2006 and thereafter	**208**	216
	603	584

28 Share capital and share premium account

	Redeemable preference shares of £1 each		Ordinary Shares of 25p each		Share premium account
	Number	£m	Number	£m	£m
Share capital authorised					
At 31st December 2000	50,000	–	9,999,800,000	2,500	
Share capital issued and fully paid					
Share capital issued prior to scheme of arrangement	50,000	–	8	–	–
Share capital issued under scheme of arrangement	–	–	6,222,462,894	1,556	–
Share capital issued under share option schemes	–	–	3,199,272	–	30
At 31st December 2000	50,000	–	6,225,662,174	1,556	30

	Number (000)
Number of shares issuable under outstanding options (Note 33)	
At 31st December 2000	66,706
Number of unissued shares not under option	
At 31st December 2000	3,707,432

The redeemable preference shares were issued at par. They are non-voting (except in respect of resolutions to wind up the company or vary the rights of the redeemable preference shares), carry no right to dividend and are entitled to priority repayment in full from the assets of the company on a winding up. They are redeemable by the company at par on 60 days notice.

If the merger between Glaxo Wellcome and SmithKline Beecham had taken place with effect from 31st December 1999 the nominal value of the issued share capital at that date would have been £1,549 million.

For details of substantial shareholdings refer to Substantial shareholdings (page 159).

29 Non-equity minority interest

SB Holdings Corporation (SBH Corp), a subsidiary incorporated in Delaware, USA, has in issue $500 million of Flexible Auction Market Preferred Stock (Flex AMPS), comprising 5,000 shares of $100,000 each, issued in two series, the dividend on which was fixed on issuance in 1996 over a five and seven year period respectively for each series. SBH Corp also has in issue $400 million of Auction Rate Preference Stock (ARPS), comprising 4,000 shares of $100,000 each, issued in five series, the dividend on which varies (predominately with prevailing interest rates) and is set every seven weeks at an auction at which the shares are also traded.

SmithKline Beecham Corporation (SB Corp), a subsidiary incorporated in Pennsylvania, USA, had in issue at 31st December 2000 $650 million of ARPS, comprising 1,300 shares of $500,000 each, issued in eight series. The dividend rate on each series varied (predominately with prevailing interest rates) and was set every seven weeks at an auction at which the shares were also traded.

Together, the ARPS and the Flex AMPS constitute the preference shares which represent the non-equity minority interest.

SmithKline Beecham plc in certain circumstances guarantees payment of dividends declared on the preference shares. SmithKline Beecham plc has also agreed with SB Corp and SBH Corp that in certain circumstances it will provide support to SB Corp and SBH Corp in relation to the principal. However, any guarantee or support is limited so that in no circumstances could the holder of preference shares be in a more favourable position than had they been a holder of a preference share in GlaxoSmithKline plc. The preference shares represent a long-term non-equity minority interest in the Group balance sheet in accordance with FRS 4 ‘Capital Instruments’.

The SB Corp ARPS were repaid in full in February and March 2001.

30 Other reserves

	Other reserves £m	Profit and loss account £m	Total £m
At 31st December 1997	(3,738)	5,681	1,943
Goodwill offset against profit and loss account reserve	4,840	(4,840)	–
Goodwill written off to profit and loss account	–	3	3
Exchange adjustments relating to:			
Net assets of subsidiary and associated undertakings	–	8	8
Retained profit of subsidiary and associated undertakings	–	49	49
Goodwill	–	34	34
Borrowings designated as hedges	–	(87)	(87)
UK tax on exchange movements	–	24	24
Shares issued	435	–	435
Profit attributable to shareholders	–	2,435	2,435
Dividends	–	(1,903)	(1,903)
Revaluation of goodwill due to exchange	–	(34)	(34)
At 31st December 1998	1537	1,370	2,907
Goodwill written off to profit and loss account	–	335	335
Exchange adjustments relating to:			
Net assets of subsidiary and associated undertakings	–	(398)	(398)
Retained profit of subsidiary and associated undertakings	–	(16)	(16)
Goodwill	–	34	34
Borrowings designated as hedges	–	113	113
UK tax on exchange movements	–	(44)	(44)
Shares issued	164	–	164
Profit attributable to shareholders	–	2,859	2,859
Dividends	–	(2,005)	(2,005)
Revaluation of goodwill due to exchange	–	(34)	(34)
At 31st December 1999	1,701	2,214	3,915
Goodwill written off to profit and loss account	–	2	2
Exchange adjustments relating to:			
Net assets of subsidiary and associated undertakings	–	62	62
Retained profit of subsidiary and associated undertakings	–	9	9
Goodwill	–	(10)	(10)
Borrowings designated as hedges	–	(84)	(84)
UK tax on exchange movements	–	16	16
Shares issued	148	–	148
Profit attributable to shareholders	–	4,154	4,154
Dividends	–	(2,097)	(2,097)
Revaluation of goodwill due to exchange	–	10	10
At 31st December 2000	1,849	4,276	6,125

Goodwill arising on acquisitions before 1st January 1998 which has been written off against other reserves amounts to £6,180 million, including goodwill of £4,840 million previously held as a goodwill reserve which was offset against other reserves in 1998. Goodwill denominated in local currencies which is subject to revaluation amounted to £325 million at 31st December 2000.

Goodwill on acquisitions after 1st January 1998 has been capitalised, in accordance with the accounting policy set out in Note 3.

Exchange adjustments debited to other reserves amount cumulatively to £1,147 million.

Other reserves include the merger reserve created on the merger of Glaxo Wellcome and SmithKline Beecham amounting to £1,561 million at 31st December 2000 (1999 – £1,413 million; 1998 – £1,249 million).

Total reserves amounted to £6,125 million at 31st December 2000 (1999 – £3,915 million; 1998 – £2,907 million), of which £nil (1999 – £nil; 1998 – £nil) relates to the company, £6,097 million (1999 – £3,893 million; 1998 – £2,928 million) relates to subsidiary undertakings and £28 million (1999 – £22 million; 1998 – £21 million negative) relates to joint ventures and associated undertakings.

31 Legal proceedings

The Group is involved in various legal and administrative proceedings considered normal to its business, principally intellectual property cases, product liability, and governmental investigations, the most significant of which are described below. GlaxoSmithKline is committed to ensuring the safety of its products throughout the world. Notwithstanding high standards of quality control, product liability is a significant commercial risk for GlaxoSmithKline in common with others in the pharmaceutical industry. The Group is exposed to the ongoing development of 'strict liability' and to the continuing readiness of consumers, particularly in the USA, to enter into individual and class action litigation.

Intellectual property

In July 1998 the Group filed an action against TorPharm, Apotex Inc. and Apotex Corp in the US District Court for the Northern District of Illinois charging infringement of the Group's patent for paroxetine hydrochloride hemihydrate (*Paxil*/*Seroxat*). TorPharm, through its US agent, Apotex Corp, filed an Abbreviated New Drug Application (ANDA) with the US Food and Drug Administration (FDA) seeking approval to introduce a generic form of *Paxil* into the US market prior to expiration in 2006 of the Group's patent. TorPharm asserted in the ANDA that its compound does not infringe the Group's patent, and in February 2000 challenged the validity of that patent. The parties are still engaged in the discovery process; no trial date has been set.

In 1999 the Group filed an action against Geneva Pharmaceuticals and in 2000 against Zenith Goldline in the US District Court for the Eastern District of Pennsylvania charging infringement of the Group's patents for paroxetine hydrochloride hemihydrate (*Paxil*/*Seroxat*). Geneva and Zenith Goldline filed ANDAs for paroxetine hydrochloride asserting that their compounds do not infringe the Group's patents or that the patents are invalid. In addition the Group has filed new actions against TorPharm in the Eastern District of Pennsylvania based upon new patents issued in 1999 and 2000 covering paroxetine. The new patents were also included in the actions against Geneva and Zenith Goldline. Proceedings in those actions have been deferred pending a decision on GlaxoSmithKline's motion to consolidate all Pennsylvania litigation.

In March 2000 GlaxoSmithKline filed an action against Pentech in the US District Court for the Northern District of Illinois for infringement of the Group's patents for paroxetine hydrochloride. Pentech filed an ANDA for a capsule version of *Paxil*, asserting that its compound and presentation do not infringe the Group's patents or that the patents are invalid. This matter is still in discovery.

In October 2000 GlaxoSmithKline filed an action against Synthon in the US District Court for the Middle District of North Carolina for infringement of the Group's patents for paroxetine hydrochloride and paroxetine mesylate. Synthon filed a 505(b)(2) application (a 'paper NDA') with the US FDA using a different salt form of paroxetine than that used in the marketed form of *Paxil*. This matter is still in its early stages.

In January 2001 GlaxoSmithKline filed an action against Alphapharm in the US District Court for the Eastern District of Pennsylvania for infringement of the Group's patents for paroxetine hydrochloride. Alphapharm filed an ANDA for paroxetine hydrochloride asserting that its product would not infringe the Group's patents or that the patents are invalid. This matter is still in its early stages.

With respect to all the pending litigation in the USA relating to *Paxil*, the Group believes that its patents are valid and that the third party compounds do infringe the Group's patents, and it intends to vigorously litigate its position.

Following the expiration of the data exclusivity period in Europe, GlaxoSmithKline understands that an authorisation has been issued to Synthon by regulatory authorities in Denmark for paroxetine mesylate, a different salt form of paroxetine hydrochloride, the active ingredient in *Seroxat*/*Paxil*. Authorisations are under assessment in other European countries under the mutual recognition process. The Group has initiated litigation challenging the approval by the Danish Medicines Agency on grounds that an authorisation should not have been granted under the abridged procedure as paroxetine mesylate is not essentially similar to *Seroxat*. In addition, GlaxoSmithKline understands that a marketing authorisation has been issued in Denmark for paroxetine hydrochloride anhydrate, another variant of the Group's product, which has recently been launched. GlaxoSmithKline believes that marketing of either a paroxetine hydrochloride anhydrate product or a paroxetine mesylate product by third parties in European countries infringes its patents and is vigorously litigating its position.

In July 1996 Emory University obtained grant of a US patent with claims purporting to cover the compound lamivudine (3TC), the active ingredient in *Epivir*. The active ingredient is also a component of both *Combivir* and *Trizivir*. Emory sued GlaxoSmithKline and its licensor BioChem for patent infringement in the US District Court for the Northern District of Georgia. The litigation was stayed in July 1998 pending the outcome of interference proceedings in the US Patent and Trademark Office (USPTO) intended to establish whether the subject matter of Emory's patent rightly belongs to Emory or to BioChem. The USPTO ruled in favour of BioChem on the invalidity of Emory's patent but left other issues unresolved. GlaxoSmithKline is seeking resolution of those issues by an appeal to the US District Court for the District of Columbia.

Four distributors of generic pharmaceutical products have filed ANDAs for sustained release bupropion hydrochloride tablets (*Wellbutrin* and *Zyban*) in the USA, accompanied in each case with a certification of invalidity of the Group's patents. The Group has brought suit against each of the filing parties on grounds of patent infringement. GlaxoSmithKline filed suit against Andrx Pharmaceuticals, the first to file an ANDA, in the US District Court for the Southern District of Florida. Actions have also been filed against Watson Pharmaceuticals in the US District Court for the Southern District of Ohio, Eon Labs Manufacturing in the US District Court for the Eastern District of New York and Impax Laboratories in the US District Court for the Northern District of California. All those cases are in their early stages.

3M (Minnesota Mining and Manufacturing Company) alleges that certain GlaxoSmithKline respiratory products will, when launched in the US, infringe 3M's patents covering inhaled products containing HFA (non-CFC) propellants. GlaxoSmithKline initiated an action for a declaratory judgement of invalidity and non-infringement against 3M in the US District Court for the Middle District of North Carolina. In a separate action 3M initiated an action for a declaratory judgement of invalidity and non-infringement of GlaxoSmithKline's patents in the US District Court for Minnesota. Both actions remain in the discovery phase.

31 Legal proceedings continued

GlaxoSmithKline filed an action for infringement of its patents for cefuroxime axetil, the active ingredient in the Group's *Ceftin* anti-infective product, against Ranbaxy Pharmaceuticals in the US District Court for New Jersey. A preliminary injunction was granted in favour of GlaxoSmithKline. Ranbaxy has appealed that decision but in the interim is barred from marketing its cefuroxime axetil product. GlaxoSmithKline has filed a similar action against Apotex, a second distributor of generic pharmaceutical products, in the US District Court for the Northern District of Illinois. That case is still in its early stages.

Three distributors of generic pharmaceutical products have filed ANDAs for nabumetone, the active ingredient in *Relafen*, accompanied in each case with a certification of patent invalidity. The Group has brought suit against each of the filing parties on grounds of patent infringement. All three cases were consolidated for trial in the US District Court for the District of Massachusetts. The trial concluded in January 2001 but the trial judge has not yet issued a decision. Although the court-ordered stay against the first generic to file an ANDA expired in March, 2000, no generic product has yet been launched.

Product liability

In 1997 the US Food and Drug Administration 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 is a defendant in numerous lawsuits in various state and federal district courts in the USA, many of which have been filed as class actions. Most of the lawsuits seek relief including some combination of compensatory and punitive damages, medical monitoring and refunds for purchase 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 American Home Products ('AHP'), which sold fenfluramine and dexfenfluramine. The settlement does not include any of the phentermine defendants, including the Group. An appeal from the settlement is scheduled for hearing before the Third Circuit Court of Appeals in May 2001. AHP continues to settle individual state-court cases before trial.

Withdrawal of products in the US pharmaceutical and consumer healthcare businesses has sparked product liability claims and litigation. Following the voluntary withdrawal of *Lotronex* in the US in November 2000 a number of lawsuits have been filed against GlaxoSmithKline. Several of the suits are individual personal injury actions, while others have been filed as class actions seeking medical monitoring, compensation for personal injury, or damages under state consumer protection statutes. Those actions are still at their early stage. Similarly, following the voluntary withdrawal of consumer healthcare products in which phenylpropanolamine (PPA) was an active ingredient the Group has received notice of two purported national class actions seeking relief such as medical monitoring, refunds and compensation for personal injury or increased risk of injury for all members of a nationwide class who took PPA products. The Group has also received several lawsuits in California alleging personal injury, increased risk of injury, and unfair and deceptive business practices. Again all those claims and actions are at an early stage.

Antitrust

Twenty individual and chain drug stores filed suit in October 1993 against the US pharmaceutical companies of both SmithKline Beecham and Glaxo Wellcome, other drug manufacturers and a mail order pharmacy in the US District Court for the Middle District of Pennsylvania. That complaint alleged that SmithKline Beecham, Glaxo Wellcome and other manufacturer defendants had violated federal antitrust laws by selling and conspiring to sell prescription drugs to mail order pharmacies and other favoured purchasers at prices below the prices plaintiffs were charged. According to the complaint, 'price discrimination' on the part of the manufacturer defendants enabled favoured purchasers to sell drugs at prices that were lower than the prices that plaintiffs were able to charge for the same drugs, thereby causing plaintiffs to lose sales or cut profit margins. Plaintiffs seek declaratory and injunctive relief, treble damages, costs and attorneys fees.

Subsequent to the filing of the initial complaint, over 178 similar antitrust suits have been filed in at least 47 different federal judicial districts and 13 states against the US pharmaceutical businesses of both SmithKline Beecham and Glaxo Wellcome and, in some cases, as many as 34 other drug manufacturers and wholesalers. The federal cases have been brought together in the District Court for the Northern District of Illinois for pre-trial purposes.

While many of the state complaints include allegations regarding purported consumer class actions, only California and the District of Columbia have certified such classes. The federal class action component, which includes pharmacies representing approximately two-thirds of total US retail sales volume, has been settled by both Glaxo Wellcome and SmithKline Beecham. The defendants electing to try that case had a verdict directed in their favour, which was largely affirmed on appeal. Glaxo Wellcome and SmithKline Beecham have settled a large number of the remaining cases. Major exceptions include a group of 90 separate lawsuits brought by a common group of lawyers (the Boies group) on behalf of approximately 3,800 independent retail pharmacies which have not been settled by SmithKline Beecham. Glaxo Wellcome has not settled the so-called 'Rite Aid' cases, the original cases filed in the Middle District of Pensylvania. Litigation with other plaintiffs continues.

Governmental investigations

GlaxoSmithKline received subpoenas from the US Attorney's office in Boston, Massachusetts, requesting that the Group produce documents for the period from 1991 to the present relating to any repackaging, relabelling or private label arrangements that GlaxoSmithKline has had or discussed with third-party customers during such period. At issue is whether the prices charged to such third parties for GlaxoSmithKline products must be counted for Medicaid 'best price' purposes. The Group is providing documents in response to the subpoenas.

GlaxoSmithKline is responding to subpoenas from the Office of the Inspector General of the US Department of Health and Human Services, the US Department of Justice and the states of Texas, California and Nevada in connection with allegations that pharmaceutical companies, including GlaxoSmithKline, have violated federal fraud and abuse laws such as the Federal False Claims Act (and, with respect to Texas, California and Nevada, comparable state laws) as a result of the way certain drugs are priced and the way the Medicare and Medicaid programmes reimburse for those drugs.

31 Legal proceedings continued

In November 2000 the US Federal Trade Commission staff advised GlaxoSmithKline that the staff was 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. The Group is co-operating with the staff's investigation, which is in the early stages.

SBCL indemnities

In connection with the sale of SmithKline Beecham Clinical Laboratories (SBCL) to Quest Diagnostics Incorporated, the Group has agreed to indemnify Quest Diagnostics, on an after-tax basis, with respect to certain liabilities arising from the conduct of the SBCL business prior to closing. The most significant legal proceedings subject to that indemnity are governmental and private claims arising from the US government's investigation into SBCL's billing and marketing practices and liabilities arising from the misconduct of a phlebotomist at a patient service centre in Palo Alto, California.

The Group continues to respond to claims and lawsuits from non-governmental parties, including private insurers, self-funded employer plans and patients, concerning billing and marketing practices of SB Clinical Laboratories as those practices may relate to amounts paid by those parties. The lawsuits include purported class actions filed in various jurisdictions in the USA and two non-class action complaints by a number of insurance companies that seek damages allegedly arising from payments they made for clinical laboratory testing services. All but one of the purported class actions were consolidated for pretrial proceedings with the first of the two non-class action suits filed by the insurers in the US District Court for the District of Connecticut. In August 2000, one of the insurers' lawsuits was enjoined, and shortly thereafter the other one was stayed following the parties' representations to the District Court of Connecticut that an agreement in principle to settle both insurer cases had been reached. With respect to the class action litigation filed on behalf of individual patients and entities in the District of Connecticut, settlements were preliminarily approved by the court in February 2001, and in February 2001 a settlement of the sole non-consolidated class action suit was also preliminarily approved by an Illinois state court judge.

In March 1999 the Group learned that an employee at an SBCL patient service centre in Palo Alto, California had at times reused needles when drawing blood from patients. The phlebotomist was immediately suspended and thereafter dismissed. The Group co-operated with local, state and federal health agencies to address public health issues arising from the employee's breach of standard medical practices and offered free testing for approximately 15,300 patients whose blood may have been drawn by this phlebotomist to determine whether those patients have been exposed to hepatitis B, hepatitis C or HIV. A number of civil actions, including some purporting to be class actions, were filed against the Group in state court in California on behalf of individuals who may have been affected by the phlebotomist's reuse of needles or other alleged improper practices. Cases alleging fear of disease have been dismissed; cases alleging actual infection are entering discovery.

Environmental matters

The Group has a worldwide programme of corporate environmental standards. These standards ensure that environmental protection is a key business objective and they detail the purpose, scope, procedures and responsibilities of every environmental concern throughout the Group's worldwide operations. The Group is committed to being an environmentally responsible member in the local, national and worldwide community in which it operates. The Group believes that its operations comply in all material respects with applicable environmental laws and regulations.

GlaxoSmithKline 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. These include notification to the Group and Rohm and Haas Company, a company incorporated in the USA, of their responsibility relating to the joint clean-up of the Whitmoyer Laboratories site in Pennsylvania. The companies are remediating the site pursuant to a consent decree with the US Environmental Protection Agency (EPA). However, SmithKline Beecham Corp filed a legal action against Rohm and Haas in 1992 seeking indemnification in respect of the Whitmoyer Laboratories clean-up costs by the terms of the 1978 Agreement under which SB Corp purchased the site from Rohm and Haas. A panel of the Court of Appeals for the Third Circuit reversed in part the order of the District Court which had found in favour of the Group and remanded the matter for further proceedings to allocate proportionate responsibility. That new trial has been postponed on the basis of possible administrative or legislative relief that would reduce the remediation cost responsibilities of the parties.

GlaxoSmithKline has been advised that it may be a responsible party at approximately 25 sites, of which fewer than 20 sites, including the Whitmoyer site, 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 clean-up costs. In most instances, GlaxoSmithKline is involved as an alleged generator of hazardous waste although there are a few sites where GlaxoSmithKline is involved as a current or former operator of the facility. Although Superfund provides that the defendants are jointly and severally liable for clean-up costs, these proceedings are frequently resolved on the basis of the nature and quantity of waste disposed of at the site by the generator. The Group's proportionate liability for clean-up costs has been substantially determined for about 20 of the sites referred to above.

GlaxoSmithKline'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, GlaxoSmithKline routinely accrues amounts related to its share of liability for such matters. GlaxoSmithKline does not expect that its share of liability for such matters over and above any amounts accrued in the accounts will have a material impact on its financial condition, results of its operations or its cash flows. Although the Group makes ongoing capital expenditures for environmental protection equipment, as well as cash expenditures for site remediation and operation and maintenance of environmental facilities, it does not anticipate any such expenditures to have a material impact upon the Group's capital expenditures or cash flows.

Tax matters

Pending tax matters are described in Note 13 to the Financial statements 'Taxation'.

32 Acquisitions and disposals

Details of the acquisition and disposal of subsidiary and associated undertakings and joint ventures are given below.

2000 Acquisitions	Book values £m	Fair value adjustments £m	Net assets acquired £m	Goodwill capitalised £m	Cost of acquisition £m
Glaxo Wellcome SA	7	–	7	16	23
Acquisition of other minority interests	2	–	2	–	2
	9	–	9	16	25

Glaxo Wellcome SA

During 2000 the Group has acquired a further 8.7 per cent of the equity share capital of Glaxo Wellcome SA (formerly Polfa Poznan SA) in Poland for a cash consideration of £23 million. Goodwill of £16 million has been capitalised and is being amortised over the same period as the original acquisition in 1998.

Disposals

Affymetrix, Inc.

In May 2000 the Group sold two million shares of its holding in Affymetrix, Inc., an associated undertaking, for cash proceeds of £155 million, realising a profit of £144 million.

SB Clinical Laboratories

A final cash settlement of US$95 million (£62 million) was made in October 2000 to Quest Diagnostics, Incorporated to complete the sale of SB Clinical Laboratories.

Cash flows	SB Clinical Laboratories £m	Affymetrix £m	Glaxo Wellcome SA £m	Other £m	Total £m
Cash consideration paid	–	–	23	2	25
Cash acquired	–	–	–	–	–
Net cash payment on acquisitions	–	–	23	2	25
Net cash proceeds from disposals	(62)	155	–	–	93

32 Acquisitions and disposals continued

1999 Acquisitions	Book values £m	Fair value adjustments £m	Net assets acquired £m	Goodwill £m	Cost of acquisition £m
Amoun Pharmaceuticals Industries Co SAE	11	–	11	61	72
Glaxo Wellcome KK	3	–	3	(3)	–
Quest Diagnostics, Incorporated	(64)	–	(64)	268	204
	(50)	–	(50)	326	276

Amoun Pharmaceuticals Industries Co SAE (APIC)

In January 1999 the Group's subsidiary company in Egypt, Glaxo Wellcome Egypt S.A.E., acquired 98 per cent of Amoun Pharmaceuticals Industries Co SAE and subsequently increased its holding to 99.5 per cent. Taking account of the minority interest of 11 per cent in Glaxo Wellcome Egypt S.A.E., the effective Group interest in APIC at 31 December 1999 was 88.6 per cent. The purchase consideration was Egyptian pounds 397 million (£72 million) paid in cash. Goodwill of Egyptian pounds 336 million (£61 million) was capitalised and is being amortised over 20 years. The acquisition contributed £12 million to turnover in 1999. The contribution to operating profit was not material.

Glaxo Wellcome KK

In July 1999 the Group completed the merger of Nippon Glaxo Limited, the Group's wholly owned subsidiary in Japan, with Nippon Wellcome KK (NW), the Group's majority-owned subsidiary in Japan, to form Glaxo Wellcome KK (GWKK), in which the previous minority shareholders in NW have a 20 per cent interest. The difference between the minority interest in GWKK and the minority interest in NW was dealt with as goodwill on consolidation.

Quest Diagnostics, Incorporated

In August 1999 the Group acquired a 29.2 per cent equity interest in Quest Diagnostics, Incorporated (Quest) as part consideration for the disposal of SB Clinical Laboratories (see below). Of the £268 million goodwill arising, £131 million remained eliminated against Group reserves and £137 million was capitalised.

Disposals

Diversified Pharmaceutical Services

In April 1999 the Group sold Diversified Pharmaceuticals Services (DPS) to Express Scripts, Inc for US$700 million (£440 million). After recognising costs expected to arise on the disposal of £72 million and a charge for goodwill previously written off to reserves of £4 million a loss of £635 million was made. A provision of £629 million was made in 1998. Up to the date of disposal the turnover of DPS was £40 million and an operating loss of £5 million was made, after charging goodwill amortisation of £17 million.

SB Clinical Laboratories

In August 1999 the Group sold SB Clinical Laboratories to Quest for US$1,025 million (£636 million) in cash and a 29.2 per cent equity interest in Quest representing a value of US$328 million (£204 million). After recognising costs expected to arise on the disposal of £81 million and a charge for goodwill previously written off to reserves of £316 million, no profit or loss was made on the transaction. Up to the date of disposal the turnover of SB Clinical Laboratories was £592 million and the operating profit was £30 million.

Affymetrix, Inc.

In August 1999 the Group sold one million shares of its holding in Affymetrix, Inc., an associated undertaking, for cash proceeds of £41 million, realising a profit of £39 million.

Cash flows	SB Clinical Laboratories £m	DPS £m	Affymetrix £m	APIC £m	Total £m
Cash consideration paid	–	–	–	72	72
Cash acquired	–	–	–	(5)	(5)
Net cash payment on acquisitions	–	–	–	67	67
Net cash proceeds from disposals	599	403	41	–	1,043

32 Acquisitions and disposals continued

1998 Acquisitions	Book values £m	Fair value adjustments £m	Net assets acquired £m	Goodwill capitalised £m	Cost of acquisition £m
Polfa Poznan SA	68	11	79	102	181
Biddle Sawyer	2	–	2	10	12
Romanian Europharm Group	3	–	3	15	18
	73	11	84	127	211

The acquisitions contributed £58 million to turnover in 1998. The contribution to operating profit was not material.

Polfa Poznan SA (now Glaxo Wellcome SA)

In January 1998 the Group acquired 80 per cent of Polfa Poznan SA and subsequently increased its holding to 88.7 per cent. From January 1998 Polfa Poznan SA was accounted for as a subsidiary undertaking. The total cost was £181 million comprising purchase consideration of £177 million and acquisition expenses of £4 million. The purchase consideration was paid in cash, £140 million ($230 million) in January 1998 and £37 million ($61 million) subsequently. The fair value of the net assets acquired exceeded the book value by £11 million, comprising adjustments of £7 million to reflect the value of land and buildings and £4 million in respect of deferred tax. Goodwill of £102 million was capitalised and is being amortised over 20 years.

Biddle Sawyer

In January 1998 the Group acquired Biddle Sawyer, an Indian company. The purchase consideration was Rs 7,820 lakhs (£12 million) and goodwill of Rs 6,792 lakhs (£10 million) was capitalised and is being amortised over 10 years. The consideration was paid in cash.

Romanian Europharm Group

During 1998 the Group acquired a 65 per cent interest in the Romanian Europharm Group. The purchase consideration was £18 million, paid in cash and £15 million of goodwill was capitalised and is being amortised over 20 years.

Disposals

Glaxo Wellcome Warner-Lambert joint venture

With effect from 31st December 1998 the company dissolved its joint venture with Warner-Lambert for the development and marketing of the Group's products in the OTC market. Under the terms of the dissolution, Warner-Lambert has the rights to market *Zantac 75* in the USA and Canada, while Glaxo Wellcome has the rights to all other products previously marketed through the joint venture and to all its future products with potential to switch from prescription to OTC. Additionally, Glaxo Wellcome received a balance of cash consideration. The agreement also included release from warranties given on dissolution of the Glaxo Wellcome Warner-Lambert joint venture 'base business' in 1996. After recognising costs expected to arise on dissolution, an exceptional credit of £57 million was recognised. The tax attributable was approximately £17 million, and the profit attributable to the Group was £40 million.

Cash flows	Romanian Europharm Group £m	Polfa Poznan S.A. £m	Biddle Sawyer £m	Total £m
Cash consideration paid	18	181	12	211
Cash acquired	–	(37)	–	(37)
Net cash payment on acquisitions	18	144	12	174
Net cash proceeds from dissolution of OTC joint venture	–	–	–	20

33 Employee share schemes

The Group operates share option schemes, whereby options are granted to employees to acquire shares in GlaxoSmithKline plc at the grant price, and share award schemes, whereby awards are granted to employees to acquire shares in GlaxoSmithKline plc at no cost subject to the achievement of performance targets. The details given below relate to schemes operated separately by Glaxo Wellcome and SmithKline Beecham up to the date of the merger, which became schemes of GlaxoSmithKline on the merger. Each Glaxo Wellcome option outstanding at the date of the merger was converted into one GlaxoSmithKline option. Each SmithKline Beecham share option was converted into 0.4552 of a GlaxoSmithKline share option and each SmithKline Beecham ADS option was converted into 1.138 GlaxoSmithKline ADR options, with corresponding adjustments to the grant price.

Glaxo Wellcome share option schemes

Glaxo Wellcome operated share option schemes and savings-related share option schemes. Grants under share option schemes were normally exercisable between three and ten years from the date of grant. At the date of the merger, all share options, except those granted in 2000, became exercisable and performance conditions, where applicable, lapsed. Grants under savings-related share option schemes were normally exercisable after three years' saving.

Options under the share option schemes were 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 scheme were granted at a price 20 per cent below the market price ruling at the date of grant.

	Share option schemes		Savings-related share option schemes		Total	
Number of shares issuable under outstanding options	Number (000)	Weighted exercise price	Number (000)	Weighted exercise price	Number (000)	Weighted exercise price
At 31st December 1997	100,568	£7.87	13,783	£6.31	114,351	£7.68
Options granted	22,029	£17.14	1,497	£14.29	23,526	£16.96
Options exercised	(39,190)	£7.05	(1,783)	£5.36	(40,973)	£6.98
Options cancelled	(4,220)	£8.86	(435)	£6.72	(4,655)	£8.66
At 31st December 1998	79,187	£10.80	13,062	£7.34	92,249	£10.31
Options granted	16,151	£18.43	3,105	£13.27	19,256	£17.59
Options exercised	(11,034)	£7.26	(4,072)	£5.92	(15,106)	£6.90
Options cancelled	(1,290)	£11.62	(677)	£11.97	(1,967)	£11.74
At 31st December 1999	83,014	£12.74	11,418	£9.18	94,432	£12.31
Options granted	35,989	£14.81	2,112	£16.48	38,101	£14.91
Options exercised	(7,956)	£7.77	(4,801)	£6.72	(12,757)	£7.38
Options cancelled	(4,299)	£12.53	(332)	£11.36	(4,631)	£12.44
Converted to GlaxoSmithKline options	(106,748)	£13.87	(8,397)	£12.34	(115,145)	£13.76
At 31st December 2000	–	–	–	–	–	–

Glaxo Wellcome share award schemes

Glaxo Wellcome operated a Long Term Incentive Plan and, between 1996 and 1998, an Annual Incentive Plan. The Long Term Incentive Plan granted awards over shares to Directors and senior staff at a nominal cost. The percentage of each award that vested was based on the performance of Glaxo Wellcome over a three-year period. The Annual Incentive Plan was a performance bonus consisting of a basic award of shares and a matching award with a three-year retention period. As a result of the merger the awards under the Long Term Incentive Plan became payable in full and the retention period of the Annual Incentive Plan lapsed.

Number of shares issuable under share award schemes	Number (000)
At 31st December 1997	2,282
Options granted	641
Options exercised	(249)
Options cancelled	(2)
At 31st December 1998	2,672
Options granted	695
Options exercised	(958)
Options cancelled	(45)
At 31st December 1999	2,364
Options granted	826
Options exercised	(790)
Options cancelled	(289)
Converted to GlaxoSmithKline options	(2,111)
At 31st December 2000	–

33 Employee share schemes continued

SmithKline Beecham share option schemes

SmithKline Beecham adopted the SmithKline Beecham UK Executive Share Option Plan 1989 and the SmithKline Beecham US Executive Share Option Plan 1989 in 1989. In 1991, SmithKline Beecham adopted an employee share ownership plan under which employees were granted options over shares and ADSs purchased in the market by the Employee Share Ownership Trust established under the 1991 Plan. The former-mentioned Plans and the 1991 Plan are hereafter referred to as 'the Plans'. Under the Plans, eligible employees were granted options to subscribe for unissued shares (or ADSs), or in the case only of the 1991 Plan, issued shares bought by the Employee Share Ownership Trust, at prices no less than the higher of the average middle market price on the five days prior to the grant or their nominal amount. Options were normally exercisable between three and ten years from the date of grant. All options became exercisable as a result of the merger.

	Shares		ADSs	
Number of shares and ADSs issuable under outstanding options	Number (000)	Weighted exercise price	Number (000)	Weighted exercise price
At 31st December 1997	87,848	£3.29	34,512	$26.43
Options granted	24,383	£7.42	11,310	$60.75
Options exercised	(15,861)	£2.95	(6,075)	$19.21
Options cancelled	(808)	£2.96	(620)	$19.22
At 31st December 1998	95,562	£4.40	39,127	$37.59
Options granted	22,419	£8.12	9,816	$65.51
Options exercised	(14,526)	£2.88	(4,752)	$23.92
Options cancelled	(3,026)	£3.79	(1,792)	$37.30
At 31st December 1999	100,429	£5.47	42,399	$45.59
Options granted	1,448	£8.28	560	$67.00
Options exercised	(20,951)	£4.30	(8,055)	$30.09
Options cancelled	(3,769)	£5.71	(1,545)	$35.16
Converted to GlaxoSmithKline options	(77,157)	£5.83	(33,359)	$50.18
At 31st December 2000	–	–	–	–

SmithKline Beecham Mid-Term Incentive Plan

SmithKline Beecham adopted the Mid-Term Incentive Plan (MTIP) in 1996. Participations in the MTIP were granted annually to senior staff in SmithKline Beecham, designating a target number of shares for each participant based on job grade. Following a three-year measurement period, the R&N Committee reviewed SmithKline Beecham's total shareholder return relative to the other companies comprising the FTSE 100 Index, and made a final award of a proportion of the target number of shares, up to 100 per cent, depending on performance. The first two measurement periods ended on 31st December 1998 and 1999 and, 100 per cent and 97 per cent, respectively, of the target number of shares was awarded. Receipt of the award could be deferred, in which case the shares remained in the MTIP. As a result of the merger all outstanding awards became payable at 100 per cent of the target number of shares at the end of each three-year cycle.

	Shares	ADSs
Number of shares issuable under the Mid-Term Incentive Plan	Number (000)	Number (000)
At 31st December 1997	3,331	967
Options granted	1,413	406
Options exercised	(46)	(11)
Options cancelled	(124)	(73)
At 31st December 1998	4,574	1,289
Options granted	1,241	380
Options exercised	(783)	(148)
Options cancelled	(196)	(39)
At 31st December 1999	4,836	1,482
Options granted	124	24
Options exercised	(1,224)	(259)
Options cancelled	(170)	(29)
Converted to GlaxoSmithKline options	(3,566)	(1,218)
At 31st December 2000	–	–

33 Employee share schemes continued

GlaxoSmithKline share option schemes

Options outstanding at 31st December 2000	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 27th December 2000:						
Converted from GW options	106,748	£13.87	–	–	8,397	£12.34
Converted from SB options	35,122	£12.81	37,962	$44.10	–	–
Options exercised	(4,275)	£11.18	–	–	(62)	£11.17
Options cancelled	–	–	–	–	(59)	£13.41
At 31st December 2000	137,595	£13.68	37,962	$44.10	8,276	£12.34
Range of exercise prices	£3.61 – £19.46		$11.68 – $61.35		£4.75 – £16.48	

In order to encourage employees to convert options held over Glaxo Wellcome or SmithKline Beecham shares or ADRs into those over GlaxoSmithKline shares or ADRs, a programme was established to give an additional cash benefit of ten per cent of the exercise price of the original option provided that the employee remains employed by the Group for two years from the date of the merger and does 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.

Options outstanding at 31st December 2000	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)	Weighted exercise price	Latest exercise date
1991	315	£4.87	05.12.01	231	$14.56	07.12.01	111	£4.75	13.12.01
1992	1,936	£7.13	27.11.02	551	$17.47	27.11.02	–	–	–
1993	1,611	£5.44	30.11.03	581	$14.42	24.11.03	–	–	–
1994	6,223	£5.29	22.11.04	2,841	$13.89	22.11.04	–	–	–
1995	9,122	£6.96	15.11.05	1,447	$19.51	15.11.05	1,788	£5.96	31.05.01
1996	12,412	£8.32	30.11.06	1,969	$25.24	21.11.06	–	–	–
1997	17,901	£11.25	13.11.07	7,683	$36.31	13.11.07	459	£10.20	31.05.01
1998	28,306	£16.91	23.11.08	11,440	$53.38	23.11.08	942	£14.29	31.05.02
1999	28,344	£18.03	02.12.09	10,607	$57.56	25.11.09	2,867	£13.27	31.05.03
2000	31,425	£14.89	10.09.10	612	$57.26	09.08.10	2,109	£16.48	31.05.04
Total	137,595	£13.68		37,962	$44.10		8,276	£12.34	

All of the above options are exercisable, except 30,790,000 options over shares granted in 2000 and the savings related share options granted in 1998, 1999 and 2000.

There has been no change in the effective exercise price of any outstanding options during the financial period. No further options were granted between 31st December 2000 and 15th March 2001.

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 1998 – GW	29,041	£6.99	–	–	1,129	£4.83
– SB	38,394	£2.48	13,987	$19.06	–	–
At 31st December 1999 – GW	19,401	£7.03	–	–	1,969	£5.96
– SB	38,217	£3.22	16,693	$30.82	–	–
At 31st December 2000 – GSK	106,805	£13.36	37,962	$44.10	2,358	£6.73

33 Employee share schemes continued

GlaxoSmithKline share option schemes

Number of shares and ADSs issuable	Shares Number (000)	ADSs Number (000)
At 27th December 2000		
Converted from Glaxo Wellcome options	2,111	–
Converted from SmithKline Beecham options	1,623	1,386
Options exercised	(243)	–
At 31st December 2000	3,491	1,386

Of the above awards, 466,000 options relating to shares and 515,000 options relating to ADSs were exercisable at 31st December 2000.

Employee Share Ownership Trusts

The Group sponsors Employee Share Ownership 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 employee share ownership trusts purchase shares on the open market with finance provided by the Group by way of loan or contributions.

The expected cost of the obligations to deliver shares under the employee incentive plans and share option schemes are normally spread over the periods of service in respect of which the awards and options are granted. An accelerated charge has been made in 2000 in respect of the outstanding cost of providing shares for awards and options which became exercisable solely as a result of the merger.

Shares held for share award schemes	GlaxoSmithKline shares 2000	Glaxo Wellcome shares 1999	SmithKline Beecham shares 1999
Number of Ordinary Shares (000)	**6,263**	2,558	5,588
	£m	£m	£m
Nominal value	**2**	1	–
Cost less amortisation	**–**	18	12
Market value	**118**	45	44

Shares held for share option schemes	GlaxoSmithKline shares 2000	Glaxo Wellcome shares 1999	SmithKline Beecham shares 1999
Number of ordinary shares (000)	**155,089**	25,369	161,276
	£m	£m	£m
Nominal value	**39**	6	10
Cost less amortisation	**2,327**	407	1,058
Market value	**2,931**	444	1,274

The trustees have waived their rights to dividends on the shares held by the Employee Share Ownership Trusts.

Option pricing

For the purposes of valuing options to arrive at the stock-based compensation adjustment in the Reconciliation to US accounting principles in Note 37, the Black-Scholes option pricing model has been used. The assumptions used in the model for 2000 and 1999 are as follows:

	GlaxoSmithKline 2000	Glaxo Wellcome 1999	SmithKline Beecham 1999
Risk-free interest rate	**5.6%**	6.4%	5.9%
Dividend yield	**2.1%**	2.0%	1.6%
Volatility	**36%**	35%	42%
Expected lives of options granted under:			
Share Option Schemes	**5 years**	5 years	7 years
Savings Related Share Option Scheme	**3 years**	3 years	–

34 Financial instruments and related disclosures

Policies

Discussion of the Group's objectives and policies for the management of financial instruments and associated risks is included under Treasury Policies in the Financial Review (page 60).

Investments

The Group holds a number of equity investments, frequently in entities where the Group has entered into research collaborations. The Group seeks to realise the value in these investments, which in part the research collaboration helps to create, and therefore certain of these investments are regarded as available for sale and are accounted for as current asset investments. For the purposes of US GAAP all the investments are classified as available for sale.

The Group has liquid investments, representing funds surplus to immediate operating requirements, which are accounted for as current asset investments. For the purposes of US GAAP the investments are classified as available for sale.

The proceeds from sale of investments classified as available for sale (under US GAAP) in the year ended 31st December 2000 were £31,825 million. The proceeds include the roll-over of liquid funds on short-term deposit. The gross gains and losses reflected in the consolidated profit and loss account in respect of investments classified as available for sale (under US GAAP) were £197 million and £nil respectively.

Foreign exchange risk management

The Group has entered into forward foreign exchange contracts in order to swap liquid assets and borrowings into the currencies required for Group purposes. At 31st December 2000 the Group had outstanding contracts to sell or purchase foreign currency having a total notional principal amount of £10,531 million (at 31st December 1999 – £7,093 million). The majority of contracts are for periods of 12 months or less.

At the end of the year the Group had a number of currency swaps in place in respect of medium-term debt instruments. Two medium-term notes issued in Japanese yen were swapped into floating rate US dollars. The 7.0 per cent US$350 million Euro note 2002 and the 2.0 per cent CHF 250 million Bond 2004 were both swapped into floating rate yen. Each of these swaps matures on a date close to the maturity date of the underlying instrument.

Borrowings denominated in, or swapped into, foreign currencies which match investments in overseas Group assets are treated as a hedge against the relevant net assets.

Interest rate risk management

To manage the fixed/floating interest rate profile of debt, the Group had several interest rate swaps outstanding with commercial banks at 31st December 2000.

Concentrations of credit risk and credit exposures of financial instruments

The Group does not believe it is exposed to major concentrations of credit risk. 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. 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.

Fair value of financial assets and liabilities

The table on the page opposite presents the carrying amounts under UK GAAP and the fair values of the Group's financial assets and liabilities at 31st December 2000 and 31st December 1999. Debtors and creditors due within one year have been excluded.

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 shown above:

- Equity investments – market value based on quoted market prices in the case of listed investments; market value by reference to quoted prices in the case of material unlisted investments
- Cash at bank – approximates to the carrying amount
- Liquid investments – based on quoted market prices in the case of marketable securities; approximates to the carrying amount in the case of time deposits because of their short maturity
- Short-term loans and overdrafts – approximates to the carrying amount because of the short maturity of these instruments
- Medium-term loans – market value 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
- Interest rate instruments – based on market valuations at the balance sheet date
- Debtors and creditors – approximates to the carrying amount
- Provisions – approximates to the carrying amount.

Fair value of investments in own shares

The Group had at 31st December 2000 investments in own shares of £2,327 million (1999 – £1,495 million) with a fair value of £3,050 million (1999 – £1,807 million). The difference between the carrying amount and the fair value represents gross unrealised gains of £723 million. These investments are excluded from financial instrument disclosure. The fair value is the market value based on quoted market price.

The shares represent purchases by employee share ownership trusts to satisfy future exercises of options and awards under employee incentive schemes. The purchases are matched against options at pre-determined exercise prices and the gain or loss to be recognised is measured against exercise price rather than market value.

34 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 26. Short-term debtors and creditors have been excluded from financial assets and liabilities: provisions have been included where there is a contractual obligation to settle in cash.

	At 31.12.00		At 31.12.99	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Net debt				
Liquid investments	**2,138**	**2,142**	1,780	1,783
Cash at bank	**1,283**	**1,283**	579	579
Current asset financial instruments	**3,421**	**3,425**	2,359	2,362
Sterling notes and bonds	**(516)**	**(571)**	(542)	(591)
Yen loans swapped into sterling	**–**	**–**	(400)	(394)
Currency swap	**–**	**–**	–	(9)
	(516)	**(571)**	(942)	(994)
US dollar notes and bonds	**(334)**	**(335)**	(619)	(606)
Notes and bonds swapped into US dollars	**(656)**	**(673)**	(1,087)	(1,167)
Currency swaps	**–**	**17**	–	80
	(990)	**(991)**	(1,706)	(1,693)
Notes and bonds swapped into yen	**(377)**	**(335)**	(391)	(309)
Currency swaps	**–**	**(24)**	–	(64)
	(377)	**(359)**	(391)	(373)
Other medium-term borrowings	**(89)**	**(89)**	(77)	(77)
Other short-term loans and overdrafts	**(2,060)**	**(2,060)**	(1,600)	(1,600)
Total borrowings	**(4,032)**	**(4,070)**	(4,716)	(4,737)
Interest rate swaps	**–**	**–**	–	(3)
Forward exchange contracts to purchase	**–**	**4**	–	2
Forward exchange contracts to sell	**–**	**52**	–	40
Total derivative instruments for management of net debt	**–**	**56**	–	39
Total net debt	**(611)**	**(589)**	(2,357)	(2,336)
Fixed asset equity investments	**133**	**164**	192	322
Current asset equity investments	**171**	**860**	52	167
Other debtors due after 1 year	**360**	**360**	418	418
Other creditors due after 1 year	**(103)**	**(103)**	(81)	(81)
Provisions	**(209)**	**(209)**	(220)	(220)
Other foreign exchange derivatives	**24**	**9**	10	(2)
Auction rate preference shares of subsidiary	**(436)**	**(436)**	(404)	(404)
Money market preference shares of subsidiary	**(269)**	**(269)**	(248)	(248)
Flexible auction rate preference shares of subsidiary	**(334)**	**(342)**	(309)	(311)
Total non-equity minority interest	**(1,039)**	**(1,047)**	(961)	(963)
Total financial assets and liabilities	**(1,274)**	**(555)**	(2,947)	(2,695)
Total financial assets	**4,109**	**4,874**	3,031	3,311
Total financial liabilities	**(5,383)**	**(5,429)**	(5,978)	(6,006)

Currency swaps have been presented alongside the underlying principal instrument.

The difference between the carrying amount and the fair value of equity (fixed and current assets) and liquid investments represents gross unrealised gains of £720 million and £4 million respectively.

34 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 £4,032 million (1999 – £4,716 million), other creditors due after one year of £103 million (1999 – £81 million), provisions of £209 million (1999 – £220 million) and non-equity minority interest preference shares of £1,039 million (1999 – £961 million). Creditors due within one year have been excluded.

The benchmark rate for determining interest payments for all floating rate financial liabilities in the tables below is LIBOR.

	Fixed rate				Non-interest bearing		
At 31st December 2000 Currency	£m	Average interest rate %	Average years for which rate is fixed	Floating rate £m	£m	Average years to maturity	**Total £m**
US dollars	668	6.1	3.2	2,486	266	2.4	**3,420**
Sterling	498	8.8	4.9	–	23	2.9	**521**
Euro	3	5.3	0.4	425	10	2.5	**438**
Japanese yen	494	0.6	2.3	211	35	3.5	**740**
Other currencies	46	9.5	2.4	209	9	1.1	**264**
	1,709	5.4	2.6	3,331	343	2.5	**5,383**

	Fixed rate				Non-interest bearing		
At 31st December 1999 Currency	£m	Average interest rate %	Average years for which rate is fixed	Floating rate £m	£m	Average years to maturity	Total £m
US dollars	928	6.3	3.0	1,781	257	2.3	2,966
Sterling	497	8.8	5.9	591	21	1.1	1,109
Euro	350	2.8	0.2	418	5	1.1	773
Japanese yen	563	0.7	3.1	167	7	1.1	737
Other currencies	–			382	11	1.1	393
	2,338	5.0	3.2	3,339	301	2.1	5,978

Currency and interest rate risk profile of financial assets

Total financial assets comprise fixed asset equity investments of £133 million (1999 – £192 million), current asset equity investments of £171 million (1999 – £52 million), liquid investments of £2,138 million (1999 – £1,780 million), cash at bank of £1,283 million (1999 – £579 million), and debtors due after one year of £360 million (1999 – £418 million), but exclude foreign exchange derivatives of £24 million (1999 – £10 million). Debtors due within one year have been excluded.

At 31st December 2000 Currency	Fixed rate £m	Floating rate £m	Non-interest bearing £m	**Total £m**
US dollars	354	1,588	360	**2,302**
Sterling	58	1,108	48	**1,214**
Euro	84	147	53	**284**
Japanese yen	3	–	13	**16**
Other currencies	66	165	38	**269**
	565	3,008	512	**4,085**

At 31st December 1999 Currency	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
US dollars	31	1,466	394	1,891
Sterling	211	135	144	490
Euro	–	171	29	200
Japanese yen	–	5	13	18
Other currencies	7	333	82	422
	249	2,110	662	3,021

34 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 profit and loss account 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 2000

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	–	(50)	(50)	(1)	(30)	**(131)**
US dollars	170	–	3	(1)	19	**191**
Euro	7	10	–	–	2	**19**
Japanese yen	(27)	1	(1)	–	–	**(27)**
Other	(39)	10	(9)	–	–	**(38)**
	111	(29)	(57)	(2)	(9)	**14**

At 31st December 1999

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	–	(133)	(2)	–	(34)	(169)
US dollars	273	–	46	(3)	(14)	302
Euro	53	(10)	–	–	1	44
Japanese yen	26	–	–	–	(2)	24
Other	54	(7)	24	–	–	71
	406	(150)	68	(3)	(49)	272

Maturity of financial liabilities	Debt £m	Finance leases £m	Non-equity minority interests £m	Other £m	**Total 2000 £m**	Total 1999 £m
Within one year or on demand	2,279	2	872	8	**3,161**	3,471
Between one and two years	633	13	–	58	**704**	502
Between two and five years	1,082	1	167	197	**1,447**	1,092
After five years	22	–	–	49	**71**	913
	4,016	16	1,039	312	**5,383**	5,978

Hedges			**2000**
	Gains £m	Losses £m	**Net £m**
Unrecognised gains and losses at the beginning of the year	184	(150)	**34**
Gains and losses arising in previous years and recognised in the year	(130)	80	**(50)**
Gains and losses arising before the beginning of the year and still unrecognised at the end of the year	54	(70)	**(16)**
Unrecognised gains and losses arising in the year	99	(49)	**50**
Total unrecognised gains and losses at the end of the year	153	(119)	**34**
Expected to be recognised within one year	113	(65)	**48**
Expected to be recognised after one year	40	(54)	**(14)**
Total unrecognised gains and losses at the end of the year	153	(119)	**34**

Committed facilities

The Group has committed facilities, to back up the commercial paper programme, of £940 million (1999 – £447 million) of 364 days duration renewable annually.

35 Employee costs

	2000 £m	1999 £m	1998 £m
Wages and salaries	**3,578**	3,408	3,193
Social security costs	**383**	363	338
Pension and other post-retirement costs	**244**	218	211
Cost of share-based incentive plans	**197**	82	49
Severance costs arising from integration and restructuring activities	**82**	63	13
Pension and other post-retirement costs arising from integration	**3**	–	–
	4,487	4,134	3,804

The Group provides benefits to employees, commensurate with local practice in individual countries, including, in some markets, healthcare insurance, subsidised car schemes, personal assurance.

The average number of persons employed by the Group (including Directors) during the year	2000 Number	1999 Number	1998 Number
Manufacturing	**36,177**	41,796	44,231
Selling, general and administration	**55,365**	55,894	55,459
Research and development	**16,659**	16,336	15,544
	108,201	114,026	115,234

The numbers of Group employees at the end of each financial year are given in the Financial record (page 152).

Pension and other post-retirement costs	2000 £m	1999 £m	1998 £m
UK pension schemes	**16**	9	12
US pension schemes	**68**	72	74
Other overseas pensions schemes	**105**	88	77
Unfunded post-retirement healthcare schemes	**48**	41	40
Post-employment costs	**7**	8	8
	244	218	211
Analysed as:			
Funded defined benefit/hybrid schemes	**82**	81	83
Unfunded defined benefit schemes	**10**	9	10
Defined contribution schemes	**97**	79	70
Unfunded post-retirement healthcare schemes	**48**	41	40
Post-employment costs	**7**	8	8
	244	218	211
Pension and other post-retirement costs arising from integration	**3**	–	–

Pensions

Group undertakings 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; or 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 defined benefit schemes now also include defined contribution sections and are described as 'hybrid' schemes in the table.

In the majority of cases the contributions to defined benefit schemes are determined in accordance with the advice of independent, professionally qualified 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. Pension costs for accounting purposes have been assessed in accordance with independent actuarial advice, generally using the projected unit method and by spreading surpluses or deficits over the average expected remaining service lives of the respective memberships.

In certain countries pension benefits are provided on an unfunded basis, some of which are under a scheme administered by a trustee company. Where assets are not held with the specific purpose of matching the liabilities of unfunded schemes, a provision is included within provisions for pensions and other post-retirement benefits. The charge against profits in respect of these benefits is the aggregate of the increase over the year in the assessed liabilities for members still in service and the net movement in provisions set up for pensions in payment. Liabilities are generally assessed annually in accordance with the advice of independent actuaries.

Throughout 2000 the pension arrangements of Glaxo Wellcome companies and SmithKline Beecham companies were operated separately. This continues to be the case to date in 2001. Accordingly the information given on the next page deals with each set of arrangements separately.

35 Employee costs continued

Glaxo Wellcome

The market value of the assets of Glaxo Wellcome's funded defined benefit pension funds at the date of the latest actuarial valuations was sufficient to cover 125 per cent (1999 – 129 per cent) of the benefits that had accrued to members after allowing for future salary and pension increases; their market value was £4,284 million (1999 – £3,031 million).

The UK defined benefit pension schemes account for approximately 80 per cent of the Group's plans in asset valuation and projected benefit terms and the US defined benefit pension schemes account for approximately 13 per cent of the Group's plans in asset valuation and projected benefit terms. The relevant assumptions used in calculating the pension costs for accounting purposes are as follows:

	UK		USA	
	2000 % pa	1999 % pa	**2000 % pa**	1999 % pa
Rate of increase of future earnings	**4.0**	6.1	**6.0**	5.0
Discount rate	**8.0**	8.7	**6.0**	8.0
Expected long-term rate of return on investments	**8.0**	8.7	**8.0**	8.0

Additional assumptions in respect of the UK schemes used were: increases in pensions 2.5 per cent (1999 – 4.0 per cent) and UK equity dividend growth 5.0 per cent (1999 – 4.0 per cent).

These assumptions resulted in a regular cost for the UK pension arrangements of £54 million, which reduced to a zero pension cost for the accounts, after allowance was made for spreading the surplus disclosed as a level percentage of salary over the expected future working lifetime of the existing members (some 11 years). The regular and accounting costs for the US schemes were £22 million.

The most recent triennial actuarial valuations of the UK schemes for funding purposes were carried out as at 31st March 2000. At that date the assets of the schemes represented 133 per cent of the actuarial value of all benefits accrued to members as at that date after allowing for future salary and pension increases. The Trustees of the UK pension schemes agreed, at the company's request, to grant various benefit improvements, which included a five per cent enhancement in the entitlement of all beneficiaries. After allowance is made for these improvements, the funding level has fallen to 123%. Following the valuations, company contributions to the schemes remain suspended at least until the next formal valuation and are expected to remain suspended beyond. The total market value of the assets held by the schemes at 31st March 2000 was £3,670 million.

The most recent actuarial valuations of the Group's US funded schemes were carried out in 2000. At that date the market value of the schemes' assets was £445 million. The value of these assets represented 136 per cent of the actuarial value of all benefits accrued to members at that date after allowing for future salary increases.

SmithKline Beecham

The UK and US deferred benefit and hybrid schemes covered some 41 per cent of total SmithKline Beecham employees. The relevant assumptions used in calculating the pension costs for accounting purposes are as follows:

	UK		USA	
	2000 % pa	1999 % pa	**2000 % pa**	1999 % pa
Rate of increase of future earnings	**4.8**	6.5	**5.5**	5.5
Discount rate	**8.5**	10.0	**9.5**	9.5
Expected long-term rate of return on investments	**8.5**	10.0	**9.5**	9.5

The regular cost for the UK scheme in 2000 was £14 million, which reduced to an accounting cost of £10 million after allowance was made for the spreading of the surplus over the expected future working lifetime of current employees in the scheme. The latest valuation was carried out at 31st December 1999 and at that date the actuarial value of scheme assets represented 105 per cent of the actuarial value of the accrued service liabilities. The total market value of assets held by the scheme at 31st December 1999 was £1,077 million.

The regular cost for the US scheme in 2000 was £26 million, which reduced to an accounting cost of £9 million after allowance was made for the spreading of the surplus over the expected future working lifetime of current employees in the scheme. The latest valuation was carried out at 1st January 2000 and at that date the actuarial value of scheme assets represented 104 per cent of the actuarial value of the accrued service liabilities. The total market value of assets held by the scheme at 1st January 2000 was £1,267 million.

36 Directors' remuneration

GlaxoSmithKline's policy on Directors' remuneration, which will be effective for the financial year 2001, together with details of the remuneration received by Directors of Glaxo Wellcome plc and SmithKline Beecham plc in 2000, are given in the Remuneration report.

The Directors were appointed to the Board of the company on 23rd May 2000. They received no remuneration from GlaxoSmithKline plc in 2000, but continued to be remunerated by Glaxo Wellcome plc and SmithKline Beecham plc for their services to those companies. The merger between Glaxo Wellcome and SmithKline Beecham completed on 27th December 2000, at which point Glaxo Wellcome and SmithKline Beecham became subsidiaries of GlaxoSmithKline.

Statutory disclosures in respect of Directors' remuneration attributable to Directors of GlaxoSmithKline plc in 2000, in relation to their services to the company and its subsidiaries, from 27th to 31st December 2000, are set out below.

Directors' compensation	2000 £000
Salary and fees	**44**
Benefits and other emoluments	**277**
Bonus	**30**
Total compensation	**351**

	From date of appointment to 31st December 2000			
Emoluments by individual Director	Salary and fees £000	Benefits and other emoluments £000	Bonus £000	**Total £000**
Executive Directors				
Dr J P Garnier	11	1	16	**28**
Mr J D Coombe	7	–	4	**11**
	18	1	20	**39**
Non-Executive Directors				
Sir Richard Sykes	14	–	10	**24**
Sir Roger Hurn	1	–	–	**1**
Sir Peter Walters	4	275	–	**279**
Mr P A Allaire	1	–	–	**1**
Dr M Barzach	–	1	–	**1**
Mr D C Bonham	–	–	–	**–**
Sir Christopher Hogg	1	–	–	**1**
Mr P J D Job	–	–	–	**–**
Mr J H McArthur	1	–	–	**1**
Mr D F McHenry	1	–	–	**1**
Sir Ian Prosser	1	–	–	**1**
Dr R Schmitz	–	–	–	**–**
Dr L Shapiro	1	–	–	**1**
Mr J A Young	1	–	–	**1**
	26	276	10	**312**
Total compensation	44	277	30	**351**

36 Directors' remuneration continued

Directors' interests

Following the completion of the mergers of Glaxo Wellcome and SmithKline Beecham on 27th December 2000 all outstanding Glaxo Wellcome and SmithKline Beecham shares and ADSs were converted into GlaxoSmithKline shares and ADSs on the following basis:

- 1 GlaxoSmithKline share for each Glaxo Wellcome share and 1 GlaxoSmithKline ADS for each Glaxo Wellcome ADS.
- 0.4552 GlaxoSmithKline shares for each SmithKline Beecham share and 1.138 GlaxoSmithKline ADSs for each SmithKline Beecham ADS.

As a result Directors' interests as at 31st December 2000 and as at 23rd May 2000, the date of appointment of the Directors to the Board of GlaxoSmithKline plc, have been converted into GlaxoSmithKline shares and ADSs at the relevant merger ratios. 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:

	Note	**31 December 2000 Shares**	Appointment date Shares	**31 December 2000 ADSs**	Appointment date ADSs
Dr J P Garnier		**–**	–	**52,867**	52,579
Mr J D Coombe	ab	**164,203**	150,269	**–**	–
Sir Richard Sykes	ac	**538,665**	584,308	**–**	–
Sir Roger Hurn		**10,539**	10,539	**–**	–
Sir Peter Walters		**31,486**	30,760	**–**	–
Mr P A Allaire		**–**	–	**6,148**	11,835
Dr M Barzach		**812**	812	**–**	–
Mr D C Bonham		**8,445**	8,445	**–**	–
Sir Christopher Hogg		**5,128**	5,090	**–**	–
Mr P J D Job		**2,003**	1,738	**–**	–
Mr J H McArthur		**–**	–	**3,558**	2,901
Mr D F McHenry	d	**–**	–	**6,043**	4,204
Sir Ian Prosser		**2,321**	2,316	**–**	–
Dr R Schmitz		**–**	–	**3,752**	3,752
Dr L Shapiro		**1,372**	1,183	**1,174**	910
Mr J A Young		**5,144**	4,052	**7,286**	7,283

A GlaxoSmithKline ADS represents two GlaxoSmithKline shares.

Interests in Glaxo Wellcome and SmithKline Beecham shares and ADSs as at appointment date have been restated as interests in GlaxoSmithKline shares and ADSs.

a Interest as at appointment date includes deposited shares under the Glaxo Wellcome Annual Incentive Plan.

b Includes a non-beneficial interest in trusts which hold 20,396 Shares (appointment date – 19,402).

c Includes a non-beneficial interest in trusts which hold 36,612 Shares (appointment date – 36,612).

d In addition to the interests shown above, Mr McHenry has interests in a deferred fees plan relating to the period during which Mr McHenry was a Director of SmithKline Beckman prior to the merger with Beecham Group in 1989. The deferred fees are now indexed to the total return on GlaxoSmithKline shares and are payable over seven years following Mr McHenry's retirement. The total accumulated value of deferred fees on 31st December 2000 (restated to reflect the merger) was equivalent to 20,890 GlaxoSmithKline ADSs and has been fully provided for.

Share options

Options over GlaxoSmithKline ADSs	**ADS options at 31.12.00**	ADS options at appointment date
Dr JP Garnier	**2,074,813**	2,074,813

Options over GlaxoSmithKline shares	**Share options at 31.12.00**	Share options at appointment date
Mr J D Coombe	**287,948**	287,948
Sir Richard Sykes	**634,949**	670,396

Options outstanding as at appointment date have been restated as options over GlaxoSmithKline shares and ADSs.

37 Reconciliation to US accounting principles

The financial statements, analyses and reconciliations presented in this note (pages 121 to 135) represent the financial information which would be required if US Generally Accepted Accounting Principles (GAAP) had been applied instead of UK GAAP.

The most significant difference between US and UK GAAP is that, under UK GAAP, the combination of Glaxo Wellcome plc and SmithKline Beecham plc has been accounted for as a merger (pooling of interest) in accordance with UK Financial Reporting Standard 6, while, under US GAAP, this transaction is accounted for as a purchase business combination with Glaxo Wellcome acquiring SmithKline Beecham.

GlaxoSmithKline plc was formed to give effect to a Scheme of Arrangement for the merger of Glaxo Wellcome plc and SmithKline Beecham plc. The Scheme of Arrangement became effective on 27th December 2000, at which point GlaxoSmithKline plc acquired the whole of the issued share capital of Glaxo Wellcome plc and SmithKline Beecham plc in exchange for shares in GlaxoSmithKline plc. Upon completion of the merger the former shareholders of Glaxo Wellcome held approximately 58.75 per cent and the former shareholders of SmithKline Beecham held approximately 41.25 per cent of the issued ordinary share capital of GlaxoSmithKline plc, reflecting the relative stock market valuation of the two companies in the months preceding the announcement of the merger on 17th January 2000.

As the combination of Glaxo Wellcome and SmithKline Beecham is accounted for as a merger under UK GAAP, the financial statements of GlaxoSmithKline under UK GAAP represent the combined financial statements of Glaxo Wellcome and SmithKline Beecham on a historical basis for all periods presented.

Under US GAAP, this business combination did not qualify for pooling of interests accounting and Glaxo Wellcome was determined to be the accounting acquirer in a purchase acquisition dated 27th December 2000. Under US GAAP the financial statements of GlaxoSmithKline prior to the merger are therefore those of Glaxo Wellcome.

In view of the proximity of the merger date to the financial year end date, and the relative insignificance of any business activity between 27th December 2000 and 31st December 2000, the accounting date of the acquisition has for practical purposes been taken as 31st December 2000.

Accordingly, the balance sheets presented represent the consolidated balance sheet of Glaxo Wellcome, the accounting acquirer under US GAAP, as at 31st December 1999 and of GlaxoSmithKline as at 31st December 2000, prepared under US GAAP. The acquisition of SmithKline Beecham is accounted for under the purchase method of accounting as at 27th December 2000 and the fair value of the acquired assets and liabilities are included in the balance sheet at 31st December 2000.

The reconciliation of the consolidated income statements and the consolidated statements of comprehensive income and changes in shareholder equity for the three years ended 31st December 2000, 1999 and 1998 correspondingly reflect the purchase method of accounting for the acquisition of SmithKline Beecham by Glaxo Wellcome. The income statement has been presented in a US GAAP format and therefore certain exceptional items such as product divestments, merger integration costs and the write-off of in-process research and development have been classified within operating profit.

A consolidated statement of cash flows under US GAAP and in US GAAP format is also presented.

These financial statements reflect both the purchase method of accounting for the combination of Glaxo Wellcome and SmithKline Beecham and also other material adjustments which would be required if US GAAP had been applied instead of UK GAAP for the periods presented. A summary of the purchase accounting adjustments and of other US GAAP adjustments is provided in the reconciliations of profit attributable to shareholders and of equity shareholders' funds from UK to US GAAP.

37 Reconciliation to US accounting principles continued

Consolidated balance sheet under US GAAP	2000 £m	1999 £m
Assets		
Current assets		
Cash and cash equivalents	**1,379**	246
Marketable securities	**3,070**	1,838
Accounts and notes receivable	**3,336**	1,682
Inventories	**2,544**	1,537
Prepaid expenses	**814**	320
Deferred income taxes	**722**	359
Total current assets	**11,865**	5,982
Goodwill	**18,796**	3,078
Intangible assets	**26,161**	729
Property, plant and equipment	**6,832**	3,717
Investments in affiliates	**1,126**	58
Other assets	**360**	337
Total assets	**65,140**	13,901
Liabilities and Shareholders' equity		
Current liabilities		
Cash overdrafts	**191**	259
Accounts payable	**812**	367
Short-term borrowings and capital lease obligations	**2,090**	1,991
Income taxes	**2,070**	816
Other accrued liabilities	**2,711**	1,034
Total current liabilities	**7,874**	4,467
Long-term borrowings and capital lease obligations	**1,751**	1,260
Other liabilities	**1,447**	556
Deferred income taxes	**7,829**	337
Total liabilities	**18,901**	6,620
Minority interest	**1,244**	51
Contingencies and commitments – Notes 25 and 27		
Shareholders' equity		
Common stock, £0.25 per share par value; 9,999,800,000 (2000) and 4,431,000,000 (1999) shares authorised; 6,225,662,174 (2000) and 3,640,804,312 (1999) shares issued	**1,556**	910
Redeemable preference shares, £1.00 per share par value; 50,000 shares authorised; 50,000 shares issued	**–**	–
Additional paid-in capital	**46,431**	1,249
Retained (deficit)/earnings	**(308)**	5,496
Treasury stock	**(2,684)**	(425)
Total shareholders' equity	**44,995**	7,230
Total liabilities and shareholders' equity	**65,140**	13,901

37 Reconciliation to US accounting principles continued

Reconciliation of consolidated income statement	2000 Glaxo-SmithKline (UK GAAP) £m	2000 Less SmithKline Beecham pre-acquisition (UK GAAP) £m	2000 US GAAP adjustments £m	2000 **Glaxo-SmithKline (US GAAP) £m**	1999 Glaxo-SmithKline (UK GAAP) £m	1999 Less SmithKline Beecham pre-acquisition (UK GAAP) £m	1999 US GAAP adjustments £m	1999 Glaxo-SmithKline (US GAAP) £m	1998 Glaxo-SmithKline (UK GAAP) £m	1998 Less SmithKline Beecham pre-acquisition (UK GAAP) £m	1998 US GAAP adjustments £m	1998 Glaxo-SmithKline (US GAAP) £m
Revenues	18,079	(8,520)	–	**9,559**	16,796	(8,306)	–	8,490	16,002	(8,019)	–	7,983
Cost of sales	(3,962)	1,802	(32)	**(2,192)**	(4,334)	2,467	(54)	(1,921)	(3,968)	2,423	(29)	(1,574)
Gross profit	14,117	(6,718)	(32)	**7,367**	12,462	(5,839)	(54)	6,569	12,034	(5,596)	(29)	6,409
Selling, general and administrative expenditure	(7,136)	3,578	(65)	**(3,623)**	(6,246)	3,225	(88)	(3,109)	(5,876)	3,188	(9)	(2,697)
Research and development expenditure	(2,526)	1,158	(28)	**(1,396)**	(2,286)	1,017	(29)	(1,298)	(2,073)	910	(3)	(1,166)
Trading profit	4,455	(1,982)	(125)	**2,348**	3,930	(1,597)	(171)	2,162	4,085	(1,498)	(41)	2,546
Other operating income/(expense)	274	(23)	–	**251**	413	(121)	–	292	221	(125)	–	96
Amortisation of goodwill and intangible assets	–	–	(725)	**(725)**	–	–	(820)	(820)	–	–	(826)	(826)
Write-off in-process R&D acquired	–	–	(6,324)	**(6,324)**	–	–	–	–	–	–	–	–
Product divestments	1,416	(1,422)	–	**(6)**	–	–	–	–	–	–	–	–
Merger transaction costs	(121)	55	66	**–**	–	–	–	–	–	–	–	–
Operating profit	6,024	(3,372)	(7,108)	**(4,456)**	4,343	(1,718)	(991)	1,634	4,306	(1,623)	(867)	1,816
Share of profits/(losses) of joint ventures and associated undertakings	57	(57)	–	**–**	7	(4)	–	3	22	–	–	22
Profit on disposal of interest in associate	144	–	–	**144**	39	–	–	39	–	–	–	–
Profit on dissolution of joint venture	–	–	–	**–**	–	–	–	–	57	–	–	57
Disposal of businesses:												
Provision for loss on disposal	–	–	–	**–**	–	–	–	–	(629)	629	–	–
Loss on disposal	(14)	14	–	**–**	(635)	635	–	–	–	–	–	–
Utilisation of provision	–	–	–	**–**	644	(644)	–	–	–	–	–	–
Profit before interest	6,211	(3,415)	(7,108)	**(4,312)**	4,398	(1,731)	(991)	1,676	3,756	(994)	(867)	1,895
Net interest expense	(182)	95	–	**(87)**	(162)	70	–	(92)	(192)	101	–	(91)
Profit on ordinary activities before taxation	6,029	(3,320)	(7,108)	**(4,399)**	4,236	(1,661)	(991)	1,584	3,564	(893)	(867)	1,804
Taxation	(1,699)	928	(37)	**(808)**	(1,218)	472	93	(653)	(977)	162	41	(774)
Profit on ordinary activities after taxation	4,330	(2,392)	(7,145)	**(5,207)**	3,018	(1,189)	(898)	931	2,587	(731)	(826)	1,030
Minority interests	(120)	99	–	**(21)**	(110)	92	–	(18)	(102)	82	–	(20)
Preference share dividends	(56)	56	–	**–**	(49)	49	–	–	(50)	50	–	–
Earnings (Profit attributable to shareholders)/Net (loss)/income	4,154	(2,237)	(7,145)	**(5,228)**	2,859	(1,048)	(898)	913	2,435	(599)	(826)	1,010
Basic earnings per Ordinary Share of 25p under US GAAP (pence)				**(145.6)p**				25.2p				28.1p
Diluted earnings per Ordinary Share of 25p under US GAAP (pence)				**(145.6)p**				25.1p				27.8p
Basic earnings per ADS under US GAAP ($)				**$4.43**				$0.82				$0.93
Diluted earnings per ADS under US GAAP ($)				**$4.43**				$0.81				$0.92

Consolidated statement of comprehensive income and changes in shareholders' equity under US GAAP	2000 £m	1999 £m	1998 £m
Shareholders' equity at beginning of year	**7,230**	8,007	7,792
Net (loss)/income	**(5,228)**	913	1,010
Exchange movements on overseas net assets	**97**	(115)	1
Unrealised gains on equity investments, net of tax	**356**	(110)	40
Unrealised gains on liquid investments, net of tax	**1**	(5)	3
UK tax on exchange movements	**(9)**	–	–
Total comprehensive income	**(4,783)**	683	1,054
Dividends	**(1,334)**	(1,305)	(1,255)
Ordinary Shares issued	**121**	104	356
Employee Share Ownership Plan	**(218)**	(211)	57
Ordinary Shares issued to acquire SmithKline Beecham	**43,919**	–	–
Other	**60**	(48)	3
Shareholders' equity at end of year	**44,995**	7,230	8,007

37 Reconciliation to US accounting principles continued

Consolidated statement of cash flows under US GAAP	2000 £m	1999 £m	1998 £m
Cash flows from operating activities			
Net (loss)/income	**(5,228)**	913	1,010
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**427**	360	358
Amortisation	**735**	829	832
Write-off in-process R&D acquired	**6,324**	–	–
Impairment	**47**	68	–
Gain on sale of fixed assets and other productive assets	**(152)**	(132)	(31)
Deferred taxes	**28**	(93)	(41)
Changes in operating assets and liabilities, net of acquisitions:			
Decrease/(increase) in inventory	**21**	(391)	(297)
Increase in trade and other debtors	**(281)**	(125)	(269)
Increase in trade and other creditors	**453**	85	233
Increase/(decrease) in pension and other provisions	**162**	347	(133)
Other	**–**	7	–
Net cash provided by operating activities	**2,536**	1,868	1,662
Cash flows from investing activities			
Acquisition of fixed assets	**(416)**	(607)	(452)
Acquisition of intangible assets	**(76)**	–	–
Acquisition of SmithKline Beecham – cash received on acquisition	**1,129**	–	–
Acquisition of other new businesses – net of cash acquired	**(24)**	(67)	(156)
Proceeds from disposition of fixed assets and businesses	**12**	79	39
Increase in liquid investments	**(235)**	(35)	(211)
Decrease/(increase) in equity investments	**194**	(13)	3
Net cash provided by/(used in) investing activities	**584**	(643)	(777)
Cash flows from financing activities			
Proceeds from additional borrowings	**–**	110	5
Reduction in debt	**(3)**	(9)	(63)
Purchase of treasury stock	**(471)**	(421)	(10)
Dividends	**(1,334)**	(1,305)	(1,255)
Net (repayment of)/increase in short-term loans	**(193)**	150	117
Net (repayment of)/increase in cash overdrafts	**(121)**	40	65
Issue of ordinary share capital	**121**	104	284
Other	**13**	117	(4)
Net cash used in financing activities	**(1,988)**	(1,214)	(861)
Net increase in cash and cash equivalents	**1,132**	11	24
Exchange rate movements	**1**	(5)	1
Cash and cash equivalents at beginning of year	**246**	240	215
Cash and cash equivalents at end of year	**1,379**	246	240
Supplemental cash flow information			
Cash paid during the year for:			
Interest	**235**	198	200
Income taxes	**635**	672	626
Non-cash investing and financing activities			
The Group acquired all the outstanding shares of SmithKline Beecham in exchange for shares of GlaxoSmithKline. In conjunction with the acquisition, liabilities were assumed as follows:			
Fair value of assets acquired	**57,158**		
Fair value of shares issued	**43,919**		
Fair value of liabilities assumed	**13,239**		

37 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 UK GAAP. These adjustments have been reflected in the balance sheet and income statements presented in accordance with US GAAP.

Profit	2000 £m	1999 £m	1998 £m
Profit attributable to shareholders under UK GAAP	**4,154**	2,859	2,435
Less: SmithKline Beecham's pre-acquisition profit attributable to shareholders under UK GAAP and merger alignment adjustments	**(2,237)**	(1,048)	(599)
US GAAP adjustments:			
Write-off of SmithKline Beecham in-process R&D acquired	**(6,324)**	–	–
Capitalised interest	**15**	15	6
Computer software	**13**	(5)	(29)
Amortisation of goodwill	**(559)**	(554)	(557)
Amortisation of intangible assets	**(166)**	(266)	(269)
Pensions	**75**	22	41
Stock-based compensation	**(263)**	(203)	(59)
Provision against ESOT shares	**26**	–	–
Merger transaction costs	**66**	–	–
Deferred taxation	**22**	102	46
Deferred tax effect of US GAAP adjustments	**(50)**	(9)	(5)
Net (loss)/income under US GAAP	**(5,228)**	913	1,010

Equity shareholders' funds	2000 £m	1999 £m
Equity shareholders' funds under UK GAAP	**7,711**	5,464
Less: SmithKline Beecham's equity shareholders' funds under UK GAAP and merger alignment adjustments	**(3,798)**	(2,322)
Effect of acquisition of SmithKline Beecham under purchase accounting:		
Inventory	**267**	–
Tangible fixed assets	**45**	–
Investments	**1,042**	–
Pension assets	**115**	–
Workforce	**483**	–
Product rights	**24,382**	–
Goodwill	**16,229**	–
Deferred tax on purchase price adjustment	**(7,644)**	–
SmithKline Beecham's UK GAAP pre-acquisition net assets (less goodwill)	**3,782**	–
US GAAP adjustments:		
Capitalised interest	**136**	31
Computer software	**(21)**	(34)
Goodwill on Wellcome acquisition – Cost £5,606 million (1999 – £5,568 million); amortisation £3,193 million (1999 – £2,634 million)	**2,413**	2,934
Other intangible assets	**373**	729
Unrealised gains on marketable securities	**724**	118
Pensions and other post-retirement benefits	**190**	155
Employee Share Ownership Trust	**(2,327)**	(425)
Restructuring costs	**35**	–
Foreign currency hedging	**(15)**	–
Ordinary dividends	**1,234**	796
Deferred taxation	**(80)**	(156)
Deferred tax effect of US GAAP adjustments	**(281)**	(60)
Shareholders' equity under US GAAP	**44,995**	7,230

37 Reconciliation to US accounting principles continued

Acquisition of SmithKline Beecham

Under US GAAP, the financial statements of GlaxoSmithKline prior to the merger are those of Glaxo Wellcome, the US GAAP accounting acquirer. The acquisition of SmithKline Beecham is accounted for under the purchase method as of the date of the merger, 27th December 2000.

Purchase accounting adjustments

In order to determine the proper allocation of purchase price related to the acquired assets of SmithKline Beecham under US GAAP purchase accounting, the cost of acquisition is calculated using the market value of the shares issued, the fair value of vested options exchanged and direct external acquisition costs and then allocated to the fair value of net assets acquired. As a result of the fair value exercise, increases in the values of SmithKline Beecham's inventory, tangible fixed assets, investments and pension obligations were recognised and fair market values attributed to their other intangible assets, mainly product rights (inclusive of patents and trademarks), assembled SmithKline Beecham workforce 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 has been recorded as goodwill. The amount allocated to in-process research and development is required under US GAAP to be expensed immediately in the first reporting period after the business combination, which for GlaxoSmithKline was the period ended 31st December 2000. Fair value adjustments to the recorded amount of inventory will be expensed in the period the inventory will be utilised and additional amortisation and depreciation will be recorded in respect of the fair value adjustments to tangible and intangible assets and the resulting goodwill over the periods of their respective economic useful lives.

The adjustments to the assets and liabilities of SmithKline Beecham to reflect the fair values and allocation of the excess purchase consideration over the fair value of net assets acquired, based on management best estimates of fair value, are summarised in the table opposite and discussed below:

(a) The total assumed purchase consideration was calculated by multiplying the number of GlaxoSmithKline shares issued to SmithKline Beecham's shareholders for all outstanding SmithKline Beecham shares by the average fair value of Glaxo Wellcome securities. The average fair value of Glaxo Wellcome securities was calculated over a period of four days prior to and subsequent to the announcement of the merger on 17th January 2000. The total assumed purchase consideration also included the fair value of SmithKline Beecham vested options exchanged for vested options in GlaxoSmithKline. The total number of SmithKline Beecham vested options was multiplied by the respective fair value of each of the ordinary shares and ADR plans determined at 17th January 2000.

(b) The increase in fair value of inventory and fixed assets was determined based on the difference between the carrying value and the market value of these assets.

(c) The market value of investments has been included in the book value of SmithKline Beecham's net assets under US GAAP. The increase in investments relates to increases in the fair market value of non-marketable securities at 31st December 2000. Included in this amount are increases to SmithKline Beecham's equity investments. These equity investments have been measured at fair value and any excess of the fair value over the underlying tangible assets and liabilities has been recognised as goodwill within investments. This goodwill will be amortised over 20 years.

(d) The fair value attributed to pension obligations reflects the recognition of previously unrecognised actuarial gains/losses, prior service costs and transition amounts. The amounts recognised are based on actuarial assessments at the acquisition date.

(e) The fair value attributed to other intangible assets relates primarily to management's estimate of the value of product rights (inclusive of their respective patents and trademarks) on existing products and of the assembled SmithKline Beecham workforce. The fair value of the product rights has been determined based on a discounted net future cash flow analysis of its current approved product portfolio which includes all existing approved products within the pharmaceutical therapeutic areas and consumer healthcare product portfolios. Any supplemental products in the development process which build upon existing chemical entities within existing areas and which are not subject to separate US Food and Drug Administration approval were also included. Management has based the estimates of the weighted average useful life of the product rights on the future period over which the substantial majority of the estimated net future cash flow value is expected to be realised (approximately 15 years in the aggregate). The fair value of the assembled workforce is being amortised over an 11 year period based on SmithKline Beecham's historical turnover rate.

(f) The amount of total consideration allocated to SmithKline Beecham's in-process research and development projects (IPR&D) has been estimated by SmithKline Beecham using current estimates of the status and prospects of its R&D portfolio as contained in SmithKline Beecham's strategic plans. The IPR&D includes only those identified projects that have advanced to a stage of development where management believes reasonable estimates of projected cash flows can be prepared. This does not include efforts associated with basic discovery and the portfolio of gene patents. The reported IPR&D value is not intended to reflect the present value of all development activities currently underway at SmithKline Beecham. The IPR&D projects involve R&D efforts related to a new product and projects involving supplemental new drug application on existing products or product extension development activity that would require FDA approval. The value allocated to the IPR&D was determined utilising a risk adjusted income approach that included earnings discounted by the appropriate cost of capital for the investment. Estimates of future cash flows related to individual IPR&D projects were based on existing estimates of revenues and contribution margin for the project. IPR&D is written off on acquisition in accordance with US GAAP purchase accounting.

(g) Deferred taxes have been computed on the excess of fair value over book value, other than for goodwill and in-process research and development, using the applicable weighted average statutory tax rates.

(h) Goodwill represents the remainder of unallocated purchase consideration. Goodwill is being amortised over its expected economic life of 20 years. As GlaxoSmithKline finalises its merger-related restructuring plans during 2001 it anticipates that additional adjustments will be made to goodwill as additional liabilities are recorded for the restructuring of the former SmithKline Beecham's operations.

37 Reconciliation to US accounting principles continued

Purchase accounting adjustments		£m
Total assumed purchase consideration for outstanding shares	(a)	43,919
Costs and fees of transaction		66
Less:		
Book value of SmithKline Beecham net assets – US GAAP (less goodwill)		2,742
Estimated excess fair value of inventory	(b)	267
Estimated excess fair value of tangible fixed assets	(b)	45
Estimated excess fair value of investments	(c)	1,042
Estimated excess fair value of pension asset	(d)	115
Estimated fair value attributed to other intangible assets	(e)	24,382
Estimated fair value attributed to workforce	(e)	483
Estimated fair value attributed of in-process R&D projects	(f)	6,324
Deferred tax liabilities related to purchase price adjustments	(g)	(7,644)
Goodwill	(h)	16,229

Acquisition of SmithKline Beecham – pro forma results (unaudited)

The following table reflects the results of operations on a US GAAP pro forma basis as if the 2000 acquisition of SmithKline Beecham had been completed on 1st January 1999. The pro forma results of operations include amortisation of acquired goodwill and intangibles, but do not include the write-off of in-process R&D or inventory adjustments.

	2000 £m	1999 £m
Net sales	**18,079**	16,796
Earnings before interest, income taxes and minority interest	**2,842**	810
Net income/(loss)	**671**	(486)

	pence	pence
Earnings/(loss) per Ordinary Share	**10.9**	(7.9)
Diluted earnings/(loss) per Ordinary Share	**10.8**	(7.9)

	$	$
Earnings/(loss) per ADS	**0.33**	(0.26)
Diluted earnings/(loss) per ADS	**0.33**	(0.26)

The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated as of the dates indicated, nor is it necessarily indicative of future operating results.

37 Reconciliation to US accounting principles continued

Summary of material differences between UK and US GAAP

Capitalised interest
Under UK GAAP, the Group does not capitalise interest. US GAAP requires interest incurred as part of the cost of constructing fixed assets to be capitalised and amortised over the life of the asset.

Computer software
Under UK GAAP, the company 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 company 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.

Goodwill and intangible fixed assets
Beginning in 1998 the company changed its accounting policy for goodwill and intangible assets under UK GAAP in respect of acquisitions from 1998, such that no material difference will exist between UK and US GAAP. A difference continues to exist in respect of prior years' goodwill and intangible assets until fully amortised under US GAAP. Goodwill arising on acquisitions before 1st January 1998 was set against shareholders' funds under UK GAAP. Under US GAAP, this goodwill is capitalised and amortised over its expected useful economic life and charged against income. Intangible assets recognised before 1st January 1998 under US purchase accounting requirements are amortised over their estimated revenue earning life, which is taken to be patent life plus five years. The carrying value of these intangible assets is reviewed annually for any impairment in value.

Under UK GAAP, costs to be incurred in integrating and restructuring the Glaxo and Wellcome businesses into a single business, following the acquisition in 1995, are charged to the profit and loss account post acquisition. Under US GAAP, certain of such costs are considered in the allocation of purchase consideration thereby affecting the goodwill arising on acquisition.

Merger transaction costs
The Group incurred total merger-related transaction costs of £121 million, excluding integration and restructuring costs. Under UK GAAP these merger transaction costs were expensed as incurred during 2000. Under US GAAP, direct acquisition costs of the acquiring company are included as a portion of the purchase consideration.

Restructuring costs
Prior to the adoption of FRS 12 'Provisions, contingent liabilities and contingent assets', the requirements for recording a provision for restructuring costs were more prescriptive under US GAAP than under UK GAAP. Accordingly, adjustments have been made to eliminate the UK GAAP provision for restructuring costs that do not meet US GAAP requirements.

Marketable securities
Marketable securities consist primarily of equity securities and certain other liquid investments. Under UK GAAP these securities are stated at the lower of cost and net realisable value. Under US GAAP these securities are available for sale under Statement of Financial Accounting Standard No 115 (FAS 115) 'Accounting for certain investments in debt and equity securities' and are carried at fair value, with the unrealised gains and losses, net of tax, reported as a separate component of shareholders' equity.

Pensions and other post-retirement benefits
The key differences between UK and US GAAP in relation to defined benefit pension plans are:

- under UK GAAP the effect of variations in cost can be accumulated at successive valuations and amortised on an aggregate basis. Under US GAAP the amortisation of the transition asset and the costs of past service benefit improvements are separately tracked: experience gains/losses are dealt with on an aggregate basis but amortised only if outside a 10 per cent corridor.
- UK GAAP allows measurements of plan assets and liabilities to be based on the result of the latest actuarial valuation. US GAAP requires measurement of plan assets and liabilities to be made at the date of the financial statements or up to three months prior to that date.

The disclosures required by FAS 132 are included in this Note.

Stock-based compensation
Under UK GAAP share options are accounted for as equity when exercised, valued at the issuance price. Under US GAAP, the Group applies FAS 123 'Accounting for stock-based compensation' and related accounting interpretations in accounting for its option plans which require options to be fair valued at their grant date and included in profit and loss over the vesting period of the options. As a result of the merger certain of the Group's options vested immediately requiring the acceleration of compensation expense. The amount of stock-based compensation expense related to this accelerated vesting was £83 million. The disclosures required by FAS 123 are included in Note 33. Additionally, the Group is entitled to receive a tax deduction for the amount treated as compensation under US tax rules for employee stock options which have been exercised by US employees during the year. Under UK GAAP this is treated as a reduction of tax expense whereas under US GAAP this amount is credited to equity.

Employee Share Ownership Trust (ESOT)
Under UK GAAP shares of the Group's stock held by the ESOT are recorded at cost and accounted for as fixed asset investments. Projected losses on the exercise of the options covered by the shares are recorded through the profit and loss account over the life of the options. Under US GAAP shares of the Group's stock purchased by the ESOT are accounted for within shareholders' equity. Gains or losses arising on subsequent issuance of the shares to employees to satisfy share options are recorded as adjustments to shareholders' equity.

37 Reconciliation to US accounting principles continued

Foreign currency hedging
The Group enters into forward exchange contracts and other financial instruments which, under UK GAAP, are treated as hedges of future income. The matching principle is used to match the gain or loss under these hedging contracts to the foreign currency transaction or profits to which they relate. Under US GAAP, these instruments do not qualify for hedge accounting and any unrealised gain or loss on hedges of future profits of transactions must be valued at the year end at market rates and recognised in the net income of the current year.

Ordinary dividends
Under UK GAAP, ordinary dividends proposed are provided for in the year in respect of which they are recommended by the Board of Directors for approval by the shareholders. Under US GAAP, such dividends are not provided for until declared by the Board of Directors.

Deferred taxation
Under UK GAAP, deferred taxation is only accounted for to the extent that it is probable that taxation liabilities or benefits will become payable or crystallise within the foreseeable future. Under US GAAP FAS 109 'Accounting for income taxes' requires that deferred taxation is accounted for on all temporary differences and a valuation adjustment to be provided on a full liability basis, and established in respect of those deferred assets where it is more likely than not that some portion will not be realised.

Exceptional items
Items classified as exceptional under UK GAAP do not meet the definition of extraordinary under US GAAP and are therefore classified as operating expense.

Consolidated statement of cash flows
The US GAAP cash flow statement reports changes in cash and cash equivalents, which includes short-term highly liquid investments. Only three categories of cash flows are reported: operating activities (including tax and interest); investing activities (including capital expenditures, acquisitions and disposals together with cash flows from available for sale current asset investments); and financing activities (including dividends paid). A statement of cash flows is presented on page 124.

Cash and cash equivalents
Under UK GAAP the cash balance includes only cash at bank and other cash balances. Under US GAAP cash and cash equivalents include cash at bank and certain liquid investments with original maturities of three months or less.

Comprehensive income statement
The requirement of FAS 130 'Reporting comprehensive income' to provide a comprehensive income statement is met under UK GAAP by the Statement of total recognised gains and losses (pages 72 to 73). A statement of comprehensive income under US GAAP for the three years in the period ending 31st December 2000 is presented on pages 122 and 123. Under US GAAP the statement includes the net impact of gains and losses on equity and liquid investments and translation adjustments.

Recent FASB pronouncements
FAS 133 'Accounting for Derivative Instruments and Hedging Activities', as deferred by FAS 137, as amended by FAS 138 in June 2000, is required to be implemented with effect from 1st January 2001. FAS 133 requires that all derivative instruments be recorded as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Group has undertaken a review of its derivative instruments and contracts which may contain possible embedded derivatives. The fair value and book value of derivative instruments in respect of financial assets and liabilities as at 31st December 2000 is disclosed in the 'Classification and fair values of financial assets and liabilities' table in Note 34. It is not expected that the adoption of FAS 133 for derivatives or embedded derivatives will have a material impact on the financial results or financial position of the Group in 2001.

In September 2000 the FASB issued FAS 140, 'Accounting for Transfers and Servicing of Financial Assets and Extinguishing of Liabilities', which will be effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after 31st March 2001. The statement provides accounting and reporting standards for transfers, transfers and servicing of financial assets and extinguishments of liabilities. It is not expected that the adoption of the statement will have a material effect on the company's results of operations or financial position.

37 Reconciliation to US accounting principles continued

Earnings per share under US GAAP

Weighted average number of shares in issue	2000 millions	1999 millions	1998 millions
Basic	**3,591**	3,622	3,596
Adjustments:			
Share options	**35**	17	40
Diluted	**3,626**	3,639	3,636

ADS Shares held by the Employee Share Ownership Trusts are excluded.

Taxation

Total tax expense	2000 £m	1999 £m	1998 £m
UK GAAP:			
Current tax expense	**808**	761	841
Deferred tax expense	**(37)**	(15)	(26)
Total tax expense	**771**	746	815
US GAAP:			
Current tax expense	**817**	761	841
Deferred tax expense	**(9)**	(108)	(67)
Total tax expense	**808**	653	774

Deferred taxation under US GAAP

Classification of GlaxoSmithKline's deferred taxation liabilities and assets under US GAAP as at 31st December 2000 and of Glaxo Wellcome's deferred taxation liabilities and assets under US GAAP as at 31st December 1999 is as follows:

	2000 £m	1999 £m
Liabilities		
Stock valuation adjustment	**(155)**	(70)
Current deferred taxation liabilities	**(155)**	(70)
Accelerated capital allowances	**(644)**	(407)
Unremitted foreign investment income	**–**	(3)
Product rights	**(7,280)**	–
Other timing differences	**(396)**	(15)
Total deferred taxation liabilities	**(8,475)**	(495)
Assets		
Intra-Group profit	**314**	210
Other timing differences	**563**	219
Current deferred taxation assets	**877**	429
Asset disposal	**10**	–
Pensions and other post-retirement benefits	**217**	73
Manufacturing restructuring	**55**	15
Tax losses	**209**	–
Total deferred taxation assets	**1,368**	517
Net deferred taxation under US GAAP	**(7,107)**	22

37 Reconciliation to US accounting principles continued

Segment information under US GAAP

Under UK GAAP, the segment information presented in Note 7 includes results of operations and other information on a historical combined Glaxo Wellcome and SmithKline Beecham basis for all periods presented.

Under US GAAP, the segment information for 1999 and 1998 relates to Glaxo Wellcome only. For 2000 the results of operations relate to Glaxo Wellcome only and assets relate to Glaxo Wellcome and SmithKline Beecham on a consolidated basis. Segment information for the results of operations has not been presented by business sector since Glaxo Wellcome operated in only one segment – Pharmaceuticals.

Turnover by location of customer	2000 £m	1999 £m	1998 £m
USA	**4,314**	3,557	3,382
Europe	**2,959**	2,897	2,734
Rest of the World	**2,286**	2,036	1,867
External turnover	**9,559**	8,490	7,983

Turnover by location of subsidiary undertaking			
USA	**4,494**	3,710	3,495
Europe	**5,375**	4,945	4,448
Rest of the World	**3,370**	3,675	2,481
Gross turnover	**13,239**	12,330	10,424
USA	**(176)**	(150)	(117)
Europe	**(2,271)**	(1,902)	(1,558)
Rest of the World	**(1,233)**	(1,788)	(766)
Inter-segment turnover	**(3,680)**	(3,840)	(2,441)
USA	**4,318**	3,560	3,378
Europe	**3,104**	3,043	2,890
Rest of the World	**2,137**	1,887	1,715
External turnover	**9,559**	8,490	7,983

Profit before tax by location of subsidiary undertaking			
USA	**(2,850)**	376	322
Europe	**(670)**	1,531	911
Rest of the World	**(936)**	(273)	583
Operating (loss)/profit	**(4,456)**	1,634	1,816
Share of profits of joint ventures and associated undertakings	**–**	3	22
Profit on disposal of associate (1998 – dissolution of joint venture)	**144**	39	57
Net interest payable	**(87)**	(92)	(91)
(Loss)/profit before taxation	**(4,399)**	1,584	1,804
(Loss)/profit before taxation	**(4,399)**	1,584	1,804
Taxation	**(808)**	(653)	(774)
Minority interests	**(21)**	(18)	(20)
Earnings/Net (loss)/income	**(5,228)**	913	1,010

37 Reconciliation to US accounting principles continued

Total assets by business sector	2000 £m	1999 £m
Pharmaceuticals	**53,359**	13,901
Consumer Healthcare	**11,781**	–
Total assets	**65,140**	13,901

Total assets by location of subsidiary undertaking	2000 £m	1999 £m
USA	**27,147**	3,086
Europe	**20,155**	5,748
Rest of the World	**13,389**	2,983
Total operating assets	**60,691**	11,817
Cash and cash equivalents and marketable securities	**4,449**	2,084
Total assets	**65,140**	13,901

	At 31.12.00				
Tangible fixed assets by location of subsidiary undertaking	Land and buildings £m	Plant, equipment and vehicles £m	Computer software £m	Assets in construction £m	**Total £m**
USA	752	471	30	287	**1,540**
Europe	1,474	1,866	170	568	**4,078**
Rest of the World	617	453	8	136	**1,214**
Total	2,843	2,790	208	991	**6,832**

UK segment

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.

	2000 £m	1999 £m	1998 £m
Turnover by location of customer	**474**	487	503
Gross turnover	**1,241**	1,216	1,413
Inter-segment turnover	**(562)**	(532)	(684)
Turnover by location of subsidiary	**679**	684	729
Operating profit	**370**	1,395	786
Total assets	**8,492**	2,925	

37 Reconciliation to US accounting principles continued

Pensions under US GAAP

The FAS 132 disclosures for the years ended 31st December 1999 and 1998 are provided in relation to the employees of Glaxo Wellcome only. For 2000 the income statement disclosures are provided in relation to the employees of Glaxo Wellcome only and the balance sheet disclosures are provided on a consolidated basis in relation to the employees of Glaxo Wellcome and SmithKline Beecham.

The average number of persons employed by the Group (including Directors) during the year	2000 Number	1999 Number	1998 Number
Manufacturing	**20,477**	21,596	19,931
Selling, general and administration	**30,765**	29,294	27,459
Research and development	**9,659**	9,836	9,544
	60,901	60,726	56,934

Pension and other post-retirement costs	2000 £m	1999 £m	1998 £m
UK pension schemes	**6**	4	7
US pension schemes	**59**	51	47
Other overseas pension schemes	**31**	26	22
Unfunded post-retirement healthcare schemes	**16**	16	14
Post-employment costs	**7**	8	8
	119	105	98
Analysed as:			
Funded defined benefit/hybrid schemes	**57**	49	45
Unfunded defined benefit schemes	**10**	8	9
Defined contribution schemes	**29**	24	22
Unfunded post-retirement healthcare schemes	**16**	16	14
Post-employment costs	**7**	8	8
	119	105	98

The disclosures below include the additional information required by FAS 132. 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. Pension costs in 2000 of £35 million (1999 – £20 million, 1998 – £21 million) in respect of minor retirement plans, which have not been recalculated in accordance with the requirements of FAS 87, have been excluded.

The net periodic pension cost/(income) for the major retirement plans comprised:	2000 £m	1999 £m	1998 £m
Service cost	**119**	105	91
Interest cost	**161**	135	144
Expected return on plan assets	**(253)**	(191)	(204)
Amortisation of prior service cost	**16**	5	5
Amortisation of transition obligation	**(12)**	(11)	(10)
Recognised net actuarial gain	**(70)**	(36)	(43)
Net periodic pension cost/(income) under US GAAP	**(39)**	7	(17)
Termination benefits and curtailment costs	**7**	9	9

The major assumptions used in computing the above pension income/cost were:	%pa	%pa	%pa
Rates of future pay increases	**4.6**	4.0	3.0
Discount rate	**6.5**	6.0	6.0
Expected long-term rates of return on plan assets	**7.0**	7.1	6.6

In aggregate, average international plan assumptions did not vary significantly from US assumptions.

37 Reconciliation to US accounting principles continued

Change in benefit obligation	2000 £m	1999 £m
Benefit obligation at beginning of year	**2,500**	2,317
Amendments	**160**	(7)
Service cost	**119**	105
Interest cost	**161**	135
Plan participants' contributions	**20**	18
Actuarial loss	**198**	9
Benefits paid	**(127)**	(122)
Acquisition	**2,499**	19
Termination benefits and curtailment costs	**7**	9
Exchange	**23**	17
Benefit obligation at end of year	**5,560**	2,500
Benefit obligation at end of year for pension plans with accumulated benefit obligations in excess of plan assets	**1,465**	92

Change in plan assets	2000 £m	1999 £m
Fair value of plan assets at beginning of year	**3,678**	2,979
Actual return on plan assets	**514**	689
Employer contribution	**35**	81
Plan participants' contributions	**20**	18
Benefits paid	**(127)**	(122)
Acquisition	**2,310**	12
Exchange	**22**	21
Fair value of plan assets at end of year	**6,452**	3,678
Fair value of plan assets at end of year for pension plans with accumulated benefit obligations in excess of plan assets	**1,138**	51

Plan assets consist primarily of investments in UK and overseas equities, fixed interest securities, securities linked to the UK index of Retail Price Inflation and property. At 31st December 2000 UK equities included six million GlaxoSmithKline ordinary shares (1999: three million Glaxo Wellcome ordinary shares) with a market value of £108 million (1999: Glaxo Wellcome ordinary shares – £50 million).

Funded status	2000 £m	1999 £m
Funded status	**892**	1,178
Unrecognised net actuarial (gain)/loss	**(1,050)**	(1,047)
Unrecognised prior service cost	**169**	22
Unrecognised transition obligation	**(21)**	(33)
Net amount recognised	**(10)**	120

Amounts recognised in the statement of financial position consist of:	2000 £m	1999 £m
Prepaid benefit cost	**285**	175
Accrued pension liability	**(295)**	(55)
Intangible asset	**–**	–
Accumulated other comprehensive income	**–**	–
Net amount recognised	**(10)**	120

37 Reconciliation to US accounting principles continued

Post-retirement healthcare under US GAAP

The disclosures for 1999 and 1998 are provided in relation to the employees of Glaxo Wellcome only. For 2000 the income statement disclosures are provided in relation to the employees of Glaxo Wellcome only and the balance sheet disclosures are provided on a consolidated basis in relation to the employees of Glaxo Wellcome and SmithKline Beecham.

Net healthcare cost	2000 £m	1999 £m	1998 £m
Service cost	**5**	6	4
Interest cost	**13**	11	11
Amortisation of prior service cost	**(2)**	(1)	(1)
Net healthcare cost	**16**	16	14

The major assumptions used in calculating the net healthcare cost were:	%pa	%pa	%pa
Rate of future healthcare inflation	**7.8 to 4.9**	8.2 to 4.7	8.6 to 4.4
Discount rate	**7.2**	7.1	6.6

Change in benefit obligation	2000 £m	1999 £m
Benefit obligation at beginning of year	**159**	169
Amendments	**(3)**	(10)
Service cost	**5**	6
Interest cost	**13**	11
Plan participants' contributions	**1**	–
Actuarial loss/(gain)	**11**	(12)
Benefits paid	**(11)**	(8)
Acquisition of SmithKline Beecham	**400**	–
Exchange	**8**	3
Benefit obligation at end of year	**583**	159

Change in plan assets		
Fair value of plan assets at beginning of year	**–**	–
Employer contributions	**11**	8
Benefits paid	**(11)**	(8)
Fair value of plan assets at end of year	**–**	–

Funded status		
Funded status	**(583)**	(159)
Unrecognised net actuarial (gain)/loss	**22**	11
Unrecognised prior service cost	**(20)**	(18)
Prepaid/(accrued) post-retirement healthcare cost	**(581)**	(166)

The impact of a 1 per cent variation in the rate of future healthcare inflation would be:	1% decrease £m	1% increase £m
Effect on total service and interest cost	(2)	2
Effect on provision for post-retirement benefits	(59)	83

Group companies

The following represent the principal subsidiary and associated undertakings of the GlaxoSmithKline Group at 31st December 2000. Details are given of: the country of incorporation and principal country of operation; the location of the headquarters; the business segment; the business activities. The share capital of these undertakings, comprising ordinary shares, is wholly owned by the Group except where its interest is shown otherwise.

Region	Country	Location	Subsidiary undertaking	Segment	Activity	%	Note	Location	Subsidiary undertaking	Segment	Activity	%	Note
Europe	England	Greenford	Glaxo Wellcome plc	Ph	h			Brentford	SmithKline Beecham plc	Ph,CH	h r d p m e		
			Glaxo Group Ltd	Ph	h				SmithKline Beecham (SWG) Ltd	CH	m e		
			Glaxo Wellcome Export Ltd	Ph	e								
			Glaxo Research and Development Ltd	Ph	r d								
			Glaxo Investments (UK) Ltd	Ph	f		(i)						
			Glaxo Wellcome Vehicle Finance Ltd	Ph	f								
			The Wellcome Foundation Ltd	Ph	h r d p								
			Wellcome Limited	Ph	h								
		Stockley Park	Glaxo Operations UK Ltd	Ph	p								
			Glaxo Wellcome UK Ltd	Ph	p m								
	Austria	Vienna	Glaxo Wellcome Pharma GmbH	Ph	m			Brunn	SmithKline Beecham Markenartikel GmbH	CH	m		
	Belgium	Brussels	Glaxo Wellcome Belgium SA	Ph	m			Heppignes	Beecham SA	Ph	m		
								Genval	SmithKline Beecham SA	Ph,CH	p		
								Rixensart	SmithKline Beecham Biologicals SA (now GlaxoSmithKline Biologicals SA)	Ph	p e		
									SmithKline Beecham Biologicals Biotech SA (now GlaxoSmithKline Biologicals Biotech SA)	Ph	p		
								Wavre	SmithKline Beecham Biologicals Manufacturing SA (now GlaxoSmithKline Biologicals Manufacturing SA)	Ph	p e		
	Czech Republic	Prague	Glaxo Wellcome sro	Ph	m			Prague	SmithKline Beecham spol sro	Ph	m		
	Denmark	Brøndby	Glaxo Wellcome a/s	Ph	m			Ballerup	SmithKline Beecham a/s	CH	m		
	Finland	Espoo	Glaxo Wellcome Oy	Ph	m			Espoo	SmithKline Beecham Oy	CH	m		
	France	Paris	Groupe Glaxo Wellcome	Ph	r p m			Nanterre	SmithKline Beecham Laboratoires Pharmaceutiques SAS	Ph	p m		
								Herouville	SmithKline Beecham Liquides Industrie SA	CH	p		
								Nanterre	SmithKline Beecham Santé et Hygiene SAS	CH	m		
	Germany	Hamburg	Glaxo Wellcome GmbH & Co	Ph	p m			Buehl	SmithKline Beecham Consumer Healthcare GmbH	CH	m		
								Munich	SmithKline Beecham Pharma GmbH	Ph	m		
	Greece	Athens	Glaxo Wellcome AEBE	Ph	p m			Athens	SmithKline Beecham CISA	Ph,CH	m		
	Hungary	Budapest	Glaxo Wellcome Kft	Ph	p m			Budapest	SmithKline Beecham Kft	Ph,CH	m		
	Ireland	Dublin	Glaxo Wellcome Ltd	Ph	p m			Carrigaline	SmithKline Beecham (Cork) Ltd	Ph	p		
			Glaxo Wellcome International	Ph	h		(ii)	Dungarvan	SmithKline Beecham Dungarvan Ltd	CH	p		
								Dublin	SmithKline Beecham (Ireland) Ltd	Ph,CH	m		
								Carrigaline	SmithKline Beecham (Manufacturing) Ltd	Ph	p		
	Italy	Verona	Glaxo Wellcome Finanziaria SpA	Ph	h f			Milan	SmithKline Beecham SpA	Ph	m		
			Glaxo Wellcome SpA	Ph	r p m								
	Netherlands	Zeist	Glaxo Wellcome BV	Ph	m			Rijswijk	SmithKline Beecham Consumer Brands BV	CH	m		
			Glaxo Wellcome International BV	Ph	h				SmithKline Beecham Farma BV	Ph	m		
			Glaxo Wellcome Investments BV	Ph	h								
	Norway	Oslo	Glaxo Wellcome AS	Ph	m								
	Poland	Poznan	Glaxo Wellcome SA	Ph	p m	96		Warsaw	SmithKline Beecham Polska Sp Zoo	Ph,CH	m		
	Portugal	Lisbon	Glaxo Wellcome Farmaceutica, Lda.	Ph	m			Lisbon	Instituto Luso-Farmaco Lda	Ph	m		
	Romania	Bucharest	Glaxo Wellcome srl	Ph	m								
	Spain	Madrid	Glaxo Wellcome SA	Ph	r p m			Madrid	SmithKline Beecham SA	Ph	m		
	Sweden	Mölndal	Glaxo Wellcome AB	Ph	m			Solna	SmithKline Beecham AB	Ph	m		
	Switzerland	Berne	Glaxo Wellcome AG	Ph	m			Thoerishaus	SmithKline Beecham AG	Ph	m		
		Zug	Adechsa GmbH	Ph	e								
	Turkey	Istanbul	Glaxo Wellcome ISAS	Ph	p m			Istanbul	SmithKline Beecham Ilac Ticaret AS	Ph,CH	m		

Notes:
(i) Incorporated in Bermuda
(ii) Exempt from the provisions of Section 7 of the Companies (Amendment) Act 1986 (Ireland)

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

Region	Country	Location	Subsidiary undertaking	Segment	Activity	%	Note	Location	Subsidiary undertaking	Segment	Activity	%	Note
USA	USA	Research Triangle Park	Glaxo Wellcome Inc	Ph	r p m			Pittsburgh	SmithKline Beecham Consumer Healthcare LP	CH	p m	65	
		Palo Alto	Affymax Research Institute	Ph	r			Philadelphia	SmithKline Beecham Corporation	Ph,CH	h r d p m e		
		New York	Glaxo Wellcome Americas Inc	Ph	h			Philadelphia	SmithKline Beecham Holdings Corporation	Ph,CH	h		
Americas	Bermuda	Hamilton	Glaxo Wellcome Insurance (Bermuda) Ltd	Ph	i								
	Canada	Mississauga	Glaxo Wellcome Inc	Ph	r p m			Oakville	SmithKline Beecham Inc	Ph,CH	m		
Asia Pacific	Australia	Boronia	Glaxo Wellcome Australia Ltd	Ph	p m			Dandenong	SmithKline Beecham (Australia) Pty Ltd	Ph,CH	m		
	Bangladesh	Chittagong	Glaxo Wellcome Bangladesh Ltd	Ph	p m	82							
	China	Chongqing	Chongqing Glaxo Wellcome Pharmaceuticals Ltd	Ph	p m	88		Tianjin	Sino-American Tianjin Smith Kline & French Laboratories Ltd	Ph	m	55	
		Suzhou	Glaxo Wellcome (Suzhou) Pharmaceuticals Ltd	Ph	p m			Tianjin	SmithKline Beecham (Tianjin) Co Ltd	Ph		90	
		Hong Kong	Glaxo Wellcome China Ltd	Ph	m			Hong Kong	SmithKline Beecham Ltd	Ph,CH	m		
	India	Mumbai	Glaxo India Ltd	Ph	p m	51		Nabha	SmithKline Beecham Consumer Healthcare Ltd	CH	p m	40	(iii)
			Burroughs Wellcome (India) Ltd	Ph	m	51		Bangalore	SmithKline Beecham Pharmaceuticals (India) Ltd	Ph	m	40	(iii)
	Indonesia	Jakarta	PT Glaxo Wellcome Indonesia	Ph	m	85		Jakarta	PT Sterling Products Indonesia	CH	m	70	
	Malaysia	Kuala Lumpur	Glaxo Wellcome (Malaysia) Sdn Bhd	Ph	p m			Selangor Darul Ehsan	SmithKline Beecham Sdn Bhd	Ph,CH	m		
	New Zealand	Auckland	Glaxo Wellcome New Zealand Ltd	Ph	p m			Auckland	SmithKline Beecham (NZ) Ltd	Ph,CH	m		
	Pakistan	Karachi	Glaxo Wellcome (Pakistan) Ltd	Ph	p m	70		Karachi	Beecham Pakistan (Private) Ltd	Ph,CH	m		
	Philippines	Manila	Glaxo Wellcome Philippines Inc	Ph	m			Manila	Philippines Branch of SmithKline Beecham Research Ltd	Ph,CH	m		(iv)
			Duncan Pharmaceuticals Philippines Inc	Ph	m								
	Singapore	Singapore	Glaxo Wellcome Singapore Pte Ltd	Ph	m			Jurong	Beecham Pharmaceuticals (Pte) Ltd	Ph	p		
			Glaxo Wellcome Manufacturing Pte Ltd	Ph	p								
			Glaxochem Pte Ltd	Ph	f								
	South Korea	Seoul	Glaxo Wellcome Korea Ltd	Ph	p m			Seoul	SmithKline Beecham Korea Ltd	Ph,CH	m		
	Sri Lanka	Colombo	Glaxo Wellcome Ceylon Ltd	Ph	p m	81		Colombo	SmithKline Beecham (Private) Ltd	Ph,CH	m		
	Taiwan	Taipei	Glaxo Wellcome Taiwan Ltd	Ph	p m			Taipei	Taiwan Branch of SmithKline Beecham Far East BV	Ph,CH	m		(v)
	Thailand	Bangkok	Glaxo Wellcome (Thailand) Ltd	Ph	m			Bangkok	Smith Kline & French (Thailand) Ltd	Ph,CH	m		
		Samut Prakan	Glaxo Wellcome Vidhyasom Ltd	Ph	p m								
Japan	Japan	Tokyo	Glaxo Wellcome KK (now GlaxoSmithKline KK)	Ph	r p m	80		Tokyo	SmithKline Beecham Seiyaku KK	Ph,CH	m		

Notes:
(iii) Consolidated as a subsidiary undertaking in accordance with Section 258(4)(a) of the Companies Act 1985 on the grounds of significant influence
(iv) Registered in England
(v) Registered in the Netherlands

Region	Country	Location	Subsidiary undertaking	Segment	Activity	%	Note	Location	Subsidiary undertaking	Segment	Activity	%	Note
Latin America	Argentina	Buenos Aires	Glaxo Wellcome SA	Ph	p m			Buenos Aires	SmithKline Beecham Argentina SA	Ph,CH	m		
	Brazil	Rio de Janeiro	Glaxo Wellcome SA	Ph	p m			Rio de Janeiro Bahia	SmithKline Beecham Brasil Ltda SmithKline Beecham Quimica Do Nordeste Ltda	Ph,CH Ph	m p		
	Chile	Santiago	Glaxo Wellcome Farmaceutica Ltda	Ph	m			Santiago	SmithKline Beecham Chile SA	Ph,CH	m		
	Colombia	Bogota	Glaxo Wellcome de Colombia SA	Ph	p m			Bogota	SmithKline Beecham Colombia SA	Ph,CH	m		
	Costa Rica							San Jose	SmithKline Beecham Costa Rica SA	Ph,CH	m		
	Dominican Republic							Santo Domingo	SmithKline Beecham Republica Dominicana SA	Ph,CH	m		
	Ecuador	Quito	Glaxo Wellcome SA	Ph	m			Guayaquil	SmithKline Beecham Ecuador SA	Ph,CH	m		
	Mexico	Mexico City	Glaxo Wellcome Mexico, SA de CV	Ph	p m			Civac	SmithKline Beecham Mexico SA de CV	Ph,CH	p m		
	Panama	Panama City	Glaxo Wellcome Centro America SA	Ph	m			Panama City	Sterling Products International SA	Ph,CH	m		
	Paraguay	Asunción	Glaxo Wellcome SA	Ph	m								
	Peru	Lima	Glaxo Wellcome SA	Ph	m			Lima	Peru Branch of SmithKline Beecham Inter-American Corporation	Ph,CH	m		(vi)
	Puerto Rico	San Juan	Glaxo Wellcome Puerto Rico Inc	Ph	m			Hato Rey	SB Pharmco Puerto Rico Inc	Ph	p		
	Uruguay	Montevideo	Glaxo Wellcome SA	Ph	m			Montevideo	SmithKline Beecham Uruguay Ltda	Ph,CH	m		
	Venezuela	Caracas	Glaxo Wellcome CA Allen & Hanburys CA	Ph Ph	p m p m			Caracas	SmithKline Beecham Venezuela CA	Ph,CH	p m		
Middle East, Africa	Egypt	Cairo	Glaxo Wellcome Egypt SAE	Ph	p m	89							
	Kenya	Nairobi	Glaxo Wellcome (Kenya) Ltd	Ph	p m			Nairobi	SmithKline Beecham Consumer Healthcare Ltd	Ph,CH	m		
	Morocco	Casablanca	Glaxo Wellcome Maroc SA	Ph	m	90		Rabat	SmithKline Beecham Maroc SA	Ph	p m	80	
	Nigeria	Lagos	Glaxo Wellcome Nigeria Ltd	Ph	p m			Lagos	SmithKline Beecham Nigeria plc	Ph,CH	m	46	(iii)
	Saudi Arabia	Jeddah	Glaxo Saudi Arabia Ltd	Ph	m	49	(iii)						
	South Africa	Midrand	Glaxo Wellcome South Africa (Pty) Ltd	Ph	p m			Johannesburg Johannesburg	SmithKline Beecham Consumer Healthcare (Pty) Ltd SmithKline Beecham Pharmaceuticals (Pty)	CH Ph	p m m		

Region	Country	Location	Associated undertaking	%
USA	USA	Teterboro, New Jersey	Quest Diagnostics, Incorporated	27

The activity of Quest Diagnostics is Clinical Laboratories. The issued share capital comprises 46,541,333 shares of common stock.

Notes:
(iii) Consolidated as a subsidiary undertaking in accordance with Section 258(4)(a) of the Companies Act 1985 on the grounds of significant influence.
(vi) Registered in the United States

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.

Principal financial statements in US$

The following information is provided for the convenience of US shareholders in accordance with the requirements of the New York Stock Exchange. The principal financial statements, prepared under UK GAAP and in sterling, have been translated into US$ – the consolidated profit and loss account, consolidated statement of recognised gains and losses and consolidated cash flow statement at average exchange rates and the consolidated balance sheet at period end exchange rates. The exchange rates used are given in Note 5 to the financial statements.

Consolidated profit and loss account

	2000			1999			1998		
	Business $m	Other $m	**Total $m**	Business $m	Other $m	Total $m	Business $m	Other $m	Total $m
Turnover	27,480	–	**27,480**	27,210	–	27,210	26,563	–	26,563
Cost of sales	(5,793)	(230)	**(6,023)**	(6,375)	(646)	(7,021)	(6,511)	(76)	(6,587)
Gross profit	21,687	(230)	**21,457**	20,835	(646)	20,189	20,052	(76)	19,976
Selling, general and administrative expenditure	(10,232)	(614)	**(10,846)**	(9,998)	(120)	(10,118)	(9,528)	(226)	(9,754)
Research and development expenditure	(3,815)	(24)	**(3,839)**	(3,704)	–	(3,704)	(3,441)	–	(3,441)
Trading profit	7,640	(868)	**6,772**	7,133	(766)	6,367	7,083	(302)	6,781
Other operating income/(expense)	416	–	**416**	669	–	669	367	–	367
Operating profit	8,056	(868)	**7,188**	7,802	(766)	7,036	7,450	(302)	7,148
Share of profits/(losses) of joint ventures and associates	99	(12)	**87**	24	(13)	11	36	–	36
Profit on disposal of interest in associate	219	–	**219**	63	–	63	–	–	–
Profit on dissolution of joint venture	–	–	**–**	–	–	–	95	–	95
Product divestments	–	2,152	**2,152**	–	–	–	–	–	–
Merger transaction costs	–	(184)	**(184)**	–	–	–	–	–	–
Disposal of businesses:									
Provision for loss on disposal	–	–	–	–	–	–	–	(1,044)	(1,044)
Loss on disposal	–	(21)	**(21)**	–	(1,028)	(1,028)	–	–	–
Utilisation of provision	–	–	**–**	–	1,043	1,043	–	–	–
Profit before interest	8,374	1,067	**9,441**	7,889	(764)	7,125	7,581	(1,346)	6,235
Net interest payable	(277)	–	**(277)**	(262)	–	(262)	(319)	–	(319)
Profit on ordinary activities before taxation	8,097	1,067	**9,164**	7,627	(764)	6,863	7,262	(1,346)	5,916
Taxation	(2,210)	(372)	**(2,582)**	(2,150)	176	(1,974)	(2,118)	496	(1,622)
Profit on ordinary activities after taxation	5,887	695	**6,582**	5,477	(588)	4,889	5,144	(850)	4,294
Minority interests	(183)	–	**(183)**	(178)	–	(178)	(169)	–	(169)
Preference share dividends	(85)	–	**(85)**	(79)	–	(79)	(83)	–	(83)
Earnings (Profit attributable to shareholders)	5,619	695	**6,314**	5,220	(588)	4,632	4,892	(850)	4,042
			US$			US$			US$
Earnings per ADS			**2.08**			1.51			1.32
Adjusted earnings per ADS	1.85			1.71			1.60		

A columnar presentation of the profit and loss account has been adopted in order to illustrate underlying business performance. For this purpose certain items are excluded from business performance, the 'Business' column, and are presented in the 'Other' column. These items comprise: merger items, including product divestments; costs relating to previously announced manufacturing and other restructurings; the effect of business disposals in prior years.

Consolidated statement of total recognised gains and losses

	2000 $m	1999 $m	1998 $m
Profit attributable to shareholders	**6,314**	4,632	4,042
Exchange movements on overseas net assets	**(682)**	(674)	75
UK tax on exchange movements	**(52)**	(71)	40
Total recognised gains and losses	**5,580**	3,887	4,157

Consolidated cash flow statement

	2000 $m	1999 $m	1998 $m
Net cash inflow from operating activities	**8,271**	7,801	7,030
Earnings from joint ventures and associated undertakings	**2**	3	66
Returns on investment and servicing of finance	**(490)**	(510)	(543)
Taxation paid	**(1,885)**	(1,774)	(1,731)
Capital expenditure and financial investment	**(497)**	(3,630)	(2,002)
Acquisitions and disposals	**100**	1,576	(285)
Equity dividends paid	**(3,083)**	(2,969)	(3,016)
Net cash inflow/(outflow) before management of liquid resources and financing	**2,418**	497	(481)
Management of liquid resources	**(339)**	(58)	(295)
Financing	**(830)**	(283)	426
Increase/(decrease) in cash in the year	**1,249**	156	(350)

Consolidated balance sheet

	2000 $m	1999 $m
Goodwill	**253**	258
Intangible assets	**1,439**	1,491
Tangible assets	**9,897**	10,307
Investments	**3,791**	2,904
Fixed assets	**15,380**	14,960
Equity investments	**255**	84
Stocks	**3,393**	3,611
Debtors	**8,044**	7,773
Liquid investments	**3,186**	2,866
Cash at bank	**1,912**	932
Current assets	**16,790**	15,266
Loans and overdrafts	**(3,399)**	(4,539)
Other creditors	**(10,137)**	(9,062)
Creditors: amounts due within one year	**(13,536)**	(13,601)
Net current assets	**3,254**	1,665
Total assets less current liabilities	**18,634**	16,625
Loans	**(2,609)**	(3,054)
Other creditors	**(213)**	(237)
Creditors: amounts due after one year	**(2,822)**	(3,291)
Provisions for liabilities and charges	**(2,469)**	(2,697)
Net assets	**13,343**	10,637
Called up share capital	**2,318**	2,494
Share premium account	**45**	–
Other reserves	**9,126**	6,303
Equity shareholders' funds	**11,489**	8,797
Non-equity minority interest	**1,548**	1,547
Equity minority interests	**306**	293
Capital employed	**13,343**	10,637

Financial record
Quarterly trend

An analysis is provided by quarter of the Group results in sterling for the financial year 2000.
The analysis is of: business performance results; total results; pharmaceutical sales by therapeutic area.

Profit and loss account – business performance

	12 months 2000		Q4 2000		9 months 2000		Q3 2000		6 months 2000		Q2 2000		Q1 2000	
	£m	CER %	£m	CER %	£m	CER %	£m	CER %	£m	CER %	£m	CER %	£m	CER %
Sales – Pharmaceuticals	15,429	10	4,304	5	11,125	13	3,786	16	7,339	11	3,872	9	3,467	14
– Consumer Healthcare	2,650	3	725	(1)	1,925	4	643	1	1,282	6	658	8	624	5
Sales – retained businesses	18,079	9	5,029	4	13,050	11	4,429	13	8,621	11	4,530	9	4,091	12
Cost of sales	(3,811)	(8)	(1,048)	(1)	(2,763)	(10)	(919)	(6)	(1,844)	(12)	(996)	(13)	(848)	(12)
Selling, general and administrative expenditure	(6,732)	(9)	(1,858)	2	(4,874)	(13)	(1,690)	(17)	(3,184)	(11)	(1,634)	(7)	(1,550)	(16)
Research and development expenditure	(2,510)	(7)	(716)	(2)	(1,794)	(9)	(636)	(10)	(1,158)	(9)	(617)	(9)	(541)	(9)
Operating costs	(13,053)	(8)	(3,622)	–	(9,431)	(11)	(3,245)	(12)	(6,186)	(11)	(3,247)	(9)	(2,939)	(13)
Trading profit – retained businesses	5,026	12	1,407	15	3,619	11	1,184	16	2,435	9	1,283	9	1,152	9
– Healthcare Services	–		–	–	–		–		–		–		–	
Total trading profit	5,026	12	1,407	15	3,619	10	1,184	16	2,435	8	1,283	8	1,152	8
Other operating income/(expense)	274		148		126		6		120		75		45	
Operating profit	5,300		1,555		3,745		1,190		2,555		1,358		1,197	
Share of profits/(losses) of joint ventures and associated undertakings	65		14		51		23		28		16		12	
Profit on disposal of interest in associate	144		–		144		–		144		144		–	
Profit before interest	5,509	11	1,569	9	3,940	12	1,213	1	2,727	17	1,518	23	1,209	10
Net interest payable	(182)		(44)		(138)		(59)		(79)		(36)		(43)	
Profit on ordinary activities before taxation	5,327	11	1,525	10	3,802	11	1,154	(1)	2,648	17	1,482	24	1,166	10
Taxation	(1,454)		(416)		(1,038)		(316)		(722)		(404)		(318)	
Profit on ordinary activities after taxation	3,873	12	1,109	11	2,764	13	838	1	1,926	19	1,078	26	848	11
Minority interests	(120)		(34)		(86)		(22)		(64)		(35)		(29)	
Preference share dividends	(56)		(15)		(41)		(14)		(27)		(15)		(12)	
Earnings (Profit attributable to shareholders)	3,697	13	1,060	12	2,637	13	802	1	1,835	19	1,028	26	807	12
Earnings per Ordinary Share	61.0p	14	17.5p	12	43.5p	14	13.2p	2	30.3p	21	17.0p	27	13.3p	13

Profit and loss account – total

Sales – Pharmaceuticals	15,429	4,304	11,125	3,786	7,339	3,872	3,467	
– Consumer Healthcare	2,650	725	1,925	643	1,282	658	624	
Total sales	18,079	5,029	13,050	4,429	8,621	4,530	4,091	
Cost of sales	(3,962)	(1,137)	(2,825)	(943)	(1,882)	(1,016)	(866)	
Selling, general and administrative expenditure	(7,136)	(2,039)	(5,097)	(1,729)	(3,368)	(1,808)	(1,560)	
Research and development expenditure	(2,526)	(729)	(1,797)	(639)	(1,158)	(617)	(541)	
Operating costs	(13,624)	(3,905)	(9,719)	(3,311)	(6,408)	(3,441)	(2,967)	
Trading profit – retained businesses	4,455	1,124	3,331	1,118	2,213	1,089	1,124	
– Healthcare Services	–	–	–	–	–	–	–	
Total trading profit	4,455	1,124	3,331	1,118	2,213	1,089	1,124	
Other operating income/(expense)	274	148	126	6	120	75	45	
Operating profit	4,729	1,272	3,457	1,124	2,333	1,164	1,169	
Share of profits/(losses) of joint ventures and associated undertakings	57	13	44	21	23	16	7	
Profit on disposal of interest in associate	144	–	144	–	144	144	–	
Loss on disposal of business	(14)	(14)	–	–	–	–	–	
Product divestments	1,416	1,416	–	–	–	–	–	
Merger transaction costs	(121)	(75)	(46)	(24)	(22)	(15)	(7)	
Profit before interest	6,211	2,612	3,599	1,121	2,478	1,309	1,169	
Net interest payable	(182)	(44)	(138)	(59)	(79)	(36)	(43)	
Profit on ordinary activities before taxation	6,029	2,568	3,461	1,062	2,399	1,273	1,126	
Taxation	(1,699)	(737)	(962)	(294)	(668)	(359)	(309)	
Profit on ordinary activities after taxation	4,330	1,831	2,499	768	1,731	914	817	
Minority interests	(120)	(34)	(86)	(22)	(64)	(35)	(29)	
Preference share dividends	(56)	(15)	(41)	(14)	(27)	(15)	(12)	
Earnings (Profit attributable to shareholders)	4,154	1,782	2,372	732	1,640	864	776	
Earnings per Ordinary Share	68.5p	29.4p	39.1p	12.1p	27.0p	14.2p	12.8p	

Pharmaceutical sales – total Group	Q4 2000		Q3 2000		Q2 2000		Q1 2000	
	£m	CER %	£m	CER %	£m	CER %	£m	CER %
CNS	**911**	**5**	**879**	**29**	**790**	**12**	**699**	**22**
Depression	**546**	**3**	**551**	**38**	**467**	**10**	**438**	**25**
Seroxat/Paxil	421	–	434	43	352	7	343	24
Wellbutrin	125	12	117	22	115	17	95	29
Migraine	**222**	**–**	**197**	**2**	**203**	**7**	**160**	**10**
Imigran/Imitrex	201	–	177	–	183	6	144	8
Naramig/Amerge	21	4	20	22	20	24	16	38
Lamictal	82	20	72	28	75	33	60	34
Requip	17	3	15	34	14	23	12	26
Zyban	36	76	35	>100	22	9	22	15
Respiratory	**806**	**14**	**634**	**12**	**736**	**15**	**613**	**22**
Flixotide/Flovent	265	28	205	29	223	27	187	34
Serevent	184	10	142	3	161	2	135	21
Seretide	77	>100	50	>100	47	>100	34	>100
Flixonase/Flonase	104	5	95	11	116	24	93	26
Ventolin	97	(10)	71	(12)	100	2	75	(10)
Becotide	50	(34)	45	(25)	53	(26)	57	(14)
Anti-bacterials	**720**	**(7)**	**542**	**7**	**574**	**8**	**636**	**3**
Augmentin	371	(2)	279	21	255	8	314	9
Zinnat/Ceftin	135	(4)	75	(3)	101	10	119	(2)
Fortum	56	(16)	45	(13)	58	4	54	(9)
Amoxil	52	(19)	40	4	57	23	50	4
Anti-virals	**539**	**11**	**458**	**14**	**481**	**10**	**421**	**26**
HIV	**321**	**12**	**288**	**18**	**289**	**6**	**247**	**22**
Trizivir	7	>100	–	–	–	–	–	–
Combivir	159	18	144	24	141	9	118	37
Epivir	85	(3)	75	(2)	78	(15)	71	(7)
Retrovir	16	(22)	15	(27)	16	(32)	14	(37)
Ziagen	41	31	40	78	40	>100	33	>100
Agenerase	13	–	14	47	14	38	11	>100
Herpes	**170**	**3**	**142**	**(1)**	**168**	**10**	**136**	**10**
Valtrex	78	51	57	18	58	29	49	32
Zovirax	92	(18)	85	(11)	110	2	87	1
Zeffix	23	>100	19	>100	16	>100	12	>100
Relenza	12	(23)	1	21	–	–	19	>100
Metabolic and gastro-intestinal	**341**	**23**	**297**	**45**	**314**	**22**	**280**	**50**
Avandia	140	>100	113	>100	112	>100	97	>100
Zantac	153	(16)	133	(8)	157	(8)	132	(13)
Lotronex	4	>100	13	>100	4	>100	15	>100
Vaccines	**215**	**5**	**218**	**13**	**220**	**17**	**189**	**10**
Hepatitis	113	(10)	117	(3)	121	(4)	111	6
Infanrix	46	20	41	36	48	78	36	73
Oncology and emesis	**201**	**11**	**178**	**12**	**179**	**11**	**152**	**10**
Zofran	135	13	126	16	123	13	107	10
Hycamtin	29	(1)	23	–	23	–	20	5
Cardiovascular	**123**	**(3)**	**127**	**11**	**120**	**(2)**	**93**	**(4)**
Coreg	40	23	46	22	40	10	22	(15)
Arthritis (*Relafan*)	**49**	**(31)**	**59**	**1**	**55**	**(37)**	**47**	**(37)**
Dermatologicals	**67**	**(5)**	**58**	**(9)**	**71**	**1**	**53**	**(5)**
Other	**229**	**8**	**213**	**(3)**	**212**	**(3)**	**183**	**(11)**
Pharmaceutical sales	**4,201**	**6**	**3,663**	**16**	**3,752**	**10**	**3,366**	**14**
Continuing business								
Divested products	**103**	**(26)**	**123**	**12**	**120**	**6**	**101**	**5**
Famvir	31	(23)	54	71	34	(4)	33	9
Kytril	48	(32)	51	(14)	67	15	53	8
Other	24	(15)	18	(4)	19	–	15	(15)
Total pharmaceutical sales	**4,304**	**5**	**3,786**	**16**	**3,872**	**9**	**3,467**	**14**

Pharmaceutical sales – USA

	Q4 2000		Q3 2000		Q2 2000		Q1 2000	
	£m	CER %	£m	CER %	£m	CER %	£m	CER %
CNS	**634**	**1**	**637**	**30**	**548**	**9**	**488**	**23**
Depression	**398**	**(1)**	**430**	**44**	**341**	**8**	**326**	**27**
Seroxat/Paxil	277	(5)	317	55	229	4	234	26
Wellbutrin	121	11	113	21	112	16	92	29
Migraine	**172**	**2**	**151**	**2**	**151**	**8**	**114**	**12**
Imigran/Imitrex	160	2	138	–	139	7	105	10
Naramig/Amerge	12	4	13	21	12	26	9	35
Lamictal	41	26	36	33	35	33	26	50
Requip	8	6	7	44	6	11	5	21
Zyban	15	(12)	13	3	15	(3)	17	16
Respiratory	**341**	**25**	**268**	**20**	**289**	**17**	**224**	**52**
Flixotide/Flovent	139	64	97	52	99	35	79	87
Serevent	106	30	78	11	85	11	61	60
Seretide	–	–	–	–	–	–	–	–
Flixonase/Flonase	77	5	74	12	83	25	60	33
Ventolin	11	(20)	7	6	8	(13)	5	(48)
Becotide	(1)	>(100)	–	–	–	–	5	36
Anti-bacterials	**360**	**(3)**	**249**	**19**	**235**	**7**	**298**	**10**
Augmentin	237	4	167	36	133	5	188	16
Zinnat/Ceftin	70	(9)	28	(26)	45	2	61	–
Fortum	10	(30)	10	3	9	(14)	11	(21)
Amoxil	11	3	8	7	21	>100	12	60
Anti-virals	**261**	**11**	**230**	**18**	**223**	**9**	**203**	**33**
HIV	**193**	**13**	**177**	**20**	**171**	**8**	**145**	**26**
Trizivir	6	>100	–	–	–	–	–	–
Combivir	96	16	92	21	86	9	71	22
Epivir	47	6	41	7	39	(14)	37	5
Retrovir	7	(16)	6	(25)	6	(22)	6	(26)
Ziagen	26	13	26	54	26	77	22	55
Agenerase	11	(11)	12	40	14	34	9	>100
Herpes	**55**	**16**	**47**	**7**	**46**	**13**	**40**	**19**
Valtrex	43	28	39	18	36	25	29	26
Zovirax	12	(13)	8	(23)	10	(16)	11	4
Zeffix	2	>100	1	>100	1	>100	1	>100
Relenza	1	(93)	–	–	–	–	13	>100
Metabolic and gastro-intestinal	**162**	**86**	**149**	**>100**	**148**	**78**	**135**	**>100**
Avandia	127	>100	105	>100	108	>100	93	>100
Zantac	29	(33)	30	4	34	(5)	26	(28)
Lotronex	4	>100	13	>100	4	>100	15	>100
Vaccines	**52**	**17**	**63**	**20**	**56**	**(21)**	**41**	**(25)**
Hepatitis	42	7	50	19	43	(20)	33	(16)
Infanrix	10	88	11	54	7	50	7	47
Oncology and emesis	**144**	**16**	**128**	**15**	**124**	**9**	**103**	**8**
Zofran	94	18	88	21	84	11	72	9
Hycamtin	20	1	16	(5)	15	(10)	12	(5)
Cardiovascular	**74**	**(12)**	**83**	**5**	**72**	**(13)**	**53**	**(13)**
Coreg	40	23	46	28	40	18	22	(6)
Arthritis (*Relafan*)	**43**	**(30)**	**53**	**3**	**47**	**(41)**	**40**	**(40)**
Dermatologicals	**10**	**(17)**	**8**	**(24)**	**8**	**(30)**	**9**	**(9)**
Other	**49**	**26**	**58**	**(8)**	**37**	**2**	**27**	**(38)**
Pharmaceutical sales	**2,130**	**9**	**1,926**	**26**	**1,787**	**8**	**1,621**	**21**
Continuing business								
Divested products	**44**	**(40)**	**72**	**24**	**67**	**8**	**58**	**9**
Famvir	22	(25)	44	>100	25	(1)	23	12
Kytril	21	(51)	27	(26)	41	16	34	10
Other	1	(40)	1	(40)	1	(40)	1	(40)
Total pharmaceutical sales	**2,174**	**7**	**1,998**	**26**	**1,854**	**8**	**1,679**	**21**

Pharmaceutical sales – Europe	Q4 2000		Q3 2000		Q2 2000		Q1 2000	
	£m	CER %	£m	CER %	£m	CER %	£m	CER %
CNS	**188**	**7**	**172**	**29**	**168**	**12**	**150**	**16**
Depression	**93**	**–**	**80**	**21**	**86**	**10**	**75**	**16**
Seroxat/Paxil	93	–	80	21	86	10	75	16
Wellbutrin	–	–	–	–	–	–	–	–
Migraine	**38**	**(10)**	**36**	**2**	**41**	**2**	**37**	**8**
Imigran/Imitrex	31	(12)	30	(1)	35	1	31	4
Naramig/Amerge	7	(2)	6	19	6	12	6	39
Lamictal	31	14	28	22	30	24	27	22
Requip	9	1	7	27	8	33	6	29
Zyban	14	>100	18	>100	1	>100	1	>100
Respiratory	**305**	**7**	**250**	**9**	**292**	**10**	**270**	**12**
Flixotide/Flovent	77	(6)	70	3	81	8	77	3
Serevent	68	(8)	55	(6)	65	(9)	65	(1)
Seretide	63	>100	42	>100	42	>100	32	>100
Flixonase/Flonase	10	4	9	3	15	14	11	15
Ventolin	40	(8)	33	(7)	38	(2)	38	(3)
Becotide	39	(19)	35	(7)	40	(11)	38	(10)
Anti-bacterials	**194**	**(12)**	**144**	**1**	**170**	**8**	**197**	**(7)**
Augmentin	89	(12)	67	2	76	7	88	(3)
Zinnat/Ceftin	34	4	23	24	24	11	32	(13)
Fortum	22	(11)	18	2	24	12	24	(4)
Amoxil	17	(35)	10	(12)	14	(5)	20	(12)
Anti-virals	**136**	**4**	**123**	**10**	**139**	**16**	**133**	**21**
HIV	**92**	**13**	**83**	**17**	**90**	**22**	**80**	**22**
Trizivir	1	>100	–	–	–	–	–	–
Combivir	48	23	41	33	45	39	39	64
Epivir	25	(7)	23	(11)	27	(6)	25	(11)
Retrovir	5	(26)	6	(30)	6	(34)	6	(46)
Ziagen	12	64	12	>100	11	>100	9	>100
Agenerase	1	41	1	79	1	59	1	>100
Herpes	**38**	**(8)**	**36**	**(4)**	**45**	**7**	**43**	**7**
Valtrex	15	19	13	12	15	22	15	35
Zovirax	23	(19)	23	(11)	30	–	28	(3)
Zeffix	2	>100	2	>100	2	>100	1	>100
Relenza	1	(76)	–	–	(1)	>100	6	>100
Metabolic and gastro-intestinal	**65**	**(11)**	**57**	**(18)**	**61**	**(17)**	**65**	**(4)**
Avandia	4	>100	3	>100	1	>100	–	–
Zantac	48	(16)	42	(16)	48	(19)	51	(11)
Lotronex	–	–	–	–	–	–	–	–
Vaccines	**98**	**(8)**	**101**	**2**	**100**	**28**	**91**	**34**
Hepatitis	50	(21)	48	(14)	58	11	54	19
Infanrix	25	12	23	33	27	45	23	56
Oncology and emesis	**33**	**(2)**	**31**	**11**	**34**	**15**	**31**	**11**
Zofran	24	6	23	16	24	17	22	9
Hycamtin	6	(11)	5	5	6	18	6	17
Cardiovascular	**31**	**18**	**29**	**29**	**31**	**19**	**29**	**10**
Coreg	–	–	–	–	–	–	–	–
Arthritis (*Relafan*)	**4**	**(40)**	**4**	**(8)**	**5**	**29**	**4**	**7**
Dermatologicals	**15**	**(2)**	**15**	**(10)**	**17**	**(1)**	**15**	**(6)**
Other	**62**	**(11)**	**54**	**17**	**56**	**(10)**	**56**	**(17)**
Pharmaceutical sales	**1,131**	**(1)**	**980**	**9**	**1,073**	**9**	**1,041**	**8**
Continuing business								
Divested products	**10**	**(18)**	**10**	**(5)**	**12**	**(3)**	**11**	**6**
Famvir	4	(27)	4	(10)	5	(20)	5	10
Kytril	6	(11)	6	–	7	12	6	2
Other	–	–	–	–	–	–	–	–
Total pharmaceutical sales	**1,141**	**(1)**	**990**	**8**	**1,085**	**9**	**1,052**	**8**

Pharmaceutical sales – Rest of World	Q4 2000		Q3 2000		Q2 2000		Q1 2000	
	£m	CER %	£m	CER %	£m	CER %	£m	CER %
CNS	**89**	**31**	**70**	**22**	**74**	**34**	**61**	**24**
Depression	**55**	**45**	**41**	**20**	**40**	**25**	**37**	**32**
Seroxat/Paxil	51	45	37	18	37	22	34	30
Wellbutrin	4	48	4	41	3	86	3	62
Migraine	**12**	**14**	**10**	**7**	**11**	**17**	**9**	**4**
Imigran/Imitrex	10	11	9	3	9	12	8	(1)
Naramig/Amerge	2	42	1	38	2	71	1	60
Lamictal	10	16	8	31	10	64	7	33
Requip	–	–	1	25	–	–	1	60
Zyban	7	66	4	15	6	18	4	(4)
Respiratory	**160**	**9**	**116**	**4**	**155**	**20**	**119**	**6**
Flixotide/Flovent	49	36	38	48	43	67	31	49
Serevent	10	(1)	9	1	11	28	9	33
Seretide	14	>100	8	>100	5	>100	2	>100
Flixonase/Flonase	17	4	12	7	18	29	22	14
Ventolin	46	(8)	31	(20)	54	9	32	(8)
Becotide	12	(41)	10	(46)	13	(40)	14	(34)
Anti-bacterials	**166**	**(9)**	**149**	**(2)**	**169**	**9**	**141**	**9**
Augmentin	45	(6)	45	9	46	17	38	18
Zinnat/Ceftin	31	(2)	24	9	32	23	26	13
Fortum	24	(16)	17	(32)	25	4	19	(8)
Amoxil	24	(10)	22	15	22	(3)	18	3
Anti-virals	**142**	**18**	**105**	**10**	**119**	**4**	**85**	**20**
HIV	**36**	**–**	**28**	**7**	**28**	**(33)**	**22**	**2**
Trizivir	–	–	–	–	–	–	–	–
Combivir	15	16	11	17	10	(44)	8	82
Epivir	13	(20)	11	(6)	12	(32)	9	(27)
Retrovir	4	(27)	3	(26)	4	(46)	2	(32)
Ziagen	3	82	2	>100	3	>100	2	>100
Agenerase	1	>100	1	>100	(1)	–	1	>100
Herpes	**77**	**2**	**59**	**(5)**	**77**	**10**	**53**	**6**
Valtrex	20	>100	5	38	7	78	5	60
Zovirax	57	(19)	54	(9)	70	6	48	2
Zeffix	19	>100	16	>100	13	>100	10	>100
Relenza	10	>100	1	>100	1	31	–	–
Metabolic and gastro-intestinal	**114**	**2**	**91**	**2**	**105**	**6**	**80**	**2**
Avandia	9	>100	5	>100	3	>100	4	>100
Zantac	76	(8)	61	(6)	75	2	55	(5)
Lotronex	–	–	–	–	–	–	–	–
Vaccines	**65**	**23**	**54**	**32**	**64**	**53**	**57**	**13**
Hepatitis	21	(6)	19	(12)	20	(6)	24	14
Infanrix	11	8	7	23	14	>100	6	>100
Oncology and emesis	**24**	**6**	**19**	**(4)**	**21**	**17**	**18**	**25**
Zofran	17	3	15	(9)	15	15	13	22
Hycamtin	3	24	2	36	2	44	2	65
Cardiovascular	**18**	**3**	**15**	**11**	**17**	**14**	**11**	**12**
Coreg	–	–	–	–	–	–	–	–
Arthritis (*Relafan*)	**2**	**(31)**	**2**	**(19)**	**3**	**(24)**	**3**	**(21)**
Dermatologicals	**42**	**(3)**	**35**	**(5)**	**46**	**12**	**29**	**(3)**
Other	**118**	**16**	**101**	**(9)**	**119**	**(1)**	**100**	**4**
Pharmaceutical sales	**940**	**8**	**757**	**4**	**892**	**13**	**704**	**9**
Continuing business								
Divested products	**49**	**(11)**	**41**	**1**	**41**	**6**	**32**	**(4)**
Famvir	5	(10)	6	2	4	(5)	5	(5)
Kytril	21	(8)	18	3	19	13	13	8
Other	23	(14)	17	–	18	3	14	(13)
Total pharmaceutical sales	**989**	**7**	**798**	**4**	**933**	**13**	**736**	**9**

Five-year record

A record of financial performance is provided analysed in accordance with current reporting practice.

Sales by business segment	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Pharmaceuticals	**15,429**	13,618	12,563	12,355	12,578
Consumer Healthcare	**2,650**	2,546	2,375	2,381	2,333
Retained businesses	**18,079**	16,164	14,938	14,736	14,911
Healthcare Services	**–**	632	1,064	980	1,301
	18,079	16,796	16,002	15,716	16,212
Pharmaceutical sales by therapeutic area					
Central nervous system disorders	**3,279**	2,720	2,400	1,875	1,422
Respiratory	**2,789**	2,382	2,096	1,795	1,756
Anti-bacterials	**2,472**	2,383	2,278	2,294	2,392
Anti-virals	**1,899**	1,610	1,347	1,421	1,359
Metabolic and gastro-intestinal	**1,232**	886	908	1,453	2,070
Vaccines	**842**	776	726	699	635
Oncology and emesis	**710**	613	549	512	461
Cardiovascular	**463**	449	390	320	330
Dermatologicals	**249**	254	243	236	240
Arthritis	**210**	275	301	292	288
Others	**837**	842	949	1,061	1,252
Continuing business	**14,982**	13,190	12,187	11,958	12,205
Divested products	**447**	428	376	397	373
	15,429	13,618	12,563	12,355	12,578
Pharmaceutical sales by geographic area					
USA	**7,705**	6,276	5,635	5,455	5,347
Europe	**4,268**	4,288	4,059	3,949	4,280
Rest of World:					
Asia Pacific	**1,049**	929	876	962	980
Japan	**832**	704	592	679	768
Latin America	**682**	636	662	605	535
Middle East, Africa	**511**	461	468	438	403
Canada	**382**	324	271	267	265
Total Rest of World	**3,456**	3,054	2,869	2,951	2,951
	15,429	13,618	12,563	12,355	12,578
Consumer Healthcare sales					
OTC medicines	**1,454**	1,434	1,328	1,395	1,403
Oral care	**642**	614	584	550	528
Nutritional healthcare	**535**	488	459	433	402
Continuing business	**2,631**	2,536	2,371	2,378	2,333
Divested products	**19**	10	4	3	–
	2,650	2,546	2,375	2,381	2,333

Business performance results – retained businesses	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Sales	**18,079**	16,164	14,938	14,736	14,911
R&D expenditure	**2,510**	2,285	2,072	1,989	1,925
per cent of sales	**14**	14	14	13	13
Trading profit	**5,026**	4,378	4,191	4,372	4,640
per cent of sales	**28**	27	28	30	31
Net interest payable	**(182)**	(162)	(192)	(216)	(295)
Profit before taxation	**5,327**	4,683	4,299	4,242	4,415
Earnings (profit attributable to shareholders)	**3,697**	3,204	2,891	2,835	2,938
Merger, restructuring and disposal of subsidiaries					
Manufacturing and other restructuring	**(171)**	(443)	(90)	(81)	(214)
Merger costs and product divestments	**895**	–	–	–	–
Other items	**(22)**	(29)	(721)	–	–
Profit/(loss) before taxation	**702**	(472)	(811)	(81)	(214)
Profit/(loss) attributable to shareholders	**457**	(363)	(512)	(66)	(174)
Total results					
Sales	**18,079**	16,796	16,002	15,716	16,212
Profit before taxation	**6,029**	4,236	3,564	4,210	4,246
Earnings (profit attributable to shareholders)	**4,154**	2,859	2,435	2,818	2,809
Dividends	**(2,097)**	(2,005)	(1,903)	(1,794)	(1,690)
Retained profit	**2,057**	854	532	1,024	1,119
Return on capital employed (per cent)	**77.5**	69.6	70.4	103.4	148.5

Return on capital employed is calculated as total profit before taxation as a percentage of average capital employed over the year.

Share statistics					
Earnings per Ordinary Share (p)	**68.5**	46.7	39.9	47.7	49.6
Dividends per GlaxoSmithKline ordinary share (p):					
Glaxo Wellcome shareholder	**38.0**	37.0	36.0	35.0	34.0
SmithKline Beecham shareholder	**29.66**	26.69	24.02	21.85	19.61
Dividends per GlaxoSmithKline ADS ($):					
Glaxo Wellcome shareholder	**1.16**	1.20	1.19	1.17	1.16
SmithKline Beecham shareholder	**0.91**	0.86	0.81	0.74	0.63

Dividends are expressed in terms of a GlaxoSmithKline share/ADS. On the merger between Glaxo Wellcome and SmithKline Beecham on 27th December 2000, shareholders and ADR holders received shares in GlaxoSmithKline in the following ratios:

for 1 Glaxo Wellcome share – 1 GlaxoSmithKline share
for 1 SmithKline Beecham share – 0.4552 GlaxoSmithKline shares
for 1 Glaxo Wellcome ADS – 1 GlaxoSmithKline ADS
for 1 SmithKline Beecham ADS – 1.138 GlaxoSmithKline ADSs

1 GlaxoSmithKline ADS represents 2 GlaxoSmithKline shares.

Net assets	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Fixed assets	**10,322**	9,292	9,095	8,494	8,525
Other assets and liabilities	**(756)**	(328)	(816)	(1,094)	(1,426)
Net operating assets	**9,566**	8,964	8,279	7,400	7,099
Net debt	**(611)**	(2,357)	(2,717)	(2,830)	(3,528)
	8,955	6,607	5,562	4,570	3,571
Capital employed					
Share capital and share premium	**1,586**	1,549	1,542	1,525	1,512
Goodwill reserve	**–**	–	–	(4,840)	(4,865)
Other reserves	**6,125**	3,915	2,907	6,783	5,889
Equity shareholders' funds	**7,711**	5,464	4,449	3,468	2,536
Minority interests	**1,244**	1,143	1,113	1,102	1,035
	8,955	6,607	5,562	4,570	3,571
Capital expenditure (tangible fixed assets)	**1,018**	1,141	1,037	917	947
Number of employees					
USA	**22,745**	21,272	32,565	31,676	30,947
Europe	**45,929**	47,767	45,408	41,291	39,883
Rest of World:					
Asia Pacific	**21,689**	21,831	21,643	21,760	21,959
Japan	**3,165**	3,191	3,402	3,312	3,171
Latin America	**7,704**	8,286	7,702	7,729	7,655
Middle East, Africa	**4,502**	4,754	4,547	4,256	3,409
Canada	**1,783**	1,940	1,554	1,487	1,633
Total Rest of World	**38,843**	40,002	38,848	38,544	37,827
	107,517	109,041	116,821	111,511	108,657
Manufacturing	**35,681**	37,420	44,780	42,282	44,381
Selling	**43,325**	41,775	41,095	39,588	36,438
Administration	**11,980**	12,767	15,064	14,439	13,421
Research and development	**16,531**	17,079	15,882	15,202	14,417
	107,517	109,041	116,821	111,511	108,657

The number of employees is the number of employed staff at the end of the financial period.

Investor information

This section discusses shareholder return – the return to shareholders in the form of dividends and share price movements – and provides other information for shareholders.

Shareholder return

Merger of Glaxo Wellcome and SmithKline Beecham

The Boards of Glaxo Wellcome plc and SmithKline Beecham plc announced on 17th January 2000 that they had agreed the terms of a proposed merger of equals of the two companies, subject to shareholder approval and regulatory clearance. Based on the relative stock market valuations of Glaxo Wellcome and SmithKline Beecham in the months preceding the announcement of the merger, shareholders of Glaxo Wellcome would hold approximately 58.75 per cent and shareholders of SmithKline Beecham approximately 41.25 per cent of the combined group.

Following shareholder approvals, and clearance from regulatory authorities, the merger became effective on 27th December 2000.

The merger was implemented by way of a scheme of arrangement. A new holding company, GlaxoSmithKline plc, acquired Glaxo Wellcome and SmithKline Beecham. In accordance with the agreed merger terms, shareholders of Glaxo Wellcome and SmithKline Beecham received, in exchange for their existing shares, shares in GlaxoSmithKline as follows:

for each Glaxo Wellcome ordinary share – 1 GlaxoSmithKline ordinary share

for each SmithKline Beecham ordinary share – 0.4552 GlaxoSmithKline ordinary shares.

In the case of shares held as American Depositary Shares (ADSs), evidenced by American Depositary Receipts (ADRs), each Glaxo Wellcome ADS represented two Glaxo Wellcome ordinary shares and each SmithKline Beecham ADS represented five SmithKline Beecham ordinary shares. Each GlaxoSmithKline ADS represents two GlaxoSmithKline ordinary shares. Accordingly holders of Glaxo Wellcome ADRs and holders of SmithKline Beecham ADRs received:

for each Glaxo Wellcome ADS – 1 GlaxoSmithKline ADS

for each SmithKline Beecham ADS – 1.138 GlaxoSmithKline ADSs

GlaxoSmithKline shares commenced trading on the London Stock Exchange and GlaxoSmithKline ADSs commenced trading on the New York Stock Exchange on 27th December 2000.

Taxation

As a general guide to shareholders, GlaxoSmithKline has received advice that the merger should not have any direct effect on the tax position of UK resident shareholders or US resident shareholders. Further information is contained in the Scheme Document issued to shareholders on 5th July 2000. General information concerning the UK and US tax effects of share ownership is set out in 'Taxation information for shareholders'. Shareholders who are in any doubt about their taxation position should consult their own professional advisers.

Dividends – Glaxo Wellcome and SmithKline Beecham

Dividends 2000

Both Glaxo Wellcome and SmithKline Beecham announced dividends in respect of the year 2000 prior to the effective date of the merger on 27th December 2000.

Glaxo Wellcome	2000 pence	1999 pence
Interim	**15**	15
Second interim	**23**	–
Final	**–**	22
Total dividend per Glaxo Wellcome share	**38**	37

The equivalent dividend per GlaxoSmithKline share is the same as the dividend per Glaxo Wellcome share.

The record date for the second interim dividend was 22nd December 2000 in relation to Glaxo Wellcome shares and 26th December 2000 in relation to Glaxo Wellcome ADSs. The second interim dividend will be paid on 17th April 2001 to shareholders of Glaxo Wellcome at the record date and on 27th April 2001 to ADR holders of Glaxo Wellcome at the record date.

SmithKline Beecham	2000 pence	1999 pence
First interim	**3.00**	2.70
Second interim	**3.00**	2.70
Third interim	**3.00**	2.70
Fourth interim	**4.50**	4.05
Total dividend per SmithKline Beecham share	**13.50**	12.15
Total equivalent dividend per GSK share	**29.66**	26.69

The record date for the fourth interim dividend was 22nd December 2000 in relation to SmithKline Beecham shares and 26th December 2000 in relation to SmithKline Beecham ADSs. The fourth interim dividend will be paid on 17th April 2001 to shareholders and ADR holders of SmithKline Beecham at the record date.

Dividends (ADSs)

As a guide to holders of ADRs, the tables below set out the dividends paid per ADS in US dollars in the last five years. The dividends are adjusted for UK tax credit less withholding tax, where applicable, and are translated into US dollars at applicable exchange rates.

Since 6th April 1999, claims for refunds of tax credits or dividends from the UK tax authorities are of negligible benefit to US shareholders.

Year	Glaxo Wellcome $	SmithKline Beecham $
2000	1.10	0.99
1999	1.14	0.98
1998	1.19	0.92
1997	1.17	0.85
1996	1.16	0.74

Dividends – GlaxoSmithKline

GlaxoSmithKline's dividend policy was set out in the merger documents issued to shareholders during 2000.

GlaxoSmithKline will initially pay dividends in line with Glaxo Wellcome's 2000 dividend of 38 pence per Glaxo Wellcome share, which is equivalent to 38 pence per GlaxoSmithKline share. Subsequently, assuming earnings continue to grow, GlaxoSmithKline will at least maintain an annual dividend of 38 pence per share, whilst building dividend cover (the ratio between distributable profits and dividends) towards the industry average, which is closer to SmithKline Beecham's recent payout ratio of 40-50 per cent than to Glaxo Wellcome's higher payout ratio.

GlaxoSmithKline will pay dividends quarterly. It is expected that GlaxoSmithKline will normally follow the pattern established by SmithKline Beecham of a level dividend for each of the first three quarters, with a higher dividend in the fourth quarter.

Dividend Calendar

First quarter 2001	
Results Announcement	24th April 2001
Ex-dividend date	2nd May 2001
Record date	4th May 2001
Payable	5th July 2001
Second quarter 2001	
Results Announcement	24th July 2001
Ex-dividend date	1st August 2001
Record date	3rd August 2001
Payable	4th October 2001
Third quarter 2001	
Results Announcement	23rd October 2001
Ex-dividend date	31st October 2001
Record date	2nd November 2001
Payable	3rd January 2002
Fourth quarter 2001	
Results Announcement	14th February 2002

Share price

Share price 2000	GSK(£)	GW(£)	SB(£)	FTSE
At 1st January 2000	–	17.50	7.90	6930
High during the year	–	21.10	9.55	6930
Low during the year	–	14.40	6.71	6142
At 26th December 2000	–	18.42	8.33	6098
At 31st December 2000	18.90	–	–	6222
Increase/(decrease) over year		5%	5%	(10%)

Following the announcement of the merger between Glaxo Wellcome and SmithKline Beecham in January 2000, the share prices of the two separate companies tracked closely together during 2000. Over the period from 1st January 2000 to 26th December 2000, the day before the merger was completed, both the Glaxo Wellcome share price and the SmithKline Beecham share price increased by five per cent. Whereas over the year to 31st December 2000, the FTSE 100 index declined ten per cent.

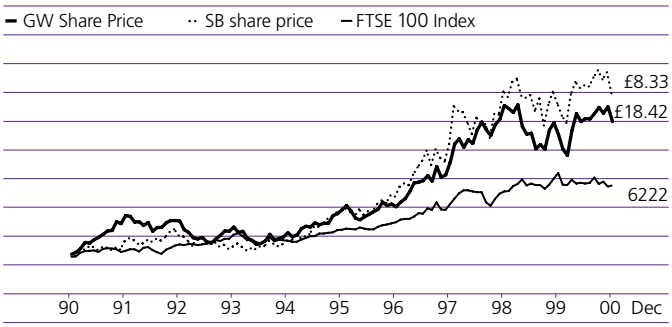
The expected positive benefits of the merger and the strong operating performances from both companies during the year helped Glaxo Wellcome and SmithKline Beecham to achieve an improved share price performance relative to the UK stock market. In addition, investor sentiment shifted away from technology sectors towards more defensive sectors such as pharmaceuticals during 2000.

Shares in GlaxoSmithKline started trading on 27th December 2000. Between 27th December 2000 and 15th March 2001 the share price decreased by two per cent to £18.00. This compares to a decline in the FTSE 100 index of six per cent.

Market capitalisation

The market capitalisation of GlaxoSmithKline at 31st December 2000 was £117 billion. At that date GlaxoSmithKline was the third largest company by market capitalisation on the FTSE index.

10 year share price performance



Figures from 31st December 1990 to 31st December 2000

Over the 10 years from 31st December 1990 to 26th December 2000:

- the Glaxo Wellcome share price increased from £4.24 to £18.42, an increase of 334 per cent
- the SmithKline Beecham share price increased from £1.55 to £8.33, an increase of 437 per cent

Over the 10 years from 31st December 1990 to 31st December 2000:

- the FTSE 100 Index increased from 2143 to 6222, an increase of 190 per cent

Taxation information for shareholders

A summary of the principal tax consequences for holders of Ordinary Shares and Ordinary Share ADRs for citizens or residents of the United Kingdom or the United States is set out below. It is not a complete analysis of all the possible tax consequences of purchase or ownership of these securities. Holders of these securities are advised to consult their own tax advisers with respect to the tax consequences of the purchase and ownership of their Ordinary Shares or Ordinary Share ADRs, including, specifically, the consequences under state and local tax laws in the United States.

The statements regarding the United Kingdom and the United States tax laws and practices set out below are based on those laws and practices in force on the date of this report.

US holders of Ordinary Share ADRs generally will be treated as the owners of the underlying shares for the purposes of the current United States/United Kingdom 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).

In October 1998, the UK and US Governments announced that they had agreed to renegotiate a new Income Tax Convention to replace the existing convention. Discussions started in January 1999 and are continuing. It is not possible to state what, if any, changes may arise for the taxation of dividends or capital gains as a result of the renegotiation, or the likely date for the coming into effect of any new convention.

The following analysis deals with dividends paid after 6th April 1999. Advance Corporation Tax (ACT) was abolished for dividends paid on or after that date.

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 Ordinary Shares or Ordinary Share 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 Ordinary Shares or Ordinary Share ADRs. Broadly, this tax is 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. If exceptional, 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 United States to be credited against tax payable in the United Kingdom.

Stamp duty

UK stamp duty or, as the case may be, stamp duty reserve tax (SDRT) will, subject to certain exemptions, be payable on the purchase of Ordinary Shares at a rate of 0.5 per cent of the purchase price. There is a minimum charge of £5 where a stamp duty liability arises.

US shareholders

Taxation of dividends

The gross amount of dividends received (including amounts in respect of associated tax credit and 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 Ordinary Share ADRs are payable in US Dollars; dividends on Ordinary Shares are payable in pounds 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. UK taxes withheld from dividend distributions are eligible for credit against the holder's US federal income tax liability subject to generally applicable limitations. Each holder's own tax position will determine whether effective use can be made of credits for UK withholding taxes against the US tax liability.

From 6th April 1999, the rate of tax credits was reduced to one ninth and ACT was abolished. Consequently, claims for refunds of tax credits on dividends paid on or after this date are now of negligible benefit to US shareholders.

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 Ordinary Shares or Ordinary Share 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, as the case may be, SDRT will, subject to certain exemptions, be payable on any issue or transfer of Ordinary Shares to the ADR custodian or depository at a rate of 1.5 per cent 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 per cent of the consideration for the transfer. Any sale of the underlying Ordinary Shares would result in liability to UK stamp duty or, as the case may be, SDRT at a rate of 0.5 per cent.

There is a minimum charge of £5 where a stamp duty liability arises.

Shareholder information

Ordinary shares

The company's shares are listed on the London Stock Exchange.

Registrar

The company's share register is administered by Lloyds TSB Registrars, who also provide the following services:

- GlaxoSmithKline Investment Plan

The plan enables shareholders to reinvest quarterly dividends and/or make monthly investments in the company's ordinary shares using a special dealing arrangement.

- GlaxoSmithKline Individual Savings Account

The GlaxoSmithKline Individual Savings Account (ISA) is a tax-efficient way to invest in the company's ordinary shares.

- GlaxoSmithKline Corporate Sponsored Nominee

The corporate sponsored nominee provides a facility for shareholders to hold shares without the need for share certificates. Shareholders' details will not be held on the main share register, and so will remain confidential.

- www.shareview.co.uk

The shareview portfolio service provides shareholders with information on their investment in the company. Shareholders may register for this service at www.shareview.co.uk.

Share dealing facility

NatWest Stockbrokers Limited offer a share-dealing service on behalf of the company to shareholders wishing to buy or sell the company's shares.

Share price information

Share price information is available on the company's website at www.gsk.com. Information is also available on Ceefax, Teletext, and from FT Cityline by calling 0906 003 5694 or 0906 843 5694 (calls charged at 60p a minute at all times).

American Depositary Shares

The company's shares are listed on the New York Stock Exchange in the form of American Depositary Shares (ADSs) and these are evidenced by American Depositary Receipts (ADRs), each one of which represents two ordinary shares.

ADR programme administrator

The ADR programme is administered by The Bank of New York, who also provide the following service:

- Global BuyDIRECT

Global BuyDIRECT is a direct ADS purchase/sale and dividend reinvestment plan for ADR holders.

SmithKline Beecham plc Floating Rate Unsecured Loan Stock 1990/2010

The loan stock is not listed on any exchange but holders may choose to have it redeemed by SmithKline Beecham plc 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.

Annual General Meeting 2001

The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE	21st May 2001

The AGM is the company's principal forum for communication with private shareholders. In addition to the formal resolutions to be put to the meeting, there will be a presentation by the Chief Executive Officer on the performance of the business 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 a 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 how the ordinary shares represented by their ADRs should be voted by completing and returning the voting card provided by The Bank of New York in accordance with the instructions given.

Financial reporting

Financial reporting calendar 2001

Announcement of 1st Quarter Results	24th April 2001
Announcement of 2nd Quarter Results	24th July 2001
Publication of Half-Year Report/Review	August 2001
Announcement of 3rd Quarter Results	23rd October 2001
Preliminary Announcement of Annual Results	14th February 2002
Publication of Annual Report/Review	March 2002

Results announcements

The results announcements are issued to the London Stock Exchange (LSE), and made available on the LSE news service, and at the same time, or shortly afterwards, are issued to the media, are made available on the company's web site and are filed in the USA with the Securities Exchange Commission (SEC) and the New York Stock Exchange.

Financial reports

The company publishes an Annual Report and, for the investor not needing the full detail of the Report, an Annual Review. An interim Report and Review are published at the half-year.

The financial reports are posted out to shareholders on the date of publication and are available from the same date on the company's web site. Shareholders are provided with the Review and may elect to receive also the Report.

Copies in printed form of the most recent, and previous, financial reports are available in the UK from the company's registrar and in the USA from the company's Customer Response Centre.

Publications

The Environmental, Health & Safety Review 2000 is available from the Secretariat at the company's head office.

Share capital

Nature of trading market

The Ordinary Shares of the company were listed on the London Stock Exchange on 27th December 2000. The Ordinary Shares were also listed on the New York Stock Exchange (in the form of American Depositary Shares 'ADSs') from the same date.

The following table sets out, for the periods indicated, the high and low middle market quotations in pence for the Ordinary Shares on the London Stock Exchange, as derived from its Daily Official List, and the high and low last reported sales prices in US dollars for the ADSs on the New York Stock Exchange, as derived from the New York Stock Exchange Composite Tape.

Information relating to the share and ADS prices for Glaxo Wellcome and SmithKline Beecham prior to the date of the merger is also given below.

GlaxoSmithKline

Fiscal periods from 27th December 2000	Pence per Ordinary Share High	Low
Quarter ended 31st March 2001*	1965	1715
February 2001	1965	1804
January 2001	1892	1715
27th to 31st December 2000	1920	1890

Fiscal periods from 27th December 2000	US dollars per ADS High	Low
Quarter ended 31st March 2001*	56.95	50.82
February 2001	56.81	52.66
January 2001	56.88	50.94
27th to 31st December 2000	56 13/16	55 3/8

*to 15th March 2001

Glaxo Wellcome

Fiscal periods to 26th December 2000	Pence per Ordinary Share High	Low
December 2000	2017	1835
November 2000	2110	1982
October 2000	2068	1940
September 2000	2048	1900
Quarter ended 31st December 2000	2110	1835
Quarter ended 30th September 2000	2048	1791
Quarter ended 30th June 2000	2032	1750
Quarter ended 31st March 2000	1860	1440
Quarter ended 31st December 1999	1931	1555
Quarter ended 30th September 1999	1852	1507
Quarter ended 30th June 1999	2214	1720
Quarter ended 31st March 1999	2288	1861
1998	2073	1465
1997	1457	894
1996	1028	771

Fiscal periods to 26th December 2000	US dollars per ADS High	Low
December 2000	58 3/8	54
November 2000	59 1/2	56 9/16
October 2000	59 3/4	56 1/2
September 2000	60 7/16	53 7/8
Quarter ended 31st December 2000	60 7/16	54
Quarter ended 30th September 2000	60 15/16	53 13/16
Quarter ended 30th June 2000	63 3/4	53 1/4
Quarter ended 31st March 2000	60	46
Quarter ended 31st December 1999	63 1/4	50 1/8
Quarter ended 30th September 1999	58 15/16	48 1/16
Quarter ended 30th June 1999	70 3/4	54
Quarter ended 31st March 1999	76 3/16	60 1/16
1998	69 1/2	48 1/8
1997	48	30 1/8
1996	34	23 3/8

SmithKline Beecham

Fiscal periods to 26th December 2000	Pence per Ordinary Share High	Low
December 2000	915	828
November 2000	955	909
October 2000	939	870
September 2000	927	864
Quarter ended 31st December 2000	955	829
Quarter ended 30th September 2000	927	804
Quarter ended 30th June 2000	901	790
Quarter ended 31st March 2000	865	671
Quarter ended 31st December 1999	891	688
Quarter ended 30th September 1999	881	699
Quarter ended 30th June 1999	928	762
Quarter ended 31st March 1999	929	799
1998	844	571
1997	650	389
1996†	831	630

Fiscal periods to 26th December 2000	US dollars per ADS High	Low
December 2000	66 1/2	60 11/16
November 2000	68 1/16	64 7/16
October 2000	68 13/16	62 13/16
September 2000	68 5/8	60 1/2
Quarter ended 31st December 2000	68 13/16	60 11/16
Quarter ended 30th September 2000	68 5/8	60
Quarter ended 30th June 2000	71 15/16	59 1/2
Quarter ended 31st March 2000	71 3/16	52 1/2
Quarter ended 31st December 1999	72 3/8	56 1/2
Quarter ended 30th September 1999	69 3/16	56 1/16
Quarter ended 30th June 1999	74 5/8	60 3/4
Quarter ended 31st March 1999	76 3/8	65 1/16
1998	71 7/8	48 1/16
1997	53 5/8	32 11/16
1996†	69 3/8	49 3/4

†Prior to 15th April 1996 SmithKline Beecham's ordinary share capital consisted of A and B shares. The 1996 high and low prices in the tables above relate to A shares up to 15th April 1996 and to the ordinary shares thereafter.

Analysis of shareholdings

Analysis of shareholdings at 31st December 2000:	Number of accounts	% of total accounts	% of total	Ordinary Shares
Holding of Ordinary Shares				
Up to 1,000	209,943	69.8	1.3	78,667,427
1,001 to 5,000	70,009	23.3	2.4	150,331,737
5,001 to 100,000	18,672	6.2	4.5	282,415,647
100,001 to 1,000,000	1,538	0.5	8.1	503,134,108
Over 1,000,000	501	0.2	83.7	5,211,113,255
Totals	300,663	100.0	100.0	6,225,662,174
Held by				
Nominee companies	77,027	25.6	80.7	5,025,801,421
Investment and trust companies	670	0.2	0.3	15,861,769
Insurance companies	73	–	1.9	118,072,992
Individuals and other corporate bodies	222,891	74.2	7.5	465,371,560
BNY (Nominees) Limited	2	–	9.6	600,554,432
Totals	300,663	100.0	100.0	6,225,662,174

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 15th March 2001, the number of holders of record of Ordinary Shares in the USA was 1,119 with holdings of 1,779,822 Ordinary Shares, and the number of registered holders of the ADRs was 53,088 with holdings of 276,452,583 ADRs. Because certain of these Ordinary Shares and ADRs were held by brokers or other nominees, 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.

Substantial shareholdings

At 15th March 2001, the company had received notification of the following interest of three per cent or more in its Ordinary Shares:

- BNY (Nominees) Limited holds 600,984,302 Ordinary Shares representing 9.65 per cent. These Ordinary Shares are held on behalf of holders of American Depositary Receipts.

As far as is known to the company, no other person was the owner of more than three per cent of the Ordinary Shares of the company.

Prior to the merger between Glaxo Wellcome and SmithKline Beecham on 27th December 2000, several shareholders had an interest of more than three per cent in the share capital of Glaxo Wellcome or SmithKline Beecham (excluding The Bank of New York as depositary for the ADRs of each company). In the case of Glaxo Wellcome, at 29th February 2000 the company had received notification that The Wellcome Trust Limited had an interest of 4.52 per cent. In the case of SmithKline Beecham, at 18th February 2000 the company had received notification of the following interests: Mercury Asset Management Group Limited 3.42 per cent; Prudential Portfolio Managers Limited 3.31 per cent; Barclays Global Investors (UK) Limited 3.08 per cent; Hill Samuel Offshore Trust Limited as Trustee of the SB Employee Share Ownership Trust 3.18 per cent.

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 (page 37).

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 Ordinary 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 Ordinary Shares.

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.

Cautionary factors that may affect future results

Cautionary Statements under the US Private Securities Litigation Reform Act of 1995

The Group's Annual Report and Accounts and its period reports filed with the US Securities and Exchange Commission (the 'Commission'), including this Annual Report on Form 20-F for the year ended 31st December 2000 (the '2000 Form 20-F'), contain, 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.

Any or all of the Group's forward-looking statements in the 2000 Form 20-F, in reports filed with the Commission, or in any other public statements the Group makes, may turn out to be incorrect. They can be affected by inappropriate or inaccurate assumptions the Group might use as a basis for such forward-looking statements or by known or unknown risks and uncertainties. Many factors mentioned in the discussion of the Group's business in the 2000 Form 20-F will be important in determining future results. Consequently, no forward-looking statement should be viewed as or can be guaranteed. Actual future results may vary materially.

The Group undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Investors should also note the cautionary discussion of risks and uncertainties relevant to the Group's business set out under 'Risk factors' (page 57). This discussion is provided as permitted by the US Private Securities Litigation Reform Act of 1995.

Related party transactions

GlaxoSmithKline has a 27 per cent interest in Quest Diagnostics Inc. The activities of Quest are not part of the company's core business, and the interest is held only as an investment.

Material contracts

The Boards of Glaxo Wellcome plc and SmithKline Beecham plc announced on 17th January 2000 the terms of an agreement for the proposed merger of the two companies. The merger was implemented by way of a scheme of arrangement on 27th December 2000, on which date GlaxoSmithKline plc acquired the whole of the issued share capital of Glaxo Wellcome plc and SmithKline Beecham plc.

On 18th January 2001 GlaxoSmithKline completed the acquisition of Block Drug Company Inc, a manufacturer of toothpaste and other oral healthcare and consumer products, for US$1,240 million (£832 million).

Documents on display

Documents referred to in this Annual Report are available for inspection at the Registered Office of the company.

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.
Called-up share capital	Ordinary Shares, issued and fully paid.
CER growth	Growth at constant exchange rates.
Combined Code	Guidelines adopted by the London Stock Exchange to address the principle 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 Ordinary Share	Diluted income per Ordinary Share.
Dividend cover	Profit attributable to shareholders/net income divided by dividends payable to shareholders.
Earnings per Ordinary Share	Basic income per Ordinary Share.
Employee Share Ownership Trusts	Trusts established by the Group to satisfy share based employee incentive plans.
Equity shareholders' funds	The aggregation of shares and reserves owned by shareholders. The US equivalent is shareholders' equity.
Finance lease	Capital lease.
Free cash flow	Cash resources available for payment of dividends to shareholders and for acquisitions.
Freehold	Ownership with absolute rights in perpetuity.
Gearing ratio	Net debt as a percentage of shareholders' funds and minority interests.
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.
Interest cover	The number of times profit before interest exceeds net interest payable.
Interest payable	Interest expense.
Interest receivable	Interest income.
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 and loss account reserve	Retained earnings.
Profit attributable to shareholders	Net income.
Share capital	Ordinary Shares, capital stock or common stock issued and fully paid.
Share option	Stock option.
Share premium account	Additional paid-up capital or paid-in surplus (not distributable).
Shares in issue	Shares outstanding.
Statement of total recognised gains and losses	Statement of comprehensive income.
Stocks	Inventories.
Subsidiary undertaking	A company in which GlaxoSmithKline holds a majority shareholding and/or exercises control.
Tangible fixed assets	Property, plant and equipment.
Turnover	Revenue.

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