Back to Contents

Consumer Healthcare sales

	2002 £m	2001 £m	CER%
OTC medicines	**1,586**	1,603	4
Analgesics	320	335	1
Dermatological	188	190	5
Gastro-intestinal	312	342	(1)
Respiratory tract	161	164	2
Smoking control	378	337	16
Natural wellness support	162	158	5
Oral care	**1,052**	1,106	(2)
Nutritional healthcare	**579**	575	3
Total Consumer Healthcare sales	**3,217**	3,284	2

The growth in Consumer Healthcare sales of two per cent to £3,217 million was due to an OTC medicines sales increase of four per cent and a Nutritional Healthcare increase of three per cent partly offset by a decline in Oral care sales of two per cent.

OTC medicines

Smoking control sales growth was driven by the performance of *Nicoderm/Niquitin/Nicabate*. In the USA *Nicoderm* grew strongly despite competition from private label and the launch of competitor patches. The *NiQuitin Lozenge*, *Commit*, was launched in the USA, in November. Clinical studies show that *Commit* can help smokers who have tried to quit before. In analgesics *Panadol* recorded good sales growth of five per cent, partly offset by declines in a number of other brands. *Abreva* in the USA and *Zovirax* in Europe, both for the treatment of cold sores, drove dermatological sales growth of five per cent. In gastro-intestinal, sales of *Citrucel* rose by 19 per cent but this was offset by declines in *Tums* and *Tagamet*.

Oral care

Oral care sales grew marginally in Europe but declined in the highly competitive US market. Overall Oral care sales declined two per cent, principally as a result of reduced *Aquafresh* sales; although an increase in *Sensodyne* sales partially offset this.

Nutritional healthcare

In Nutritional healthcare *Lucozade* and *Ribena* reported strong growth in Europe, driven by increased availability and promotion. *Horlicks* sales declined primarily in International markets.

Trading profit – business performance

To illustrate GlaxoSmithKline business performance in 2002, the analysis below of trading profit and the subsequent discussion excludes merger items, integration and restructuring costs and the disposal of businesses. Management believes that exclusion of these non-recurring items provides a better comparison of business performance for the periods presented. Accordingly this information is provided as a supplement to that contained in the consolidated statement of profit and loss on pages 76 and 77 prepared in accordance with UK GAAP.

	2002		2001		
	£m	%	£m	%	CER%
Sales	**21,212**	100.0	20,489	100.0	7
Cost of sales	**(4,243)**	(20.0)	(4,430)	(21.6)	(2)
Selling, general and administration	**(7,543)**	(35.5)	(7,451)	(36.4)	5
Research and development	**(2,732)**	(12.9)	(2,555)	(12.5)	9
Trading profit	**6,694**	31.6	6,053	29.5	15

Cost of sales

Cost of sales reduced as a percentage of sales as a result of benefits arising from merger and manufacturing restructuring savings, movements in stock provisions and a favourable regional mix.

Selling, general and administration

Selling, general and administration costs benefited from cost savings arising from merger integration implementation and other initiatives. Together these produced a reduction of 0.9 percentage points relative to 2001 for the expenses expressed as a percentage of sales.

Research and development

Research and development (R&D) increased nine per cent reflecting increased clinical trial and in-licensing activity and the reinvestment of merger synergies. Pharmaceuticals R&D expenditure represented 14.6 per cent of pharmaceutical sales in the year.

Trading profit

Business performance trading profit was £6,694 million with a growth of 15 per cent, stronger than sales growth of seven per cent, demonstrating an improved trading margin of 2.1 points to 31.6 per cent compared with 2001. This was principally due to cost savings derived from merger integration, manufacturing and other initiatives.

Profit before taxation - business performance

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

Other operating income/(expense)	2002 £m	2001 £m
Royalties and other income	**75**	34
Other operating expense	**(209)**	(126)
	(134)	(92)
Income from equity investments and other disposals	**23**	129
	(111)	37

Other operating income/(expense) includes litigation costs, costs associated with product liability claims and other costs in respect of product withdrawals, equity investment write-downs due to adverse stock market conditions, royalty income, product disposals and equity investment sales.

Other operating expenses were £111 million in the year compared with £37 million income in 2001. The year on year movement reflects higher provisions in 2002 for product liability and other claims, and lower 2002 proceeds from disposals and equity investment sales.

Profit on disposal of interest in associate

There were no disposals of interest in associates in 2002. In 2001 the Group sold 1.5 million shares in Quest Diagnostics, Inc. realising a gain of £96 million.

Share of profits/(losses) of joint ventures and associated undertakings

The share of profits of associates arises principally from the Group’s holding in Quest Diagnostics, Inc.

Back to Contents

Net interest payable	2002 £m	2001 £m
Interest payable	**(206)**	(198)
Investment income	**73**	129
	(133)	(69)
Share of interest payable of associate	**(8)**	(19)
	(141)	(88)

Net interest payable increased compared with 2001 largely as a result of a higher average level of net debt driven by the use of cash to fund the Group's share buy-back programme. The benefit of a smaller number of shares in issue is reflected in earnings per share.

Profit on ordinary activities before taxation
Other operating income/(expense), together with the disposal of part of the interest in an associate in 2001, reduced profit by £111 million in 2002, but added £133 million to profit in 2001. Taking account of the contribution from associates and net interest payable, business performance profit before tax was £6,517 million, compared with £6,169 million in 2001, an increase of 11 per cent.

Merger items, restructuring costs and disposal of businesses

The key items in 2002 are discussed below.

Merger and Manufacturing restructuring
GlaxoSmithKline has made good progress with its merger and manufacturing restructuring plans and remains on track to deliver forecast total annual merger and manufacturing restructuring savings of £1.8 billion by 2003, excluding benefits from the Block Drug acquisition. The estimated cost of achieving this remains around £3.8 billion, of which £3.4 billion had been charged by 31st December 2002.

Costs of £972 million were incurred in the year in respect of merger and manufacturing restructuring. After tax relief of £249 million, the net charge was £723 million. The costs in 2002 include severance, asset write-downs, professional fees and site closure.

Block Drug Company, Inc.
GlaxoSmithKline acquired Block Drug in January 2001. The costs incurred in integrating this business were £60 million in 2002 including redundancies, asset write-downs and site closures.

Disposal of businesses
The profit on disposal of businesses in 2002 of £21 million reflects the final settlements regarding merger related product disposals and the disposal of the Healthcare Services businesses in 1999.

Trading profit – Statutory

	2002		2001			
	£m	%	£m	%	CER%	£%
Sales	**21,212**	100	20,489	100	7	4
Cost of sales	**(4,609)**	(21.7)	(4,733)	(23.1)	–	(3)
Selling, general and administration	**(8,041)**	(37.9)	(8,408)	(41.1)	(1)	(4)
Research and development	**(2,900)**	(13.7)	(2,651)	(12.9)	12	9
Trading profit	**5,662**	26.7	4,697	22.9	26	21

Statutory results, which include merger items, integration and restructuring costs, and the disposal of subsidiaries delivered trading profit of £5,662 million on sales of £21,212 million.

Taxation

	2002 £m	2001 (restated) £m
Business performance	**(1,760)**	(1,655)
Merger, restructuring and disposal of subsidiaries	**299**	322
	(1,461)	(1,333)

Business performance taxation
The charge for taxation on business performance profit of £1,760 million represents an effective tax rate of 27.0 per cent. This represents an increase compared with the effective rate for 2001 which was 26.8 per cent, as restated for the implementation of FRS 19 'Deferred Tax'.

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Disagreements with, and between, revenue authorities as to intra-Group transactions, in particular the price at which goods should be transferred between Group companies in different tax jurisdictions can produce conflicting claims from revenue authorities as to the profits 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, GlaxoSmithKline has had significant open issues relating to transfer pricing. These issues affect all years from 1989 to the present and concern a number of products, although the most significant relates to the success of *Zantac*, in respect of which the claims of the US Internal Revenue Service (IRS) substantially exceed the Group's estimation of its taxation liabilities. The IRS claims, which are not completely quantified, continue to be the subject of discussions between the US and UK tax authorities under the competent authority provisions of the double tax convention between the two countries.

Within these discussions there is a wide variation between the views of the US and UK tax authorities and, exceptionally, they may be unable to reach agreement to settle the dispute. In the event of the UK and US tax authorities not reaching agreement, the matter may have to be resolved by litigation.

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

The Group has implemented the new Financial Reporting Standard, FRS 19 'Deferred tax', in 2002, which requires deferred tax to be accounted for on a full provision basis rather than a partial provision basis as before. For the full year 2001 the business performance tax charge is increased by £8 million, and the overall tax charge by £6 million. The net deferred tax asset at 31st December 2001 has been reduced by £127 million.

Merger and restructuring
The credit for taxation on merger and restructuring items amounting to £299 million reflects the estimated actual tax rate applicable to the transactions in the territories in which they arise.