Outlook and risk factors

Outlook

Pharmaceutical sales growth of existing products is a key driver of GlaxoSmithKline's current business performance. 2004 will be a year of transition for GlaxoSmithKline. The first nine months will be challenging as the Group absorbs the full erosion from generics. However, starting in the fourth quarter it is expected that there will be a return to growth as the impact of generics diminishes and the underlying business strength shows through.

GlaxoSmithKline is engaged in legal proceedings regarding validity and infringement of the Group's patents relating to many of its products; in particular those relating to *Paxil/Seroxat* and *Wellbutrin*. These are discussed in the risk factors below and in Note 30 to the Financial statements, 'Legal proceedings'.

GlaxoSmithKline's published earnings guidance for 2004 is to deliver EPS (at constant exchange rates) at least in line with business performance EPS in 2003. As the impact of generics becomes less significant, the Group looks forward to a return to EPS growth in 2005.

The Group has net debt of £1.6 billion, which is low relative to its market capitalisation and this positions it to take advantage of any opportunities that might arise to build the business.

There are risks and uncertainties inherent in the business which may affect future performance including expected earnings growth. These are discussed in 'Risk factors' below.

Risk factors

There are risks and uncertainties relevant to the Group's business. The factors listed below are among those that the Group thinks could cause the Group's actual results to differ materially from expected and historical results.

Risk that R&D will not deliver commercially successful new products
Continued development of commercially viable new products is critical to the Group's ability to replace sales of older products that decline upon expiration of exclusive rights, and to increase overall sales. Developing new products is a costly, lengthy and uncertain process. A new product candidate can fail at any stage of the process, and one or more late-stage product candidates could fail to receive regulatory approval

New product candidates may appear promising in development but, after significant investments, fail to reach the market or have only limited commercial success as a result of efficacy or safety concerns, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, infringement of patents or other intellectual property rights of others or inability to differentiate the product adequately from those with which it competes. The successful development of the Group's research and development pipeline is of particular importance in light of the recent and anticipated expiration of patent or data exclusivity for a number of the Group's largest selling products.

Risk of loss or expiration of patents or marketing exclusivity
Patent infringement litigation
Efforts by generic manufacturers may involve challenges to the validity of a patent or the assertions that their products do not infringe the Group's patents. If the Group is not successful, during the patent protection period, in maintaining exclusive rights to market one or more of its major products, particularly in the USA where the Group has its highest margins and most sales for any country, the Group's revenues and margins would be adversely affected. See Note 30 to the Financial statements, 'Legal proceedings' for a discussion of patent-related proceedings in which the Group is involved.

Generic drug manufacturers are seeking to market generic versions of many of the Group's most important products, including *Wellbutrin*, *Seretide/Advair*, *Avandia*, *Imitrex*, *Valtrex*, *Lamictal* ar prior to the expiration of the Group's patents, and have exhibited a readiness to do so for other products in the future. Generic products competitive with *Augmentin* and *Paxil* were launched in the USA in 2002 and 2003, respectively, and had a significant adverse impact on the Group's overall sales and earnings.

Following patent expiry, the ability of generic manufacturers to obtain regulatory approval for generic versions of the Group's products is also relevant. For example, one manufacturer has indicated that it expects approval for a generic version of *Flonase* following patent expiry in the USA in mid-2004. If approved a generic launch could adversely affect the Group's sales and earnings.

Weakness of intellectual property protection in certain countries
In some of the countries in which the Group operates, patent protection may be significantly weaker than in the USA or the European Union. In addition, in an effort to control public health crises, some developing countries, such as South Africa and Brazil, have considered plans for substantial reductions in the scope of patent protection for pharmaceutical products. In particular, these countries could facilitate competition within their markets from generic manufacturers who would otherwise be unable to introduce competing products for a number of years. Any loss of patent protection, including abrogation of patent rights or compulsory licensing, is likely to affect adversely the Group's operating results in those national markets but is not expected to be material to the Group overall. Absence of adequate patent protection could limit the opportunity to look to such markets for future sales growth.

Risk of substantial adverse outcome of litigation and government investigations

See Note 30 to the Financial statements, 'Legal proceedings' for a discussion of proceedings and governmental investigations in which the Group is currently involved. Unfavourable resolution of these and similar future proceedings or investigations may be material to the Group's financial results. The Group has made material provisions in 2002 and 2003 related to legal proceedings and investigations which reduced its earnings. The Group may also make material provisions related to legal proceedings or investigations in the future, which would reduce its earnings. In many cases the practice of the plaintiff bar is to claim damages – compensatory, punitive and statutory – in amounts that bear no relationship to the underlying harm. Accordingly it is potentially misleading to quantify the potential exposure to claims, proceedings and investigations of the type described in Note 30.

Recent insurance loss experience, including pharmaceutical product liability exposures, has increased the cost of insurance coverage for pharmaceutical companies generally, including the Group. In order to contain insurance costs in 2003 and 2004 the Group has adjusted its coverage profile, accepting a greater degree of un-insured exposure.

Product liability litigation

The Group is currently a defendant in a number of product liability lawsuits, including class actions, that involve substantial claims for damages related to the Group's pharmaceutical products.

Litigation, particularly in the USA, is inherently unpredictable and excessive verdicts that are not justified by the evidence can occur. Class actions that sweep together all persons who were prescribed the Group's products can inflate the potential liability by the force of numbers. Claims for pain and suffering and punitive damages are frequently asserted in product liability actions and, if allowed, can represent potentially open-ended exposure.

Anti-trust litigation

In the USA it has become increasingly common that following an adverse outcome in prosecution of patent infringement actions, the defendants and direct and indirect purchasers and other payers initiate anti-trust actions as well. Claims by direct and indirect purchasers and other payers are typically filed as class actions and the relief sought may include treble damage and restitution claims.

Governmental investigations

The Group is responding to federal and state governmental investigations in the USA into pricing, marketing and reimbursement of a number of prescription drug products. These investigations could result in related restitution or civil false claims act litigation on behalf of the federal or state governments and related proceedings initiated against GlaxoSmithKline by or on behalf of consumers and private payers.

Risks of competition, price controls and limitations on sales

Third party competition

The Group operates in highly competitive businesses. In the pharmaceuticals business, it faces competition both from proprietary products of large international manufacturers and producers of generic pharmaceuticals. Significant product innovations, technical advances or the intensification of price competition by competitors could adversely affect the Group's operating results.

Continued consolidation in the pharmaceutical industry could adversely affect the Group's competitive position, while continued consolidation among the Group's customers may increase pricing pressures.

The Group had eight products with over £600 million ($1 billion) in annual global sales in 2003. Among these products are *Paxil/Seroxat* and *Augmentin*, with respect to which the Group now faces generic competition, and *Wellbutrin SR*, *Zofran*, *Imitrex* and *Avandia*, with respect to which the Group is currently defending its intellectual property rights in the USA.

If these or any of the Group's other major products were to become subject to a problem such as loss of patent protection, unexpected side effects, regulatory proceedings, publicity affecting doctor or patient confidence or pressure from competitive products, or if a new, more effective treatment should be introduced, the impact on the Group's revenues and operating results could be significant. In particular, the Group faces intense competition from manufacturers of generic pharmaceutical products in all of its major markets.

Generic products often enter the market upon expiration of patents or data exclusivity periods for the Group's products. Introduction of generic products typically leads to a dramatic loss of sales and reduces the Group's revenues and margins for its proprietary products. The expiration dates for patents for the Group's major products are set out on page 24.

Governmental and payer controls

Pharmaceutical products are subject to price controls or pressures and other restrictions in many markets, including Japan, Germany, France and Italy. Some governments intervene directly in setting prices. In addition, in some markets major purchasers of pharmaceutical products (whether governmental agencies or private health care providers) have the economic power to exert substantial pressure on prices or the terms of access to formularies.

The Group cannot predict whether existing controls will increase or new controls will be introduced that will reduce the Group's margins or affect adversely its ability to introduce new products profitably.

For example, in the USA, where the Group has its highest margins and most sales for any country, pricing pressures could significantly increase upon implementation of the pharmaceutical benefit under Medicare, or in the event that state programmes to control the cost of pharmaceuticals, are adopted. Once the Medicare programme initiates outpatient pharmaceutical coverage for its beneficiaries, the US government, or the private insurers which will offer coverage, through their enormous purchasing power under the programme, could demand discounts that may implicitly create price controls on prescription drugs. Additionally, a number of states have proposed or implemented various schemes to control prices for their own senior citizens' drug programmes, including importation from other countries and bulk purchasing of drugs. The growth in the number of patients covered through large managed care institutions in the USA, which would be likely to increase with implementation of the Medicare amendments, also increases pricing pressures on the Group's products. These trends may adversely affect the Group's revenues and margins from sales in the USA. Until the terms of implementation of the Medicare pharmaceutical benefit have been finalised, it is not possible to quantify the impact of that benefit on the Group's financial results.

Regulatory controls
The Group must comply with a broad range of regulatory controls on the testing, approval, manufacturing and marketing of many of its pharmaceutical and consumer healthcare products, particularly in the USA and countries of the European Union, that affect not only the cost of product development but also the time required to reach the market and the uncertainty of successfully doing so.

Strict regulatory controls also heighten the risk of withdrawal by regulators of an approval previously granted, which would reduce revenues and can result in product recalls and product liability lawsuits. In addition, in some cases the Group may voluntarily cease marketing a product (for example the withdrawal of*Lotronex*shortly after its initial launch in the USA) or face declining sales based on concerns about efficacy or safety, whether or not scientifically justified, even in the absence of regulatory action. Developments in the post-approval adverse event profile for a product or the product class may have a major impact on the marketing and sale of the product.

Concentration of sales to wholesalers
In the USA, in line with other pharmaceutical companies, the Group sells its products through a small number of wholesalers in addition to hospitals, pharmacies, physicians and other groups. The Group is exposed to a concentration of credit risk to these wholesalers that, if affected by financial difficulty, could materially and adversely affect the Group’s financial results.

Environmental liabilities
The environmental laws of various jurisdictions impose actual and potential obligations on the Group to remediate contaminated sites. The Group has also been identified as a potentially responsible party under the US Comprehensive Environmental Response Compensation and Liability Act at a number of sites for remediation costs relating to the Group’s use or ownership of such sites. Failure to properly manage the environmental risks could result in additional remedial costs that could materially and adversely affect the Group’s operations. See Note 30 to the Financial statements, ‘Legal proceedings’ for a discussion of environmental-related proceedings in which the Group is involved.

Reliance on information technology
The Group is increasingly dependent on information technology systems, including internet based systems, for internal communication as well as communication with customers and suppliers. Any significant disruption of these systems, whether due to computer viruses or other outside incursions, could materially and adversely affect the Group’s operations.

Taxation
The effective tax rate on the Group’s earnings benefits from the fact that a portion of its earnings is taxed at more favourable rates in some jurisdictions outside the United Kingdom. Changes in tax laws or in their application with respect to matters, such as transfer pricing and the risk of double taxation, that relate to the portion of the Group’s earnings taxed at more favourable rates, could increase the Group’s effective tax rate and adversely affect its financial results. The Group is involved in a significant dispute with the US Internal Revenue Service over transfer pricing. These matters are discussed in Note 12 to the Financial statements, ‘Taxation’.

Global political and economic conditions
The Group conducts a substantial portion of its operations outside the UK. Fluctuations in exchange rates between sterling and other currencies, especially the US dollar, the Euro and the Japanese Yen, materially affect the Group’s financial results.

The Group has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or the possibility of political unrest, legal and regulatory changes or nationalisation in jurisdictions in which the Group operates. These factors could materially affect the Group’s future results of operations.

Accounting standards
New or revised accounting standards and rules promulgated from time to time by UK, US or International accounting standard-setting boards could have a material adverse impact on the Group’s reported financial results. The Group believes that it complies with the appropriate regulatory requirements concerning its financial statements and disclosures. However, other companies have experienced investigations into potential non-compliance with accounting and disclosure requirements that have resulted in significant penalties.

2002 Year

In accordance with US SEC disclosure requirements, the following discussion compares results for the year to 31st December 2002 with the results for the year to 31st December 2001.

All growth rates included in the review of turnover are at constant exchange rates (CER) unless otherwise stated. The sterling growth rates may be found in the table of pharmaceutical sales by therapeutic area on page 78.

Exchange

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

The pound hit its highest level against the dollar for more than two-and-a-half years, climbing above $1.61 and the Euro gained 17.7 per cent against the dollar in 2002, the first year that the dollar has fallen in value against the euro, as investors weighed up the impact of possible war in Iraq, tensions with North Korea and fears for the US economy.

Pharmaceutical sales

Total pharmaceutical sales in 2002 were £17,995 million compared to £17,205 million in 2001, an increase of eight per cent. Less than one per cent of this overall growth came from price increases. Growth in sterling terms of five per cent was significantly impacted by the weakness of the US dollar and other currencies.

Within the Group's portfolio, sales of new products, those launched in a major market within the last five years, accounted for 27 per cent of total sales and grew by 36 per cent to £4,785 million. Sales of the more established, franchise products amounted to £9,772 million representing 54 per cent of total sales and grew six per cent compared to last year. Sales of older products, now less actively promoted, were £3,438 million, a decline of 11 per cent representing 19 per cent of total sales.

Global pharmaceutical sales in the fourth quarter of 2002 grew seven per cent, reflecting US sales growth of 14 per cent to £2,592 million; whereas in Europe sales growth was weaker at one per cent with sales of £1,272 million, and in International sales were flat at £935 million.

Pharmaceutical sales by therapeutic area

Across the Group's portfolio of products, six major therapeutic areas experienced good growth for the year, including the fast growing franchises: CNS (£4.5 billion) up 17 per cent, respiratory (£4.0 billion) up 16 per cent, anti-virals (£2.3 billion) up 12 per cent and vaccines (£1.1 billion) up 16 per cent.

Central nervous system
Sales of *Seroxat/Paxil*, GlaxoSmithKline's leading product for depression and anxiety disorders, was the driver of growth in the CNS therapy area, with sales of £2 billion, up 15 per cent globally and 18 per cent in the USA. International sales of *Paxil* grew 27 per cent to £267 million led by continued strong growth in Japan. Launched in April 2002, *Paxil CR* continued to gain acceptance due to its strong tolerability profile.

Sales of *Wellbutrin*, for depression, grew 42 per cent to £882 million, reflecting increased physician awareness of the product's outstanding efficacy and favourable side effect profile. In 2002, an application for approval of a once-daily formulation, *Wellbutrin XL*, was submitted to the FDA.

GlaxoSmithKline's medicine for epilepsy, *Lamictal*, continued to grow across all regions achieving sales of £438 million, up 27 per cent. In 2002, the Group filed an sNDA for *Lamictal* seeking the first-ever indication for long-term management of depressive episodes in bipolar disorder.

Respiratory
GlaxoSmithKline continued to be the global leader in respiratory pharmaceuticals with sales of its three key products - *Seretide/Advair*, *Flixotide/Flovent* and *Serevent* - amounting to nearly £3 billion, up 25 per cent.

Sales of *Seretide/Advair*, GlaxoSmithKline's second largest product, grew 96 per cent to £1.6 billion although this contributed to declines in *Serevent* and *Flixotide*, its constituent products. *Advair* became the US asthma market leader in new prescriptions after less than two years on the market. *Seretide* also continued to perform strongly in Europe, up 36 per cent, and International markets up 92 per cent. In December 2002, GlaxoSmithKline filed an NDA for *Ariflo* for COPD.

Anti-virals
HIV medicines grew across all regions and totalled £1.5 billion in sales, up 13 per cent. Sales of *Trizivir*, GlaxoSmithKline's triple combination therapy, grew 95 per cent to £315 million.

Valtrex, for herpes, continued to benefit from its convenient once-daily dosing for suppressive therapy and achieved strong sales growth of 26 per cent worldwide and 35 per cent in the USA. In October 2002, GlaxoSmithKline filed an sNDA for *Valtrex* seeking the first-ever indication to reduce the risk of transmission of genital herpes. In December 2002, GlaxoSmithKline filed an NDA for '908', a protease inhibitor, for the treatment of HIV. The decline in *Zovirax* sales reflected transfers to the newer *Valtrex* and generic competition.

Anti-bacterials
Anti-bacterial sales declined 12 per cent worldwide and 22 per cent in the USA. *Augmentin's* US sales were down 20 per cent in the year as a result of generic competition that began in the third quarter. Four generic versions of *Augmentin* have been introduced in the USA following a decision by the US District Court for Eastern Virginia that held invalid GlaxoSmithKline's patents on *Augmentin* expiring in 2002, 2017 and 2018. US sales of *Ceftin* declined 80 per cent due to generic competition which began during the first quarter, 2002.

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Pharmaceutical sales by therapeutic area 2002

Therapeutic area/ major products	%of total		Total 2002 £m	Total 2001 £m	Total Growth CER%	Total Growth £%	USA 2002 £m	USA Growth CER%	USA Growth £%	Europe 2002 £m	Europe Growth CER%	Europe Growth £%	International 2002 £m	International Growth CER%	International Growth £%
CNS	25		**4,511**	**4,007**	**17**	**13**	**3,305**	**21**	**17**	**770**	**(2)**	**(1)**	**436**	**19**	**11**
Depression			**2,937**	**2,504**	**22**	**17**	**2,275**	**26**	**21**	**375**	**(2)**	**(1)**	**287**	**26**	**17**
Seroxat/Paxil			2,055	1,857	15	11	1,413	18	13	375	(2)	(1)	267	27	18
Wellbutrin			882	647	42	36	862	43	37	–	–	–	20	19	5
Migraine			**888**	**849**	**8**	**5**	**670**	**11**	**6**	**161**	**(3)**	**(2)**	**57**	**12**	**6**
Imigran/Imitrex			798	758	9	5	616	12	7	133	(3)	(2)	49	11	4
Naramig/Amerge			90	91	1	(1)	54	2	(2)	28	(3)	(3)	8	17	14
Lamictal			438	355	27	23	247	44	38	151	7	9	40	18	8
Requip			89	75	21	19	47	39	31	38	4	6	4	23	33
Zyban			99	129	(21)	(23)	47	(10)	(13)	27	(36)	(36)	25	(20)	(24)
Respiratory	22		**3,987**	**3,537**	**16**	**13**	**2,023**	**28**	**23**	**1,341**	**4**	**5**	**623**	**10**	**1**
Flixotide/Flovent, Serevent, Seretide/Advair			**2,937**	**2,410**	**25**	**22**	**1,557**	**38**	**32**	**1,018**	**8**	**10**	**362**	**27**	**20**
Seretide/Advair			1,631	850	96	92	876	>100	>100	608	36	38	147	92	81
Flixotide/Flovent			783	915	(12)	(14)	387	(14)	(18)	219	(18)	(17)	177	3	(3)
Serevent			523	645	(17)	(19)	294	(20)	(23)	191	(15)	(15)	38	4	(3)
Flixonase/Flonase			534	504	10	6	413	15	10	52	(6)	(4)	69	(1)	(9)
Ventolin			265	306	(10)	(13)	8	(73)	(72)	133	(2)	(1)	124	(4)	(13)
Becotide			130	161	(18)	(19)	–	–	–	105	(15)	(14)	25	(30)	(36)
Anti-virals	13		**2,299**	**2,128**	**12**	**8**	**1,213**	**18**	**13**	**636**	**7**	**8**	**450**	**6**	**(4)**
HIV			**1,465**	**1,347**	**13**	**9**	**857**	**12**	**8**	**462**	**13**	**14**	**146**	**16**	**(1)**
Trizivir			315	167	95	89	200	82	74	103	>100	>100	12	>100	>100
Combivir			588	606	1	(3)	338	(2)	(6)	186	1	2	64	10	(3)
Epivir			295	302	1	(2)	164	6	2	94	(2)	(1)	37	(11)	(20)
Retrovir			50	55	(6)	(9)	23	(2)	(4)	17	(15)	(15)	10	2	(9)
Ziagen			173	167	10	4	101	7	3	53	2	4	19	51	6
Agenerase			44	50	(8)	(12)	31	(15)	(18)	9	12	13	4	16	–
Herpes			**653**	**646**	**5**	**1**	**309**	**26**	**21**	**140**	**(12)**	**(11)**	**204**	**(7)**	**(13)**
Valtrex			425	350	26	21	275	35	30	73	4	6	77	20	12
Zovirax			228	296	(19)	(23)	34	(17)	(21)	67	(24)	(24)	127	(18)	(23)
Zeffix			123	103	23	19	12	69	71	16	34	33	95	18	13
Anti-bacterials	12		**2,210**	**2,604**	**(12)**	**(15)**	**975**	**(22)**	**(25)**	**696**	**(2)**	**(1)**	**539**	**(4)**	**(10)**
Augmentin			1,191	1,421	(14)	(16)	704	(20)	(23)	315	(3)	(2)	172	(3)	(8)
Zinnat/Ceftin			243	409	(39)	(41)	34	(80)	(81)	117	(5)	(5)	92	(8)	(13)
Fortum			201	209	(1)	(4)	37	(6)	(10)	96	4	4	68	(5)	(11)
Amoxil			136	149	(5)	(9)	32	9	3	45	(12)	(10)	59	(7)	(13)
Metabolic	6		**960**	**875**	**15**	**10**	**688**	**15**	**10**	**84**	**1**	**2**	**188**	**20**	**11**
Avandia			809	707	19	14	688	15	10	42	31	31	79	65	**52**
Vaccines	6		**1,080**	**948**	**16**	**14**	**290**	**16**	**11**	**468**	**17**	**18**	**322**	**15**	**11**
Hepatitis			483	445	12	9	211	18	13	204	10	11	68	2	(9)
Infanrix			254	238	8	7	79	14	10	117	–	1	58	18	16
Oncology and emesis	5		**977**	**838**	**21**	**17**	**740**	**26**	**21**	**152**	**5**	**7**	**85**	**8**	**–**
Zofran			708	601	22	18	525	28	23	117	7	8	66	8	2
Hycamtin			94	90	7	4	63	10	5	24	3	4	7	(2)	–
Cardiovascular and urogenital	4		**661**	**591**	**15**	**12**	**436**	**18**	**13**	**147**	**7**	**9**	**78**	**16**	**10**
Coreg			306	251	27	22	295	27	22	–	–	–	11	27	22
Other	7		**1,310**	**1,677**	**(18)**	**(22)**	**127**	**(56)**	**(58)**	**407**	**(11)**	**(12)**	**776**	**(9)**	**(15)**
Zantac			382	505	(21)	(24)	86	(16)	(19)	116	(30)	(28)	180	(18)	(24)
	100		**17,995**	**17,205**	**8**	**5**	**9,797**	**13**	**8**	**4,701**	**2**	**3**	**3,497**	**4**	**(3)**

* CER represents sales growth at constant exchange rates and £ at actucal exchange rates. Certain products have been reclassified into different therapeutic areas for comparative purposes.

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Metabolic
Worldwide sales for the metabolic category were £960 million. The *Avandia* franchise (*Avandia* and *Avandamet)* grew 19 per cent for the year with US sales up 15 per cent to £688 million.

Avandamet, a combination of *Avandia* and metformin HCI, expanded the *Avandia* metabolic franchise with its US launch in the fourth quarter. *Avandamet* for the treatment of type 2 diabetes is the first medicine that targets insulin resistance and decreases glucose production in one convenient pill. Since its approval by the FDA in May 1999, *Avandia* has been used by over four million patients worldwide.

Vaccines
Sales of vaccines grew 16 per cent to over £1 billion, supported by the Hepatitis franchise, up 12 per cent to £483 million. Total vaccine sales in Europe grew 17 per cent. US sales grew 16 per cent from the launch of *Twinrix* and continued growth in *Havrix*, driven by new state mandates requiring Hepatitis A vaccination of school age children. *Infanrix*, GlaxoSmithKline's DTPa range of combination vaccines, grew eight per cent to £254 million.

Cardiovascular and urogenital
In 2002, *Coreg* sales grew 27 per cent to £306 million, benefiting throughout the year from its new indication for the treatment of severe heart failure.

In November 2002, *Levitra* (vardenafil) a new agent for the treatment of erectile dysfunction, received a positive opinion from the European CPMP. The FDA issued an approvable letter for *Levitra* in 2002. *Levitra* was researched and developed by Bayer AG and will be co-promoted with GlaxoSmithKline.

Oncology and emesis
Sales of *Zofran* grew 22 per cent to £708 million, driven by a strong US performance, up 28 per cent to £525 million.

Other therapeutic areas
Sales of *Relafen* for arthritis, fell reflecting generic competition in the USA.

Regional analysis

USA
The USA reported 13 per cent sales growth in the year and this business currently represents 54 per cent of total pharmaceutical sales. Sales growth in the central nervous system products of 21 per cent was driven by *Wellbutrin*, reflecting increased prescribing by primary care physicians and psychiatrists, and *Paxil* following the launch of the *CR* formulation in April 2002. *Lamictal,* indicated for epilepsy, recorded sales growth of 44 per cent. *Advair* maintained its strong growth with sales of £876 million driving the overall respiratory sales growth of 28 per cent. However this adversely affected sales of its constituent products, *Flovent* and *Serevent*, which both showed declines. *Flonase* indicated for the treatment of perennial rhinitis grew strongly by 15 per cent.

Sales in the anti-virals therapeutic area grew 18 per cent, led by a strong performance of *Trizivir*, up 82 per cent, which partially drew sales from its constituent products, and *Valtrex*, up 35 per cent.

Sales of *Avandia* increased by 15 per cent, benefiting from the launch of *Avandamet* in November 2002. Anti-bacterial sales declined as *Augmentin* started to experience generic competition in the second half of the year. In the cardiovascular franchise, *Coreg* sales increased to £295 million reflecting improved market share.

Europe
Europe region contributed 26 per cent of pharmaceutical sales. Although overall sales growth in the region was only two per cent, good growth was recorded in several markets including Spain and Central and Eastern Europe, but government healthcare reforms, including pricing and reimbursement restrictions, adversely affected sales in Italy.

International
A four per cent sales growth in the International region reflected a mixture of good growth in the Middle East and Africa, Canada and Asia Pacific and a decline in sales in Latin America, principally because of poor economic conditions in Mexico and Brazil. In addition, Mexico suffered from a re-alignment of wholesaler stock levels.

Overall International growth was driven by *Seretide*, *Seroxat/Paxil*, *Avandia* and vaccines, partly offset by declines in *Zantac* and *Zovirax*.

The Asia Pacific area grew due to the performance of *Seretide* and vaccines. Strong growth in a number of markets was partly offset by lower growth in the largest market, Australia, reflecting reduced sales of *Zyban* and *Zantac.*

The market growth in Japan reflected strong growth of *Paxil* and *Flixotide/Flovent* partly offset by the decline of the older product *Zantac*, and government price reductions.

The Middle East and Africa area followed the trends of most other markets with growth in *Seretide*, *Avandia*, vaccines and HIV.

In Canada growth was driven by *Seretide*, *Paxil*, *Avandia* and anti-virals partly offset by lower sales of anti-bacterials.

Consumer Healthcare sales

	2002 £m	2001 £m	Growth CER%	Growth £%
OTC medicines	**1,586**	1,603	4	(1)
Analgesics	339	354	2	(4)
Dermatological	188	190	5	(1)
Gastro-intestinal	312	342	(1)	(9)
Respiratory tract	142	145	1	(2)
Smoking control	378	337	16	12
Natural wellness support	162	158	5	3
Oral care	**1,052**	1,106	(2)	(5)
Nutritional healthcare	**579**	575	3	1
	3,217	3,284	2	(2)

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 2002. 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 CER (two per cent sterling), 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 CER (one per cent sterling decline). In gastro-intestinal, sales of *Citrucel* rose by 19 per cent CER (15 per cent sterling), 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 – statutory results

The analysis and discussion below relates to statutory performance. Statutory results include merger items, integration and restructuring costs, and the disposal of subsidiaries.

	2002		2001		Growth	
	£m	%	£m	%	CER%	£%
Sales	**21,212**	**100.0**	20,489	100.0	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

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 lower merger integration costs, cost saving programmes from merger integration implementation and other initiatives including local restructuring in Europe and International regions.

Research and development
Research and development (R&D) increased 12 per cent, reflecting increased merger integration costs, higher clinical trial and in-licensing activity and the reinvestment of merger synergies. Pharmaceuticals R&D expenditure represented 15.5 per cent of pharmaceutical sales in the year.

Trading profit
Statutory trading profit was £5,662 million with a growth of 26 per cent, stronger than sales growth of seven per cent, demonstrating an improved trading margin of 3.8 percentage points to 26.7 per cent compared with 2001. This was principally due to cost savings derived from merger integration, manufacturing and other initiatives and lower costs of implementing these initiatives.

Profit before taxation - statutory results

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 and provisions relating to legal claims on withdrawn products, product withdrawals and anti-trust matters, equity investment carrying value adjustments arising from stock market price changes, 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.

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

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)

Profit on ordinary activities before taxation – statutory results
Taking into account net other operating expense in 2002 and net other operating income in 2001, the contribution from associates, business disposals and net interest payable, statutory profit before tax was £5,506 million, compared with £4,517 million in 2001, an increase of 28 per cent.

Trading profit – business performance

To illustrate GlaxoSmithKline's 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 items provides a better reflection of the way in which the business is managed. Accordingly this information is provided as a supplement to that contained in the consolidated statement of profit and loss on pages 88 and 89 prepared in accordance with UK GAAP.

	2002		2001		Growth	
	£m	%	£m	%	CER%	£%
Sales	**21,212**	**100.0**	20,489	100.0	7	4
Cost of sales	**(4,243)**	**(20.0)**	(4,430)	(21.6)	(2)	(4)
Selling, general and administration	**(7,543)**	**(35.5)**	(7,451)	(36.4)	5	1
Research and development	**(2,732)**	**(12.9)**	(2,555)	(12.5)	9	7
Trading profit	**6,694**	**31.6**	6,053	29.5	15	11

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 cost saving programmes including local restructuring in Europe and International regions.

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 percentage 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 and provisions relating to legal claims on withdrawn products, product withdrawals and anti-trust matters, equity investment carrying value adjustment arising from stock market price changes, 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.

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 – business performance
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

Merger and integration items represent those items which have arisen as a result of the merger of Glaxo Wellcome and SmithKline Beecham and the acquisition of Block Drug. Restructuring costs arise from the merger and acquisition and from manufacturing restructuring programmes that had already been agreed by Glaxo Wellcome and SmithKline Beecham before the date of the merger. These items by their nature are considered to be outside the normal business expenditure of GlaxoSmithKline and not expected to occur on a regular basis.

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.

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

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 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.

Earnings

			Growth	
	2002	2001	CER%	£%
Earnings (£m)	3,915	3,053	35	28
Basic earnings per share	66.2p	50.3p	38	32
Basic earnings per ADS	$1.99	$1.45	38	32
Adjusted earnings (£m)	4,627	4,383	11	6
Adjusted earnings per share	78.3p	72.3p	13	8
Adjusted earnings per ADS	$2.35	$2.08	13	8
Weighted average number of shares (millions)	5,912	6,064		

Adjusted earnings and adjusted earnings per share are presented above in order to illustrate business performance which is the primary performance measure used by management. Adjusted earnings increased by 11 per cent. Adjusted earnings per share increased 13 per cent, reflecting the reduction in the weighted average number of shares resulting from the Group’s share buy-back programme. The interest cost of this programme also impacts the Group’s earnings.

At actual rates of exchange business performance EPS increased eight per cent compared with 13 per cent in CER terms. The adverse currency impact on EPS of five per cent in the year reflected the significant weakening of the US dollar relative to 2001 and compares with a three per cent adverse currency impact on sales. This difference principally arises from a different mix of currencies in profits compared with sales.

Taken together with other expenses, taxation and product divestments this resulted in EPS of 66.2 pence compared with 50.3 pence in 2001 and a diluted EPS of 66.0 pence compared with 49.9 pence in 2001. Merger and manufacturing restructuring costs were lower in 2002 than in 2001 and as a result, the sterling based growth in EPS of 32 per cent was significantly higher than the CER based growth in business performance EPS despite the overall negative impact of currencies in 2002.

Dividend
The Board declared a fourth interim dividend of 13 pence per share making a total for the year of 40 pence per share. This compares with a dividend of 39 pence per share for 2001.

selected financial data UK/US GAAP

Profit and loss account

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Amounts in accordance with UK GAAP					
Turnover	21,441	21,212	20,489	18,079	16,796
Operating profit	6,392	5,551	4,734	4,729	4,343
Profit before taxation	6,329	5,506	4,517	6,029	4,236
Earnings	4,484	3,915	3,053	4,106	3,077
Basic earnings per share	77.2p	66.2p	50.3p	67.7p	50.3p
Diluted earnings per share	77.0p	66.0p	49.9p	66.9p	49.9p
Weighted average number of shares in issue:					
Basic	5,806	5,912	6,064	6,065	6,118
Diluted	5,824	5,934	6,116	6,134	6,171
Dividends per GlaxoSmithKline share (pence)					
GlaxoSmithKline shareholder	41.0p	40.0p	39.0p		
Glaxo Wellcome shareholder				38.0p	37.0p
SmithKline Beecham shareholder				29.66p	26.69p

Dividends are expressed in terms of a GlaxoSmithKline share.

Amounts in accordance with US GAAP					
Turnover	21,117	21,212	20,489	9,559	8,490
Net income/(loss)	2,420	413	(143)	(5,228)	913
Basic net income/(loss) per share (pence)	41.7p	7.0p	(2.4)p	(145.6)p	25.2p
Diluted net income/(loss) per share (pence)	41.6p	7.0p	(2.4)p	(145.6)p	25.1p

The information below presents US GAAP net income/(loss) and net income/(loss) per share as if the results for the years ended 31st December 1999 to 2001 were adjusted to reverse the amortisation expense for goodwill and indefinite-lived intangible assets, that is, as if SFAS 142 had also applied in those years.

Adjusted net income/(loss)			1,456	(4,658)	1,476
Adjusted basic net income/(loss) per share (pence)			24.0p	(129.7)p	40.8p
Adjusted diluted net income/(loss) per share (pence)			23.8p	(129.7)p	40.6p

Balance sheet

	£m	£m	£m	£m	£m
Amounts in accordance with UK GAAP					
Total assets	23,975	22,327	22,343	21,999	19,162
Net assets	8,465	7,388	8,252	8,834	6,534
Equity shareholders' funds	7,720	6,581	7,390	7,590	5,391
Amounts in accordance with US GAAP					
Total assets	56,400	57,671	61,341	65,786	13,901
Net assets	34,861	35,729	40,969	46,239	7,281
Shareholders' equity	34,116	34,922	40,107	44,995	7,230

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	1.63	1.51	1.44	1.51	1.61

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 2004	Jan 2004	Dec 2003	Nov 2003	Oct 2003	Sept 2003
High	1.90	1.85	1.78	1.72	1.70	1.66
Low	1.82	1.79	1.72	1.67	1.66	1.57

The noon buying rate on 27th February 2004 was £1= US$1.86.

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Financial statements

This section comprises the Directors' statements of responsibility, the Independent Auditors' report on the Financial statements, the Financial statements consisting of the principal Financial statements and supporting notes.

Directors’ statements of responsibility

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 2003, comprising principal statements and supporting notes, are set out in ‘Financial statements’ (pages 88 to 148 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 Independent Auditors’ report (page 87 opposite).

The Financial statements for the year ended 31st December 2003 are included in the Annual Report 2003, which is published in hard-copy printed form and on the website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Directors’ remuneration

The Remuneration Report (pages 43 to 58 of this report) sets out the remuneration policies operated by GlaxoSmithKline and disclosures on Directors’ remuneration and other disclosable information relating to Directors and officers and their interests.

It has been prepared in accordance with the Companies Act 1985, as amended by the Directors’ Remuneration Report Regulations 2003 and complies with Section B of the 1998 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 Financial statements.

Internal control

The Board, through the Audit Committee, has reviewed the assessment of risks and the internal control framework that operates in GlaxoSmithKline and has considered the effectiveness of the system of internal control in operation in the Group for the year covered by this report and up to the date of its approval by the Board of Directors.

The 1998 Combined Code

The Board considers that GlaxoSmithKline plc applies the principles of the 1998 Combined Code, as described under ‘Corporate governance’ (pages 33 to 42), and has complied with the requirements of the 1998 Combined Code, with the exception of the Senior Independent Director where the company’s position is described under Corporate governance and the provisions relating to the Executive Directors’ service contracts and pension arrangements, where the company’s position is described in the Remuneration Report.

As required by the Listing Rules of the Financial Services Authority, the auditors have considered the Directors’ statement of compliance in relation to those points of the 1998 Combined Code which are specified for their review.

Annual Report

The Annual Report for the year ended 31st December 2003, comprising the Report of the Directors, the Remuneration Report, the Financial statements and additional information for investors, has been approved by the Board of Directors and signed on its behalf by

Sir Christopher Hogg
Chairman
3rd March 2004

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Independent Auditors' report

to the Board of Directors and Shareholders of GlaxoSmithKline plc

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of profit and loss, of total recognised gains and losses and of cash flows present fairly, in all material respects, the financial position of GlaxoSmithKline plc and its subsidiaries at 31st December 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended 31st December 2003, in conformity with accounting principles generally accepted in the United Kingdom. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 36 to the consolidated financial statements.

PricewaterhouseCoopers LLP
London, England
3rd March 2004

Consolidated statement of profit and loss

for the year ended 31st December 2003

	Notes	2003 Business performance £m	2003 Merger, restructuring and disposal of subsidiaries £m	2003 Statutory £m
Turnover	6	21,441	–	**21,441**
Cost of sales		(4,188)	(356)	**(4,544)**
Gross profit		17,253	(356)	**16,897**
Selling, general and administrative expenditure		(7,563)	(18)	**(7,581)**
Research and development expenditure		(2,770)	(21)	**(2,791)**
Trading profit		6,920	(395)	**6,525**
Other operating income/(expense)	8	(133)	–	**(133)**
Operating profit	7,9	6,787	(395)	**6,392**
Share of profits/(losses) of joint ventures and associated undertakings	10	93	–	**93**
Profit on disposal of interest in associate	31	–	–	**–**
Product divestments	7	–	–	**–**
Profit/(loss) on disposal of businesses	7	–	5	**5**
Profit before interest		6,880	(390)	**6,490**
Net interest payable	11	(161)	–	**(161)**
Profit on ordinary activities before taxation		6,719	(390)	**6,329**
Taxation	7,12	(1,848)	109	**(1,739)**
Profit on ordinary activities after taxation		4,871	(281)	**4,590**
Equity minority interests		(94)	–	**(94)**
Preference share dividends		(12)	–	**(12)**
Earnings (Profit attributable to shareholders)	13	4,765	(281)	**4,484**
Basic earnings per share	13	–		**77.2p**
Adjusted earnings per share	13	82.1p		**–**
Diluted earnings per share	13	–		**77.0p**
Profit attributable to shareholders				**4,484**
Dividends	14			**(2,374)**
Retained profit				**2,110**

Consolidated statement of total recognised gains and losses

for the year ended 31st December 2003

	2003 £m
Profit attributable to shareholders	**4,484**
Exchange movements on overseas net assets	**37**
Unrealised gains on equity investments	**7**
Tax on exchange movements and unrealised gains	**(69)**
Total recognised gains and losses	**4,459**

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	2002			2001		
	Business performance £m	Merger, restructuring and disposal of subsidiaries £m	Statutory £m	Business performance £m	Merger, restructuring and disposal of subsidiaries £m	Statutory £m
Turnover	21,212	–	21,212	20,489	–	20,489
Cost of sales	(4,243)	(366)	(4,609)	(4,430)	(303)	(4,733)
Gross profit	16,969	(366)	16,603	16,059	(303)	15,756
Selling, general and administration	(7,543)	(498)	(8,041)	(7,451)	(957)	(8,408)
Research and development	(2,732)	(168)	(2,900)	(2,555)	(96)	(2,651)
Trading profit	6,694	(1,032)	5,662	6,053	(1,356)	4,697
Other operating income	(111)	–	(111)	37	–	37
Operating profit	6,583	(1,032)	5,551	6,090	(1,356)	4,734
Profit on disposal of interest in associated undertaking	75	–	75	71	–	71
Profit on disposal of fixed assets	–	–	–	96	–	96
Profit on disposal of subsidiary undertakings	–	11	11	–	–	–
Profit on disposal of investments	–	10	10	–	(296)	(296)
Profit before interest	6,658	(1,011)	5,647	6,257	(1,652)	4,605
Net interest payable	(141)	–	(141)	(88)	–	(88)
Profit before taxation	6,517	(1,011)	5,506	6,169	(1,652)	4,517
Taxation	(1,760)	299	(1,461)	(1,655)	322	(1,333)
Profit after taxation	4,757	(712)	4,045	4,514	(1,330)	3,184
Minority interests	(110)	–	(110)	(97)	–	(97)
Preference dividends	(20)	–	(20)	(34)	–	(34)
Profit for the financial year	4,627	(712)	3,915	4,383	(1,330)	3,053
Earnings per ordinary share	–		66.2p	–		50.3p
Earnings per ADS	78.3p		–	72.3p		–
Dividends per ordinary share	–		66.0p	–		49.9p
Profit for the financial year			3,915			3,053
Retained profit			(2,346)			(2,356)
Profit attributable to shareholders			1,569			697

	2002 £m	2001 £m
Profit for the financial year	3,915	3,053
Currency translation	(154)	(151)
Unrealised surplus on revaluation of properties	7	–
Unrealised (loss)/gain on investments	(67)	–
Total recognised gains and losses relating to the financial year	3,701	2,902

Consolidated statement of cash flow

for the year ended 31st December 2003

Reconciliation of operating profit to operating cash flows	Notes	2003 £m	2002 £m	2001 £m
Operating profit		6,392	5,551	4,734
Depreciation		773	764	761
Impairment and assets written off		250	288	178
Amortisation of goodwill and intangible fixed assets		87	72	50
Loss on sale of tangible fixed assets		–	26	99
Profit on sale of equity investments		(89)	(46)	(118)
(Increase)/decrease in stocks		(76)	(2)	252
Increase in trade and other debtors		(552)	(72)	(77)
(Decrease)/increase in trade and other creditors		(69)	459	601
Increase in provisions		260	256	144
Other		29	(41)	(93)
Merger transaction costs paid		–	–	(24)
Net cash inflow from operating activities		7,005	7,255	6,507

Cash flow statement	Notes	2003 £m	2002 £m	2001 £m
Net cash inflow from operating activities		7,005	7,255	6,507
Dividends from joint ventures and associated undertakings		1	2	–
Returns on investment and servicing of finance		(231)	(237)	(191)
Taxation paid		(1,917)	(1,633)	(1,717)
Capital expenditure and financial investment		(928)	(1,120)	(1,779)
Acquisitions and disposals	31	(12)	(20)	(657)
Equity dividends paid		(2,333)	(2,327)	(2,325)
Net cash inflow/(outflow) before management of liquid resources and financing		1,585	1,920	(162)
Management of liquid resources		(1,336)	52	994
Financing		(276)	(1,567)	(1,444)
(Decrease)/increase in cash in the year		(27)	405	(612)

Reconciliation of net cash flow to movement in net debt	Notes	2003 £m	2002 £m	2001 £m
Net debt at beginning of year		(2,335)	(2,101)	(611)
(Decrease)/increase in cash in the year		(27)	405	(612)
Cash inflow/(outflow) from management of liquid resources		1,336	(52)	(994)
Net increase in long-term loans		(1,023)	(1,005)	(861)
Net repayment of short-term loans		442	542	860
Net repayment of obligations under finance leases		–	1	2
Net non-cash funds of subsidiary undertakings acquired		–	(4)	56
Exchange adjustments		(37)	(121)	59
Other non-cash movements		(4)	–	–
Movement in net debt		687	(234)	(1,490)
Net debt at end of year	25	(1,648)	(2,335)	(2,101)

Analysis of cash flows

	Notes	2003 £m	2002 £m	2001 £m
Returns on investment and servicing of finance				
Interest received		**65**	83	134
Interest paid		**(197)**	(215)	(196)
Dividends paid to minority shareholders		**(84)**	(85)	(91)
Dividends paid on preference shares		**(15)**	(20)	(38)
		(231)	(237)	(191)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(869)**	(1,044)	(1,115)
Sale of tangible fixed assets		**46**	59	65
Purchase of intangible assets		**(193)**	(182)	(196)
Sale of intangible assets		**–**	–	6
Product divestments		**–**	(1)	(30)
Purchase of own shares for employee share options and awards		**–**	–	(795)
Proceeds from own shares for employee share options		**26**	58	194
Purchase of equity investments		**(63)**	(75)	(47)
Sale of equity investments		**125**	65	139
		(928)	(1,120)	(1,779)
Acquisitions and disposals	31			
Purchase of businesses		**(12)**	(21)	(848)
Cash acquired with subsidiary		**–**	–	45
Disposal of businesses		**3**	6	66
Investment in joint ventures and associated undertakings		**(3)**	(5)	(44)
Disposal of interests in associates		**–**	–	124
		(12)	(20)	(657)
Financing				
Issue of share capital	27	**41**	56	144
Redemption of preference shares issued by a subsidiary		**–**	–	(457)
Share capital purchased for cancellation		**(980)**	(2,220)	(1,274)
Other financing cash flows		**82**	135	144
Increase in long-term loans		**1,046**	1,094	973
Repayment of long-term loans		**(23)**	(89)	(112)
Net repayment of short-term loans		**(442)**	(542)	(860)
Net repayment of obligations under finance leases		**–**	(1)	(2)
		(276)	(1,567)	(1,444)

Analysis of changes in net debt

	At 31.12.03 £m	Cash flow £m	Other £m	Exchange £m	At 1.1.03 £m
Cash at bank	**962**	(54)	–	(36)	1,052
Overdrafts	**(155)**	27	–	11	(193)
	807	(27)	–	(25)	859
Debt due within one year:					
Commercial paper	**(836)**	449	(1)	–	(1,284)
Eurobonds and Medium-Term Notes	**(383)**	–	(414)	31	–
Other	**(78)**	(7)	–	3	(74)
	(1,297)	442	(415)	34	(1,358)
Debt due after one year:					
Eurobonds, Medium-Term Notes and private financing	**(3,617)**	(1,027)	411	53	(3,054)
Other	**(34)**	4	–	–	(38)
	(3,651)	(1,023)	411	53	(3,092)
Management of liquid resources:					
Liquid investments	**2,493**	1,336	–	(99)	1,256
Net debt	**(1,648)**	728	(4)	(37)	(2,335)

For further information on significant changes in net debt see Note 25 ‘Net debt’.

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Consolidated balance sheet

at 31st December 2003

	Notes	2003 £m	2002 £m
Goodwill	15	143	171
Other intangible assets	16	1,697	1,637
		1,840	1,808
Tangible assets	17	6,441	6,649
Investments	18	3,069	3,121
Fixed assets		11,350	11,578
Equity investments	19	164	161
Stocks	20	2,109	2,080
Debtors	21	6,897	6,200
Liquid investments	25	2,493	1,256
Cash at bank	25	962	1,052
Current assets		12,625	10,749
Loans and overdrafts	25	(1,452)	(1,551)
Other creditors	22	(7,145)	(7,257)
Creditors: amounts due within one year		(8,597)	(8,808)
Net current assets		4,028	1,941
Total assets less current liabilities		15,378	13,519
Loans	25	(3,651)	(3,092)
Other creditors	22	(232)	(206)
Creditors: amounts due after one year		(3,883)	(3,298)
Provisions for liabilities and charges	23	(3,030)	(2,833)
Net assets		8,465	7,388
Capital and reserves			
Called up share capital	27	1,487	1,506
Share premium account	27	264	224
Other reserves	29	1,925	1,905
Profit and loss account	29	4,044	2,946
Equity shareholders' funds		7,720	6,581
Non-equity minority interests	28	503	559
Equity minority interests		242	248
Capital employed		8,465	7,388

Approved by the Board

Sir Christopher Hogg
Chairman
3rd March 2004

Reconciliation of movements in equity shareholders' funds

for the year ended 31st December 2003

	Notes	2003 £m	2002 £m
Equity shareholders' funds at beginning of year		6,581	7,390
Total recognised gains and losses for the year		4,459	3,701
Dividends	14	(2,374)	(2,346)
Share capital issued		41	56
Share capital purchased and cancelled		(980)	(2,220)
Exchange movements on goodwill written off to reserves		(7)	–
Equity shareholders' funds at end of year		7,720	6,581

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Company balance sheet

at 31st December 2003

	Notes	2003 £m	2002 £m
Shares in subsidiary companies – at cost	37	17,612	17,612
Fixed assets		17,612	17,612
Amounts owed by Group undertakings		2,969	1,412
Taxation		52	66
Cash at bank		8	–
Current assets		3,029	1,478
Dividends payable	14	(1,331)	(1,289)
Amounts owed to Group undertakings		(8,578)	(5,192)
Creditors: amounts due within one year		(9,909)	(6,481)
Net current liabilities		(6,880)	(5,003)
Net assets		10,732	12,609
Capital and reserves			
Called up share capital	27	1,487	1,506
Share premium account	27	264	224
Other reserves	29	76	56
Profit and loss account	29	8,905	10,823
Equity shareholders' funds		10,732	12,609

Approved by the Board

Sir Christopher Hogg
Chairman
3rd March 2004

Notes to the financial statements

1 Presentation of the Financial statements

Description of business
GlaxoSmithKline is a major global healthcare group which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products, including vaccines, over-the-counter (OTC) medicines and health-related consumer products. GlaxoSmithKline's principal pharmaceutical products include medicines in the following therapeutic areas: central nervous system, respiratory, anti-virals, anti-bacterials, vaccines, oncology and emesis, metabolic, cardiovascular and urogenital.

Financial period
These Financial statements cover the financial year from 1st January to 31st December 2003, with comparative figures for the financial years from 1st January to 31st December 2002 and 1st January to 31st December 2001.

Composition of the Group
A list of the subsidiary and associated undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in Principal Group companies, Note 37.

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 consolidated statement of total recognised gains and losses includes:

- the realised profit attributable to shareholders as reflected in the consolidated statement of profit and loss
- the unrealised gain or loss in the value of the Group's overseas net assets, less related foreign currency borrowings, attributable to currency movements over the period
- tax on the above items.

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
- the cost of shares purchased for cancellation under the share buy-back programme
- 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 36 a statement of differences, and reconciliations of net income and shareholders' equity, between UK and US GAAP are provided.

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 as this is the primary measure used by management. For this purpose certain items are identified separately and are excluded from business performance. These comprise: merger and integration items, including product divestments; costs relating to previously announced manufacturing and other restructuring, and the effect of disposals of subsidiaries. Management believes that exclusion of these items provides a better reflection of the way in which the business is managed and gives an indication of the performance of the Group in terms of those elements of revenue and expenditure which local management is able to influence.

Trading profit reflects turnover less: cost of sales, comprising costs of manufacture and external royalties; selling, general and administrative expenditure, comprising the costs of selling, distribution and medical support of currently marketed products and the costs of administration; and 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 the Financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Financial statements have been prepared in accordance with the company's accounting policies approved by the Board and described in Note 2.

2 Accounting policies

Consolidation
The consolidated Financial statements include:

- the assets and liabilities, and the results and cash flow, 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 Financial statements 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.

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 it is considered recoverable.

Assets and liabilities of overseas subsidiary and associated undertakings and joint ventures 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 and associated undertakings and joint ventures are translated into sterling using average rates of exchange. Exchange adjustments arising when the opening net assets and the profits for the year retained by overseas subsidiary and associated undertakings and joint ventures 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 and associated undertakings and joint ventures 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 are supplied to external customers against orders received. In certain limited cases, the customer collects the goods and revenue is recognised when title and risk of loss passes. Turnover represents net invoice value after the deduction of discounts given at the point of sale, and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored regularly in the light of historical information and past experience. Turnover also includes co-promotion income where the Group records its share of the revenue but with no related cost of sales. Value added tax and other sales taxes are excluded from revenue.

Expenditure
Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Advertising and promotion expenditure is charged to the profit and loss account as incurred. Shipment costs on inter-company transfers are charged to cost of sales; distribution costs on sales to customers are included in selling, general and administrative expenditure. Restructuring costs are recognised in respect of the direct 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 a portion of other potentially responsible parties' costs when it is probable that they will not be able to satisfy their respective shares of the clean-up obligation. When recoveries of reimbursements are virtually certain they are recorded as assets.

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.

2 Accounting policies continued

Legal and other disputes
Provision is made for the anticipated settlement costs and legal and other expenses associated with claims received and legal and other disputes against the Group where a reasonable estimate can be made of the likely outcome of the dispute. No provision is made for unasserted claims or where an obligation exists under a dispute but it is not possible to make a reasonable estimate. Costs associated with claims made by the Group against third parties are charged to the profit and loss account as they are incurred.

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 ESOTs to purchase company shares on the open market to meet the company's obligation to provide shares when employees exercise their option or award; any excess of the purchase price of the shares above the exercise price of the options and awards is charged 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.

Assets and liabilities of the ESOTs are included in the Group balance sheet. Costs of running the ESOTs are charged to the profit and loss account. Shares held by the ESOTs are accounted for as fixed asset investments held at cost less a provision to recognise any shortfall in the proceeds receivable from employees on exercise unless there is deemed to be a permanent impairment in value.

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 useful life is not normally 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 15 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 foreseen.

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 provisions for depreciation or impairment. 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 reviewed annually and 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
ERP systems software	7 years
Other computer software	3 to 5 years

ERP systems software generally involves significant customisation prior to implementation and is expected to have a useful economic life of seven years, rather than the maximum five years of other computer software. On disposal of a tangible fixed asset, the cost and related accumulated depreciation are removed from the financial statements and the net amount, less any proceeds, is taken to the consolidated profit and loss account.

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.

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. Any provision for impairment is charged against profit in the year concerned. 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. The value of shares held by the ESOTs is reviewed quarterly to determine if there is any permanent impairment.

2 Accounting policies continued

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.

Stocks
Stocks are included in the financial statements 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.

Taxation
The Group accounts for taxation which is deferred or accelerated by reason of timing differences which have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits. Deferred tax on the retained earnings of overseas subsidiaries is only provided when there is a binding commitment to distribute past earnings in future periods.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax liabilities and assets are not discounted.

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 profit and loss account on a receivable basis.

Equity investments are included as current assets when regarded as available for sale.

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 future changes in value are taken directly to the profit and loss account.

Currency swaps and forward exchange contracts used to fix the value of the related asset or liability in the contract currency and at the contract rate are accrued to the profit and loss account over the life of the contract.

Gains and losses on foreign exchange contracts designated as hedges of forecast foreign exchange transactions are deferred and included in the measurement of the related foreign currency transactions in the period they occur. Gains and losses on balance sheet hedges are accrued and are taken directly to reserves, except that forward premium/discounts are recognised as interest over the life of the contracts.

Interest differentials under interest swap agreements are recognised in the profit and loss account by adjustment of interest expense over the life of the agreement.

Debt instruments
Debt instruments are stated at the amount of net proceeds adjusted to amortise the issue cost of debt evenly over the term of the debt.

3 New accounting policies and future requirements

In December 2003 the Urgent Issues Task Force issued Abstract 38 and amended Abstract 17, both relating to the accounting for and presentation of ESOTs. These requirements are mandatory for 2004 reporting and will require the shares held by the ESOTs to be shown as a deduction in arriving at shareholders' funds. The charge to the profit and loss account for employee share options will be restricted to the intrinsic loss, the difference between the market price and exercise price, at the date of grant.

In June 2002, the Council of the European Union adopted a Regulation requiring listed companies in its Member States to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) from 2005. The first GlaxoSmithKline Annual Report prepared under IFRS will be that for the year ending 31st December 2005. The first financial results announcement prepared in accordance with IFRS will be that for the first quarter of 2005.

The Group's project to convert its financial reporting from UK GAAP to IFRS is progressing well. A training programme has been rolled out to all finance staff worldwide and preparations for the collection of historical data, which will provide the comparative information under IFRS in 2005, are well advanced.

4 Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of overseas subsidiaries, joint ventures and associated undertakings into sterling and period end rates to translate the net assets of those undertakings. The currencies which most influence these translations, and the relevant exchange rates, were:

	2003	2002	2001
Average rates:			
£/US$	1.64	1.50	1.44
£/Euro	1.45	1.59	1.61
£/Yen	191.00	188.00	175.00
Period end rates:			
£/US$	1.79	1.61	1.45
£/Euro	1.42	1.54	1.64
£/Yen	192.00	192.00	190.00

5 Merger of Glaxo Wellcome and SmithKline Beecham

The combination of Glaxo Wellcome plc and SmithKline Beecham plc was 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 were accounted for at par and no share premium arose; the shares acquired by GlaxoSmithKline in Glaxo Wellcome and SmithKline Beecham were similarly accounted for at the nominal value of the shares issued. In the consolidated Financial statements of GlaxoSmithKline, the results and net assets of Glaxo Wellcome and SmithKline Beecham were combined at their book amounts, subject to alignment adjustments.

6 Segment information

An analysis of turnover, profit before taxation, total assets, net assets and tangible fixed assets by business and geographical sector are set out below. The business sectors consist of Pharmaceuticals (prescription pharmaceuticals and vaccines) and Consumer Healthcare (oral care, OTC medicines and nutritional healthcare). The geographical sectors reflect the Group's most significant regional markets and are consistent with the Group's regional market management reporting structure. Business sector data includes an allocation of corporate costs to each sector. There are no sales between business sectors.

The Group's activities are organised on a global basis. The geographical sector figures are therefore influenced by the location of the Group's operating resources, in particular manufacturing and research, and by variations over time in intra-Group trading and funding arrangements.

Where the Group co-promotes a product and the third party records the sale, the Group records its share of revenue as co-promotion income within turnover. The nature of co-promotion activities are such that the Group records no costs of sales. Pharmaceutical turnover includes co-promotion income of £35 million (2002 – £nil, 2001 – £nil).

Turnover by business sector	**2003 £m**	2002 £m	2001 £m
Pharmaceuticals	**18,181**	17,995	17,205
Consumer Healthcare	**3,260**	3,217	3,284
External turnover	**21,441**	21,212	20,489

Statutory profit before tax by business sector			
Pharmaceuticals	**5,800**	5,068	4,302
Consumer Healthcare	**592**	483	432
Operating profit	**6,392**	5,551	4,734
Share of profits of joint ventures and associated undertakings	**93**	75	71
Profit on disposal of interest in associate	**–**	–	96
Profit on disposal of businesses	**5**	10	–
Product divestments	**–**	11	(296)
Net interest payable	**(161)**	(141)	(88)
Profit before taxation	**6,329**	5,506	4,517
Profit before taxation	**6,329**	5,506	4,517
Taxation	**(1,739)**	(1,461)	(1,333)
Minority interests	**(94)**	(110)	(97)
Preference share dividends	**(12)**	(20)	(34)
Statutory earnings	**4,484**	3,915	3,053

Total assets by business sector		
Pharmaceuticals	**19,015**	18,608
Consumer Healthcare	**4,960**	3,719
Total assets	**23,975**	22,327

Net assets by business sector		
Pharmaceuticals	**6,954**	5,720
Consumer Healthcare	**1,511**	1,668
Net assets	**8,465**	7,388

6 Segment information continued

Turnover by location of subsidiary undertaking	2003 £m	2002 £m	2001 £m
USA	10,569	11,096	10,517
Europe	11,798	10,423	10,704
International	7,945	6,824	7,540
Turnover including inter-segment turnover	30,312	28,343	28,761
USA	(219)	(168)	(327)
Europe	(4,690)	(3,873)	(4,372)
International	(3,962)	(3,090)	(3,573)
Inter-segment turnover	(8,871)	(7,131)	(8,272)
USA	10,350	10,928	10,190
Europe	7,108	6,550	6,332
International	3,983	3,734	3,967
External turnover	21,441	21,212	20,489

Statutory profit before tax by location of subsidiary undertaking			
USA	1,984	2,117	934
Europe	3,061	2,490	2,580
International	1,347	944	1,220
Operating profit	6,392	5,551	4,734
Share of profits of joint ventures and associated undertakings	93	75	71
Profit on disposal of interest in associate	–	–	96
Profit on disposal of businesses	5	10	–
Product divestments	–	11	(296)
Net interest payable	(161)	(141)	(88)
Profit before taxation	6,329	5,506	4,517
Profit before taxation	6,329	5,506	4,517
Taxation	(1,739)	(1,461)	(1,333)
Minority interests	(94)	(110)	(97)
Preference share dividends	(12)	(20)	(34)
Statutory earnings	4,484	3,915	3,053

Total assets by location of subsidiary undertaking		
USA	4,416	4,455
Europe	13,106	12,614
International	2,998	2,950
Total operating assets	20,520	20,019
Cash at bank and liquid investments	3,455	2,308
Total assets	23,975	22,327

Net assets by location of subsidiary undertaking		
USA	515	376
Europe	7,552	7,298
International	2,046	2,049
Net operating assets	10,113	9,723
Net debt	(1,648)	(2,335)
Net assets	8,465	7,388

6 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	2003 Total £m	2002 Total £m
USA	668	375	50	202	**1,295**	1,412
Europe	1,580	2,057	109	438	**4,184**	4,204
International	510	341	11	100	**962**	1,033
Total	2,758	2,773	170	740	**6,441**	6,649

Turnover by location of customer	2003 £m	2002 £m	2001 £m
USA	**10,333**	10,807	10,087
Europe	**6,611**	6,064	5,855
International	**4,497**	4,341	4,547
External turnover	**21,441**	21,212	20,489

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.

	2003 £m	2002 £m	2001 £m
Turnover by location of customer	**1,404**	1,366	1,328
Turnover including inter-segment turnover	**4,678**	4,945	5,388
Inter-segment turnover	**(2,883)**	(3,230)	(3,753)
Turnover by location of subsidiary	**1,795**	1,715	1,635
Operating profit	**1,534**	1,276	1,772
Total assets	**9,889**	8,846	
Net operating assets	**4,653**	4,910	

7 Merger items, restructuring costs and divested businesses

Manufacturing and other restructuring costs were incurred by GlaxoSmithKline during 2003, 2002 and 2001 in the implementation of previously announced plans for restructuring of manufacturing and other activities.

Merger integration costs relate to the integration of Glaxo Wellcome and SmithKline Beecham into a unified GlaxoSmithKline business. These costs include consultancy fees in respect of integration planning, severance costs, asset write-offs, costs related to the early vesting or lapse of performance conditions on share options and share incentive awards and costs of the programme to encourage staff to convert Glaxo Wellcome and SmithKline Beecham share options into GlaxoSmithKline share options. Integration costs were incurred in 2003, 2002 and 2001 relating to the integration of the Block Drug businesses. These costs include professional fees, severance costs and asset write-offs.

Product divestment income arising in 2002 related to the finalisation of the disposals of *Famvir*, *Kytril* and other products required in 2000 in order to obtain regulatory approval for the merger.

The disposal of businesses in 2003 and 2002 related to the finalisation of the disposals of Clinical Laboratories and Healthcare Services in 1999. The disposal of businesses in 2001 primarily arose on the sale of Affymax. It included a £299 million write off of goodwill which was previously eliminated against Group reserves.

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7 Merger items, restructuring costs and divested businesses continued

2003	Merger £m	Restructuring £m	Block Drug £m	Disposal of subsidiaries £m	Total £m
Manufacturing and other restructuring	–	(83)	–	–	**(83)**
Merger integration costs	(286)	–	–	–	**(286)**
Block Drug integration costs	–	–	(26)	–	**(26)**
Effect on operating profit	(286)	(83)	(26)	–	**(395)**
Profit on disposal of businesses	–	–	–	5	**5**
Effect on profit before tax	(286)	(83)	(26)	5	**(390)**
Effect on taxation – operating items					**98**
Effect on taxation – non-operating items					**11**
Effect on taxation					**109**
Effect on earnings					**(281)**

2002	Merger £m	Restructuring £m	Block Drug £m	Disposal of subsidiaries £m	Total £m
Manufacturing and other restructuring	–	(121)	–	–	(121)
Merger integration costs	(851)	–	–	–	(851)
Block Drug integration costs	–	–	(60)	–	(60)
Effect on operating profit	(851)	(121)	(60)	–	(1,032)
Product divestments	11	–	–	–	11
Profit on disposal of businesses	–	–	–	10	10
Effect on profit before tax	(840)	(121)	(60)	10	(1,011)
Effect on taxation – operating items					266
Effect on taxation – non-operating items					33
Effect on taxation					299
Effect on earnings					(712)

2001	Merger £m	Restructuring £m	Block Drug £m	Disposal of subsidiaries £m	Total £m
Manufacturing and other restructuring	–	(162)	–	–	(162)
Merger integration costs	(1,069)	–	–	–	(1,069)
Block Drug integration costs	–	–	(125)	–	(125)
Effect on operating profit	(1,069)	(162)	(125)	–	(1,356)
Loss on disposal of businesses	–	–	–	(296)	(296)
Effect on profit before tax	(1,069)	(162)	(125)	(296)	(1,652)
Effect on taxation – operating items					355
Effect on taxation – non-operating items					(33)
Effect on taxation					322
Effect on earnings					(1,330)

8 Other operating income/(expense)

	2003 £m	2002 £m	2001 £m
Royalties and other income	**75**	75	34
Other operating expense	**(436)**	(209)	(126)
	(361)	(134)	(92)
Income from equity investments and other disposals	**228**	23	129
	(133)	(111)	37

Royalties and other income is principally a core of recurring income in the form of royalties from the out-licensing of intellectual property. Other operating expense includes litigation costs and provisions relating to legal claims on withdrawn products, product withdrawals and anti-trust matters. Income from equity investments and other disposals includes equity investment carrying value adjustments arising from stock market changes, product disposals and equity investment sales.

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9 Operating profit

	2003 £m	2002 £m	2001 £m
The following items have been charged in operating profit:			
Employee costs (Note 33)	5,058	4,940	4,686
Advertising	615	688	696
Distribution costs	284	281	272
Depreciation of tangible fixed assets:			
Owned assets	771	760	758
Leased assets	2	4	3
Amortisation of goodwill	13	12	10
Amortisation of intangible fixed assets	74	60	40
Exchange losses on foreign currency deposits/loans	(1)	–	–
Operating lease rentals:			
Plant	90	50	41
Land and buildings	62	61	70
Audit fees	6.9	6.1	7.2
Fees to auditors for other work:			
Auditors' UK firm	1.7	5.2	13.1
Auditors' overseas firms	5.9	9.6	22.6

Analysis of fees to auditors for other work:			
Further assurance (audit-related) services	2.6	1.8	
Tax services	4.6	4.9	
Merger of Glaxo Wellcome and SmithKline Beecham	–	6.0	
Other services	0.4	2.1	

Included within audit fees above is a fee of £10,000 (2002 – £10,000, 2001 – £10,000) relating to the company audit of GlaxoSmithKline plc. Included in further assurance services in 2003 are amounts related to the Group's preparation for the adoption of International Financial Reporting Standards and preparation for section 404 of the Sarbanes-Oxley Act 2002. Tax services relates to fees paid for corporate tax compliance, tax planning and advice. Other services include human resources advisory, compliance and treasury related services. Included within fees to auditors for other work in 2002 is £6.0 million paid to the auditor's management consulting practice, which was sold by them in 2002.

In 2003, the Group has started to apply discounting to certain long-term assets and liabilities, using risk-free rates of return.

10 Joint ventures and associated undertakings

	2003 £m	2002 £m	2001 £m
Associated undertakings:			
Share of profits of Quest Diagnostics Inc.	102	94	79
Share of losses of other associated undertakings	(3)	–	(1)
Amortisation of goodwill	(6)	(6)	(7)
	93	88	71
Share of losses of joint ventures	–	(13)	–
	93	75	71
Share of turnover of joint ventures	31	29	28
Sales to joint ventures and associated undertakings	51	49	52

11 Net interest payable

	2003 £m	2002 £m	2001 £m
Interest payable			
On bank loans and overdrafts	(6)	(6)	(26)
On other loans	(186)	(198)	(169)
In respect of finance leases	(2)	(2)	(3)
Unwinding of discount on provisions	(20)	–	–
	(214)	(206)	(198)
Share of interest payable of associate	(8)	(8)	(19)
	(222)	(214)	(217)
Investment income			
Interest income	58	71	129
Realised gains	–	2	–
Unwinding of discount on assets	3	–	–
	61	73	129
	(161)	(141)	(88)

12 Taxation

Taxation charge based on profits for the period	2003 £m	2002 £m	2001 £m
UK corporation tax at the UK statutory rate	673	479	838
Less double taxation relief	(290)	(117)	(351)
	383	362	487
Overseas taxation	1,578	1,036	876
Deferred taxation	(262)	29	(53)
	1,699	1,427	1,310
Share of taxation charge of associates	40	34	23
	1,739	1,461	1,333

Reconciliation of the current taxation rate on Group profits	2003 %	2002 %	2001 %
UK statutory rate of taxation	30.0	30.0	30.0
Overseas taxes	0.1	0.1	(1.1)
Average Group tax rate	30.1	30.1	28.9
Effect of special tax status in manufacturing locations	(3.9)	(3.9)	(3.7)
Share option deductions in the USA	(0.1)	(0.2)	(1.1)
Merger and restructuring costs	(0.1)	0.7	5.4
R&D credits	(1.1)	(1.2)	(0.9)
Other permanent differences	1.1	(0.8)	(0.4)
Capital allowances in excess of depreciation	(0.3)	(0.5)	–
Intra-Group profit	(0.1)	1.3	1.3
Reversing timing differences on tax losses	–	–	(2.5)
Other timing differences	3.9	2.3	3.9
Prior year items	1.5	(2.4)	(0.7)
Current tax rate on ordinary activities	31.0	25.4	30.2
Capital allowances in excess of depreciation	0.3	0.5	–
Intra-Group profit	0.1	(1.3)	(1.3)
Reversing timing differences on tax losses	–	–	2.5
Other timing differences	(3.9)	(2.3)	(3.9)
Share of taxation charge of associates	0.6	0.6	0.5
Prior year items	(0.6)	3.6	1.5
Tax rate on ordinary activities	27.5	26.5	29.5

The Group operates in countries where the tax rate differs from the UK tax rate. The average Group tax rate has been determined by aggregating the local standard tax rates and weighting these in proportion to accounting profits. 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 share by 4.2p in 2003, 3.6p in 2002 and by 2.7p in 2001.

12 Taxation continued

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. The Group has open issues with the revenue authorities in the USA, UK, Japan and Canada, but by far the largest relates to Glaxo heritage products in the USA.

GlaxoSmithKline has attempted to settle the US dispute, first through direct discussion with the US Internal Revenue Service (IRS) and subsequently through discussions between the US and UK authorities under the terms of the double tax convention between the two countries. GlaxoSmithKline understands that the views of the two tax authorities were so different that they were unable to reach agreement, and discussions were terminated in July 2003.

The Group has now received a claim for additional taxes that the IRS asserts legacy company Glaxo Wellcome owes for the years 1989 to 1996. This statutory notice of deficiency for $2.7 billion (£1.5 billion) in tax principally relates to the allocation of profits for Glaxo heritage products between the USA and other countries. To the extent that the IRS were successful in its claim, interest would be payable. GlaxoSmithKline estimates the interest on the full claim to date would be approximately $2.5 billion (£1.4 billion), net of federal tax relief. As similar tax issues remain open for 1997 to date, GlaxoSmithKline expects to receive further claims by the IRS for these years.

Since GlaxoSmithKline has exhausted all administrative remedies open to it, the Group plans to contest this claim for additional taxes by filing a petition in the US Tax Court, where a trial is not expected until sometime in 2005 or 2006.

GlaxoSmithKline continues to believe that the profits reported by its US subsidiaries for the period 1989 to date, on which it has paid taxes in the USA, are more than sufficient to reflect the activities of its US operations.

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. However, there continues to be a wide difference of views between the Group and the IRS. The ultimate liability for such matters may vary from amounts provided and is dependent upon the outcome of litigation proceedings and negotiations with the relevant tax authorities.

Except as shown in these Financial statements, 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 2003 is required in such a way that incremental tax will arise.

At 31st December 2003, the Group had income tax losses of approximately £225 million (2002 – £69 million) and capital losses estimated to be in excess of £10 billion (2002 – in excess of £9 billion) which are not recognised as deferred tax assets because there is insufficient evidence that these losses will be used.

Tax balances	Current tax creditor £m	Deferred tax debtor £m	Deferred tax provision £m
At 1st January 2003	(1,449)	1,373	(742)
Exchange adjustments	112	(64)	(11)
Charge to profit and loss account	(1,961)	122	140
Cash paid	1,917	–	–
Other movements	(77)	10	7
At 31st December 2003	(1,458)	1,441	(606)

Deferred taxation asset/(liability)	2003 £m	2002 £m
Accelerated capital allowances	**(689)**	(710)
Stock valuation adjustment	**(52)**	(113)
Intra-Group profit	**485**	487
Product and business disposals	**(59)**	(125)
Pensions and other post-retirement benefits	**113**	190
Tax losses	**94**	93
Legal and other disputes	**167**	124
Merger integration and manufacturing restructuring	**157**	204
Other net timing differences	**619**	481
	835	631

Deferred taxation provided on stock valuation adjustments, intra-Group profit and other timing differences shown above are current. All deferred taxation movements arise from the origination and reversal of timing differences. Other net timing differences include accrued expenses and other provisions.

13 Earnings per share

	2003 p	2002 p	2001 p
Basic earnings per share	77.2	66.2	50.3
Adjustment for merger items, restructuring costs and disposal of subsidiaries:			
Merger integration and transaction costs	3.8	10.8	13.0
Restructuring costs	1.0	1.5	2.0
Block Drug integration costs	0.3	0.7	1.6
Disposal of businesses	(0.2)	(0.9)	5.4
Adjusted earnings per share	82.1	78.3	72.3
Diluted earnings per share	77.0	66.0	49.9

Basic and adjusted earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period. The numbers used in calculating basic and diluted earnings per share are reconciled below.

Adjusted earnings per share is calculated using business performance earnings. Business performance, which is the primary performance measure used by management, is presented after excluding merger items, integration and restructuring costs and the disposal of businesses. Management believes that exclusion of these items provides a better reflection of the way in which the business is managed and gives an indication of the performance of the Group in terms of those elements of revenue and expenditure which local management is able to influence. This information, which is provided in addition to the statutory results prepared under UK GAAP, is given to assist shareholders to gain a clearer understanding of the underlying performance of the business and to increase comparability for the periods presented.

Net profit for the period attributable to shareholders	£m	£m	£m
Earnings – basic and diluted	4,484	3,915	3,053
Adjustments for merger items, restructuring costs and disposal of subsidiaries	281	712	1,330
Adjusted earnings	4,765	4,627	4,383

Weighted average number of shares in issue	millions	millions	millions
Basic and adjusted	5,806	5,912	6,064
Dilution for share options	18	22	52
Diluted	5,824	5,934	6,116

Shares held by the Employee Share Ownership Trusts (ESOTs) are excluded. The trustees have waived their rights to dividends on the shares held by the ESOTs.

14 Dividends

	2003 £m	2002 £m	2001 £m
First interim	524	535	546
Second interim	522	530	546
Third interim	520	527	546
Fourth interim	808	754	718
	2,374	2,346	2,356

Dividends per share	2003 p	2002 p	2001 p
First interim	9	9	9
Second interim	9	9	9
Third interim	9	9	9
Fourth interim	14	13	12
	41	40	39

15 Goodwill

	Total £m
Cost at 1st January 2003	**216**
Exchange adjustments	**(23)**
Additions (Note 31)	**2**
Cost at 31st December 2003	**195**
Amortisation at 1st January 2003	**(45)**
Exchange adjustments	**6**
Provision for the year	**(13)**
Amortisation at 31st December 2003	**(52)**
Net book value at 1st January 2003	**171**
Net book value at 31st December 2003	**143**

16 Other intangible assets

	Licences, patents, etc. £m	Brands £m	Total £m
Cost at 1st January 2003	712	1,162	**1,874**
Exchange adjustments	(29)	7	**(22)**
Additions	193	–	**193**
Assets written off	(38)	–	**(38)**
Cost at 31st December 2003	838	1,169	**2,007**
Amortisation at 1st January 2003	(162)	–	**(162)**
Exchange adjustments	5	–	**5**
Provision for the year	(74)	–	**(74)**
Assets written off	2	–	**2**
Amortisation at 31st December 2003	(229)	–	**(229)**
Impairment at 1st January 2003	(53)	(22)	**(75)**
Exchange adjustments	(3)	2	**(1)**
Impairment loss	(8)	(3)	**(11)**
Assets written off	6	–	**6**
Impairment at 31st December 2003	(58)	(23)	**(81)**
Total amortisation and impairment at 31st December 2003	(287)	(23)	**(310)**
Net book value at 1st January 2003	497	1,140	**1,637**
Net book value at 31st December 2003	551	1,146	**1,697**

The licences and patents acquired in the year relate to the acquisition of various compound rights and other research based agreements (see Note 26).

Brands largely comprise a portfolio of products acquired with the acquisition of Sterling Winthrop Inc. in 1994, such as *Panadol*, *Solpadeine* and *Hedex,* and the products acquired with the acquisition of The Block Drug Company in 2001, such as *Sensodyne*, *Polident* and *Poligrip*. 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 Sterling 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 and a post-tax discount rate of eight per cent. The valuation of each Block Drug brand is also reviewed annually using a five year cash flow forecast and a post-tax discount rate of eight per cent.

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17 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 2003	4,310	6,714	332	1,027	**12,383**
Exchange adjustments	(63)	(66)	(3)	(46)	**(178)**
Additions	45	213	11	601	**870**
Disposals	(168)	(471)	(3)	(29)	**(671)**
Reclassifications	(125)	816	94	(785)	**–**
Cost at 31st December 2003	3,999	7,206	431	768	**12,404**
Depreciation at 1st January 2003	(1,258)	(3,950)	(172)	–	**(5,380)**
Exchange adjustments	23	70	1	–	**94**
Provision for the year	(121)	(583)	(69)	–	**(773)**
Disposals	86	345	1	–	**432**
Reclassifications	158	(158)	–	–	**–**
Depreciation at 31st December 2003	(1,112)	(4,276)	(239)	–	**(5,627)**
Impairment at 1st January 2003	(148)	(182)	–	(24)	**(354)**
Exchange	3	2	–	–	**5**
Impairment loss	(19)	(24)	(22)	(4)	**(69)**
Disposals	35	47	–	–	**82**
Impairment at 31st December 2003	(129)	(157)	(22)	(28)	**(336)**
Total depreciation and impairment at 31st December 2003	(1,241)	(4,433)	(261)	(28)	**(5,963)**
Net book value at 1st January 2003	2,904	2,582	160	1,003	**6,649**
Net book value at 31st December 2003	2,758	2,773	170	740	**6,441**

The net book value at 31st December 2003 of the Group's land and buildings comprises freehold properties £2,532 million (at 1st January 2003 – £2,699 million), properties with leases of 50 years or more £182 million (at 1st January 2003 – £135 million) and properties with leases of less than 50 years £44 million (at 1st January 2003 – £70 million). Included in plant, equipment and vehicles at 31st December 2003 are leased assets with a cost of £3 million (at 1st January 2003 – £6 million), accumulated depreciation of £2 million (at 1st January 2003 – £4 million) and a net book value of £1million (at 1st January 2003 – £2 million).

The impairment loss principally arises from decisions to rationalise facilities and is calculated based on either net realisable value or value in use, typically using, which has been recorded in SG&A, a discount rate of eight per cent.

18 Fixed asset investments

	Joint ventures £m	Associated undertakings £m	Equity investments £m	Own shares £m	Total £m
At 1st January 2003	17	153	125	2,826	**3,121**
Exchange adjustments	(2)	(17)	(9)	–	**(28)**
Additions	–	4	33	–	**37**
Charge for the year	–	–	–	(25)	**(25)**
Impairment	–	–	(32)	–	**(32)**
Transfers	–	15	(15)	–	**–**
Disposals	(2)	–	(4)	(26)	**(32)**
Retained profit for the year	–	34	–	–	**34**
Goodwill amortisation	–	(6)	–	–	**(6)**
At 31st December 2003	13	183	98	2,775	**3,069**

Investments in joint ventures comprise £15 million share of gross assets (2002 – £19 million) and £2 million share of gross liabilities (2002 – £2 million).

The principal associated undertaking is Quest Diagnostics, Inc., a US clinical laboratory business listed on the New York Stock Exchange. The investment has a book value at 31st December 2003 of £158 million (2002 – £129 million) and a market value of £904 million (2002 – £782 million). At 31st December 2003, the Group owned 21 per cent of Quest (2002 – 23 per cent). The book value includes goodwill which is being amortised over 20 years; the amortisation charge for 2003 was £6 million. The goodwill at 31st December 2003 amounts to £85 million (2002 – £101 million). Goodwill of £103 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 £7 million (2002 – £7 million) and unlisted investments of £91 million (2002 – £118 million). The market value of listed investments at 31st December 2003 was £9 million (2002 – £11 million). Investments in own shares consist of shares held by Employee Share Ownership Trusts (see Note 34). The market value of own shares at 31st December 2003 was £2,276 million (2002 – £2,161 million). This valuation shortfall is not considered to represent a permanent diminution in value in the context of the length of the future period over which the related share options may be exercised. Accordingly no provision has been made.

19 Equity investments

	Total £m
At 1st January 2003	161
Exchange adjustments	(9)
Additions	37
Impairments	7
Disposals	(32)
At 31st December 2003	164

Equity investments include listed investments of £111 million (2002 – £125 million). The market value of listed investments was £184 million (2002 – £232 million).

20 Stocks

	2003 £m	2002 £m
Raw materials and consumables	636	508
Work in progress	474	673
Finished goods	999	899
	2,109	2,080

21 Debtors

	2003 £m	2002 £m
Amounts due within one year		
Trade debtors	3,715	3,515
Other debtors	532	569
Prepaid pension contributions	440	257
Other prepayments and accrued income	247	178
Amounts due after one year		
Other debtors	512	294
Prepayments and accrued income	10	14
Deferred taxation (Note 12)	1,441	1,373
	6,897	6,200

Debtors include trading balances of £1 million (2002 – £nil) due from joint ventures and associated undertakings. Other debtors due after one year include insurance recovery receivables which have been discounted using a risk-free rate of return.

22 Other creditors

	2003 £m	2002 £m
Amounts due within one year		
Trade creditors	686	715
Taxation (Note 12)	1,458	1,449
Social security	108	87
Other creditors	439	429
Accruals and deferred income	3,121	3,285
Dividends payable	1,333	1,292
	7,145	7,257
Amounts due after one year		
Other creditors	130	113
Accruals and deferred income	102	93
	232	206

Accruals include obligations for wages and salaries of £689 million (2002 – £557 million).

23 Provisions for liabilities and charges

	Pensions and other post-retirement benefits £m	Manufacturing restructuring £m	Merger integration £m	Legal and other disputes £m	Deferred taxation £m	Other provisions £m	Total £m
At 1st January 2003	921	103	403	507	742	157	**2,833**
Exchange adjustments	(48)	(4)	(5)	(74)	11	(4)	**(124)**
Charge for the year	239	49	76	570	(140)	148	**942**
Unwinding of discount	–	–	7	12	–	1	**20**
Applied	(305)	(49)	(184)	(239)	–	(42)	**(819)**
Reclassifications and other movements	–	–	8	231	(7)	(54)	**178**
At 31st December 2003	807	99	305	1,007	606	206	**3,030**

During 2003, the Group made special cash contributions totalling £368 million into the UK and US pension schemes. The contribution relating to the US pension scheme is included within the amounts applied to the provision above; the contributions relating to the UK pension scheme have increased the pension prepayment amount shown under debtors in Note 21.

The Group has recognised costs in 2003 in respect of plans for manufacturing and other restructuring initiated in 1998, 1999 and in 2001 following the merger of Glaxo Wellcome and SmithKline Beecham and acquisition of Block Drug. These plans are largely completed. Costs recognised as a provision, principally in respect of identified severances at sites where it has been announced that manufacturing activities will cease, are expected to be incurred mainly in 2004. Costs of asset write-downs have been recognised as an impairment of fixed assets.

The Group has recognised costs in 2003, 2002 and 2001 in respect of plans for the integration of the Glaxo Wellcome and SmithKline Beecham businesses. Implementation of the integration following the merger is substantially complete. Costs recognised as a provision in respect of identified severances are expected to be incurred in 2004 and in respect of the programme to encourage staff to convert Glaxo Wellcome or SmithKline Beecham share options into GlaxoSmithKline share options when employees exercise these options up to 2010. This latter provision was discounted by £28 million in 2003 using risk-free rates of return.

Provisions for legal and other disputes and other matters include amounts relating to US anti-trust, product liability, contract terminations, self-insurance, environmental clean-up and property rental. The company’s Directors, having taken legal advice, have established provisions after taking into account insurance and other agreements and having regard to the relevant facts and circumstances of each matter and in accordance with accounting requirements. These provisions were discounted by £25 million in 2003 using risk-free rates of return. Reclassifications include amounts receivable under insurance contracts which are now shown within Other debtors in Note 21. No provisions have been made for unasserted claims. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

GlaxoSmithKline is involved in a number of legal and other disputes (including notification of possible claims) where, because of the early stage of the matter, no reliable estimate of the outcome can be made. Accordingly no provision has been recorded for these matters or any unasserted claims.

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 provided are expected to be settled within three years.

For a discussion of legal issues, refer to Note 30, ‘Legal proceedings’.

24 Contingent liabilities

At 31st December 2003 contingent liabilities, comprising guarantees, discounted bills and other items arising in the normal course of business, amounted to £236 million (2002 – £138 million). For a discussion of tax issues, refer to Note 12, ‘Taxation’ and of legal issues, refer to Note 30, ‘Legal proceedings’.

25 Net debt

	2003 £m	2002 £m
Liquid investments	2,493	1,256
Cash at bank	962	1,052
	3,455	2,308
Loans and overdrafts due within one year:		
Bank loans and overdrafts	(230)	(263)
Commercial paper	(836)	(1,284)
Eurobonds and Medium-Term notes	(383)	–
Obligations under finance leases	(1)	(1)
Other loans	(2)	(3)
	(1,452)	(1,551)
Loans due after one year:		
Bank loans	(4)	(3)
Eurobonds, Medium-Term notes and private financing	(3,617)	(3,054)
Loan Stock	(13)	(14)
Obligations under finance leases	(12)	(12)
Other loans	(5)	(9)
	(3,651)	(3,092)
Net debt	(1,648)	(2,335)

At the balance sheet date the Group’s liquid investments had an aggregate market value of £2,509 million (2002 – £1,264 million). Liquid investments include redeemable preference shares, which are fully collateralised with highly rated bonds, of £1 billion (2002 – £nil).

Loans and overdrafts due within one year
Commercial paper comprises a US$10 billion programme, of which £836 million was in issue at 31st December 2003 (31st December 2002 – £1,284 million), backed up by committed facilities of 364 days duration of £784 million (2003 – $1,404 million; 2002 – $1,404 million), renewable annually, and liquid investments of £708 million (2003 – $1,267 million; 2002 – $1,267 million).

The weighted average interest rate on commercial paper borrowings at 31st December 2003 was 1.1 per cent (2002 – 1.3 per cent).

Loans due after one year
In 2003 two bonds were issued under the European Medium Term Note programme; a 1 billion, 3.375 per cent coupon bond and a 500 million, 3.25 per cent coupon bond.

Loans due after one year are repayable over various periods as follows:

	2003 £m	2002 £m
Between one and two years	562	423
Between two and three years	281	563
Between three and four years	2	311
Between four and five years	1,199	2
After five years	1,607	1,793
	3,651	3,092

The loans repayable after five years carry interest at effective rates between 3.3 per cent and 5.3 per cent. The repayment dates range from 2009 to 2033.

25 Net debt continued

Secured loans
Loans amounting to £13 million (2002 – £13 million) are secured by charges on fixed and current assets.

Finance lease obligations	2003 £m	2002 £m
Rental payments due within one year	1	1
Rental payments due between one and two years	2	2
Rental payments due between two and three years	1	1
Rental payments due between three and four years	1	1
Rental payments due between four and five years	2	1
Rental payments due after five years	6	7
Total finance lease obligations	13	13

Financial instruments
Further information is given in Note 32.

26 Commitments

Capital commitments	2003 £m	2002 £m
Contracted for but not provided in the financial statements:		
Intangible fixed assets	1,412	1,410
Tangible fixed assets	171	382
	1,583	1,792

The Group has entered into a number of research collaborations to develop new compounds with other pharmaceutical companies. The terms of these arrangements can include up-front fees, equity investments, loans and commitments to fund specified levels of research in the future. In addition the Group will often agree to make further payments if future ‘milestones’ are achieved. As some of these agreements relate to compounds in the early stages of development, milestone payments will continue for a number of years if the compounds move successfully through the development process. Generally the closer the product is to marketing approval the greater the possibility of success.

The Group also has other commitments of £144 million (2002 – £162 million) relating to revenue payments to be made under licences and other alliances, principally to Exelixis Inc.

A number of commitments were made in 2003 under licensing and other agreements, principally with NeuroSearch A/S, Ranbaxy Laboratories Ltd. and POZEN Inc.

Commitments under operating leases to pay rentals for the next year	2003 £m	2002 £m
Operating leases on land and buildings which expire:		
In one year or less	6	10
Between one and five years	19	47
After five years	35	56
	60	113
Operating leases on plant, equipment and vehicles which expire:		
In one year or less	8	7
Between one and five years	50	47
After five years	2	1
	60	55

Commitments under operating leases to pay rentals in future years		
2004	120	168
2005	94	97
2006	78	80
2007	54	59
2008	43	49
2009 and thereafter	158	249
	547	702

27 Share capital and share premium account

	Ordinary Shares of 25p each		Share premium account
	Number	£m	£m
Share capital authorised			
At 31st December 2002	10,000,000,000	2,500	
At 31st December 2003	10,000,000,000	2,500	
Share capital issued and fully paid			
At 1st January 2002	6,172,965,989	1,543	170
Share capital issued under share option schemes	7,049,394	2	54
Share capital purchased and cancelled	(155,749,038)	(39)	–
At 31st December 2002	6,024,266,345	1,506	224
Share capital issued under share option schemes	6,041,283	1	40
Share capital purchased and cancelled	(80,844,000)	(20)	–
At 31st December 2003	5,949,463,628	1,487	264

	Number (000)
Number of shares issuable under outstanding options (Note 34)	
At 31st December 2002	217,953
At 31st December 2003	259,990
Number of unissued shares not under option	
At 31st December 2002	3,757,781
At 31st December 2003	3,790,546

In October 2002, GlaxoSmithKline commenced a new £4 billion share buy-back programme. This follows the completion of the £4 billion buy-back programme announced in 2001. A total of £1,199 million has been spent on the new share buy-back programme, of which £980 million was spent in 2003. The exact amount and timing of future purchases, and whether some repurchased shares will be held as Treasury shares rather than being cancelled, will be determined by the company and is dependent on market conditions and other factors. In the period 1st January 2004 to 27th February 2004 a further 5 million shares have been purchased and cancelled at a cost of £55 million.

For details of substantial shareholdings refer to ‘Substantial shareholdings’ on page 162.

28 Non-equity minority interests

SmithKline Beecham 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 six series. The dividend on these shares was fixed on issuance in 1996 for a seven-year period that ended in July 2003 for half of the shares and for a five year period which ended during 2001 for the other half. The dividend for all these shares now varies, predominately with prevailing interest rates, and is set every seven weeks at an auction at which the shares are also traded.

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 also varies under conditions similar to the Flex AMPS described above.

Together, the ARPS and the Flex AMPS constitute the preference shares, which represent the non-equity minority interests. Notice to redeem all eleven series was given in February 2004, with redemption expected to be completed in March and April 2004.

SmithKline Beecham plc has, in certain circumstances, guaranteed payment of dividends declared on the preference shares. SmithKline Beecham plc has also agreed with SBH Corp that in certain circumstances it will provide support to 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 SmithKline Beecham plc. The preference shares represent a long-term non-equity minority interest in the Group balance sheet in accordance with FRS 4 ‘Capital Instruments’ and UITF 33 ‘Obligations in capital instruments’.

29 Reserves

	Other reserves £m	Profit and loss account £m	Total £m
At 31st December 2000	1,849	4,155	6,004
Goodwill written back	–	356	356
Exchange movements	–	(151)	(151)
Shares purchased for cancellation	17	(1,274)	(1,257)
Profit attributable to shareholders	–	3,053	3,053
Dividends	–	(2,356)	(2,356)
Revaluation of goodwill due to exchange	–	28	28
At 31st December 2001	1,866	3,811	5,677
Exchange movements	–	(154)	(154)
UK tax on exchange movements	–	(67)	(67)
Shares purchased for cancellation	39	(2,220)	(2,181)
Profit attributable to shareholders	–	3,915	3,915
Dividends	–	(2,346)	(2,346)
Unrealised gains on equity investments	–	7	7
At 31st December 2002	1,905	2,946	4,851
Exchange movements	–	37	37
Tax on exchange movements and unrealised gains	–	(69)	(69)
Shares purchased for cancellation	20	(980)	(960)
Profit attributable to shareholders	–	4,484	4,484
Dividends	–	(2,374)	(2,374)
Unrealised gains on equity investments	–	7	7
Revaluation of goodwill due to exchange	_	(7)	(7)
At 31st December 2003	1,925	4,044	5,969

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. The goodwill written back in 2001 relates primarily to the disposals of Affymax and part of the Group's holding in Quest Diagnostics, Inc. Goodwill denominated in local currencies which is subject to revaluation amounted to £300 million at 31st December 2003.

Goodwill on acquisitions after 1st January 1998 has been capitalised, in accordance with the accounting policy set out in Note 2.

Exchange movements taken to reserves in 2003 include losses of £103 million (2002 – losses £1,251 million, 2001 – losses £114 million) on foreign currency loans less deposits, gains of £133 million (2002 – gains £1,097 million, 2001 – losses £9 million) on the retranslation of net assets and £7 million (2002 – £nil, 2001 – losses £28 million) on goodwill eliminated against reserves.

The tax on exchange movements and unrealised gains in the year of £69 million (2002 – £67 million, 2001 – £nil) relates to the taxable element of the foreign currency loans less deposits and unrealised gains taken to reserves.

Exchange adjustments debited to reserves cumulatively amount to £1,415 million (2002 – £1,452 million, 2001 – £1,298 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 2003 (2002 – £1,561 million; 2001 – £1,561 million). Other reserves also include the capital redemption reserve created as a result of the share buy-back programme amounting to £76 million at 31st December 2003 (2002 – £56 million, 2001 – £17 million).

Total reserves amounted to £5,969 million at 31st December 2003 (2002 – £4,851 million, 2001 – £5,677 million), of which £8,981 million (2002 – £10,879 million; 2001 – £718 million) relates to the company and £86 million (2002 – £76 million, 2001 – £61 million) relates to joint ventures and associated undertakings.

The profit of GlaxoSmithKline plc for the year was £1,436 million (2002 – £10,598 million, 2001 - £4,331 million), which after dividends of £2,374 million (2002 – £2,352 million, 2001 – £2,356 million), gave a retained loss of £938 million (2002 – profit of £8,246 million, 2001 – profit of £1,975 million). After the cost of shares purchased for cancellation of £980 million (2002 – £2,220 million, 2001 – £1,274 million) and an unrealised profit on capital reduction by subsidiary of £nil (2002 – £4,096 million, 2001 – £nil), the profit and loss account reserve at 31st December 2003 stood at £8,905 million (2002 – £10,823 million, 2001 – £701 million), of which £4,096 million is unrealised (2002 – £4,096 million, 2001 – £nil).

30 Legal proceedings

The Group is involved in numerous legal and administrative proceedings, principally product liability, intellectual property, antitrust, and governmental investigations and related private litigation. The most significant of those matters are described below.

Intellectual property
USA

Paxil
In the USA a number of distributors of generic drugs have filed applications with the FDA to market generic versions of *Paxil*/*Seroxat* (paroxetine hydrochloride) prior to the expiration in 2006 of the Group's patent on paroxetine hydrochloride hemihydrate. Apotex launched its generic version of *Paxil* in September 2003. The other distributors are looking to bring to market anhydrate or other versions of paroxetine hydrochloride and in one case paroxetine mesylate. In response the Group filed actions against all those distributors for infringement of various of the Group's patents. The cases are complex but the Group believes that the generic anhydrate and other versions infringe because they contain and/or convert to the hemihydrate form and/or infringe other Group patents.

In July 1998 GlaxoSmithKline filed an action against Apotex in the US District Court for the Northern District of Illinois for infringement of the Group's patent for paroxetine hydrochloride hemihydrate. Apotex had filed an Abbreviated New Drug Application (ANDA) with the FDA seeking approval to introduce a generic form of *Paxil*. Following a trial in February 2003 the judge ruled that GlaxoSmithKline's patent is valid but not infringed by Apotex's product. GlaxoSmithKline appealed the ruling of non-infringement to the US Court of Appeals for the Federal Circuit (CAFC), which hears all appeals from US District Courts on intellectual property matters. The CAFC heard the appeal in January 2004 but as of the date of this report no decision has yet been announced.

In June 1999 GlaxoSmithKline filed an action against Geneva Pharmaceuticals, a subsidiary of Novartis Pharmaceuticals, in the US District Court for the Eastern District of Pennsylvania for infringement of the Group's patents for paroxetine hydrochloride following notice of Geneva's ANDA filing. That case has been consolidated with similar infringement actions against other generic companies that subsequently filed ANDAs. Additional infringement actions have been brought based on patents issued subsequent to the original filing against Apotex in the Northern District of Illinois. The Group also filed an action against Apotex relating to those new patents in the Eastern District of Pennsylvania. In December 2002 the judge granted in part and denied in part summary judgement motions filed by Apotex with the result that issues of validity and infringement of three of the four new patents will move toward trial. The Group has petitioned the District Court to permit an interim appeal to the CAFC. In June 2003 the Group requested the US Food and Drug Administration (FDA) to remove three patents related to *Paxil* from the register of pharmaceutical patents maintained by the FDA (the Orange Book). The delisting did not affect the validity of these patents or the related patent litigation. Following FDA approval of its ANDA, Apotex subsequently launched a generic version of *Paxil* in September 2003.

The Group continues to pursue patent infringement claims in litigation in the Eastern District of Pennsylvania against Apotex, Geneva, Alphapharm, Andrx, Teva Pharmaceuticals and Zenith, and bulk suppliers BASF and Sumika Fine Chemicals. Apotex Alphapharm, BASF and Sumika have filed counterclaims in these actions alleging that the Group has violated anti-trust or unfair competition laws.

In February 2003 the CAFC heard Apotex's appeal from a decision by the US District Court for the District of Columbia denying Apotex's request that the FDA be required to delist certain of the Group's patents for *Paxil* from the Orange Book. In October 2003 the CAFC affirmed the district court decision and dismissed the case.

In March 2000 GlaxoSmithKline filed an action against Pentech Pharmaceuticals 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. In April 2003 the Group reached a settlement with Pentech and Par Pharmaceuticals to which Pentech had granted rights under Pentech's ANDA for paroxetine hydrochloride capsules. The settlement allowed Par to distribute in Puerto Rico substitutable generic paroxetine hydrochloride immediate release tablets supplied and licensed from the Group for a royalty payable to the Group. Par became entitled to distribute the same product in the US market once Apotex's generic version of *Paxil* became available there in September 2003. In the settlement Par and Pentech acknowledge that the GlaxoSmithKline patent covering the hemihydrate form of paroxetine hydrochloride is valid and enforceable and would be infringed by Pentech's proposed capsule product. The Bureau of Competition of the US Federal Trade Commission reviewed the settlement. The review was voluntary and was conducted at the request of the Group, Par and Pentech. Pentech's former supplier Asahi Glass Co. filed claims alleging that the settlement violated the anti-trust laws. The US District Court for the Northern District of Illinois dismissed these claims in October 2003. Asahi has appealed the decision to the CAFC. Similar claims brought by Apotex and Sumika are pending in the US District Court for the Eastern District of Pennsylvania.

In October 2000 GlaxoSmithKline filed an action against Synthon Pharmaceuticals 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 had filed a 505(b)(2) application (a 'paper NDA') with the FDA using paroxetine mesylate, a different salt form of paroxetine than that used in the marketed form of *Paxil*. In December 2003 GlaxoSmithKline and Synthon reached a settlement pursuant to which the Group has granted Synthon a royalty-bearing license to market its paroxetine mesylate product in the USA.

Wellbutrin
Five distributors of generic pharmaceutical products have filed ANDAs for sustained release bupropion hydrochloride tablets (*Wellbutrin SR* and *Zyban*), accompanied in each case with a certification of invalidity and/or infringement of the Group's patents. The Group has brought suit for patent infringement against each of the filing parties. The Group filed suit against Andrx Pharmaceuticals, the first to file an ANDA, in the US District Court for the Southern District of Florida. In February 2002 the District Court Judge granted Andrx's summary judgement motion and ruled that its product does not infringe the Group's patents. In September 2003 the CAFC reversed that decision and remanded the case to the district court for trial.

30 Legal proceedings continued

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 Southern District of New York, IMPAX Laboratories in the US District Court for the Northern District of California and Excel Pharmaceuticals in both the US District Court for the District of New Jersey and the US District Court for the Eastern District of Virginia. The Watson case has been settled on terms involving a supply agreement referred to below.

Judges granted summary judgement of non-infringement in the Impax and Excel cases and the Group appealed each of those decisions to the CAFC. In January 2004 the CAFC ruled in favour of IMPAX and affirmed the district court ruling that IMPAX's generic version did not infringe the Group's patents. The FDA had earlier granted tentative approval for the IMPAX generic version. The CAFC has not yet ruled on the Group's appeal of the summary judgement of non-infringement in the Excel case. Eon's motion for summary judgement for non-infringement was denied. The district court trial in the Eon case was concluded in December 2003 but as of the date of this report the decision has not yet been announced.

In January 2004 the CAFC granted Eon's motion to stay the preliminary injunction against launch of Eon's 100 mg generic version that had been entered by the trial court at the conclusion of the trial. Under the terms of its supply agreement with GlaxoSmithKline, Watson Pharmaceuticals began shipping a second 100 mg generic version the same day that Eon began shipment of its generic version in January 2004.

Zofran
In August 2001 the Group commenced an action in the US District Court for the District of New Jersey against Reddy-Cheminor and Dr. Reddy's Laboratories. Dr Reddy had certified invalidity of three patents for ondansetron, the active ingredient in *Zofran* tablets, including the compound patent that expires in July 2005 and two method of use patents, the later of which expires in December 2006, in both instances taking into account an expected extension for paediatric exclusivity. The Reddy case is scheduled for trial in May 2004. In July 2003 the Group filed an action against Dr. Reddy's Laboratories in the same district court for infringement of the Group's patents related to the orally disintegrating tablet presentation of *Zofran*. In October 2003 the Group filed an action against West-ward Pharmaceuticals, Inc. in the same district court for infringement of the Group's patents related to an injectable presentation of *Zofran*. Both the Dr. Reddy disintegrating tablet case and the West-ward case have been consolidated with the earlier Dr. Reddy case scheduled for trial in May 2004.

In March 2002 the Group filed a similar action against Teva Pharmaceuticals USA Inc. in the US District Court for the District of Delaware alleging infringement of the two method of use patents for ondansetron. Teva had certified invalidity or non-infringement of the two method of use patents. Teva did not challenge the compound patent. The trial in the Teva case concluded in January 2004 but as of the date of this report no decision has been announced. In September 2003, November 2003 and January 2004 the Group filed actions against Teva in the same court for infringement of the Group's patents related to the injectable and orally disintegrating tablet presentations of *Zofran*.

An earlier ondansetron case, involving orally disintegrating *Zofran* tablets, was commenced by the Group in January 2003 against Kali Laboratories in the US District Court for the District of New Jersey. That case is still in the discovery phase. In June 2003 the Group commenced an action in the US District Court for the District of New Jersey against the Faulding Pharmaceutical Company alleging infringement of the two method of use patents for ondansetron. Faulding did not challenge the compound patent. That case, as of the date of this report, has been stayed pending decisions in the Teva, Reddy and Kali cases.

Lamictal
In August 2002 the Group commenced an action in the US District Court for the District of New Jersey against Teva Pharmaceuticals USA, Inc., alleging infringement of the Group's compound patent for lamotrigine, the active ingredient in *Lamictal* oral tablets. That patent expires in July 2008. The defendant has filed an ANDA with the FDA with a certification of invalidity of the Group's patent. FDA approval of that ANDA is stayed until the earlier of January 2005 or resolution of the patent infringement litigation. No trial date has been set for the case.

Levitra
In October 2002 Pfizer Inc. filed an action against Bayer AG and GlaxoSmithKline in the US District Court for the District of Delaware, alleging that the manufacture and sale of *Levitra* (vardenafil) would infringe a patent newly issued to Pfizer and asking that Bayer and GlaxoSmithKline be permanently enjoined. In September 2003 the US Patent and Trademark Office initiated a re-examination of the Pfizer patent based on questions of patentability in light of prior art. The Pfizer action, including an additional suit filed in the same court following the launch of *Levitra* in the USA, is predicated on the validity of that patent and has been stayed pending the outcome of the re-examination.

Imitrex
In December 2003 the Group commenced an action in the US District Court for the Southern District of New York against Dr. Reddy's Laboratories, alleging infringement of one of two primary compound patents for sumatriptan, the active ingredient in *Imitrex*. That patent expires in 2008. The defendant has filed an ANDA with the FDA with a certification of invalidity of that compound patent but did not certify invalidity or non-infringement of the second compound patent that expires in December 2006. The case is in its early stages.

Valtrex
In May 2003 the Group commenced an action in the US District Court for the District of New Jersey against Ranbaxy Laboratories, alleging infringement of the Group's compound patent for valaciclovir, the active ingredient in *Valtrex*. That patent expires in 2009. The defendant has filed an ANDA with the FDA with a certification of invalidity of the Group's compound patent and non-infringement of two other patents expiring in 2016 that are listed in the Orange Book. FDA approval of that ANDA is stayed until the earlier of October 2005 or resolution of the patent infringement litigation. Discovery is underway in the case.

Avandia
In August 2003 the Group filed an action in the US District Court for the District of New Jersey against Teva Pharmaceuticals USA Inc. for infringement of the Group's patent relating to the maleate salt form of rosiglitazone, the active ingredient in *Avandia*, which expires in 2015. In September 2003 the Group filed a comparable action in the same court against Dr. Reddy's Laboratories, alleging infringement of the same patent for the maleate salt form.

30 Legal proceedings continued

Both Dr Reddy's Laboratories and Teva filed ANDAs with the FDA with certifications of invalidity of the Group's maleate salt patent. FDA approval of those ANDAs is stayed until the earlier of November 2006 or resolution of the respective patent infringement actions. Teva subsequently filed an additional certification challenging the validity of the Group's basic compound patent for rosiglitazone, and in January 2004 the Group commenced an action against Teva in the same court for infringement of that patent. The basic compound patent currently expires in 2008, although expiry is expected to be extended to 2011 after the US Patent and Trademark Office has granted patent term restoration.

Augmentin
In August 2002 the Group commenced proceedings against Geneva Pharmaceuticals, Biochemie GmbH and Biochemie SpA and their parent Novartis AG before the US International Trade Commission and in Colorado state court, alleging that the manufacture and sale in the USA of Geneva's generic *Augmentin* product using a production strain stolen earlier from GlaxoSmithKline constitutes misappropriation of the Group's trade secrets and unfair competition. Both proceedings sought to prevent the importation and sale in the USA of generic *Augmentin* containing clavulanate made using the stolen GlaxoSmithKline production strain; the Colorado action sought damages as well. An additional action was brought against Lek Pharmaceuticals, another Novartis affiliate, in October 2002 in North Carolina state court. In July 2003 the Group reached a settlement agreement with Novartis and its affiliate companies named in the Group's complaints over both the ITC complaint and related state court actions. Under the terms of the agreement, the Group is to receive single-digit percentage royalties on US sales of generic versions of *Augmentin* sold by Novartis or its affiliate companies from July 2002 through to June 2006. Similar state court actions were initiated against Teva Pharmaceuticals USA Inc. and Ranbaxy Pharmaceuticals Inc. in August 2002 in the Philadelphia County Court of Common Pleas, and are not affected by the Novartis settlement. In November 2003 the CAFC affirmed the decision of the US District Court for the Eastern District of Virginia holding the Group's patents covering *Augmentin* invalid.

Ceftin
The Group 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 the Group but the CAFC subsequently vacated that injunction and remanded the case to the District Court for a full trial on the merits. Thereafter Ranbaxy launched its generic version in March 2002. The trial was concluded in August 2003 but as of the date of this report no decision has been announced. Since the patent as to which the Group claims infringement expired in May 2003, the Group now seeks monetary damages based on Ranbaxy's sales. The Group 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. A preliminary injunction was granted in favour of the Group in June 2002. Apotex subsequently obtained FDA approval for their generic product. At trial the judge ruled that Apotex willfully infringed the Group's patent and awarded attorney fees to GlaxoSmithKline.

UK and Europe

Seroxat
Following the expiration of the data exclusivity period in Europe, a marketing authorisation was issued to Synthon BV/Genthon in October 2000 by regulatory authorities in Denmark for paroxetine mesylate, a different salt form of paroxetine than that used in the marketed form of *Seroxat*/*Paxil*. Marketing authorisations have since been granted in a number of other European countries the majority of which are based on the original Danish approval under the Mutual Recognition process. Generic products containing paroxetine mesylate have been launched in Austria, Denmark, France, Germany, Ireland, Italy, the Netherlands and Sweden, although the product in Austria and Denmark has been withdrawn following the award of patent interim injunctions. 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* and questions from that case were referred to the European Court of Justice in February 2003.

Marketing authorisations have also been issued in eleven European countries for products containing paroxetine hydrochloride anhydrate, another variant of the Group's product. Generic products containing the anhydrate are now on the market in Austria, Denmark, Finland, France, Germany, Italy, the Netherlands, Portugal, Spain, Sweden and the UK. 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 litigating its position in actions in many European and other countries outside the USA. In June 2002 the European Patent Office Opposition Division rejected an opposition filed by Synthon against the Group's European patent covering a crystal form of paroxetine mesylate that is used in Synthon's product. That decision is under appeal.

In the UK, following a revocation action initiated by Synthon, the Court of Appeal upheld the validity of the corresponding UK patent. This decision overturned the first instance decision which had held that the patent was invalid. Synthon's petition for leave to appeal to the House of Lords has been accepted. In February 2003 the Dutch court revoked the corresponding Dutch patent. That decision has been appealed.

In response to a challenge by BASF to the Group's UK patent for paroxetine hydrochloride anhydrate in the UK High Court in July 2002 the Judge decided that the patent was partly valid and partly invalid. The claims held valid were asserted against Apotex, Neolab and Waymade Healthcare and an interim injunction preventing sale of their version of the product was granted in November 2002. In June 2003 the UK Court of Appeal upheld the first instance decision which held the process claims of the patent to be valid. The infringement action against Apotex continued under the same patent and the UK High Court ruled in December 2003 in favour of Apotex and held the patent not infringed and also invalid. GlaxoSmithKline has filed an appeal from that decision and a hearing has been scheduled for 22nd/23rd March 2004. In the interim Apotex launched their generic version of *Seroxat* in the UK in January 2004.

Seretide
In January 2003 Cipla and Neolab filed an action in the UK High Court, seeking revocation of one of the Group's UK patents relating to the asthma treatment *Seretide/Advair*.

30 Legal proceedings continued

This patent, set to expire in 2013, including supplementary protection certificate protection, relates to the combination of the active ingredients, salmeterol and fluticasone propionate, on which separate patents exist (which have not been challenged), providing patent protection in the UK until late 2005.

Subsequently Generics (U.K.), IVAX and Arrow Generics filed revocation actions with respect to the same patent. The trial for those revocation actions was completed in January 2004 and the judge's decision is expected shortly. Several other UK *Seretide* patents, for example those relating to the *Diskus* device and the CFC-free MDI device which expire in 2011 and 2012 respectively, have not been challenged.

Product liability

Paxil

The Group has received both purported class action and individual lawsuits filed in state and federal courts in the USA alleging that paroxetine (the active ingredient in *Paxil*) is addictive and causes dependency and withdrawal reactions. Plaintiffs seek remedies including compensatory, punitive and statutory damages and the cost of a fund for medical monitoring. In 2003 a federal judge in the US District Court for the Central District of California denied class action certifications for a nationwide class and a California statewide class as to cases filed in federal court in that district. Subsequently, on petition from plaintiffs' counsel all federal court cases have been transferred to that District Court for consolidation in Multidistrict Litigation (MDL). Most of the remaining lawsuits are in their early stages although certain state court trials are scheduled to start in May 2004. There has been no determination as to whether any of the lawsuits pending in the MDL or in state courts will be permitted to proceed as class actions.

In the last decade there has been litigation against the manufacturers of Prozac and other selective serotonin reuptake inhibitor (SSRI) products such as *Paxil* for homicidal or suicidal behaviour exhibited by users of their products. The Group has received a number of such claims and lawsuits with respect to *Paxil*. None of these are or purport to be class actions.

Phenylpropanolamine

Following a report from the Yale Haemorrhagic Stroke Project that found a suggestion of an association between first use of phenylpropanolamine ('PPA') decongestant and haemorrhagic stroke, the Group and most other manufacturers voluntarily withdrew consumer healthcare products in which PPA was an active ingredient. Since the PPA product withdrawal the Group has been named as a defendant in numerous personal injury and class action lawsuits filed in state and federal courts alleging personal injury or increased risk of injury from use of products containing PPA and unfair and deceptive business practices. Plaintiffs seek remedies including compensatory and punitive damages and refunds. The federal cases have been consolidated in a multidistrict litigation proceeding in the US District Court for the District of Washington. The judge responsible for those proceedings has denied class certification and struck all class allegations in the federal personal injury and consumer refund class actions. A limited number of cases in which the Group or other manufacturers are defendants are now reaching trial in state courts. Class certification has been denied in California state court and a Pennsylvania state court putative class action has been dismissed, leaving no putative class actions pending against the Group in this litigation.

Baycol

In August 2001 Bayer AG withdrew *Baycol* (cerivastatin sodium) worldwide in light of reports of adverse events, including deaths, involving rhabdomyolosis. GlaxoSmithKline had participated in the marketing of *Baycol* in the USA pursuant to a co-promotion agreement with Bayer which was the license holder and manufacturer of the product.

Following the withdrawal, Bayer and GlaxoSmithKline have been named as defendants in thousands of lawsuits filed in state and federal courts in the USA on behalf of both individuals and putative classes of former *Baycol* users. A number of the suits allege that the plaintiffs have suffered personal injuries, including rhabdomyolosis, from the use of *Baycol*. Others claim that persons who took *Baycol*, although not injured, may be at risk of future injury or may have suffered economic damages from purchasing and using *Baycol*. Plaintiffs seek remedies including compensatory, punitive and statutory damages and creation of funds for medical monitoring. GlaxoSmithKline and Bayer Corporation, the principal US subsidiary of Bayer AG, have signed an allocation agreement under which Bayer Corporation has agreed to pay 95 per cent of all settlements and compensatory damages judgements with each party retaining responsibility for its own attorneys' fees and any punitive damages. The federal cases have been consolidated in a multidistrict litigation proceeding in the US District Court for the District of Minnesota. Numerous cases are scheduled for trial in state and federal courts during 2004. To date only one class action, in which GlaxoSmithKline was not named as a defendant, has been certified in Oklahoma. In September 2003 plaintiffs' class action certification motion in the consolidated federal multi-district litigation was denied.

Fen-Phen

In 1997 the FDA became aware of reports of cardiac valvular problems in individuals for whom fenfluramine or dexfenfluramine alone or in combination of 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 thousands of lawsuits in various state and federal district courts in the USA. Most of the lawsuits seek relief including some combination of compensatory and punitive damages, medical monitoring and refunds for purchases of drugs. In 1997 the Judicial Panel on Multidistrict Litigation issued an order consolidating and transferring all federal actions to the District Court for the Eastern District of Pennsylvania. That court approved a global settlement proposed by defendant Wyeth, which sold fenfluramine and dexfenfluramine. The settlement, subsequently confirmed by the Third Circuit Court of Appeals, does not include any of the phentermine defendants, including the Group. Individual plaintiffs may elect to opt out of the class settlement and pursue their claims individually and tens of thousands of plaintiffs have elected to do so. Wyeth continues to settle individual state court cases before trial and the Group continues to be dismissed from lawsuits as they are settled by Wyeth.

30 Legal proceedings continued

Thimerosal
GlaxoSmithKline, along with a number of other pharmaceutical companies, has been named as a defendant in numerous individual personal injury lawsuits and purported class actions in state and federal district courts in the USA and courts in Canada alleging that thimerosal, a preservative used in vaccines, causes neurodevelopmental disorders and other injuries. Plaintiffs seek remedies including compensatory, punitive and statutory damages and the cost of a fund for medical monitoring and research. The lawsuits are in their early stages and there has been no determination as to whether any of the purported class actions will be permitted to proceed as class actions.

Lotronex
Following the voluntary withdrawal of *Lotronex* in the USA in November 2000 a number of lawsuits have been filed against the Group in state and federal district courts, including individual personal injury actions and purported class actions asserting product liability and consumer fraud claims. Plaintiffs seek remedies including compensatory, punitive and statutory damages. A substantial number of claims have been settled. Most of the remaining actions are in their early stages although tentative trial dates for some cases have been set for summer and fall 2004. To date a class has been certified in only one of the class actions. In that matter a West Virginia state court rejected plaintiffs' request to certify a national refund class, but did certify a class of West Virginia consumers who suffered 'only economic injury resulting from the individual purchase' of *Lotronex* and noted that damages, if proven, would be limited to the cost of the medication.

Government investigations

Colorado US Attorney subpoena
In February 2004 GlaxoSmithKline received a subpoena from the US Attorney's office in Colorado regarding the Group's sales and promotional practices relating to a number of its largest selling products for the period from January 1997 to present. The Group is co-operating with the investigation which is in its early stages.

Average wholesale price
GlaxoSmithKline has responded 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 and California 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 and California, comparable state laws) as a result of the way certain drugs had been priced based on 'average wholesale price' (AWP) and the way the Medicare and Medicaid programmes reimburse for those drugs.

Subsequently, the states of Nevada, Montana, New York and Connecticut through their respective attorneys general and several counties in New York state have filed civil lawsuits in state and federal court against GlaxoSmithKline and several other drug companies. The actions claim – on behalf of the states as payers and on behalf of in-state patients as consumers – damages and restitution based on defendants' AWP-based pricing for an undefined set of pharmaceutical products covered by the states' Medicaid programmes. In addition, private payer class action lawsuits have been filed against GlaxoSmithKline in several federal district and state courts. All the federal cases have been consolidated in a multidistrict litigation proceeding in the US District Court for the District of Massachusetts.

All of the civil suits filed in state court by state attorneys general and class action plaintiffs were initially removed to federal court and then conditionally transferred to the federal court in Massachusetts. Three of the attorney general cases (New York, Nevada and Connecticut) and one of the private payer class action cases have since been remanded to their respective state courts, and other remand motions are pending. All the actions are in their early stages.

Cidra, Puerto Rico manufacturing site
In October 2003 the FDA began an investigation of the Group's manufacturing facility in Cidra, Puerto Rico. The Cidra site is engaged in tableting and packaging for a range of GlaxoSmithKline products – primarily for the US market – including *Paxil*, *Paxil CR*, *Coreg*, *Avandia* and *Avandamet*. Subsequently, the FDA has issued two Forms 483 ('observations' of possible deficiencies in manufacturing practices) to the Group.

The FDA observations relate to certain aspects of production controls, process validation and laboratory investigations primarily in respect of activities that occurred between 2001 and 2003. The Group has responded to the observations contained in the Forms 483, but to date the FDA has not advised the Group as to whether any further action is indicated. The Group continues to work closely with the FDA to address any concerns and implement any changes required by the agency arising from the Forms 483 or the FDA investigation. The Group has received no indication that ongoing supply from the site will be affected.

Anti-trust
Paxil
In November 2000 the US Federal Trade Commission ('FTC') staff advised the Group that they were conducting a non-public investigation to determine whether the Group was violating Section 5 of the Federal Trade Commission Act by 'monopolizing or attempting to monopolize' the market for paroxetine hydrochloride by preventing generic competition to *Paxil* and requested the Group to submit certain information in connection with that investigation. In October 2003 the FTC closed its investigation on the basis of its finding that no further action is warranted.

Following public reference to the FTC investigation regarding *Paxil*, purported class actions have been filed in the US District Court for the Eastern District of Pennsylvania on behalf of indirect purchasers, including consumers and third party payers, and direct purchasers. The plaintiffs claim that the Group has monopolized a 'market' for *Paxil* by bringing allegedly sham patent litigation and allegedly abusing the regulatory procedures for the listing of patents in the FDA Orange Book. Treble damages are sought for alleged overcharges flowing from the conduct. The cases are scheduled for trial in December 2004. Motions for certifications of classes of direct and indirect purchasers have not yet been decided. In patent infringement litigation with GlaxoSmithKline, several generic drug companies have filed anti-trust counterclaims based on the same allegations. In October 2003, anti-trust claims filed by Asahi Glass Co. were dismissed in US District Court for the Northern District of Illinois. Asahi has appealed the decision to the CAFC. GlaxoSmithKline's motions to dismiss portions of counterclaims filed by Apotex and Sumika in US District Court for the Eastern District of Pennsylvania have not yet been decided.

Relafen
In August 2001 the US District Court for the District of Massachusetts ruled the Group's patent for nabumetone (*Relafen*) invalid for anticipatory art and unenforceable on the grounds of inequitable conduct.

30 Legal proceedings continued

In August 2002 the CAFC issued a decision affirming the District Court's judgement of invalidity but declining to rule on the judgement of inequitable conduct.

Following the District Court decision, antitrust claims alleging competitive injury and overcharges were filed by Teva and Eon Pharmaceuticals, generic manufacturers of nabumetone, by purported classes of direct and indirect purchasers and payers and by individual retail chains.

The plaintiffs' claims are based on allegations of fraudulent procurement of a patent, wrongful listing of the patent in the FDA Orange Book and prosecution of sham patent infringement litigation. Those cases, which were originally filed in the US District Courts for the District of Massachusetts and the Eastern District of Pennsylvania, were all transferred to the District of Massachusetts. The Group has settled the cases filed by Teva, Eon and a group of major retail pharmacy chains. In January 2004 the Group reached a settlement with the class of direct purchasers pursuant to which the Group has agreed to pay $175 million. That settlement is subject to approval of the US District Court. Litigation continues with a class of indirect purchasers in the same court. That trial is set for June 2004.

Augmentin
In 2002, the US District Court for the Eastern District of Virginia found various patents covering *Augmentin* invalid. That holding was subsequently affirmed by the CAFC. Immediately following the adverse trial court decision, purported antitrust class actions were filed on behalf of consumers and third party payers in various federal courts, which have now all been transferred or consolidated in the US District Court for the Eastern District of Virginia. Plaintiffs allege that the Group knowingly obtained invalid patents and engaged in other anticompetitive conduct to prevent entry of generic products in violation of the monopolization section of the US antitrust laws. Plaintiffs seek declaratory and injunctive relief as well as treble damages for the alleged overcharges. There has been no determination as to whether the putative class actions will be permitted to proceed as class actions. Two new complaints were filed shortly after the CAFC decision. First is a complaint filed in December 2003 in the US District Court for the Eastern District of Virginia by Lek Pharmaceuticals, a wholly-owned subsidiary of Novartis, seeking lost profits, treble damages, injunctive relief and attorneys' fees. The second is a purported class action filed in that same court on behalf of direct purchasers, primarily wholesalers.

Wellbutrin
Separately, the Group has prosecuted patent infringement suits against four companies that filed ANDAs seeking permission to sell generic bupropion (*Wellbutrin SR/Zyban*) in the USA. In three of those cases, summary judgement was entered against the Group. Following those adverse rulings in the patent litigation, eight purported class actions were initially filed on behalf of purchasers and third party payers in the US District Court for the Eastern District of Pennsylvania, alleging that the Group engaged in anticompetitive conduct, including prosecution of sham patent infringement litigation, to prevent entry of generic products, and seeking declaratory and injunctive relief, as well as treble damages for the alleged overcharges. Those cases were subsequently consolidated in a single action in that district court. All plaintiffs and the Group have entered into an agreement that plaintiffs will dismiss the consolidated case (without prejudice to refiling). The dismissal papers are pending with the court.

Commercial matters
Otsuka Pharmaceutical Co., Ltd. initiated arbitration proceedings in December 2001 concerning the Group's unilateral withdrawal of grepafloxacin (*Raxar/Vaxar*) in October 1999 for safety reasons. Otsuka alleges that the product withdrawal and simultaneous public announcement constituted material breaches of the license and supply agreements.

The Group believes the underlying product withdrawal was consistent with the terms of the agreements and that valid defences exist to the claims. A UK arbitration panel concluded its hearing on liability in December 2003 but to date has not yet issued its determination. In the event that the panel finds in favour of Otsuka on liability a separate hearing would be held later in 2004 to determine damages.

Environmental matters
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.

GlaxoSmithKline has been advised that it may be a responsible party at approximately 27 sites, of which 14 appear on the National Priority List created by the Comprehensive Environmental Response Compensation and Liability Act ('Superfund').

These proceedings seek to require the operators of hazardous waste facilities, transporters of waste to the sites and generators of hazardous waste disposed of at the sites to clean up the sites or to reimburse the government for cleanup costs. In most instances, 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 cleanup costs, these proceedings are frequently resolved on the basis of the nature and quantity of waste disposed of at the site by the generator. GlaxoSmithKline's proportionate liability for cleanup 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.

Legal charges and provisions
Legal expenses incurred, relating to the defence of the Group's intellectual property, and litigation costs and provisions related to product liability claims on existing products, are charged to selling, general and administration costs. Litigation costs and provisions relating to legal claims on withdrawn products and anti-trust matters are charged to other operating income/expense. Provisions are made, after taking appropriate legal advice, when a reasonable estimate can be made of the likely outcome of the dispute. Information on provisions taken in 2003 and payments from provisions is set out in Note 23.

The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

Tax matters
Pending tax matters are described in Note 12.

31 Acquisitions and disposals

Details of the acquisition and disposal of subsidiary and associated undertakings and joint ventures are given below.

2003 Acquisitions	Book values £m	Fairvalue adjustments £m	Netassets acquired £m	Goodwill capitalised £ m	Costof acquisition £m
Europharm	1	–	1	2	3

Europharm
During 2003, the Group completed the buyout of the minority interests in Europharm Holdings SA, a Group subsidiary located in Romania, for £3 million, giving rise to goodwill of a further £2 million, which has been capitalised.

Iterfi - Sterilyo
During 2003, a further payment of £9 million was made pursuant to the 2002 acquisition agreement based on the financial performance of the acquired company. This amount has been included as deferred compensation in 2002.

Disposals
SB Clinical Laboratories
An additional cash refund of £3 million was received during 2003 in respect of indemnified liabilities arising from the SB Clinical Laboratories disposal which occurred in 1999. This refund follows the successful outcome of a case in the US Court of Appeal.

Cash flows	Iterfi-Sterilyo £m	Europharm £m	SB Clinical Laboratories £m	Other £m	Total £m
Cash consideration paid	9	3	–	3	15
Net cash proceeds from disposals	–	–	3	–	3

2002 Acquisitions	Book values £m	Fair value adjustments £m	Net assets acquired £m	Goodwill capitalised £m	Cost of acquisition £m
Iterfi – Sterilyo	(7)	4	(3)	21	18
Human Kft	10	–	10	1	11
Other	–	–	–	1	1
	3	4	7	23	30

Iterfi – Sterilyo
During 2002 the Group acquired Iterfi-Sterilyo Group for an initial cash consideration of £9 million. A further payment was paid during 2003, of £9 million, which was based on the financial performance of the acquired company during 2002. The net assets of Iterfi-Sterilyo have been incorporated in the financial statements at their provisional fair values. No adjustments were made to these values in 2003.

Human Kft
During 2002 the Group acquired the vaccine related assets of Human Kft, a manufacturing business located in Hungary, for a cash consideration of £11 million.

Disposals
SB Clinical Laboratories
A cash refund of £6 million was received during 2002 in respect of indemnified liabilities arising from the SB Clinical Laboratories disposal which occurred in 1999. The refund follows the successful outcome of a case in the US Court of Appeal.

Cash flows	SB Clinical Laboratories £m	Iterfi - Sterilyo £m	Human Kft £m	Other £m	Total £m
Cash consideration paid	–	9	11	6	26
Net cash proceeds from disposals	6	–	–	–	6

31 Acquisitions and disposals continued

2001 **Acquisitions**	Book values £m	Fair value adjustments £m	Net assets acquired £m	Goodwill capitalised £m	Cost of acquisition £m
Block Drug	491	352	843	–	843
Shionogi joint venture	31	–	31	–	31
Other	13	(8)	5	13	18
	535	344	879	13	892

Block Drug Company Inc.
In January 2001, the Group acquired Block Drug for cash consideration of £843 million which represented the fair value of the assets acquired.

Shionogi joint venture
During 2001 the Group established a joint venture with Shionogi to develop and commercialise a number of compounds contributed by both parties. The Group acquired 50 per cent of the equity share capital for a cash consideration of £31 million, and has committed to make further contributions if certain development milestones are achieved.

Disposals

Quest Diagnostics, Inc.
In May 2001 the Group disposed of 1.5 million shares from its investment in Quest Diagnostics, Inc. for cash proceeds of £124 million, reducing the Group's holding at 31st December 2001 to 23 per cent. After recognising a charge for goodwill previously written off to reserves of £17 million a profit of £96 million was recognised.

Affymax
During 2001 the Group completed the sale of the Affymax business to Affymax Inc., a new holding company, for 2.3 million non-voting preference shares in Affymax Inc. representing a value of $19.6 million (£13.6 million). After recognising a charge for goodwill previously written off to reserves of £299 million a loss of £301 million was made. Disposal costs of £5 million were incurred in completing the sale.

Tagamet
In February 2001 the Group sold Tagamet in Japan to Sumitomo Pharmaceutical Co., Ltd. for a cash consideration of £71 million. After recognising a charge for goodwill previously written off to reserves of £72 million a loss of £1 million was recognised.

Cash flows	Quest Diagnostics £m	Affymax £m	Tagamet £m	Block Drug £m	Shionogi £m	Other £m	Total £m
Cash consideration paid	–	–	–	843	31	18	892
Cash acquired	–	–	–	(45)	–	–	(45)
Net cash payment on acquisitions	–	–	–	798	31	18	847
Net cash proceeds from disposals	124	(5)	71	–	–	–	190

32 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 Operating and financial review and prospects on page 72.

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 current asset investments are classified as available for sale.

In 2002, GlaxoSmithKline hedged part of the equity value of its holdings in its largest equity investment, Quest Diagnostics, Inc. through a series of variable sale forward contracts. These contracts (the 'equity collar') are structured in five series, each over one million Quest shares and mature between 2006 and 2008.

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 2003 were £16,741 million. The proceeds include the roll-over of liquid funds on short-term deposit. Under US GAAP the gross gains and losses reflected in the consolidated profit and loss account in respect of investments classified as available for sale were £90 million and £1 million, 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 2003 the Group had outstanding contracts to sell or purchase foreign currency having a total notional principal amount of £8,544 million (2002 – £8,322 million). The majority of contracts are for periods of 12 months or less.

At the end of 2003 the Group had a number of currency swaps in place in respect of medium-term debt instruments. 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 and exchange gains or losses are recorded in reserves.

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 2003.

Concentrations of credit risk and credit exposures of financial instruments
The Group does not believe it is exposed to major concentrations of credit risk on its financial instruments. The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations.

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 page 123 presents the carrying amounts under UK GAAP and the fair values of the Group's financial assets and liabilities at 31st December 2003 and 31st December 2002. 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:

- Equity investments – market value based on quoted market prices in the case of listed investments; market value by reference to quoted prices for similar companies or recent financing information in the case of material unlisted investments
- Cash at bank – approximates to the carrying amount
- Liquid investments – based on quoted market prices for similar companies or recent financing information 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
- Equity collar - fair value is determined based on an option pricing model
- 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
- Auction rate preference stock - approximates to the carrying amount in the case of floating rate instruments
- Flexible auction market preferred stock - based on market valuations at the balance sheet date.

Fair value of investments in own shares
The Group had at 31st December 2003 investments in own shares of £2,775 million (2002 – £2,826 million) with a fair value of £2,276 million (2002 – £2,161 million). The difference between the carrying amount and the fair value represents an unrealised loss of £499 million. This valuation shortfall is not considered to represent a permanent diminution in value in the context of the length of the future period over which the related share options may be exercised. Accordingly no provision has been made. 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.

32 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 25. 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.

	2003		2002	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Net debt				
Liquid investments	2,493	2,509	1,256	1,264
Cash at bank	962	962	1,052	1,052
Current asset financial instruments	3,455	3,471	2,308	2,316
Sterling notes and bonds	(1,474)	(1,552)	(1,472)	(1,559)
	(1,474)	(1,552)	(1,472)	(1,559)
US dollar notes, bonds and private financing	(866)	(893)	(978)	(1,018)
Notes and bonds swapped into US dollars	(498)	(499)	(498)	(507)
Currency swaps	–	59	–	21
Interest rate swaps	–	4	–	7
	(1,364)	(1,329)	(1,476)	(1,497)
Notes and bonds swapped into Yen	(463)	(457)	(106)	(114)
Currency swaps	–	3	–	6
	(463)	(454)	(106)	(108)
Euro notes and bonds	(699)	(700)	–	–
Interest rate swap	–	(4)	–	–
	(699)	(704)	–	–
Other medium-term borrowings	(34)	(34)	(38)	(38)
Other short-term loans and overdrafts	(1,069)	(1,069)	(1,551)	(1,551)
Total borrowings	(5,103)	(5,142)	(4,643)	(4,753)
Interest rate swaps	–	(6)	–	(1)
Total net debt	(1,648)	(1,677)	(2,335)	(2,438)
Fixed asset equity investments	98	100	125	129
Current asset equity investments	164	237	161	232
Other debtors due after 1 year	522	522	308	308
Other creditors due after 1 year	(232)	(232)	(206)	(206)
Provisions	(245)	(245)	(224)	(224)
Other foreign exchange derivatives	52	71	133	133
Equity collar	–	36	–	78
Auction rate preference stock	(224)	(224)	(248)	(248)
Flexible auction market preferred stock	(279)	(279)	(311)	(316)
Total non-equity minority interests	(503)	(503)	(559)	(564)
Total financial assets and liabilities	(1,792)	(1,691)	(2,597)	(2,552)
Total financial assets	4,291	4,437	3,035	3,196
Total financial liabilities	(6,083)	(6,128)	(5,632)	(5,748)

Where appropriate currency and interest rate swaps have been presented alongside the underlying principal instrument. The carrying amounts of these instruments have been adjusted for the effect of the currency and interest rate swaps acting as hedges.

The difference between the carrying amount and the fair value of equity (fixed and current assets) and liquid investments represents gross unrealised gains of £75 million and £16 million, respectively.

32 Financial instruments and related disclosures continued

Currency and interest rate risk profile of financial liabilities
Financial liabilities, after taking account of currency and interest rate swaps, are analysed below.

Total financial liabilities comprise total borrowings of £5,103 million (2002 – £4,643 million), other creditors due after one year of £232 million (2002 – £206 million), provisions of £245 million (2002 – £224 million) and non-equity minority interest preference shares of £503 million (2002 – £559 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			Floating rate	Non-interest bearing		
At 31st December 2003 Currency	£m	Weighted average interest rate %	Weighted average years for which rate is fixed	£m	£m	Weighted average yearsto maturity	**Total £m**
US dollars	279	6.1	2.1	2,514	311	10.5	**3,104**
Sterling	1,478	6.4	20.4	14	100	4.1	**1,592**
Euro	3	–	–	750	34	5.6	**787**
Japanese Yen	463	0.5	4.3	52	–	–	**515**
Other currencies	14	–	–	39	32	4.8	**85**
	2,237	5.1	14.7	3,369	477	8.4	**6,083**

	Fixed rate			Floating rate	Non-interest bearing		
At 31st December 2002 Currency	£m	Weighted average interest rate %	Weighted average years for which rate is fixed	£m	£m	Weighted average years to maturity	Total £m
US dollars	471	2.6	0.7	2,974	325	7.8	3,770
Sterling	1,472	6.4	21.5	4	64	1.6	1,540
Euro	–	–	–	64	13	1.3	77
Japanese Yen	144	0.7	1.2	–	–	–	144
Other currencies	–	–	–	73	28	3.6	101
	2,087	4.2	9.8	3,115	430	6.4	5,632

Currency and interest rate risk profile of financial assets
Total financial assets comprise fixed asset equity investments of £98 million (2002 – £125 million), current asset equity investments of £164 million (2002 – £161 million), liquid investments of £2,493 million (2002 – £1,256 million), cash at bank of £962 million (2002 – £1,052 million), and debtors due after one year of £522 million (2002 – £308 million) but exclude foreign exchange derivatives of £52 million (2002 – £133 million).

The benchmark rate for determining interest receipts for all floating rate assets in the table below is LIBOR.

At 31st December 2003 Currency	Fixed rate £m	Floating rate £m	Non-interest bearing £m	**Total £m**
US dollars	300	1,248	479	**2,027**
Sterling	20	1,209	60	**1,289**
Euro	1	328	77	**406**
Japanese Yen	–	1	33	**34**
Other currencies	103	293	87	**483**
	424	3,079	736	**4,239**

At 31st December 2002 Currency	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
US dollars	365	1,275	290	1,930
Sterling	20	123	28	171
Euro	41	299	22	362
Japanese Yen	7	2	24	33
Other currencies	23	323	60	406
	456	2,022	424	2,902

32 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 2003 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	–	157	(30)	–	242	**369**
US dollars	41	–	12	–	45	**98**
Euro	(55)	111	–	–	6	**62**
Japanese Yen	7	(1)	–	–	–	**6**
Other	(145)	(55)	(12)	–	–	**(212)**
	(152)	212	(30)	–	293	**323**

At 31st December 2002 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	–	(144)	(14)	18	(48)	(188)
US dollars	(708)	–	54	(1)	(63)	(718)
Euro	184	(6)	–	–	(11)	167
Japanese Yen	10	–	2	–	–	12
Other	(354)	(10)	1	(1)	–	(364)
	(868)	(160)	43	16	(122)	(1,091)

Maturity of financial liabilities	Debt £m	Finance leases £m	Non-equity minority interests £m	Other £m	**Total 2003 £m**	Total 2002 £m
Within one year or on demand	1,451	1	503	77	**2,032**	2,201
Between one and two years	560	2	–	68	**630**	514
Between two and five years	1,478	4	–	115	**1,597**	996
After five years	1,601	6	–	217	**1,824**	1,921
	5,090	13	503	477	**6,083**	5,632

Hedges	**2003**		
	Gains £m	Losses £m	**Net £m**
Unrecognised gains and losses at the beginning of the year	112	(1)	**111**
Unrecognised gains and losses arising in the year	59	(59)	**–**
Total unrecognised gains and losses at the end of the year	171	(60)	**111**
Expected to be recognised within one year	27	–	**27**
Expected to be recognised after one year	144	(60)	**84**
Total unrecognised gains and losses at the end of the year	171	(60)	**111**

The unrecognised gains and losses above represent the difference between the carrying amount and the fair value of the currency swaps, interest rate swaps, equity collar and other foreign exchange derivatives.

Committed facilities
The Group has committed facilities to back up the commercial paper programme of £784 million (2002 – £872 million) of 364 days duration renewable annually. At 31st December 2003, undrawn committed facilities totalled £784 million (2003 – US$1,404 million, 2002 – US$1,404 million).

33 Employee costs

	2003 £m	2002 £m	2001 £m
Wages and salaries	3,999	3,876	3,664
Social security costs	444	385	344
Pension and other post-retirement costs	386	257	228
Cost of share-based incentive plans	(36)	135	147
Severance costs arising from integration and restructuring activities	222	228	245
Pension and other post-retirement costs arising from integration and restructuring activities	43	59	58
	5,058	4,940	4,686

The Group provides benefits to employees, commensurate with local practice in individual countries, including, in some markets, healthcare insurance, subsidised car schemes and personal life assurance.

The £36 million credit in relation to share-based incentive plans includes the benefit of the introduction of discounting to the provision established for the cost of the programme to encourage employees to convert Glaxo Wellcome or SmithKline Beecham share options into GlaxoSmithKline share options (see page 109).

Information on Directors' remuneration is given in the Remuneration Report on pages 43 to 58.

The average number of persons employed by the Group (including Directors) during the year	2003 Number	2002 Number	2001 Number
Manufacturing	34,265	36,548	37,154
Selling, general and administration	54,128	54,810	55,655
Research and development	14,773	14,808	15,090
	103,166	106,166	107,899

The average number of Group employees excludes temporary and contract staff.

The numbers of Group employees at the end of each financial year are given in the Financial record (page 158).

Pension and other post-retirement costs	2003 £m	2002 £m	2001 £m
UK pension schemes	113	18	16
US pension schemes	75	86	70
Other overseas pensions schemes	74	52	57
Unfunded post-retirement healthcare schemes	100	61	57
Post-employment costs	24	40	28
	386	257	228
Analysed as:			
Funded defined benefit/hybrid schemes	213	92	107
Unfunded defined benefit schemes	24	34	13
Defined contribution schemes	25	30	23
Unfunded post-retirement healthcare schemes	100	61	57
Post-employment costs	24	40	28
	386	257	228
Pension and other post-retirement costs arising from integration and restructuring	43	59	58

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; 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. Assets are invested in different classes in order to maintain a balance between risk and return. Investments are diversified to limit the financial effect of the failure of any individual investment.

33 Employee costs continued

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 administered by trustee companies. 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. Liabilities are generally assessed annually in accordance with the advice of independent actuaries.

The market value of the assets of the Group's funded defined benefit pension funds at the dates of the latest actuarial valuations, some of which date back to 2000, was £4.5 billion and the actuarial value of assets was sufficient to cover approximately 82 per cent of the benefits that had accrued to members after allowing for future salary and pension increases. The UK defined benefit pension schemes account for approximately 65 per cent of the Group's plans in asset valuation and projected benefit terms and the US defined benefit pension schemes account for approximately 25 per cent of the Group's plans in asset valuation and projected benefit terms.

During 2003, the Group made special funding contributions to the UK and US pension schemes totalling £368 million. The Group has agreed with the trustees of certain of the pension schemes to make additional contributions dependent on the funding status of those schemes. Pension costs are expected to be approximately the same in 2004 as in 2003.

UK
In the UK the defined benefit pension schemes operated for the benefit of former Glaxo Wellcome employees and former SmithKline Beecham employees remain separate. These schemes were closed to new entrants in 2001 and subsequent UK employees are entitled to join a defined contribution scheme. The relevant assumptions used in calculating the pension costs of both the former Glaxo Wellcome and former SmithKline Beecham UK defined benefit schemes for accounting purposes are as follows:

	2003 % pa	2002 % pa
Rate of increase of future earnings	3.75	4.00
Discount rate	7.75	8.00
Expected long-term rate of return on investments	7.75	8.00
Expected pension increases	2.25	2.50
UK equity dividend growth	n/a	5.00

The regular cost for the Glaxo Wellcome pension arrangements in 2003 was £60 million, which reduced to an accounting cost of £54 million, 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 most recent triennial actuarial valuations for funding purposes were carried out as at 31st December 2002. At that date the assets of the schemes represented 92 per cent of the actuarial value of all benefits accrued to members after allowing for future salary and pension increases. The total market value of the assets held by the schemes at 31st December 2002 was £2,093 million.

The regular cost for the SmithKline Beecham schemes in 2003 was £15 million, which increased to an accounting cost of £59 million after allowance was made for the spreading of the deficit over the expected future working lifetime of current employees in the scheme (some 11 years). The latest valuation was carried out at 31st December 2002 and at that date the scheme assets represented 56 per cent of the actuarial value of the accrued service liabilities based on the 2003 assumptions. The total market value of assets held by the scheme at 31st December 2002 was £856 million.

USA
In the USA the former Glaxo Wellcome and SmithKline Beecham defined benefit and hybrid schemes were merged during 2001. The relevant assumptions used in calculating the pension costs for accounting purposes are as follows:

	2003 % pa	2002 % pa
Rate of increase of future earnings	5.50	5.50
Discount rate	8.50	9.50
Expected long-term rate of return on investments	8.50	9.50
Cash balance credit/conversion rate	5.75	6.50
US equity dividend growth	n/a	7.75

The regular cost for the main US scheme in 2003 was £58 million, which increased to an accounting cost of £78 million after allowance was made for the spreading of the deficit over the expected future working lifetime of current employees in the schemes. The latest valuation was carried out at 1st January 2003 and at that date the actuarial value of scheme assets represented 94 per cent of the actuarial value of the accrued service liabilities. The total market value of assets held by the scheme at 1st January 2003 was £1,362 million.

Post-retirement healthcare
The Group operates a number of post-retirement healthcare schemes, the principal one of which is in the USA. The cost of the US scheme has been assessed using the same assumptions as for the US pension scheme, together with the assumption for future medical inflation of 11 per cent reducing by one per cent per year to five per cent. The total provision for post-retirement benefits at 31st December 2003 amounted to £569 million (2002 – £577 million).

33 Employee costs continued

FRS 17 disclosures

The Group continues to account for pension arrangements in accordance with SSAP 24 'Accounting for Pension Costs'. Under the transitional provisions of FRS 17 'Retirement Benefits' certain disclosures are required on the basis of the valuation methodology adopted by FRS 17. For defined benefit schemes the fair values of pension scheme assets at 31st December 2003 are compared with the future pension liabilities calculated under the projected unit method applying the following assumptions:

TD>

TD>

	UK			USA			Rest of World		
	2003 % pa	2002 % pa	2001 % pa	**2003 % pa**	2002 % pa	2001 % pa	**2003 % pa**	2002 % pa	2001 % pa
Rate of increase of future earnings	**4.00**	3.75	4.00	**5.50**	5.50	5.50	**3.00**	3.00	3.50
Discount rate	**5.25**	5.75	6.00	**6.25**	6.75	7.25	**4.75**	4.75	4.75
Expected pension increases	**2.50**	2.25	2.50	**n/a**	n/a	n/a	**2.00**	1.50	1.00
Cash balance credit/conversion rate	**n/a**	n/a	n/a	**5.25**	5.75	6.25	**1.50**	n/a	n/a
Inflation rate	**2.50**	2.25	2.50	**2.50**	2.25	3.50	**1.50**	1.50	1.50

The expected long-term rates of return on the assets determined based on actuarial advice and the fair values of the assets and liabilities of the UK and US defined benefit schemes, together with aggregated data for other defined benefit schemes in the Group are as follows:

	UK		USA		Rest of World		**Group**
At 31st December 2003	Expected rate of return %	Fair value £m	Expected rate of return %	Fair value £m	Average expected rate of return %	Fair value £m	**Fair value £m**
Equities	8.25	2,927	8.50	1,201	7.75	174	**4,302**
Property	–	–	6.50	52	6.50	6	**58**
Bonds	4.50	574	5.75	314	4.00	226	**1,114**
Other assets	4.00	185	1.00	26	2.00	18	**229**
Fair value of assets		3,686		1,593		424	**5,703**
Present value of scheme liabilities		(5,181)		(1,743)		(674)	**(7,598)**
		(1,495)		(150)		(250)	**(1,895)**
Value of schemes in surplus						7	**7**
Deferred tax liability						(2)	**(2)**
						5	**5**
Value of schemes in deficit		(1,495)		(150)		(257)	**(1,902)**
Deferred tax asset		449		53		95	**597**
		(1,046)		(97)		(162)	**(1,305)**
Group total							**(1,300)**

Other assets in the UK schemes include the special cash contribution paid in December 2003. This will be invested in equities and bonds in 2004.

	UK		USA		Rest of World		Group
At 31st December 2002	Expected rate of return %	Fair value £m	Expected rate of return %	Fair value £m	Average expected rate of return %	Fair value £m	Fair value £m
Equities	8.25	2,523	9.25	804	6.75	172	3,499
Property	–	–	7.00	53	7.00	5	58
Bonds	4.50	299	6.25	265	4.50	145	709
Other assets	4.00	137	1.50	240	1.75	9	386
Fair value of assets		2,959		1,362		331	4,652
Present value of scheme liabilities		(4,153)		(1,782)		(578)	(6,513)
		(1,194)		(420)		(247)	(1,861)
Value of schemes in surplus						11	11
Deferred tax liability						(3)	(3)
						8	8
Value of schemes in deficit		(1,194)		(420)		(258)	(1,872)
Deferred tax asset		358		147		97	602
		(836)		(273)		(161)	(1,270)
Group total							(1,262)

33 Employee costs continued

At 31st December 2001	UK Expected rate of return %	UK Fair value £m	USA Expected rate of return %	USA Fair value £m	Rest of World Average expected rate of return %	Rest of World Fair value £m	Group Fair value £m
Equities	8.50	3,234	9.50	1,220	7.25	193	4,647
Property	–	–	8.00	54	7.50	3	57
Bonds	5.00	411	7.00	250	5.00	107	768
Other assets	4.50	70	5.00	12	3.25	10	92
Fair value of assets		3,715		1,536		313	5,564
Present value of scheme liabilities		(3,970)		(1,781)		(527)	(6,278)
		(255)		(245)		(214)	(714)
Value of schemes in surplus		42				24	66
Deferred tax liability		(13)				(7)	(20)
		29				17	46
Value of schemes in deficit		(297)		(245)		(238)	(780)
Deferred tax asset		89		93		95	277
		(208)		(152)		(143)	(503)
Group total							(457)

The UK defined benefit schemes also have defined contribution sections with account balances totalling £327 million at 31st December 2003 (2002 – £281 million, 2001 – £263 million). The defined benefit sections of the UK schemes have been closed to new members and, under the projected unit method of valuing the pension scheme liabilities, the current service cost will increase as a percentage of payroll as the members of the schemes approach retirement. The deficits under FRS 17 reflect the different basis for valuing liabilities compared with SSAP 24.

The liability under FRS 17 for the US post-retirement healthcare scheme has been assessed using the same assumptions as for the US pension scheme, together with the assumption for future medical inflation of 10 per cent, reducing by one per cent per year to five per cent. On this basis the liability for the US scheme has been assessed at £908 million (2002 – £766 million; 2001 – £787 million), which reduced to £590 million (2002 – £475 million; 2001 – £488 million) after taking account of deferred tax.

If the defined benefit pension and post-retirement benefit schemes had been accounted for under FRS 17, the following amounts would have been recorded in the profit and loss account and statement of total recognised gains and losses for the two years ended 31st December 2003.

2003	Pensions UK £m	Pensions USA £m	Pensions Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Amounts charged to operating profit					
Current service cost	(108)	(67)	(44)	**(219)**	**(29)**
Past service cost	–	7	16	**23**	**3**
Curtailments/settlements	(78)	(15)	–	**(93)**	**–**
	(186)	(75)	(28)	**(289)**	**(26)**
Amounts credited/(charged) to net interest					
Expected return on pension scheme assets	231	111	17	**359**	
Interest on scheme liabilities	(246)	(119)	(25)	**(390)**	**(64)**
	(15)	(8)	(8)	**(31)**	**(64)**
Amounts recorded in statement of total recognised gains and losses					
Actual return less expected return on pension scheme assets	368	230	10	**608**	
Experience (losses)/gains arising on scheme liabilities	(193)	5	(28)	**(216)**	**(123)**
Changes in assumptions relating to present value of scheme liabilities	(616)	(61)	(32)	**(709)**	**(67)**
	(441)	174	(50)	**(317)**	**(190)**

33 Employee costs continued

2002	UK £m	USA £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Amounts charged to operating profit					
Current service cost	(118)	(74)	(32)	(224)	(24)
Past service cost	(28)	(34)	–	(62)	–
Curtailments/settlements	–	–	(1)	(1)	–
	(146)	(108)	(33)	(287)	(24)
Amounts credited/(charged) to net interest					
Expected return on pension scheme assets	293	129	14	436	
Interest on scheme liabilities	(235)	(129)	(22)	(386)	(53)
	58	–	(8)	50	(53)
Amounts recorded in statement of total recognised gains and losses					
Actual return less expected return on pension scheme assets	(1,024)	(293)	(56)	(1,373)	
Experience gains/(losses) arising on scheme liabilities	34	(3)	2	33	95
Changes in assumptions relating to present value of scheme liabilities	(15)	(57)	10	(62)	(124)
	(1,005)	(353)	(44)	(1,402)	(29)

Movements in deficits	UK £m	USA £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Deficits in schemes at 1st January 2002	(255)	(245)	(214)	(714)	(854)
Exchange adjustments	–	37	(9)	28	85
Charged to operating profit	(146)	(108)	(33)	(287)	(24)
Employer contributions	154	249	61	464	41
Other finance income/(expense)	58	–	(8)	50	(53)
Actuarial losses recognised in statement of total recognised gains and losses	(1,005)	(353)	(44)	(1,402)	(29)
Deficits in schemes at 31st December 2002	(1,194)	(420)	(247)	(1,861)	(834)
Exchange adjustments	–	20	(15)	5	96
Charged to operating profit	(186)	(75)	(28)	(289)	(26)
Employer contributions	341	159	98	598	41
Other finance income/(expense)	(15)	(8)	(8)	(31)	(64)
Actuarial (losses)/gains recognised in statement of total recognised gains and losses	(441)	174	(50)	(317)	(190)
Deficits in schemes at 31st December 2003	(1,495)	(150)	(250)	(1,895)	(977)

33 Employee costs continued

History of experience gains and losses	UK £m	USA £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
2003					
Difference between the expected and actual return on scheme assets (£m)	368	230	10	**608**	
Percentage of scheme assets at 31st December 2003	10%	14%	2%	**11%**	
Experience (losses)/gains of scheme liabilities (£m)	(193)	5	(28)	**(216)**	**(123)**
Percentage of present value of scheme liabilities at 31st December 2003	4%	–	4%	**3%**	**13%**
Total amount recognised in statement of total recognised gains and losses (£m)	(441)	174	(50)	**(317)**	**(190)**
Percentage of present value of scheme liabilities at 31st December 2003	9%	10%	7%	**4%**	**19%**
2002					
Difference between the expected and actual return on scheme assets (£m)	(1,024)	(293)	(56)	(1,373)	
Percentage of scheme assets at 31st December 2002	35%	22%	17%	30%	
Experience gains/(losses) of scheme liabilities (£m)	34	(3)	2	33	95
Percentage of present value of scheme liabilities at 31st December 2002	1%	–	–	1%	11%
Total amount recognised in statement of total recognised gains and losses (£m)	(1,005)	(353)	(44)	(1,402)	(29)
Percentage of present value of scheme liabilities at 31st December 2002	24%	20%	8%	22%	3%

If the FRS 17 valuation basis had been applied in the financial statements instead of the SSAP 24 valuation basis, the effect on the profit and loss account reserve after taking account of deferred tax would have been as follows:

	2003		2002	
	£m	£m	£m	£m
Profit and loss account reserve per balance sheet		**4,044**		2,946
Pension liability under FRS 17	(1,300)		(1,262)	
Pension asset/(liability) under SSAP 24 per balance sheet	152		(39)	
		(1,452)		(1,223)
Post-retirement healthcare schemes under FRS 17	(638)		(545)	
Post-retirement healthcare schemes provision per balance sheet	(372)		(378)	
		(266)		(167)
Profit and loss account reserve including FRS 17 pension and post-retirement healthcare liability		**2,326**		1,556

34 Employee share schemes

The company operates share option schemes, whereby options are granted to employees to acquire shares or ADSs in GlaxoSmithKline plc at the grant price, and share award schemes, whereby awards are granted to employees to acquire shares or ADSs in GlaxoSmithKline plc at no cost, subject to the achievement of performance targets.

The company operates share option schemes and savings-related share option schemes. Grants under share option schemes are normally exercisable between three and ten years from the date of grant. Grants under savings-related share option schemes are normally exercisable after three years' saving.

Options under the share option schemes are normally granted at the market price ruling at the date of grant. In accordance with UK practice, the majority of options under the savings-related share option schemes are granted at a price 20 per cent below the market price ruling at the date of grant. In accordance with the exemption granted in UITF 17 (Revised) no charge to the profit and loss account is made in relation to these savings-related share option schemes.

Options outstanding

	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 2000	137,595	£13.68	37,962	$44.10	8,276	£12.34
Options granted	67,763	£17.98	42,034	$51.82	4,443	£14.12
Options exercised	(21,332)	£10.36	(4,705)	$13.06	(3,075)	£8.48
Options cancelled	(4,090)	£14.68	(1,466)	$52.40	(1,444)	£15.90
At 31st December 2001	179,936	£15.67	73,825	$50.31	8,200	£14.13
Options granted	33,454	£11.91	22,991	$37.57	9,793	£9.16
Options exercised	(8,857)	£10.55	(1,504)	$21.75	(398)	£14.04
Options cancelled	(7,061)	£17.53	(4,435)	$54.69	(4,607)	£14.41
At 31st December 2002	197,472	£15.20	90,877	$47.34	12,988	£10.29
Options granted	32,750	£12.84	23,630	$43.34	1,416	£10.20
Options exercised	(4,728)	£4.75	(1,828)	$22.22	(112)	£10.23
Options cancelled	(19,789)	£7.45	(6,150)	$32.73	(3,709)	£12.23
At 31st December 2003	205,705	£14.89	106,529	$46.58	10,583	£9.59
Range of exercise prices	£3.61	– £19.77	$12.87	– $61.35	£9.16	– £16.48

In order to encourage employees to convert options, excluding savings-related share options, held over Glaxo Wellcome or SmithKline Beecham shares or ADSs, into those over GlaxoSmithKline shares or ADSs, a programme was established to give an additional cash benefit of ten per cent of the exercise price of the original option provided that the employee does not voluntarily leave 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. The cash benefit will also be paid if the options expire unexercised if the market price is below the exercise price on the date of expiry.

34 Employee share schemes continued

Options outstanding at 31st December 2003	Shareoption schemes – shares			Shareoption 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
1994	3,113	£5.06	22.11.04	754	$14.53	22.11.04	–	–	–
1995	4,518	£7.14	15.11.05	781	$21.70	15.11.05	–	–	–
1996	5,015	£8.41	01.12.06	1,188	$27.58	21.11.06	–	–	–
1997	9,133	£11.64	13.11.07	4,439	$40.31	13.11.07	–	–	–
1998	18,170	£16.94	23.11.08	6,549	$54.25	23.11.08	–	–	–
1999	19,054	£18.18	01.12.09	8,164	$60.13	24.11.09	–	–	–
2000	20,690	£14.95	11.09.10	489	$58.23	09.08.10	192	£16.48	31.05.04
2001	61,150	£18.10	28.11.11	38,600	$51.83	28.11.11	343	£14.12	31.05.05
2002	32,696	£11.90	03.12.12	22,096	$37.54	03.12.12	8,635	£9.16	31.05.06
2003	32,166	£12.66	15.12.13	23,469	$43.37	15.12.13	1,413	£10.20	31.05.07
Total	205,705	£14.89		106,529	$46.58		10,583	£9.59	

All of the above options are exercisable, except all options over shares and ADSs granted in 2001, 2002 and 2003 and the savings-related share options granted in 2001, 2002 and 2003.

There has been no change in the effective exercise price of any outstanding options during the year. No further options were granted between 31st December 2003 and 27th February 2004.

Options exercisable	Shareoption schemes – shares		Shareoption 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 2001	85,601	£14.10	32,373	$48.36	289	£14.29
At 31st December 2002	72,611	£14.33	27,129	$48.89	2,227	£13.27
At 31st December 2003	79,693	£14.56	22,364	$49.82	192	£16.48

GlaxoSmithKline share award schemes

The Group operates a Performance Share Plan whereby awards are granted to Directors and senior executives at no cost. The percentage of each award that vests is based upon the performance of the Group over a three year measurement period. The performance conditions consist of two parts, each of which applies to 50 per cent of the award. The first part of the condition compares GlaxoSmithKline's Total Shareholder Return (TSR) over the period with the TSR of companies in the UK FTSE 100 Index over the same period. The second part of the performance condition compares GlaxoSmithKline's earnings per share growth to the increase in the UK Retail Prices Index over the three year performance period.

Number of shares and ADSs issuable	Shares	ADSs
	Number (000)	Number (000)
At 31st December 2000	3,491	1,386
Awards granted	1,778	1,042
Awards exercised	(2,016)	(598)
Awards cancelled	(72)	(70)
At 31st December 2001	3,181	1,760
Awards granted	863	477
Awards exercised	(728)	(197)
Awards cancelled	(152)	(97)
At 31st December 2002	3,164	1,943
Awards granted	1,070	832
Awards exercised	(625)	(189)
Awards cancelled	(109)	(107)
At 31st December 2003	3,500	2,479

34 Employee share schemes continued

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 loans or contributions. The expected cost of the obligations to deliver shares under the schemes are normally spread over the periods of service in respect of which the awards and options are granted. An accelerated charge was 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	2003	2002
Number of shares (000)	7,748	7,055
	£m	£m
Nominal value	2	2
Cost less provision	92	75
Market value	99	84

Shares held for share option schemes	2003	2002
Number of shares (000)	170,066	174,256
	£m	£m
Nominal value	43	44
Cost less provision	2,683	2,751
Market value	2,177	2,077

The Trusts also acquire and hold shares to meet notional dividends re-invested on deferred awards under the SmithKline Beecham Mid-Term Incentive Plan. The trustees have waived their rights to dividends on the shares held by the 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 36, the Black-Scholes option pricing model has been used. The assumptions used in the model for 2003 and 2002 are as follows:

	2003	2002
Risk-free interest rate	4.2% – 4.9%	4.2% – 5.4%
Dividend yield	2.9%	1.9%
Volatility	34%	33%
Expected lives of options granted under:		
Share option schemes	5 years	5 years
Savings related share option schemes	3 years	3 years

35 Related party transactions

GlaxoSmithKline held a 21 per cent interest in Quest Diagnostics Inc. throughout 2003. The Group and Quest Diagnostics are parties to a long-term contractual relationship under which Quest Diagnostics is the primary provider of clinical laboratory testing to support the Group's clinical trials testing requirements worldwide.

In 2003, both the Group and Shionogi & Co., Ltd. entered into transactions with their 50/50 US joint venture company in support of the research and development activities conducted by that joint venture company. During 2003, GlaxoSmithKline provided services to the joint venture of £1 million (2002 – £7 million). At 31st December 2003 the balance due to GlaxoSmithKline from the joint venture was £3 million (2002 – £8 million).

Dr Barzach, a Non-Executive Director of GlaxoSmithKline plc, received fees of 72,268 (2002 – 66,369) from a subsidiary of the company for healthcare consultancy provided. These are included within 'Annual remuneration' in the Remuneration Report.

Dr Shapiro, a Non-Executive Director of GlaxoSmithKline plc, received fees of $85,000 (2002 – $85,000) of which $30,000 (2002 – $30,000) was in the form of ADSs, from a subsidiary of the company, for the membership of the Scientific Advisory Board. These are included within 'Annual remuneration' in the Remuneration Report.

36 Reconciliation to US accounting principles

The analyses and reconciliations presented in this Note represent the financial information prepared on the basis of US Generally Accepted Accounting Principles (US GAAP) rather than UK GAAP.

Summary of material differences between UK and US GAAP

Acquisition of SmithKline Beecham

The combination of Glaxo Wellcome plc and SmithKline Beecham plc was accounted for as a merger (pooling of interests) in accordance with UK GAAP. 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 business combination.

Accordingly the net assets of SmithKline Beecham were fair valued as at the date of acquisition. 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 its intangible assets, mainly product rights (inclusive of patents and trade marks), assembled 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.

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 Group capitalises costs incurred in acquiring and developing computer software for internal use where the software supports a significant business system and the expenditure leads to the creation of a durable asset. For US GAAP, the Group applies SOP 98-1 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use' which restricts the categories of costs which can be capitalised.

Goodwill and intangible fixed assets

Under UK GAAP, goodwill arising on acquisitions before 1998, accounted for under the purchase method, has been eliminated against shareholders' funds. Additionally, UK GAAP requires that on subsequent disposal or closure of a business, any goodwill previously taken directly to shareholders' funds is then charged against income. Beginning in 1998, the Group changed its accounting policy for goodwill and intangible assets under UK GAAP in respect of acquisitions from 1998. Under UK GAAP, goodwill arising on acquisitions from 1998 is capitalised and amortised over a period not exceeding 20 years.

Under US GAAP, goodwill arising on acquisitions prior to 30 June 2001 was capitalised and amortised over a period not exceeding 40 years. In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) 142 'Goodwill and Other Intangible Assets'. SFAS 142 requires that goodwill no longer be amortised over its estimated useful life. The Group must instead identify and value its reporting units for the purpose of assessing, at least annually, potential impairment of goodwill allocated to each reporting unit.

Additionally, the Group reassesses the useful lives of existing recognised intangible assets. Intangible assets deemed to have indefinite lives are no longer amortised, instead they are tested annually for potential impairment. Separable intangible assets with finite lives continue to be amortised over their useful lives.

The Group adopted SFAS 142 as of 1st January 2002. The implementation of SFAS 142 resulted in no impairment of the Group's goodwill and an initial impairment of £173 million (£127 million net of tax) on indefinite-lived assets. This is shown as a cumulative effect of an accounting change.

Under UK GAAP, costs to be incurred in integrating and restructuring the Wellcome, SmithKline Beecham and Block Drug businesses following the acquisitions in 1995, 2000 and 2001 respectively were charged to the profit and loss account post acquisition. Under US GAAP, certain of such costs were considered in the allocation of purchase consideration thereby affecting the goodwill arising on acquisition.

Under UK GAAP certain intangible assets related to specific compounds or products which are purchased from a third party and are developed for commercial applications are capitalised. Under US GAAP, payments made for these compounds or products which are still in development and have not yet received regulatory approval are charged directly to profit and loss until such time that they receive regulatory approval.

Restructuring costs

Under UK GAAP, restructuring costs incurred following acquisitions were charged to the profit and loss account post acquisition. For US GAAP purposes, certain of these costs were recognised as liabilities upon acquisition in the opening balance sheet.

Other restructuring costs are recorded as a provision under UK GAAP when a restructuring plan has been announced. Under US GAAP subsequent to 31st December 2002, a provision may only be recognised when further criteria are met or the liability incurred. Accordingly, adjustments have been made to eliminate the UK GAAP provisions for restructuring costs that do not meet US GAAP requirements.

Marketable securities

Marketable securities consist primarily of equity securities and certain other liquid investments. Under UK GAAP these securities are stated at the lower of cost and net realisable value. Under US GAAP these securities are considered available for sale under SFAS 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, recorded as a separate component of shareholders' equity.

Equity securities are reviewed at least annually for other than temporary impairment. The factors considered are:

- the investee's current financial performance and future prospects
- the general market condition of the geographic or industry area in which the investee operates
- the duration and extent to which the market value (if available) has been below cost.

Gross unrealised gains and losses on marketable securities were £68 million and £5 million respectively at 31st December 2003.

36 Reconciliation to US accounting principles continued

Pensions and other post-retirement benefits
The key differences between UK (SSAP 24) 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 pension adjustment also includes the impact of changes in minimum pension liabilities included within accumulated other comprehensive income.

During 2002, the Group decided to align the measurement date for all of its pension and post-retirement benefit plans to 31st December as certain of the Group's plans had a measurement date for assets and liabilities of 30th September.

The impact, reflected as a cumulative effect of an accounting change, was a £37 million credit, net of tax, to income.

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 SFAS 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.

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 a portion of this amount is credited to equity.

Employee Share Ownership Trusts (ESOT)
Under UK GAAP shares of the Group's stock held by the ESOTs are recorded at cost, less a provision representing the difference between the cost and the option exercise price, 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 ESOTs are accounted for within shareholders' equity at cost. Gains or losses arising on subsequent issuance of the shares to employees to satisfy share options are recorded as adjustments to shareholders' equity.

Guarantor obligations
The Group adopted the FASB's Financial Interpretation No. 45 (FIN 45) 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others' with effect from 1st January 2003.

This requires that the Group recognises and measures, at fair value, on a prospective basis, certain guarantees issued or modified after 31st December 2002. Under UK GAAP such guarantor obligations are recognised when further additional criteria are met or the liability is incurred.

Derivative instruments
SFAS 133, 'Accounting for Derivative Instruments and Hedging Activities' as amended by SFAS 137 and SFAS 138 and as interpreted by the Derivatives Implementation Group, was adopted by the Group with effect from 1st January 2001. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively, referred to as derivatives) and for hedging activities. Under UK GAAP, some derivative instruments used for hedging are not recognised on the balance sheet and 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. SFAS 133 requires that an entity recognise all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. Changes in fair value over the period are recorded in current earnings unless hedge accounting is obtained. The Group does not designate any of its derivatives as qualifying hedge instruments under SFAS 133. SFAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting.

The Group also evaluates contracts for 'embedded' derivatives, and considers whether any embedded derivatives have to be bifurcated, or separated, from the host contracts in accordance with SFAS 133 requirements. If embedded derivatives exist and are not clearly and closely related to the host contract, they are accounted for separately from the host contract as derivatives.

Gains and losses related to the fair value adjustments of all derivative instruments are classified in the consolidated statement of income and cash flows in accordance with the nature of the derivative.

The fair value and book value of derivative instruments in respect of financial assets and liabilities as at 31st December 2003 is disclosed in the 'Classification and fair value of financial assets and liabilities' table in Note 32.

Valuation of derivative instruments
The fair value of derivative instruments is sensitive to movements in the underlying market rates and variables. The Group monitors the fair value of derivative instruments on at least a quarterly basis, with a formal review every six months. Derivatives including interest rate swaps and cross currency swaps are valued using standard valuation models, counterparty valuations, or third party valuations. Standard valuation models used by the Group consider relevant discount rates, the market yield curve on the valuation date, forward currency exchange rates and counterparty risk. All significant rates and variables are obtained from market sources. All valuations are based on the remaining term to maturity of the instrument. Foreign exchange contracts are valued using forward rates observed from quoted prices in the relevant markets when possible. The Group assumes parties to long-term contracts are economically viable but reserves the right to exercise early termination rights if economically beneficial when such rights exist in the contract.

36 Reconciliation to US accounting principles continued

Dividends
Under UK GAAP, 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.

Consolidated summary statement of cash flows
The US GAAP cash flow statement reports changes in cash and cash equivalents, which includes short-term highly liquid investments with original maturities of three months or less. Only three categories of cash flows are reported: operating activities (including tax and interest); investing activities (including capital expenditure, acquisitions and disposals together with cash flows from available for sale current asset investments); and financing activities (including dividends paid). A summary statement of cash flows is presented on page 139.

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 SFAS 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 88 and 89).

Reclassifications
Certain prior year balances have been reclassified for comparative purposes. Certain amounts previously presented in aggregate in the reconciliation of profit under US GAAP to UK GAAP have been presented separately in the current year presentation to provide more information related to these adjustments.

Sales incentives
In accordance with UK GAAP, certain amounts paid by the Group to its customers are recorded as promotional expense included in operating income. Under US GAAP, these items are recorded as a reduction in revenue. While these items do not result in a net impact to the income statement under US GAAP, the amount that would be classified as a reduction in revenue in 2003 would be £324 million.

Recent Financial Accounting Standards Board (FASB) pronouncements
In January 2004, the FASB issued FASB Staff Position (FSP) 106-1 'Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003' (Act). FSP 106-1 addresses the accounting implications of the Act to an entity that sponsors a post-retirement health care plan providing prescription drug benefits. The Act introduces in the USA a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of certain post-retirement health care plans. FSP 106-1 provides an election to defer accounting for the implications of this new law until specific authoritative guidance is issued to address the accounting treatment. As a result of the current absence of guidance as to the accounting treatment, any measures of the accumulated post-retirement benefit obligation or net periodic post-retirement benefit cost included in the reconciliation to US accounting principles and accompanying notes do not reflect the effects of the Act. Authoritative guidance, when issued, could require a change in previously reported information.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), 'Consolidation of Variable Interest Entities', and in December 2003 issued FIN 46R, a revision of this interpretation. Under the revised interpretation, certain entities, known as Variable Interest Entities (VIEs), must be consolidated by the 'primary beneficiary' of the entity. The primary beneficiary is generally defined as having the majority of the risks and rewards arising from the VIE. Additionally, for VIEs in which a significant, but not majority, variable interest is held, certain disclosures are required. Certain measurement principles of this interpretation relating to newly formed VIEs are applicable to the financial statements for the fiscal year ended 31st December 2003. The Group has evaluated all potential VIEs of such newly formed entities and did not identify any items which would require adjustment to the Financial statements. The remaining disclosure requirements in the interpretation are effective for subsequent Financial statements beginning in 2004. GlaxoSmithKline has not yet completed its assessment of the remaining relationships that could have an impact on the disclosures included in the subsequent Financial statements or on the results of operations or financial position in those periods.

36 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 income statements and balance sheets presented in accordance with US GAAP.

Profit	Notes	2003 £m	2002 £m	2001 £m
Profit attributable to shareholders under UK GAAP		4,484	3,915	3,053
Capitalised interest		21	25	18
Computer software		7	20	(3)
Goodwill amortisation reversal/(charge) including goodwill in associated undertakings	(a)	19	18	(1,261)
Amortisation and impairment of intangible assets	(b)	(2,292)	(4,089)	(2,226)
Acquisition of licences, patents etc.	(b)	(105)	(181)	(180)
Recognition of cost of sales on fair value step-up of inventory		–	–	(298)
Disposal of purchased investment		–	–	(117)
Product divestments		7	7	–
Equity investments		(31)	(8)	(75)
Loss on disposal of subsidiary		–	–	204
Pensions and post-retirement benefits	(e)	(122)	(138)	(12)
Stock-based compensation		(379)	(331)	(162)
Provision against ESOT shares		25	51	(108)
Derivative instruments		(74)	8	15
Guarantor obligations		(21)	–	–
Restructuring		98	37	182
Tax benefits on exercise of US stock options	(c)	(13)	(13)	(56)
Deferred taxation	(c)	796	1,182	883
Net income/(loss) under US GAAP before cumulative effect of changes in accounting principles		2,420	503	(143)
Cumulative effect of changes in accounting principles		–	(90)	–
Net income/(loss) after cumulative effect of changes in accounting principles		2,420	413	(143)

Certain items for the years ended 31st December 2002 and 31st December 2001 have been reclassified for comparative purposes.

Earnings per share under US GAAP	2003 pence	2002 pence	2001 pence
Basic net income/(loss) per share before cumulative effect of changes in accounting principles under US GAAP	41.7	8.5	(2.4)
Cumulative effect of changes in accounting principles per share under US GAAP	–	(1.5)	–
Basic net income/(loss) per share after cumulative effect of changes in accounting principles under US GAAP	41.7	7.0	(2.4)
Diluted net income/(loss) per share before cumulative effect of changes in accounting principles under US GAAP	41.6	8.5	(2.4)
Cumulative effect of changes in accounting principles per share under US GAAP	–	(1.5)	–
Diluted net income/(loss) per share after cumulative effect of changes in accounting principles under US GAAP	41.6	7.0	(2.4)

Earnings per ADS under US GAAP	2003 $	2002 $	2001 $
Basic net income/(loss) per ADS before cumulative effect of changes in accounting principles under US GAAP	1.37	0.26	(0.07)
Cumulative effect of changes in accounting principles per ADS under US GAAP	–	(0.05)	–
Basic net income/(loss) per ADS after cumulative effect of changes in accounting principles under US GAAP	1.37	0.21	(0.07)
Diluted net income/(loss) per ADS before cumulative effect of changes in accounting principles under US GAAP	1.36	0.26	(0.07)
Cumulative effect of changes in accounting principles per ADS under US GAAP	–	(0.05)	–
Diluted net income/(loss) per ADS after cumulative effect of changes in accounting principles under US GAAP	1.36	0.21	(0.07)

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36 Reconciliation to US accounting principles continued

Equity shareholders' funds	Notes	2003 £m	2002 £m
Equity shareholders' funds under UK GAAP		7,720	6,581
US GAAP adjustments:			
Goodwill	(a)	17,986	17,989
Product rights	(b)	15,652	18,152
Pension intangible asset	(b)	128	172
Tangible fixed assets		47	49
Capitalised interest		198	175
Computer software		(2)	(9)
Marketable securities		84	113
Other investments		832	829
Employee Share Ownership Trust		(2,775)	(2,826)
Pensions and other post-retirement benefits	(e)	(1,702)	(1,370)
Restructuring costs		92	(6)
Derivative instruments		26	98
Guarantor obligations		(21)	–
Dividends		808	754
Deferred taxation	(d)	(4,957)	(5,779)
Shareholders' equity under US GAAP		34,116	34,922

Certain items for the year ended 31st December 2002 have been reclassified for comparative purposes.

Consolidated statement of cash flows under US GAAP	2003 £m	2002 £m	2001 £m
Net cash provided by operating activities	4,895	5,345	4,606
Net cash used in investing activities	(904)	(1,051)	(1,685)
Net cash used in financing activities	(3,051)	(4,002)	(3,483)
Net increase/(decrease) in cash and cash equivalents	940	292	(562)
Exchange rate movements	(36)	(42)	15
Cash and cash equivalents at beginning of year	1,082	832	1,379
Cash and cash equivalents at end of year	1,986	1,082	832

Notes to the Profit and Equity shareholders' funds reconciliations

(a) Goodwill

The following tables set out the UK to US GAAP adjustments required to the UK GAAP statement of profit and loss and balance sheet in respect of goodwill:

Income statement	2003 £m	2002 £m	2001 £m
Amortisation under UK GAAP (including goodwill in respect of associated undertakings)	(19)	(18)	(17)
Amortisation under US GAAP (including goodwill in respect of associated undertakings)	–	–	(1,278)
UK to US GAAP adjustment for amortisation (including goodwill in respect of associated undertakings)	19	18	(1,261)

Balance sheet	2003 £m	2002 £m
Goodwill under UK GAAP	143	171
Goodwill under US GAAP	18,129	18,160
UK to US GAAP adjustments	17,986	17,989

Of the £18,129 million (2002 - £18,160 million) US GAAP goodwill balance at 31st December 2003, £15,875 million (2002 - £15,875 million) is in respect of the goodwill arising on the acquisition of SmithKline Beecham by Glaxo Wellcome in 2000.

36 Reconciliation to US accounting principles continued

The following tables present the changes in goodwill allocated to the Group's reportable segments:

	Pharmaceuticals £m	Consumer Healthcare £m	Total £m
At 31st December 2001	15,670	2,503	18,173
Additions	23	–	23
Exchange adjustments	(14)	(22)	(36)
At 31st December 2002	15,679	2,481	18,160
Additions	2	–	2
Exchange adjustments	(13)	(20)	(33)
At 31st December 2003	15,668	2,461	18,129

(b) Intangible assets

The following tables set out the UK to US GAAP adjustments required to the UK GAAP statement of profit and loss and balance sheet in respect of intangible assets:

Income statement	2003 £m	2002 £m	2001 £m
Amortisation and impairment charge under UK GAAP	115	106	100
Amortisation and impairment charge under US GAAP	2,407	4,368	2,326
UK to US GAAP adjustment for amortisation and impairments	2,292	4,262	2,226
Cumulative effect of change in accounting principle	–	(173)	–
UK to US GAAP adjustment for amortisation and impairments for the period	2,292	4,089	2,226

Following the initial implementation of SFAS 142 in 2002, the carrying value of the brands determined to have indefinite lives were reviewed and an impairment of £173 million (£127 million net of tax) was recognised. This was recorded as a cumulative effect of a change in accounting principle.

In addition to the above adjustment for amortisation and impairments, a further UK to US GAAP adjustment arose during the year of £105 million (2002 - £181 million; 2001 - £180 million) in respect of the acquisition of licences, patents etc. which are capitalised under UK GAAP but charged directly to profit and loss under US GAAP.

Balance sheet	2003 £m	2002 £m
Intangible assets under UK GAAP	1,697	1,637
Intangible assets under US GAAP	17,477	19,961
UK to US GAAP adjustments	15,780	18,324
Less pensions intangible asset	(128)	(172)
Net UK to US GAAP product rights adjustments	15,652	18,152

Intangible assets under US GAAP are analysed as follows:

	2003 £m	2002 £m
Acquired products	12,054	14,292
Licences, patents etc.	126	59
Brands	5,169	5,438
Pensions	128	172
Intangible assets under US GAAP	17,477	19,961

The following tables present details of the Group's intangible assets, differentiating between those subject to amortisation and those which are not subject to amortisation:

	2003 £m	2002 £m
Intangible assets subject to amortisation	13,234	15,444
Intangible assets not subject to amortisation	4,243	4,517
Intangible assets under US GAAP	17,477	19,961

36 Reconciliation to US accounting principles continued

The following intangible assets are subject to amortisation:

	2003 Product rights £m	2002 Product rights £m
Cost	**21,329**	21,271
Accumulated amortisation	**(5,360)**	(3,751)
Impairment	**(2,735)**	(2,076)
Net	**13,234**	15,444

Following the launch in the USA of a generic *Paxil* product, the carrying value of product rights relating to *Paxil* has been reviewed and an impairment of £633 million recorded. The carrying values of certain other product rights have also been reviewed and an impairment of £25 million recorded. In 2002, impairments of £2,076 million were recorded, of which £1,667 million related to *Augmentin* which was impaired following the launch of a generic *Augmentin* product. Fair values are determined using a discounted cash flow model.

As discussed in Note 30 ‘Legal proceedings’, a number of distributors of generic drugs have filed applications to market generic versions of a number of the Group’s products prior to the expiration of the Group’s patents. If generic versions of products are launched in future periods at earlier dates than the Group currently expects, impairments of the carrying value of the products may arise. The Group will continue to keep the position under review.

The estimated future amortisation expense for the next five years for intangible assets subject to amortisation as of 31st December 2003 is as follows:

Year	£m
2004	**1,492**
2005	**1,492**
2006	**1,451**
2007	**1,437**
2008	**1,437**
Total	**7,309**

Intangible assets which are not subject to amortisation include a pension asset of £128 million at 31st December 2003 (£172 million at 31st December 2002) and certain product rights. The intangible assets relating to product rights are analysed as follows:

	2003 £m	2002 £m
Cost	**4,693**	4,850
Impairment	**(578)**	(505)
Net	**4,115**	4,345

An impairment charge of £108 million (2002 – £332 million) was recognised during 2003 as a result of changes in market conditions and management forecasts for certain brand intangibles.

If the Group had accounted for goodwill and identifiable intangible assets that have indefinite lives under SFAS 142 for the year ended 31st December 2001, the impact on reported US GAAP results would have been as follows:

	2001 £m
Net income under US GAAP	(143)
Amortisation, net of tax:	
Goodwill	1,475
Brands	124
Adjusted net income under US GAAP	1,456
Adjusted basic net income per share (pence)	24.0
Adjusted diluted net income per share (pence)	23.8

36 Reconciliation to US accounting principles continued

(c) Taxation

Total tax expense	2003 £m	2002 £m	2001 £m
UK GAAP:			
Current tax expense	2,001	1,432	1,386
Deferred tax expense	(262)	29	(53)
Total tax expense	1,739	1,461	1,333
US GAAP:			
Current tax expense	2,014	1,445	1,442
Deferred tax expense for the period	(1,058)	(1,153)	(936)
Total tax expense for the period	956	292	506
Cumulative effect of changes in accounting principles	–	(34)	–
Total tax expense	956	258	506
UK to US GAAP adjustments:			
Current tax expense	13	13	56
Deferred tax expense for the period	(796)	(1,182)	(883)
Total tax expense for the period	(783)	(1,169)	(827)
Cumulative effect of changes in accounting principles	–	(34)	–
Total tax expense	(783)	(1,203)	(827)

(d) Deferred taxation under US GAAP

Classification of GlaxoSmithKline's deferred taxation liabilities and assets under US GAAP is as follows:

	2003 £m	2002 £m
Liabilities		
Stock valuation adjustment	(52)	(113)
Current deferred taxation liabilities	(52)	(113)
Accelerated capital allowances	(689)	(710)
Product rights	(4,917)	(5,620)
Other timing differences	(115)	(156)
Total deferred taxation liabilities	(5,773)	(6,599)
Assets		
Intra-Group profit	485	487
Other timing differences	738	646
Current deferred taxation assets	1,223	1,133
Asset disposal	(59)	(125)
Pensions and other post-retirement benefits	86	111
Tax losses	94	93
Manufacturing restructuring	13	52
Legal and other disputes	167	124
Other timing differences	127	63
Total deferred taxation assets	1,651	1,451
Net deferred taxation under US GAAP	(4,122)	(5,148)
Net deferred taxation under UK GAAP	835	631
UK to US GAAP adjustment	(4,957)	(5,779)

The difference between the UK effective taxation rate and the US effective taxation rate is primarily related to the fair value adjustments for goodwill and intangibles related to the acquisitions of Wellcome and SmithKline Beecham.

36 Reconciliation to US accounting principles continued

(e) Pensions and post-retirement costs under US GAAP

	2003 £m	2002 £m	2001 £m
UK pension schemes	278	103	26
US pension schemes	79	67	70
Other overseas pension schemes	83	51	70
Unfunded post-retirement healthcare schemes	118	78	57
Post-employment costs	24	40	28
	582	339	251
Analysed as:			
Funded defined benefit/hybrid schemes	389	149	123
Unfunded defined benefit schemes	26	48	11
Defined contribution schemes	25	24	32
Unfunded post-retirement healthcare schemes	118	78	57
Post-employment costs	24	40	28
	582	339	251

The contributions for 2004 are estimated to be approximately £400 million.

The disclosures below include the additional information required by SFAS 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 2003 of £9 million (2002 – £12 million; 2001 – £17 million), in respect of minor retirement plans, which have not been recalculated in accordance with the requirements of SFAS 87, have been excluded.

The net periodic pension cost/(income) for the major retirement plans comprised:	2003 £m	2002 £m	2001 £m
Service cost	211	219	194
Interest cost	392	388	351
Expected return on plan assets	(408)	(470)	(508)
Amortisation of prior service cost	17	20	15
Amortisation of transition obligation	3	(6)	(9)
Amortisation of net actuarial loss/(gain)	79	3	(57)
Net periodic pension cost/(income) under US GAAP	294	154	(14)
Termination benefits and curtailment costs	112	56	2
Adjustment for change in accounting principle	–	(62)	–

During 2002, the Group decided to align the measurement date for all of its pension plans. As certain of the Group’s pension plans had a measurement date for pension assets and liabilities of 30th September, the Group elected to change the measurement date for these plans from 30th September to 31st December.

The major assumptions used in computing the above pension cost/(income) were:	2003 %pa	2002 %pa	2001 %pa
Rates of future pay increases	4.25	4.25	4.50
Discount rate	5.50	6.00	6.25
Expected long-term rates of return on plan assets	7.50	7.75	8.25

In aggregate, average international plan assumptions did not vary significantly from US assumptions.

36 Reconciliation to US accounting principles continued

Change in benefit obligation	2003 £m	2002 £m
Benefit obligation at beginning of year	6,760	6,372
Adjustment for change in accounting principle	–	153
Amendments	(20)	24
Service cost	211	219
Interest cost	392	388
Plan participants' contributions	16	16
Actuarial loss	899	51
Benefits paid	(328)	(324)
Termination benefits and curtailment costs	92	35
Exchange	(156)	(174)
Benefit obligation at end of year	7,866	6,760
Benefit obligation at end of year for pension plans with accumulated benefit obligations in excess of plan assets	6,960	6,087

The accumulated benefit obligation at 31st December 2003 was £7,391 million.

Change in plan assets	2003 £m	2002 £m
Fair value of plan assets at beginning of year	4,855	5,385
Adjustment for change in accounting principle	–	383
Actual return on plan assets	979	(913)
Employer contribution	596	457
Plan participants' contributions	16	16
Benefits paid	(328)	(324)
Termination benefits and curtailment costs	–	(3)
Exchange	(150)	(146)
Fair value of plan assets at end of year	5,968	4,855
Fair value of plan assets at end of year for pension plans with accumulated benefit obligations in excess of plan assets	5,525	4,741

Plan assets consist primarily of investments in UK and overseas equities, fixed interest securities, securities linked to the UK Retail Prices Index and property. At 31st December 2003 UK equities included 0.5 million GlaxoSmithKline shares (2002 – 2.1 million shares) with a market value of £7 million (2002 – £25 million).

Funded status	2003 £m	2002 £m
Funded status	(1,898)	(1,905)
Unrecognised net actuarial loss	2,123	1,932
Unrecognised prior service cost	96	145
Unrecognised transition obligation	26	29
Net amount recognised	347	201

Amounts recognised in the statement of financial position consist of:	2003 £m	2002 £m
Prepaid benefit cost	18	2
Accrued pension liability	(1,471)	(1,419)
Intangible asset	128	172
Accumulated other comprehensive income	1,672	1,446
Net amount recognised	347	201

36 Reconciliation to US accounting principles continued

Post-retirement healthcare under US GAAP
The post-retirement healthcare costs of the UK, US and major overseas post-retirement healthcare schemes have been restated in the following tables in accordance with US GAAP. Costs in 2003 of £13 million (2002 – £nil, 2001 – £5 million), which have not been recalculated, have been excluded.

Net healthcare cost	2003 £m	2002 £m	2001 £m
Service cost	29	23	15
Interest cost	64	53	40
Amortisation of prior service cost	(2)	(1)	(3)
Amortisation of net actuarial loss	14	3	–
Net healthcare cost	105	78	52

The major assumptions used in calculating the net healthcare cost were:	%pa	%pa	%pa
Rate of future healthcare inflation	10.0 to 5.0	11.0 to 5.0	7.0 to 5.0
Discount rate	6.25	6.75	7.25

The rate of future healthcare inflation reflects the fact that the benefits of certain groups of participants are capped.

Change in benefit obligation	2003 £m	2002 £m
Benefit obligation at beginning of year	830	788
Adjustment for change in accounting principle	–	13
Amendments	(3)	–
Service cost	29	77
Interest cost	64	53
Plan participants' contributions	8	9
Actuarial loss	192	24
Benefits paid	(49)	(50)
Exchange	(96)	(84)
Benefit obligation at end of year	975	830

Change in plan assets		
Fair value of plan assets at beginning of year	–	–
Employer and plan participants' contributions	49	51
Benefits paid	(49)	(51)
Fair value of plan assets at end of year	–	–

Funded status		
Funded status	(975)	(830)
Unrecognised net actuarial loss	371	230
Unrecognised prior service cost	(17)	(17)
Accrued post-retirement healthcare cost	(621)	(617)

Impact of a one per cent variation in the rate of future healthcare inflation	1% decrease £m	1% increase £m
Effect on total service and interest cost	(7)	8
Effect on provision for post-retirement benefits	(76)	83

37 Principal Group companies

The following represent the principal subsidiary and associated undertakings of the GlaxoSmithKline Group at 31st December 2003. Details are given of the principal country of operation, the location of the headquarters, the business segment and the business activities. The equity share capital of these undertakings is wholly owned by the Group except where its percentage interest is shown otherwise. All companies are incorporated in their principal country of operation except where stated.

Europe	Location	Subsidiary undertaking	Segment	Activity	%
England	Greenford	+Glaxo Group Ltd	Ph	h	
	Brentford	+GlaxoSmithKline Holdings (One) Limited	Ph,CH	h	
	Brentford	+GlaxoSmithKline Services Unlimited	Ph,CH	s	
	Brentford	+SmithKline Beecham plc	Ph,CH	e h r d m p	
	Brentford	+Wellcome Limited	Ph,CH	h	
	Brentford	Glaxo Operations UK Ltd	Ph	p	
	Brentford	Glaxo Wellcome International BV (Footnote (iii))	Ph,CH	h	
	Brentford	Glaxo Wellcome Investments BV (Footnote (iii))	Ph,CH	h	
	Stockley Park	Glaxo Wellcome UK Ltd	Ph	h m p	
	Brentford	GlaxoSmithKline Export Ltd	Ph	e	
	Brentford	GlaxoSmithKline Research & Development Ltd	Ph	r d	
	Brentford	GlaxoSmithKline UK Ltd	Ph	m p	
	Brentford	SmithKline Beecham (Investments) Ltd	Ph,CH	f	
	Brentford	SmithKline Beecham (SWG) Ltd	CH	e m	
	Brentford	SmithKline Beecham Research Ltd	Ph	m	
	Brentford	Stafford-Miller Ltd	CH	m p	
	Greenford	The Wellcome Foundation Ltd	Ph	p	
Austria	Vienna	GlaxoSmithKline Pharma GmbH	Ph	m	
Belgium	Genval	GlaxoSmithKline SA	Ph	m	
	Rixensart	GlaxoSmithKline Biologicals SA	Ph	e r d p	
	Rixensart	GlaxoSmithKline Biologicals Manufacturing SA	Ph	e p	
Guernsey	St. Peter Port	SmithKline Beecham Ltd (formerly S.B. Insurance Ltd)	Ph,CH	i	
Denmark	Ballerup	GlaxoSmithKline Consumer Healthcare A/S	CH	m	
	Brøndby	GlaxoSmithKline Pharma a/s	Ph	m	
Finland	Espoo	GlaxoSmithKline Oy	Ph	m	
France	Marly le Roi	Groupe GlaxoSmithKline SAS	Ph	h	
	Marly le Roi	Laboratoire GlaxoSmithKline S.A.S	CH	m	
	Marly le Roi	Glaxo Wellcome Production S.A.S	Ph	m p	
Germany	Buehl	GlaxoSmithKline Consumer Healthcare GmbH & Co KG	CH	m p	
	Buehl	GlaxoSmithKline Healthcare GmbH (formerly SmithKline Beecham Healthcare GmbH)	Ph	m	
Greece	Athens	GlaxoSmithKline AEBE	Ph	h m p	
Hungary	Budapest	GlaxoSmithKline Kft	Ph,CH	m	
Italy	Verona	GlaxoSmithKline SpA	Ph	m p r d	
	Milan	GlaxoSmithKline Consumer Healthcare SpA	CH	h m	
Luxembourg	Mamer	GlaxoSmithKline International (Luxembourg) SA	Ph,CH	f h	
	Mamer	GlaxoSmithKline Luxembourg SA	Ph,CH	f h	

37 Principal Group companies continued

Europe	Location	Subsidiary undertaking	Segment	Activity	%
Netherlands	Zeist	GlaxoSmithKline BV	Ph	m	
	Zeist	GlaxoSmithKline Consumer Healthcare BV	CH	m	
Norway	Oslo	GlaxoSmithKline AS	Ph	m	
Poland	Poznan	GlaxoSmithKline Pharmaceuticals SA	Ph	m p	97
	Warsaw	GlaxoSmithKline Consumer Healthcare sp zoo	CH	m	
Portugal	Lisbon	GlaxoSmithKline-Produtos Farmaceuticos Lda	Ph	m	
Republic of Ireland	Dublin	GlaxoSmithKline Consumer Healthcare (Ireland) Limited (Footnote (i))	CH	m	
	Carrigaline	SmithKline Beecham (Cork) Ltd (Footnote (i))	Ph	p	
	Carrigaline	SmithKline Beecham (Manufacturing) Ltd (Footnote (i))	Ph	p	
Spain	Burgos	Glaxo Wellcome, SA	Ph	r m p	
	Madrid	SmithKline Beecham SA	Ph	m	
Sweden	Mölndal	GlaxoSmithKline AB	Ph	m	
Switzerland	Muenchenbuchsee	GlaxoSmithKline Investments (Switzerland) GmbH	Ph,CH	h	
	Muenchenbuchsee	GlaxoSmithKline International (Switzerland) GmbH	Ph,CH	h	
	Muenchenbuchsee	Glaxo Wellcome International (Footnote (i),(iv))	Ph,CH	h	
	Muenchenbuchsee	GlaxoSmithKline AG	Ph	m	
	Zug	Adechsa GmbH	Ph	e	
Turkey	Istanbul	GlaxoSmithKline Ilaclari Sanayi ve Ticaret AS	Ph	m p	
USA					
USA	Philadelphia	SmithKline Beecham Corporation	Ph,CH	e h r d m p s	
	Pittsburgh	GlaxoSmithKline Consumer Healthcare LP	CH	m p	88
	New Jersey	Block Drug Company, Inc	CH	h m p	
	Wilmington	GlaxoSmithKline Financial Inc	Ph,CH	f	
	Wilmington	SmithKline Beecham Holdings Corporation	Ph,CH	h	79
	Wilmington	GlaxoSmithKline Holdings (Americas) Inc	Ph,CH	h	
Americas					
Bermuda	Hamilton	GlaxoSmithKline Insurance Ltd	Ph,CH	i	
Canada	Mississauga	GlaxoSmithKline Inc	Ph,CH	m p r	
Asia Pacific					
Australia	Boronia	Glaxo Wellcome Australia Ltd	Ph	m p	
	Dandenong	SmithKline Beecham (Australia) Pty Ltd	Ph,CH	m	
China	Hong Kong	GlaxoSmithKline Limited	Ph	m	
	Tianjin	Sino-American Tianjin Smith Kline & French Laboratories Ltd	Ph	m	55
India	Mumbai	GlaxoSmithKline Pharmaceuticals Ltd	Ph	m p	59
	Nabha	GlaxoSmithKline Consumer Healthcare Ltd (Footnote (ii))	CH	m p	40
Malaysia	Selangor Darul Ehsan	GlaxoSmithKline Pharmaceutical Sdn Bhd	Ph	m	
New Zealand	Auckland	GlaxoSmithKline NZ Limited	Ph,CH	m	
Pakistan	Karachi	GlaxoSmithKline Pakistan Ltd (formerly Glaxo Wellcome Pakistan Ltd)	Ph,CH	m p	79
Philippines	Makati	GlaxoSmithKline Philippines Inc. (formerly Glaxo Wellcome Philippines Inc.)	Ph	m	
Singapore	Singapore	Glaxo Wellcome Manufacturing Pte Ltd	Ph	p	
	Singapore	GlaxoSmithKline Pte Ltd	Ph	m	
South Korea	Seoul	GlaxoSmithKline Korea	Ph	m p	
Taiwan	Taipei	Glaxo Wellcome Taiwan Ltd	Ph	m p	

37 Principal Group companies continued

Japan	Location	Subsidiary undertaking	Segment	Activity	%
Japan	Tokyo	GlaxoSmithKline KK	Ph	m p r	85
	Kobe	Block Drug Company (Japan) Inc	CH	m	
Latin America					
Argentina	Buenos Aires	GlaxoSmithKline Argentina SA	Ph,CH	m p	
Brazil	Rio de Janeiro	GlaxoSmithKline Brasil Lda	Ph,CH	m p	
Colombia	Bogota	GlaxoSmithKline Colombia SA	Ph,CH	m	
Mexico	Mexico City	GlaxoSmithKline Mexico, SA de CV	Ph,CH	m p	
Puerto Rico	Guaynabo	GlaxoSmithKline Puerto Rico Inc	Ph	m	
	San Juan	SB Pharmco Puerto Rico Inc	Ph	p	
Venezuela	Caracas	GlaxoSmithKline Venezuela CA	Ph	m p	
Middle East Africa					
Egypt	Cairo	GlaxoSmithKline SAE (formerly Glaxo Wellcome Egypt SAE)	Ph	m p	90
South Africa	Midrand	GlaxoSmithKline South Africa (Pty) Ltd	Ph	m p	

USA	Location	Associated undertaking	Business	%
USA	Teterboro, New Jersey	Quest Diagnostics, Inc.	Clinical testing	21

Footnotes
(i) Exempt from the provisions of Section 7 of the Companies (Amendment) Act 1986 (Ireland)

(ii) Consolidated as a subsidiary undertaking in accordance with Section 258 (4)(a) of the Companies Act on the grounds of significant influence(iii) Incorporated in the Netherlands

(iv) Incorporated in the Republic of Ireland

\+ directly held wholly owned subsidiary of GlaxoSmithKline plc

Business segment: **Ph** Pharmaceuticals, **CH** Consumer Healthcare
Business activity: **d** development, **e** exporting, **f** finance, **h** holding company, **i** insurance, **m** marketing, **p** production, **r** research, **s** service

Full details of all Group subsidiary and associated undertakings will be attached to the company's Annual Return to be filed with the Registrar of Companies.

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Investor information

This section includes the financial record and discusses shareholder return – the return to shareholders in the form of dividends and share price movements – and provides other information for shareholders.

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Financial record

Quarterly trend

An unaudited analysis is provided by quarter of the Group results in sterling for the financial year 2003. The analysis comprises statutory results, business performance results and pharmaceutical sales by therapeutic area.

Profit and loss account – statutory

	12 months 2003			Q4 2003		
	£m	CER %	£%	£m	CER %	£%
Turnover – Pharmaceuticals	18,181	5	1	4,515	(2)	(6)
– Consumer Healthcare	3,260	4	1	863	2	(1)
Total turnover	21,441	5	1	5,378	(1)	(5)
Cost of sales	(4,544)	–	(1)	(1,239)	1	(1)
Selling, general and administrative expenditure	(7,581)	(2)	(6)	(2,014)	(5)	(8)
Research and development expenditure	(2,791)	(1)	(4)	(822)	(6)	(9)
Operating costs	(14,916)			(4,075)		
Trading profit – Pharmaceuticals	5,948			1,139		
– Consumer Healthcare	577			164		
Total trading profit	6,525	21	15	1,303	6	(2)
Other operating income/(expense)	(133)			(167)		
Operating profit	6,392	21	15	1,136	(10)	(16)
Share of profits/(losses) of joint ventures and associated undertakings	93			23		
Disposal of businesses	5			2		
Profit before interest	6,490			1,161		
Net interest payable	(161)			(43)		
Profit on ordinary activities before taxation	6,329	21	15	1,118	(10)	(16)
Taxation	(1,739)			(304)		
Profit on ordinary activities after taxation	4,590	19	13	814	(10)	(16)
Equity minority interests	(94)			(23)		
Preference share dividends	(12)			(1)		
Earnings (Profit attributable to shareholders)	4,484	20	15	790	(10)	(16)
Basic earnings per share	77.2p	23	17	13.7p	(8)	(14)

Profit and loss account – business performance

Turnover – Pharmaceuticals	18,181	5	1	4,515	(2)	(6)
– Consumer Healthcare	3,260	4	1	863	2	(1)
Total turnover	21,441	5	1	5,378	(1)	(5)
Cost of sales	(4,188)	–	(1)	(1,116)	6	4
Selling, general and administrative expenditure	(7,563)	4	–	(1,977)	–	(3)
Research and development expenditure	(2,770)	4	1	(815)	(1)	(4)
Operating costs	(14,521)			(3,908)		
Trading profit – Pharmaceuticals	6,317	8	3	1,299	(9)	(15)
– Consumer Healthcare	603	16	10	171	(2)	(8)
Total trading profit	6,920	9	3	1,470	(8)	(14)
Other operating income/(expense)	(133)			(167)		
Operating profit	6,787	8	3	1,303	(20)	(25)
Share of profits/(losses) of joint ventures and associated undertakings	93			23		
Profit before interest	6,880			1,326		
Net interest payable	(161)			(43)		
Profit on ordinary activities before taxation	6,719	8	3	1,283	(20)	(25)
Taxation	(1,848)			(353)		
Profit on ordinary activities after taxation	4,871	7	2	930	(21)	(25)
Equity minority interests	(94)			(23)		
Preference share dividends	(12)			(1)		
Adjusted earnings (Profit attributable to shareholders)	4,765	8	3	906	(20)	(25)
Adjusted earnings per share	82.1p	10	5	15.7p	(19)	(24)

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9 months 2003			Q3 2003			6 months 2003			Q2 2003			Q1 2003		
£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
13,666	7	4	4,634	10	10	9,032	6	1	4,566	3	(1)	4,466	9	2
2,397	4	2	832	4	4	1,565	5	1	809	3	1	756	6	1
16,063	7	3	5,466	9	9	10,597	6	1	5,375	3	(1)	5,222	8	2
(3,305)	(1)	(2)	(1,130)	(2)	–	(2,175)	(1)	(2)	(1,065)	(2)	(4)	(1,110)	1	(1)
(5,567)	(1)	(5)	(1,936)	2	1	(3,631)	(3)	(8)	(1,855)	(6)	(10)	(1,776)	(1)	(6)
(1,969)	1	(1)	(681)	(3)	(4)	(1,288)	4	–	(654)	9	5	(634)	(1)	(5)
(10,841)			(3,747)			(7,094)			(3,574)			(3,520)		
4,809			1,551			3,258			1,657			1,601		
413			168			245			144			101		
5,222	26	20	1,719	35	35	3,503	22	14	1,801	16	11	1,702	30	18
34			(33)			67			87			(20)		
5,256	31	25	1,686	47	50	3,570	25	16	1,888	21	15	1,682	29	17
70			20			50			28			22		
3			–			3			3			–		
5,329			1,706			3,623			1,919			1,704		
(118)			(46)			(72)			(37)			(35)		
5,211	31	25	1,660	47	50	3,551	25	16	1,882	21	15	1,669	29	17
(1,435)			(457)			(978)			(527)			(451)		
3,776	28	23	1,203	44	47	2,573	23	14	1,355	19	13	1,218	28	16
(71)			(30)			(41)			(21)			(20)		
(11)			(3)			(8)			(4)			(4)		
3,694	30	24	1,170	46	49	2,524	24	15	1,330	19	13	1,194	29	17
63.5p	32	26	20.2p	48	51	43.3p	27	18	22.8p	22	16	20.5p	32	20
13,666	7	4	4,634	10	10	9,032	6	1	4,566	3	(1)	4,466	9	2
2,397	4	2	832	4	4	1,565	5	1	809	3	1	756	6	1
16,063	7	3	5,466	9	9	10,597	6	1	5,375	3	(1)	5,222	8	2
(3,072)	(3)	(3)	(1,063)	–	2	(2,009)	(4)	(6)	(990)	(4)	(6)	(1,019)	(4)	(5)
(5,586)	5	2	(1,970)	12	11	(3,616)	2	(3)	(1,850)	(1)	(5)	(1,766)	5	–
(1,955)	6	4	(681)	6	6	(1,274)	6	2	(644)	12	8	(630)	1	(3)
(10,613)			(3,714)			(6,899)			(3,484)			(3,415)		
5,018	14	8	1,578	11	12	3,440	15	7	1,740	7	3	1,700	23	12
432	24	20	174	26	20	258	24	19	151	24	24	107	23	14
5,450	14	9	1,752	13	13	3,698	15	8	1,891	8	4	1,807		
34			(33)			67			87			(20)		
5,484	18	13	1,719	20	22	3,765	17	9	1,978	13	8	1,787	22	11
70			20			50			28			22		
5,554			1,739			3,815			2,006			1,809		
(118)			(46)			(72)			(37)			(35)		
5,436	18	13	1,693	20	22	3,743	18	9	1,969	13	8	1,774	22	11
(1,495)			(466)			(1,029)			(550)			(479)		
3,941	17	12	1,227	19	21	2,714	17	9	1,419	12	6	1,295	22	11
(71)			(30)			(41)			(21)			(20)		
(11)			(3)			(8)			(4)			(4)		
3,859	18	13	1,194	20	22	2,665	17	9	1,394	12	7	1,271	23	12
66.4p	20	15	20.7p	21	24	45.7p	20	12	23.9p	15	9	21.8p	26	15

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Pharmaceutical turnover – total Group

	Q4 2003			Q3 2003			Q2 2003			Q1 2003		
	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
CNS	**965**	**(17)**	**(21)**	**1,243**	**13**	**11**	**1,152**	**5**	**(1)**	**1,095**	**19**	**10**
Depression	**552**	**(27)**	**(32)**	**822**	**14**	**11**	**750**	**6**	**(1)**	**706**	**23**	**13**
Seroxat/Paxil	325	(40)	(43)	542	10	9	520	–	(6)	490	20	12
Wellbutrin	227	2	(8)	280	22	16	230	22	10	216	30	17
Migraine	**211**	**(4)**	**(9)**	**221**	**4**	**2**	**213**	**(2)**	**(7)**	**204**	**6**	**(2)**
Imigran/Imitrex	188	(6)	(11)	199	3	1	190	(2)	(8)	183	8	(1)
Naramig/Amerge	23	7	5	22	10	10	23	(1)	(4)	21	(9)	(13)
Lamictal	146	25	21	145	36	36	135	28	23	130	37	30
Requip	27	11	8	26	20	24	24	3	–	22	22	16
Zyban	20	(13)	(9)	18	(25)	(22)	17	(31)	(32)	20	(28)	(31)
Respiratory	**1,171**	**14**	**10**	**1,056**	**14**	**15**	**1,097**	**10**	**6**	**1,093**	**19**	**13**
Flixotide, Serevent, Seretide	**906**	**16**	**12**	**819**	**18**	**19**	**813**	**12**	**9**	**814**	**22**	**16**
Seretide/Advair	617	39	34	552	40	41	531	31	28	514	48	42
Flixotide/Flovent	186	(10)	(12)	166	(8)	(7)	173	(8)	(11)	180	(5)	(10)
Serevent	103	(21)	(24)	101	(15)	(13)	109	(18)	(20)	120	(7)	(12)
Flixonase/Flonase	144	27	18	127	4	2	164	18	9	159	27	16
Ventolin	69	(7)	(5)	66	7	14	66	1	–	64	(3)	(6)
Becotide	29	(15)	(12)	25	(17)	(17)	28	(19)	(18)	29	(15)	(12)
Anti-virals	**582**	**(3)**	**(6)**	**586**	**4**	**5**	**610**	**11**	**7**	**571**	**9**	**4**
HIV	**368**	**(4)**	**(7)**	**375**	**4**	**5**	**390**	**11**	**8**	**375**	**13**	**7**
Combivir	147	(2)	(5)	146	2	4	152	6	3	144	5	–
Trizivir	88	1	(2)	92	19	19	102	32	29	94	43	36
Epivir	70	(10)	(13)	75	4	6	74	7	3	74	8	3
Retrovir	11	(17)	(15)	11	12	10	12	(12)	(8)	11	(16)	(21)
Ziagen	39	(12)	(17)	43	(12)	(9)	42	12	8	43	14	8
Agenerase	6	(34)	(45)	8	(32)	(27)	8	(25)	(27)	9	(7)	(18)
Herpes	**170**	**–**	**(3)**	**170**	**9**	**9**	**178**	**12**	**7**	**151**	**2**	**(3)**
Valtrex	129	12	7	128	26	24	132	32	26	110	23	15
Zovirax	41	(26)	(24)	42	(24)	(21)	46	(23)	(25)	41	(32)	(32)
Zeffix	34	11	3	32	7	3	32	15	10	31	10	3
Anti-bacterials	**509**	**(8)**	**(11)**	**420**	**(5)**	**(3)**	**419**	**(23)**	**(25)**	**467**	**(25)**	**(27)**
Augmentin	251	(11)	(14)	177	(12)	(10)	179	(42)	(43)	218	(42)	(44)
Zinnat/Ceftin	70	3	4	57	11	14	55	(4)	(4)	64	(7)	(7)
Fortum	45	(15)	(15)	46	(3)	–	47	(10)	(8)	46	(8)	(10)
Amoxil	29	(29)	(33)	27	(10)	(10)	29	(1)	(3)	32	5	(3)
Metabolic	**291**	**12**	**4**	**283**	**54**	**51**	**245**	**–**	**(7)**	**260**	**26**	**14**
Avandia/Avandamet	252	16	7	241	61	55	212	3	(5)	226	28	15
Vaccines	**290**	**3**	**4**	**284**	**(8)**	**(4)**	**285**	**8**	**9**	**264**	**9**	**8**
Hepatitis	102	(16)	(17)	102	(18)	(16)	106	(13)	(12)	107	(5)	(9)
Infanrix	76	41	41	83	21	24	102	50	48	75	18	17
Oncology and emesis	**231**	**(8)**	**(14)**	**249**	**9**	**8**	**273**	**19**	**11**	**248**	**17**	**7**
Zofran	187	–	(7)	199	19	16	206	25	16	182	24	14
Hycamtin	26	23	13	29	53	53	29	12	7	26	13	4
Cardiovascular and urogenital	**195**	**16**	**10**	**226**	**36**	**34**	**178**	**10**	**5**	**172**	**27**	**19**
Coreg	96	40	26	97	8	4	84	20	9	84	57	40
Levitra	7	–	–	25	–	–	3	–	–	2	–	–
Avodart	7	34	17	8	–	–	3	–	–	1	–	–
Other	**281**	**(7)**	**(8)**	**287**	**(4)**	**(4)**	**307**	**(7)**	**(11)**	**296**	**(13)**	**(17)**
Zantac	76	(21)	(22)	80	(2)	(1)	89	(10)	(12)	83	(15)	(19)
Total	**4,515**	**(2)**	**(6)**	**4,634**	**10**	**10**	**4,566**	**3**	**(1)**	**4,466**	**9**	**2**

Pharmaceutical turnover includes co-promotion income.

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Pharmaceutical turnover – USA

	Q4 2003			Q3 2003			Q2 2003			Q1 2003		
	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
CNS	**607**	**(25)**	**(33)**	**910**	**14**	**9**	**808**	**4**	**(6)**	**787**	**24**	**11**
Depression	**365**	**(35)**	**(42)**	**643**	**16**	**10**	**562**	**5**	**(5)**	**537**	**27**	**13**
Seroxat/Paxil	144	(58)	(63)	370	12	7	338	(4)	(13)	327	25	12
Wellbutrin	221	1	(9)	273	22	16	224	21	10	210	30	16
Migraine	**145**	**(9)**	**(18)**	**162**	**4**	**(1)**	**151**	**(5)**	**(14)**	**151**	**9**	**(3)**
Imigran/Imitrex	133	(9)	(18)	150	3	(2)	138	(5)	(13)	139	11	(1)
Naramig/Amerge	12	(2)	(8)	12	8	9	13	(9)	(19)	12	(6)	(14)
Lamictal	77	28	15	84	44	38	74	30	16	76	52	38
Requip	11	(11)	(21)	13	20	18	12	2	(8)	11	36	22
Zyban	6	(41)	(45)	7	(39)	(42)	6	(35)	(45)	9	(26)	(31)
Respiratory	**569**	**19**	**8**	**546**	**20**	**15**	**556**	**15**	**5**	**571**	**31**	**17**
Flixotide, Serevent, Seretide	**456**	**19**	***7***	**437**	**25**	**19**	**413**	**15**	**5**	**444**	**33**	**19**
Seretide/Advair	341	51	36	316	57	50	286	41	28	292	71	53
Flixotide/Flovent	77	(17)	(24)	77	(11)	(14)	77	(11)	(19)	88	(3)	(13)
Serevent	38	(42)	(48)	44	(30)	(33)	50	(28)	(33)	64	(10)	(20)
Flixonase/Flonase	109	31	18	103	3	–	131	22	10	118	33	19
Ventolin	–	–	–	1	>100	>100	1	>100	–	2	(72)	(67)
Becotide	–	–	–	–	–	–	–	–	–	–	–	–
Anti-virals	**279**	**(5)**	**(14)**	**290**	**1**	**(3)**	**298**	**12**	**1**	**292**	**11**	**(1)**
HIV	**186**	**(9)**	**(18)**	**197**	**(4)**	**(8)**	**202**	**6**	**(4)**	**213**	**16**	**4**
Combivir	73	(7)	(17)	74	(7)	(10)	75	(2)	(11)	79	6	(6)
Trizivir	47	(2)	(11)	54	12	8	60	26	15	58	46	29
Epivir	33	(17)	(27)	38	(3)	(7)	36	6	(8)	41	14	5
Retrovir	4	(20)	(33)	5	(20)	(17)	5	1	–	5	(6)	(17)
Ziagen	19	(22)	(30)	22	(18)	(21)	21	8	(5)	24	13	–
Agenerase	4	(52)	(50)	4	(38)	(50)	5	(28)	(38)	6	(12)	(14)
Herpes	**83**	**7**	**(3)**	**85**	**23**	**18**	**86**	**29**	**16**	**71**	**3**	**(8)**
Valtrex	81	15	3	81	30	25	83	36	22	71	25	13
Zovirax	2	(73)	(71)	4	(48)	(43)	3	(42)	(50)	–	–	(100)
Zeffix	3	–	–	2	(12)	(33)	3	5	–	2	(10)	(33)
Anti-bacterials	**166**	**(21)**	**(28)**	**107**	**(28)**	**(31)**	**113**	**(53)**	**(57)**	**138**	**(53)**	**(58)**
Augmentin	115	(22)	(29)	54	(37)	(39)	60	(66)	(69)	83	(64)	(68)
Zinnat/Ceftin	6	(29)	(33)	4	(24)	(20)	4	(33)	(43)	8	(30)	(38)
Fortum	6	(34)	(40)	7	(25)	(22)	6	(29)	(33)	8	5	(11)
Amoxil	1	(90)	(89)	5	(34)	(38)	6	(23)	(25)	7	17	–
Metabolic	**200**	**12**	**1**	**197**	**60**	**52**	**167**	**(5)**	**(13)**	**191**	**28**	**14**
Avandia/Avandamet	200	12	1	197	60	52	167	(5)	(13)	191	28	14
Vaccines	**65**	**11**	**–**	**70**	**(1)**	**(4)**	**73**	**15**	**4**	**73**	**–**	**(11)**
Hepatitis	39	(20)	(29)	39	(23)	(26)	34	(23)	(29)	45	(8)	(18)
Infanrix	26	>100	>100	31	71	63	39	92	70	28	15	4
Oncology and emesis	**167**	**(11)**	**(20)**	**182**	**10**	**5**	**207**	**23**	**12**	**187**	**20**	**7**
Zofran	136	(1)	(12)	148	23	18	155	32	19	136	31	17
Hycamtin	19	35	27	21	82	75	20	16	5	17	15	–
Cardiovascular and urogenital	**119**	**13**	**1**	**156**	**43**	**36**	**110**	**10**	**–**	**110**	**33**	**18**
Coreg	92	41	26	92	7	2	81	19	8	81	58	42
Levitra	2	–	–	20	–	–	–	–	–	–	–	–
Avodart	5	(6)	(17)	6	–	–	2	–	–	1	–	–
Other	**16**	**17**	**–**	**26**	**1**	**4**	**27**	**(33)**	**(43)**	**30**	**(17)**	**(23)**
Zantac	14	(29)	(39)	18	7	6	22	12	5	23	7	(8)
Total	**2,188**	**(6)**	**(16)**	**2,484**	**14**	**9**	**2,359**	**2**	**(8)**	**2,379**	**12**	**–**

Pharmaceutical turnover includes co-promotion income.

Pharmaceutical turnover – Europe

	Q4 2003			Q3 2003			Q2 2003			Q1 2003		
	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
CNS	**224**	**3**	**8**	**206**	**5**	**13**	**213**	**3**	**10**	**204**	**3**	**10**
Depression	**87**	**(18)**	**(14)**	**89**	**(6)**	**2**	**96**	**(8)**	**(3)**	**97**	**3**	**10**
Seroxat/Paxil	87	(18)	(14)	89	(6)	2	96	(8)	(3)	97	3	10
Wellbutrin	–	–	–	–	–	–	–	–	–	–	–	–
Migraine	**50**	**14**	**22**	**44**	**5**	**13**	**45**	**6**	**15**	**40**	**(11)**	**(5)**
Imigran/Imitrex	41	11	17	36	3	13	37	5	16	33	(9)	(3)
Naramig/Amerge	9	26	50	8	14	14	8	12	14	7	(21)	(13)
Lamictal	58	24	32	50	29	35	50	30	43	44	18	26
Requip	14	40	40	12	18	33	11	–	10	10	4	11
Zyban	10	49	43	7	7	17	7	8	40	8	(10)	(11)
Respiratory	**409**	**7**	**12**	**343**	**3**	**11**	**375**	**1**	**9**	**354**	**2**	**9**
Flixotide, Serevent, Seretide	**329**	**12**	**18**	**273**	**7**	**15**	**292**	**5**	**13**	**276**	**5**	**13**
Seretide/Advair	221	24	32	182	15	25	192	15	25	178	17	26
Flixotide/Flovent	57	(8)	(5)	47	(10)	(2)	52	(10)	(5)	52	(13)	(7)
Serevent	51	(2)	–	44	(4)	2	48	(8)	(4)	46	(8)	(2)
Flixonase/Flonase	13	5	8	12	9	9	18	(2)	13	13	(4)	–
Ventolin	35	(8)	(5)	32	(3)	7	34	(4)	3	33	(5)	–
Becotide	24	(15)	(11)	22	(17)	(12)	23	(17)	(15)	24	(11)	(8)
Anti-virals	**183**	**(2)**	**4**	**177**	**8**	**18**	**195**	**13**	**23**	**171**	**3**	**13**
HIV	**142**	**2**	**9**	**137**	**17**	**28**	**148**	**17**	**29**	**128**	**7**	**16**
Combivir	57	1	10	53	14	23	59	16	28	49	1	9
Trizivir	37	6	16	35	32	46	38	42	52	33	38	50
Epivir	27	1	4	27	15	29	28	6	17	25	(1)	9
Retrovir	4	(23)	–	4	>100	100	4	(30)	(20)	4	(37)	(33)
Ziagen	15	4	7	15	(8)	–	16	19	33	15	16	25
Agenerase	1	(9)	(50)	3	(4)	50	3	(5)	–	2	(4)	–
Herpes	**34**	**(10)**	**(3)**	**36**	**(7)**	**6**	**41**	**3**	**11**	**37**	**1**	**9**
Valtrex	20	2	5	22	8	22	25	16	25	19	9	19
Zovirax	14	(24)	(13)	14	(23)	(13)	16	(12)	(6)	18	(7)	–
Zeffix	5	30	25	4	(13)	–	4	2	–	4	(8)	–
Anti-bacterials	**206**	**1**	**7**	**172**	**8**	**18**	**172**	**(3)**	**6**	**205**	**(1)**	**6**
Augmentin	88	(3)	2	76	8	17	74	(6)	1	94	(4)	3
Zinnat/Ceftin	42	12	20	26	7	18	29	(1)	7	37	6	12
Fortum	24	(12)	(4)	23	(1)	10	24	(9)	–	24	(14)	(8)
Amoxil	10	(15)	(17)	8	(25)	(20)	8	(29)	(20)	10	(32)	(23)
Metabolic	**33**	**32**	**32**	**33**	**67**	**83**	**25**	**6**	**9**	**25**	**29**	**39**
Avandia/Avandamet	22	84	83	19	78	>100	17	49	55	12	16	20
Vaccines	**129**	**(5)**	**2**	**132**	**(11)**	**(4)**	**127**	**6**	**14**	**107**	**9**	**15**
Hepatitis	48	(13)	(8)	45	(22)	(15)	55	(4)	2	44	(10)	(2)
Infanrix	37	7	12	38	18	31	42	31	40	30	11	20
Oncology and emesis	**41**	**(1)**	**5**	**40**	**–**	**5**	**43**	**4**	**13**	**39**	**(1)**	**5**
Zofran	32	1	10	32	–	7	32	1	7	30	–	7
Hycamtin	6	(5)	(14)	6	–	20	7	14	17	6	(9)	–
Cardiovascular and urogenital	**48**	**14**	**23**	**44**	**15**	**26**	**42**	**(2)**	**8**	**42**	**13**	**24**
Coreg	–	–	–	–	–	–	–	–	–	–	–	–
Levitra	4	–	–	3	–	–	2	–	–	2	–	–
Avodart	2	–	–	2	–	–	1	–	–	–	–	–
Other	**90**	**(13)**	**(12)**	**80**	**(18)**	**(12)**	**91**	**(16)**	**(13)**	**94**	**(18)**	**(15)**
Zantac	23	(26)	(21)	22	(18)	(12)	24	(24)	(17)	25	(31)	(24)
Total	**1,363**	**2**	**7**	**1,227**	**3**	**11**	**1,283**	**2**	**9**	**1,241**	**1**	**8**

Pharmaceutical turnover includes co-promotion income.

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Pharmaceutical turnover – International

	Q4 2003			Q3 2003			Q2 2003			Q1 2003		
	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%	£m	CER %	£%
CNS	**134**	**10**	**12**	**127**	**15**	**19**	**131**	**18**	**16**	**104**	**17**	**8**
Depression	**100**	**18**	**19**	**90**	**26**	**29**	**92**	**34**	**28**	**72**	**24**	**18**
Seroxat/Paxil	94	17	19	83	26	28	86	33	30	66	23	16
Wellbutrin	6	27	20	7	24	40	6	43	–	6	27	50
Migraine	**16**	**(3)**	**–**	**15**	**3**	**7**	**17**	**15**	**6**	**13**	**14**	**18**
Imigran/Imitrex	14	(3)	8	13	2	8	15	16	–	11	15	22
Naramig/Amerge	2	–	(33)	2	8	–	2	8	100	2	12	–
Lamictal	11	8	10	11	6	22	11	6	–	10	14	–
Requip	2	46	100	1	37	–	1	45	–	1	43	–
Zyban	4	(35)	–	4	(31)	(20)	4	(54)	(56)	3	(51)	(57)
Respiratory	**193**	**11**	**12**	**167**	**16**	**21**	**166**	**10**	**6**	**168**	**17**	**8**
Flixotide, Serevent, Seretide	**121**	**14**	**19**	**109**	**23**	**31**	**108**	**16**	**15**	**94**	**21**	**13**
Seretide/Advair	55	25	34	54	39	50	53	36	36	44	52	42
Flixotide/Flovent	52	2	4	42	1	5	44	–	–	40	(1)	(7)
Serevent	14	27	27	13	56	86	11	11	–	10	18	11
Flixonase/Flonase	22	23	22	12	4	9	15	6	–	28	18	12
Ventolin	34	2	3	33	10	10	31	2	(3)	29	14	–
Becotide	5	(14)	(17)	3	(18)	(40)	5	(28)	(29)	5	(29)	(29)
Anti-virals	**120**	**3**	**1**	**119**	**8**	**9**	**117**	**6**	**(1)**	**108**	**13**	**4**
HIV	**40**	**6**	**3**	**41**	**13**	**17**	**40**	**15**	**8**	**34**	**14**	**(3)**
Combivir	17	15	13	19	17	19	18	18	–	16	15	7
Trizivir	4	(4)	(20)	3	31	–	4	50	100	3	49	50
Epivir	10	(6)	11	10	12	11	10	14	11	8	5	(20)
Retrovir	3	(3)	–	2	–	–	3	(4)	–	2	15	–
Ziagen	5	(2)	(17)	6	8	50	5	16	–	4	11	–
Agenerase	1	>100	–	1	(42)	–	–	–	–	1	18	(50)
Herpes	**53**	**(4)**	**(2)**	**49**	**–**	**(2)**	**51**	**(5)**	**(7)**	**43**	**–**	**(4)**
Valtrex	28	10	22	25	31	25	24	34	41	20	29	18
Zovirax	25	(15)	(19)	24	(19)	(20)	27	(25)	(29)	23	(16)	(18)
Zeffix	26	10	–	26	13	8	25	18	14	25	15	9
Anti-bacterials	**137**	**(1)**	**(7)**	**141**	**7**	**6**	**134**	**9**	**–**	**124**	**10**	**–**
Augmentin	48	13	9	47	9	7	45	8	2	41	12	3
Zinnat/Ceftin	22	1	(4)	27	21	17	22	4	(4)	19	(11)	(17)
Fortum	15	(11)	(17)	16	7	–	17	(2)	(6)	14	(5)	(13)
Amoxil	18	(13)	(18)	14	16	17	15	41	25	15	37	15
Metabolic	**58**	**4**	**–**	**53**	**30**	**33**	**53**	**17**	**13**	**44**	**17**	**2**
Avandia/Avandamet	30	16	15	25	66	56	28	63	56	23	32	21
Vaccines	**96**	**7**	**12**	**82**	**(10)**	**(6)**	**85**	**3**	**6**	**84**	**20**	**22**
Hepatitis	15	(11)	(6)	18	15	20	17	(9)	(11)	18	14	–
Infanrix	13	16	18	14	(26)	(26)	21	23	31	17	42	42
Oncology and emesis	**23**	**7**	**10**	**27**	**23**	**35**	**23**	**6**	**(4)**	**22**	**17**	**10**
Zofran	19	10	12	19	22	19	19	8	6	16	13	7
Hycamtin	1	9	–	2	18	–	2	(24)	–	3	66	50
Cardiovascular and urogenital	**28**	**36**	**33**	**26**	**39**	**37**	**26**	**37**	**30**	**20**	**24**	**11**
Coreg	4	17	33	5	49	67	3	34	50	3	35	–
Levitra	1	–	–	2	–	–	1	–	–	–	–	–
Avodart	–	–	–	–	–	–	–	–	–	–	–	–
Other	**175**	**(5)**	**(7)**	**181**	**2**	**(1)**	**189**	**3**	**(3)**	**172**	**(10)**	**(18)**
Zantac	39	(14)	(15)	40	3	3	43	(11)	(16)	35	(16)	(20)
Total	**964**	**4**	**3**	**923**	**9**	**10**	**924**	**9**	**4**	**846**	**9**	**1**

Pharmaceutical turnover includes co-promotion income.

Five year record

A record of financial performance is provided analysed in accordance with current reporting practice.

Turnover by business segment	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Pharmaceuticals	18,181	17,995	17,205	15,429	13,618
Consumer Healthcare	3,260	3,217	3,284	2,650	2,546
Retained businesses	21,441	21,212	20,489	18,079	16,164
Healthcare Services	–	–	–	–	632
	21,441	21,212	20,489	18,079	16,796

Pharmaceutical turnover by therapeutic area					
Central nervous system	4,455	4,511	4,007	3,279	2,720
Respiratory	4,417	3,987	3,537	2,789	2,382
Anti-bacterials	1,815	2,210	2,604	2,472	2,383
Anti-virals	2,349	2,299	2,128	1,899	1,610
Metabolic	1,079	960	875	589	210
Vaccines	1,123	1,080	948	842	776
Oncology and emesis	1,001	977	838	710	613
Cardiovascular and urogenital	771	661	591	463	449
Others	1,171	1,310	1,677	1,939	2,047
Continuing business	18,181	17,995	17,205	14,982	13,190
Divested products	–	–	–	447	428
	18,181	17,995	17,205	15,429	13,618

Pharmaceutical turnover by geographic area					
USA	9,410	9,797	9,037	7,705	6,276
Europe	5,114	4,701	4,561	4,268	4,288
International:					
Asia Pacific	1,140	1,100	1,047	975	863
Japan	753	712	741	832	704
Latin America	597	606	790	682	636
Middle East, Africa	693	652	611	585	527
Canada	474	427	418	382	324
International	3,657	3,497	3,607	3,456	3,054
	18,181	17,995	17,205	15,429	13,618

Pharmaceutical turnover in 2003 includes co-promotion income.

Consumer Healthcare sales					
OTC medicines	1,556	1,586	1,603	1,454	1,434
Oral care	1,082	1,052	1,106	642	614
Nutritional healthcare	622	579	575	535	488
Continuing business	3,260	3,217	3,284	2,631	2,536
Divested products	–	–	–	19	10
	3,260	3,217	3,284	2,650	2,546

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Statutory results	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Turnover	21,441	21,212	20,489	18,079	16,796
Profit before taxation	6,329	5,506	4,517	6,029	4,236
Earnings (profit attributable to shareholders)	4,484	3,915	3,053	4,106	3,077
Dividends	(2,374)	(2,346)	(2,356)	(2,097)	(2,005)
Retained profit	2,110	1,569	697	2,009	1,072
Return on capital employed (per cent)	79.8	70.4	52.9	78.5	71.8

Return on capital employed is calculated as statutory profit before taxation as a percentage of average capital employed over the year.

Merger, restructuring and disposal of subsidiaries

Manufacturing and other restructuring	(83)	(121)	(162)	(171)	(443)
Merger costs and product divestments	(286)	(840)	(1,069)	895	–
Other items	(21)	(50)	(421)	(22)	(29)
(Loss)/profit before taxation	(390)	(1,011)	(1,652)	702	(472)
(Loss)/profit attributable to shareholders	(281)	(712)	(1,330)	452	(347)

Business performance results - retained businesses

Turnover	21,441	21,212	20,489	18,079	16,164
R&D expenditure	2,770	2,732	2,555	2,510	2,285
per cent of sales	13	13	12	14	14
Trading profit	6,920	6,694	6,053	5,026	4,378
per cent of sales	32	32	30	28	27
Net interest payable	(161)	(141)	(88)	(182)	(162)
Profit before taxation	6,719	6,517	6,169	5,327	4,683
Adjusted earnings (profit attributable to shareholders)	4,765	4,627	4,383	3,654	3,406

Business performance, which is the primary performance measure used by management, is presented after excluding merger items, integration and restructuring costs, and the disposal of businesses. Management believes that exclusion of these items provides a better reflection of the way in which the business is managed and gives an indication of the performance of the Group in terms of those elements of revenue and expenditure which local management is able to influence. This information, which is provided in addition to the statutory results prepared under UK GAAP, is given to assist shareholders to gain a clearer understanding of the underlying performance of the business and to increase comparability for the periods presented. Statutory results include these items.

Share statistics

Earnings per share (p)	77.2	66.2	50.3	67.7	50.3
Dividends per GlaxoSmithKline share (p):					
GlaxoSmithKline shareholder	41.0	40.0	39.0		
Glaxo Wellcome shareholder				38.0	37.0
SmithKline Beecham shareholder				29.66	26.69
Dividends per GlaxoSmithKline ADS ($):					
GlaxoSmithKline shareholder	1.39	1.24	1.11		
Glaxo Wellcome shareholder				1.10	1.14
SmithKline Beecham shareholder				0.87	0.86

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	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Fixed assets	11,350	11,578	11,920	10,322	9,292
Other assets and liabilities	(1,237)	(1,855)	(1,567)	(877)	(401)
Net operating assets	10,113	9,723	10,353	9,445	8,891
Net debt	(1,648)	(2,335)	(2,101)	(611)	(2,357)
	8,465	7,388	8,252	8,834	6,534
Capital employed					
Share capital and share premium	1,751	1,730	1,713	1,586	1,549
Other reserves	5,969	4,851	5,677	6,004	3,842
Equity shareholders' funds	7,720	6,581	7,390	7,590	5,391
Minority interests	745	807	862	1,244	1,143
	8,465	7,388	8,252	8,834	6,534
Capital expenditure (tangible fixed assets)	870	1,027	1,113	1,018	1,141
Number of employees					
USA	24,036	23,527	23,613	22,745	21,272
Europe	44,559	46,028	46,508	45,929	47,767
International:					
Asia Pacific	18,373	17,289	18,364	19,058	18,856
Japan	2,842	2,952	2,985	3,165	3,191
Latin America	5,916	6,876	7,800	7,704	8,286
Middle East, Africa	3,400	5,973	6,344	7,133	7,729
Canada	1,793	1,854	1,856	1,783	1,940
International	32,324	34,944	37,349	38,843	40,002
	100,919	104,499	107,470	107,517	109,041
Manufacturing	32,459	35,503	36,849	35,681	37,420
Selling	43,978	43,994	44,499	43,325	41,775
Administration	9,550	10,378	11,081	11,980	12,767
Research and development	14,932	14,624	15,041	16,531	17,079
	100,919	104,499	107,470	107,517	109,041

The number of employees is the number of permanent employed staff at the end of the financial period. It excludes those employees who are employed and managed by GlaxoSmithKline on a contract basis.

Shareholder return

Share price

	2003 (£)	2002 (£)	2001 (£)
At 1st January	11.92	17.23	18.90
High during the year	13.90	17.80	20.32
Low during the year	10.00	10.57	16.26
At 31st December	12.80	11.92	17.23
Increase/(Decrease)	7%	(31)%	(9)%

The table above sets out the middle market closing prices derived from the London Stock Exchange Daily Official List.

The company's share price increased by seven per cent in 2003 from a price of £11.92 at 1st January 2003 to £12.80 at 31st December 2003. This compares with an increase in the FTSE 100 index of 14 per cent during the year.

Market capitalisation
The market capitalisation of GlaxoSmithKline at 31st December 2003 was £76 billion. At that date GlaxoSmithKline was the fourth largest company by market capitalisation on the FTSE index.

SmithKline Beecham plc Floating Rate Unsecured Loan Stock 1990/2010

The loan stock is not listed on any exchange but holders may require SmithKline Beecham plc to redeem their loan stock at par, i.e. £1 for every £1 of loan stock held, on the first business day of March, June, September and December. Holders wishing to redeem all or part of their loan stock should complete the notice on the back of their loan stock certificate and return it to the registrar, to arrive at least 30 days before the relevant redemption date.

Taxation

General information concerning the UK and US tax effects of share ownership is set out in 'Taxation information for shareholders'.

Dividends

GlaxoSmithKline pays dividends quarterly. The Board declared dividends for 2003 as follows:

Dividends per share	2003 pence	2002 pence
First interim - paid 3rd July 2003	9	9
Second interim - paid 2nd October 2003	9	9
Third interim - paid 6th January 2004	9	9
Fourth interim - payable 15th April 2004	14	13
Total	41	40

In 2004, GlaxoSmithKline expects a similar increase in the total dividend as has been declared in 2003. The allocation of quarterly dividends will be rebalanced in 2004. GlaxoSmithKline intends to increase the first three interim dividends from nine pence to 10 pence, with the remainder of the total dividend for the year being allocated to the fourth quarter dividend.

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 credits 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 on dividends from the UK tax authorities are of negligible benefit to US shareholders.

Year	GSK ($)	GW ($)	SB ($)
2003	1.39		
2002	1.24		
2001	1.11		
2000		1.10	0.87
1999		1.14	0.86

Dividends paid to Glaxo Wellcome and SmithKline Beecham ADR holders are expressed as dividends per GlaxoSmithKline ADS.

Dividend calendar

Fourth quarter 2003	
Ex-dividend date	18th February 2004
Record date	20th February 2004
Payable	15th April 2004
First quarter 2004	
Ex-dividend date	12th May 2004
Record date	14th May 2004
Payable	1st July 2004
Second quarter 2004	
Ex-dividend date	4th August 2004
Record date	6th August 2004
Payable	30th September 2004
Third quarter 2004	
Ex-dividend date	3rd November 2004
Record date	5th November 2004
Payable	6th January 2005

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.

- **Shareview service**
  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
Hoare Govett Limited operates a postal share dealing service in the company's ordinary shares. It enables investors to buy or sell shares at competitive commission charges. Transactions are executed and settled by Pershing Securities Limited. Further details of this service together with purchase and sale forms may be obtained by telephoning +44 (0)20 7676 8300.

Smith Barney, part of Citigroup, also offers a share dealing service in the company's ordinary shares and ADSs. Further details of this service can be obtained by contacting them, see contact details inside back cover.

The provision of the details above are not intended to be an invitation or inducement to engage in an investment activity. Advice on share dealing, should be obtained from a stockbroker or independent financial adviser.

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 plus VAT 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, which also provides the following service:

- **Global BuyDIRECT**
  Global BuyDIRECT is a direct ADS purchase/sale and dividend reinvestment plan for ADR holders.

Publications

GlaxoSmithKline's 2003 Corporate Responsibility Report is available from Secretariat at the company's head office and the website at www.gsk.com.

Annual General Meeting 2004

The Queen Elizabeth II Conference Centre, 17th May 2004
Broad Sanctuary, Westminster,
London SW1P 3EE

The Annual General Meeting is the company's principal forum for communication with private shareholders. In addition to the formal 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 as a corporate representative or proxy in respect of their shareholding in order to attend and vote at the meeting.

ADR holders wishing to attend the meeting must obtain a proxy from The Bank of New York which will enable them to attend the meeting and vote on the business to be transacted. ADR holders may instruct The Bank of New York as to how the 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 2004

Announcement of 1st Quarter Results	29th April 2004
Announcement of 2nd Quarter Results	27th July 2004
Announcement of 3rd Quarter Results	28th October 2004
Preliminary Announcement of Annual Results	10th February 2005
Publication of Annual Report/Review	March 2005

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 website and, in the USA, sent to the Securities and Exchange Commission 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. These are available from the date of publication on the GlaxoSmithKline website.

The Annual Review is sent to all shareholders on the date of publication. Shareholders may also elect to receive the Report by writing to the company's registrars. Alternatively shareholders may elect to receive notification by email of the publication of financial reports by registering on www.shareview.co.uk.

Copies of previous financial reports are available on the website. Printed copies can be obtained from the registrar in the UK and from the Customer Response Center in the USA.

Share capital

Nature of trading market

The Ordinary Shares of the company were listed on the London Stock Exchange on 27th December 2000. The shares were also listed on the New York Stock Exchange (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 closing quotations in pence for the 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.

GlaxoSmithKline

	Pence per share	
Fiscal periods from 27th December 2000	High	Low
Quarter ended 31st March 2004*	1299	1095
February 2004	1208	1095
January 2004	1299	1180
December 2003	1330	1250
November 2003	1390	1265
October 2003	1301	1250
September 2003	1306	1221
Quarter ended 31st December 2003	1390	1250
Quarter ended 30th September 2003	1306	1158
Quarter ended 30th June 2003	1335	1131
Quarter ended 31st March 2003	1242	1000
Quarter ended 31st December 2002	1390	1120
Quarter ended 30th September 2002	1400	1057
Quarter ended 30th June 2002	1694	1321
Quarter ended 31st March 2002	1780	1623
Quarter ended 31st December 2001	1955	1685
Quarter ended 30th September 2001	2032	1626
Quarter ended 30th June 2001	2012	1740
Quarter ended 31st March 2001	1965	1690
27th to 31st December 2000	1920	1890

	US dollars per ADS	
Fiscal periods from 27th December 2000	High	Low
Quarter ended 31st March 2004*	47.25	42.05
February 2004	45.36	42.05
January 2004	46.93	44.00
December 2003	46.68	44.23
November 2003	47.64	42.73
October 2003	44.12	42.09
September 2003	43.22	38.61
Quarter ended 31st December 2003	47.64	42.09
Quarter ended 30th September 2003	43.22	36.91
Quarter ended 30th June 2003	43.87	35.40
Quarter ended 31st March 2003	40.13	31.85
Quarter ended 31st December 2002	43.09	35.92
Quarter ended 30th September 2002	42.38	32.86
Quarter ended 30th June 2002	49.18	38.54
Quarter ended 31st March 2002	50.87	46.39
Quarter ended 31st December 2001	57.09	48.68
Quarter ended 30th September 2001	58.00	48.40
Quarter ended 30th June 2001	57.10	49.80
Quarter ended 31st March 2001	56.95	47.15
27th to 31st December 2000	$56\ ^{13}/_{16}$	$55^{3}/_{8}$

* to 27th February 2004

Glaxo Wellcome

	Pence per share	
Fiscal periods to 26th December 2000	High	Low
2000	2110	1440
1999	2288	1507

	US dollars per ADS	
Fiscal periods to 26th December 2000	High	Low
2000	$63\ ^{3}/_{4}$	46
1999	$76\ ^{3}/_{16}$	$48^{1}/_{16}$

SmithKline Beecham

	Pence per share	
Fiscal periods to 26th December 2000	High	Low
2000	955	671
1999	929	688

	US dollars per ADS	
Fiscal periods to 26th December 2000	High	Low
2000	$71^{15}/_{16}$	$52^{1}/_{2}$
1999	$76^{3}/_{8}$	$56^{1}/_{16}$

Analysis of shareholdings

Analysis of shareholdings at 31st December 2003:	Number of accounts	% of total accounts	% of total shares	Number of shares
Holding of shares				
Up to 1,000	164,350	69.8	1.0	60,147,347
1,001 to 5,000	54,161	23.0	2.0	117,116,012
5,001 to 100,000	15,042	6.4	3.9	231,658,338
100,001 to 1,000,000	1,314	0.6	7.2	428,141,412
Over 1,000,000	503	0.2	85.9	5,112,400,519
Totals	235,370	100.0	100.0	5,949,463,628
Held by				
Nominee companies	48,706	20.7	82.6	4,916,362,330
Investment and trust companies	115	–	0.3	17,835,477
Insurance companies	36	–	0.8	47,263,192
Individuals and other corporate bodies	186,511	79.3	7.0	414,730,071
BNY (Nominees) Limited	2	–	9.3	553,272,558
Totals	235,370	100.0	100.0	5,949,463,628

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 27th February 2004, the number of holders of record of shares in the USA was 1,180 with holdings of 1,844,786 shares, and the number of registered holders of the ADRs was 47,109 with holdings of 287,191,723 ADRs. Certain of these shares and ADRs were held by brokers or other nominees, as a result the number of holders of record or registered holders in the USA is not representative of the number of beneficial holders or of the residence of beneficial holders.

Control of company

As far as is known to the company, it is not directly or indirectly owned or controlled by one or more corporations or by any government. The company does not know of any arrangements, the operation of which might result in a change in control of the company.

Substantial shareholdings

At 27th February 2004, the company had received notification of the following interest of three per cent or more in its shares:

- BNY (Nominees) Limited holds 574,426,176 shares representing 9.66 per cent. These shares are held on behalf of holders of American Depositary Receipts, which evidence American Depositary Shares
- Legal & General Investment Management Limited holds 203,213,510 shares representing 3.4 per cent.
- Barclays plc holds 191,750,288 shares representing 3.2 per cent..

As far as is known to the company, no other person was the owner of three per cent or more of the shares of the company.

Directors and Officers

The interests of the Directors and Officers of the company (as defined in the Companies Act 1985) in share options of the company are given in the ‘Remuneration report’ (pages 43 to 58).

Exchange controls and other limitations affecting security holders

There are currently no UK laws, decrees or regulations restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of the company’s shares who are non-residents of the UK. There are no limitations relating only to non-residents of the UK under English law or the company’s Memorandum and Articles of Association on the right to be a holder of, and to vote in respect of, the company’s shares.

Documents on display

Documents referred to in this Annual Report are available for inspection at the Registered Office of the company.

Taxation information for shareholders

Information for shareholders

A summary of the main tax consequences for holders of shares and ADRs who are citizens or residents of the UK or the USA is set out below. It is not a complete analysis of all the possible tax consequences of purchase or ownership of these securities. It is intended only as a general guide. Holders are advised to consult their advisers with respect to the tax consequences of the purchase and ownership of their shares or ADRs, and the consequences under state and local tax laws in the USA and the implications of the new UK/US Income Tax convention.

This statement is based upon UK and US tax laws and practices at the date of this report.

The new UK/US Income Tax Convention came into force on 31st March 2003. The provisions of the new treaty apply for UK tax purposes from 1st April 2003 (UK Corporation Tax), 6th April 2003 (UK Income Tax and Capital Gains Tax) and 1st May 2003 (Withholding Taxes). For US tax purposes, the provisions of the new treaty apply from 1st May 2003 (Withholding Taxes) and 1st January 2004 (all other US taxes). However, holders of shares or ADRs have the ability to elect to continue to use the provisions of the previous treaty for 12 months following the new treaty's entry into force. An election must be made in advance of the first event to which the new treaty would apply.

US holders of ADRs generally will be treated as the owners of the underlying shares for the purposes of the current USA/UK double taxation conventions relating to income and gains (Income Tax Convention), estate and gift taxes (Estate and Gift Tax Convention) and for the purposes of the US Internal Revenue Code of 1986, as amended (the Code).

The following analysis deals with dividends paid after 6th April 1999 when Advance Corporation Tax (ACT) was abolished.

UK shareholders

Taxation of dividends
From 6th April 1999, the rate of tax credits was reduced to one ninth. As a result of compensating reductions in the rate of tax on dividend income, there is no increase in the tax borne by UK resident individual shareholders. Tax credits are, however, no longer repayable to shareholders with a tax liability of less than the associated tax credit.

Taxation of capital gains
UK shareholders may be liable for UK tax on gains on the disposal of shares or ADRs. They may also be entitled to indexation relief and taper relief on such sales. Indexation relief is calculated on the market value of shares at 31st March 1982 and on the cost of any subsequent purchases from the date of such purchase. Indexation relief for individual shareholders ceased on 5th April 1998. Taper relief is available to individual shareholders who hold or are deemed to hold shares for at least three years before they are sold.

Inheritance tax
Individual shareholders may be liable to inheritance tax on the transfer of shares or ADRs. Tax may be charged on the amount by which the value of the shareholder's estate is reduced as a result of any transfer by way of gift or other disposal at less than full market value. Such a gift or other disposal is subject to both UK inheritance tax and US estate or gift tax. The Estate and Gift Tax Convention would generally provide for tax paid in the USA to be credited against tax payable in the UK.

Stamp duty
UK stamp duty or stamp duty reserve tax (SDRT) will, subject to certain exemptions, be payable on the purchase of shares at a rate of 0.5 per cent of the purchase price. There is a minimum charge of £5 where a stamp duty liability arises.

US shareholders

The following is a summary of certain UK taxation and USA federal income tax considerations that may be relevant to a US holder of shares or ADRs. This summary only applies to a shareholder that holds shares or ADRs as capital assets, is a citizen or resident of the USA or a domestic corporation or that is otherwise subject to United States federal income taxation on a net income basis in respect of the shares or ADRs, and is not resident in the UK for UK tax purposes and does not hold shares for the purposes of a trade, profession or vocation that is carried on in the UK through a branch or agency.

Taxation of dividends
The gross amount of dividends received (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 ADRs are payable in US dollars; dividends on shares are payable in Sterling. Dividends paid in pounds Sterling will be included in income in the US dollar amount calculated by reference to the exchange rate on the day the dividends are received by the holder. UK Taxes withheld from dividend distributions are eligible for credit against the holders' 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 special US foreign tax credits against the US tax liability.

On 6th April 1999, the rate of tax credits was reduced to one ninth when ACT was abolished. Claims for refunds of tax credits on dividends paid on or after this date are 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 shares or ADRs.

Estate and gift taxes
Under the Estate and Gift Tax Convention, a US shareholder is not generally subject to UK inheritance tax.

Stamp duty
UK stamp duty or SDRT will, subject to certain exemptions, be payable on any issue or transfer of shares to the ADR custodian or depository at a rate of 1.5 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 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.

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 required by the Listing Rules of the Financial Services Authority to address the principal aspects of Corporate Governance.
The company	GlaxoSmithKline plc.
Creditors	Accounts payable.
Currency swap	An exchange of two currencies, coupled with a subsequent re-exchange of those currencies, at agreed exchange rates and dates.
Debtors	Accounts receivable.
Defined benefit plan	Pension plan with specific employee benefits, often called ‘final salary scheme’.
Defined contribution plan	Pension plan with specific contributions and a level of pension dependent upon the growth of the pension fund.
Derivative financial instrument	A financial instrument that derives its value from the price or rate of some underlying item.
Diluted earnings per share	Diluted income per share.
Dividend cover	Profit attributable to shareholders/net income divided by dividends payable to shareholders.
Earnings per share	Basic income per 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.
Freehold	Ownership with absolute rights in perpetuity.
Gearing ratio	Net debt as a percentage of shareholders’ funds net debt 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	An affiliate in which GlaxoSmithKline holds a majority shareholding and/or exercises control.
Tangible fixed assets	Property, plant and equipment.
Turnover	Revenue.