Leading the fight against disease worldwide

Glaxo Wellcome is a research-based company whose people are committed to fighting disease by bringing innovative medicines and services to patients throughout the world and to the healthcare providers who serve them.

Glaxo Wellcome plc is an English public limited company, whose shares are listed on Stock Exchanges in London, New York, Tokyo and Paris.

This report is the Annual Report & Accounts of the company for the year ended 31st December 1997. It comprises in a single document the Annual Report of the company in accordance with United Kingdom requirements and the Annual Report on Form 20-F to the Securities and Exchange Commission in the United States of America.

A summary report on the year, the Annual Review 1997, is produced as a separate document and is issued to shareholders unless they have elected to receive the full Annual Report & Accounts. The Annual Review includes the Chairman's statement, the Chief Executive's statement, a summary review of activities, summary accounts and summary remuneration report.

In accordance with requirements under the company's listing on the Tokyo Stock Exchange, an Annual Securities Report (Form No. 8) will be filed with the Minister of Finance of Japan on or before 31st May 1998.

Front cover image: Dr Ma Xiu-Yun, chief physician at the Di-Tan Hospital in Beijing, who has been involved with the phase III clinical trials of lamivudine in China.

The Queen's Award for Technological Achievement 1996 was won by Glaxo Wellcome for the anti-migraine medicine *Imigran* (marketed as *Imitrex* in the USA).

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for the year ended 31st December 1997

In this report, "Glaxo Wellcome" or the "Group" means Glaxo Wellcome plc and its subsidiary undertakings and the "company" means Glaxo Wellcome plc.

Cross reference to Form 20-F

The information in this document that is referenced in the following table shall be deemed to be filed with the Securities and Exchange Commission for all purposes.

Forward-looking statements: Readers are referred to the paragraph on forward-looking statements on page 29 for cautionary language accompanying the forward-looking statements set out: in the Outlook section on page 29; in the Chairman's statement on page 04; in the Chief Executive's statement on page 06; in the Operating review on page 13; and in the Financial review on pages 23, 24, 28, 29, 30 and 31.

The noon buying rate on 9th March 1998 was £1 = US$1.64.

Financial summary

Financial results

	1997 £m	1996 £m	Increase/(Decrease) £%	CER %
Sales	7,980	8,341	(4)	5
Trading profit	2,822	3,132	(10)	(1)
representing trading margin of	35.4%	37.5%		
Net interest payable	123	187		
Profit before taxation	2,686	2,964	(9)	–
Tax rate	30.5%	31.5%		
Earnings/Net income	1,850	1,997	(7)	3
Earnings per Ordinary Share	52.0p	56.7p	(8)	2
Dividends per Ordinary Share	35.0p	34.0p	3	

Summary balance sheet

	At 31.12.97 £m	At 31.12.96 £m
Net operating assets	3,289	3,250
Net debt	(1,399)	(1,983)
Net assets	1,890	1,267
Shareholders' funds	1,843	1,225
Minority interests	47	42
Financing	1,890	1,267

Financial highlights of the year

- Delivered 1997 commitment
  - Sales growth of 5 per cent CER
  - Earnings growth of 3 per cent CER.
- Sales excluding *Zantac* (83 per cent of portfolio) up 13 per cent CER
  - Respiratory up 14 per cent to £1.8 billion
  - Anti-virals up 16 per cent to £1.4 billion
  - CNS up 40 per cent to £0.95 billion.
- Reported results adversely affected by strength of sterling.
- Trading margin impacted by additional selling expenditure.
- Net debt reduced by £584 million.

CER = Constant exchange rates.

Chairman's statement

Sir Richard Sykes

This has been a milestone year for Glaxo Wellcome. We have delivered our promise by producing a creditable trading performance, achieving significant progress with filing, approval and launches of new medicines, and successfully implementing our strategy of regionalisation.

At the same time, we have taken major steps towards maintaining our leadership position at the cutting edge of medical science well into the next century. All this was achieved in a year in which we managed the expiry of the patent on *Zantac*, the biggest selling pharmaceutical of all time, in our largest market, the United States.

The strength of the pound caused problems for many British-based companies during the year, and Glaxo Wellcome was no exception.

While sales of £7,980 million fell in sterling terms, they rose by five per cent when measured at constant exchange rates (CER). Profit before tax of £2,686 million also fell in sterling terms but was unchanged in CER terms. Earnings per share fell to 52.0p, which represents two per cent growth in CER terms.

The Board is recommending a final dividend of 20p per share, 100 per cent of which will be paid as a Foreign Income Dividend. The total dividend for the year is 35p, up by three per cent.

The year saw the expiry of US patents on two of our largest selling products, *Zantac* and *Zovirax*. Global sales of these two products declined by over 21 per cent with a resulting loss of sales of £583 million. However, sales of our new generation of products – those launched since 1990 – grew by 47 per cent CER in the year, thus comfortably offsetting this decline. Despite these patent expiries being widely heralded as the most significant in the history of our industry, the company has been well prepared and we are taking them in our stride. Sales by our US company actually increased in the year, and excluding *Zantac*, went up by 18 per cent, a remarkable achievement.

Clearly the impact of loss of *Zantac* sales in the USA will continue to be felt in 1998, but we remain confident in our expectation of a return to double digit sales growth in CER terms from 1999, based on the quality, depth and diversity of our portfolio of marketed products and development pipeline and the resolve of our managers and staff in operations and functions throughout the world.

In 1997, we achieved 27 major product approvals and completed 24 major regulatory submissions. A total of 18 new molecules entered development. In 1998 we anticipate filing over 2,500 submissions with regulatory authorities around the world, of which 32 will be major ones. We remain on track to achieve our goal of bringing three significant medicines to the market a year from the year 2000 onwards.

During the second half of 1997 we launched *Romozin* for the treatment of type II diabetes in the UK but subsequently took the decision to withdraw it from the market in the light of reports of potential liver toxicity, which continue to be reviewed. *Raxar*, a new broad spectrum quinolone antibiotic for respiratory infections, saw its first launches in Europe and the USA and *Combivir*, the first product to combine two antiretroviral drugs in a single tablet formulation, was introduced in the USA.

The ultimate aim of our company is to fulfil our corporate mission while providing superior returns to our shareholders. An important key to achieving this balance is the skill we apply to managing all of the resources at our disposal – in particular the £1.2 billion we devote each year to research and development.

Rapid and profound advances in technology and scientific knowledge are creating opportunities that are greater than ever before.

Our scientists are developing new skills which are driven by genetics and genomics, state-of-the-art technologies, new partnerships and the sophisticated use of information. Shareholders can be assured that Glaxo Wellcome is at the forefront of the application of these new approaches which have the potential to change fundamentally the provision and the practice of medicine.

Advances in science and technology affect all stages of the drug discovery process. They enable us to identify more readily and rapidly the key targets central to the development of novel medicines.

This can be done in several ways. For example, informatics enables us to search, process and analyse vast amounts of information.

Association genetics allows the collection of patient and genetic information in powerful databases to establish associations between genes and disease. Various techniques for collecting this genetic information will, in time, include the use of "genechips" that can perform sophisticated analysis quickly and relatively cheaply.

Combinatorial chemistry and high throughput robotic screening are already revolutionising the search for new lead compounds. We now have machines that can synthesise millions of compounds a year. The technology of combinatorial chemistry, pioneered and under continuous development by Affymax (part of Glaxo Wellcome since 1995) has now been applied throughout our research organisation.

The scientific resources required to capitalise on such new opportunities are vast and sophisticated, and will be found across a wide range of organisations. Access to these technologies requires partnerships between academia, small biotechnology companies and large pharmaceutical companies on a scale unimagined only ten years ago, and Glaxo Wellcome is playing its full part in the process of co-ordinating and integrating these skills.

Turning to our operations throughout the world, the long-term strategy of regionalisation which we introduced in 1996 is already having an impact. Though worldwide in scope, its initial

effects have been most evident in our operating companies in the emerging markets, where it has released energy, entrepreneurialism and a desire to identify new ways of doing business.

A good example is in Poland, where we recently completed the acquisition of an 80 per cent shareholding in the pharmaceutical company Polfa Poznan SA. When combined with our existing company it will become the largest single pharmaceutical enterprise in Poland, providing us with a strong strategic foundation on which to expand our activities throughout eastern and central Europe.

Throughout the world, we have continued to lay emphasis on the need for our operating companies to act as good corporate citizens and to respect the environment. An internal Chairman's Award Scheme, launched in 1997, invited examples of good corporate citizenship programmes, including those involving employee participation, to be submitted to an independent panel.

Good progress is being achieved with three long-term projects through which Glaxo Wellcome wishes to make a serious contribution to pressing problems of world health.

Our new antimalarial *Malarone*, which is highly effective in the prevention and treatment of the disease, is now receiving regulatory approvals in countries where malaria is endemic. As discussed in last year's report, the company has set up a donation programme to make the product available for patients who need it but could not otherwise afford it. We expect the programme to be piloted at selected district hospitals in Kenya during 1998 once the drug is approved, and extended to other countries subsequently.

Action TB, the £20 million research collaboration between Glaxo Wellcome and universities in Canada, South Africa, the United Kingdom and the United States, has entered the final year of its first, five-year phase. The World Health Organisation has estimated that 30 million people could die from tuberculosis in the next ten years and drug resistance is being found in all countries of the world. Better treatments are urgently needed. Through our project, great progress has already been made in understanding new targets for tackling this very difficult disease; Action TB will now be able to focus on creating specific medicines and vaccines.

And finally, the Edward Jenner Institute for Vaccine Research, the result of a partnership between Glaxo Wellcome and the UK government which we believe to be unique of its kind, is now actively engaged in basic research to provide a better understanding of the biomedical science underpinning the discovery of effective new vaccines for the treatment and prevention of human disease. In May the Institute will occupy its new laboratories at Compton in Berkshire, an investment of some £10 million.

Peter Job, Chief Executive of Reuters Holdings plc, was appointed as a Non-Executive Director in October 1997, and we warmly welcome him to the Board.

Also in October we announced the appointment of Robert Ingram as Chief Executive, enabling me to relinquish that role. Bob, who has enjoyed a highly successful career in the pharmaceutical industry spanning 30 years, has been Executive Director with responsibility for the Americas since 1995 and President and Chief Executive Officer of Glaxo Wellcome Inc. in the USA since March 1994. He has now taken over full responsibility for business operations around the world. As a result of this decision, Seán Lance, Chief Operating Officer, has left the company. We extend our best wishes to him in his future career.

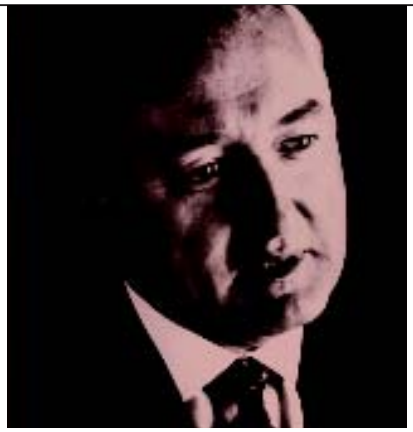
I have every confidence that Glaxo Wellcome now has in place a senior management team of the highest calibre which is capable of providing strong and focused leadership to take us successfully into the new millennium. It is supported throughout the world by highly motivated, committed and energetic employees. Among them are valued professionals from many disciplines who provide the intellectual and creative spirit which I believe is a distinguishing feature of our organisation.

Shareholders will be aware that on 30th January 1998 we announced that Glaxo Wellcome was in merger discussions with SmithKline Beecham plc. On 23rd February SmithKline Beecham terminated these discussions. The proposed merger represented a compelling opportunity for both companies and the Board is disappointed at the outcome. Nevertheless, the Board is confident that the strategies in place provide firm foundations for a successful future.

I would like to thank everyone within the company who has worked so hard during the year. I am proud of our achievements, not only in dealing with our short-term challenges but in laying the foundations for our continuing success in delivering medicines of sustainable value to patients around the world.

Sir Richard Sykes, Chairman

Chief Executive's statement



Robert Ingram

The strong operating performance underlying our 1997 results makes several powerful statements not only about achievements during the year but also about the way ahead for the company. Taken together they provide evidence of our ability and resolve to continue to deliver the sales and earnings performance we have promised.

First, the breadth of our portfolio. In 1995, *Zantac* and *Zovirax* together accounted for 39 per cent of Group sales. In 1997 the proportion was down to 24 per cent. Rather than being dominated by two major products, Glaxo Wellcome now has one of the most broadly based portfolios in the industry with 13 products achieving sales of over £200 million last year. Three of our key growth products, *Serevent*, our respiratory product, the migraine treatment *Imigran*, and *Epivir* for HIV/AIDS, already have sales in excess of £400 million.

Second, the impressive rate of growth of our newer products. This is allowing us to make up for the major but not unexpected loss of sales resulting from the expiry of the US patents on *Zantac* and *Zovirax*. In 1997, no fewer than 18 of our products had CER growth in double digits. Products launched in new markets during 1997 provided £59 million of CER growth in the year. The products which are emerging from our pipeline, based on our outstanding R&D, demonstrate that we are capable not only of bridging the gap left by *Zantac* but maintaining strong, sustainable growth for many years to come.

The third powerful statement lies in the individual success stories coming out of many of our operating companies around the world in 1997, success that certainly underscores my optimism for the future.

The highlight of our business performance was delivering the commitment we made about 1997. Respiratory products increased 14 per cent to £1.8 billion, with excellent growth from *Flixotide*; anti-virals grew 16 per cent to £1.4 billion – led by the exceptional growth of *Epivir*. But the highest growth category was CNS which, thanks to strong performances from *Imigran/Imitrex*, *Lamictal*, which has now been launched in over 60 markets, and *Wellbutrin*, rose by 40 per cent to £949 million.

In North America, our largest market, sales were £3.6 billion, up three per cent. These sales represent 45 per cent of Group sales, up one percentage point on last year. The 33 per cent sales decline for *Zantac* coupled with sales reductions for *Zovirax* and *Ventolin* was offset by strong growth from *Flixotide*, *Serevent*, *Flixonase* and *Zyban* in the respiratory area, *Epivir*, *Retrovir* and *Valtrex* in anti-virals and *Imigran/Imitrex*, *Wellbutrin* and *Lamictal* in CNS.

In western Europe, where sales of £2.5 billion showed a four per cent increase, gains in *Flixotide*, *Flixonase*, *Serevent*, *Epivir*, *Valtrex*, *Lamictal* and *Imigran* offset the sales declines of *Zantac* and *Zovirax*.

Good performances were recorded in Spain where sales of £215 million represented a 17 per cent growth; Italy, up seven per cent to £362 million; and France where sales increased by ten per cent to £410 million.

An early indication of the effectiveness of our policy of regionalisation came from Latin America. Despite accounting for only five per cent of total Group sales, this region is growing at such a pace that it contributed 23 per cent of the total Group CER sales growth in 1997. Mexico, Brazil, Puerto Rico, Argentina and Venezuela led the expansion while *Epivir*, *Ventolin* and *Flixonase* led the product growth.

Sales of £377 million in Africa and the Middle East and eastern Europe rose by 13 per cent fuelled by higher sales of *Ventolin*, *Flixotide*, *Flixonase*, *Serevent*, *Retrovir*, *Epivir*, *Zinnat* and *Fortum*.

Asia Pacific at £624 million was up by six per cent with good contributions from the Philippines, Australia, Thailand and India and strong performances from *Epivir*, *Valtrex*, *Flixotide*, *Ventolin*, *Serevent* and *Zinnat*.

Sales in Japan, the world's second largest market, accounted for seven per cent of total Group sales and grew by five per cent to £538 million. Good sales performances from *Flixonase*, *Becotide*, *Zantac*, *Retrovir* and introductory sales of *Epivir* were offset by falls in *Zovirax* and *Zinnat*.

Turning to the different therapeutic areas, respiratory at 23 per cent of Group sales is the largest part of our business. Sales growth was fuelled by *Serevent* and *Flixotide*.

Products to treat viral infections have become the second largest category. The sector recorded strong double digit growth, despite generic competition to *Zovirax* in the USA from April 1997. *Epivir* dominated the sector and, together with *Retrovir*, demonstrates the importance of the two products as the gold standard for HIV treatment. *Combivir*, a combination of *Epivir* and *Retrovir*, was launched successfully in the USA in October and we expect approval shortly in Europe.

Generic competition led to a decline in gastro-intestinal sales which at £1.4 billion, now represent 17 per cent of Group sales, down from 23 per cent in 1996. US sales in this sector of £649 million now represent only eight per cent of total Group sales.

Imigran is the second largest product in our portfolio and we estimate that eight per cent of migraine attacks throughout the world are treated with this remarkable product. In the USA, where 13 per cent of all attacks have been treated, *Imigran/Imitrex* sales are benefiting from the success of direct-to-consumer advertising and the launch of the nasal spray formulation. CNS now represents 12 per cent of Group sales.

Bacterial infections totalled £862 million, up one per cent. *Raxar* recorded encouraging introductory sales in the USA and, although it is early days for the product, we have had positive feedback from our sales force.

A further important message from the figures is that Glaxo Wellcome is clearly demonstrating the value of our products. No provider can afford to deliver healthcare regardless of cost. Our aim is to provide medicines which keep patients in primary care – away from hospitals and costly interventions such as surgery.

In the USA where managed care is a proven practice, we have recorded a range of successes with programmes demonstrating how our products can achieve improved quality of life, enhanced productivity, patient satisfaction and reduced costs to the economy.

These are goals to which healthcare providers everywhere aspire. Our policy of regionalisation is aimed at ensuring that we provide products and services which meet these needs and do not attempt to impose blanket global solutions on healthcare needs which vary so much from market to market.

The final statement is about people. I am privileged to be serving as Chief Executive for a company which can claim some of the finest people anywhere in the industry. The magnitude of their achievement in 1997 is difficult to exaggerate.

The 1997 performance was only possible because of their hard work, dedication and commitment. I am looking forward to working closely with them in the equally challenging year ahead.

Robert Ingram, Chief Executive

Operating review

The Operating review describes the activities and resources of the business and identifies the developments and achievements in 1997 under the following headings:

- Description of business
- World market
- Sales profile
- Products
- Marketing and distribution
- Competition
- Research and development
- Intellectual property
- Manufacture and supply
- Regulation
- Health, safety and the environment
- Legal proceedings
- Human resources
- Information systems
- Charitable and community support

Discussion of the Group's financial performance and resources is given in the Financial review on pages 22 to 36.

Description of business

General

Glaxo Wellcome plc, an English public limited company, and its subsidiary and associated undertakings constitute a major global pharmaceutical group engaged in the creation and discovery, development, manufacture and marketing of prescription and non-prescription medicines.

Glaxo Wellcome was formed with effect from 16th March 1995, when Glaxo plc acquired Wellcome plc.

Glaxo and Wellcome, both established as businesses more than 100 years ago, had by the 1990s developed into major international pharmaceutical companies, each with strengths in a number of therapeutic areas.

Combining Glaxo and Wellcome brought together two complementary businesses, with a shared emphasis on a research-based approach to the development and marketing of innovative human prescription medicines which offer comparative advantage in therapeutic efficacy.

Glaxo Wellcome is an international business. Its principal executive offices and a number of its basic research and development (R&D) and production facilities are located in the UK. It has operating companies in some 57 countries.

Its products are currently manufactured in some 33 countries and sold in approximately 150 countries.

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

Mission

Glaxo Wellcome is a research-based company whose people are committed to fighting disease by bringing innovative medicines and services to patients throughout the world and to the healthcare providers who serve them.

Goals

In pursuit of the mission, the Group has focused on five clear goals:

- provide superior returns to shareholders
- achieve consistent improvement in the performance of the business
- attain sustainable leadership in the Group's selected areas of therapy while increasing overall market share globally
- build a learning organisation that fully realises the potential of all the Group's resources – people, technology, information and capital
- be recognised as the world's premier healthcare company.

Strategies

To meet those goals, Glaxo Wellcome has established the following corporate strategies:

- to sustain long-term investment in science and technology
- to enhance continuously the skills of employees and promote the sharing of best practice from both internal and external sources
- to form partnerships and alliances to maximise capabilities in all parts of the business
- to maintain cost efficiency and productivity improvement programmes
- to focus on the needs of patients to help them live healthier, more productive and longer lives.

Values

In implementing these strategies, the Group will be guided – as individuals as well as an organisation – by a declared set of values. Glaxo Wellcome is committed to conducting all aspects of its business with integrity and honesty, to aspiring to excellence, and to promoting mutual trust and respect throughout the Group.

World market

Global pharmaceutical sales in 1997 were up 9 per cent to £166 billion (growth in 1996 was 8 per cent).

World market by geographic region

	Value £bn	Growth % 1996-97
North America	61	15
Europe	50	6
Germany	11	–
France	11	5
Italy	6	9
UK	5	9
Japan	26	(1)
Latin America	13	11
Asia Pacific	11	9
Africa, Middle East	5	24

While, on a global level, the annual increase is greater this year than the previous year, on a regional level, market growth has not been uniform:

- the North American region has seen the greatest increase, from 9 per cent growth in 1996 to 15 per cent in 1997.
- Europe has experienced a decline in growth from 9 per cent to 6 per cent while growth in the Japanese market has contracted from 1 per cent to minus 1 per cent.
- the emerging regions of Latin America and Asia Pacific have experienced contrasting fortunes. Growth in Latin America has increased from 7 per cent to 11 per cent, while in Asia Pacific, growth has slowed from 13 per cent to 9 per cent.

The USA now accounts for 35 per cent of the global market and, with a 15 per cent growth rate, has seen the largest increase in absolute terms. Most of the major European markets saw similar growth to 1996, except for Germany where modest growth slowed abruptly in the latter part of 1997.

Japan remains the second largest single market in the world, accounting for 15 per cent of the total.

While Glaxo Wellcome has a major presence in the more mature markets of North America, Europe and Japan, the company has recognised the opportunity presented by the fast-growing emerging markets, particularly in the Latin American and Asia Pacific regions.

World market by therapeutic area

	Value £bn	Growth % 1996-97
Cardiovascular	29	8
Gastro-intestinal	25	8
Bacterial infections	23	10
CNS disorders	22	15
Respiratory	13	8

All the major therapeutic areas have seen sales grow at roughly the same rates as last year with the exception of anti-infectives and CNS treatments. The increase in the market for anti-infective treatments was partly because of a substantial increase in the sales of anti-viral treatments (mainly those for HIV). Strong growth across most sectors, and particularly among anti-depressants, helped fuel the acceleration in CNS sales.

Glaxo Wellcome is the leader in the gastro-intestinal, anti-infective and respiratory markets with shares of 9 per cent, 10 per cent and 14 per cent respectively. It is seventh in the CNS market.

Overall, Glaxo Wellcome leads the global prescription market with a share of 4.9 per cent, followed by Merck & Co and Novartis.

Glaxo Wellcome has eight products in the world top 50 (representing a cumulative share of 3.3 per cent). These are *Zantac* (ranitidine hydrochloride), *Imigran* (sumatriptan), *Zovirax* (aciclovir), *Zofran* (ondansetron), *Zinnat* (cefuroxime axetil), *Ventolin* (salbutamol/albuterol), *Serevent* (salmeterol xinafoate) and *Becotide* (beclomethasone dipropionate). *Epivir* (lamivudine), *Flixotide* (fluticasone propionate), *Retrovir* (zidovudine) and *Fortum* (ceftazidime) are in the following 40 products.

Throughout this report, figures quoted for market size, market share and growth rates relate to the year ended 30th September 1997. These are Glaxo Wellcome estimates based on the most recent data from independent external sources, valued in sterling at average exchange rates prevailing during the year ended 30th September 1997. Figures quoted for product market share reflect sales by Glaxo Wellcome and licensees. Comparisons are with the year ended 30th September 1996.

Sales profile

Glaxo Wellcome's principal prescription medicine products are presently directed to nine major therapeutic areas. An analysis of sales by these therapeutic areas is set out below:

Sales by therapeutic area

	1997 £m	1996 £m	1995 £m
Respiratory	1,828	1,757	1,603
Viral infections	1,422	1,360	1,099
Gastro-intestinal	1,380	1,946	2,255
CNS disorders	949	724	501
Bacterial infections	862	939	963
Oncology	460	434	451
Dermatologicals	236	240	205
Cardiovascular	228	221	187
Anaesthesia	96	112	117
Others	519	608	592
	7,980	8,341	7,973

The Group is organised for management purposes on the basis of geographic regions. An analysis of sales by region is set out below:

Sales by geographic region

	1997 £m	1996 £m	1995 £m
North America	3,589	3,683	3,495
Europe, Africa, Middle East	2,849	3,087	2,936
Asia Pacific	624	646	575
Japan	538	598	701
Latin America	380	327	266
	7,980	8,341	7,973

Products

Glaxo Wellcome's principal products are listed on the page opposite.

Glaxo Wellcome has launched 24 new products in the 1990s, as indicated in the chart on this page. In 1997 these products generated sales of £2.7 billion.

Respiratory

Medicines for the treatment of respiratory diseases form the most important therapy area for the Group, based on a strong franchise of established and new products.

Serevent, first launched in 1990 as a long acting bronchodilator, is now the Group's largest selling respiratory product. *Ventolin* is a selective short acting beta$_2$-agonist for the treatment of asthma.

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

Beconase (beclomethasone dipropionate) and *Flixonase/Flonase* (fluticasone propionate) are intra-nasal preparations for the treatment of perennial and seasonal rhinitis.

The main growth potential is centred on *Serevent*, *Flixotide/Flovent* and *Flixonase/Flonase,* introduced since 1990.

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

Zyban (bupropion hydrochloride), for smoking cessation, was launched during the year.

Viral infections

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

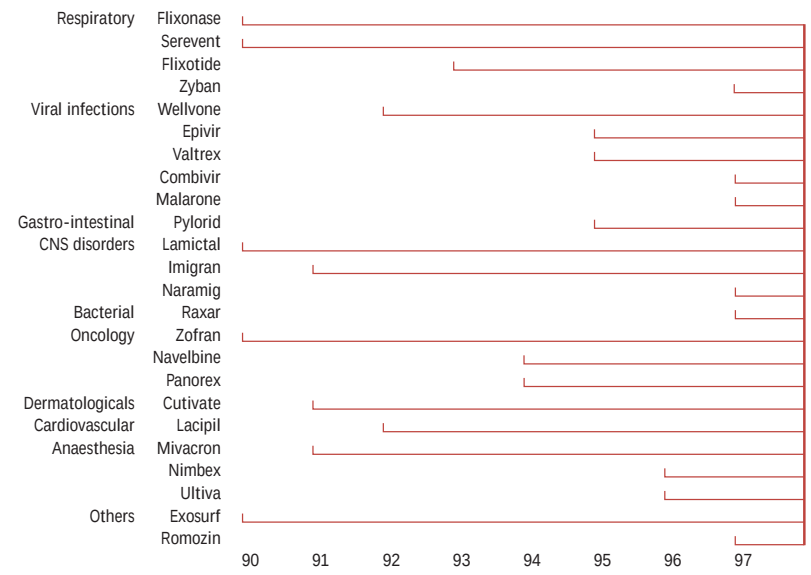
Retrovir and *Epivir* , included in triple combination with another anti-HIV product, form the cornerstone treatment for HIV/AIDS. *Combivir* (zidovudine/lamivudine), a combination of *Retrovir* and *Epivir*, was launched during the year.

Wellferon (interferon alfa-N1-1F) is a treatment for a range of chronic viral infections including hepatitis B and hairy cell leukaemia.

Gastro-intestinal

Zantac, a histamine H_2 blocker used for the treatment of peptic ulcer disease and a range of gastric acid related disorders, continues to be the product of choice in a number of markets, even where patent protection has been lost.

1990s product launch dates



Pylorid/Tritec (ranitidine bismuth citrate) is used, in combination with antibiotics, for the eradication of Helicobacter pylori, a causative agent in ulcers.

Bacterial infections

The Group markets a range of antibiotics. *Zinnat* is an oral antibiotic used primarily for community-acquired infections of the lower respiratory tract. *Fortum* and *Zinacef* (cefuroxime) are used in the hospital-based injectable antibiotics market. *Raxar* (grepafloxacin), a new generation quinolone antibiotic licensed in from Otsuka, was launched during the year.

Central nervous system (CNS) disorders

Imigran/Imitrex is a 5-HT$_1$ receptor agonist used for the treatment of severe or frequent migraine and cluster headache. The product is available in both tablet and injectable form for self administration, and nasal spray and suppository forms are expected to help to extend the product's franchise.

The Group's new migraine product, *Naramig/ Amerge* (naratriptan) is a more potent receptor agonist than *Imigran* and has recently received FDA approval in the USA.

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

Wellbutrin (bupropion hydrochloride) is an anti-depressant, available in tablet or sustained release formulations.

Oncology

Zofran, the first 5-HT$_3$ antagonist to be launched worldwide, is used to prevent nausea and vomiting associated with cancer therapy. Available in both oral and injectable forms, the product has retained market leadership in the face of intense competition. Approval for use in the prevention and treatment of post operative nausea and vomiting is extending the product's use.

Panorex (Mab17-1A) is the first monoclonal antibody to be licensed for cancer therapy.

Dermatologicals

The Group's principal dermatological products, *Betnovate* (betamethasone valerate) and the higher potency *Dermovate* (clobetasol propionate), are anti-inflammatory steroid products used to treat skin diseases such as eczema and psoriasis. *Cutivate* (fluticasone propionate) is an addition to the Group's products in this area during the 1990s.

Anaesthesia

The Group markets a range of neuromuscular blocking agents used during surgery as muscle relaxants. These include *Tracrium* (atracurium besylate) and *Nimbex* (cisatracurium besylate) for intermediate duration procedures. The recently launched product, *Ultiva* (remifentanil hydrochloride) is a novel opioid analgesic with rapid onset of action.

Others

Products within this category include *Imuran* (azathioprine) and *Zyloric* (allopurinol), two mature products which nevertheless continue to record good sales.

Therapeutic area	Trade mark	Compound	Mechanism	Indication (may vary by country)
Respiratory	*Ventolin*	salbutamol/albuterol	bronchodilator	bronchial asthma, bronchitis
	Serevent	salmeterol xinafoate	bronchodilator	bronchial asthma, bronchitis
	Becotide/Beclovent	beclomethasone dipropionate	inhaled anti-inflammatory	bronchial asthma, bronchitis
	Flixotide/Flovent	fluticasone propionate	inhaled anti-inflammatory	asthma, bronchial conditions
	Beconase	beclomethasone dipropionate	intranasal anti-inflammatory	hayfever, perennial rhinitis
	Flixonase/Flonase	fluticasone propionate	intranasal anti-inflammatory	hayfever, perennial rhinitis
	Zyban	bupropion SR	noradrenaline reuptake inhibitor	smoking cessation (USA)
Viral infections	*Zovirax*	aciclovir	DNA polymerase inhibitor	herpes infections, shingles, chicken pox, cold sores
	Valtrex/Zelitrex	valaciclovir	DNA polymerase inhibitor	shingles, genital herpes
	Retrovir/AZT	zidovudine	reverse transcriptase inhibitor	HIV/AIDS
	Epivir/3TC	lamivudine	reverse transcriptase inhibitor	HIV/AIDS
	Wellferon	interferon alfa-N1-1F	alpha-interferon	chronic hepatitis B infection, hairy cell leukaemia
	Wellvone/Mepron	atovaquone	electron transport inhibitor	Pneumocystis carinii pneumonia
Gastro-intestinal	*Zantac*	ranitidine hydrochloride	anti-secretory	duodenal ulcers, stomach ulcers, reflux and dyspepsia
	Pylorid/Tritec	ranitidine bismuth citrate	anti-secretory plus antibiotic	eradication of Helicobacter pylori
CNS disorders	*Imigran/Imitrex*	sumatriptan	5-HT_1 agonist	migraine, cluster headache
	Lamictal	lamotrigine	sodium channel modulator	epilepsy
	Naramig/Amerge	naratriptan	5-HT_1 agonist	migraine
	Wellbutrin	bupropion	anti-depressant	depression
Bacterial infections	*Zinnat/Ceftin*	cefuroxime axetil	oral antibiotic	common infections
	Fortum/Fortaz	ceftazidime	injectable antibiotic	severe, life threatening infections
	Raxar	grepafloxacin	quinolone antibiotic	respiratory tract and other infections
	Zinacef	cefuroxime	injectable antibiotic	surgical infections
Oncology	*Zofran*	ondansetron	anti-emetic	nausea, vomiting from chemotherapy, radiotherapy and post-operative nausea and vomiting
	Navelbine	vinorelbine	cytotoxic	non-small cell lung cancer, breast cancer
	Panorex	Mab17-1A	monoclonal antibody	colorectal cancer as adjuvant therapy
Dermatologicals	*Betnovate*	betamethasone valerate	topical anti-inflammatory	eczema
	Cutivate	fluticasone propionate	topical anti-inflammatory	eczema, psoriasis
	Dermovate/Temovate	clobetasol propionate	topical anti-inflammatory	inflammatory skin diseases
Cardiovascular	*Lanoxin*	digoxin	cardiac anti-arrhythmic	congestive heart failure, cardiac arrhythmia
	Flolan	epoprostenol	inhibitor of blood clotting	primary pulmonary hypertension
	Lacipil	lacidipine	calcium channel blocker	hypertension
	Trandate	labetalol	alpha/beta blocker	hypertension
Anaesthesia	*Mivacron*	mivacurium chloride	neuromuscular blocker	adjunct to anaesthesia
	Nimbex	cisatracurium besylate	neuromuscular blocker	adjunct to anaesthesia/intensive care
	Nuromax	doxacurium chloride	muscle relaxant	adjunct to general anaesthesia
	Tracrium	atracurium besylate	neuromuscular blocker	adjunct to anaesthesia/intensive care
	Ultiva	remifentanil hydrochloride	opioid analgesic	induction/maintenance of anaesthesia
Others	*Imuran*	azathioprine	immunosuppressant	rejection of organs following transplants
	Zyloric	allopurinol	xanthine oxidase inhibitor	gout
	Exosurf	colfosceril palmitate	surfactant	neonatal respiratory distress syndrome

Marketing and distribution

Glaxo Wellcome sells its products through an extensive network of subsidiaries, associates, licensees and distributors.

The Group's products are sold primarily to wholesale drug distributors and hospitals. In certain markets sales are made direct to pharmacies or to health maintenance organisations.

In each market, the Group deploys sales forces of representatives and supporting medical staff to market its products to medical prescribers and healthcare purchasers and to provide product information.

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

In the USA, the world's largest pharmaceutical market, the pressure to contain healthcare costs has encouraged the rapid growth of managed care organisations and pharmacy benefit managers (PBMs). These intermediaries use a range of methods to lower costs, including the substitution of generic products or other cheaper therapies for branded products prescribed by doctors.

The Group's business is subject to the possibility of adverse governmental actions. Glaxo Wellcome does not regard these factors as a deterrent to further expansion of its international operations. However, the Group closely reviews its methods of operation, particularly in developing countries, and adopts strategies responsive to changing economic and political conditions.

Competition

The Group's principal competitors are major international corporations with substantial resources and include American Home Products, Astra, Bristol-Myers Squibb, Eli Lilly and Company, Hoechst Marion Roussel, Johnson & Johnson, Merck & Co., Novartis, Pfizer, Pharmacia & Upjohn, Roche, SmithKline Beecham and Zeneca.

The consolidations which have been taking place in recent years have intensified the level of competition as the synergies and the economies of scale between the merging partners become apparent. These factors are evident in the merger between Glaxo and Wellcome.

In addition to the major pharmaceutical companies, Glaxo Wellcome is facing increasing competition from generics companies. This is mainly because of the patent expiries affecting two of Glaxo Wellcome's principal products, *Zantac* and *Zovirax*.

In the gastro-intestinal market, *Zantac* has come under increasing pressure from generic ranitidine hydrochloride and other compounds, notably omeprazole – a proton pump inhibitor. However, *Zantac* has remained the treatment of choice for a significant section of the market.

Zovirax is used to treat a range of herpes conditions. The product recently lost patent protection in the major markets and a number of companies offer generic aciclovir. However, Glaxo Wellcome has vigorously defended the position of *Zovirax*, and the launch of *Valtrex* has helped strengthen the company's position in the anti-herpes area.

Another established product, *Ventolin,* has faced generic competition for some years. However, the growth of Glaxo Wellcome's newer respiratory products such as *Flixotide* and *Serevent* has more than offset the decline of *Ventolin.*

Imigran has grown to be one of Glaxo Wellcome's major products through highlighting the previously unmet needs of migraine sufferers. Although other companies are in the process of launching competing products, newer formulations of *Imigran* such as the nasal spray, and the introduction of *Naramig,* should help Glaxo Wellcome to maintain its considerable lead over its competitors in the migraine market.

Glaxo Wellcome's drive to create sustainable leadership in selected therapy areas is underlined by its pioneering role in the HIV market, with *Retrovir* and *Epivir* acting as the cornerstone of combination therapy, and now available as *Combivir*, a single tablet.

The company is seeking to maintain its competitive edge through the launch of a number of products in what for Glaxo Wellcome are new therapy areas.

As is the case for the pharmaceutical industry in general, the introduction of new products and processes by competitors may affect pricing levels or result in product replacement.

There can be no assurance that any of the Group's products will not become outmoded, nothwithstanding patent or trade mark protection.

Glaxo Wellcome believes that its future competitive position in the principal markets for its products will depend upon its ability to discover and develop new products, and new uses for existing products, and to market existing and new products effectively.

Research and development

General

The objective of Glaxo Wellcome's research and development activities is to discover and develop for marketing novel compounds which offer a significant advance over existing treatments for important clinical conditions.

The R&D process involves:

- the search for biological targets
- the identification and optimisation of lead compounds
- the demonstration of safety, clinical efficacy and product quality, leading to market approval by regulatory authorities
- the demonstration of therapeutic value for money, increasingly required for price approval by healthcare authorities.

Investment in R&D during 1997 was £1.15 billion, similar to that for the previous year. Although expenditure has been relatively flat over the past three years, striking improvements are being seen in R&D productivity as new technology and processes are successfully implemented.

Nearly 9,000 employees are engaged worldwide in R&D with the principal locations at: Stevenage, Greenford and Ware in the UK; Research Triangle Park and Palo Alto, USA; Tsukuba Science City, Japan; Verona, Italy; Les Ulis, France; Madrid, Spain; Singapore; and Mississauga, Canada.

New products

The core business of R&D is to provide the necessary information to ensure the rapid approval and successful launch of new products that will provide real value to the world's healthcare markets.

The year was notable for the high number of product approvals and regulatory submissions in a wide range of therapeutic areas. In particular, approvals included:

- *Naramig/Amerge* – a complementary therapy to *Imigran/Imitrex*, providing increased choice for the treatment of migraine; approved in the USA and Europe
- *Raxar* – a potent new quinolone antibiotic; approved in Europe and the USA
- *Zyban* – the first non-nicotine based adjunct to smoking cessation to be approved in the USA
- *Combivir* – a fixed dose combination tablet providing greater ease of use for patients on complex treatment regimens for HIV diseases; approved in the USA
- *Valtrex* – US and European approval for the suppression of herpes simplex virus, a major new indication which clearly differentiates this product from the competition
- *Imitrex* intranasal – US approval for a new formulation of the anti-migraine product which will widen patient choice
- Alternative propellants: approvals are being received in Europe and throughout the world for a new CFC-free propellant for *Ventolin* and *Flovent* metered-dose inhalers.

During 1997, Glaxo Wellcome launched *Romozin* for the treatment of type II diabetes in the UK but subsequently took the decision to withdraw it from the market in the light of reports of potential liver toxicity, which continue to be reviewed.

Over 20 other significant new product applications were submitted in the USA and the rest of the world during 1997. Of particular note is the recent submission to the Chinese regulatory authorities for the use of lamivudine in the treatment of chronic hepatitis B. This was the first submission for this indication. Subsequent submissions have been made in Japan, Malaysia, the Philippines and Singapore. Together, the submissions cover countries where over half of the estimated 300 million people suffering from hepatitis B live. This reflects the Group's commitment to develop products that are appropriate to the markets with the most urgent unmet medical need. European and US filings are planned for 1998.

A number of compounds also progressed into large scale, multinational phase III clinical trials during 1997, following careful evaluation of non-clinical and early clinical (phase II) data. Of note are the protease inhibitor, amprenavir, and the potent reverse transcriptase inhibitor abacavir, both for the treatment of HIV infections, which are scheduled for regulatory approval submission in 1998.

The respiratory portfolio continues to grow and, as well as new CFC-free propellants and new delivery systems, there are a number of new compounds in development for the treatment of asthma, chronic obstructive pulmonary disease and for smoking cessation, as well as a novel gene therapy agent for cystic fibrosis.

Eighteen new chemical entities (NCEs) were accepted into early development after stringent R&D and commercial evaluation. These compounds reflect the commitment to drug discovery and development in a wide range of disease areas and include novel treatments for respiratory diseases, arthritis, blood cholesterol imbalances, epilepsy, viral and bacterial infections. They are now being progressed towards or have recently started studies in human volunteers and patients.

This provides tangible evidence that the Group is well on its way towards achieving the threefold increase in productivity from the year 2000, targeted in 1995.

Product development pipeline

An analysis of the portfolio at November 1997 is set out on these pages and shows the depth and breadth of the products currently in development.

The compounds that were progressed into exploratory development in 1997 included potential treatments for arterial thrombosis, diabetes, septic shock, arthritic disease, pain, hypercholesterolaemia and obesity. Many of these represent breakthrough mechanisms.

Clinical trials are about to start on Glaxo Wellcome's first gene therapy compound for the treatment of cystic fibrosis.

Novel treatments for migraine, epilepsy, bipolar disorder and dementia together with two new analgesic agents strengthen the CNS portfolio. A number of products are in the early stages of development for the treatment of hypercholesterolaemia, septic shock, arterial thrombosis and sepsis in the cardiovascular/ critical care area.

The pipeline also contains compounds offering novel approaches to the treatment of arthritis, benign prostatic hyperplasia, type II diabetes, T-cell leukaemia, and refractory solid tumours.

Therapeutic area	Compound	Type
Anti-infectives, herpes & influenza	GW275175	CMV-DNA maturation inhibitor
	GV143253	injectable trinem antibiotic
	GM237354	fungal protein synthesis inhibitor
	GW419458	herpes simplex virus (HSV) vaccine
	1263W94	CMV-DNA synthesis inhibitor
	Relenza (zanamivir)	neuraminidase inhibitor
	Relenza (zanamivir)	neuraminidase inhibitor
Antivirals, HIV, hepatitis & malaria	*Malarone*	electron transport system inhibitor
	Malarone	electron transport system inhibitor
	1592U89 (abacavir)	reverse transcriptase inhibitor
	141W94	protease inhibitor
	Zeffix (lamivudine)	reverse transcriptase inhibitor
	Zeffix (lamivudine)	reverse transcriptase inhibitor
CNS disorders	GW286103	sodium channel inhibitor
	GW273293	sodium channel inhibitor
	GW290569	melatonin agonist
	GR253035	cyclo-oxygenase (COX-2) inhibitor
	GV196771	glycine antagonist
	4991W93	neurogenic inflammation inhibitor
	534U87	anticonvulsant
	1555U88	noradrenaline reuptake inhibitor
	4030W92	sodium channel inhibitor
	Naramig/Amerge	5-HT1 agonist
Gastro-intestinal, metabolic & rheumatology	Gastro-intestinal disease	
	alosetron	5-HT3 antagonist
	Metabolic disease	
	GR328713	microsomal transfer protein inhibitor
	264W94	bile acid transport (BAT) inhibitor
	GI262570	peroxisome proliferation activated receptor gamma agonist
	GI198745	5-alpha reductase inhibitor
	Rheumatological diseases	
	GW353430	anti-CD23 monoclonal antibody
	GR253035	cyclo-oxygenase (COX-2) inhibitor
	4162W94	anti-CD4 monoclonal antibody
Hospital & critical care	Oncology & emesis	
	GW395058	thrombopoietin-mimetic peptide
	GW282974	tyrosine kinase inhibitor
	3622W94	monoclonal antibody
	506U78	prodrug of guanine arabinoside
	GR205171	NK1 antagonist
	776C85	chemotoxic agent enhancer
	Panorex	monoclonal antibody
	Panorex	monoclonal antibody
	Anaesthesia	
	GW280430	competitive acetylcholine antagonist
	Stroke, shock & sepsis	
	GR270773	phospholipid emulsion
	GV150526	glycine antagonist
	546C88	nitric oxide synthase inhibitor
Respiratory disease	GW215864	hydrolysable steroid
	GW250495	hydrolysable steroid
	GW353430	anti-CD23 monoclonal antibody
	GW311616	elastase inhibitor
	GR213487	gene therapy
	1555U88	noradrenaline reuptake inhibitor
	ipratropium bromide *(Diskus)*	anticholinergic
	new CFC-free propellants (GR106642) – *Ventolin*,	beta$_2$ agonist
	– *Serevent*	beta$_2$ agonist
	– *Flixotide/Flovent*	inhaled corticosteroid
	Seretide Diskus	beta$_2$ agonist/inhaled corticosteroid
	Seretide MDI (CFC-free)	beta$_2$ agonist/inhaled corticosteroid
	Devices	
	Diskus/Accuhaler (dry powder inhaler)	
	Flixotide/Flovent	inhaled corticosteroid
	Ventolin	beta$_2$ agonist
	Becotide	inhaled corticosteroid
	breath operated inhaler *Ventolin, Flixotide/Flovent, Serevent, Seretide*	

Key

Preclinical The earliest phase of development, concerned with small scale synthesis of the compound and initial assessment of its safety

Phase I Evaluation of clinical pharmacology, usually conducted in volunteers

Phase II Determination of dose and initial evaluation of efficacy, conducted in a small number of patients

Phase III Large comparative study (compound versus placebo and/or established treatment) in patients to establish clinical benefit and safety

Filed First submission for regulatory approval

MAA marketing authorisation application

NDA new drug application (USA)

List current as at November 1997. Does not include line extensions for new indications.

Indication	Phase	Estimated filing dates MAA	NDA
cytomegalovirus (CMV)	Preclinical		
moderate/severe methicillin-resistant hospital infections	Preclinical		
fungal and protozoal infections	Preclinical		
genital herpes	I		
CMV retinitis & disease in HIV infections, treatment and prevention	II		
influenza treatment	III	1998	1998
influenza prophylaxis indications	III	1999	1999
malaria prophylaxis	III	1997	1998
malaria treatment	III	Approved	1998
HIV infections (adult and paediatrics)	III	1998	1998
HIV infections (adult and paediatrics)	III	1998	1998
hepatitis B (Far East and Japan)	III	Filed/1997	N/A
hepatitis B (Rest of World)	III	1998	1998
chronic pain	Preclinical		
epilepsy and bipolar disorder	Preclinical		
acute and chronic sleep disorders	Preclinical		
Alzheimer's disease	I		
chronic pain	I		
migraine	II		
epilepsy	II		
attention deficit hyperactivity disorder (ADHD)	II		
neuropathic pain	II		
migraine	Filed	Approved	Filed
irritable bowel syndrome (IBS)	III	2000	1999
hyperlipidaemia	Preclinical		
hypercholesterolaemia	II		
non-insulin dependent diabetes mellitus (NIDDM)	I/II	2000	2000
benign prostatic hyperplasia	III	1999	1999
rheumatoid arthritis	Preclinical		
inflammatory pain	I		
rheumatoid arthritis	II		
chemotherapy induced thrombocytopaenia	Preclinical		
lung and breast cancer	Preclinical		
adjuvant treatment for lung and prostate cancers	II		
B-cell neoplasms, T-cell leukaemia and lymphoma	II	1999	1999
chemotherapy induced emesis/post-operative nausea and vomiting	II		
refractory breast tumours	II	1999	1999
advanced pancreatic and untreated colorectal cancer	III	2000	2000
colon cancer (Dukes-C)	III	1999	2000
rectal cancer; colon cancer (Dukes-B2)	III	2002	2002
ultra-short acting neuromuscular blocker in anaesthesia	Preclinical		
sepsis	Preclinical		
ischaemic and haemorrhagic stroke	II	2000	2000
septic shock	III	2001	2001
asthma	Preclinical		
asthma	Preclinical		
asthma	Preclinical		
chronic obstructive pulmonary disease (COPD)	Preclinical		
cystic fibrosis	II		
smoking cessation	II		
asthma/COPD	III	1999	
asthma/COPD	III	Filed	1998
asthma/COPD	III	1998	2000
asthma/COPD	III	Approved	1999
asthma	III	1998	1998
asthma	III	1999	2000
asthma	III	Approved	1998
asthma	III	Approved	1998
asthma	III	1998	
asthma	III	1998-2000	1998-2001

Regulatory approvals
In 1997 the Group obtained 27 notable first regulatory approvals including:

Naramig/Amerge (naratriptan)

Raxar (grepafloxacin)

Zyban (bupropion SR)

Combivir (lamivudine/zidovudine)

Valtrex (valaciclovir)

Imitrex intranasal (sumatriptan)

Alternative CFC-free propellants for *Ventolin* and *Flixotide/Flovent* metered-dose inhalers.

New technology – genetics
Human genetics offers a fundamental alternative to the traditional approach to drug target selection. Studying the underlying genetic cause or predisposition to a particular disease in patients exhibiting the disease, will give greater confidence that the target selected is relevant to the disease of interest. This is the concept of "right target for the right disease".

Human genetics will also lead to sub-typing of human disease based on a patient's genetic make up, or genotype. Clinical trials will then be designed to correlate product safety and efficacy with genotype. This is the concept of "right drug to the right patient".

These two concepts represent key goals for the newly created Genetics Directorate. The directorate is led by Professor Allen Roses a recognised world leader in the subject and was successfully formed during 1997. Already a major project is underway to construct a complete gene map which, when complete, will be used to screen efficiently and rapidly DNA samples for disease associations and adverse effects.

Networks of clinical genetics collaborators are being established that will provide us with collections of carefully characterised patient populations that can be used to identify new genes for complex diseases. The ethical issues associated with clinical genetics are also being addressed by close collaboration with world-renowned medical, legal and ethics experts. In parallel with these activities, staff from all parts of the business are actively involved in understanding the potential this new approach can offer.

Alliances and acquisitions
Notable alliances/acquisitions in the field of genetics and genomics include:

Sequana Therapeutics Inc – using genetically modified nematode worms to elucidate the function of specific genes in the control of complex biochemical pathways

Affymetrix Inc. – exploring how advances in genetics can be applied to improve the clinical management of HIV infections; use of Genechip diagnostic technology

Incyte Pharmaceuticals Inc. – allowing access to genome databases containing gene sequence and expression information

Spectra Biomedical Inc. – validating molecular targets for drug discovery and the conduct of clinical trials through the use of association genetics.

New technology – drug discovery
The benefits from introducing high throughput screening and combinatorial chemistry in all the major research sites are being realised in the reduced time and number of scientists required to identify lead compounds.

In several drug discovery projects the new technologies are achieving in a matter of weeks what would have taken years with more traditional approaches.

An increased understanding of both genomics and the immune system, coupled with recent advances in delivery technology are providing new opportunities for vaccine therapy. Through in-house research and collaboration with key academic centres, Glaxo Wellcome is developing competitive advantage and insight in the field and is committed to pursuing a vaccine approach to appropriate disease areas.

A review of the company's global research strategy was conducted in mid-1997. As a result, the decision was taken to carry out its exploratory research in highly integrated, flexible, disease-based research centres and to focus technology development at research sites in the UK, USA, Italy, France, Spain and Japan. As a consequence, the Geneva Biomedical Research Institute (GBRI) was sold to Ares-Serono.

New processes – product development management
The key driver for product development is to deliver products of value to the marketplace. This requires close collaboration between Group product development and commercial strategy and the regions. These links were strengthened this year with the introduction of Therapeutic Management Teams. These six teams cover Glaxo Wellcome's major therapeutic areas and deliver therapeutic strategies and programmes which meet the goal of producing products of value for all the Group's markets.

New processes – redesign of core development processes
Attaining R&D objectives has required a fundamental review of the whole R&D process. The first wave of redesign initiatives – clinical process redesign, development candidate selection and creating the right environment for our staff – moved into their implementation phase during 1997. Additionally, a major initiative was launched to streamline the flow of information within the business.

Animals and research
For ethical, scientific, and legal reasons, animal experimentation remains essential in the discovery and subsequent safety evaluation of new medicines. Glaxo Wellcome is committed to keeping the numbers of animal experiments it conducts each year to an absolute minimum. In recognition of the responsibility for the humane care and treatment of laboratory animals, a new company policy has been produced, in conjunction with the UK Advisory Committee on the Care of Animals in Research and Development. This defines the very high standards of animal welfare that Glaxo Wellcome wishes to maintain.

Animal experiments undertaken by the company continue to decrease in number, as we develop and employ a range of new techniques to minimise the numbers of animals used, refine existing procedures and replace such experimentation altogether with in vitro, molecular biology and cell culture techniques.

Intellectual property

Glaxo Wellcome, as a research-based business, is committed to acquiring the strongest possible intellectual property for the output of its substantial R&D investment. Intellectual property includes patents, trade marks, registered designs and copyrights.

Glaxo Wellcome believes that its worldwide portfolio of patents and trade marks is of particular significance to its business. The Group has a policy of vigorously defending its intellectual property rights throughout the world. The validity of certain of the Group's patents is being challenged by third parties. (See Legal proceedings on page 19.)

Patents

Patent protection is available in most developed countries for new active ingredients as well as for pharmaceutical formulations or manufacturing processes.

In some countries, patent protection is available only for manufacturing processes.

Glaxo Wellcome has obtained patents of one or more types in its major markets for the significant products discovered and/or developed through its R&D activities and in addition Glaxo Wellcome anticipates that patents will be granted for its new drugs which are under development.

The table below sets out the expiration dates of patents in the UK and the USA for the Group's most important pharmaceutical products.

While the patent expiration dates for these products in other markets vary, the Group generally has patent coverage of comparable duration in those countries in which comprehensive patent protection is available.

The absence of effective patent protection for pharmaceuticals in some countries, notably Latin America and Asia Pacific, continues to have an adverse effect on the Group's business, and the improved laws in Brazil and Mexico will have benefits for products about to be launched there.

Patents relating to particular products or processes do not preclude competitors from successfully marketing substitute products or from employing alternative processes to compete with patented products.

World Trade Organisation

The Trade Related Intellectual Property Agreement (TRIPs) sets minimum standards of intellectual property protection and will lead to improved laws in a number of countries. The World Trade Organisation is responsible for monitoring the introduction of legislation to enact the provisions of TRIPs.

Trade marks

Glaxo Wellcome's products are protected by trade marks in its major markets. A trade mark in respect of a product generally assumes increasing importance when the patent on that product expires.

Trade mark protection in some countries depends upon the trade mark remaining in use, in others trade mark protection continues as long as the mark is registered even if it is not in use.

The Group's most important trade marks are used in a number of countries. Local variations of these international trade marks are employed where legal or linguistic considerations require the use of an alternative.

Therapeutic area	Generic name	Trade mark in the UK	Trade mark in the USA	Patent expiration dates UK	Patent expiration dates USA
Respiratory	beclomethasone dipropionate (respiratory)	*Becotide*	*Beclovent*	1993 [b]	1999 [b]
	beclomethasone dipropionate (anti-rhinitic)	*Beconase*	*Beconase*	1993 [b]	1999 [b]
	salmeterol xinafoate	*Serevent*	*Serevent*	2005 [a]	2008
	fluticasone propionate (respiratory)	*Flixotide*	*Flovent*	2005 [a]	2003
	fluticasone propionate (anti-rhinitic)	*Flixonase*	*Flonase*	2005 [a]	2003
Viral infections	valaciclovir	*Valtrex*	*Valtrex*	2009 [a]	2009
	zidovudine	*Retrovir*	*Retrovir*	2006 [c]	2005 [c]
	lamivudine	*Epivir*	*Epivir*	2011 [a]	2009
	lamivudine and zidovudine	*Combivir*	*Combivir*	2012	2012
	interferon alfa-N1-1F	*Wellferon*	*Wellferon*	1999 (Roche)	1998-2005 (Roche)
Gastro-intestinal	ranitidine hydrochloride	*Zantac*	*Zantac*	1997/2001	1997/2002
	ranitidine bismuth citrate	*Pylorid*	*Tritec*	2010 [a]	2009
CNS disorders	sumatriptan	*Imigran*	*Imitrex*	2003/2006 [a]	2006/2008
	naratriptan	*Naramig*	*Amerge*	2012 [a]	2008
	lamotrigine	*Lamictal*	*Lamictal*	2005 [a]	2008
Bacterial infections	ceftazidime	*Fortum*	*Fortaz*	1999/2000	1999/2000
	cefuroxime axetil	*Zinnat*	*Ceftin*	2002 [a]/2003	2000/2003
	grepafloxacin	*Raxar*	*Raxar*	2008	2013
Oncology	ondansetron	*Zofran*	*Zofran*	2005 [a]	2005
Dermatologicals	fluticasone propionate	*Cutivate*	*Cutivate*	2005 [a]	2003
Cardiovascular	labetalol	*Trandate*	*Trandate*	1987	1998
	lacidipine	*Lacipil*	*Lacipil*	2005 [a]	2006
Anaesthesia	mivacurium chloride	*Mivacron*	*Mivacron*	2007 [a]	2006
	cisatracurium besylate	*Nimbex*	*Nimbex*	2011	2012
	remifentanil hydrochloride	*Ultiva*	*Ultiva*	2011 [a]	2009
Others	atovaqone	*Wellvone*	*Mepron*	2009 [a]	2008

[a] As extended by supplementary protection certificates

[b] Aerosol formulations

[c] Use in HIV/AIDS

Patent cover has expired in the UK and the USA on the following products: *Ventolin, Zinacef, Betnovate, Dermovate, Imuran, Zyloric, Lanoxin, Tracrium, Zantac* (Form 1) and *Zovirax*.

Manufacture and supply

The objectives of global manufacture and supply are the rapid introduction of new products and ongoing supply at the lowest possible cost.

Three international Actives Supply sites in the UK (at Dartford, Montrose and Ulverston) and one strategic site in Singapore manufacture and supply most of the Group's therapeutically active ingredients from chemicals and other intermediates obtained from external sources. Smaller primary supply sites are located in India, Bangladesh, Pakistan, Egypt, Turkey, Brazil and Spain.

In addition, there are biotechnology operations in the USA, Spain and the UK.

Product Supply is a network of formulation sites concerned with the manufacture and supply of finished products from active ingredients, other fine chemicals and packaging components. Each Product Supply site is integrated with a Glaxo Wellcome operating company to ensure that the overall supply chain meets market demands.

Site disposals

During the year, major site disposals to third parties were completed in the USA (Greenville) and the UK (Annan). Other disposals/closures included sites in Australia, Canada, France and Mexico.

Regulation

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

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

Use is made of external supplies of active ingredients, fine chemical intermediates, part finished and finished products, where third party supply sources are available and competitive. Unavailability of certain raw materials from present sources could cause an interruption in production pending establishment of new sources, or, in some cases, implementation of alternative processes. The Group has taken steps to protect its supply chains through strategic stocks and alternative registered suppliers.

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

In the European Union, two procedures for obtaining marketing authorisations for medicinal products, the Centralised Procedure and the Mutual Recognition Procedure, have been operational since January 1995.

The Centralised Procedure, with applications made direct to the European Medicines Evaluation Agency (EMEA) and leading to an authorisation valid in all 15 member states, is compulsory for products derived from biotechnology and optional for new active substances and other innovative medicinal products.

The Mutual Recognition Procedure, which is applicable to the majority of conventional medicinal products, operates by mutual recognition of national marketing authorisations; where this is not possible, the matter is resolved by a binding arbitration. National authorisations are still available from January 1998 for medicinal products to be marketed in only one member state.

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

Price controls

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

In some countries, such as France and Japan, the prices of individual products are regulated.

In the UK, prices are controlled by reference to limits upon the overall profitability, measured by the rate of return on capital employed, of sales of products supplied under the National Health Service.

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

In the USA, debate over the reform of the healthcare system has resulted in an increased focus on pricing.

Although there are currently no government price controls over private sector purchases in the USA, federal legislation requires pharmaceutical manufacturers to pay prescribed rebates on certain drugs to enable them to be eligible for reimbursement under Medicaid healthcare programmes.

In some countries, particularly in Europe, cross-border imports from low-priced markets exert a commercial pressure on in-country pricing.

Future developments

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

Health, safety and the environment

To emphasise the high importance which the Group attaches to Health, Safety and the Environment (HSE), a separate HSE report is published which sets out the Group objectives and targets, inputs and outputs, costs and compliance. A number of companies in the Group have published local environmental reports; an initiative pioneered by Glaxo Wellcome at Ulverston in the UK.

Biodiversity

Natural products have provided invaluable medicines, including morphine and codeine from the opium poppy, digoxin from the foxglove and penicillin antibiotics from fungi. Glaxo Wellcome's policy for the acquisition of natural product source materials was updated and reissued in May 1997.

In addition, Glaxo Wellcome acted as champion of the World Business Council for Sustainable Development and The World Conservation Union biodiversity project which resulted in a guide entitled "Business and Biodiversity – A guide for the private sector". This was launched at the United Nations General Assembly Special Session (also known as Rio+5) in New York and included a foreword from Sir Richard Sykes.

Chlorofluorocarbons

Glaxo Wellcome, the world's leading provider of medicines for the treatment of upper and lower respiratory diseases, is pursuing the transition to metered-dose inhalers (MDIs) with non-CFC propellants.

New non-CFC MDIs which use Glaxo Wellcome's own inhalation grade of HFA 134a as propellant have already been launched in Germany, France and Denmark.

Legal proceedings

A summary of significant legal issues affecting the Group is set out below.

Ranitidine patents

Proceedings in the USA for infringement of Glaxo Wellcome's patent property covering Form 2 ranitidine hydrochloride have been terminated against most parties seeking to market tablets and/or capsules of ranitidine hydrochloride in the USA.

Glaxo Wellcome is party to various other legal proceedings in other jurisdictions, including Austria, Canada, Italy and Spain, which involve the infringement and/or validity of its patents relating to ranitidine hydrochloride.

Epivir patent

On 23rd July 1996 Emory University of Atlanta, USA, obtained grant of a US patent with claims purporting to cover *Epivir.* The University sued Glaxo Wellcome Inc., the company's US subsidiary, and its licensor BioChem Pharma Inc. for patent infringement in the US District Court for the Northern District of Georgia, Atlanta Division. Emory University has not sought a preliminary injunction but claims damages and an injunction if its patent is found to be valid and infringed. Glaxo Wellcome and BioChem Pharma believe that the patent awarded to Emory University is not infringed, is invalid and is unenforceable, and are vigorously defending their position.

US anti-trust

Approximately 150 anti-trust actions have been initiated by retail pharmacies against many major brand name pharmaceutical manufacturers, including Glaxo Wellcome Inc., in the federal and state courts of the USA. The federal court lawsuits have been transferred for pre-trial proceedings to one US district court in Chicago.

The federal cases include a certified class action, brought on behalf of all retail pharmacists in the USA, alleging that, contrary to the US Sherman Anti-trust Act, the manufacturer defendants conspired to fix the prices charged to retail pharmacies at rates higher than those charged to managed care entities such as hospital pharmacies and health maintenance organisations.

Additional federal cases, which are part of the Chicago multi-district proceedings and are not class actions, have been brought by individual pharmacies (both chain operations and independents) against Glaxo Wellcome and other major pharmaceutical manufacturers. These cases allege, in addition to the conspiracy charge described above, that manufacturers have engaged in discriminatory pricing in violation of the US Robinson Patman Act by offering discounts to managed care entities and mail order companies but not to retail pharmacies.

In addition, similar cases have been brought by retailers under state law in the state courts of Alabama, California, Minnesota, Mississippi and Wisconsin. The company has entered into settlements of the cases in Minnesota and Wisconsin, subject to final court approval.

In Alabama, Arizona, California, Florida, Kansas, Maine, Michigan, Minnesota, New York, North Carolina, Tennessee, Wisconsin and the District of Columbia, there are state court suits alleging a conspiracy and seeking treble damages on behalf of alleged classes of consumers of brand name pharmaceuticals.

In the state of New York, the consumer case has been dismissed on the grounds that state law, like federal law, does not permit suits by persons or entities who do not purchase directly from the defendants. A similar motion was made but denied in the Arizona case. These two decisions are on appeal.

A retailer class has been certified in California and Wisconsin. A consumer class has been certified in California and the District of Columbia. Requests to certify consumer classes have been denied in cases brought on behalf of consumers in Alabama, Maine, Michigan and Minnesota.

A number of defendants (who represent about two thirds of the industry by sales value) have settled the federal retail class action. The Chicago district court has approved the settlement. Under the settlement Glaxo Wellcome agreed to pay US$53.4 million in four instalments over three years. The first three of these instalments have been paid. Other defendants have committed to paying a total of approximately US$320 million in cash or goods over the same period.

In the opinion of the Directors, settlement of the above cases will have no material adverse effect on the results of the Group in future years.

The settlement does not resolve the federal litigation brought by other pharmacies nor does it affect other cases being brought in state courts by retailers or consumers.

US competition

Glaxo Wellcome, in common with numerous other pharmaceutical manufacturers, has received subpoenas from the Federal Trade Commission as part of an investigation into whether Glaxo Wellcome and other pharmaceutical manufacturers have engaged or are engaging in unfair methods of competition in connection with the pricing of pharmaceutical products in the USA in violation of the Federal Trade Commission Act. Glaxo Wellcome is co-operating with the investigation.

Other

Other member companies of Glaxo Wellcome are party to various other legal proceedings, none of which is expected individually or in aggregate to have a material adverse effect on Glaxo Wellcome's consolidated financial condition or results of operations.

Human resources

The effective deployment, management and development of people underpins every facet of Glaxo Wellcome's business. Glaxo Wellcome's Human Resources policies and programmes play a major role in achieving short-term business goals and in sustaining longer term development of competitiveness.

Greater emphasis is being placed on developing an entrepreneurial culture and on building a more international cadre of executives both in development programmes and in the selection processes for senior executives.

Remuneration policies continue to be tied to local market competitiveness and a range of local initiatives have been taken to encourage achievement of short-term business targets. This has been coupled with greater attention in several regions to teamworking and cross-functional collaboration aimed at new product introduction and sales force effectiveness.

At the senior executive level, the reward and performance programme is currently under review with particular emphasis being placed on the balance between short-term results and long-term incentives for business development; these changes are being implemented in 1998.

Communicating effectively

The commitment to employee communication and involvement continued through 1997 with increased attention to communicating business performance results and on employee involvement programmes across all regions.

Within Europe, the formation of the Glaxo Wellcome European Works Council has been achieved after an intensive period of consultation. This 15-country-strong group will meet once a year with a smaller sub-group providing more regular communication and consultation on major business issues, in addition to the local arrangements already in place.

Encouraging learning and diversity

The devolved culture within Glaxo Wellcome demands that appropriate attention is paid to encouraging the sharing of good practice and knowledge across regional and functional boundaries. Greater attention is being given to developing the infrastructure and technologies required to support knowledge transfer and the development of a learning organisation.

In the USA, the major Equal Employment Opportunity programmes have continued while in the UK, the Diversity Forum has taken steps to encourage a more balanced workforce through more active support for flexible working arrangements, disability awareness training and mentoring programmes for ethnic minorities. Diversity training for managers is underway and research on career development for women managers is being conducted.

In the UK, if an employee becomes disabled whilst in employment and, or as a result, is unable to perform normal duties, every effort is made to offer suitable alternative employment and assistance with retraining.

Information systems

General

The effective use of information and information systems underpins all aspects of Glaxo Wellcome's business performance. Regionalisation increases the need for effective linkage between operating companies, regions and central functions and information systems are playing a major role in facilitating this enhanced level of business interaction.

Improving business processes

The Group continues to seek opportunities to increase the effectiveness, efficiency and flexibility of its business processes. Information systems play a vital role in supporting the implementation of new improved processes.

Integration with the marketplace

There are an increasing number of business processes which extend outside Glaxo Wellcome and a growing need to link internal networks with those of external partners. Information technology provides a powerful medium for forging closer relationships with customers.

Year 2000

A thorough review of business processes and information systems has been conducted in all business areas and action is being taken to ensure that the information systems supporting every significant business process are Year 2000 compliant. (See Financial review on page 28).

Global infrastructure

A new global messaging system that will enable Glaxo Wellcome employees to communicate effectively is being implemented at an average rate of one country per week. The system, which currently handles 3.5 million messages per month, will be implemented in all major markets by the end of 1998.

This year has also seen further development of the Glaxo Wellcome Web, the Group's corporate Intranet. An increasing number of staff are using the Intranet to share best practice and disseminate information.

The MedTrack system, used to share clinical trial planning and tracking information, is now available via the Glaxo Wellcome Web in more than 23 countries and will reduce the time required to initiate and recruit patients for global and local clinical trials.

Internet
Glaxo Wellcome has a significant presence on the public Internet including:

Glaxo Wellcome website
http://www.glaxowellcome.co.uk

This is the main corporate site providing general information on scientific, medical and financial topics. It also provides access to other national websites which are being created by individual Glaxo Wellcome companies for their own local markets.

Healthylives
http://www.healthylives.com

This site gives disease information to the US public and promotes Glaxo Wellcome as the premier healthcare company. It was voted the top pharmaceutical website by Fortune magazine.

Gi-net
http://www.ginet.com

This is a password-protected educational service and interactive forum on gastro-intestinal disease and related topics for physicians and healthcare professionals worldwide.

Healthpoint
http://www.healthpoint.com

This US-based site provides information about Healthpoint, a joint venture between Glaxo Wellcome and Physician Computer Network. Healthpoint's objective is to improve the quality, efficiency and cost effectiveness of healthcare management and communication services to healthcare professionals, patients, payers and suppliers.

Charitable and community support

Glaxo Wellcome is committed to being a good corporate citizen and an important part of that commitment is the support the Group gives to the communities in which it operates.

As a mark of this commitment the company has launched an award scheme called the Chairman's Award for Corporate Citizenship, the purpose of which is to encourage and reward excellence in this field among Glaxo Wellcome operating companies around the world.

The first awards were chosen in December 1997. An organ donor registry scheme by Glaxo Wellcome Australia won the best single project category, and a project by Glaxo Wellcome South Africa addressing the problem of tuberculosis in Western Cape communities won the category of best programme showing long-term commitment and cohesiveness.

Total charitable contributions and community support by Glaxo Wellcome in 1997 was £24 million, with the companies in the UK and USA the largest contributors.

Glaxo Wellcome plc made charitable donations of £6 million to UK charities for projects both in the UK and in the developing world. In addition, Glaxo Wellcome companies in the UK made other contributions in support of the community of £1 million. The combined total of £7 million was equivalent to 2.7 per cent of that share of Group pre-tax profit proportional to the UK contribution to Group turnover.

In the UK, over 200 projects were supported under the company's wide ranging programme in the areas of healthcare, medical and scientific education, the environment and the Arts.

Glaxo Wellcome supported a number of major international healthcare projects in 1997, including:

- assisting the United Nations Association International Service in its work with the Alfredo da Matta Institute in Amazonas, Brazil, in the eradication of leprosy from that state
- WaterAid's initiative to work with local government and community groups in Dhaka, Bangladesh, to establish sustainable sources of clean water which can be afforded by those living in the city's slums
- the construction of one of a number of health clinics by the United Nations High Commission for Refugees to provide primary healthcare to the rapidly growing population in Rwanda, following the large numbers of returning refugees
- a donation programme for its anti-malarial product *Malarone*. Malaria is a disease which causes an enormous toll in lives and lost productivity in developing countries. The programme is designed to make the product available to patients who could not otherwise afford treatment.

Financial review

Selected financial data

			18 months to 31.12.95					
	Year to 31.12.97	Year to 31.12.96		Unaudited 12 months to 31.12.95	Unaudited 6 months to 31.12.94	Total	Year to 30.6.94 (restated)	Year to 30.6.93 (restated)
			Combined business	Integration				
Profit and loss account	£m	£m	£m	£m	£m	£m	£m	£m
Amounts in accordance with UK GAAP								
Turnover	7,980	8,341	7,638	–	2,852	10,490	5,656	4,930
Cost of sales	1,473	1,464	1,313	558	493	2,364	1,004	874
Selling, general and administrative expenses	2,636	2,635	2,643	400	938	3,981	1,988	1,812
Research and development expenses	1,148	1,161	1,130	257	410	1,797	858	739
Other operating income	(99)	(51)	(29)	–	(5)	(34)	(11)	(13)
Operating costs	5,158	5,209	5,057	1,215	1,836	8,108	3,839	3,412
Trading profit	2,822	3,132	2,581	(1,215)	1,016	2,382	1,817	1,518
Profit on disposal of business	–	–	–	–	35	35	–	–
Share of (losses)/profits of associated undertakings	(13)	19	60	–	(3)	57	(3)	3
Profit before interest	2,809	3,151	2,641	(1,215)	1,048	2,474	1,814	1,521
Net (interest payable)/investment income	(123)	(187)	(136)	–	49	(87)	21	150
Profit on ordinary activities before taxation	2,686	2,964	2,505	(1,215)	1,097	2,387	1,835	1,671
Taxation	819	933	768	(230)	329	867	524	460
Profit on ordinary activities after taxation	1,867	2,031	1,737	(985)	768	1,520	1,311	1,211
Minority interests	17	34	35	–	27	62	12	7
Profit attributable to shareholders	1,850	1,997	1,702	(985)	741	1,458	1,299	1,204
Earnings per Ordinary Share	52.0p	56.7p	50.3p		24.3p	44.5p	42.7p	39.8p
Weighted average number of Ordinary Shares in issue (millions)	3,560	3,524	3,386		3,052	3,274	3,040	3,022
Amounts in accordance with US GAAP								
Net income	952	979	536		747	1,043	1,255	1,147
Net income per Ordinary Share	26.7p	27.8p	15.8p		24.5p	31.9p	41.3p	38.0p
Fully diluted net income per Ordinary Share	26.4p	27.5p	15.8p		24.4p	31.8p		
Balance sheet	£m	£m				£m	£m	£m
Amounts in accordance with UK GAAP								
Equity shareholders' funds	1,843	1,225				91	5,026	4,532
Current assets	4,802	4,368				4,280	4,648	4,438
Total assets	8,437	8,314				8,541	7,887	7,458
Loans due after one year	1,841	1,699				1,466	272	212
Total liabilities	6,547	7,047				8,320	2,738	2,815
Amounts in accordance with US GAAP								
Shareholders' equity	7,882	8,153				8,168	5,294	4,749
Total assets	13,840	14,623				16,360	7,907	7,479
Total liabilities	5,911	6,428				8,062	2,490	2,619

All items dealt with in arriving at trading profit relate to continuing activities.

Fully diluted earnings per Ordinary Share under UK GAAP has not been disclosed as, in all years presented, it is not materially different from earnings per Ordinary Share.

Introduction

The key features of the Group's financial performance in 1997 are summarised in the Financial summary on page 03.

A table of financial data for the last five financial periods is set out on the page opposite.

This financial review discusses:

- the results for the year to 31st December 1997 compared to the year to 31st December 1996 (pages 23 to 29)
- the financial position at 31st December 1997 (pages 29 to 32)

and in accordance with US requirements:

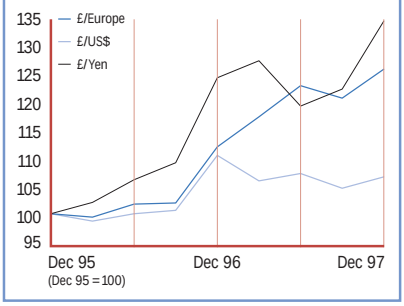
- the results for the year to 31st December 1996 compared primarily to the 12 months to 31st December 1995 (pages 33 to 36).

The results for each year are compared primarily with the results for the preceding year. References to H1 and H2 are to the first six months of the year and the second six months of the year respectively.

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

It is the Group's practice to discuss its results, primarily sales and trading profit, in terms of constant exchange rate growth (CER) in order to illustrate underlying business performance. This represents growth calculated as if the exchange rates used to translate the results and cash flows of overseas companies into sterling had remained unchanged from those used in the previous period. The discussion in this review is therefore principally in terms of CER.

Exchange rates



Sales

Year	% of total 1997	% of total 1996	£m 1997	£m 1996	% CER growth
1990s products	34	24	2,715	2,000	47
Zantac	17	23	1,375	1,931	(22)
Established products	49	53	3,890	4,410	(3)
	100	100	7,980	8,341	5

H1

	H1 97	H1 96	H1 97	H1 96	
1990s products	31	22	1,262	922	50
Zantac	20	24	807	1,009	(12)
Established products	49	54	2,040	2,258	–
	100	100	4,109	4,189	8

H2

	H2 97	H2 96	H2 97	H2 96	
1990s products	38	26	1,453	1,078	44
Zantac	15	22	568	922	(32)
Established products	47	52	1,850	2,152	(6)
	100	100	3,871	4,152	1

Year to 31st December 1997

Exchange

As indicated in the adjoining chart, on average over 1997 sterling exchange rates were significantly stronger against major currencies than in 1996. Sterling was on average 5 per cent stronger against the US dollar, approximately 18 per cent stronger against European currencies and 17 per cent stronger against the Japanese yen. This currency effect produces 1997 sterling results for sales, trading profit, earnings and earnings per share that are lower than the sterling results in 1996, understating the underlying performance of the business.

At 31st December 1997 sterling exchange rates had appreciated further against all major currencies as compared to the average rates prevailing in 1997; if maintained throughout 1998, this will have an adverse effect on the Group's 1998 sterling results as compared with 1997 of around 4 per cent.

Sales

Consolidated Group sales in 1997 were £7,980 million compared to £8,341 million in 1996. This represents an increase of 5 per cent CER, achieved in the year when *Zantac* lost patent protection in the USA and the UK. Excluding *Zantac*, Group sales growth was 13 per cent – comfortably exceeding the growth in the world pharmaceutical market of 9 per cent.

Sales of *Zantac* declined by 22 per cent comprising 20 per cent volume and 2 per cent price. As expected, the rate of decline accelerated in H2 1997 following the US patent expiry. By H2 1997 *Zantac* represented only 15 per cent of Group sales.

Sales growth in 1997 was mainly generated by the Group's newer products – those products launched in the 1990s. Sales of 1990s products increased by 47 per cent to £2,715 million. The additional sales revenue was more than twice the reduction in *Zantac* sales.

Sales of established products fell by 3 per cent CER, reflecting particularly declines in: *Zovirax*, following patent expiry in the USA in 1997; in *Ventolin*, which is already off patent; and in *Becotide* and *Beconase*, which lost sales to successor products, *Flixotide* and *Flixonase*. Excluding these products, sales of established products increased by 5 per cent CER.

The Group 5 per cent CER sales increase comprises 4 per cent volume growth and an aggregate 1 per cent increase in net selling price. Growth in H1 1997 was 8 per cent and in H2 was 1 per cent, reflecting the generic competition to *Zantac* and *Zovirax* in H2.

By H2 1997 1990s products represented 38 per cent of Group sales. This reflects the Group's progress from reliance on *Zantac*, which in 1989 had represented 50 per cent of Glaxo sales, to a broader revenue base spread over several key therapy areas, four of which each generate sales of £1 billion per annum or more. The Group is well placed to maintain this momentum, since none of the Group's 1990s products faces patent expiry in major markets until 2003.

Sales by therapeutic area

Respiratory

Sales of respiratory products were £1,828 million in 1997, compared to £1,757 million in 1996, an increase of 14 per cent CER.

Respiratory is now the Group's largest therapeutic area and sales of 1990s products – *Serevent*, *Flixotide* and *Flixonase* – represent half the Group's sales in this area.

Growth of 49 per cent in sales of *Serevent* and *Flixotide* has contributed to Glaxo Wellcome holding a 27 per cent share of the global anti-asthmatic market.

Continued growth in *Serevent* sales has established it as the Group's largest selling respiratory product. Launch of the chronic obstructive pulmonary disease (COPD) indication, which has now been approved in the USA and some European countries, is expected to add sales.

Sales of *Ventolin* declined in the face of the generic competition in North America and Europe but continued to grow in developing markets in Asia Pacific and Latin America.

Flixotide/Flovent has now been launched in all major markets except Japan. The strongest sales growth was in the USA where, since its launch in 1996, *Flovent* has grown faster than any of its competitors in the inhaled steroid market.

Becotide performed well in Japan and Latin America, but in other markets has lost sales to *Flixotide* and to generic competition.

The increase in *Flixonase* sales, which was led by the US market, helped to establish it as the leader of the nasal decongestant market with a market share of 15 per cent. *Beconase* continued to lose sales to *Flixonase* and to generic competition.

Sales of products using *Diskus*, the Group's multi-dose powder inhaler, more than doubled.

Zyban for smoking cessation was launched in the USA in June 1997 and by the end of the year had captured 85 per cent of new prescriptions in the US smoking cessation market.

Viral infections

Sales of products for viral infections were £1,422 million in 1997, compared to £1,360 million in 1996, an increase of 16 per cent CER.

The HIV market is one of the fastest growing pharmaceutical markets with growth of over 120 per cent in the year to September 1997. Glaxo Wellcome's *Epivir* and *Retrovir* hold a combined share of 45 per cent of the market.

Sales of *Epivir* more than doubled in the year driven by growth of the market and further launches in additional markets. HIV market data shows that over 60 per cent of consulting patients in the major markets of North America and Europe are being treated with regimens containing *Epivir*. *Retrovir* sales again increased, but its share of the HIV market is declining with the continuing trend towards multi-drug therapies and the launch of competitor products. *Combivir*, the first product to combine two anti-retroviral drugs into one tablet formulation, was launched in the USA in October 1997 and achieved sales of £21 million to the end of the year.

In the herpes sector, sales of *Zovirax* declined, particularly in the USA and West Europe, its patent having now expired in most major markets. *Valtrex*, an enhanced successor product, is available in the USA and in major markets in Europe. Growth was notably strong in the USA where market share grew by 185 per cent at a time when the market grew by 13 per cent. *Valtrex* received FDA approval as a once-daily therapy for the suppression of genital herpes in September 1997.

Gastro-intestinal

Sales of gastro-intestinal products were £1,380 million in 1997, compared to £1,946 million in 1996, a decrease of 22 per cent CER.

Zantac sales declined 22 per cent, the decline being 32 per cent in H2 1997. Expiry of the basic ranitidine hydrochloride patent in the USA in July 1997, and in the UK and other markets, exposed *Zantac* to additional competition from generic forms of ranitidine hydrochloride particularly from August 1997. *Zantac*'s decline in H1 1997, prior to patent expiry, was largely due to competition from alternative anti-ulcerant treatments. In some other markets, notably Japan, *Zantac* sales continued to increase.

The Group has sought to maximise the potential of *Zantac* in the over-the-counter (OTC) market through its joint venture with Warner-Lambert. Sales of *Zantac 75* by the joint venture during the year were £97 million. These sales are not included in consolidated Group sales.

Sales of *Pylorid/Tritec*, used in the eradication of Helicobacter pylori, were modest and reflected the dominance of the proton pump inhibitors in the gastro-intestinal market.

CNS disorders

Sales of products for central nervous system disorders were £949 million in 1997, compared to £724 million in 1996, an increase of 40 per cent CER.

Imigran is now the second largest product in Glaxo Wellcome's portfolio. The growth in sales in 1997 primarily came from the USA, driven by market growth and the successful launch of the nasal spray formulation. Within Europe the nasal spray and suppository formulations are being rolled out. *Imigran* currently has 58 per cent of the migraine market but is now facing competition in the USA and some European markets.

The Group's new migraine product, *Naramig/Amerge* (naratriptan) recently received FDA approval in the USA.

Wellbutrin, available in the USA, achieved strong sales growth of 98 per cent compared with 1996. *Wellbutrin SR*, the sustained release formulation, was available for the whole of 1997 having been launched in November 1996.

Lamictal is one of the fastest growing anti-epileptics and has a market share of 7 per cent.

Bacterial infections

Sales of products for bacterial infections were £862 million in 1997, compared to £939 million in 1996, an increase of 1 per cent CER.

Glaxo Wellcome's range of leading antibiotics kept it in the top five companies in the global anti-infectives market, which is mature and competitive. *Zinnat* achieved sales growth in all regions apart from Japan and Eastern Europe where competition has increased. *Fortum* sales increased marginally with static sales in Italy, the Group's largest market. Sales of *Zinacef* declined in West Europe, the USA and Japan but grew in the developing markets.

Raxar, a new generation quinolone antibiotic licensed in from Otsuka, was launched in the USA.

Oncology

Sales of oncology products were £460 million in 1997, compared to £434 million in 1996, an increase of 14 per cent CER.

Zofran continues to dominate the anti-emetic market with a share of 38 per cent and has this year achieved sales growth of 11 per cent after declining in recent years. This is primarily due to a strong US performance resulting from successful promotional effort and strong sales for the post operative nausea and vomiting indication.

Sales of *Navelbine*, which is available in North America, grew by 54 per cent due to price increases and more effective promotion.

Dermatologicals

Sales of dermatological products were £236 million in 1997, compared to £240 million in 1996, an increase of 8 per cent CER.

Dermatologicals remain a consistent sector for the Group in a stable well-penetrated market. Sales growth was achieved predominantly in the markets of Asia Pacific and Latin America.

Cardiovascular

Sales of cardiovascular products were £228 million in 1997, compared to £221 million in 1996, an increase of 13 per cent CER.

The Group's range of cardiovascular products achieved good growth in the year primarily as a result of increased *Lanoxin* sales in the USA.

Anaesthesia

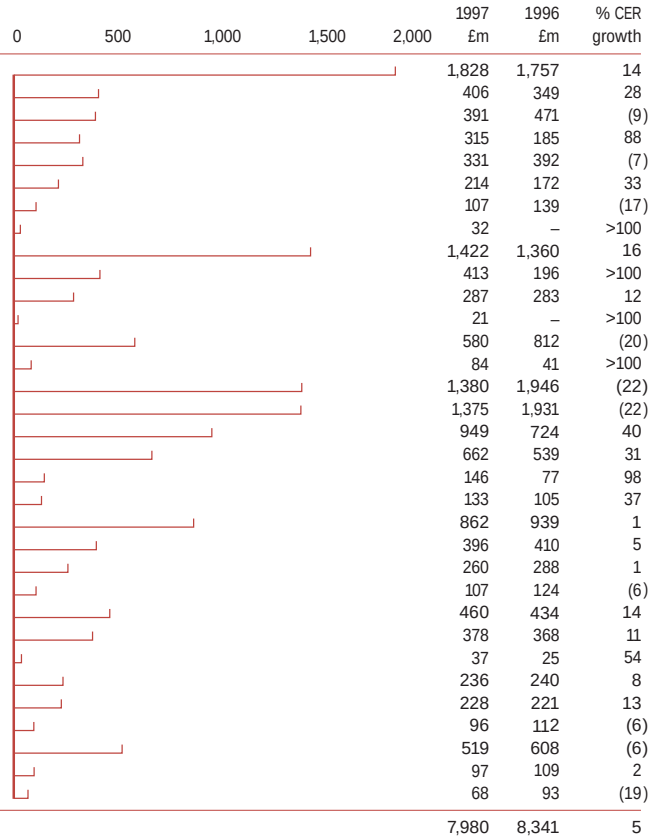
Sales of anaesthetic products were £96 million in 1997, compared to £112 million in 1996, a decrease of 6 per cent CER.

Generic competition to *Tracrium* reduced anaesthetic sales. This was partially offset by strong growth in *Nimbex*, which was launched in a number of markets during the year.

Ultiva, the Group's new opioid analgesic, launched in 1996 achieved modest sales growth.

Sales by therapeutic area

Therapeutic area/ major products	% of total	1997 £m	1996 £m	% CER growth
Respiratory	23	1,828	1,757	14
Serevent	5	406	349	28
Ventolin	5	391	471	(9)
Flixotide	4	315	185	88
Becotide	4	331	392	(7)
Flixonase	3	214	172	33
Beconase	1	107	139	(17)
Zyban	–	32	–	>100
Viral infections	18	1,422	1,360	16
Epivir	5	413	196	>100
Retrovir	4	287	283	12
Combivir	–	21	–	>100
Zovirax	7	580	812	(20)
Valtrex	1	84	41	>100
Gastro-intestinal	17	1,380	1,946	(22)
Zantac	17	1,375	1,931	(22)
CNS disorders	12	949	724	40
Imigran	8	662	539	31
Wellbutrin	2	146	77	98
Lamictal	2	133	105	37
Bacterial infections	11	862	939	1
Zinnat	5	396	410	5
Fortum	3	260	288	1
Zinacef	2	107	124	(6)
Oncology	6	460	434	14
Zofran	5	378	368	11
Navelbine	–	37	25	54
Dermatologicals	3	236	240	8
Cardiovascular	3	228	221	13
Anaesthesia	1	96	112	(6)
Others	6	519	608	(6)
Zyloric	1	97	109	2
Imuran	1	68	93	(19)
Total Sales	100	7,980	8,341	5



CER represents sales growth at constant exchange rates. Sterling growth can be calculated from the figures given above. An analysis of sales by half-year is given in the Financial record on page 85.

Other sales

Sales of products in other categories were £519 million in 1997, compared to £608 million in 1996, a decrease of 6 per cent CER.

Other sales include: *Zyloric* for gout, with almost half its sales in Japan; *Imuran*, an immunosuppressant for use in transplants; sales of products to the OTC joint ventures; and products of local opportunity in individual markets.

Also included in other sales are sales of *Romozin* (troglitazone). *Romozin* , for the treatment of type II diabetes, was launched in the UK in October 1997 but suspended in December 1997. The decision to suspend was voluntary, following receipt of an increasing number of reports of serious hepatic adverse events associated with the product in the USA and Japan, where it is marketed by Warner-Lambert Company and Sankyo Company Ltd. respectively.

Sales by geographic area

North America

Sales in North America were £3,589 million in 1997, compared to £3,683 million in 1996, an increase of 3 per cent CER.

In the USA, the Group's single largest market, sales increased by 3 per cent. This was achieved in the year in which both *Zantac* and *Zovirax* lost patent protection, driven by a 52 per cent increase in sales of 1990s products.

Sales of *Zantac* declined by 33 per cent in the USA, initially due to competition from proton pump inhibitors and then more markedly from August 1997 with the entry of generic manufacturers to the market on expiry of *Zantac's* patent protection. At the end of the year *Zantac's* share of the prescription peptic acid market had declined by 30 per cent.

Excluding *Zantac*, sales in the USA increased by 18 per cent.

Zovirax sales declined by 40 per cent in the USA due to generic competition on expiry of patent protection in April 1997.

Imitrex sales benefited from direct-to-consumer promotion and the launch of additional presentations.

Sales of *Epivir* and *Retrovir* together increased by 38 per cent due to expansion of the combined anti-retroviral market. *Combivir,* a combination of *Epivir* and *Retrovir*, was launched in October 1997.

The launch of *Wellbutrin SR* in November 1996 contributed to the rapid growth in *Wellbutrin* sales.

Respiratory sales increased, despite ongoing generic competition to *Ventolin*. *Flovent* performed particularly well and at the end of the year had increased its share of the inhaled steroids asthma market to 18.5 per cent.

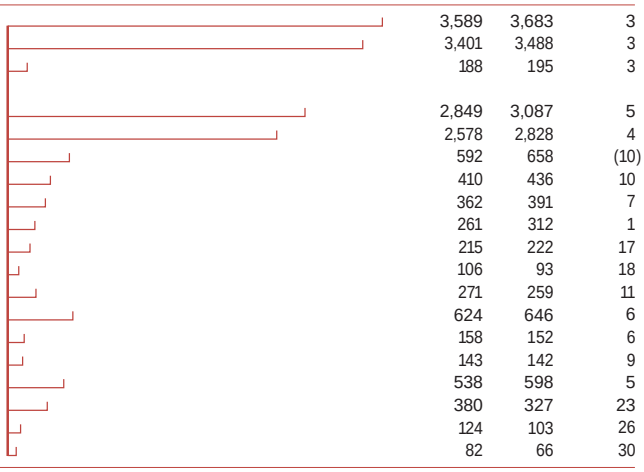
Europe, Africa, Middle East

Sales in the Europe, Africa, Middle East region were £2,849 million in 1997, compared to £3,087 million in 1996, an increase of 5 per cent CER.

Sales growth in western Europe continued to be affected by governmental pressures on healthcare expenditure. Sales in Sweden were particularly affected by new patient co-payment rules. The ongoing roll out of the Group's new products, particularly *Epivir* and *Flixotide*, helped Spain, Italy and France to achieve strong sales growth. However, in the UK, the growth in sales of new products did not offset the reduction due to the loss of patent protection on *Zantac* and *Zovirax*.

Sales by geographic area

Region/ major markets	% of total	1997 £m	1996 £m	% CER growth
North America	45	3,589	3,683	3
USA	43	3,401	3,488	3
Canada	2	188	195	3
Europe, Africa, Middle East	36	2,849	3,087	5
Europe	32	2,578	2,828	4
UK	7	592	658	(10)
France	5	410	436	10
Italy	5	362	391	7
Germany	3	261	312	1
Spain	3	215	222	17
Eastern Europe	1	106	93	18
Africa, Middle East	4	271	259	11
Asia Pacific	7	624	646	6
Australia	2	158	152	6
India	2	143	142	9
Japan	7	538	598	5
Latin America	5	380	327	23
Brazil	2	124	103	26
Mexico	1	82	66	30
	100	7,980	8,341	5



CER represents sales growth at constant exchange rates. Sterling growth can be calculated from the figures given above. An analysis of sales by half-year is given in the Financial record on page 85.

Sales in Eastern Europe markets continued to increase, with respiratory products particularly strong. Within Africa and the Middle East strong growth was again recorded by Turkey, Egypt and South Africa.

Asia Pacific

Sales in the Asia Pacific region were £624 million in 1997, compared to £646 million in 1996, an increase of 6 per cent CER.

Sales growth was achieved in most markets in the region, with Australia and India the largest markets. Sales in China were affected by price control policies imposed by the authorities. The currency crisis in the region impacted on sales in the last two months of the year, particularly in Indonesia.

Sales growth was strongest in the respiratory sector, with the continuing roll out of *Flixotide*, and in the viral infections sector, helped by *Epivir's* continued penetration of the Australian market.

Non-core products are an important revenue earner in the region, indicating the potential for products of local opportunity.

Japan

Sales in Japan were £538 million in 1997, compared to £598 million in 1996, an increase of 5 per cent CER.

The 5 per cent increase in sales in Japan was achieved despite the price cuts introduced in April 1997 which are additional to the normal biennial price cuts last imposed in 1996. Health insurance reform increasing patients' co-payment was introduced from September 1997 and affected sales in the latter part of the year.

Allergic rhinitis and influenza in the early part of the year contributed to strong sales of *Beconase* and *Flunase*. Sales of *Zantac*, which has patent protection until 2001, increased by 7 per cent.

Epivir was launched in February 1997. However, delays in product registration mean that many of the Group's 1990s products, including *Serevent*, *Flixotide*, *Valtrex* and *Imigran* were not available in Japan in 1997.

Latin America

Sales in Latin America were £380 million in 1997, compared to £327 million in 1996, an increase of 23 per cent CER.

Strong growth was achieved in all major markets in the region, notably Mexico and Brazil.

Sales growth in Brazil, the Group's largest market in the region, and other markets in the region was helped significantly by the availability of *Epivir*. Much of the sales growth in Mexico came from the established products such as *Ventolin*, *Zovirax*, antibiotics and dermatologicals, which continue to represent the core of the product portfolio in this region.

Trading profit

Trading profit in 1997 was £2,822 million, compared to £3,132 million in 1996. In CER terms, trading profit declined by 1 per cent.

The key components of trading profit are set out in the adjoining table. The trading margin has fallen from 37.5 per cent in 1996 to 35.4 per cent in 1997, which is consistent with the company's predictions.

The trading margin declined from 38.5 per cent in H1 1997 to 32 per cent in H2 1997, reflecting particularly additional investment in selling, general and administrative expenditure in H2 1997. With a revenue base now spread across a wider range of therapeutic areas, and an accelerating series of new product launches, the Group is investing in the marketing and medical resources necessary to maximise the potential of the Group's products. The trading margin is also affected by the lower sales growth in H2 1997, following the *Zantac* and *Zovirax* patent expiries in the US and the UK.

The impact of lower *Zantac* and *Zovirax* sales, and the higher cost of sales and selling expenditure seen in H2 1997, will similarly affect H1 1998, and the trading margin is expected to decline slightly from H2 1997. From H2 1998, by which time the first year impact of reduced *Zantac* and *Zovirax* sales will have largely passed, the sales growth from 1990s products is expected to continue to generate higher sales with a marked improvement in trading margin. The trading margin for the 1998 year is nonetheless expected to be lower than in 1997.

Exchange rate movements in 1998 will affect the trading margin. Further appreciation in sterling, as compared to 1997 rates, will have an adverse effect on the margin, due to the proportion of the Group's cost base incurred in the UK.

Cost of sales

Cost of sales increased to 18.5 per cent in 1997 from 17.6 per cent in 1996. This reflects the changing product mix, offset to some extent by continuing manufacturing efficiencies.

The Group's supply chain operates as a global system. There is a time lag, and frequently a currency difference, between manufacturing costs incurred and revenues earned. The cost of sales, as a percentage of sales, can therefore fluctuate between years and between half-years, due to the differing exchange effects on external sales revenue currently earned and internal manufacturing revenue previously earned. This may cause the trend in the cost of sales percentage to vary from that of other expenditure.

	H1 1997 £m	H2 1997 £m	1997 £m	1996 £m
Sales	4,109	3,871	7,980	8,341
	%	%	%	%
Cost of sales	18.1	18.9	18.5	17.6
Selling, general and administration	30.6	35.6	33.0	31.6
Research and development	13.6	15.2	14.4	13.9
Other operating income/expense	(0.8)	(1.7)	(1.2)	(0.6)
Total operating costs	£2,525m	£2,633m	£5,158m	£5,209m
Trading profit	£1,584m	£1,238m	£2,822m	£3,132m
Trading margin	38.5%	32.0%	35.4%	37.5%

Selling, general and administration

Selling, general and administration has increased to 33 per cent of sales in 1997, compared to 31.6 per cent in 1996. This reflects additional investment in sales promotion, particularly in the USA including expansion of the US sales force by more than 700 representatives and increased direct-to-consumer advertising on new products.

Research and development

Research and development expenditure was £1,148 million in 1997, which is consistent with expectations, compared with £1,161 million in 1996. The Group expects to spend approximately £1.2 billion on R&D in 1998.

Other operating income/expense

Other operating income/expense has increased to £99 million in 1997, comprising various items of income amounting to £212 million and of expense amounting to £113 million. The income includes recurring income from royalties and other rights of approximately £50 million which is expected to continue at a similar rate in 1998. Other operating income/expense was £51 million in 1996, comprising items of income amounting to £51 million and no items of expense.

Additionally a number of non-recurring items of income/expense have been recognised in 1997, principally in H2, and are described below:

- In April 1997 the Group announced an agreement granting Novopharm Inc. an exclusive licence to sell a generic form of ranitidine hydrochloride from 10th July 1997, in advance of the expiry of the Group's basic ranitidine hydrochloride patent in the USA on 25th July 1997. Legal and regulatory action in the USA prevented Novopharm from selling their generic product during this period, but the Group remained entitled to the licence fee due under this agreement, which is reflected in H2 1997.
- The benefit from the fee income is offset in part by costs incurred by the Group in 1997 in defending the Group's *Zantac* revenues up to the period of patent expiry.
- The Group disposed of its manufacturing facility at Annan in Scotland, realising a small surplus against book value.
- The Group incurred costs in connection with the withdrawal of *Romozin*, an in-licensed product for diabetes, from the European market.
- In H2 1997 the provision for integration costs, established at the time of the Wellcome acquisition, was reassessed and adjusted, as discussed on page 29. This resulted in a surplus of £68 million which has been recognised in H2 1997. The surplus is offset by reorganisation costs not included in the original integration plan, including restructuring of Group companies in Germany, India and Japan; disposal of the research facility in Geneva, Switzerland; and rationalisation of research plant in the USA. After these items, the net surplus is £37 million.

UK pensions

The UK Government announced changes to the Advance Corporation Tax (ACT) system such that UK pension schemes will no longer be able to claim repayment of the ACT tax credit on their UK equity dividend income. This will reduce the income of UK pension schemes. Company contributions to the Glaxo Wellcome UK pension plans are currently suspended until at least the next actuarial valuations in 2000 owing to surpluses in the plans and this is reflected in a nil UK pensions cost in the accounts. Actuarial advice is that the change in legislation is not expected to require an earlier resumption of contributions to the plans or a material change in the pensions cost in the accounts.

Year 2000

The company has implemented a Group-wide programme to ensure that all computer systems, and microprocessor reliant equipment, are Year 2000 compliant. This is to avoid the possibility of computers or equipment malfunctioning at the millennium change, if programmed to identify a year by two digits ("00") rather than four ("2000").

The Group programme identifies three categories of risk: computer systems supported in-house; systems and equipment not supported in-house, including equipment with embedded microprocessors used in manufacturing process control or laboratory automation; Glaxo Wellcome business partners, including the risk to Glaxo Wellcome business of problems encountered by suppliers/partners. Group companies have completed an analysis of their business processes and supporting systems to determine the scale of the Year 2000 problems and risks. They have prepared, and are implementing, plans to ensure that there is no disruption to business processes. Compliance with plans is monitored by Group Information Systems and by Group Internal Audit.

The resources required to achieve Year 2000 compliance are expected to be found from normal operating budgets, if necessary by reallocation of budgeted expenditures. Much of the required resource will come from the diversion of IS and other staff on to Year 2000 remediation, the consequence of which is deferral of work on other projects. In some cases it will involve the acceleration of planned upgrades or installation of systems.

Since Year 2000 remediation is funded from existing planned resources, the costs are not identifiable with precision. The Group estimates that it has spent approximately £10 million in the year to 31st December 1997 and will spend approximately £100 million in total over the duration of the Year 2000 project.

In accordance with Glaxo Wellcome accounting policies, all remediation and software costs are written off as incurred.

Economic and monetary union in Europe – (EMU)

The Group's European companies, including those in the UK, are preparing for the advent of a single currency within Europe in 1999. Preparations include the upgrading of information systems, where necessary, and the training of staff, to handle euro-denominated transactions, including dual currency transactions in the transition period between commencement of EMU in 1999 and the first issue of notes and coins in 2002.

The decision as to when to adopt formally the euro as a subsidiary's functional currency will be a local decision by each Glaxo Wellcome European company, having regard to the speed of transition to the euro in their local economy.

The company does not expect to report the results of the Group in euros until after the entry of the UK to EMU.

In the short-term the company does not expect the costs or benefits from the introduction of the euro to have a material effect on the Group's trading performance. In many cases upgrades to computer systems to achieve Year 2000 compliance will provide the necessary flexibility to handle euro-denominated transactions.

Associates

	1997 £m	1996 £m
OTC switch business	(4)	(11)
OTC base business	–	43
Other associates	(9)	(13)
Share of (losses)/profits of associated undertakings	(13)	19

The company's joint venture (JV) with Warner-Lambert Company for the OTC marketing of prescription medicines (the switch business) sells OTC versions of *Zantac*, *Zovirax* and *Beconase*. These sales are not included in consolidated Group sales. The JV continues to invest in the marketing of existing products and in the development of new products.

The Group's interest in its joint venture for the marketing of ex-Wellcome OTC products (the base business) was sold with effect from 30th June 1996 in respect of the USA and Europe and with effect from 31st August 1996 in respect of other markets.

The Group has interests in a number of associated companies, which seek to combine the skills of the Group with those of its partners to develop new opportunities in the healthcare market.

Interest

Net interest payable in 1997 was £123 million. This compares to a net interest cost of £187 million in 1996, and reflects progressive reduction in Group net debt.

Taxation

The taxation charge for the year was £819 million. As a percentage of profit before taxation, this represents a rate of taxation of 30.5 per cent compared with 31.5 per cent in 1996.

The Group tax rate benefits from the reduction in the UK rate of corporation tax from 33 per cent to 31 per cent, effective from 1st April 1997. There is also a net reduction in the cost of overseas taxes, reflecting tax efficiencies from the integration of the separate Glaxo and Wellcome companies into a unified business in each of the Group's principal markets.

The Group continues to benefit from lower rates of tax applicable to the Group's manufacturing operations in Singapore. This is offset by profits earned in countries with a tax rate higher than the UK.

The Group tax rate is expected to remain unchanged in 1998.

The integrated nature of the Group's world-wide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous markets, gives rise to complexity and delay in negotiations with revenue authorities of Group companies' liability to taxation. This can produce conflicting claims from revenue authorities as to the profits that fall to be taxed in individual territories. The most significant open issues relate to inter-company transfer pricing in the UK and the USA, where there is a wide variation between the claims of the revenue authorities and the Group's estimation of its taxation liabilities. Using the best local advice in each territory, the Group is seeking to manage these issues to a satisfactory conclusion and continues to believe that it has made adequate provision for all liabilities likely to arise from open taxation assessments.

The company has previously announced its intention to pay part of each dividend as a Foreign Income Dividend (FID) thereby avoiding ACT – and the possibility of double taxation – on dividends from profits earned and already taxed overseas. The UK Government has announced changes to the current system of corporation tax, including the abolition of ACT and FIDs from April 1999. In the light of the changes announced, the company currently intends that the 1997 final dividend will be paid 100 per cent as a FID.

Earnings

After taxation and minority interests, the profit attributable to shareholders is £1,850 million. This represents growth of 3 per cent CER.

Taking account of the increase in shares in issue, earnings per share is 52.0p compared to 56.7p in 1996, representing growth of 2 per cent CER.

Outlook

The results for 1997 are consistent with the Group's expectations given in the 1996 Annual Report & Accounts. These expectations excluded the impact of currency movements and assumed no change in the Group's outlook for the pharmaceutical market.

On the same assumptions the 1997 results indicate that the Group remains on track to achieve sales growth in low single digits in 1998 and double digits in 1999 and to at least maintain earnings in 1998, with significant growth in 1999.

Forward-looking statements

The company cautions that risks and uncertainties inherent in the business could cause the company's actual consolidated results to differ materially from those estimated in the forward-looking statements set out: in the outlook section above; in the Chairman's statement on page 04; in the Chief Executive's statement on page 06; in the Operating review on page 13; and in the Financial review on pages 23, 24, 28, 29, 30 and 31. Such uncertainties include pricing and product initiatives of competitors; adverse legislative and regulatory developments; the adverse outcome of material litigation; currency exchange rate fluctuation.

Dividends

The Board is recommending the payment of a final dividend of 20p per share. Together with the interim dividend of 15p per share paid on 1st October 1997 (13th October 1997 to ADR holders), this makes a total dividend of 35p for the year. Compared to the total dividend of 34p for 1996, this represents an increase of 3 per cent.

Dividend cover, being the relationship between earnings and dividends, is 1.5 for the year.

The final dividend will be paid on 21st May 1998 (1st June 1998 to ADR holders) to shareholders on the register on 6th March 1998.

Due to the change of year-end in 1995, the balance between the interim and final dividends in 1997 varies, and will continue to do so for several years to come, from the company's pre-1995 practice of approximately 1/3 at the interim and 2/3 at the final. Taking the interim and final dividends together, it continues to be the Board's intention that the aggregate dividend for the year will increase broadly in line with earnings growth, having regard to current liquidity and future trading prospects. Over time, by maintaining the interim dividend at around 15p, the Board expects to revert to the previous pattern of dividends.

As discussed under Taxation, the company has previously announced its intention to pay all or part of its dividends as FIDs. The interim dividend paid on 1st October 1997, although intended to be paid as a FID, was in fact paid as a normal dividend with an attaching ACT credit. It is intended that the final dividend will be paid 100 per cent as a FID.

Balance sheet

Net assets

Group net assets have increased from £1,267 million at 31st December 1996 to £1,890 million at 31st December 1997. This principally reflects the reduction in net debt of £584 million and the reduction in the provision for integration costs.

Capital expenditure during the period (on an accounting basis) amounted to £423 million. Disposals of fixed assets, including the manufacturing facilities at Greenville in the USA (in accordance with the integration plan) and Annan in Scotland, realised £222 million.

Capital expenditure in 1998 is expected to be consistent with 1997.

During the year costs of £279 million were incurred in integrating the former separate businesses of Glaxo and Wellcome, and were charged against the integration provision established in 1995. The balance of provision in respect of integration activities remaining to be completed has been re-assessed in 1997, and a surplus of £68 million has been released back to the profit and loss account. This leaves a residual of provision at 31st December 1997 of £177 million. This relates mainly to outstanding rationalisation of research and development and manufacturing activities, and consequent site disposals, where in accordance with the agreed plan, a phased transfer of existing operations is required.

Shareholders' funds

Shareholders' funds have increased to £1,843 million at 31st December 1997 from £1,225 million at 31st December 1996 and £91 million at 31st December 1995, following the Wellcome acquisition. This reflects retained profits, offset in both 1997 and 1996 by adverse exchange differences arising on translation of overseas net assets.

Acquisitions

In June 1997 the Group acquired Spectra Biomedical Inc, a company in California, USA specialising in association genetics. The purchase consideration was US$9 million (£6 million), and goodwill of £5 million has been taken to reserves.

Since 31st December 1997 the Group has completed acquisitions in India and in Poland, which will be consolidated in 1998.

Cash flow and funding

As indicated by the consolidated cash flow statement on page 44, during the year the Group generated net cash from operating activities before integration of £2,984 million, which was sufficient to meet all the Group's cash requirements.

After payments to tax authorities of £818 million, the free cash flow amounted to £1,977 million. This produced net cash generation as analysed below:

	£m
Free cash flow	1,977
Capital expenditure	(415)
Net cash from operations	1,562
Dividends	(1,207)
Asset disposals including integration	222
Integration costs paid	(155)
Business acquisitions	(6)
Issue of share capital	184
Other movements	(16)
Net cash generation	584

The net cash generation permitted repayments of commercial paper, and the Group's net debt reduced to £1,399 million at 31st December 1997.

Group net debt is analysed in Note 18 on the Accounts on pages 56 to 57.

In May 1997 the Group raised US$350 million in the London Eurobond market by way of a 7 per cent Euro Note repayable in 2002. The proceeds were swapped into floating rate Japanese yen, currently at a rate of 0.36 per cent, and were used to repay the short-term bank borrowings which had been taken out to finance the redemption of the remaining 50 per cent of Nippon Glaxo Limited in December 1996.

During the year the Group adopted leasing as a cost-effective method of financing the acquisition of vehicles in the UK. The leases are being accounted for as finance leases.

The Group expects that future operating cash flow will be sufficient to fund its operating and debt service costs, to satisfy future capital expenditure and other commitments and to permit further repayment of short-term debt.

Going concern basis

After making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Payment policies

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

In the UK, the company and each of its UK subsidiaries operate procedures to ensure that suppliers are paid on time. In particular, the UK companies seek:

- to settle terms of payment with suppliers when agreeing the terms of the transaction
- to ensure that suppliers are made aware of the agreed terms of payment
- to abide by the terms of payment.

The procedures include arrangements for accelerated payment of small suppliers.

The company, on behalf of itself and its UK subsidiaries, is a signatory to the Prompt Payment Code of the Confederation of British Industry (CBI). It continues to be the company's policy to follow the Code in respect of all suppliers. Copies of the Code may be obtained from the CBI.

Payment performance

At 31st December 1997, the average number of days' purchases represented by trade and fixed asset creditors of the company was 34 and in respect of the company and its UK subsidiaries in aggregate was 29.

Treasury policies

The company seeks to manage and monitor the Group's external and internal funding requirements and treasury risks in support of Group corporate objectives. Treasury activities are governed by policies and procedures approved and monitored by the Board.

The company manages Group liquidity by balancing the use of borrowings and liquid assets having regard to: the cash flow from operating activities and the currencies in which it is earned; the currencies in which business assets are denominated; and the post-tax cost of borrowings compared to the post-tax return on liquid assets.

Since 1995, when the company borrowed to finance the acquisition of Wellcome plc, the Group has had net borrowings. The Group's strong cash generation has progressively reduced net debt over that time and, subject to any specific requirement for additional external finance, the company expects that continued cash generation will restore the Group to a net funds position.

Liquid assets surplus to the immediate operating requirements of Group companies are managed centrally by Group Treasury. The majority of borrowing requirements in Group operating companies are financed from central resources. A limited number of derivative financial instruments are used by Group Treasury to swap liquid assets or borrowings into the currencies required for Group purposes. The accounting treatment of these instruments matches the treatment of the linked assets or liabilities.

The Group does not hold or issue derivative financial instruments for trading purposes and the Group Treasury policies specifically prohibit such activity.

Equity investments

Equity investments classified as fixed assets are held for the long-term and the Group is not exposed to the effect of market variations. Equity investments classified as current assets are available for sale and are managed to optimise market price on realisation.

Liquid assets

The Group's centrally managed liquid assets are invested primarily in Government bonds and short-term debt instruments with a minimum AA rating. During 1997 the average rate of interest earned on these assets was 6.8 per cent.

Borrowings

The Group's centrally managed borrowings comprise a portfolio of medium-term borrowings, including four Eurobond instruments issued on the London Stock Exchange, supplemented by short-term finance under a US$ commercial paper programme.

The Group's long-term debt rating was upgraded by Moody's during the year from A1 to Aa3. The rating from Standard and Poor's remained at AA throughout the year. The agencies' short-term ratings for paper issued under the Group's commercial paper programme remained at P1 and A1+ respectively.

Fixed interest rate borrowings of £1,577 million include three Eurobonds totalling £1,100 million and a Yen 64.1 billion loan swapped into £400 million sterling. Floating rate borrowings of £1,445 million include commercial paper of £513 million and one Eurobond of US$350 million swapped into Yen 44.2 billion. The balance represents borrowings managed locally by Group companies for working capital purposes.

An analysis of the Group's net debt at carrying value and fair value, and a discussion of its derivative financial instruments, are given in Note 26 on the Accounts on pages 64 and 65.

Borrowings profile

	Assets £m	Borrowings £m	Average interest rate %	Borrowings Floating £m	Fixed rate borrowings Fixed £m	Average interest rate %	Average years to maturity
US dollars	1,651	1,326	6.2	722	604	6.4	5.2
Japanese yen	582	464	1.5	387	77	4.3	0.7
French franc	215	112	3.4	112	–	–	–
Italian lire	292	58	6.5	58	–	–	–
Other foreign currency	1,165	150	10.3	150	–	–	–
Total foreign currency	3,905	2,110	5.3	1,429	681	6.2	4.7
Sterling	1,229	912	8.7	16	896	8.7	5.7
Total Group	5,134	3,022	6.3	1,445	1,577	7.6	5.3

Foreign exchange risk management

A high proportion of Group borrowings, including the commercial paper programme, are in US dollars. Certain of these and other borrowings are swapped into other currencies to match Group overseas assets.

The currency profiles at 31st December 1997 of the Group's net assets (excluding borrowings and including currency goodwill) and borrowings (after taking account of currency swaps) are set out in the table above.

Borrowings denominated in, or swapped into, foreign currencies which match investments in overseas Group companies are treated as a hedge against the relevant net assets.

Otherwise investments in overseas companies are financed by share capital and retained profits. It is not Group policy to hedge against the impact of foreign currency translation exposure on such assets.

Foreign currency transaction exposure is not normally hedged. The company manages centrally foreign exchange exposures on intra-Group transactions by determining invoicing currencies and harmonising payment terms. Exceptional planned UK foreign currency cash flows, such as intra-Group dividends, are hedged selectively by Group Treasury to prevent fluctuation in the anticipated sterling value.

Interest rate risk management

The Group's net cash generation is used to reduce short-term debt. Arising from arrangements entered into to manage the fixed : floating interest rate profile of debt established in 1995 to finance the acquisition of Wellcome plc, the Group had at 31st December 1997 one interest rate swap and two caps.

The fixed : floating and interest rate profiles of the Group's borrowings at 31st December 1997 (after taking account of interest rate instruments) are set out in the table adjacent.

Market risk

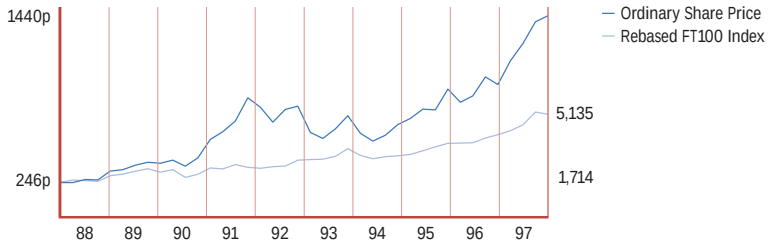
The table below summarises the financial instruments and derivative instruments held by the Group at 31st December 1997 which are sensitive to changes in interest rates or foreign exchange rates. The table presents: principal cash flows of borrowings by maturity date; notional amounts for derivative instruments until expiry date; and average net interest rates. Floating interest rates have been estimated on the basis of the one year forward rate.

Other borrowings, comprising £1,104 million short-term borrowings, and £135 million long-term borrowings are excluded from the table below as fair value approximates to carrying value.

Principal notional amounts by expected maturity	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m	Thereafter £m	Total £m	Fair value £m
Short-term liabilities:								
Fixed rate Japanese yen	77	–	–	–	–	–	77	154
average interest rate (%)	4.3						4.3	
Long-term liabilities:								
Fixed rate sterling	–	–	–	–	–	496	496	551
average interest rate (%)	8.8	8.8	8.8	8.8	8.8	8.8	8.8	
Fixed rate US dollar	–	–	303	–	206	301	810	818
average interest rate (%)	6.6	6.6	6.6	6.5	6.5	6.1	6.6	
Fixed rate Japanese yen	–	–	400	–	–	–	400	400
average interest rate (%)	1.6	1.6	1.6				1.6	
Interest rate instruments:								
Interest rate swap – notional principal	500	500	500	–	–	–	500	(16)
average pay rate (%)	8.6	8.6	8.6				8.6	
average receive rate (%)	7.4	7.4	7.4				7.4	
Currency swap – notional principal (yen/sterling)	400	400	400	–	–	–	400	–
average pay rate (%)	7.4	7.4	7.4				7.4	
average receive rate (%)	1.6	1.6	1.6				1.6	
Currency swap – notional principal (US dollar/yen)	206	206	206	206	206	–	206	–
average pay rate (%)	0.5	0.5	0.5	0.5	0.5		0.5	
average receive rate (%)	7.0	7.0	7.0	7.0	7.0		7.0	
Foreign exchange instruments:								
Currency swap (yen/sterling)	–	–	400	–	–	–	400	(97)
Currency swap (US dollar/yen)	–	–	–	–	206	–	206	23
Forward contracts to purchase	401	–	–	–	–	–	401	(2)
Forward contracts to sell	289	–	–	–	–	–	289	6

Share price and market capitalisation

Glaxo Wellcome plc 10-year share price performance



As indicated in the table above the company's share price on the London Stock Exchange stood at £14.40 on 31st December 1997. This compares to a price of £9.48 at 31st December 1996, representing an increase of 52 per cent. During the year the price ranged from a high of £14.57 to a low of £8.94.

Over the same period the FTSE 100 index increased from 4119 to 5135, an increase of 25 per cent.

Based on the share price at 31st December 1997, the market capitalisation of the company was £51 billion, compared to £34 billion at 31st December 1996. Glaxo Wellcome plc was the largest company by market capitalisation on the FTSE100 Index on the London Stock Exchange at 31st December 1997.

Over the 10 years from 31st December 1987 to 31st December 1997 the company's share price has increased from £2.46 to £14.40, an increase of 485 per cent. Over the same period the FTSE 100 index has increased from 1714 to 5135 an increase of 200 per cent.

The overall value of the business as indicated by its stock market capitalisation of £51 billion at 31st December 1997 is considerably higher than the net asset value of £1.9 billion shown on the balance sheet at the same date.

The difference arises because the Group has significant intangible assets which, under current accounting conventions and in accordance with Group accounting policies, are not included on the consolidated balance sheet. Research and development expenditure is written off as it is incurred and is not capitalised, and the internally developed intellectual property, comprising trade marks and patents, created by the research and development process is not carried on the balance sheet.

Similarly the value to the Group of the knowledge and know-how of its employees is not recognised in the balance sheet.

Share purchases

The company currently has shareholder approval to purchase shares provided such purchase enhances earnings. If the earnings condition can be met, the company expects to buy back shares equivalent to the number of future issues under share option schemes. A renewal of the shareholder authority is being sought at the forthcoming Annual General Meeting.

Post balance sheet event

On 30th January 1998 the company announced that it was in discussions with SmithKline Beecham plc with a view to merging the two companies. On 23rd February 1998 the company announced that discussions had been terminated.

Costs incurred in connection with the proposed merger are not expected to be material and will be recognised in 1998.

Year to 31st December 1996

Comparison of the financial year 1996 against prior periods is affected by significant events of 1995: the company acquired Wellcome plc on 16th March and consolidated its results from that date; costs of integrating the businesses of Glaxo and Wellcome amounting to £1,215 million were charged in the accounts in 1995; and the company changed its year-end from June to December creating a financial period of 18 months from July 1994 to December 1995.

In this review, the results for 1996 are compared primarily with the results for the 12 months to 31st December 1995 ("1995").

Sales

Consolidated Group sales in 1996 were £8,341 million.

Compared to sales of £7,638 million on a statutory basis in 1995, this represented an increase of 9 per cent.

Compared to sales of £7,973 million on a pro forma basis in 1995, the sales increase was 5 per cent sterling and 6 per cent CER. Although sterling strengthened against a number of currencies in 1996, the effect of average exchange rates used throughout the year meant that in aggregate across the Group exchange rate movements did not have a significant effect on the Group's sales.

The 6 per cent CER increase comprised 7 per cent volume growth, with an aggregate 1 per cent reduction in net selling price. Growth in H1 1996 was 5 per cent CER and in H2 1996 was 8 per cent CER.

The sales growth came primarily from the Group's new generation products – the products launched in the 1990s. Sales of 1990s products increased by 50 per cent to £2 billion while sales of *Zantac* declined by 14 per cent. The additional sales revenue from 1990s products was twice the reduction in *Zantac* sales. Excluding *Zantac*, sales growth was 14 per cent.

1996 therefore represented a significant milestone in the history of the Group. 1990s products represented 24 per cent of the Group's sales and exceeded the sales of *Zantac* for the first time.

Sales of £6.4 billion excluding *Zantac* represented confirmation that the Group had met the challenge of creating a new revenue base to succeed the *Zantac* revenue base.

Zantac sales declined in the face of intensive competition in a mature and well-penetrated sector of the pharmaceutical market.

The Group nonetheless seeks to maximise the life-cycle revenues of its products. *Zantac 75*, a lower dose form of *Zantac* for the treatment of heartburn, which is marketed by the Group's OTC joint venture with Warner-Lambert Company was launched during 1996 in the USA and was also available in the UK. Sales of *Zantac 75* by the joint venture during the year were £98 million. These sales were not included in consolidated Group sales.

Sales by therapeutic area

Gastro-intestinal

Sales of gastro-intestinal products were £1,946 million, compared to £2,255 million in 1995, a decrease of 13 per cent CER.

Total Group sales of *Zantac* declined in 1996 in the face of competition from alternative anti-ulcerant mechanisms, such as proton pump inhibitors, and from other H_2 antagonists available in OTC form. The sales decline was principally in the USA and in a number of markets in Europe, notably Germany where *Zantac* is now off patent.

In other European markets, including the UK, Spain and Sweden, *Zantac* sales increased; and in the Netherlands government imposed price reductions were more than compensated for by volume growth. *Zantac* also grew in Japan and in the Asia Pacific region, with volume growth of 7 per cent and 8 per cent respectively.

Pylorid/Tritec, for use in combination with antibiotics in the Helicobacter pylori section of the anti-ulcerant market, was available in 13 markets in 1996. It achieved sales of £15 million, principally in the USA and Italy.

Respiratory

Sales of respiratory products were £1,757 million, compared to £1,603 million in 1995, an increase of 11 per cent CER.

Sales growth in the respiratory area was generated by the Group's 1990s products, *Serevent*, *Flixotide* and *Flixonase*, which together grew by 49 per cent.

Glaxo Wellcome, with its range of complementary products and alternative delivery systems, had a 25 per cent share of the global bronchodilator anti-asthmatic market, more than twice that of its nearest competitor.

Ventolin, although now off patent in all markets, remained the Group's largest selling respiratory product, but total Group sales declined largely due to competition from generic forms of the product in the USA. The manufacturing technology required for inhaled respiratory products such as *Ventolin* limits entrants to the market, and outside the developed markets of the USA and Europe *Ventolin* sales increased. Sales of *Serevent* demonstrated continuing recognition of its long-acting properties.

Sales of *Becotide* and the newer *Flixotide* reflected increased medical acceptance of the role of inhaled steroids in the treatment of inflammation associated with respiratory disease. *Flixotide* was launched during the year in the USA and was available in some 50 markets.

Glaxo Wellcome, with *Flixonase* and *Beconase*, had more than 25 per cent of the nasal decongestant market. *Beconase*, off patent in some markets, lost some sales to generic brands and also to *Flixonase*.

Viral infections

Sales of products for viral infections were £1,360 million, compared to £1,099 million in 1995, an increase of 28 per cent CER.

With its range of products in the herpes and HIV market, Glaxo Wellcome is the world leader in the treatment of viral infections.

Zovirax retained its leading position for the treatment of all forms of herpes, with some 65 per cent of the global market. Off patent in most markets, *Zovirax* faced competition from generic forms of the product.

Valtrex, first launched in 1995, and available in some 40 markets in 1996, including the USA, the UK, France and Germany continued to maintain Glaxo Wellcome's franchise in the herpes sector.

In the HIV sector, the use of products in combination is now seen as offering the greatest potential for successful treatment. With *Retrovir* and *Epivir* Glaxo Wellcome has two of the products most effective in triple therapy. The CAESAR study demonstrated that combination therapy with *Retrovir* and *Epivir* reduced the progression of HIV to AIDS or death. Together these products contributed sales of nearly £1/2 billion in 1996. *Epivir*, first available in the USA towards the end of 1995, was launched in a further 40 markets in 1996.

Bacterial infections

Sales of products for bacterial infections were £939 million, compared to £963 million in 1995, an increase of 2 per cent CER.

Glaxo Wellcome had a 5.4 per cent share of the global anti-infectives market, with a range of products for common to life-threatening infections.

Zinnat achieved sales growth in all regions, apart from Japan, with significant growth in the developing markets of Africa and the Middle East, Asia Pacific and also eastern Europe.

Zinacef, off patent, achieved overall volume growth of 8 per cent, offset almost entirely by net price reductions largely in the developed regions of North America and Europe.
Sales of *Fortum* declined, largely due to a 7 per cent sales volume reduction in Italy, its largest market.

CNS disorders
Sales of products for central nervous system disorders were £724 million, compared to £501 million in 1995, an increase of 47 per cent CER.

At its launch in 1990 *Imigran* represented a breakthrough in the treatment of migraine and in 1996 it had a 60 per cent share of the growing global market for migraine. Sales growth in 1996 reflected a full year's sales of the tablet formulation in the USA, and nasal spray and suppository formulations were available in a number of markets. In certain markets, such as the USA, the UK, Spain and Sweden, lower dose versions extended the availability of *Imigran* to patients with less severe migraine.

Lamictal achieved strong growth in all regions and had a 6 per cent share of the global anti-epileptic market.

Oncology
Sales of oncology products were £434 million, compared to £451 million in 1995, a decrease of 3 per cent CER.

Zofran, launched in 1990, created the market for the treatment and prevention of emesis from cancer therapy and remained the market leader. New products entering the market created competitive market conditions: the need for price discounting in certain markets, and lower dose prescribing, eroded Group sales.

Two cancer treatments, *Navelbine* and *Panorex*, were available respectively in the USA and Germany in 1996.

Dermatologicals
Sales of dermatological products were £240 million, compared to £205 million in 1995, an increase of 7 per cent CER.

Dermatologicals remained a consistent sector for the Group, in a market which is stable and well penetrated. Sales growth was achieved predominantly in the markets of Asia Pacific and Africa and the Middle East, with volume growth of 65 per cent in the substantial Indian market.

Cardiovascular
Sales of cardiovascular products were £221 million, compared to £187 million in 1995, an increase of 16 per cent CER.

The Group's range of cardiovascular products maintained steady growth, with the launch of *Flolan* in the USA contributing to the increased sales.

Anaesthesia
Sales of anaesthetic products were £112 million, compared to £117 million in 1995, a decrease of 4 per cent CER.

Sales

Product group

	% of total	1996 £m	1995 £m	% CER growth
1990s products	24	2,000	1,343	50
Zantac	23	1,931	2,255	(14)
Established products	53	4,410	4,375	4
	100	8,341	7,973	6

Therapeutic area/major products

	% of total	1996 £m	1995 £m	% CER growth
Gastro-intestinal	23	1,946	2,255	(13)
Zantac	23	1,931	2,255	(14)
Respiratory	21	1,757	1,603	11
Ventolin	6	471	526	(10)
Serevent	4	349	271	29
Becotide	5	392	397	–
Flixotide	2	185	88	>100
Beconase	2	139	156	(11)
Flixonase	2	172	119	46
Viral infections	16	1,360	1,099	28
Zovirax	10	812	856	–
Valtrex	1	41	9	>100
Retrovir	3	283	201	40
Epivir	2	196	12	>100
Bacterial infections	12	939	963	2
Zinnat	5	410	393	6
Fortum	4	288	306	(4)
Zinacef	2	124	125	1
CNS disorders	9	724	501	47
Imigran	7	539	366	46
Lamictal	1	105	65	64
Oncology	5	434	451	(3)
Zofran	5	368	386	(4)
Dermatologicals	3	240	205	7
Cardiovascular	3	221	187	16
Anaesthesia	1	112	117	(4)
Others	7	608	592	8
Zyloric	1	109	115	8
Imuran	1	93	105	(11)
	100	8,341	7,973	6

Region/major markets

	% of total	1996 £m	1995 £m	% CER growth
North America	44	3,683	3,495	4
USA	42	3,488	3,309	4
Canada	2	195	186	3
Europe, Africa, Middle East	37	3,087	2,936	6
Europe	34	2,828	2,703	5
UK	8	658	628	5
France	5	436	450	(1)
Italy	5	391	333	11
Germany	4	312	346	(6)
Spain	3	222	204	9
Eastern Europe	1	93	79	25
Africa, Middle East	3	259	233	20
Asia Pacific	8	646	575	18
Australia	2	152	127	11
India	2	142	97	58
Japan	7	598	701	2
Latin America	4	327	266	22
Brazil	1	103	72	41
Mexico	1	66	55	19
	100	8,341	7,973	6

Sales in 1996 are compared to the 'pro forma' sales of Glaxo and Wellcome combined in 1995 (as if Glaxo Wellcome had existed as a combined entity from 1st January 1995).
CER growth represents sales growth at constant exchange rates. Sterling growth can be calculated from the figures above.
An analysis of sales by half-year is given in the Financial record on page 85.

Sales in this sector were affected by generic competition to *Tracrium* in the USA.

Ultiva, the Group's new opioid analgesic, was launched at the end of 1996 in the USA and Germany.

Other sales
Sales of products in other categories were £608 million, compared to £592 million in 1995, an increase of 8 per cent CER.

Other sales included: *Zyloric* for gout, with half its sales in Japan; *Imuran*, an immuno-suppressant for use in transplants, with half its sales in the USA; sales of products to the OTC joint ventures; and sales of products of local opportunity in individual markets.

Sales by geographic area

North America
Sales in North America were £3,683 million, compared to £3,495 million in 1995, an increase of 4 per cent CER.

In the USA, the Group's single largest market, sales increased by 4 per cent, with all the growth from increased sales volume and no net contribution from changes in selling price.

Sales of *Zantac* declined by 21 per cent, reflecting increased competition. New forms of *Zantac*, such as Geldose capsules, supported by effective pricing strategies, generated additional sales.

Excluding *Zantac*, sales in the USA increased by 20 per cent. Six new products were launched during the year: *Nimbex*, in anaesthesia, and *Flolan*, in cardiovascular, in the first half of the year; and in the second half of the year *Tritec/Pylorid*, in the gastro-intestinal sector, *Flovent/Flixotide*, in respiratory, *Wellbutrin SR* in sustained release form for depression, in CNS, and *Ultiva* in anaesthesia.

Respiratory sales increased, despite the impact of generic competition on *Ventolin*. *Flovent* quickly established a 7 per cent share of the inhaled steroids market. *Serevent* continued to establish itself in the Beta$_2$ aerosol market and *Flonase/Flixonase* increased its market share with increasing acceptance of nasal steroids as a treatment.

In viral infections sales increased by nearly 50 per cent, reflecting strong sales of *Epivir*, launched in November 1995, and *Retrovir*.

In the CNS sector sales of *Imitrex* grew strongly following the launch of the tablet form in September 1995 and an effective direct-to-consumer promotional campaign.

Europe, Africa, Middle East
Sales in the Europe, Africa, Middle East region were £3,087 million, compared to £2,936 million in 1995, an increase of 6 per cent CER. Sales growth in West Europe was affected by expenditure constraints experienced by healthcare purchasers. With a number of expenditure constraints experienced by governments seeking to reduce budgetary deficits in preparation for the proposed European Monetary Union, there was direct and indirect pressure on the budgets of national healthcare systems.

The Group's 1990s products nonetheless generated growth in most West Europe markets, with respiratory products particularly strong, and *Epivir* launched in most markets. Italy returned to sales growth after several years of falling sales. Sales in Germany suffered from generic competition to *Zantac* and *Zovirax*.

Sales in East Europe markets continued to increase. There was strong growth in most markets in Africa and the Middle East, with Turkey, Egypt and South Africa the most significant markets.

Asia Pacific
Sales in the Asia Pacific region were £646 million, compared to £575 million in 1995, an increase of 18 per cent CER.

Sales growth was strongest in the respiratory, bacterial infections and dermatologicals sectors. *Epivir* was launched in Australia.

Australia and India are the largest Group markets in the region. The acquisition of majority ownership of Burroughs Wellcome (India) Limited from February 1996 added £33 million to sales in the year.

Sales growth was achieved in most markets in the region, with notable growth in China, Korea and Singapore. Antibiotic products contributed the majority of the Group's sales in China, with respiratory products manufactured for the Chinese market at the Group's production facility in Chongqing.

Japan
Sales in Japan were £598 million, compared to £701 million in 1995, an increase of 2 per cent CER. The sterling decrease of 15 per cent was due to the strengthening of sterling against the yen.

Japan remained a difficult market for the Group. Sales growth was moderate in 1996, affected by the biennial price reductions imposed from 1st April 1996.

Latin America
Sales in Latin America were £327 million, compared to £266 million in 1995, an increase of 22 per cent CER.

Respiratory products and antibiotics dominate the Group's business in Latin America, but growth in 1996 was strongest in the anti-virals sector. *Epivir* was launched in most markets in Latin America, and *Retrovir* sales benefited. All markets apart from Venezuela recorded growth, benefiting from the more stable economic condition of recent years.

Trading profit

Trading profit in 1996 was £3,132 million. Compared to trading profit of £2,581 million on a statutory basis in 1995, this represented an increase of 21 per cent.

Compared to trading profit of £2,641 million on a pro forma basis in 1995, the increase was 19 per cent sterling and 18 per cent CER. In aggregate across the Group exchange rate movements did not have a significant effect on the Group trading profit. The sterling increase in trading profit was higher than the CER increase, whereas the sterling increase in sales was lower than the CER increase due to the differing currency profiles of Group revenues and Group costs.

The trading margin was 37.5 per cent in 1996 compared to a trading margin of 33.1 per cent in 1995. Year on year, sales increased by 6 per cent CER whereas expenses reduced by 4 per cent CER. This produced the increase in trading profit of 18 per cent CER.

Trading profit in 1996 benefited significantly from the cost savings from integrating the separate businesses of Glaxo and Wellcome, a process that commenced in H2 1995.

Integration represented a phase of restructuring and containment, a process of rationalising the separate businesses of Glaxo and Wellcome to a unified core cost base. By H2 1996 the unified Group had moved to a new cycle of investment for the future, with an emphasis on re-skilling and on the marketing support for new product launches. This was reflected in a lower trading margin in H2 1996 than in H1 1996.

Cost of sales at 17.6 per cent of sales revenues in 1996 was broadly consistent with 1995. The exact percentage can fluctuate between years and between half-years. This results from the global spread of the Group's supply chain and the relative effect of exchange rate movements on the time lag between manufacturing costs incurred in one currency and revenues earned in another.

Selling, general and administration represented 31.6 per cent of sales in 1996 compared to 34.9 per cent in 1995, reflecting integration savings.

R&D represented 13.9 per cent of sales revenues in 1996 compared to 15.1 per cent in 1995. This reflected the rationalisation of R&D activities during integration.

Associates

The share of profits from the OTC base business declined to £43 million in 1996, from £74 million in 1995 as a result of the sale of this business: with effect from 30th June 1996 in the USA and Europe and from 31st August 1996 in other markets.

The switch business JV continued to market OTC *Zantac* in the UK and in the USA, *Zovirax* in Europe and *Beconase* in the UK. These sales are not included in the Group's total sales figure. The Group's share of losses of the JV of £11 million reflected the expenditure being incurred by the JV in developing and promoting OTC products.

Several Group companies established joint ventures with computer software companies to provide healthcare data to doctors and other healthcare providers and suppliers. In the USA Glaxo Wellcome Inc. is a partner in Healthpoint. The Group's share of the losses of these ventures, reflecting the costs of setting up and operating these activities, was included in the associates line.

Interest

Net interest payable in 1996 was £187 million. This compared to a net interest cost of £136 million in 1995, when the borrowings to finance the Wellcome acquisition were taken out in March 1995.

Taxation

The taxation charge for the year was £933 million. As a percentage of profit before taxation, this represented a rate of taxation of 31.5 per cent compared with 30.7 per cent in 1995.

The rate was consistent with the rising trend in tax rate (before integration) that the Group had been experiencing in recent years. This reflected two principal factors. Firstly, a reduction in the benefit from tax allowances for capital expenditure: following some years of significant investment in research and manufacturing facilities, actual and planned capital expenditure will continue at lower levels. Secondly, the proportion of Group profits earned in countries with a tax rate higher than the UK continued to increase; in the USA, for example, the effective rate of tax was 40 per cent. This is partially offset by the benefit of lower rates of tax applicable to the Group's manufacturing operations in Singapore.

Earnings

After taxation and minority interests, the profit attributable to shareholders was £1,997 million in 1996. This produced earnings per share of 56.7p. Compared to earnings per share of 50.3p in 1995, this represented an increase of 13 per cent.

Dividends

The final dividend of 19p per share paid on 20th May 1997 (30th May 1997 to ADR holders), together with the interim dividend of 15p per share paid on 1st October 1996 (11th October 1996 to ADR holders), made a total dividend of 34p for the year. Compared to the annualised dividend of 30p for 1995, this represented an increase of 13 per cent. Dividend cover was 1.7 for the year.

Acquisitions and disposals

Acquisitions:	
Nippon Glaxo Ltd (50%)	£343m
Burroughs Wellcome (India) Ltd (19%)	£15m
Disposals:	
OTC base business	US$1,050m
311C	£150m

During 1996 the company made a number of acquisitions and disposals, further shaping the Group to meet its business objectives.

The company moved to strengthen its position in Japan, the world's second largest pharmaceutical market. In December 1996 the Group redeemed the 50 per cent interest in Nippon Glaxo Limited previously held by its joint venture partner, thereby increasing the Group interest to 100 per cent and fulfilling Glaxo Wellcome's objective of gaining full management control. This enabled the company to announce new management of Nippon Glaxo and Nippon Wellcome.

The redemption was completed on 25th December 1996 for a consideration, including expenses, of yen 68 billion (£343 million). Nippon Glaxo was already consolidated in the Group accounts as a subsidiary, so the effect of the redemption was to eliminate the previous minority interest. The fair value of the minority interest was yen 21 billion (£105 million), giving rise to goodwill of yen 47 billion (£238 million).

In February 1996 the Group increased its holding in Burroughs Wellcome (India) Limited from 32 per cent to 51 per cent for a consideration of £15 million resulting in goodwill on consolidation of £8 million. From February 1996 BWI has been consolidated as a subsidiary and managed on a unified basis with Glaxo India Limited.

During 1996 the Group restructured its interests in the previously separate Glaxo and Wellcome OTC joint ventures with Warner-Lambert Company, to re-align Glaxo Wellcome's OTC business with its core product range. The Warner-Wellcome JV for the marketing of Wellcome's existing OTC business was sold for a cash consideration of US$1,050 million.

After costs of disposal, and after making provision for warranties under the agreements, the sale of the base business produced a surplus on disposal of £578 million. In accordance with accounting standards, the goodwill attributable to the business, which arose on the acquisition of Wellcome plc, was charged to the profit and loss account. The attributable goodwill was equal to the disposal surplus of £578 million and was transferred from goodwill reserve, offsetting the surplus on disposal producing a neutral result in the profit and loss account. Effectively this recognised that the value in the base business existed at the time of the acquisition of Wellcome plc and was therefore pre-acquisition to the Group.

There was no tax effect in the profit and loss account from the disposal. A provision for taxation was established on the acquisition of Wellcome plc and was transferred in the balance sheet from deferred taxation to current taxation.

The Group disposed of 311C, a compound in development by the Wellcome Group for the treatment of migraine. This completed an undertaking given to competition authorities in the USA and the European Union at the time of the bid for Wellcome plc. The consideration for the disposal was based on a series of stage payments which are dependent on satisfactory progress of the product through regulatory approval and into the market.

Cash flow and funding

During 1996 the Group generated net cash from operating activities of £3,043 million after integration costs paid of £192 million. The funds generated were sufficient to meet all the Group's cash requirements during the period, including dividend payments of £1,020 million, payments to tax authorities of £1,048 million and capital expenditure of £368 million.

In January 1996 the Group raised US$500 million in the London Eurobond market by way of a Euro Note at an interest rate of 6.125 per cent repayable in 2006.

The acquisition of the remaining 50 per cent of Nippon Glaxo Limited in December 1996 was financed initially by short-term bank borrowings in Japan at an interest rate of yen LIBOR + ⅛ per cent.

The Board and committees

Directors

Sir Richard Sykes DSc, FRS 55 aef
Appointed an Executive Director in 1987 with responsibility for Research and Development. Appointed Deputy Chairman and Chief Executive in 1993 and Chairman in May 1997. A Non-Executive Director of Rio Tinto plc.

Sir Roger Hurn 59 bdef
Appointed a Non-Executive Director in 1996 and Deputy Chairman in 1997. Chairman of Smiths Industries plc and a Non-Executive Director of ICI plc.

Robert Ingram 55 a
Appointed an Executive Director in 1995. Appointed Chief Executive in October 1997 with responsibility to the Board for business operations around the world as well as manufacturing and information technology. A Director of Wachovia Corporation.

Michèle Barzach 54 c
Appointed a Non-Executive Director in January 1997. A consultant on health strategy and formerly French Minister of Health and the Family.

Derek Bonham 54 be
Appointed a Non-Executive Director in 1995. Chairman of The Energy Group plc and Imperial Tobacco Group plc. A Non-Executive Director of Newsquest plc. Formerly Deputy Chairman and Chief Executive of Hanson PLC.

James Cochrane 53 a
Appointed an Executive Director in 1995. Responsible for Europe, Africa and the Middle East. Previously an Executive Director of Wellcome plc.

John Coombe 52 a
Appointed an Executive Director in 1992. Responsible for Finance and Investor Relations.

Peter Job 56 b
Appointed a Non-Executive Director in October 1997. Chief Executive of Reuters Holdings plc. A Non-Executive Director of Diageo plc.

Professor Arthur Li 52 d
Appointed a Non-Executive Director in January 1997. Vice-Chancellor of the Chinese University of Hong Kong and a member of the Preparatory Committee in the Hong Kong Special Administrative Region of the National People's Congress.

John McArthur 63 d
Appointed a Non-Executive Director in 1996. Former Dean of the Harvard Business School. A Director of BCE Inc., Cabot Corporation, Rohm and Haas Company, Springs Industries Inc., The Vincam Group Inc. and The AES Corporation.

Dr James Niedel 53 ac
Appointed an Executive Director in 1995. Responsible for Research and Development.

Dr Ronaldo Schmitz 59 b
Appointed a Non-Executive Director in January 1997. A member of the Board of Managing Directors of Deutsche Bank AG.

Professor Sir Richard Southwood FRS, Hon FRCP 66 cde
Appointed a Non-Executive Director in 1992. Formerly Vice-Chancellor of Oxford University.

Jeremy Strachan 53 ac
Appointed an Executive Director in 1992. Responsible for Legal and Corporate Affairs.

Executives

The Executive Committee comprises the Executive Directors and the following senior executives.

Chris Adam 57
Appointed to the Executive Committee in 1995. Regional Director, Japan.

Dr Joe Blaker 51
Appointed to the Executive Committee in 1995. Responsible for Technical Operations.

George Morrow 46
Appointed to the Executive Committee in 1995. Responsible for UK Commercial Operations.

Dr James Palmer 44
Appointed to the Executive Committee in 1998. Responsible for Group Medical, Regulatory and Product Strategy.

Dr Jorge Raimundo 58
Appointed to the Executive Committee in 1996. Regional Director, Latin America.

Ken Windle 53
Appointed to the Executive Committee in 1995. Regional Director, Asia Pacific.

Board Committees

Membership of committees is indicated by the following symbols:

a Executive Committee – responsible for the executive management of the Group's business.

b Audit Committee – monitors and reviews financial control of the Group.

c Group Appeals Committee – implements the Board's policy on charitable contributions.

d Remuneration Committee – determines the terms of service and remuneration of the Executive Directors.

e Nominations Committee – reviews the composition of the Board and the appointment of Directors.

f Non-Executive Directors' Remuneration Committee – determines the remuneration of the Non-Executive Directors.

Corporate governance

The company pursues its corporate purpose with the objective of enhancing shareholder value. Fundamental to the fulfilment of corporate responsibilities and the achievement of financial objectives is an effective system of corporate governance.

Board and committee structure

The Board of Glaxo Wellcome plc is responsible for the Group's system of corporate governance and is ultimately accountable for its activities throughout the world. The Board comprises Executive and Non-Executive Directors. The role of Non-Executive Directors is to bring independent judgement to Board deliberations and decisions.

At the conclusion of the Annual General Meeting on 19th May 1997 Sir Colin Corness retired as Chairman and as a Director. He was succeeded as Chairman by Sir Richard Sykes, who retained his position as Chief Executive. Sir Roger Hurn was appointed Deputy Chairman and is the recognised senior Non-Executive Director.

Robert Ingram was appointed Chief Executive, assuming the position from Sir Richard Sykes, on 28th October 1997. Sir Richard Sykes remains Executive Chairman.

The Board meets regularly throughout the year. It has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities to committees, as follows:

The Executive Committee is responsible for the executive management of the Group's business. It is chaired by the Chairman and comprises the Executive Directors and other senior executives as detailed on page 37. The committee meets monthly and its minutes are placed on the agenda of the Board.

The Audit Committee monitors and reviews financial control of the Group. The committee is chaired by Derek Bonham. It meets four times a year with the Chairman, the Finance Director and the external and internal auditors in attendance.

The Group Appeals Committee implements the Board's policy on charitable contributions. The committee meets quarterly and is chaired by Sir Richard Southwood.

The Remuneration Committee determines the terms of service and remuneration of the Executive Directors. The committee is chaired by the Deputy Chairman. The Chairman attends its meetings except when his own remuneration is being considered.

The Non-Executive Directors' Remuneration Committee determines the remuneration of Non-Executive Directors and consists of the Chairman and the Deputy Chairman.

The Nominations Committee reviews the composition of the Board and the appointment of Directors. The committee is chaired by the Deputy Chairman.

Directors

The Directors of the company are listed on page 37, together with their membership of Board committees.

Michèle Barzach, Professor Arthur Li and Dr Ronaldo Schmitz were appointed as Non-Executive Directors on 1st January 1997.

Peter Job was appointed a Non-Executive Director on 1st October 1997.

The other Directors listed on page 37 served throughout the year ended 31st December 1997.

Lord Kingsdown retired as a Director on 5th January 1997. Sir Colin Corness, Anne Armstrong and Donald Derx retired as Directors on 19th May 1997. Seán Lance resigned as a Director on 7th November 1997.

Officers

The Officers of the company are the executives who serve on the Executive Committee, as listed on page 37, and the Group Company Secretary, Stephen Cowden (age 45, appointed in 1996).

All served throughout the year except Dr James Palmer who has been appointed since 31st December 1997. Jacques Lapointe, appointed to the Executive Committee in 1995, served until January 1998.

Accountability and control

Glaxo Wellcome operates, and attaches importance to, clear principles and procedures designed to achieve the accountability and control appropriate to a science-based business operating multinationally in a highly regulated business sector.

The main precepts of this corporate ethos are:

- concentration on, and expertise in, a single industry sector
- central direction, resource allocation and risk management of the key functional activities of commercial strategy, research and development, manufacture and financial practice
- formally constituted subsidiary undertakings in all significant world markets, with commercial and financial responsibility clearly delegated to local boards
- a regional management structure, aligned to the differing healthcare requirements of worldwide regional markets, to guide and support local management.

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

Essential features of the Group's system of internal control comprise:

- focus on key business objectives
- integrated, tiered Group-wide financial approval and reporting procedures
- central promulgation of functional policy and monitoring of compliance (including on-site audit of pre-clinical and clinical compliance, product quality, manufacturing standards, environmental care, health and safety, insurable risk and financial practice)
- central ratification of appointments to the boards of subsidiary undertakings.

Cadbury Code of Best Practice

In December 1992 the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) published a Code of Best Practice. The Code contains recommendations as to best practice in terms of the control and reporting functions of boards of directors.

The Board considers that throughout the financial period under review the company complied with all the recommendations of the Code.

The guidance on reporting on internal control focuses on internal financial control, defined as the internal controls established to provide reasonable assurance of:

- the safeguarding of assets against unauthorised use or disposition
- the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The Directors are responsible for the company's system of internal financial control. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board through the Audit Committee has reviewed the effectiveness of the company's system of internal financial control in operation for the period covered by the accounts.

In accordance with the guidance on reporting on going concern, the Directors' report on going concern is included in the Financial review on page 30.

As recommended by the Cadbury Committee, and required by the London Stock Exchange, the auditors have considered the Directors' statement of compliance in relation to those points of the Code which can be objectively verified. Their report to the Board is set out on page 41.

The Committee on Corporate Governance (the Hampel Committee) published its report in January 1998. The Committee intends to publish a Code of Practice, embracing its own recommendations and those of the Cadbury and Greenbury committees, for implementation, after consultation, by the London Stock Exchange in the Listing Rules. The Board believes that the company complies with the broad principles outlined in the Hampel report, and would expect to report on compliance with the new code when implemented.

Annual General Meeting

The company's Annual General Meeting will be held on 18th May 1998 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

Directors

Peter Job having been appointed since the last Annual General Meeting retires in accordance with the Articles of Association and being eligible offers himself for election.

Derek Bonham, James Cochrane, John Coombe, Robert Ingram, Dr James Niedel, Sir Richard Southwood and Jeremy Strachan retire by rotation and offer themselves for re-election.

Special business

The company will seek to: (a) renew authorities granted at the Annual General Meeting on 19th May 1997, to purchase its own Ordinary Shares up to a maximum of just under 10 per cent of the issued share capital; and (b) disapply pre-emption rights.

Auditors

Resolutions will be proposed to re-appoint Coopers & Lybrand as auditors and to authorise the Directors to fix their remuneration.

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

S J Cowden
Secretary
Glaxo Wellcome House
Berkeley Avenue
Greenford
Middlesex
UB6 0NN
13th March 1998

Directors' statements of responsibility

Directors' statement of responsibility in relation to the accounts

The Directors are required by law to prepare accounts 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. The Directors confirm that suitable accounting policies have been consistently applied in the preparation of the accounts, supported by reasonable and prudent judgements and estimates as necessary; applicable accounting standards have been followed, and the accounts have been prepared on the going concern basis.

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 accounts can be prepared to comply with the UK Companies Act 1985. They are also responsible for ensuring the operation of systems of internal control for safeguarding the assets of the Group and for preventing and detecting fraud and other irregularities.

Sir Richard Sykes
Chairman
Approved by the Board
13th March 1998

Directors' statement of responsibility in relation to the Report of the Remuneration Committee

The Remuneration Committee is responsible to the Board for the remuneration of the Executive Directors. The company has complied with Section A of the London Stock Exchange's best practice provisions, relating to remuneration committees.

The Report of the Remuneration Committee on remuneration policy and on the remuneration earned by Executive Directors during the year to 31st December 1997 is set out on pages 90 to 97.

The Report complies with the recommendations of the Greenbury Committee as implemented by the London Stock Exchange in its Listing Rules for listed companies. The Remuneration Committee has given full consideration to Section B of the London Stock Exchange's best practice provisions, relating to remuneration policy.

The Report also includes details of the remuneration of the Non-Executive Directors. The remuneration of the Non-Executive Directors is fixed by the Non-Executive Directors' Remuneration Committee consisting of the Chairman and the Deputy Chairman.

For convenience, the Report includes all other disclosable information relating to Directors and officers and their interests.

The report of the auditors to the members of Glaxo Wellcome plc, on page 41 opposite, includes within its scope the disclosures specified for audit by the Listing Rules.

Sir Roger Hurn
Chairman, Remuneration Committee
on behalf of the Board
13th March 1998

Reports by the auditors

To the members of Glaxo Wellcome plc

We have audited the accounts on pages 42 to 81. We have also examined the amounts disclosed relating to the emoluments, share options and Long-Term Incentive Plan interests of the Directors which form part of the Report of the Remuneration Committee on pages 90 to 97.

Respective responsibilities of Directors and auditors

As described opposite, the Directors of the company are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board which are substantially the same as those followed in the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts:

- give a true and fair view of the state of affairs of the company and the Group at 31st December 1997 and of the profit, total recognised gains and losses and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- present fairly, in all material respects, the consolidated financial position of the Group at 31st December 1997 and 1996 and the results of its operations and its total recognised gains and losses and cash flows for the year ended 31st December 1997 and the year ended 31st December 1996 and the 18 months ended 31st December 1995 in conformity with accounting principles generally accepted in the United Kingdom. These principles differ in certain respects from accounting principles generally accepted in the United States. The effect of the differences in the determination of net income, shareholders' equity and cash flows is shown in Note 31 on the accounts.

Coopers & Lybrand
Chartered accountants
and registered auditors
London, England
13th March 1998

To Glaxo Wellcome plc on corporate governance matters

In addition to our audit of the accounts, we have reviewed the Directors' statements on page 39 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures, nor on the ability of the company to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on page 39 and going concern on page 30, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the company, and examination of relevant documents, in our opinion the Directors' statement on page 39 appropriately reflects the company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand
Chartered accountants
London
13th March 1998

Consolidated profit and loss account

	Notes	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Turnover		7,980	8,341	10,490
Cost of sales		1,473	1,464	1,806
Selling, general and administrative expenditure		2,636	2,635	3,581
Research and development expenditure		1,148	1,161	1,540
Other operating (income)/expense	5	(99)	(51)	(34)
Integration	5	–	–	1,215
Operating costs	5	5,158	5,209	8,108
Trading profit		2,822	3,132	2,382
Profit on disposal of business	25	–	–	35
Share of (losses)/profits of associated undertakings	7	(13)	19	57
Profit before interest		2,809	3,151	2,474
Net interest payable	8	123	187	87
Profit on ordinary activities before taxation		2,686	2,964	2,387
Taxation	9	819	933	867
Profit on ordinary activities after taxation		1,867	2,031	1,520
Minority interests		17	34	62
Profit attributable to shareholders		1,850	1,997	1,458
Dividends	11	1,249	1,202	1,530
Retained profit/(loss)		601	795	(72)
Earnings per Ordinary Share	10	52.0p	56.7p	44.5p
Adjustment in respect of integration	10	–	–	30.1p
Earnings per Ordinary Share before integration		52.0p	56.7p	74.6p
Weighted average number of shares in issue (millions)		3,560	3,524	3,274
Dividends per Ordinary Share	11	35.0p	34.0p	45.0p

All items dealt with in arriving at trading profit relate to continuing activities.

Consolidated balance sheet

	Notes	At 31.12.97 £m	At 31.12.96 £m
Fixed assets			
Tangible assets	12	3,583	3,853
Investments	13	52	93
		3,635	3,946
Current assets			
Stocks	14	855	804
Debtors	15	2,285	2,302
Equity investments	13	39	–
Liquid investments	18	1,408	1,001
Cash at bank	18	215	261
		4,802	4,368
Creditors: amounts due within one year			
Loans and overdrafts	18	1,104	1,546
Convertible bonds	18	77	–
Other creditors	16	2,705	2,608
		3,886	4,154
Net current assets		916	214
Total assets less current liabilities		4,551	4,160
Creditors: amounts due after one year			
Loans	18	1,841	1,607
Convertible bonds	18	–	92
Other creditors	16	123	147
		1,964	1,846
Provisions for liabilities and charges	17	697	1,047
Net assets	27	1,890	1,267
Capital and reserves			
Called up share capital	21	894	886
Share premium account	21	805	621
Goodwill reserve	22	(4,840)	(4,865)
Other reserves	22	4,984	4,583
Equity shareholders' funds		1,843	1,225
Equity minority interests		47	42
Capital employed		1,890	1,267

Sir Richard Sykes
Chairman
Approved by the Board
13th March 1998

Consolidated cash flow statement

	Notes	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Reconciliation of operating profit to operating cash flows				
Trading profit excluding integration costs		2,822	3,132	3,597
Depreciation		373	410	533
(Profit)/loss on sale of tangible fixed assets		(4)	(5)	8
Decrease/(increase) in stocks		(184)	(96)	8
Decrease/(increase) in debtors		49	(261)	(291)
(Decrease)/increase in creditors		(59)	56	163
(Decrease)/increase in pension and other provisions		(13)	(1)	74
Net cash inflow from operating activities excluding integration costs		2,984	3,235	4,092
Integration provision released		(68)	–	–
Integration costs paid		(155)	(192)	(269)
Net cash inflow from operating activities		2,761	3,043	3,823
Cash flow statement				
Net cash inflow from operating activities		2,761	3,043	3,823
Returns on investment and servicing of finance	24	(121)	(126)	7
Taxation paid		(818)	(1,048)	(1,070)
Capital expenditure	24	(193)	(368)	(623)
Acquisitions and disposals	24	(57)	319	(6,811)
Equity dividends paid		(1,207)	(1,020)	(1,508)
Net cash inflow/(outflow) before management of liquid resources and financing		365	800	(6,182)
Management of liquid resources		(407)	(55)	2,641
Financing	24	(59)	(658)	3,656
(Decrease)/increase in cash in the period	24	(101)	87	115
Reconciliation of net cash flow to movement in net (debt)/funds				
Net (debt)/funds at start of period		(1,983)	(3,196)	2,091
(Decrease)/increase in cash in the period		(101)	87	115
Cash outflow/(inflow) from management of liquid resources		407	55	(2,641)
Net increase in long-term loans		(230)	(356)	(1,134)
Net repayment of/(increase in) short-term loans		490	1,229	(2,416)
New obligations under finance leases		(13)	–	–
Net non-cash funds of subsidiary undertakings acquired		–	–	812
Exchange adjustments		9	177	4
Other non-cash movements		22	21	(27)
Movement in net (debt)/funds	24	584	1,213	(5,287)
Net debt at end of period	18	(1,399)	(1,983)	(3,196)

Statement of total recognised gains and losses

	Notes	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Profit attributable to shareholders		1,850	1,997	1,458
Exchange adjustments	22	(197)	(271)	76
Net asset adjustment on acquisition of minority interest	22	(3)	20	–
Total recognised gains and losses for the period		1,650	1,746	1,534
Prior period adjustment	3	–	–	(17)
Total recognised gains and losses		1,650	1,746	1,517

Reconciliation of movements in equity shareholders' funds

	Notes	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Balance at the beginning of the period as previously stated		1,225	91	5,043
Prior period adjustment	3	–	–	(17)
Balance at the beginning of the period restated		1,225	91	5,026
Total recognised gains and losses for the period		1,650	1,746	1,534
Dividends	11	(1,249)	(1,202)	(1,530)
Ordinary Shares issued:				
Ordinary Shares issued on acquisition of Wellcome plc	21	–	–	107
Merger reserve arising on acquisition of Wellcome plc	21	–	–	2,834
Ordinary Shares issued under share option schemes	21	184	215	106
Ordinary Shares issued in lieu of cash dividends	21	–	35	45
Ordinary Shares issued on conversion of bonds	21	8	8	–
Goodwill:				
Exchange adjustments	22	33	–	–
Goodwill arising on acquisitions	22	(8)	(246)	(8,031)
Goodwill on disposal charged to the profit and loss account	22	–	578	–
Balance at the end of the period		1,843	1,225	91

Company balance sheet

	Notes	At 31.12.97 £m	At 31.12.96 £m
Fixed assets			
Tangible assets	29	39	24
Shares in subsidiary companies – at cost		16,928	10,279
		16,967	10,303
Current assets			
Debtors	29	969	862
Cash at bank		3	17
		972	879
Creditors: amounts due within one year			
Commercial paper		509	1,117
Convertible bonds	18	77	–
Other creditors	29	4,942	3,954
		5,528	5,071
Net current liabilities		(4,556)	(4,192)
Total assets less current liabilities		12,411	6,111
Creditors: amounts due after one year			
Loans	29	1,499	1,475
Convertible bonds	18	–	92
		1,499	1,567
Provisions for liabilities and charges	29	68	61
Net assets		10,844	4,483
Capital and reserves			
Called up share capital	21	894	886
Share premium account	21	805	621
Merger reserve		2,834	2,834
Other reserves	22	6,311	142
Equity shareholders' funds		10,844	4,483

Sir Richard Sykes
Chairman
Approved by the Board
13th March 1998

Notes on the accounts

1 Basis of accounts

Description of business

Glaxo Wellcome is a major global pharmaceutical group which is engaged in the creation and discovery, development, manufacture and marketing of prescription and non-prescription medicines. Glaxo Wellcome's principal products include medicines in the following therapeutic categories: respiratory, viral infections, gastro-intestinal, central nervous system disorders, bacterial infections, oncology, dermatologicals, cardiovascular and anaesthesia.

Financial period

These accounts cover the financial year from 1st January to 31st December 1997, with comparative figures for the financial year from 1st January to 31st December 1996 and the 18 month financial period from 1st July 1994 to 31st December 1995. Following the company's acquisition of Wellcome plc in March 1995, the company changed its financial year-end date from 30th June to 31st December and extended the 1995 financial period from 30th June 1995 to 31st December 1995.

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 on pages 88 and 89.

Presentation of accounts

The consolidated accounts are drawn up in accordance with UK generally accepted accounting principles (UK GAAP) and with UK accounting presentation.

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounts comprise:

- Consolidated profit and loss account
- Consolidated balance sheet
- Consolidated cash flow statement
- Statement of total recognised gains and losses
- Reconciliation of movements in equity shareholders' funds
- Company balance sheet
- Notes on the accounts.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the company is not presented.

The statement of total recognised gains and losses comprises: the realised profit attributable to shareholders as reflected in the consolidated profit and loss account; the unrealised gain or loss in the value of the company's overseas net assets, less related foreign currency borrowings, attributable to currency movements over the period; and, in 1996 and 1997, the Group's share of the net asset adjustment arising on acquisition of the minority interest in a subsidiary company.

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 goodwill arising on acquisitions during the period which, in accordance with the company's accounting policies, is set directly against reserves; any goodwill on disposals removed from reserves.

Additional information in accordance with the requirements of US generally accepted accounting principles (US GAAP) is included in the notes on the accounts. A statement of differences, and a reconciliation of net income and shareholders' equity between UK and US GAAP, are given in Note 31.

Accounting policies

The accounts have been prepared in accordance with the company's accounting policies described in Note 2. These policies are unchanged from those for the financial periods for the year to 31st December 1996 and the 18 months to 31st December 1995.

The Group has implemented Abstract 17 of the Urgent Issues Task Force on "Employee Share Schemes". The only change, compared to the company's previous accounting practice, is that the accrual for shares to be awarded under employee incentive plans is now deducted from the cost of shares held in employee share ownership plans rather than included in creditors.

During the year the Group has obtained the use of assets under finance leases. The appropriate accounting policy is described in Note 2.

2 Accounting policies

Accounting convention

The accounts have been prepared using the historical cost convention.

Accounting standards

The accounts comply with all applicable UK accounting standards.

Consolidated accounts

- The accounts incorporate the audited assets and liabilities and the results for the period of subsidiary undertakings, the Group's share of associated undertakings and employee share ownership plans.
- Trading results relating to periods before the undertakings became, or after they ceased to be, subsidiary or associated undertakings are excluded from the consolidated profit and loss account.
- Goodwill, being the excess of the purchase consideration for shares in subsidiary and associated undertakings over the Group's share of the net assets acquired, is taken to consolidated reserves in the year of acquisition. Goodwill is denominated in the currency in which the acquisition is made and financed. On a subsequent disposal of acquired assets any related goodwill is removed from consolidated reserves and charged to the consolidated profit and loss account.
- Transactions and balances between subsidiary undertakings have been eliminated; no profit is taken on sales between subsidiary undertakings or sales to associated undertakings until the products are sold to customers outside the Group.
- The Group's interest in its joint venture for the sale of its products in the over-the-counter market is accounted for as an associated undertaking. The Group's share of the results of the joint venture comprises its share of the results of the joint venture operating entities together with its share of the profits earned by the joint venture partners on services supplied to the operating entities.
- Deferred taxation relief on unrealised intra-Group profit is accounted for only to the extent that the related taxation effect is expected to reverse.
- Assets and liabilities of overseas subsidiary and associated undertakings, including related goodwill, are translated into sterling at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiary and associated undertakings are translated into sterling using average rates of exchange. Exchange adjustments arising when the opening net assets and the profits for the year retained by overseas subsidiary and associated undertakings are translated into sterling, less exchange differences arising on related foreign currency borrowings, are taken directly to reserves and reported in the statement of total recognised gains and losses.
- In translating into sterling assets, liabilities, results and cash flows of overseas subsidiary and associated undertakings reported in currencies of hyper-inflationary economies, adjustments are made to reflect current price levels. Any loss on net monetary assets is charged to the consolidated profit and loss account.

Foreign currency transactions

Foreign currency transactions by Group companies are booked in local currency at the exchange rate ruling on the date of transaction, or at the forward rate if hedged by a forward exchange contract. Foreign currency assets and liabilities are converted 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.

Turnover

Turnover shown in the consolidated profit and loss account represents goods invoiced during the period to external customers and associated undertakings, excluding value added tax and other sales taxes, less trade discounts and rebates.

Research and development

Research and development expenditure is charged to the consolidated 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.

Employee benefits

- The cost of providing shares awarded, and expected to vest, under employee incentive plans is accrued in the consolidated profit and loss account over the performance period of the plan.
- 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 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)

Tangible fixed assets

Tangible fixed assets are stated at cost less a provision for depreciation. Depreciation is calculated to write off the cost of tangible fixed assets, excluding freehold land, in equal annual instalments over their expected useful lives. The normal expected useful lives of the major categories of tangible fixed assets are:

Freehold buildings	25 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.

On disposal of a tangible fixed asset the cost and related accumulated depreciation are removed from the accounts and the net amount, less any proceeds, is taken to the consolidated profit and loss account.

Fixed asset investments

Investments in associated undertakings are carried in the consolidated balance sheet at the Group's share of their net tangible assets at date of acquisition and of their post-acquisition retained profits or losses. Investments in own shares, representing shares held in employee share ownership plans to fund awards under employee incentive plans, are held until awards vest at cost less accrual for performance to date. Other equity investments, comprising investments not intended for sale, are carried at cost less provision for permanent diminution in value.

Stocks

Stocks are included in the accounts at the lower of cost (including manufacturing overheads, where appropriate) and net realisable value. Cost is generally determined on a first in, first out basis.

Current asset investments

- Current asset investments are stated at the lower of cost and realisable value.
- In the case of securities acquired at a significant premium or discount to maturity value, and intended to be held to redemption, cost is adjusted to amortise the premium or discount over the life to maturity of the security. Floating rate bonds are stated at cost. Interest income is taken to the consolidated profit and loss account on a receivable basis.
- Equity investments are included as current assets when regarded as available for sale.

Debt instruments

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

Derivative financial instruments

- The Group does not hold or issue derivative financial instruments for trading purposes.
- Derivative financial instruments are used to manage the currency profile of Group assets and liabilities and are treated from inception as an economic hedge of the underlying asset or liability, with matching accounting treatment and cash flows. The derivative contracts have high correlation with the specific asset or liability being hedged both at inception and throughout the hedge period. Derivative instruments no longer designated as hedges are restated at market value and any changes in value are taken directly to the profit and loss account.
- Currency swaps and forward exchange contracts are used to fix the value of the related asset or liability in the contract currency and at the contract rate. Forward exchange contracts are accrued to the profit and loss account over the life of the contract.
- Interest differentials under interest swap and cap agreements are recognised in the consolidated profit and loss account by adjustment of interest expense over the life of the agreement.

Finance leases

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the useful lives of the assets.

Taxation

- Advance Corporation Tax is carried forward to the extent that it is expected to be recovered.
- Deferred taxation, calculated using the liability method, is accounted for by each Group company for taxation deferred or accelerated by reason of timing differences. Deferred taxation relief is accounted for in full on long-term timing differences in respect of provisions for unfunded retirement benefits. Taxation deferred or accelerated by reason of short-term and other timing differences is accounted for to the extent that it is probable that a liability or asset will crystallise.

3 Change of accounting policy

The accounting policy for post-retirement benefits other than pensions provided for employees was changed with effect from 1st July 1994. The cumulative adjustment in respect of the accrued cost at 1st July 1994, net of deferred taxation relief, amounted to £17 million and was charged directly against reserves in the 18 months to 31st December 1995 as a prior period adjustment.

4 Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of overseas Group subsidiary 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:

	Year to 31.12.97	Year to 31.12.96	18 months to 31.12.95
Average rates:			
£/US$	1.64	1.56	1.58
£/DM	2.84	2.35	2.32
£/Yen	198.59	170.17	150.62
Period end rates:			
£/US$	1.65	1.71	1.55
£/DM	2.96	2.64	2.22
£/Yen	213.94	198.63	160.15

5 Operating costs

		Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Other operating (income)/expense	Other operating income	(212)	(51)	(34)
	Other operating expense	113	–	–
		(99)	(51)	(34)

Integration

In the 18 months to 31st December 1995, following the acquisition of Wellcome plc by Glaxo plc, a provision of £1,215 million was made for the costs forecast to be incurred in integrating the two businesses, analysed as to £558 million cost of sales, £400 million selling, general and administrative expenditure and £257 million research and development expenditure. The provision has been reassessed during 1997, based on actual expenditure to date and current forecasts of remaining integration costs totalling £1,129 million, analysed as to £503 million cost of sales, £395 million selling, general and administrative expenditure and £231 million research and development expenditure. After exchange differences of £18 million, a net surplus of £68 million has been credited to other operating income.

Operating costs in total include:			
Depreciation of tangible fixed assets:			
Owned assets	369	410	533
Leased assets	4	–	–
Loss on net monetary assets in hyper-inflationary economies	3	1	2
Operating lease rentals:			
Plant and machinery	18	30	41
Land and buildings	36	41	54
Audit fees:			
Audit of Glaxo Wellcome plc	0.4	0.3	0.3
Audit of subsidiary undertakings	2.1	2.2	2.9
Fees to auditors for other work:			
Auditors' UK firm	0.7	1.4	2.1
Auditors' overseas firms	1.7	2.0	2.5

Additionally fees of £0.4 million were paid to the auditors' UK firm in the 18 months to 31st December 1995 in connection with acquisitions.

6 Employee costs

	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Wages and salaries	1,480	1,470	1,923
Social security costs	159	166	233
Pension and other post-retirement costs	105	125	172
Provision for awards under incentive plans	13	1	1
Severance costs arising from integration	69	73	188
Pension and other post-retirement costs arising from integration	1	31	49
	1,827	1,866	2,566

Further information on employee benefits is given in Note 28.

Details of Directors' remuneration is given in the Report of the Remuneration Committee on pages 90 to 97.

The average number of persons employed by the Group (including Directors) during the period

	Year to 31.12.97 Number	Year to 31.12.96 Number	18 months to 31.12.95 Number
Manufacturing	18,519	19,629	18,700
Selling, general and administration	25,741	25,357	24,872
Research and development	8,808	8,822	8,847
	53,068	53,808	52,419

The numbers of Group employees at the end of each financial period are given in the Financial record on page 87.

7 Share of (losses)/profits of associated undertakings

	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Glaxo Wellcome Warner-Lambert	(4)	(11)	(17)
Warner Wellcome	–	43	74
Other	(9)	(13)	–
	(13)	19	57
Sales to associated undertakings	46	103	77
Earnings received from associated undertakings	17	89	51

8 Net interest payable

		Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Interest payable	On bank loans and overdrafts	50	47	158
	On other loans	176	229	179
	In respect of finance leases	1	–	–
		227	276	337
Investment income	Interest income	106	90	265
	Realised losses	–	–	(95)
	Provision for market value adjustments	(2)	(1)	80
		104	89	250
		(123)	(187)	(87)

9 Taxation

		Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Taxation charge based on profits for the period	UK corporation tax at the UK statutory rate	525	642	1,026
	Less double taxation relief	164	264	605
		361	378	421
	Overseas taxation	582	596	660
	Deferred taxation	(124)	(41)	(251)
	Irrecoverable advance corporation tax	–	–	37
		819	933	867
	Attributable to:			
	Holding company and subsidiary undertakings	819	932	864
	Associated undertakings	–	1	3
		%	%	%
Reconciliation of the taxation rate	UK statutory rate of taxation	31.5	33.0	33.0
	Deferred taxation not provided on fixed assets	(0.7)	(0.2)	(2.0)
	Effect of special taxation status in Singapore	(2.4)	(3.7)	(4.7)
	Net cost of different rates of taxation in overseas undertakings	1.4	1.0	1.4
	Taxation effect of disallowed integration costs	–	–	5.6
	Advance corporation tax written off	–	–	1.6
	Other differences	0.7	1.4	1.4
	Taxation rate in the accounts	30.5	31.5	36.3

The taxation charge for the 18 months to 31st December 1995 is reduced by a credit of £230 million in respect of integration.

Profits arising from manufacturing operations in Singapore are taxed at a reduced rate until 30th June 2002. The effect of this reduction in the taxation charge increased earnings per Ordinary Share by 1.8p in the year to 31st December 1997, by 3.1p in the year to 31st December 1996 and by 3.4p in the 18 months to 31st December 1995.

The taxation liabilities of certain Group subsidiary undertakings have not been finally agreed with the appropriate revenue authorities for a number of years. The most significant open issues relate to inter-company transfer pricing in the UK and the USA, where there is a wide variation between the claims of the revenue authorities and the Group's estimation of its taxation liabilities. Using appropriate local advice in each territory, the Group is seeking to manage these issues to a satisfactory conclusion and continues to believe that it has made adequate provision for all liabilities likely to arise from open taxation assessments.

Save as shown in these accounts, no provision has been made for taxation which would arise on the distribution of profits retained by overseas subsidiary and associated undertakings, on the grounds that no remittance of profit retained at 31st December 1997 is required in such a way that incremental tax will arise.

9 Taxation (continued)

Deferred taxation asset/(liability)

	Full potential		Provided	
	At 31.12.97 £m	At 31.12.96 £m	At 31.12.97 £m	At 31.12.96 £m
Accelerated capital allowances	(506)	(523)	(22)	(58)
Unremitted foreign investment income	(18)	(15)	(18)	(15)
Stock valuation adjustment	(11)	(22)	(11)	(22)
Intra-group profit	107	110	9	14
Pensions and other post-retirement benefits	104	90	104	90
Integration costs	49	95	49	95
Other timing differences	196	172	114	76
Advance corporation tax recoverable	37	37	–	–
	(42)	(56)	225	180

Of the above categories of provided deferred taxation, stock valuation adjustments, intra-group profit and other timing differences are current.

10 Earnings per Ordinary Share

	Year to 31.12.97	Year to 31.12.96	18 months to 31.12.95
Earnings per Ordinary Share	52.0p	56.7p	44.5p
Adjustment in respect of integration	–	–	30.1p
Earnings per Ordinary Share before integration	52.0p	56.7p	74.6p
Weighted average number of shares in issue (millions)	3,560	3,524	3,274

The earnings per Ordinary Share of 52.0p has been calculated by dividing the profit attributable to shareholders of £1,850 million (year to 31st December 1996 – £1,997 million; 18 months to 31st December 1995 – £1,458 million) by the weighted average number of Ordinary Shares in issue during the period.

Earnings per Ordinary Share for the 18 months to 31st December 1995 is also shown calculated by reference to earnings before integration costs and related taxation in order to provide an indication of continuing business performance.

The earnings per Ordinary Share is not materially different in the financial periods shown above when calculated on a fully diluted basis.

11 Dividends

	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
First Interim	534	529	306
Second Interim	–	–	698
Final – proposed	715	673	526
	1,249	1,202	1,530
	p	p	p
First Interim	15	15	10
Second Interim	–	–	20
Final – proposed	20	19	15
	35	34	45

12 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fixtures and equipment £m	Assets in construction £m	Total £m
Cost at 1st January 1997	2,254	2,108	1,062	287	5,711
Exchange adjustments	(52)	(47)	(18)	(2)	(119)
Additions	19	79	118	207	423
Adjustment on acquisition of minority interest (Note 25)	(6)	–	–	–	(6)
Disposals	(103)	(229)	(119)	(6)	(457)
Reclassifications	96	79	37	(212)	-
Cost at 31st December 1997	2,208	1,990	1,080	274	5,552
Depreciation at 1st January 1997	390	851	617	–	1,858
Exchange adjustments	(15)	(25)	(11)	–	(51)
Provision for the year	73	166	134	–	373
Disposals	(25)	(105)	(81)	–	(211)
Depreciation at 31st December 1997	423	887	659	–	1,969
Net book value at 1st January 1997	1,864	1,257	445	287	3,853
Net book value at 31st December 1997	1,785	1,103	421	274	3,583

The net book value at 31st December 1997 of the Group's land and buildings comprises freehold properties £1,596 million (at 1st January 1997 – £1,665 million), properties with leases of 50 years or more £134 million (at 1st January 1997 – £139 million) and properties with leases of less than 50 years £55 million (at 1st January 1997 – £60 million).

Included in fixtures and equipment at 31st December 1997 are leased assets with a cost of £17 million, accumulated depreciation of £4 million and a net book value of £13 million (at 1st January 1997 – £ nil).

13 Investments

Fixed assets

	Investments in OTC joint venture £m	Investments in other associated undertakings £m	Investments in own shares £m	Other equity investments £m	Total £m
At 1st January 1997	3	5	12	73	93
Exchange adjustments	2	–	–	(1)	1
Additions	21	11	11	8	51
Charge for the year	–	–	(14)	–	(14)
Transfer to current assets	–	–	–	(39)	(39)
Other movements	–	–	–	(10)	(10)
Retained loss for the year	(19)	(11)	–	–	(30)
At 31st December 1997	7	5	9	31	52

The OTC joint venture and principal associated undertakings are listed on page 89.

Investments in own shares consist of shares held by employee share ownership plans, comprising at 31st December 1997 2,526,947 Ordinary Shares with a nominal value of £0.6 million and a market value of £36 million (at 31st December 1996 – 1,538,042 Ordinary Shares with a nominal value of £0.4 million and a market value of £15 million). The shares are held to satisfy awards made under employee incentive plans but not yet vested.

Other equity investments comprise listed investments of £25 million (at 31st December 1996 – £24 million) and unlisted investments of £6 million (at 31st December 1996 – £49 million). The aggregate market value of listed investments was £39 million (at 31st December 1996 – £232 million).

Current assets

Equity investments of £39 million have been transferred from fixed assets and comprise listed investments with an aggregate market value of £243 million.

14 Stocks

	At 31.12.97 £m	At 31.12.96 £m
Raw materials and consumables	165	179
Work in progress	357	355
Finished goods	333	270
	855	804

15 Debtors

		At 31.12.97 £m	At 31.12.96 £m
Amounts due within one year	Trade debtors	1,343	1,442
	Other debtors	212	224
	Prepaid pension contributions	1	1
	Other prepayments and accrued income	78	78
	FID Advance Corporation Tax reclaimable	107	–
Amounts due after one year	Other debtors	224	251
	Deferred taxation (Note 9)	225	180
	Advance Corporation Tax recoverable	95	126
		2,285	2,302

Debtors include £24 million (at 31st December 1996 – £27 million) due from associated undertakings.

16 Other creditors

		At 31.12.97 £m	At 31.12.96 £m
Amounts due within one year	Trade creditors	299	270
	Taxation	743	654
	Social security	24	23
	Other creditors	291	414
	Accruals and deferred income	633	574
	Dividend proposed	715	673
		2,705	2,608
Amounts due after one year	Taxation	53	54
	Other creditors	70	93
		123	147

17 Provisions for liabilities and charges

	Integration costs £m	Pensions and other post-retirement benefits £m	Other provisions £m	Total £m
At 1st January 1997	543	319	185	1,047
Exchange adjustments	(19)	1	4	(14)
Charge/(credit) for the year	(68)	57	46	35
Applied	(279)	(59)	(21)	(359)
Other movements	–	–	(12)	(12)
At 31st December 1997	177	318	202	697

The provision for integration costs at 31st December 1997 represents the remaining costs expected to be incurred in integrating the businesses of Glaxo and Wellcome. The provision for integration costs has been reassessed during 1997 resulting in a release of £68 million which has been credited to the profit and loss account during the year. Costs incurred of £279 million have been applied against the provision during the year to 31st December 1997.

Unquantified claims have been made against Group undertakings relating to anti-trust, product liability and intellectual property rights. In the opinion of the Directors, after taking professional advice, the amounts provided in these accounts against such claims are adequate.

18 Net debt

	At 31.12.97 £m	At 31.12.96 £m
Liquid investments	1,408	1,001
Cash at bank	215	261
	1,623	1,262
Loans and overdrafts due within one year:		
Bank loans and overdrafts	(547)	(424)
Commercial paper	(513)	(1,117)
Other loans	(40)	(5)
Obligations under finance leases	(4)	–
	(1,104)	(1,546)
4.3 per cent Japanese Yen Convertible Bonds	(77)	–
Loans due after one year:		
Bank loans	(67)	(78)
8.75 per cent unsecured sterling Euro Bond 2005	(496)	(496)
6.75 per cent unsecured US$ Euro Note 2000	(303)	(292)
6.125 per cent unsecured US$ Euro Note 2006	(301)	(289)
7.0 per cent unsecured US$ Euro Note 2002	(206)	–
Other loans	(459)	(452)
Obligations under finance leases	(9)	–
	(1,841)	(1,607)
4.3 per cent Japanese Yen Convertible Bonds	–	(92)
Net debt	(1,399)	(1,983)

Liquid investments

	Market value		Book value	
	At 31.12.97 £m	At 31.12.96 £m	At 31.12.97 £m	At 31.12.96 £m
Government and equivalent investments	270	285	263	278
Other investments	801	723	801	723
Deposits at banks	344	–	344	–
	1,415	1,008	1,408	1,001

At the balance sheet date the Group's investments included listed investments of £130 million (at 31st December 1996 – £169 million), with an aggregate market value of £133 million (at 31st December 1996 – £175 million).

Loans and overdrafts due within one year

Commercial paper comprises a US dollar programme of £513 million (at 31st December 1996 – £1,117 million) issued in New York backed up by committed facilities of more than one year of £436 million and liquid investments of £661 million.

The weighted average interest rate on commercial paper borrowings at 31st December 1997 was 4.5 per cent. The weighted average interest rate on other loans and overdrafts due within one year of 31st December 1997 was 6.7 per cent.

Loans due after one year

Loans due after one year are repayable over various periods from 1999 to 2006 as follows:

	At 31.12.97 £m	At 31.12.96 £m
Between one and two years	66	14
Between two and three years	714	68
Between three and four years	4	693
Between four and five years	207	3
Five years or more	850	829
	1,841	1,607

The loans carry interest at effective rates between 0.36 per cent and 8.75 per cent.

18 Net debt (continued)

Convertible bonds

The Japanese Yen Convertible Bonds are convertible, at the option of the holders, into a maximum of 10,736,301 Ordinary Shares at a price of £6.49 at an exchange rate of £/yen 236.4 on or before 22nd September 1998. Bonds of Yen 1,710 million were converted into 1,114,551 Ordinary Shares during the year. The bonds mature on 28th September 1998.

Finance lease obligations

	At 31.12.97 £m	At 31.12.96 £m
Rental payments due within one year	4	–
Rental payments due between one and two years	4	–
Rental payments due between two and three years	4	–
Rental payments due between three and four years	3	–
Total future rental payments	15	–
Future finance charges	(2)	–
Total finance lease obligations	13	–

Secured loans

Loans amounting to £53 million (at 31st December 1996 – £58 million) are secured by charges on fixed and current assets.

Financial instruments

Further information is given in Note 26.

19 Contingent liabilities

Contingent liabilities, comprising discounted bills, guarantees to statutory bodies and other items arising in the normal course of business, amounted at 31st December 1997 to £21 million (at 31st December 1996 – £12 million).

20 Commitments

		At 31.12.97 £m	At 31.12.96 £m
Capital commitments	Contracted for but not provided in the accounts	118	154
Commitments under operating leases to pay rentals for the next year	Operating leases on land and buildings which expire:		
	In one year or less	3	5
	Between one and five years	14	14
	In five years or more	18	10
		35	29
	Operating leases on plant and equipment which expire:		
	In one year or less	6	4
	Between one and five years	14	18
		20	22
Commitments under operating leases to pay rentals in future years	1998	55	
	1999	46	
	2000	38	
	2001	30	
	2002	33	
	2003 and thereafter	199	
		401	

21 Share capital, share premium account and merger reserve

		Ordinary Shares of 25p each		Share premium account	Merger reserve
		Number	£m	£m	£m
Share capital authorised	At 31st December 1996 and 31st December 1997	4,431,000,000	1,108		
Share capital issued and fully paid	At 30th June 1994	3,049,397,289	762	229	–
	On acquisition of Wellcome plc	426,199,262	107	–	2,834
	Under share option schemes	21,724,593	5	101	–
	In lieu of cash dividends	7,072,469	2	43	–
	Goodwill applied against merger reserve	–	–	–	(2,834)
	At 31st December 1995	3,504,393,613	876	373	–
	Under share option schemes	36,201,773	9	206	–
	In lieu of cash dividends	3,986,094	1	34	–
	On conversion of bonds	978,987	–	8	–
	At 31st December 1996	3,545,560,467	886	621	–
	Under share option schemes	28,171,945	8	176	–
	On conversion of bonds	1,114,551	–	8	–
	At 31st December 1997	3,574,846,963	894	805	–

Ordinary Shares issued during the year ended 31st December 1997 resulting from the exercise of options under the Glaxo Group and Wellcome Share Option Schemes were issued for an aggregate consideration of £184 million.

Number of shares issuable under outstanding options (Note 23)	At 31st December 1996	130,298,527
	At 31st December 1997	114,350,804
Number of unissued shares not under option	At 31st December 1996	755,141,006
	At 31st December 1997	741,802,233

Substantial shareholdings — For analysis of shareholdings refer to page 100.

22 Goodwill reserve, other reserves

	Goodwill reserve £m	Other reserves £m
At 30th June 1994	–	4,035
Exchange adjustments	–	76
Profit attributable to shareholders	–	1,458
Dividends	–	(1,530)
Goodwill arising on acquisitions	(8,031)	–
Goodwill applied against merger reserve	2,834	–
At 31st December 1995	(5,197)	4,039
Exchange adjustments relating to:		
Net assets of subsidiary and associated undertakings	–	(445)
Retained profits of subsidiary and associated undertakings	–	(25)
Borrowings designated as hedges of overseas assets	–	199
Profit attributable to shareholders	–	1,997
Dividends	–	(1,202)
Net asset adjustment on acquisition of minority interest (Note 25)	–	20
Goodwill arising on acquisitions (Note 25)	(246)	–
Goodwill on disposal charged to the profit and loss account (Note 25)	578	–
At 31st December 1996	(4,865)	4,583
Exchange adjustments relating to:		
Net assets of subsidiary and associated undertakings	–	(126)
Retained profit of subsidiary and associated undertakings	–	(30)
Goodwill reserve	33	(33)
Borrowings designated as hedges	–	(8)
Profit attributable to shareholders	–	1,850
Dividends	–	(1,249)
Net asset adjustment on acquisition of minority interest (Note 25)	(3)	(3)
Goodwill arising on acquisitions	(5)	–
At 31st December 1997	(4,840)	4,984

On the acquisition of Wellcome plc in March 1995, £2,834 million of the goodwill arising was applied against the merger reserve created on the acquisition and the balance of goodwill arising on acquisitions in the 18 months to 31st December 1995 of £5,197 million was established as a goodwill reserve. Subsequent goodwill has been applied to the goodwill reserve.

Goodwill written off against other reserves up until 30th June 1994 amounts to £82 million.

Exchange adjustments debited to other reserves amount cumulatively to £401 million.

Of the other reserves of £4,984 million at 31st December 1997 (at 31st December 1996 – £4,583 million), £6,311 million (at 31st December 1996 – £142 million) relates to the company, £1,244 million negative (at 31st December 1996 – £4,496 million) relates to subsidiary undertakings and £83 million negative (at 31st December 1996 – £55 million negative) relates to associated undertakings.

The profit for the year dealt with in the accounts of Glaxo Wellcome plc amounts to £7,418 million (year to 31st December 1996 – £1,072 million, 18 months to 31st December 1995 – £1,569 million).

23 Share options

Number of shares issuable under outstanding options granted to Directors and employees within the Group under Glaxo Wellcome, Glaxo Group and Wellcome Share Option Schemes

	Number	Weighted exercise price	Share Option Schemes	Savings Related Share Option Scheme
At 30th June 1994	90,480,168	£6.13	74,622,281	15,857,887
Options granted	74,923,263	£6.82	66,900,592	8,022,671
Options granted on conversion of Wellcome options	13,230,599	£3.10	9,773,457	3,457,142
Options exercised	(21,724,593)	£3.05	(19,797,698)	(1,926,895)
Options cancelled	(5,673,025)	£6.91	(3,445,156)	(2,227,869)
At 31st December 1995	151,236,412	£6.62	128,053,476	23,182,936
Options granted	20,876,597	£8.25	17,481,350	3,395,247
Options exercised	(36,201,773)	£5.94	(27,447,486)	(8,754,287)
Options cancelled	(5,612,709)	£6.61	(4,103,797)	(1,508,912)
At 31st December 1996	130,298,527	£6.96	113,983,543	16,314,984
Options granted	16,566,328	£11.23	15,131,425	1,434,903
Options exercised	(28,171,945)	£6.48	(25,094,336)	(3,077,609)
Options cancelled	(4,342,106)	£7.26	(3,452,592)	(889,514)
At 31st December 1997	114,350,804	£7.68	100,568,040	13,782,764

Options outstanding at 31st December 1997

Number	Weighted exercise price	Range of exercise price	Weighted average remaining contractual life
1,336,223	£3.53	£2.51–£3.77	4.5 years
6,025,914	£4.85	£3.78–£5.67	2.7 years
84,471,966	£7.17	£5.68–£8.52	6.8 years
22,516,701	£10.59	£8.53–£12.75	9.3 years
114,350,804	£7.68		7.0 years

The options outstanding at 31st December 1997 are normally capable of being exercised over varying periods up to 12th August 2007 in the case of the Share Option Schemes and over varying periods up to 13th December 2001 in the case of the Savings Related Share Option Scheme.

Options exercisable

	Number	Weighted exercise price
At 31st December 1995	41,775,315	£6.31
At 31st December 1996	24,569,570	£6.76
At 31st December 1997	22,266,575	£6.46

In accordance with UK practice, the majority of options under the Savings Related Share Option Scheme were granted at a price 20 per cent below the market price ruling at the date of grant.

A performance condition attaches to certain options issued to senior staff under the Share Option Schemes. The options are not exercisable unless growth in the company's earnings per share equals or exceeds growth in the UK Retail Price Index plus 6 per cent over a three year period.

There has been no change in the exercise price of any outstanding options during the financial period.

There has been no material change since 31st December 1997 to the total number of options outstanding.

24 Consolidated cash flow statement

Analysis of cash flows

	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Returns on investment and servicing of finance			
Interest received	104	87	291
Interest paid	(231)	(278)	(308)
Costs of financing	(2)	(4)	(9)
Losses on investment activities	-	–	(1)
Earnings received from OTC joint ventures	17	89	51
Dividends paid to minority shareholders	(9)	(20)	(17)
	(121)	(126)	7
Capital expenditure			
Purchase of tangible fixed assets	(415)	(401)	(684)
Sale of tangible fixed assets (including integration)	222	33	61
	(193)	(368)	(623)
Acquisitions and disposals			
Purchase of fixed asset investments	(19)	(25)	(3)
Sale of fixed asset investments	–	3	37
Investment in associates	(32)	(46)	(32)
Purchase of businesses (Note 25)	(6)	(287)	(6,945)
Disposal of businesses (Note 25)	–	674	132
	(57)	319	(6,811)
Financing			
Issue of Ordinary Share capital	184	215	106
Issue of Shares to minority shareholders	4	–	–
Increase in long-term loans	244	382	8,424
Repayment of long-term loans	(14)	(26)	(7,290)
Net (repayment of)/increase in short-term loans	(490)	(1,229)	2,416
New obligations under finance leases	13	–	–
	(59)	(658)	3,656

Analysis of changes in net debt

	At 1.1.97 £m	Cash flow £m	Exchange £m	Other £m	At 31.12.97 £m
Cash repayable on demand	246	(32)	(19)	–	195
Overdrafts	(92)	(69)	3	–	(158)
	154	(101)	(16)	–	37
Debt due within one year					
Commercial paper	(1,117)	599	-	5	(513)
Other	(337)	(113)	17	–	(433)
	(1,454)	486	17	5	(946)
Debt due after one year					
Euro Bonds and Euro Notes	(1,077)	(226)	(5)	2	(1,306)
Other	(530)	(13)	8	–	(535)
	(1,607)	(239)	3	2	(1,841)
Convertible bonds	(92)	–	7	8	(77)
Management of liquid resources					
Cash not repayable on demand	15	7	(2)	–	20
Liquid investments	1,001	400	–	7	1,408
	1,016	407	(2)	7	1,428
Net debt	(1,983)	553	9	22	(1,399)

25 Acquisitions and Disposals

1997

Acquisitions

	Book values £m	Fair value adjustments £m	Net assets acquired £m	Cost of acquisition £m	Goodwill £m
Spectra Biomedical Inc	1	–	1	6	5
Nippon Glaxo Limited	–	3	–	–	3
	1	3	1	6	8

Spectra Biomedical Inc

In June 1997 the Group acquired Spectra Biomedical Inc, a company in California, USA specialising in association genetics. The purchase consideration was US$9 million (£6 million), and goodwill of £5 million has been taken to reserves. There was no cash acquired.

Nippon Glaxo Limited

The fair value adjustments on the redemption of 50 per cent of Nippon Glaxo Limited in 1996, provisionally estimated at that time at £39 million, have been revised to £33 million. The reduction of £6 million is attributable to the value of land and has been reflected in the consolidated tangible fixed assets of the Group. The 50 per cent of the adjustment which is attributable to the Group's pre-existing interest has been debited to reserves in 1997, and the 50 per cent attributable to the former minority interest has resulted in an increase of £3 million in the goodwill arising in respect of the redemption.

1996

Acquisitions

	Book values £m	Fair value adjustments £m	Net assets acquired £m	Cost of acquisition £m	Goodwill £m
Nippon Glaxo Limited	85	20	105	343	238
Burroughs Wellcome (India) Limited	7	–	7	15	8
	92	20	112	358	246

Nippon Glaxo Limited

In December 1996 the Group redeemed the 50 per cent equity interest in Nippon Glaxo Limited previously held by its joint venture partner, Shin Nihon Jitsugyo Co. Ltd. ("SNJ"), thereby increasing the Group's interest to 100 per cent. Previously Nippon Glaxo Limited had been consolidated as a subsidiary undertaking in accordance with Section 258(4)(a) of the Companies Act 1985 and a minority interest of 50 per cent had been accounted for. The redemption eliminated the minority interest. The cost of the redemption was Yen 68 billion (£343 million) comprising consideration of Yen 67 billion (£339 million) and redemption expenses of Yen 1 billion (£4 million). The consideration was paid in cash, Yen 54 billion on 25th December 1996 and Yen 13 billion on 10th January 1997.

The fair value of the net assets of Nippon Glaxo Limited at the date of redemption exceeded the book value by £39 million, comprising adjustments of £42 million in respect of the value of land and £3 million for additional liabilities. Consolidated Group net assets have therefore been increased by £39 million, with the 50 per cent attributable to the Group's pre-existing interest added to reserves and 50 per cent added to minority interests. Goodwill on consolidation is calculated as the difference between the cost of redemption and the adjusted value of the minority interest.

Burroughs Wellcome (India) Limited

In February 1996 the Group purchased an additional 19 per cent equity interest in Burroughs Wellcome (India) Limited, increasing its holding to 51 per cent. From that point Burroughs Wellcome (India) Limited has been consolidated as a subsidiary undertaking, having previously been accounted for as an associated undertaking.

Disposals

Warner Wellcome OTC joint ventures

The Group sold its interests in the Warner Wellcome OTC joint ventures in the USA and Europe on 30th June 1996 for a consideration of US$900 million and its interests in the joint ventures in other markets on 31st August 1996 for a consideration of US$150 million. The net surplus on disposal, after providing for costs and warranties, was £578 million. The goodwill attributable to these interests, which arose on the acquisition of Wellcome plc, as adjusted for subsequent exchange rate and other movements, was similarly £578 million, which was transferred from goodwill reserve and charged to the profit and loss account, thereby offsetting the surplus on disposal. There was no effect on the taxation charge in the profit and loss account from the disposal; a provision for such taxation of £214 million had been established as a fair value adjustment on the acquisition of Wellcome plc and was transferred in the balance sheet from deferred taxation to current taxation.

25 Acquisitions and Disposals (continued)

311C

The Group disposed of 311C, a compound in development by Wellcome plc for the treatment of migraine. The expected value of the consideration, net of costs, of £150 million was recognised as an asset for disposal on the acquisition of Wellcome plc and there was no effect on the profit and loss account from the disposal.

Cash flows

	Nippon Glaxo Limited £m	Burroughs Wellcome (India) Limited £m	Total £m
Total consideration	343	15	358
Accrued consideration	(68)	–	(68)
Cash acquired	–	(3)	(3)
Net cash payment on acquisitions	275	12	287

Net cash proceeds from disposal of OTC joint ventures	674

18 months to 31st December 1995

Acquisitions

	Book values £m	Fair value adjustments £m	Net assets acquired £m	Cost of acquisition £m	Goodwill £m
Wellcome plc	1,873	434	2,307	9,333	7,026
Affymax N.V.	75	(27)	48	347	299
Glaxo Korea Limited	3	–	3	18	15
Cascan GmbH & Co. KG	4	–	4	67	63
MediKredit	2	–	2	12	10
	1,957	407	2,364	9,777	7,413
Wellcome plc – Goodwill on investment in OTC joint venture					618
					8,031

Disposals

Glaxo India Limited sold its foods division on 30th September 1994. The profit on disposal was £35 million; the taxation and minority interest attributable to the disposal were £7 million and £14 million respectively; the Group share of the profit was £14 million.

Cash flows

	Wellcome plc £m	Affymax N.V. £m	Glaxo Korea Limited £m	Cascan GmbH & Co. KG £m	Total £m
Cash consideration paid	6,434	347	18	67	6,866
Cash acquired	(6)	(33)	(1)	–	(40)
Dividend paid to Wellcome plc shareholders	119	–	–	–	119
Net cash payment on acquisitions	6,547	314	17	67	6,945

	Glaxo India Limited (Foods division) £m	Hazeline £m	Total £m
Consideration received	42	93	135
Cash disposed	(3)	–	(3)
Net cash proceeds from disposal	39	93	132

26 Financial instruments and related disclosures

Investments

The Group holds a number of equity investments, principally in entities where the Group has entered into research collaborations. Investments where there are restrictions on sale or which are held for the long-term are accounted for as fixed asset investments. Investments regarded as available for sale are accounted for as current asset investments. For the purposes of US GAAP the investments are classified as available for sale.

The Group has liquid investments, representing funds surplus to immediate operating requirements, which are accounted for as current asset investments. For the purposes of US GAAP the investments are classified as available for sale.

The proceeds from sale of liquid investments classified as available for sale in the year ended 31st December 1997 were £14,277 million. The proceeds include the roll over of liquid funds on short-term deposit. There were no gross gains or losses reflected in the consolidated profit and loss account in respect of investments classified as available for sale.

Management of net debt

The company manages Group liquidity by balancing the use of borrowings and liquid assets having regard to: the cash flow from operating activities and the currencies in which it is earned; the currencies in which business assets are denominated; and the post-tax cost of borrowings compared to the post-tax return on liquid assets.

Liquid assets surplus to the immediate operating requirements of Group companies are managed centrally by Group Treasury. The majority of borrowing requirements in Group operating companies are financed from central resources. A limited number of derivative financial instruments are used to swap liquid assets or borrowings into the currencies required for Group purposes and to manage exposure to market risks from changes in foreign exchange rates and interest rates.

The Group does not hold or issue derivative financial instruments for trading purposes, and Group Treasury policies, approved by the Board, specifically prohibit such activity.

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 1997 the Group had outstanding contracts to purchase foreign currency having a total notional principal amount of £401 million (at 31st December 1996 – £767 million) and contracts to sell foreign currency having a total notional principal amount of £289 million (at 31st December 1996 – £121 million).

The Group has entered into two currency swaps. It has exchanged its 5 year Yen 64.1 billion loan for £400 million floating rate sterling. The swap accrued interest payable at an average rate of 6.5 per cent in 1997 and will mature in November 2000. The Group has exchanged its 7.0 per cent US$350 million Euro Note 2002 for Yen 44.2 billion floating rate. The swap was taken out in May 1997 and accrued interest payable at an average rate of 0.4 per cent. It will mature in May 2002.

Borrowings denominated in, or swapped into, foreign currencies which are used to finance investments in overseas Group assets are treated as a hedge against the relevant net assets.

Interest rate risk management

Under arrangements entered into to manage the fixed : floating interest rate profile of debt established in 1995 to finance the acquisition of Wellcome plc, the Group had outstanding with commercial banks at 31st December 1997, and at 31st December 1996, one interest rate swap and two interest rate caps.

Under the interest rate swap, the Group has agreed with a commercial bank to exchange, at specified intervals, the difference between the fixed and floating rate interest amounts calculated by reference to a total notional principal amount of £500 million (at 31st December 1996 – £500 million). The agreement is a 5 year swap, terminating in March 2000, exchanging sterling floating interest rate for a fixed rate of 8.61 per cent.

The interest rate caps limits the exposure of the Group to a maximum interest rate of 11 per cent in respect of any potential increases in interest rates on floating rate borrowings having a total notional principal amount of £1 billion sterling (at 31st December 1996 – £1 billion). The carrying value of the caps has been written down to fair value. The caps expire as to £500 million in January 1998 and as to £500 million in January 1999.

Concentrations of credit risk and credit exposures of financial instruments

The Group does not believe it is exposed to major concentrations of credit risk. The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations. The Group applies Board approved limits to the amount of credit exposure to any one counterparty and employs strict minimum credit worthiness criteria as to the choice of counterparty.

26 Financial instruments and related disclosures (continued)

Fair value of financial instruments

The following table presents the carrying amounts under UK GAAP and the fair values of the Group's financial instruments at 31st December 1997 and 31st December 1996. The fair values of the financial instruments 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.

	At 31.12.97		At 31.12.96	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Fixed assets:				
Investments in own shares	9	36	12	15
Equity investments	31	45	73	325
Current assets:				
Cash at bank	215	215	261	261
Liquid investments	1,408	1,415	1,001	1,008
Forward exchange contracts	–	(2)	–	(33)
Equity investments	39	243	–	–
Liabilities:				
Convertible bond	(77)	(154)	(92)	(104)
Long-term loans	(1,841)	(1,904)	(1,699)	(1,724)
Currency swaps on long-term loans	–	(74)	–	(71)
Short-term loans and overdrafts	(1,104)	(1,104)	(1,546)	(1,546)
Forward exchange contracts	–	6	–	3
Interest rate instruments:				
Interest rate swap	–	(16)	–	(18)
Interest rate caps	–	–	–	–

The difference between the carrying amount and the fair value of fixed asset equity investments represents gross unrealised gains of £18 million and gross unrealised losses of £4 million. The difference between the carrying amount and the fair value of current asset equity and liquid investments represents gross unrealised gains of £204 million and £7 million respectively. The following methods and assumptions were used to estimate the fair values shown above:

Investments in own shares

The fair value of the Group's investments in its own shares is the market value based on quoted market price.

Equity investments

The fair value of the Group's other listed equity investments is the market value of those investments based on quoted market prices. The fair value of the Group's material unlisted equity investments approximates to market value by reference to quoted prices.

Cash at bank

The carrying amount reported in the balance sheet approximates to the fair value.

Liquid investments

The fair value of the Group's marketable securities is based on quoted market prices. The fair value of the Group's time deposits approximates to their carrying value in the balance sheet because of their short maturity.

Convertible bonds

The fair value of the Group's convertible bond has been estimated using quoted market prices.

Short-term loans and overdrafts

The fair value of short-term loans and overdrafts approximates to the carrying amount reported in the balance sheet because of the short maturity of these instruments.

Long-term loans

The fair value of the Group's Eurobonds has been estimated using quoted market prices. In the case of bank loans and other loans, the fair value approximates to the carrying value reported in the balance sheet.

Forward exchange contracts

The fair value of the Group's forward exchange contracts is based on market prices and exchange rates at the balance sheet date.

Currency swaps

The fair value of the Group's currency swaps is based on market prices at the balance sheet date.

Interest rate instruments

The fair value of the Group's interest rate swaps and caps is based on market prices of comparable instruments at the balance sheet date.

27 Segment information

The Group continues to operate in a single business segment.

An analysis of turnover, profit before taxation, total assets, net assets and tangible fixed assets by geographical segment is set out below. The segments are defined to reflect the current Group regional management structure and the comparative figures for the 18 months to 31st December 1995 have been restated accordingly.

The Group's activities are organised on a worldwide basis. The segmental figures are therefore influenced by the location of the Group's operating resources and by variations over time in intra-group trading and funding arrangements.

		Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Turnover by location of customer	North America	3,584	3,683	4,651
	Europe	2,575	2,828	3,585
	Rest of the World	1,821	1,830	2,254
	External turnover	7,980	8,341	10,490
Turnover by location of subsidiary undertaking	North America	3,702	3,846	4,721
	Europe	4,214	4,203	5,285
	Rest of the World	2,343	2,323	2,861
	Gross turnover	10,259	10,372	12,867
	North America	(147)	(119)	(77)
	Europe	(1,473)	(1,280)	(1,562)
	Rest of the World	(659)	(632)	(738)
	Inter-segment turnover	(2,279)	(2,031)	(2,377)
	North America	3,555	3,727	4,644
	Europe	2,741	2,923	3,723
	Rest of the World	1,684	1,691	2,123
	External turnover	7,980	8,341	10,490
Profit before taxation by location of subsidiary undertaking	North America	1,124	1,210	1,519
	Europe	959	1,033	1,217
	Rest of the World	739	889	861
	Trading profit before integration costs	2,822	3,132	3,597
	Integration costs	–	–	(1,215)
	Profit on disposal of business	–	–	35
	Share of (losses)/profits of associated undertakings	(13)	19	57
	Net interest payable	(123)	(187)	(87)
	Profit before taxation	2,686	2,964	2,387

27 Segment information (continued)

		At 31.12.97 £m	At 31.12.96 £m
Total assets by location of subsidiary undertaking	North America	1,759	2,021
	Europe	3,733	3,680
	Rest of the World	1,322	1,351
	Total operating assets	6,814	7,052
	Cash at bank and liquid investments	1,623	1,262
	Total assets	8,437	8,314
Net assets by location of subsidiary undertaking	North America	374	862
	Europe	2,105	1,972
	Rest of the World	938	863
	Net operating assets	3,417	3,697
	Provisions for integration costs (net of taxation)	(128)	(447)
	Net debt	(1,399)	(1,983)
	Net assets	1,890	1,267

						At 31.12.97
Tangible fixed assets by location of subsidiary undertaking		Land and buildings £m	Plant and machinery £m	Fixtures and equipment £m	Assets in construction £m	Total £m
	North America	524	75	147	34	780
	Europe	965	860	237	145	2,207
	Rest of the World	296	168	37	95	596
		1,785	1,103	421	274	3,583

28 Employee benefits

Pension and other post-retirement costs

	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
UK pension schemes	7	21	60
US pension schemes	49	50	56
Other overseas pensions schemes	32	40	42
Unfunded post-retirement healthcare schemes	17	14	14
	105	125	172
Analysed as:			
Funded hybrid schemes	-	16	47
Funded defined benefit schemes	47	50	51
Unfunded defined benefit schemes	16	20	29
Defined contribution schemes	25	25	31
Unfunded post-retirement healthcare schemes	17	14	14
	105	125	172
Pension and other post-retirement costs arising from integration	1	31	49

Pensions

Group undertakings operate pension schemes which cover the Group's material obligations to provide pensions to retired employees. These schemes have been developed in accordance with local practices in the countries concerned.

The principal schemes are of the defined benefit type whereby retirement benefits are based on employee pensionable remuneration and length of service. In the majority of cases the contributions to defined benefit schemes are determined in accordance with the advice of independent, professionally qualified actuaries. The Group also operates a number of defined contribution schemes whereby retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee.

The assets of funded schemes are generally held in separately administered trusts or are insured.

In certain countries pension benefits are provided on an unfunded basis some of which are under a scheme administered by a trustee company. Where assets are not held with the specific purpose of matching the liabilities of unfunded schemes, a provision is included within provisions for pensions and other post-retirement benefits. The charge against profits in respect of these benefits is the aggregate of the increase over the year in the assessed liabilities for members still in service and the net movement in provisions set up for pensions in payment. Liabilities are generally assessed annually in accordance with the advice of independent actuaries.

The Group's principal schemes are defined benefit schemes in the UK and the USA. The principal UK defined benefit schemes now also include defined contribution sections and are shown as "hybrid schemes" in the table above.

The assets of the UK funded schemes are administered by individual trustees and are kept separate from those of the Group. Independent actuaries prepare valuations of the principal schemes at least every three years and, in accordance with their recommendations, annual contributions are paid to the schemes so as to secure the benefits set out in the rules. The latest actuarial valuations for funding purposes were carried out as at 31st March 1997 in respect of the Glaxo Wellcome Pension Scheme and the Glaxo Wellcome Pension Fund. Following these valuations, company contributions to these schemes remain suspended at least until the next formal valuation and are expected to remain suspended beyond.

Pension costs for accounting purposes have been derived using the projected unit method and by spreading the surpluses in the schemes over the average expected remaining service lives of their respective memberships. The pension cost calculations have been carried out on the basis of an assumed investment return of 8.7 per cent per annum, increases in pensions of 4 per cent per annum, increases in salaries of 6.1 per cent per annum (plus an allowance for promotion) and UK equity dividend growth of 4 per cent per annum.

28 Employee benefits (continued)

By reference to these assumptions, the actuarial value of the total of the schemes' assets as at 31st March 1997 represented 142 per cent of the actuarial value of all benefits accrued to members as at that date after allowing for future salary and pension increases. The tax changes announced in the July 1997 Budget are expected to reduce the future investment returns, but not to such an extent as to materially reduce the scheme surplus. The total market value of the assets held by the schemes at 31st March 1997 was £2,497 million.

The UK scheme's assets are invested in UK equities, fixed interest securities, securities linked to the index of Retail Price Inflation, overseas equities and property. At 31st December 1997 the UK equities included 3 million (at 31st December 1996 – 3 million) Ordinary Shares of the company with a market value of £47 million (at 31st December 1996 – £30 million) and property included land and buildings valued at £19 million (at 31st December 1996 – £18 million) which had been leased to the company.

The latest actuarial valuations of the Group's US funded schemes were carried out in 1997. At that date the market value of the schemes' assets was £256 million. The actuarial value of these assets represented 103 per cent of the actuarial value of all benefits accrued to members at that date after allowing for future salary increases. The plan assets are invested principally in US equities and overseas equities. None of the plan assets comprise Ordinary Shares of the company or are leased to the company.

Pensions (US GAAP)

The cost of the Group's principal pension plans is not materially different when calculated on a US GAAP basis. Accordingly, the difference has not been separately disclosed, but included within other differences, in the reconciliation of UK GAAP to US GAAP (Note 31). The disclosures below detail the additional information required by Statement Number 87 and Statement Number 88 of the US Financial Accounting Standards Board in respect of the Group's UK and principal US funded defined benefit plans.

UK funded defined benefit plans

Net pension cost

	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Service cost	(60)	(70)	(104)
Interest cost	(131)	(121)	(130)
Actual return on plan assets	200	361	203
Net amortisation and deferral	34	(163)	(6)
Net pension income/(cost) under US GAAP	43	7	(37)
Termination benefits and curtailment costs	(9)	(31)	–

The major assumptions used in computing the above pension expense were:

	% pa	% pa	% pa
Rate of future pay increases	5	6	6
Discount rate	7	8	8
Expected long-term rates of return on plan assets	7.5	8.5	8.5

Funded status

	At 31.12.97 £m	At 31.12.96 £m
Actuarial present value of benefit obligations		
Vested benefit obligation	1,639	1,445
Accumulated benefit obligation	1,639	1,445
Projected benefit obligation	1,742	1,658
Plan assets at fair value	2,517	2,389
Plan assets in excess of projected benefit obligation	775	731
Unrecognised net gain	(667)	(621)
Prior service cost not yet recognised in net periodic pension cost	38	13
Unrecognised net obligation	(57)	(68)
Prepaid pension cost under US GAAP	89	55

28 Employee benefits (continued)

US funded defined benefit plans

		Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Net pension cost	Service cost	27	20	21
	Interest cost	17	20	19
	Actual return on plan assets	(51)	(21)	(12)
	Net amortisation and deferral	32	10	–
	Net pension cost under US GAAP	25	29	28
	Termination benefits and curtailment costs	–	–	19
		% pa	% pa	% pa
The major assumptions used in computing the above pension expense were:	Discount rate	7.3	8	7.25
	Expected long-term rates of return on plan assets	8.0	8-9	7.25
		At 31.12.97 £m	At 31.12.96 £m	
Funded status	Actuarial present value of benefit obligations			
	Vested benefit obligation	235	167	
	Accumulated benefit obligation	235	187	
	Projected benefit obligation	235	249	
	Plan assets at fair value	256	188	
	Projected benefit obligation in excess of plan assets	(21)	61	
	Unrecognised net gain/(loss)	18	(12)	
	Prior service cost not yet recognised in net periodic pension cost	37	1	
	Unrecognised net obligation	–	(1)	
	Employer contributions	–	(13)	
	Accrued pension cost under US GAAP	34	36	

28 Employee benefits (continued)

Post-retirement healthcare

Several Group undertakings, in countries where it is local employment practice, mainly in North America, provide healthcare benefits to retired employees. The cost of providing these healthcare benefits is recognised on an accruals basis over the working life of the eligible employees. Amounts payable under these schemes are deductible at the taxation rate applicable in the countries in which payments are made.

The net healthcare cost is the same calculated on both a UK and US GAAP basis. The following disclosures are given in accordance with US GAAP.

Net healthcare cost

	Year to 31.12.97 £m	Year to 31.12.96 £m	18 months to 31.12.95 £m
Service cost	5	3	5
Interest cost	12	11	9
Net healthcare cost	17	14	14
Curtailment cost due to integration	–	–	30

The actuarial and recorded liabilities for post-retirement benefits, none of which have been funded, are as follows:

	At 31.12.97 £m	At 31.12.96 £m
Accumulated benefit obligation		
Retirees	95	86
Other fully eligible plan participants	13	6
Other active plan participants	50	40
Unrecognised net (gain)/loss	(22)	4
Unrecognised prior service cost	10	–
Total provision for post-retirement healthcare benefits	146	136

The more significant assumptions used in computing the above were:

	Year to 31.12.97 % pa	Year to 31.12.96 % pa	18 months to 31.12.95 % pa
Rate of future healthcare inflation	9.2 to 5.0	9.5 to 5.0	6.0
Discount rate	7.3	8.0	7.5

The impact of a 1 per cent variation in the rate of healthcare inflation would have an immaterial impact on the expense for the periods shown above.

29 Company balance sheet

		At 31.12.97 £m	At 31.12.96 £m
Tangible fixed assets	Short-term leasehold		
	Cost	9	9
	Depreciation	(3)	(2)
	Net book value	6	7
	Fixtures and equipment		
	Cost (additions – £6 million; reclassifications – £16 million; disposals – £3 million)	54	35
	Depreciation (provision – £6 million; disposals – £2 million)	(23)	(19)
	Net book value	31	16
	Assets in construction		
	Cost and net book value (additions – £17 million; reclassifications – £16 million)	2	1
	Total		
	Cost	65	45
	Depreciation	(26)	(21)
	Net book value	39	24
Debtors	Amounts owed by Group undertakings	768	700
	Taxation	157	–
	Other debtors	22	21
	Other prepayments and accrued income	9	3
	Amounts due within one year	956	724
	Advance Corporation Tax recoverable	-	126
	Deferred taxation	13	12
		969	862
Other creditors: amounts due within one year	Amounts due to Group undertakings	4,140	3,152
	Taxation	–	58
	Social security	1	1
	Other creditors	53	46
	Accruals and deferred income	33	24
	Dividend proposed	715	673
		4,942	3,954
Loans: amounts due after one year	Euro Bonds	1,100	1,077
	Other loans	399	398
		1,499	1,475
Provision for liabilities and charges	Pensions and other post-retirement benefits (applied – £1 million; charge – £6 million; transfers – £1 million)	50	44
	Other provisions (applied – £10 million; charge – £11 million)	18	17
		68	61
Contingent liabilities	Guarantees in respect of borrowings of Group undertakings	266	–
	Other	8	6
		274	6

30 18 months to 31st December 1995

(a) Basis of analysis

The prior period figures set out in the consolidated profit and loss account on page 42, the consolidated cash flow statement on page 44 and the statement of total recognised gains and losses and the reconciliation of movements in equity shareholders' funds on page 45 include results for the 18 months to 31st December 1995. In accordance with US requirements to analyse the results of a period greater than one year, the 18 month period has been further analysed below showing separately the results, cash flows, recognised gains and losses and movements in equity shareholders' funds for the 12 months to 31st December 1995 and the six months to 31st December 1994. Wellcome plc is consolidated from 16th March 1995.

(b) Consolidated profit and loss account

	Notes	Unaudited 12 months to 31.12.95			Unaudited 6 months to 31.12.94	18 months to 31.12.95
		Combined business £m	Integration £m	Total £m	£m	Total £m
Turnover		7,638	–	7,638	2,852	10,490
Cost of sales		1,313	558	1,871	493	2,364
Selling, general and administrative expenditure		2,643	400	3,043	938	3,981
Research and development expenditure		1,130	257	1,387	410	1,797
Other operating income		(29)	–	(29)	(5)	(34)
Operating costs	30(f)	5,057	1,215	6,272	1,836	8,108
Trading profit		2,581	(1,215)	1,366	1,016	2,382
Profit on disposal of business	30(h)	–	–	–	35	35
Share of profits/(losses) of associated undertakings	30(i)	60	–	60	(3)	57
Profit before interest		2,641	(1,215)	1,426	1,048	2,474
Net (interest payable)/investment income	30(j)	(136)	–	(136)	49	(87)
Profit on ordinary activities before taxation		2,505	(1,215)	1,290	1,097	2,387
Taxation	30(k)	768	(230)	538	329	867
Profit on ordinary activities after taxation		1,737	(985)	752	768	1,520
Minority interests		35	–	35	27	62
Profit attributable to shareholders		1,702	(985)	717	741	1,458
Dividends	30(m)	1,224	–	1,224	306	1,530
Retained profit/(loss)		478	(985)	(507)	435	(72)
Earnings per Ordinary Share	30(l)	50.3p		21.2p	24.3p	44.5p
Weighted average number of shares in issue (millions)		3,386		3,386	3,052	3,274
Dividends per Ordinary Share	30(m)					45.0p

30 18 months to 31st December 1995 (continued)

(c) Consolidated cash flow statement

		Notes	Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Reconciliation of operating profit to operating cash flows	Trading profit excluding integration costs		2,581	1,016	3,597
	Depreciation		392	141	533
	Loss on sale of tangible fixed assets		7	1	8
	Decrease/(increase) in stocks		22	(14)	8
	Increase in debtors		(238)	(53)	(291)
	Increase/(decrease) in creditors		170	(7)	163
	Increase in pension and other provisions		73	1	74
	Net cash inflow from operating activities excluding integration costs		3,007	1,085	4,092
	Integration costs paid		(269)	–	(269)
	Net cash inflow from operating activities		2,738	1,085	3,823
Cash flow statement	Net cash inflow from operating activities		2,738	1,085	3,823
	Returns on investment and servicing of finance	30(n)	(47)	54	7
	Taxation paid		(784)	(286)	(1,070)
	Capital expenditure	30(n)	(407)	(216)	(623)
	Acquisitions and disposals	30(n)	(6,847)	36	(6,811)
	Equity dividends paid		(977)	(531)	(1,508)
	Net cash (outflow)/inflow before management of liquid resources and financing		(6,324)	142	(6,182)
	Management of liquid resources		3,036	(395)	2,641
	Financing	30(n)	3,320	336	3,656
	Increase in cash in the period		32	83	115
Reconciliation of net cash flow to movement in net (debt)/funds	Net funds at start of period		2,210	2,091	2,091
	Increase in cash in the period		32	83	115
	Cash (inflow)/outflow from management of liquid resources		(3,036)	395	(2,641)
	Net increase in long-term loans		(1,134)	–	(1,134)
	Net advance of short-term loans		(2,098)	(318)	(2,416)
	Net non-cash funds of subsidiary undertakings acquired		812	–	812
	Exchange adjustments		12	(8)	4
	Other non-cash movements		6	(33)	(27)
	Movement in net (debt)/funds		(5,406)	119	(5,287)
	Net (debt)/funds at end of period		(3,196)	2,210	(3,196)

(d) Statement of total recognised gains and losses

	Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Profit attributable to shareholders	717	741	1,458
Exchange adjustments	103	(27)	76
Total recognised gains and losses for the period	820	714	1,534
Prior period adjustment	–	(17)	(17)
Total recognised gains and losses	820	697	1,517

30 18 months to 31st December 1995 (continued)

(e) Reconciliation of movements in equity shareholders' funds

	Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Balance at the beginning of the period as previously stated	5,470	5,043	5,043
Prior period adjustment	–	(17)	(17)
Balance at the beginning of the period restated	5,470	5,026	5,026
Total recognised gains and losses for the period	820	714	1,534
Dividends	(1,224)	(306)	(1,530)
Ordinary Shares issued:			
Ordinary Shares issued on acquisition of Wellcome plc	107	–	107
Merger reserve arising on acquisition of Wellcome plc	2,834	–	2,834
Ordinary Shares issued under share option schemes	88	18	106
Ordinary Shares issued in lieu of cash dividends	27	18	45
Goodwill arising on acquisitions	(8,031)	–	(8,031)
Balance at the end of the period	91	5,470	91

(f) Operating costs

	Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Operating costs include:			
Depreciation of tangible fixed assets	392	141	533
Loss on net monetary assets in hyper-inflationary economies	1	1	2
Operating lease rentals:			
Plant and machinery	30	11	41
Land and buildings	41	13	54
Audit fees:			
Audit of Glaxo Wellcome plc	0.3	–	0.3
Audit of subsidiary undertakings	2.9	–	2.9
Fees to auditors for other work:			
Auditors' UK firm	1.4	0.7	2.1
Auditors' overseas firms	2.2	0.3	2.5

Additionally fees of £0.4 million were paid to the auditors' UK firm in the 12 months to 31st December 1995 in connection with acquisitions.

(g) Employee costs

	Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Wages and salaries	1,394	529	1,923
Social security costs	167	66	233
Pension and other post-retirement costs	124	48	172
Provision for awards under incentive plans	1	–	1
Severance costs arising from integration	188	–	188
Pension and other post-retirement costs arising from integration	49	–	49
	1,923	643	2,566

Remuneration of Directors included within employee costs

Fees, salary, benefits and bonuses	6	3	9
Pension and other post-retirement costs	1	1	2
Provision for awards under incentive plans	1	–	1
	8	4	12

30 18 months to 31st December 1995 (continued)

		Unaudited 12 months to 31.12.95 Number	Unaudited 6 months to 31.12.94 Number	18 months to 31.12.95 Number
The average number of persons employed by the Group (including Directors) during the period	Manufacturing	19,750	16,978	18,700
	Selling, general and administrative	27,171	22,431	24,872
	Research and development	9,763	7,271	8,847
		56,684	46,680	52,419

The acquisition of Wellcome plc in March 1995 added approximately 16,000 to staff numbers.

		£m	£m	£m
Pension and other post-retirement costs	UK funded defined benefit schemes	27	20	47
	UK unfunded defined benefit schemes	3	–	3
	UK funded defined contribution schemes	9	1	10
	Overseas funded defined benefit schemes	39	12	51
	Overseas unfunded defined benefit schemes	20	6	26
	Overseas defined contribution schemes	15	6	21
	Unfunded post-retirement schemes	11	3	14
		124	48	172

(h) Profit on disposal of business

Glaxo India Limited sold its foods division on 30th September 1994. The profit on disposal was £35 million; the taxation and minority interest attributable to the disposal were £7 million and £14 million respectively; the Group share of the profit was £14 million.

(i) Share of profits/(losses) of associated undertakings

	Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Warner Wellcome	74	–	74
Glaxo Wellcome Warner-Lambert	(14)	(3)	(17)
Other	–	–	–
	60	(3)	57
Sales to associated undertakings	77	–	77
Earnings received from associated undertakings	51	–	51

(j) Net (interest payable)/investment income

		Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Interest payable	On bank loans and overdrafts	143	15	158
	On other loans	172	7	179
		315	22	337
Investment income	Interest income	172	93	265
	Realised gains/(losses)	7	(102)	(95)
	Provision for market value adjustments	–	80	80
		179	71	250
		(136)	49	(87)

30 18 months to 31st December 1995 (continued)

(k) Taxation

		Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Taxation charge based on profits for the period	UK corporation tax at 33 per cent	876	150	1,026
	Less double taxation relief	587	18	605
		289	132	421
	Overseas taxation	480	180	660
	Deferred taxation	(268)	17	(251)
	Irrecoverable advance corporation tax	37	–	37
		538	329	867
	Attributable to:			
	Holding company and subsidiary undertakings	535	329	864
	Associated undertakings	3	–	3
		%	%	%
Reconciliation of the taxation rate	UK statutory rate of taxation	33.0	33.0	33.0
	Deferred taxation not provided on fixed assets	(2.2)	(1.8)	(2.0)
	Effect of special taxation status in Singapore	(6.2)	(2.9)	(4.7)
	Net cost of different rates of taxation in overseas undertakings	2.5	0.2	1.4
	Taxation effect of disallowed integration costs	10.4	–	5.6
	Advance corporation tax written off	2.9	–	1.6
	Other differences	1.3	1.5	1.4
	Taxation rate in the accounts	41.7	30.0	36.3

Included in the taxation charge for the 12 months to 31st December 1995 is a credit of £230 million in respect of integration.

Profits arising from manufacturing operations in Singapore are taxed at a reduced rate until 30th June 2002. The effect of this reduction in the taxation charge increased earnings per Ordinary Share by 2.4p in the 12 months to 31st December 1995 and by 1.0p in the six months to 31st December 1994.

(l) Earnings per Ordinary Share

	Unaudited 12 months to 31.12.95	Unaudited 6 months to 31.12.94	18 months to 31.12.95
Earnings per Ordinary Share	21.2p	24.3p	44.5p
Adjustment in respect of integration	29.1p	–	30.1p
Earnings per Ordinary Share before integration	50.3p	24.3p	74.6p
Weighted average number of shares in issue (millions)	3,386	3,052	3,274

The earnings per Ordinary Share has been calculated by dividing the profit attributable to shareholders by the weighted average number of Ordinary Shares in issue during the period.

Earnings per Ordinary Share is also shown calculated by reference to earnings before integration costs and related taxation in order to provide an indication of continuing business performance.

The earnings per Ordinary Share is not materially different in the financial periods shown when calculated on a fully diluted basis.

30 18 months to 31st December 1995 (continued)

(m) Dividends

	Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
First Interim	–	306	306
Second Interim	698	–	698
Final – proposed	526	–	526
	1,224	306	1,530
	p	p	p
First Interim	–	10	10
Second Interim	20	–	20
Final – proposed	15	–	15
	35	10	45

(n) Consolidated cash flow statement analyses

		Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Analysis of cash flows	Returns on investment and servicing of finance			
	Interest received	213	78	291
	Interest paid	(287)	(21)	(308)
	Costs of financing	(9)	–	(9)
	Losses on investment activities	2	(3)	(1)
	Earnings received from OTC joint ventures	51	–	51
	Dividends paid to minority shareholders	(17)	–	(17)
		(47)	54	7
	Capital expenditure			
	Purchase of tangible fixed assets	(457)	(227)	(684)
	Sale of tangible fixed assets	50	11	61
		(407)	(216)	(623)
	Acquisitions and disposals			
	Purchase of fixed asset investments	(3)	–	(3)
	Sale of fixed asset investments	37	–	37
	Investment in associates	(28)	(4)	(32)
	Purchase of businesses	(6,945)	–	(6,945)
	Disposal of businesses	92	40	132
		(6,847)	36	(6,811)
	Financing			
	Issue of Ordinary Share capital	88	18	106
	Increase in long-term loans	8,424	–	8,424
	Repayment of long-term loans	(7,290)	–	(7,290)
	Net advance of short-term loans	2,098	318	2,416
		3,320	336	3,656

30 18 months to 31st December 1995 (continued)

(o) Segment information

		Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
Turnover by location of customer	North America	3,370	1,281	4,651
	Europe	2,599	986	3,585
	Rest of the World	1,669	585	2,254
	External turnover	7,638	2,852	10,490
Turnover by location of subsidiary undertaking	North America	3,417	1,304	4,721
	Europe	3,812	1,473	5,285
	Rest of the World	2,107	754	2,861
	Gross turnover	9,336	3,531	12,867
	North America	(51)	(26)	(77)
	Europe	(1,120)	(442)	(1,562)
	Rest of the World	(527)	(211)	(738)
	Inter-segment turnover	(1,698)	(679)	(2,377)
	North America	3,366	1,278	4,644
	Europe	2,692	1,031	3,723
	Rest of the World	1,580	543	2,123
	External turnover	7,638	2,852	10,490
Profit before taxation by location of subsidiary undertaking	North America	1,074	445	1,519
	Europe	892	325	1,217
	Rest of the World	615	246	861
	Trading profit before integration costs	2,581	1,016	3,597
	Integration costs	(1,215)	–	(1,215)
	Profit on disposal of business	–	35	35
	Share of profits/(losses) of associated undertakings	60	(3)	57
	Net (interest payable)/investment income	(136)	49	(87)
	Profit before taxation	1,290	1,097	2,387

(p) Employee benefits

		Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	18 months to 31.12.95 £m
UK funded defined benefit plans				
Net periodic pension cost	Service cost	79	25	104
	Interest cost	101	29	130
	Actual return on plan assets	(160)	(43)	(203)
	Net amortisation and deferral	8	(2)	6
	Net pension cost under FAS 87	28	9	37
US funded defined benefit plans				
Net periodic pension cost	Service cost	16	5	21
	Interest cost	16	3	19
	Actual return on plan assets	(11)	(1)	(12)
	Net amortisation and deferral	–	–	–
	Net pension cost under FAS 87	21	7	28
	Curtailment cost under FAS 88 due to integration	19	–	19
Post-retirement benefits other than pensions				
Net healthcare costs	Service cost	4	1	5
	Interest cost	7	2	9
	Net healthcare cost	11	3	14
	Curtailment cost due to integration	30	–	30

31 Reconciliation to US accounting principles

Basis of reconciliation

The following is a summary of the material adjustments to profit and shareholders' funds which would be required if US Generally Accepted Accounting Principles (GAAP) had been applied instead of UK GAAP.

A summary consolidated statement of cash flows is set out below in accordance with the classification of items and the definition of cash under US GAAP.

Profit

	Year to 31.12.97		Year to 31.12.96		18 months to 31.12.95		
	£m	US$m	£m	US$m	Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	Total £m
Profit attributable to shareholders under UK GAAP	1,850	3,034	1,997	3,115	717	741	1,458
US GAAP adjustments:							
Purchased research and development expenditure	–	–	–	–	(400)	–	(400)
Amortisation of goodwill	(554)	(909)	(534)	(833)	(398)	–	(398)
Amortisation of intangible assets	(326)	(534)	(494)	(771)	(371)	–	(371)
Integration	–	–	–	–	745	–	745
Purchased stock	–	–	(21)	(32)	(64)	–	(64)
Deferred taxation	(31)	(51)	–	–	64	(6)	58
Other	13	21	31	48	3	12	15
Net income under US GAAP	952	1,561	979	1,527	296	747	1,043
	pence	US$	pence	US$	pence	pence	pence
Income per Ordinary Share of 25p under US GAAP	26.7	0.44	27.8	0.43	8.7	24.5	31.9
Fully diluted income per Ordinary Share of 25p under US GAAP	26.4	0.43	27.5	0.43	8.7	24.4	31.8

Equity shareholders' funds

	At 31.12.97		At 31.12.96	
	£m	US$m	£m	US$m
Equity shareholders' funds under UK GAAP	1,843	3,041	1,225	2,095
US GAAP adjustments:				
Goodwill	4,040	6,666	4,619	7,898
Intangible assets	1,264	2,085	1,590	2,719
Unrealised gains on equity investments	218	360	255	436
Purchased stock	–	–	–	–
Business for disposal	–	–	–	–
Ordinary dividends	715	1,180	673	1,151
Deferred taxation	(304)	(502)	(273)	(467)
Other	106	175	64	110
Shareholders' equity under US GAAP	7,882	13,005	8,153	13,942

Consolidated statement of cash flows

	Year to 31.12.97		Year to 31.12.96		18 months to 31.12.95		
	£m	US$m	£m	US$m	Unaudited 12 months to 31.12.95 £m	Unaudited 6 months to 31.12.94 £m	Total £m
Net cash provided by operating activities	1,833	3,006	1,893	2,953	1,953	853	2,806
Net cash provided/(used) by investing activities	83	136	(41)	(64)	(3,978)	(628)	(4,606)
Net cash (used)/provided by financing activities	(1,208)	(1,981)	(1,744)	(2,721)	2,441	(233)	2,208
Increase/(decrease) in cash and cash equivalents	708	1,161	108	168	416	(8)	408

The exchange rates used for translation into US dollars are set out in Note 4 on the accounts.

31 Reconciliation to US accounting principles (continued)

Summary of material differences between UK and US GAAP

Business combinations

Under both UK and US GAAP, acquisitions made by the Group are accounted for as acquisitions/purchases. Both UK and US GAAP require the consideration to be allocated to the net assets acquired at their fair value at the date of acquisition, with the difference between the consideration and the fair value of the net assets acquired treated as goodwill. In the allocation of consideration, the differences between UK and US GAAP are as follows:

- UK GAAP requires an allocation of purchase consideration to intangible assets which are separable from the business. Under UK GAAP no intangible assets have been recognised because the intangible assets are considered not to be separable from the business. US GAAP requires an allocation of consideration to identifiable intangible assets whether separable or not.
- Under UK GAAP, costs to be incurred in integrating and restructuring the Glaxo and Wellcome businesses into a single business are charged to the profit and loss account post acquisition. Under US GAAP, certain of such costs are considered in the allocation of purchase consideration.
- Under UK GAAP, stocks are recognised at replacement cost. Under US GAAP, stocks are recognised at selling price less a margin for selling.

Goodwill

Under UK GAAP, goodwill arising on consolidation has been set against shareholders' funds. Under US GAAP, goodwill arising on consolidation is capitalised and amortised over its expected useful life and charged against income. For the purpose of determining the differences between UK GAAP and US GAAP, the expected useful life of goodwill has been taken to be ten years.

Intangible fixed assets

Intangible fixed assets recognised under US GAAP purchase accounting requirements are depreciated over their estimated revenue earning life, which is taken to be patent life plus five years. The carrying value of intangible assets is reviewed annually for any permanent impairment in value, using projected earnings and the cash flow method.

Fixed asset investments

Under UK GAAP, fixed asset investments are stated at cost less provision for permanent diminution in value. Under US GAAP, fixed asset investments classified as available for sale are stated at market value and the unrealised gains/losses are accounted for in shareholders' equity.

Purchased research and development expenditure

Research and development expenditure recognised under US GAAP purchase accounting requirements is written off directly to net income.

Deferred taxation

Under UK GAAP, deferred taxation is only accounted for to the extent that it is probable that taxation liabilities or benefits will crystallise. Under US GAAP deferred taxation is accounted for on all temporary differences and a valuation adjustment is established in respect of those deferred taxation assets where it is more likely than not that some portion will not be realised.

Ordinary dividends

Under UK GAAP, ordinary dividends proposed are provided for in the year in respect of which they are recommended by the Board of Directors for approval by the shareholders. Under US GAAP, such dividends are not provided for until declared by the Board of Directors.

Other

There are also differences between UK GAAP and US GAAP in relation to pensions, stock-based compensation, other debt and equity investments and capitalised interest. None of these differences is individually material and they are therefore shown as a combined total.

Consolidated statement of cash flows

The US GAAP cash flow statement reports changes in cash and cash equivalents, which includes short-term highly liquid investments. Only three categories of cash flow are reported, being: operating activities (including tax and interest); investing activities (being capital expenditure, acquisitions and disposals together with cash flows from available for sale current asset investments); and financing activities (including dividends paid).

Recent FASB pronouncements

FAS 130, Reporting Comprehensive Income, and FAS 131 on disclosure of segmental information fall to be implemented in 1998. The adoption of these Statements will not significantly affect the Group's existing disclosures. FAS 132, Employers' Disclosures about Pensions and other Post- retirement Benefits, falls to be implemented in 1998 and is expected to require some minor modification of the Group's existing employee benefits disclosures.

Principal financial statements in US format

Consolidated income statement	Year to 31.12.97		Year to 31.12.96		18 months to 31.12.95	
	£m	US$m	£m	US$m	£m	US$m
Sales	7,980	13,087	8,341	13,012	10,490	16,574
Operating costs including integration	5,158	8,459	5,209	8,126	8,108	12,810
Trading income	2,822	4,628	3,132	4,886	2,382	3,764
Profit on disposal of business	–	–	–	–	35	55
	2,822	4,628	3,132	4,886	2,417	3,819
Equity in (losses)/earnings of associated undertakings	(13)	(21)	19	30	57	90
Net interest expense	(123)	(202)	(187)	(292)	(87)	(137)
Income before taxes and minority interests	2,686	4,405	2,964	4,624	2,387	3,772
Taxes on income	819	1,343	933	1,456	867	1,370
Income before minority interests	1,867	3,062	2,031	3,168	1,520	2,402
Minority interests	17	28	34	53	62	98
Net income	1,850	3,034	1,997	3,115	1,458	2,304
	pence	US$	pence	US$	pence	US$
Net income per Ordinary Share/Earnings per ADR	52.0	1.71	56.7	1.77	44.5	1.41
Dividends per Ordinary Share/Dividends per ADR	35.0	1.15	34.0	1.06	45.0	1.42

The exchange rates used for translation into US dollars are set out in Note 4 on the accounts.

Consolidated balance sheet	At 31.12.97		At 31.12.96	
	£m	US$m	£m	US$m
Cash at bank	215	355	261	446
Investments	1,408	2,323	1,001	1,712
Inventories	855	1,411	804	1,375
Trade receivables, prepaid expenses and other current assets	2,099	3,463	2,122	3,628
Deferred taxes	225	371	180	308
Total current assets	4,802	7,923	4,368	7,469
Other investments	52	86	93	159
Property, plant and equipment	3,583	5,912	3,853	6,589
Total assets	8,437	13,921	8,314	14,217
Short-term borrowings	1,181	1,949	1,546	2,644
Payables and accrued expenses	1,247	2,057	1,281	2,190
Income taxes payable	743	1,226	654	1,118
Dividends proposed	715	1,180	673	1,151
Total current liabilities	3,886	6,412	4,154	7,103
Income taxes payable	53	87	54	92
Long-term borrowings	1,841	3,038	1,699	2,905
Provision for integration costs	177	292	543	929
Other long-term liabilities	590	974	597	1,021
Total liabilities	6,547	10,803	7,047	12,050
Minority interests	47	77	42	72
Ordinary Shares	894	1,475	886	1,515
Share premium in excess of par value	805	1,328	621	1,062
Goodwill reserve	(4,840)	(7,986)	(4,865)	(8,319)
Retained earnings	4,984	8,224	4,583	7,837
Total shareholders' equity	1,843	3,041	1,225	2,095
Total liabilities and shareholders' equity	8,437	13,921	8,314	14,217

The exchange rates used for translation into US dollars are set out in Note 4 on the accounts.

Financial record

Half-year trend

Profit and loss account

	H1 1996 £m	H2 1996 £m	1996 £m	H1 1997 £m	H2 1997 £m	1997 £m
Turnover	4,189	4,152	8,341	4,109	3,871	7,980
Cost of sales	754	710	1,464	743	730	1,473
Selling, general and administrative expenditure	1,261	1,374	2,635	1,257	1,379	2,636
Research and development expenditure	575	586	1,161	559	589	1,148
Other operating (income)/expense	(27)	(24)	(51)	(34)	(65)	(99)
Operating costs	2,563	2,646	5,209	2,525	2,633	5,158
Trading profit	1,626	1,506	3,132	1,584	1,238	2,822
Share of profits/(losses) of associated undertakings	34	(15)	19	(5)	(8)	(13)
Profit before interest	1,660	1,491	3,151	1,579	1,230	2,809
Net interest payable	109	78	187	62	61	123
Profit on ordinary activities before taxation	1,551	1,413	2,964	1,517	1,169	2,686
Taxation	489	444	933	463	356	819
Profit on ordinary activities after taxation	1,062	969	2,031	1,054	813	1,867
Minority interests	18	16	34	9	8	17
Profit attributable to shareholders	1,044	953	1,997	1,045	805	1,850
Earnings per Ordinary Share	29.7p	27.0p	56.7p	29.4p	22.6p	52.0p
Weighted average number of Ordinary Shares in issue (millions)	3,513	3,534	3,524	3,553	3,567	3,560

Half-year trend

Sales

Therapeutic area	Product	H1 1996 £m	H2 1996 £m	1996 £m	H1 1997 £m	H2 1997 £m	1997 £m
Respiratory	total	917	840	1,757	891	937	1,828
	Ventolin	261	210	471	197	194	391
	Serevent	181	168	349	191	215	406
	Becotide	201	191	392	170	161	331
	Flixotide	70	115	185	139	176	315
	Beconase	83	56	139	60	47	107
	Flixonase	95	77	172	107	107	214
Viral infections	total	636	724	1,360	754	668	1,422
	Zovirax	418	394	812	353	227	580
	Valtrex	14	27	41	36	48	84
	Retrovir	128	155	283	146	141	287
	Epivir	61	135	196	199	214	413
Gastro-intestinal	total	1,010	936	1,946	808	572	1,380
	Zantac	1,009	922	1,931	807	568	1,375
CNS disorders	total	342	382	724	431	518	949
	Imigran	263	276	539	310	352	662
	Lamictal	45	60	105	64	69	133
Bacterial infections	total	503	436	939	458	404	862
	Zinnat	224	186	410	221	175	396
	Fortum	148	140	288	131	129	260
	Zinacef	65	59	124	59	48	107
Oncology	total	209	225	434	224	236	460
	Zofran	180	188	368	183	195	378
Dermatologicals	total	114	126	240	118	118	236
Cardiovascular	total	109	112	221	113	115	228
Anaesthesia	total	54	58	112	48	48	96
Others	total	295	313	608	264	255	519
	Zyloric	53	56	109	47	50	97
	Imuran	48	45	93	37	31	68
		4,189	4,152	8,341	4,109	3,871	7,980
Region	**Major markets**						
North America	total	1,864	1,819	3,683	1,884	1,705	3,589
	USA	1,764	1,724	3,488	1,790	1,611	3,401
	Canada	100	95	195	94	94	188
Europe, Africa, Middle East	total	1,540	1,547	3,087	1,455	1,394	2,849
	Europe	1,411	1,417	2,828	1,319	1,259	2,578
	UK	320	338	658	309	283	592
	France	221	215	436	199	211	410
	Italy	188	203	391	188	174	362
	Germany	160	152	312	138	123	261
	Spain	122	100	222	111	104	215
	Eastern Europe	46	47	93	51	55	106
	Africa, Middle East	129	130	259	136	135	271
Asia Pacific	total	311	335	646	310	314	624
	Australia	69	83	152	73	85	158
	India	63	79	142	68	75	143
Japan	total	310	288	598	270	268	538
Latin America	total	164	163	327	190	190	380
	Brazil	55	48	103	68	56	124
	Mexico	31	35	66	37	45	82
		4,189	4,152	8,341	4,109	3,871	7,980

11-year record

	1997 £m	1996 £m	Pro forma year to 31.12.95 £m	6 months to 31.12.94 £m	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m	1987 £m
Therapeutic analysis of turnover												
Respiratory	1,828	1,757	1,603	705	1,229	1,087	964	775	723	585	457	362
Viral infections	1,422	1,360	1,099	–	–	–	–	–	–	–	–	–
Gastro-intestinal	1,380	1,946	2,255	1,137	2,442	2,172	1,807	1,606	1,551	1,291	989	829
CNS disorders	949	724	501	154	243	116	43	2	–	–	–	–
Bacterial infections	862	939	963	429	872	827	681	608	560	396	299	226
Oncology	460	434	451	198	404	365	259	78	2	–	–	–
Dermatologicals	236	240	205	102	183	168	145	128	126	101	96	86
Cardiovascular	228	221	187	36	75	67	63	43	50	46	48	46
Anaesthesia	96	112	117	–	–	–	–	–	–	–	–	–
Others	519	608	592	91	208	128	134	157	167	151	170	192
	7,980	8,341	7,973	2,852	5,656	4,930	4,096	3,397	3,179	2,570	2,059	1,741
Geographical analysis of turnover												
North America	3,589	3,683	3,495	1,280	2,598	2,132	1,715	1,359	1,316	1,163	831	662
Europe, Africa, Middle East	2,849	3,087	2,936	1,072	2,100	2,086	1,826	1,560	1,402	1,140	1,010	886
Asia Pacific	624	646	575	209	411	262	221	183	179	153	122	106
Japan	538	598	701	171	315	267	213	200	205	76	65	53
Latin America	380	327	266	120	232	183	121	95	77	38	31	34
	7,980	8,341	7,973	2,852	5,656	4,930	4,096	3,397	3,179	2,570	2,059	1,741

	1997 £m	1996 £m	Year to 31.12.95 £m	18 months to 31.12.95 £m	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m	1987 £m
Group profits and dividends												
Turnover	7,980	8,341	7,638	10,490	5,656	4,930	4,096	3,397	3,179	2,570	2,059	1,741
R&D expenditure	1,148	1,161	1,130	1,540	858	739	595	475	420	323	230	149
per cent of turnover	14	14	15	15	15	15	15	14	13	13	11	9
Trading profit	2,822	3,132	2,581	3,597	1,817	1,518	1,285	1,088	1,040	876	777	709
per cent of turnover	35	38	34	34	32	31	31	32	33	34	38	41
Net (interest payable)/ investment income	(123)	(187)	(136)	(87)	21	150	140	179	142	130	68	51
Profit before taxation	2,686	2,964	2,505	3,602	1,835	1,671	1,427	1,267	1,182	1,006	845	760
Profit for the financial period	1,850	1,997	1,702	2,443	1,299	1,204	1,033	881	807	688	581	510
Dividends	1,249	1,202	1,224	1,530	823	667	512	420	329	260	185	141
Retained profit	601	795	478	913	476	540	521	461	478	428	396	369
Share statistics												
Earnings per Ordinary Share (pence)	52.0	56.7	50.3	74.6	42.7	39.8	34.3	29.4	27.0	23.1	19.6	17.2
Dividends per Ordinary Share (pence)	35.0	34.0	30.0	45.0	27.0	22.0	17.0	14.0	11.0	8.7	6.2	4.7
Return on capital employed (%)	41.8	51.3	45.4	44.5	37.4	40.4	41.2	41.6	46.2	48.9	51.7	59.3

11-year record

	31.12.97 £m	31.12.96 £m	31.12.95 £m	31.3.95 £m	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m	1987 £m
Net assets												
Fixed assets	3,635	3,946	4,261		3,239	3,020	2,373	2,109	1,628	1,187	882	701
Other assets and liabilities	(346)	(696)	(844)		(181)	(51)	20	55	54	6	13	38
Net operating assets	3,289	3,250	3,417		3,058	2,969	2,393	2,164	1,682	1,193	895	739
Net (debt)/funds	(1,399)	(1,983)	(3,196)		2,091	1,688	1,246	1,118	1,123	1,120	908	725
	1,890	1,267	221		5,149	4,657	3,639	3,282	2,805	2,313	1,803	1,464
Capital employed												
Share capital and other reserves	6,683	6,090	5,288		5,026	4,546	3,572	3,208	2,732	2,291	1,784	1,450
Goodwill reserve	(4,840)	(4,865)	(5,197)		–	–	–	–	–	–	–	–
Minority interests	47	42	130		123	111	67	74	73	22	19	14
	1,890	1,267	221		5,149	4,657	3,639	3,282	2,805	2,313	1,803	1,464
Capital expenditure	423	385	634		543	650	566	621	637	373	275	193
Number of employees												
North America	9,976	10,376	10,343	12,665	7,533	7,535	6,448	5,560	5,169	4,979	3,258	2,598
Europe, Africa, Middle East	24,264	24,177	24,935	28,964	22,259	22,658	21,973	21,522	20,244	18,252	16,707	15,898
Asia Pacific	13,085	13,630	13,829	14,189	12,303	12,458	5,620	5,490	5,294	5,021	4,766	4,908
Japan	2,213	2,189	2,195	2,486	1,786	1,796	1,700	1,660	1	1	1	1
Latin America	2,963	3,088	3,057	3,160	3,497	2,657	2,291	1,999	1,875	1,486	1,691	1,549
	52,501	53,460	54,359	61,464	47,378	47,104	38,032	36,231	32,583	29,739	26,423	24,954
Manufacturing	17,532	19,081	19,122	20,805	17,726	17,882	12,873	13,247	13,280	12,533		
Selling	20,141	19,376	19,774	21,978	17,234	16,863	13,730	12,203	9,412	8,760		
Administration	5,900	6,087	6,416	7,681	5,096	4,904	4,614	4,353	4,529	3,725		
Research and development	8,928	8,916	9,047	11,000	7,322	7,455	6,815	6,428	5,362	4,721		
	52,501	53,460	54,359	61,464	47,378	47,104	38,032	36,231	32,583	29,739		

The financial periods covered by the 11-year record are: for the year to 30th June for the years up to and including 1994; following the change of financial year-end date in 1995, for the 18 months to 31st December 1995; for the year to 31st December subsequently.

Adjustments have been made to the figures originally published as follows:

- dividends and earnings per Ordinary Share have been adjusted for any scrip issues, and for the sub division of share capital in 1991
- the years 1994 to 1990, 1988 and 1987 have been restated to reflect subsequent changes in accounting policy or classification
- turnover is analysed in accordance with current reporting practice
- net (debt)/funds is defined to include all debt.

In 1995:

- Wellcome plc was acquired on, and is consolidated from, 16th March 1995
- the results for the 18 months and for the 12 months to 31st December 1995 are stated before integration costs, which reduced trading profit and profit before taxation by £1,215 million, profit for the financial period and retained profit by £985 million and earnings per Ordinary Share by 30.1p
- the dividend shown for the 12 months to 31st December 1995 is two thirds of the total dividend for the 18 months to 31st December 1995
- pro forma turnover for the 12 months to 31st December 1995 is presented as if Glaxo Wellcome had existed as a combined business from 1st January 1995.

Return on capital employed is calculated as profit before taxation before integration costs as a percentage of average capital employed (excluding the goodwill reserve) during the period.

The number of employees is the number at the end of the financial period, except in the years 1987 and 1988 where the number is the average number during the year. The acquisition of Wellcome plc in March 1995 added 16,330 to employee numbers. The reduction in numbers after 31st March 1995 results from the integration of the Glaxo and Wellcome businesses.

Principal subsidiary and associated undertakings

The following represent the principal subsidiary and associated undertakings of the Glaxo Wellcome Group at 31st December 1997, with details of the country of incorporation and principal country of operation, the location of the headquarters and activities.

The share capital of these undertakings, comprising Ordinary Shares, is wholly owned by the Group except where its interest is shown otherwise.

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

Region	Country	Location	Subsidiary undertaking	Activity	%
Europe, Africa, Middle East	England	Greenford	Glaxo Group Ltd.	h	
			Glaxo Wellcome Export Ltd.	e	
			Glaxo Research and Development Ltd.	r d	
			Glaxo Investments (UK) Ltd.	f	
			The Wellcome Foundation Ltd.	h r d p	
			Wellcome plc	h	
		Stockley Park	Glaxo Operations UK Ltd.	p	
			Glaxo Wellcome UK Ltd.	p m	
	Austria	Vienna	Glaxo Wellcome Pharma G.m.b.H.	m	
	Belgium	Brussels	Glaxo Wellcome Belgium S.A.	m	
	Czech Republic	Prague	Glaxo Wellcome s.r.o.	m	
	Denmark	Brøndby	Glaxo Wellcome a/s	m	
	Egypt	Cairo	Glaxo Wellcome Egypt S.A.E.	p m	89
	Finland	Espoo	Glaxo Wellcome Oy	m	
	France	Paris	Groupe Glaxo Wellcome	r p m	
	Germany	Hamburg	Glaxo Wellcome G.m.b.H. & Co.	p m	
	Greece	Athens	Glaxo Wellcome A.E.B.E.	p m	
	Hungary	Budapest	Glaxo Wellcome Kft	p m	
	Ireland	Dublin	Glaxo Wellcome Ltd.	p m	
	Italy	Verona	Glaxo Wellcome Finanziaria S.p.A.	h f	
			Glaxo Wellcome S.p.A.	r p m	
	Kenya	Nairobi	Glaxo Wellcome (Kenya) Ltd.	p m	
	Morocco	Casablanca	Glaxo Wellcome Maroc S.A.	m	90
	Netherlands	Zeist	Glaxo Wellcome B.V.	m	
	Nigeria	Lagos	Glaxo Wellcome Nigeria Ltd.	p m	
	Norway	Oslo	Glaxo Wellcome AS	m	
	Poland	Warsaw	Glaxo Wellcome Polska Sp. zo.o.	m	
	Portugal	Lisbon	Glaxo Wellcome Farmaceutica, Lda.	m	
	Saudi Arabia	Jeddah	Glaxo Saudi Arabia Ltd.	m	49[a]
	South Africa	Midrand	Glaxo Wellcome South Africa (Pty) Ltd.	p m	
	Spain	Madrid	Glaxo Wellcome, S.A.	r p m	
	Sweden	Mölndal	Glaxo Wellcome AB	m	
	Switzerland	Berne	Glaxo Wellcome A.G.	m	
		Zug	Adechsa S.A.	e	
	Turkey	Istanbul	Glaxo Wellcome I.S.A.S.	p m	
North America	Bermuda	Hamilton	Glaxo Insurance (Bermuda) Ltd.	i	
	Canada	Mississauga	Glaxo Wellcome Inc.	r p m	
	USA	North Carolina	Glaxo Wellcome Inc.	r p m	
		California	Affymax Research Institute Inc.	r	99
		New York	Glaxo Wellcome Americas Inc.	h	
			Glaxo Wellcome OTC Inc.	h	

Region	Country	Location	Subsidiary undertaking	Activity	%
Asia Pacific	Australia	Boronia	Glaxo Wellcome Australia Ltd.	p m	
	Bangladesh	Chittagong	Glaxo Wellcome Bangladesh Ltd.	p m	82
	China	Chongqing	Chongqing Glaxo Wellcome Pharmaceuticals Ltd.	p m	88
	Hong Kong	Hong Kong	Glaxo Wellcome Hong Kong Ltd.	m	
			Glaxo Wellcome China Ltd.	m	
	India	Mumbai	Glaxo India Ltd.	p m	51
			Burroughs Wellcome (India) Ltd.	m	51
	Indonesia	Jakarta	P.T. Glaxo Wellcome Indonesia	m	85
	Malaysia	Kuala Lumpur	Glaxo Wellcome (Malaysia) Sdn. Bhd	p m	
	New Zealand	Auckland	Glaxo Wellcome New Zealand Ltd.	p m	
	Pakistan	Karachi	Glaxo Wellcome (Pakistan) Ltd.	p m	70
	Philippines	Manila	Glaxo Wellcome Philippines Inc.	m	
			Duncan Pharmaceuticals Philippines Inc.	m	
	Singapore	Singapore	Glaxo Wellcome Singapore Pte Ltd.	m	
			Glaxo Wellcome Manufacturing Pte Ltd.	p	
			Glaxo Far East Pte Ltd.	h	
			Glaxochem Pte Ltd.	f	
	South Korea	Seoul	Glaxo Wellcome Korea Ltd.	p m	
	Sri Lanka	Colombo	Glaxo Wellcome Ceylon Ltd.	p m	81
	Taiwan	Taipei	Glaxo Wellcome Taiwan Ltd.	p m	
	Thailand	Bangkok	Glaxo Wellcome (Thailand) Ltd.	m	97
		Samut Prakan	Glaxo Wellcome-Vidhyasom Ltd.	p m	97
Japan	Japan	Tokyo	Nippon Glaxo Ltd.	r p m	
			Glaxo-Sankyo Co., Ltd.	m	50[a]
		Kobe	Nippon Wellcome K.K.	p m	55
Latin America	Argentina	Buenos Aires	Glaxo Wellcome S.A.	p m	
	Brazil	Rio de Janeiro	Glaxo Wellcome S.A.	p m	
	Chile	Santiago	Glaxo Wellcome Farmaceutica Ltda.	m	
	Colombia	Bogota	Glaxo Wellcome de Colombia S.A.	p m	
	Ecuador	Quito	Glaxo Wellcome S.A.	m	
	Mexico	Mexico City	Glaxo Wellcome Mexico, S.A. de C.V.	p m	
	Panama	Panama City	Glaxo Wellcome Centro America S.A.	m	
	Paraguay	Asunción	Glaxo Wellcome S.A.	m	
	Peru	Lima	Glaxo Wellcome S.A.	m	
	Puerto Rico	San Juan	Glaxo Wellcome Puerto Rico Inc.	m	
	Uruguay	Montevideo	Glaxo Wellcome S.A.	m	
	Venezuela	Caracas	Glaxo Wellcome C.A.	p m	
		Valencia	Allen & Hanburys C.A.	p m	

[a]Consolidated as subsidiary undertaking in accordance with section 258(4)(a) of the Companies Act 1985 on the grounds of influence over marketing strategy.

Region	Country	Location	Associated undertaking/Joint ventures	Activity	%	Issued Ordinary Shares
Europe, Africa, Middle East	Nigeria	Lagos	Evans Medical P.L.C.	p m	40	98,784,000 of N 0.50
North America	USA	California	Affymetrix, Inc.	r	34	US$22,786,945
			Glaxo Wellcome Warner-Lambert joint venture with operating entities in the UK, the USA, Europe and Canada			

Analysis of activity:

d development	i insurance
e exporting	m marketing
f finance	p production
h holding company	r research

Report of the Remuneration Committee

Remuneration policy	Glaxo Wellcome plc is a global company with a remuneration policy for Executive Directors designed to ensure that it attracts and retains the management skills necessary for the company to remain a leader in the world pharmaceutical industry. The policy seeks to provide rewards and incentives for the remuneration of Executive Directors which reflect the performance and align with the objectives of the company. A Director's total remuneration should seek to recognise his worth in the external market.
Chairman	The Chairman, Sir Richard Sykes, is remunerated as an Executive Director. The former Chairman, Sir Colin Corness, received emoluments at the rate of £200,000 per annum and had the use of a car provided by the company.
Non-Executive Directors	Each Non-Executive Director, with the exception of the Deputy Chairman, receives a total fee at the rate of £35,000 per annum. Of this amount £5,000 per annum (after the deduction of income tax) is used to purchase Ordinary Shares in the company. The purchase of the Ordinary Shares takes place once a year following the Annual General Meeting of the company. Each Non-Executive Director has agreed to hold the Ordinary Shares so purchased for the period of their service as a Non-Executive Director. The Deputy Chairman receives a total fee at the rate of £60,000 per annum, of which £10,000 per annum is similarly applied to the purchase of Ordinary Shares in the company. Non-Executive Directors do not have service contracts.
Executive Directors	The total emoluments of Executive Directors is made up of three elements: base salary; an annual bonus reflecting individual performance against defined targets; and a longer term incentive related to total shareholder return, i.e. share price growth plus the cash value of dividends. Additionally Executive Directors are entitled to other benefits and allowances and to post-retirement benefits. Each of the elements of emoluments is further described below. In the case of overseas based Executive Directors, the nature of their remuneration arrangements has regard to local practice. The notice of termination which the company must give to Executive Directors under their service contracts is two years. The committee believes that any reduction in notice periods is inappropriate given the international nature of the market in which the company operates. In the event that such notice is given, Executive Directors are normally required to mitigate any loss resulting therefrom.
Salary	Each Executive Director receives a salary which reflects his responsibilities and relevant market worth. Salary is reviewed annually.
Benefits and other allowances	Executive Directors are entitled to a range of benefits and allowances as offered to senior staff. Such benefits typically include the provision of a car or car allowance, petrol, medical insurance and financial advice. Benefits are valued for the purposes of remuneration at the cash cost to the company or at the amount assessed to income tax on the Director.
Annual Incentive Plan	This plan was introduced at the beginning of 1996. It pays annual bonuses in the form of cash and Ordinary Shares and encourages alignment with shareholders' interests by offering participants an incentive to invest all or part of the cash element of their bonus in additional Ordinary Shares. At the beginning of each financial year, the participant is notified of the maximum bonus (which is normally 60 per cent of his base salary) that he may earn over the coming financial year and of performance targets against which the actual bonus due to him will be measured. The performance targets are individually defined for each participant by reference to corporate and personal objectives. The principal measures of corporate performance include growth in profit before tax and growth in sales and trading profit at an operating level. At the end of the financial year the level of bonus is quantified for each participant with two thirds of the bonus being payable in cash. The remaining one third is payable as a basic award of a fixed number of Ordinary Shares in the company which may be released to the participant only after a further period of three years. It is the company's policy to encourage Executive Directors to establish long-term investments in the Ordinary Shares of the company; to that end, participants are invited to invest all or part of the cash element of their bonuses in purchasing additional Ordinary Shares, called deposited shares, also to be retained for three years. In return, the participant is granted a further entitlement to a matching number of Ordinary Shares (the matching award) corresponding to the number of deposited shares. A participant may withdraw his deposited shares at any time but, if and to such extent as the participant does so within three years, the corresponding matching award lapses. In accordance with US practice, the investment and matching elements of Mr Ingram's participation are taken through an analogous plan operated by Glaxo Wellcome Inc.

Long-Term Incentive Plan

This plan was introduced from the beginning of 1995 and is designed to encourage participants to focus their attention on the longer term growth in shareholder value by providing them with a deferred performance related award in Ordinary Shares. Following the announcement of the Group's results for a year, the participant is notified of his award under the plan. An award is the right to acquire, at no cost, a maximum fixed number of Ordinary Shares in the company with a market value equal to 100 per cent of the participant's base salary. Each award is subject to a performance target, the attainment of which will determine whether, and to what extent, the award may be exercised. The performance target compares the company's total shareholder return (share price growth plus dividends) over the three years following the grant of the award with that of the top 50 companies in the FTSE 100 Index. The company's ranking determines the extent to which each participant's awards vests, as follows:

Company's ranking		Award vesting	
	10th or above		100%
	15th		80%
	20th		60%
	25th		40%
	Below 25th		Nil%

with appropriate interpolations for any other ranking.

Upon exercising an award, the participant must retain all of his Ordinary Shares for a period of 12 months unless, and to the extent to which, the Remuneration Committee agrees otherwise. A participant may, however, sell sufficient of his Ordinary Shares to meet the exceptional tax liability arising from the exercise of his award.

A participant who leaves the Glaxo Wellcome Group before the third anniversary of grant of either his Annual Incentive Plan award or his Long-Term Incentive Plan award will forfeit his awards of Ordinary Shares unless the reason for leaving is death, injury, disability, redundancy or retirement at normal retirement age or for some other reason approved by the Remuneration Committee.

Share options

Prior to the introduction of the Annual Incentive Plan and the Long-Term Incentive Plan, Executive Directors participated in the Glaxo Group or Wellcome Share Option Schemes. Options under the schemes, granted at the market price ruling at the date of grant, are exercisable after three years and up to a maximum of ten years from the date of grant.

Executive Directors may continue to participate in the Glaxo Wellcome Savings Related Share Option Scheme.

Share holding

It is the Board's policy that each Executive Director should build a holding in the company's shares of at least the equivalent in value of one year's salary.

Post-retirement benefits

Executive Directors participate in pension schemes established by Group companies to provide pensions to staff in retirement. The pension schemes are mostly non-contributory. Pensions are normally equivalent to two-thirds of final salary, excluding bonus and other forms of remuneration, assuming approximately 20 years of service at senior executive level. In the case of Mr Ingram, in accordance with normal US practice, pension entitlement is based on salary plus annual bonus.

In the case of funded schemes, the company (or the employing subsidiary) pays contributions to formally constituted pension schemes, independent of the company. In the case of unfunded schemes, the company (or employing subsidiary) makes provision within its own accounts. The contributions to funded schemes and the provisions made in respect of unfunded schemes are based on external actuarial advice.

Executive Directors are also entitled to the post-retirement benefit of medical insurance.

Remuneration disclosures	The remuneration and entitlements of Directors and former Directors, in aggregate and individually, are set out on pages 93 to 97. The format of presentation reflects changes in disclosure requirements effective from 1997 introduced by the Companies Act and by the Listing Rules of the London Stock Exchange. In particular, pension benefits under defined benefit schemes are now disclosed in the form of entitlement earned during the year rather than, as previously, on the basis of contributions made by the company. Specific features of the disclosures are described below.
Annual Incentive Plan	Bonuses under the Annual Incentive Plan are disclosed as emoluments in the financial year over which performance is measured. The bonus comprises a basic award of shares and a cash payment. Directors who have elected to invest the cash element in shares receive an entitlement to a matching number of shares. The total value of the cash bonus, the basic award and the matching award is included in remuneration as performance bonus. Awards of shares, both basic and matching, are only released to Directors after three years. Directors' entitlements to awards in respect of both 1996 and 1997 are not yet released and are shown under the Annual Incentive Plan on page 94.
Gains made on exercise of share options	Share options held by Executive Directors under the Glaxo Wellcome share option schemes were granted at various dates up to and including 1st January 1995 in accordance with criteria then prevailing to reflect contribution to the business. Directors choose when to exercise such options during the period between 3 and 10 years from the date of grant. The gain arising is recognised in the year of exercise but is not specifically attributable to performance in that year. Gains on exercise of share options are calculated for the purpose of disclosure as the difference between the exercise price and the closing market price on the date of exercise of the share options. If any shares were sold immediately following exercise, to finance the exercise price and/or any consequential tax liabilities, the price obtained on sale may have been different from the closing market price. As reflected in the table of Directors interests in Ordinary Shares on page 97, the Directors who exercised options during the year retained a number of shares acquired on exercise to increase their shareholding in the company.
Former Directors	Remuneration is payable to certain former US-based Directors in accordance with the terms of the contracts under which they had been employed by a Group subsidiary undertaking in the USA. Following termination of his contract, Mr Pappas remained entitled to salary payments until 31st March 1997; although disclosed when made, the payments were fully provided in the accounts on termination of the contracts. Other former Directors received certain post-retirement benefits.
Post-retirement benefits	Group company contributions to money purchase schemes in respect of Directors are disclosed when paid.

Remuneration

	Year to 31.12.97 £000	Year to 31.12.96 £000
Directors		
Fees	360	172
Salary, benefits and other emoluments	3,606	3,613
Performance bonuses	2,905	1,450
Total emoluments	6,871	5,235
Gains made on exercise of share options	2,802	956
Company pension contributions to money purchase schemes	29	26
Compensation for loss of office	900	–
Former Directors		
Payments following cessation of executive office	190	949

	Salary/ Fees £000	Other benefits and allowances £000	Performance bonuses £000	Compensation for loss of office £000	Total emoluments 1997 £000	Total emoluments 1996 £000
Emoluments payable to Directors						
Executive Directors						
Sir Richard Sykes	875	22	826	–	1,723	1,127
Mr R A Ingram	485	116	595	–	1,196	729
Mr J M T Cochrane	337	18	134	–	489	470
Mr J D Coombe	387	22	364	–	773	578
Mr S P Lance (until 7.11.97)	506	24	296	900	1,726	562
Dr J E Niedel	390	36	353	–	779	778
Mr J A W Strachan	365	23	337	–	725	551
Non-Executive Directors						
Sir Colin Corness (until 19.5.97)	77	–	–	–	77	219
Sir Roger Hurn	49	–	–	–	49	10
Mrs A A L Armstrong (until 19.5.97)	15	–	–	–	15	30
Mme M Barzach	33	–	–	–	33	–
Mr D C Bonham	33	–	–	–	33	30
Mr D J Derx (until 19.5.97)	12	–	–	–	12	30
Mr P J D Job (from 1.10.97)	9	–	–	–	9	–
Lord Kingsdown (until 5.1.97)	–	–	–	–	–	33
Professor A Li	33	–	–	–	33	–
Mr J H McArthur	33	–	–	–	33	25
Dr R Schmitz	33	–	–	–	33	–
Sir Richard Southwood	33	–	–	–	33	30
Other Directors	–	–	–	–	–	33
Total emoluments	3,705	261	2,905	900	7,771	5,235
Remuneration paid to former Directors						
Mr A M Pappas	–	–	–	–	108	421
Others	–	–	–	–	82	528
Total	–	–	–	–	190	949

Annual Incentive Plan

The entitlement of Directors and former Directors to shares awarded under the Annual Incentive Plan is as follows:

	Bonus year	Award date	At 1.1.97 Number	Shares awarded Number	At 31.12.97 Number	Release date
Sir Richard Sykes	1996	27.3.97	–	16,617	16,617	27.3.00
	1997	11.3.98	–	29,369	–	11.3.01
Mr R A Ingram	1996	27.3.97	–	4,341	4,341	27.3.00
	1997	11.3.98	–	7.127	–	11.3.01
Mr J M T Cochrane	1996	27.3.97	–	8,172	8,172	27.3.00
	1997	11.3.98	–	4,774	–	11.3.01
Mr J D Coombe	1996	27.3.97	–	11,128	11,128	27.3.00
	1997	11.3.98	–	12,942	–	11.3.01
Mr S P Lance	1996	27.3.97	–	8,810	8,810	27.3.00
Dr J E Niedel	1996	27.3.97	–	11,321	11,321	27.3.00
	1997	11.3.98	–	12,535	–	11.3.01
Mr J A W Strachan	1996	27.3.97	–	9,853	9,853	27.3.00
	1997	11.3.98	–	11,971	–	11.3.01

Long-Term Incentive Plan

Shares awarded to Directors and former Directors under the Long-Term Incentive Plan are as follows:

	Cycle ending	Award date	At 1.1.97 Number	Shares awarded Number	At 31.12.97 Number	Vesting date
Sir Richard Sykes	1998	8.2.95	107,033	–	107,033	8.2.98
	1999	22.3.96	97,680	–	97,680	22.3.99
	2000	27.3.97	–	83,565	83,565	27.3.00
Mr R A Ingram	1999	22.3.96	51,626	–	51,626	22.3.99
	2000	27.3.97	–	45,880	45,880	27.3.00
Mr J M T Cochrane	1998	22.3.96	36,630	–	36,630	22.3.99
	2000	27.3.97	–	32,497	32,497	27.3.00
Mr J D Coombe	1998	8.2.95	50,458	–	50,458	8.2.98
	1999	22.3.96	42,735	–	42,735	22.3.99
	2000	27.3.97	–	37,140	37,140	27.3.00
Mr S P Lance	1998	8.2.95	40,431	–	40,431	8.2.98
	1999	22.3.96	23,673	–	23,673	22.3.99
	2000	27.3.97	–	12,112	12,112	27.3.00
Dr J E Niedel	1999	22.3.96	43,956	–	43,956	22.3.99
	2000	27.3.97	–	37,140	37,140	27.3.00
Mr J A W Strachan	1998	8.2.95	51,376	–	51,376	8.2.98
	1999	22.3.96	42,735	–	42,735	22.3.99
	2000	27.3.97	–	34,354	34,354	27.3.00

The performance of the company as measured against the target group described on page 91 determines the percentage of the award that vests.

The shares awarded in February 1995 vested on 8th February 1998; based on the performance of the company over the three year period ended on that date the shares vested as to 100 per cent. The gain attributable to each Director will be disclosed as remuneration in 1998.

In respect of the cycle that vested on 8th February 1998, Mr Ingram has been treated as if he had participated in the cycle from the date of his appointment to the Board on 17th May 1995. This recognises that, on his appointment to the Board, he ceased to participate in the incentive plan operated by the Group subsidiary undertaking in the USA by which he is employed. He has been paid a cash bonus of £590,000, with a requirement to invest the post-tax value in shares of the company to be held for at least a year. This puts Mr Ingram on the same footing as the four Directors participating in the cycle. The bonus paid to Mr Ingram will be disclosed as remuneration in 1998.

The shares awarded in March 1996 and March 1997 vest in March 1999 and March 2000 respectively. At 31st December 1997 the performance percentage, reflecting performance to date, was 80 per cent for the shares awarded in March 1996 and 100 per cent for the shares awarded in March 1997.

Mr Lance's awards have been pro-rated by reference to his period of employment.

The market price of an Ordinary Share at 31st December 1997 was £14.40.

Pension entitlement

Pension benefits are accruing to all Executive Directors under defined benefit schemes and to Mr Ingram under a money purchase scheme.

Set out in the table below are details of the pension benefits earned from the Executive Directors' participation in defined benefit pension schemes:

- The accrued pension entitlement represents the annual deferred pension to which the Director would have been entitled at age 60 or normal retirement date had he left service at the end of the year. This is based on completed service and earnings at the relevant date. For Directors joining the approved pension schemes after May 1989, benefits are subject to the Inland Revenue earnings cap. The company therefore provides these Directors with the additional pension benefits through an unfunded pension arrangement. The table below includes such additional pension benefits; but excludes any benefits derived from Directors' voluntary contributions.
- The additional entitlement represents the amount of extra pension entitlement earned during the year resulting from additional length of pensionable service and increases in salary.
- The transfer value of the additional entitlement, representing the capital sum required to fund the additional entitlement, is calculated in accordance with the advice of independent actuaries on a basis consistent with that used for similar calculations under the approved pension schemes.

	Accrued pension entitlement at 31.12.97 £000pa	Additional entitlement earned in the year to 31.12.97 £000pa	Transfer value of additional entitlement at 31.12.97 £000
Sir Richard Sykes	426	73	1,091
Mr R A Ingram	225	39	218
Mr J M T Cochrane[a]	138	27	388
Mr J D Coombe	165	30	417
Mr S P Lance[b]	211	76	987
Dr J E Niedel[c]	48	19	265
Mr J A W Strachan	156	18	250

[a] Includes the benefits in respect of the transfer in from a previous employer's pension scheme (£17,000 per annum at 31st December 1997).
[b] The transfer value does not reflect retirement from service on an immediate pension on 31st December 1997.
[c] Excludes a fixed pension of $78,000 per annum earned during service with Glaxo Wellcome Inc prior to 1995.

Compensation for loss of office

Mr S P Lance resigned as a Director on 7th November 1997. His contract of employment with the company was terminated with effect from 31st December 1997, on the following terms:

Payment of £900,000 on 2nd January 1998 in respect of salary and benefits foregone. This sum reflected the fact that he was required to mitigate any loss arising from the termination of his contract.
He retains his right to the shares awarded to him in 1996 under the Annual Incentive Plan. His Annual Incentive Plan bonus in respect of 1997 was paid in cash, with no right to invest in deposited shares or obtain a matching award.
He retains his participation in the Long-Term Incentive Plan, pro-rata to his period of employment, for awards granted in 1995 to 1997. The gain attributable to him will be disclosed as remuneration if and when the awards vest.
He retains his right to the share options set out on page 96.
As entitled under the rules of the pension schemes, he has opted to take an early retirement pension from 1st January 1998. The transfer value attaching to his early retirement under scheme rules was £564,000. The transfer value attaching to augmentation of his pension under the terms of his termination was £966,000. The pension will be provided predominantly by the UK funded hybrid pension scheme and additionally from the unfunded defined benefit scheme.

Share options

Interests of Directors who held office during the period in options to acquire Ordinary Shares in the company, excluding any entitlements under the Annual Incentive Plan and the Long-Term Incentive Plan which are set out on page 94.

		1.1.97	Exercised			Granted	31.12.97			
		Number	Number	Exercise price	Market price on exercise	Number	Number	Exercise price	Earliest date from which exercisable	Latest expiry date
Sir Richard Sykes		39,012	39,012	£4.86	£11.10		–			
		61,664	61,664	£6.91	£11.10		–			
		21,725	21,725	£8.33	£11.10		–			
		21,858	21,858	£6.49	£11.10		–			
		108,695	108,695	£6.44	£11.10		–			
		141,101	141,101	£6.81	£11.10		–			
		34,965					34,965	£5.72	26.9.97	25.9.04
	SAYE	1,369					1,369	£7.12	1.12.99	31.5.00
		430,389	394,055				36,334			
Mr R A Ingram		25,000					25,000	£8.13	25.2.95	24.2.02
		10,550	10,550	£6.49	£12.39		–			
		54,310					54,310	£6.81	22.2.97	21.02.04
		27,480					27,480	£6.33	28.2.98	27.2.05
		117,340	10,550				106,790			
Mr J M T Cochrane		4,743					4,743	£4.74	1.4.95	1.4.98
		53,857					53,857	£6.87	1.4.95	31.3.02
	SAYE	–				955	955	£10.20	1.12.00	31.5.01
		58,600					59,555			
Mr J D Coombe		9,100					9,100	£8.13	25.2.95	24.2.02
		49,580	49,580	£8.33	£13.07		–			
		8,214	8,214	£6.81	£14.25		–			
		20,979	20,979	£5.72	£14.25		–			
	SAYE	1,369					1,369	£7.12	1.12.99	31.5.00
		89,242	78,773				10,469			
Mr S P Lance		5,000					5,000	£8.33	22.9.95	31.12.98
	SAYE	3,343					3,343	£5.16	1.1.98	31.12.98
		17,482					17,482	£5.72	26.9.97	31.12.98
		66,197					66,197	£7.01	1.1.98	31.12.98
		92,022					92,022			
Dr J E Niedel		31,600					31,600	£4.86	4.3.94	3.3.01
		18,000					18,000	£8.13	25.2.95	24.2.02
		46,533					46,533	£6.49	23.2.96	22.2.03
		27,090					27,090	£6.81	22.2.97	21.2.04
		75,000					75,000	£6.33	28.2.98	27.2.05
	SAYE	1,369					1,369	£7.12	1.12.99	31.5.00
		199,592					199,592			
Mr J A W Strachan	SAYE	1,352	1,352	£5.54	£10.01		–			
		38,535	38,535	£8.33	£14.25		–			
		22,724	22,724	£6.81	£13.98		–			
		11,188	11,188	£5.72	£13.98		–			
	SAYE	1,369					1,369	£7.12	1.12.99	31.5.00
		75,168	73,799				1,369			

The market price of an Ordinary Share at 31st December 1997 was £14.40 (at 1st January 1997 £9.48). During the period the market price ranged from a high of £14.57 to a low of £8.94.

The options above were all granted under the Glaxo Wellcome, Glaxo Group or Wellcome Share Option Schemes except those marked SAYE which were under the terms of the Savings Related Share Option Scheme. The exercise price of SAYE options granted in the year is £10.20 per option.

Directors' interests in Ordinary Shares

The Directors who held office on 31st December 1997 have notified the company that they and their immediate families were beneficially interested in the Ordinary Shares of the company at that date to the extent shown in the table below.

	Shares acquired since 31.12.97	31.12.97	31.12.96
Sir Richard Sykes	19,496	360,402[bc]	223,075[b]
Sir Roger Hurn	–	3,500	3,500
Mr R A Ingram	–	17,892[d]	7,230[d]
Mme M Barzach	–	–	–[a]
Mr D C Bonham	–	5,000	5,000
Mr J M T Cochrane	3,168	15,740[c]	10,027
Mr J D Coombe	8,589	58,161[c]	29,269
Mr P J D Job	–	–	–[a]
Professor A Li	–	35,000	15,000[a]
Mr J H McArthur	402[d]	2,875[d]	2,000[d]
Dr J E Niedel	8,319	23,054[c]	15,500
Dr R Schmitz	–	–	–[a]
Sir Richard Southwood	–	1,030	958
Mr J A W Strachan	7,944	46,554[c]	29,158

[a] On date of appointment.
[b] Also has a non-beneficial interest in trusts which hold 38,300 Ordinary Shares (1996 – 2,000).
[c] Includes deposited shares under the 1996 Annual Incentive Plan.
[d] Held as ADRs.

Since 31st December 1997, Sir Richard Sykes, Mr Cochrane, Mr Coombe, Dr Niedel and Mr Strachan have acquired deposited shares under the 1997 Annual Incentive Plan. Additionally, Sir Richard Sykes has acquired 5 Ordinary Shares of the company and Mr McArthur has acquired 402 Ordinary Shares of the company (as ADRs). There have been no other changes in the interests in Ordinary Shares between the end of the financial period and 13th March 1998, the date of the accounts.

Highest-paid Director

The highest paid Director in 1997 and 1996 was Sir Richard Sykes.

	1997 £000	1996 £000
Total emoluments	1,723	1,127
Gains made on exercise of share options	1,775	17
Defined benefit pension:	£000 p.a.	
Accrued pension at end of year	426	

Directors and Officers

	1997 £000	1996 £000
Aggregate emoluments for services during the year	9,654	7,026
Aggregate cost of retirement benefits	1,878	1,426

At 13th March 1998, Directors and Officers as a group (21 persons) held options to acquire 742,377 Ordinary Shares of the company. The options are exercisable over varying periods up until 20th September 2005 and at prices between £4.74 and £10.20

Other information

Save as disclosed, no arrangements to which the company was a party subsisted at the end of the financial period, or at any time during the period, which would enable the Directors or their families to acquire benefits by means of the acquisition of Ordinary Shares in or debentures of the company or any of its subsidiary undertakings.

No Director had a material interest in any contract of significance subsisting at the end of, or during, the financial period involving the company's business.

Mr J M T Cochrane, Mr J D Coombe, Mr R A Ingram, Dr J E Niedel and Mr J A W Strachan, proposed for re-election as Directors at the forthcoming Annual General Meeting, each have a service contract which is determinable by notice to him of two years. Mr D C Bonham and Professor Sir Richard Southwood, proposed for re-election at the forthcoming Annual General Meeting, do not have service contracts with the company. Mr P J D Job, proposed for election at the forthcoming Annual General Meeting, does not have a service contract with the company.

Share capital

Ordinary Shares and Loan Stock

History

Glaxo Wellcome plc (formerly Glaxo plc and Glaxo Holdings p.l.c.) was incorporated on 23rd March 1972 to acquire all the Ordinary Stock Units of 50p each of Glaxo Group Limited, a publicly quoted company. Under a Scheme of Arrangement which became effective on 22nd May 1972, Glaxo Group Limited Ordinary stockholders received one Glaxo Holdings p.l.c. Ordinary Share of 50p and 60p of Glaxo Holdings p.l.c. 7½ per cent Convertible Unsecured Loan Stock 1985 (CULS) in exchange for each Glaxo Group Limited Ordinary Stock Unit of 50p. The CULS was converted into Ordinary Shares between 1975 and 1985.

Since 1972 the following alterations have been made to the share capital of Glaxo Wellcome plc:

August 1975
Rights issue: 1 for 5 at 200p (16th June 1975)
(also 1 Ordinary Share of 50p for each £25 of CULS at 200p)
January 1980
Capitalisation issue: 1 for 1 (11th February 1980)
January 1983
Capitalisation issue: 1 for 1 (21st February 1983)
January 1986
Capitalisation issue: 1 for 1 (27th January 1986)
November 1989
Capitalisation issue: 1 for 1 (24th November 1989)
October 1991
Sub-division of shares: each Ordinary Share of 50p was sub-divided into two Ordinary Shares of 25p each (30th October 1991)

The dates listed in brackets are those on which the share prices for the altered share capital were first quoted.

Capital gains tax

The prices for Glaxo Wellcome plc Ordinary Shares and for each £1 of CULS on the following dates were:

22nd May 1972	
Ordinary Shares of 50p	515p
CULS	140p
16th June 1975	
Ordinary Shares of 50p (nil paid)	172½p ex-rights
CULS	98¾p ex-rights
31st March 1982	
Ordinary Shares of 50p	513p*
CULS	197p

*Equivalent to 32p for each of the present Ordinary Shares of 25p.

Exchange controls and other limitations affecting security holders

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

Nature of trading market

The Ordinary Shares of the company and its predecessor company have been listed on the London Stock Exchange since 1947. The Ordinary Shares are also listed on the New York Stock Exchange (in the form of American Depositary Shares "ADSs"), the Tokyo Stock Exchange and the Paris Bourse.

London Stock Exchange

The following table sets out, for the periods indicated, the high and low middle market quotations (in pence) for the Ordinary Shares on the London Stock Exchange, as derived from its Daily Official List.

Fiscal Periods	Pence per Ordinary Share High	Low
1996		
Quarter ended 31st March 1996	969	799
Quarter ended 30th June 1996	887	771
Quarter ended 30th September 1996	1002	862
Quarter ended 31st December 1996	1028	930
1997		
Quarter ended 31st March 1997	1154	894
Quarter ended 30th June 1997	1286	1081
Quarter ended 30th September 1997	1400	1196
Quarter ended 31st December 1997	1457	1185
1998		
Quarter ended 31st March 1998 (through 9th March 1998)	1982	1465

New York Stock Exchange

The following table sets out, for the periods indicated, 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, and reported by Datastream International Limited.

Fiscal Periods	US dollars per ADS High	Low
1996		
Quarter ended 31st March 1996	29 1/4	24 1/2
Quarter ended 30th June 1996	27 3/8	23 3/8
Quarter ended 30th September 1996	31 1/8	26 3/4
Quarter ended 31st December 1996	34	30 1/2
1997		
Quarter ended 31st March 1997	37	30 1/8
Quarter ended 30th June 1997	42 1/4	35 1/8
Quarter ended 30th September 1997	46 5/8	38 1/16
Quarter ended 31st December 1997	48	39 1/4
1998		
Quarter ended 31st March 1998 (through 9th March 1998)	64	47 7/8

Analysis of shareholdings at 31st December 1997

		Number of accounts	% of total accounts	Ordinary Shares	% of total Ordinary Shares
Holding of Ordinary Shares	Up to 1,000	104,762	64.32	44,492,611	1.24
	1,001 to 5,000	41,846	25.69	90,867,843	2.54
	5,001 to 100,000	14,452	8.87	251,380,009	7.03
	100,001 to 1,000,000	1,436	0.88	452,084,899	12.65
	Over 1,000,000	392	0.24	2,736,021,601	76.54
	Totals	162,888	100	3,574,846,963	100
Held by	Nominee companies	36,543	22.44	2,753,914,451	77.03
	Investment and trust companies	899	0.55	32,766,297	0.92
	Insurance companies	180	0.11	77,068,277	2.16
	Individuals and other corporate bodies	125,264	76.90	415,036,477	11.61
	BNY (Nominees) Limited	2	–	296,061,461	8.28
	Totals	162,888	100	3,574,846,963	100

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 31st December 1997, the number of holders of record of Ordinary Shares in the USA was 676 with holdings of 1,180,019 Ordinary Shares, and the number of registered holders of the ADRs was 51,409. Because certain of these Ordinary Shares and ADRs were held by brokers or other nominees, the number of holders of record or registered holders in the USA is not representative of the number of beneficial holders or of the residence of beneficial holders.

Control of company

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

Substantial shareholdings

At 9th March 1998, the company had received notification of the following interests of 3 per cent or more in its Ordinary Shares:

- BNY (Nominees) Limited holds 284,732,655 Ordinary Shares representing 7.93 per cent. These Ordinary Shares are held on behalf of holders of American Depositary Receipts.
- The Wellcome Trust Limited holds 166,181,033 Ordinary Shares representing 4.63 per cent.
- Prudential Corporation plc holds 123,416,394 Ordinary Shares representing 3.44 per cent.

Directors and Officers

The interests of the Directors and Officers of the company (as defined in the Companies Act 1985) in share options of the company are given in the Report of the Remuneration Committee on pages 96 and 97.

Holders of Ordinary Shares

Registrar
The company's share register is administered by Lloyds Bank Registrars. For queries about your Glaxo Wellcome shareholding you should contact the registrar. Shareholders who wish their dividends to be paid directly to a bank or building society account should contact the registrar.

UK dividend reinvestment plan
A dividend reinvestment plan is available through the company's registrar to holders of the company's Ordinary Shares. Details of the plan can be obtained from the registrar.

Personal equity plans
General and single company personal equity plans for the company's Ordinary Shares are available from Bradford & Bingley (PEPs) Limited.

Low-cost share dealing facility
A low-cost share dealing facility is operated by Pershing Securities on behalf of Hoare Govett Corporate Finance Limited.

Share price information
The latest share price information is available on Ceefax, Teletext and the Cityline Service operated by the Financial Times: telephone 0891 432701 (calls charged at 45p per minute cheap rate and 50p per minute at all other times).

Annual General Meeting
The company's Annual General Meeting will be held on 18th May 1998 at The Queen Elizabeth II Conference Centre, London SW1. Investors holding shares in the company through a nominee service should arrange with that nominee service to be appointed a proxy in respect of their shareholding in order to attend the meeting.

ADR holders may instruct The Bank of New York as to how the Ordinary Shares represented by their ADRs should be voted by completing and returning the voting card provided by The Bank of New York in accordance with the instructions given.

Holders of American Depositary Shares

General
The company's shares are listed on the New York Stock Exchange (NYSE) 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. The shares are traded under the symbol GLX. The company's ADR programme is administered by The Bank of New York.

The recommended final dividend of 20p equals 40p per ADR. This amount will be paid in US dollars converted at the exchange rate on 21st May 1998. The total dividend for the financial period is 70p per ADR. The record date for this period's proposed final dividend to ADR holders is 6th March 1998 and payment will be made through The Bank of New York on 1st June 1998. Such ADRs will trade ex-dividend on the NYSE from 4th March 1998.

Under the current tax convention between the USA and the UK, dividends paid by a company resident in the UK to a resident of the USA will entitle the recipient to a payment by the UK tax authorities of a tax credit (other than in the form of a Foreign Income Dividend) eqivalent to the tax credit to which a UK resident individual would be entitled on the dividend, less a withholding tax of 15 per cent of the dividend plus the tax credit. The withholding tax will normally be eligible for credit against such ADR holder's US Federal Income Tax liability, provided Form 1116 "Computation of Foreign Tax Credit" is completed and filed with the ADR holder's US Federal Income Tax return. ADR holders who are unsure of their tax position should consult their independent tax adviser.

As a guide to holders of ADRs, the following table shows the interim and final dividends for the last five years in pence per share and translated into US dollars per ADS at the rate paid. These amounts have been adjusted for the UK tax credit, less the 15 per cent withholding tax, as detailed above. The company is paying 100 per cent of the recommended final dividend for 1997 as a Foreign Income Dividend.

Financial period	Interim pence/ cents	Second Interim pence/ cents	Final pence/ cents	Total pence/ cents
1997	16/52	–	20/66[a]	36/118[a]
1996	16/50	–	20/66	36/116
1995	11/34	21/67	16/48	48/149
1994	10/29	–	19/60	29/89
1993	7/22	–	16/45	23/67

[a] Estimated figure based on an exchange rate of US$1.64 per £1 on 9th March 1998.

US dividend reinvestment plan
A dividend reinvestment plan is available through The Bank of New York to all ADR holders with a registered address in the USA or Canada.

Holders of Ordinary Shares listed on the Tokyo Stock Exchange

The company's shares are listed on the Tokyo Stock Exchange (TSE) and are traded in units of 100 Ordinary Shares on the Foreign Section of the TSE. Transactions are carried out under the Central Depositary and Clearing System and original share certificates are kept by the Japan Securities Clearing Corporation (JSCC) through their depositary in London.

The record date for this period's proposed final dividend is 6th March 1998. Payment of the dividend to Japanese investors, in respect of Ordinary Shares held in deposit by the JSCC, will be made in yen during June 1998. The UK dividend reinvestment plan is available to Japanese investors who hold shares through the TSE. However, the number of Ordinary Shares receivable must be a multiple of the minimum trading unit of 100 Ordinary Shares. To receive dividends in the form of Ordinary Shares, shareholders should notify the securities company which holds their account of such intention.

Under the current tax convention between Japan and the UK, dividends paid by a company resident in the UK to a resident of Japan will entitle the recipient to a payment by the UK tax authorities of a tax credit (other than in the form of a Foreign Income Dividend), equivalent to the tax credit to which a UK resident individual would be entitled on the dividend, less a withholding tax of 15 per cent of the dividend plus the tax credit.

Further information about the company's Ordinary Shares listed in Japan can be obtained from The Toyo Trust & Banking Co., Limited.

Publications

In addition to the Annual and Interim Reports, the company produces other publications which may be obtained from the Group Secretariat at the company's registered office. These include:

- Health, Safety and Environment Report
- Glaxo Wellcome World
- Glaxo Wellcome in the Community
- Key Facts
- The Chairman's Awards for Health, Safety and Environmental Management.

Taxation for US residents

The following summary sets forth the principal US federal and UK tax consequences of the purchase and ownership of the company's Ordinary Shares or ADRs in respect of such Ordinary Shares by residents of the USA and is not intended to be a complete analysis or listing of all of the possible tax consequences of such purchase or ownership. This summary deals only with Ordinary Shares and ADRs held as capital assets and does not address any special tax consequences that may be applicable to US holders that are subject to special treatment under the US-UK double taxation convention or the United States Internal Revenue Code of 1986, as amended, such as dealers in securities, financial institutions, life insurance companies, corporations which alone, or together with one or more associated companies, control (directly or indirectly) 10 per cent or more of the voting power of the company, persons holding the Ordinary Shares or ADRs as part of a hedging or conversions transaction or a straddle or persons whose functional currency is not the US dollar.

As used herein a "US holder" means a holder that is a citizen or resident of the USA, a corporation, partnership or other entity created or organised in or under the laws of the USA or any political subdivision thereof, an estate the income of which is subject to US federal income taxation regardless of its source or a trust if the trust is subject to the supervision of a court within the USA and one or more US persons have the authority to control all substantial decisions of the trust.

Prospective investors are advised to consult their tax advisers with respect to the tax consequences of the purchase and ownership of Ordinary Shares or ADRs, including specifically the consequences under state and local tax laws. The statements regarding US and UK tax laws set out below are based on those laws as in force on the date of this Annual Report.

US holders of ADRs will be treated as the owners of the underlying Ordinary Shares for purposes of the US-UK double taxation conventions relating to income and estate and gift taxes and for the purposes of the US Internal Revenue Code of 1986, as amended.

Taxation of dividends

The company is required, when paying a cash dividend on its Ordinary Shares, to account to the UK Inland Revenue for a payment known as Advance Corporation Tax (ACT). The current rate of ACT is 20/80ths of any dividend paid to shareholders, or, stated differently, 20 per cent of the sum of the dividend and the related ACT. In the case of foreign income dividends, the company is able to reclaim the ACT payable in respect thereof.

A holder of an Ordinary Share or ADR who is a resident of the USA for purposes of the US-UK double taxation convention relating to income taxes (and whose holding is not effectively connected with a permanent establishment in the UK through which such holder carries on business therein or a fixed base in the UK from which such holder performs independent personal services therein) will generally be entitled under the convention and current UK law to receive, in addition to any dividend received as a beneficial owner from the company, a payment in respect of a UK tax credit (an "ACT Related Tax Credit") which is equal to the value of the tax credit of 20 per cent as stated above, less 15 per cent of the aggregate of that tax credit and the dividend. With regard to a US holder who is also considered to be a resident of the UK for purposes of the US-UK double taxation convention relating to income taxes, different rules may apply. Such persons are advised to consult their tax advisers in order to determine the specific tax consequences as a result of such status. In the case of foreign income dividends, US holders of ADRs will not be entitled to any payment in respect of the ACT Related Tax Credit, and no UK withholding tax will be imposed on such dividends. See Financial review – Year to 31st December 1997 – Taxation.

Dividends and amounts in respect of the ACT Related Tax Credit (including any related withholding tax), if any, paid to a US holder will be dividend income to the holder for US federal income tax purposes to the extent paid out of current or accumulated earnings and profits of the company, as determined under current US federal income tax principles. Such dividends generally will not be eligible for the dividends received deduction allowed to corporations. The amount of any dividend paid in pounds will equal the US dollar value of the pounds received calculated by reference to the exchange rate in effect on the date the dividend is received by the US holder, in the case of Ordinary Shares, or by the Depositary, in the case of ADRs, regardless of whether converted into US dollars. Foreign currency exchange gain or loss, if any, realised on the sale or other disposition of the pound sterling will be ordinary income or loss to the US holder. Subject to certain limitations, the 15 per cent UK withholding tax will be treated as a foreign income tax eligible for credit against such holder's US federal income tax.

Subject to exceptions for estates, trusts and partnerships, persons exempt from US federal income taxation (other than US pension funds), certain investment or holding companies and owners of 10 per cent or more of the voting shares of the company, arrangements have been made with the UK Inland Revenue for the ACT Related Tax Credit to be refunded (net of UK withholding tax) to a US holder, in addition to the payment of the related dividend, provided the holder completes a declaration on the reverse of the dividend cheque as to conditions entitling a holder to a payment of such refund and presents the cheque for payment within three months from the date of its issue. While the UK Inland Revenue has announced that US pension funds will be allowed to participate in such arrangements, details as to how and in what circumstances such arrangements will apply to US pension funds have yet to be finalised.

A US holder who wishes to receive the foregoing refund but who does not satisfy the foregoing requirements must make an individual claim for the payment of such refund in the manner and at the times described in Revenue Procedure 80-18, 1980-1 C.B. 623, and Revenue Procedure 81-58, 1981-2 C.B. 678. Claims for such payment must be made within six years of the UK year of assessment (generally the 12 month period ending 5th April in each year) in which the related dividend was paid. The first claim by a US holder for a payment under these procedures is made by sending the appropriate UK form in duplicate to the Director of the Internal Revenue Service Centre with which the holder's last US federal income tax return was filed. In the USA the UK forms for ACT refunds may be obtained from the Office of International Operations, Internal Revenue Service, 950 L'Enfant Plaza, Washington, D.C. 20024. Because a claim is not considered made until the UK tax authorities receive the appropriate form from the Internal Revenue Service, forms should be sent to the Internal Revenue Service well before the end of the applicable limitation period. Any claim after the first claim by a US holder for a payment under these procedures should be filed directly with FICO (International), Fitz Roy House, PO Box 46, Castle Meadow Road, Nottingham, NG2 1BD, England.

Taxation of capital gains

A holder who is neither resident nor ordinarily resident for UK tax purposes in the UK will not be liable for UK tax on gains realised or accrued on the sale or other disposal of Ordinary Shares or ADRs unless, in the year of assessment in which the gain accrues to such holder, that holder carries on a trade in the UK through a branch or agency and the Ordinary Shares or ADRs are or have been held for the purposes of such trade, branch or agency.

A US citizen who is resident or ordinarily resident in the UK or a US corporation which is resident in the UK by reason of being managed and controlled in the UK or a US citizen who, or US corporation which, is trading in the UK through a branch or agency and has in a case where an Ordinary Share or ADR is or has been acquired, used or held an Ordinary Share or ADR for the purposes of such trade, branch or agency, may be liable for both UK and US tax on a gain on the disposal of the Ordinary Share or ADR.

A US resident holder of an Ordinary Share or ADR will be liable for US federal income tax on gains realised or accrued on the sale or disposal of Ordinary Shares or ADRs to the same extent as on any other gains from sales of shares. Such gain will be a capital gain if the Ordinary Shares or ADRs were capital assets in the hands of the US resident holder.

Inheritance tax

An Ordinary Share or ADR held by an individual who is domiciled in the USA for the purposes of the US-UK double taxation convention relating to estate and gift taxes and is not a national of the UK will not be subject to UK inheritance tax on the individual's death or on a lifetime transfer of the Ordinary Share or ADR except in certain cases where the Ordinary Share or ADR is placed in trust other than by a settlor domiciled in the USA who is not a national of the UK and in the exceptional case where the Ordinary Share or ADR is part of the business property of a UK permanent establishment of an enterprise or pertains to a UK fixed base of an individual used for the performance of independent personal services. The convention generally provides a credit for the amount of any tax paid in the UK against the US federal tax liability in a case where the Ordinary Share or ADR is subject both to UK inheritance tax and to US federal gift or estate tax.

Stamp duty

UK Stamp Duty or, as the case may be, Stamp Duty Reserve Tax (SDRT) will, subject to certain exceptions, be payable on any deposit of Ordinary Shares with the ADR depositary or the custodian of the ADR depositary at the rate of £1.50 per £100 or part (stamp duty) or 1.5 per cent (SDRT) of the value of or, as the case may be, consideration paid for such Ordinary Shares. Any tax or duty payable by the ADR depositary or the custodian of such depositary on deposits of Ordinary Shares will be charged to the party to whom ADRs are delivered against such deposits.

No UK Stamp Duty will be payable on any transfer of an ADR, provided that the ADR (and any separate instrument of transfer) is executed and retained at all times outside the UK. Subject to this proviso, a transfer of an ADR in the USA will not give rise to Stamp Duty (or SDRT). An instrument transferring an ADR executed in or brought into the UK would attract Stamp Duty at a rate of 50p per £100 (or part) of the consideration, if any, for the transfer. Any sale of the underlying Ordinary Shares would result in a Stamp Duty liability at the rate of 50p per £100 (or part). On a transfer from nominee to beneficial owner (the nominee having at all material times held the Ordinary Shares on behalf of the transferee) or from the beneficial owner to such owner's nominee, under which no beneficial interest passes and which is neither on sale nor arises under a contract of sale nor is in contemplation of sale not to the operator of a clearance service, a fixed 50p Stamp Duty will be payable.

SDRT at a rate of 0.5 per cent will be payable on any agreement to transfer Ordinary Shares or any interest therein otherwise than to the custodian of the ADR depositary unless an instrument of transfer is executed and stamped within two months of the date on which the agreement is made, or, where the agreement is conditional, within two months of the day on which the condition is satisfied. SDRT will not be payable on any agreement to transfer ADRs.

The UK Finance Act 1990 included provisions for the abolition of the Stamp Duty charges and SDRT as referred to above. However, at the date of this Annual Report such provisions have not yet come into force.

Exchange rates

Noon buying rates

As a guide to holders of ADRs the following table sets out, for the periods indicated, information on the exchange rate of US dollars for sterling based on the noon buying rate for cable transfers in New York City payable in sterling, as reported by the Federal Reserve Bank of New York ("noon buying rate"):

Financial period	at Period end	Average[a]	High	Low
1993	1.49	1.61	2.00	1.42
1994	1.55	1.50	1.55	1.46
1995 (18 months)	1.55	1.58	1.64	1.52
1996	1.71	1.57	1.71	1.50
1997	1.64	1.64	1.70	1.58
1998 (to 9.3.98)	1.64	1.64	1.67	1.61

[a] The average of the noon buying rates on the last day of each month during the relevant period.

The noon buying rate on 9th March 1998 was £1 = US$1.64.

The company's consolidated accounts use a different exchange rate than the noon buying rate. As a result, the noon buying rate on a particular day may differ from the actual exchange rate used in the preparation of the accounts and US dollar amounts in this Report may differ from the actual US dollar amounts which were translated into sterling in the preparation of the accounts.

No representation is made that sterling amounts have been, or could have been, or could be, converted into US dollars at any of the above rates.

Glossary of terms

Terms used in Annual Report & Accounts	US equivalent or brief description
Accounts	Financial statements
Advance Corporation Tax	No direct US equivalent. Tax paid on company distributions recoverable from UK taxes due on income
Allotted	Issued
Called-up share capital	Ordinary Shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank	Cash
Creditors	Payables
Debtors	Receivables
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Interest receivable	Interest income
Interest payable	Interest expense
Net asset value	Book value
Profit	Income
Profit and loss account	Income statement
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
Shareholders' funds	Shareholders' equity
Share premium account	Additional paid-up capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Stocks	Inventories
Tangible fixed assets	Property and equipment

Financial calendar and addresses

Annual General Meeting	The Queen Elizabeth II Conference Centre Broad Sanctuary, Westminster, London SW1P 3EE	18th May 1998
Announcements	Half-year results 1998	30th July 1998
Dividends	Final dividend 1997	
	Ex-dividend date (Ordinary Shares)	2nd March 1998
	Ex-dividend date (ADRs)	4th March 1998
	Record date	6th March 1998
	Payable (Ordinary Shares)	21st May 1998
	£/US$ conversion date (ADRs)	21st May 1998
	Payable (ADRs)	1st June 1998
	Interim dividend 1998	
	Ex-dividend date (Ordinary Shares)	10th August 1998
	Ex-dividend date (ADRs)	12th August 1998
	Record date	14th August 1998
	Payable (Ordinary Shares)	1st October 1998
	£/US$ conversion date (ADRs)	1st October 1998
	Payable (ADRs)	13th October 1998
UK dividend reinvestment plan	Final dividend 1997	
	Last date for receipt of mandates	29th April 1998
Interest payment dates	Japanese Yen Convertible Bonds	4.3% payable 28th March and 28th September
	£ Bonds due 2005	8.75% payable 1st December
	US$ Notes due 2000	6.75% payable 31st May
	US$ Notes due 2002	7.0 % payable 2nd May
	US$ Notes due 2006	6.125% payable 25th January
Addresses for correspondence	Registered office Glaxo Wellcome plc Glaxo Wellcome House Berkeley Avenue Greenford Middlesex UB6 0NN Tel 0171 493 4060 Fax 0171 408 0228	Glaxo Wellcome corporate PEPs Bradford & Bingley (PEPs) Limited P O Box 1 Taunton Street Shipley West Yorkshire BD18 3YR Tel 01274 555700
	Investor relations – Europe Glaxo Wellcome plc Glaxo Wellcome House Berkeley Avenue Greenford Middlesex UB6 0NN Tel 0181 966 8401/8369 Fax 0181 966 8827	Low cost share dealing facility Pershing Securities Limited 3 Harbour Exchange Square London E14 9GD Tel 0171 345 6000
	Investor relations – USA Glaxo Wellcome plc 499 Park Avenue New York NY 10022 Tel 1 888 308 5112 (Toll Free) or 212 308 5186 (outside the USA) Fax 212 308 5263	ADRs/Dividend reinvestment plan The Bank of New York Investor Relations department P O Box 11258 Church Street Station New York NY 10286-1258 Tel 1 888 269 2377 (Toll Free) or 212 815 5800 (outside USA)
	Registrar Lloyds Bank Registrars The Causeway Worthing West Sussex BN99 6DA Tel (General enquiries) 01903 833960 Tel (DRIP enquiries) 01903 502541	Information agent (US Annual Reports only) Corporate Investor Communications, Inc. Tel 1 800 424 3106 (Toll Free)
		Shares listed on the Tokyo Stock Exchange The Toyo Trust & Banking Co., Limited Corporate Agency department 10-11 Higashisuma 7-Chome Koto-ku Tokyo 137-81 Tel 813 5683 5111

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Notes

Notes

Disease has no greater enemy