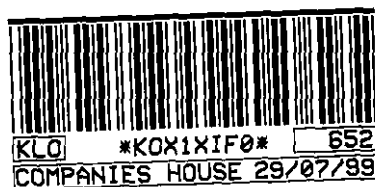


BEECHAM GROUP p.l.c.
Registered Number: 227531

DIRECTORS' REPORT AND ACCOUNTS

For the year ended 31 December 1998



BEECHAM GROUP p.l.c

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BEECHAM GROUP p.l.c.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998

Registered Office: Four New Horizons Court
Harlequin Avenue
Brentford
Middlesex
TW8 9EP

The Directors submit their annual report together with the audited accounts for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

The company owns pharmaceutical and other patents from which it derives its income. The company also acts as a holding company. The Directors do not envisage any major change to the nature of the business in the foreseeable future.

REVIEW OF BUSINESS

The Company made a profit on ordinary activities after taxation of £176.7million (1997: £156.2million). As part of the ongoing reorganisation within the SmithKline Beecham Group ("the Group"), the Company transferred six overseas operating subsidiaries at cost to Setfirst Limited on 20 May 1999 for a total consideration of £19.6million.

RESULTS AND DIVIDENDS

The profit and loss account is shown on page 6. Interim dividends of 7.652p per 'A' Ordinary share and 1.913p per 'B' Ordinary share have been paid. The directors recommend payment of further interim dividends of 10.482p per 'A' Ordinary share and 2.620p per 'B' Ordinary share. These in total amount to £173million for the 1998 financial year (1997: £152million). The retained profit for the year of £3.7million will be transferred to reserves (1997: £4.2million).

DIRECTORS

The Directors of the Company who served during the period or are now current Directors are as follows:

J R	Beery	
I C	Borland	
R J	Eaglen	(Resigned 18 June 1998)
R	Jacobs	(Appointed 23 June 1998)

Directors' and Officers' Liability Insurance, paid by SmithKline Beecham plc, was in place during the year.

None of the Directors has a beneficial interest in the shares of the Company, or any other group company, other than SmithKline Beecham plc.

BEECHAM GROUP p.l.c.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998 (Continued)

The following beneficial interests of the Directors in office at the year end in the shares of the ultimate parent undertaking, SmithKline Beecham plc, have been notified to the Company

	Ordinary Shares	
	At 31 December 1998	At 31 December 1997*
J R Beery	15,893	13,464
I C Borland	17,099	16,195
R Jacobs	9,344	14,717

	Ordinary Share ADR's #	
J R Beery	890	868

* or at date of appointment if later

an American Depository Receipt (ADR) represents five Ordinary shares.

	Options over Ordinary Shares			
	31 December 1998	Granted	Exercised	31 December 1997*
J R Beery	385,370	218,790	142,000	308,580
I C Borland	228,032	61,600	-	166,432
R Jacobs	80,270	28,875	18,964	70,359

	Options over Ordinary Share ADR's			
J R Beery	48,379	21,752	-	26,627

* or at date of appointment if later

Mid-Term Incentive Plans

Directors have acquired interests in the following Ordinary Shares under the SmithKline Beecham Mid-Term Incentive Plan (MTI Plan), through which shares may be earned by reference to the SmithKline Beecham Group's performance over a three year measurement period. These interests have been acquired on a nil price basis and the number of Ordinary Shares which will subsequently be earned will be determined by the extent to which the Group meets certain performance conditions following the end of the relevant three year measurement period. The following table shows the maximum number of Ordinary Shares that can be awarded.

	Ordinary Shares		
	31 December 1998	Granted	31 December 1997*
J R Beery	99,580	34,450	65,130
I C Borland	71,200	17,800	53,400
R Jacobs	18,400	4,600	13,800

	Ordinary Share ADR's		
J R Beery	10,500	3,570	6,930

* or at date of appointment if later

BEECHAM GROUP p.l.c.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998 (Continued)

The options for the purchase of shares may be exercised at a variety of prices. Details of option prices and market prices of shares during the year together with full details of the SmithKline Beecham Senior Executive Option Plans and MTI Plan are disclosed in the accounts of SmithKline Beecham plc.

YEAR 2000

Many Computer systems express dates using the last two digits of the year. These systems require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions. The operation of the Company depends on the systems of the Group and also to some degree on those of its counterparties and the Banking network.

Ensuring Year 2000 compliance of critical systems is part of a Group wide initiative and it remains a top business priority. These plans are detailed in the Annual Report and Accounts of the Group, which are available as disclosed in Note 17.

The Company recognises that there are risks posed by non-compliance and there is no guarantee that the Company will not be adversely impacted by Year 2000 matters. To mitigate these risks the Group has additionally launched a business continuity programme under which contingency plans are being developed where possible.

The Company's annual expenditure directly associated with Year 2000 compliance is not material and has been borne by the Group.

EUROPEAN MONETARY UNION

The European Union introduced a single European currency, the Euro, on 1 January 1999. The SmithKline Beecham Group is preparing for the transition to the Euro by testing and where necessary updating information systems. From 1 January 1999 the Company has been able to make and receive payments in Euros and all relevant systems have been updated to accommodate the new currency. All costs in connection with the introduction of the Euro have been borne by the Group.

BEECHAM GROUP p.l.c.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998 (Continued)

DIRECTORS' RESPONSIBILITIES

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

All accounting standards which they consider to be applicable have been followed, subject to any explanations and material departures disclosed in the notes to the financial statements.

The Directors have prepared the financial statements on a going concern basis.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

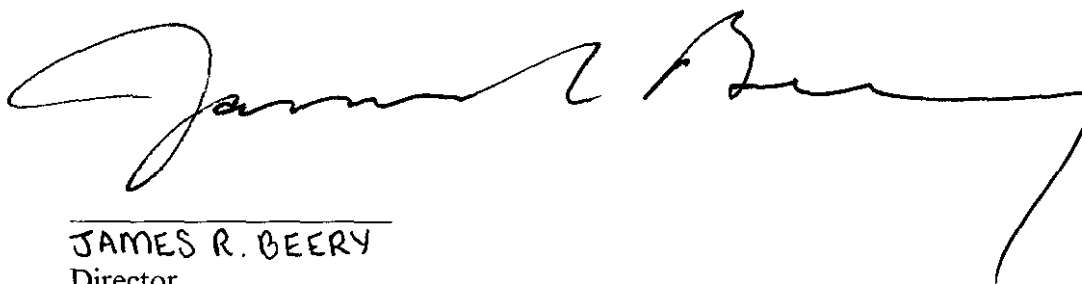
The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

AUDITORS

Following the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, Price Waterhouse resigned and the new firm, PricewaterhouseCoopers were appointed as the Company's auditors.

PricewaterhouseCoopers are willing to continue in office as auditors and resolutions dealing with their re-appointment and remuneration will be proposed at the Company's Annual General Meeting.

By order of the Board

A large, stylized handwritten signature in black ink, appearing to read 'James R. Beery', is written over a horizontal line.

JAMES R. BEERY
Director

Dated: 15 JULY 1999

AUDITORS' REPORT TO THE MEMBERS OF BEECHAM GROUP p.l.c.

We have audited the financial statements on pages 6 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 4, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Director's report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

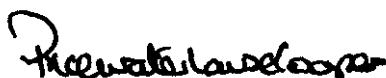
Basis of Audit Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
London

15 July 1999

BEECHAM GROUP p.l.c.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £m	1997 £m
Turnover	1	146.0	133.1
Other operating expense	2	(<u>0.2</u>)	(<u>1.8</u>)
Operating profit		145.8	131.3
Income from shares in group undertakings		2.2	1.1
Other interest receivable and similar income	3	107.6	119.0
Interest payable and similar charges	3	(<u>0.4</u>)	(<u>22.8</u>)
Profit on ordinary activities before taxation		255.2	228.6
Tax on profit on ordinary activities	4	(<u>78.5</u>)	(<u>72.4</u>)
Profit for the financial year		176.7	156.2
Dividends paid/proposed	5	(<u>173.0</u>)	(<u>152.0</u>)
Retained profit transferred to reserves		<u>3.7</u>	<u>4.2</u>

The results disclosed above relate entirely to continuing operations.

There were no recognised gains and losses other than those passing through the profit and loss account for the period.

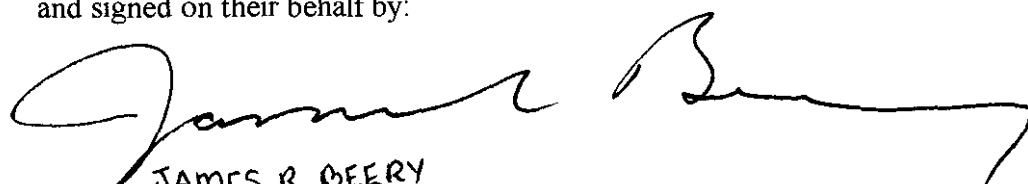
The notes on pages 8 to 14 form an integral part of these financial statements.

BEECHAM GROUP p.l.c.

COMPANY BALANCE SHEET AT 31 DECEMBER 1998

	Notes	1998 £m	1997 £m
Fixed assets			
Investments	7	19.8	1,708.2
Current assets			
Debtors	8	1,551.4	83.6
Cash at bank		<u>0.6</u>	<u>2.7</u>
		<u>1,552.0</u>	<u>86.3</u>
Creditors: amounts falling due within one year	9	(699.2)	(925.6)
Net current assets/(liabilities)		<u>852.8</u>	<u>(839.3)</u>
Total assets less current liabilities		872.6	868.9
Creditors: amounts falling due in more than one year	10	(<u>0.6</u>)	(<u>0.6</u>)
Net assets		<u>872.0</u>	<u>868.3</u>
Capital and reserves - Equity interests			
Called up share capital	11	190.8	190.8
Share premium	12	22.2	22.2
Other reserves	12	315.7	315.7
Profit and loss account	12	<u>343.3</u>	<u>339.6</u>
Total shareholders' funds	13	<u>872.0</u>	<u>868.3</u>

Approved by the Board on 15 JULY.....1999
and signed on their behalf by:


Director **JAMES R. GEERY**

The notes on pages 8 to 14 form an integral part of these financial statements.

BEECHAM GROUP p.l.c.

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention and comply with all applicable UK Accounting Standards which have been applied consistently.

TURNOVER

Turnover comprises royalties receivable from a group undertaking.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of each transaction or at contracted forward rate where applicable. Except for investments, which are stated at historic rate, assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet dates. All exchange differences are taken to the profit and loss account.

FIXED ASSET INVESTMENT

Fixed asset investments are stated in the balance sheet at cost less any provision made for permanent diminution in value.

DEFERRED TAXATION

Deferred taxation is provided on timing differences using the liability method where it is probable that tax liabilities or assets will crystallise within the foreseeable future.

DIVIDENDS RECEIVABLE

Dividends receivable from subsidiaries are included in the profit and loss account in the period in respect of which the related dividend is declared.

GOODWILL

Goodwill, representing the excess of the purchase consideration over the fair value of the net separable assets acquired, is capitalised and amortised over an appropriate period not exceeding 20 years. Prior to 1998 all goodwill was eliminated in the balance sheet against reserves in the year of acquisition.

BEECHAM GROUP p.l.c.

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENTAL INFORMATION

The Company operates under one class of business which arises from royalty income from a group undertaking in the UK under an agreement to sell the Beecham Group plc pharmaceutical business to SmithKline Beecham plc dated 1 January 1992.

2. OPERATING PROFIT

Operating profit is stated after charging:

	1998 £m	1997 £m
Foreign exchange transaction losses (net)	0.2	-

The auditors remuneration has been borne in the ultimate parent undertaking, SmithKline Beecham plc.

3. INTEREST

	1998 £m	1997 £m
Interest Receivable		
Interest receivable on loans with group undertakings	107.5	118.7
Interest receivable on deposits and investments held as current assets	<u>0.1</u>	<u>0.3</u>
	<u>107.6</u>	<u>119.0</u>
Interest Payable		
Bank overdrafts and other short term borrowings	(0.4)	(0.2)
Interest payable on loans with group undertakings	<u>-</u>	<u>(22.6)</u>
	<u>(0.4)</u>	<u>(22.8)</u>

BEECHAM GROUP p.l.c.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. TAXATION

The tax on profit on ordinary activities comprises:

	1998	1997
	£m	£m
UK Corporation tax at 31% (1997: 31.5%)	78.5	72.4
Double taxation relief	(0.9)	(1.0)
Overseas taxation	<u>0.9</u>	<u>1.0</u>
	<u>78.5</u>	<u>72.4</u>
Comprising:		
Current tax	<u>78.5</u>	<u>72.4</u>
	<u>78.5</u>	<u>72.4</u>

There is no amount of deferred taxation for which provision is required (1997: nil).

5. DIVIDENDS

Dividends paid and proposed are as follows:

	1998	1997
	£m	£m
Equity Shares:		
Ordinary A shares: interim paid 7.6516p per share (1997: 5.4504p)	58.4	41.6
Ordinary B shares: interim paid 1.9129p per share (1997: 1.3626p)	14.6	10.4
Ordinary A shares: final proposed 10.4816p per share (1997: 10.4816p)	80.0	80.0
Ordinary B shares: final proposed 2.6204p per share (1997: 2.6204p)	20.0	20.0
Total dividends paid and proposed	<u>173.0</u>	<u>152.0</u>

BEECHAM GROUP p.l.c.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. DIRECTORS' EMOLUMENTS

The Directors are employees of and are remunerated for their services by SmithKline Beecham plc, the ultimate parent undertaking. The Directors received no remuneration from the Company during the year (1997: nil).

7. FIXED ASSET INVESTMENTS

	Associated undertaking (listed)	Group undertakings		Total
	Shares at cost £m	Shares at cost £m	Loans £m	£m
At 1 January 1998	2.1	11.0	1,695.1	1,708.2
Exchange rate adjustments	-	-	-	-
Additions	-	6.3	-	6.3
Disposals	-	-	(1,694.7)	(1,694.7)
At 31 December 1998	2.1	17.3	0.4	19.8

The market value of the listed investment in the associated undertaking on the basis of overseas stock exchange quotation was £3.4 million (1997: £5.8 million).

The subsidiary companies and associated undertaking of the Company are shown below.

COUNTRY

Indonesia	PT SmithKline Beecham Pharmaceuticals (70%)
Malaysia	SmithKline Beecham Sendirian Berhad
Nigeria	SmithKline Beecham Nigeria plc (27%)
Pakistan	Beecham Pakistan (Private) Ltd
South Africa	SmithKline Beecham Pharmaceuticals (Pty) Ltd SmithKline Beecham Consumer Healthcare (Proprietary) Ltd Beeyar Investments (Proprietary) Ltd

- (i) Equity capital in companies is wholly owned unless otherwise stated, where the Company's percentage ownership is shown.
- (ii) The country under which each company appears is both the country of incorporation and of its principal operations.
- (iii) All subsidiaries are pharmaceutical and/or healthcare companies.

BEECHAM GROUP p.l.c.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. FIXED ASSET INVESTMENTS (Continued)

MOVEMENTS IN FIXED ASSET INVESTMENTS

During the year the Company increased its investment in Beecham Pakistan (Private) Limited from 60% to 100% in exchange for cash consideration of £6.3 million. The disposal of loans to group undertakings represents the repayment in full of a long term loan from SmithKline Beecham plc. The loan was replaced by a current account with another group undertaking which is repayable on demand. As a consequence, the loan has been disclosed within current assets as a debtor due within one year.

On 20 May 1999 SmithKline Beecham Nigeria plc, SmithKline Beecham Sendirian Berhad, Beecham Pakistan (Private) Ltd, PT SmithKline Beecham Pharmaceuticals, SmithKline Beecham Consumer Healthcare (Pty) Ltd and SmithKline Beecham Pharmaceuticals (Pty) Ltd were transferred to Setfirst Limited at cost for a total consideration of £19,625,741.

8. DEBTORS

	1998 £m	1997 £m
Due within one year:		
Amounts owed by group undertakings	1,528.0	45.8
Corporation tax	20.8	33.9
Other debtors	<u>2.6</u>	<u>3.9</u>
	<u>1,551.4</u>	<u>83.6</u>

9. OTHER CREDITORS: amounts falling due within one year

	1998 £m	1997 £m
Amounts due to group undertakings	4.9	265.4
Corporation tax	594.3	560.2
Dividends	<u>100.0</u>	<u>100.0</u>
	<u>699.2</u>	<u>925.6</u>

10. OTHER CREDITORS: amounts falling due after more than one year

	1998 £m	1997 £m
Other creditors	<u>0.6</u>	<u>0.6</u>
	<u>0.6</u>	<u>0.6</u>

BEECHAM GROUP p.l.c.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. CALLED UP SHARE CAPITAL

	1998 £m	1997 £m
Authorised		
1,000,000,000 A shares of 20p each	200.0	200.0
1,000,000,000 B shares of 5p each	<u>50.0</u>	<u>50.0</u>
	<u>250.0</u>	<u>250.0</u>
Issued and fully paid		
763,242,055 of 20p each	152.6	152.6
763,242,055 of 5p each	<u>38.2</u>	<u>38.2</u>
	<u>190.8</u>	<u>190.8</u>

There are no differences in the voting rights of the shares, priority to dividends or amounts on winding up

12. RESERVES

	Share Premium £m	Other reserves £m	Profit and loss account £m	Total reserves £m
At 1 January 1998	22.2	315.7	339.6	677.5
Retained profit for the year	—	—	<u>3.7</u>	<u>3.7</u>
At 31 December 1998	<u>22.2</u>	<u>315.7</u>	<u>343.3</u>	<u>681.2</u>

The Company's share premium and other reserves are not available for distribution.

The aggregate amount of goodwill net of disposals, eliminated from profit and loss account reserves amounts to £2.1 million (1997: £2.1 million).

BEECHAM GROUP p.l.c.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS YEAR ENDED 31 DECEMBER 1998

	1998	1997
	£m	£m
Profit for the financial year	176.7	156.2
Dividends	(173.0)	(152.0)
Net addition/(deductions) to shareholders' funds	3.7	4.2
Opening shareholders' funds	<u>868.3</u>	<u>864.1</u>
Closing shareholders' funds	<u>872.0</u>	<u>868.3</u>

14. CONTINGENCIES

The Company, together with fellow group Undertakings has entered into a Group Banking Arrangement with the Company's principal bankers. The Bank holds the right to pay and apply funds from any account of the Company to settle any indebtedness to the Bank of any other party to this agreement.

15. CASH FLOW STATEMENT

A cash flow statement has been included in the consolidated financial statements of SmithKline Beecham plc, the ultimate parent undertaking. The Company has therefore taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996).

16. GROUP ACCOUNTS

The Company is a wholly owned subsidiary of the ultimate parent company and as such has taken advantage of the exemption from preparing group accounts under s.228 of the Companies Act 1985.

17. ULTIMATE PARENT UNDERTAKING

SmithKline Beecham plc, a public limited company registered in England and Wales, is the Company's ultimate parent undertaking. The largest and smallest group of undertakings for which group accounts are prepared, and which include the results of Beecham Group plc, are the consolidated accounts of SmithKline Beecham plc. Copies of the consolidated accounts can be obtained from The Secretary, One New Horizons Court, Brentford, Middlesex, TW8 9EP.

18. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of SmithKline Beecham Group, advantage has been taken of the exception afforded by Financial Reporting Standard 8 not to disclose any related party transactions within the Group. There are no other material related party transactions.