

GLAXO OPERATIONS UK LIMITED

ANNUAL REPORT AND ACCOUNTS

Registered No. 711851



YEAR ENDED 31 December 1998

GLAXO OPERATIONS UK LIMITED

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 December 1998

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GLAXO OPERATIONS UK LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998

In submitting the accounts of the Company and the Auditors' Report for the year ended 31 December 1998, the Directors report that:

| | <u>£'000</u> |
|---|---------------|
| The profit for the year as shown in the profit and loss account is: | <u>64,475</u> |
| Proposed final dividend on ordinary shares: | <u>-</u> |

The Company does not propose to pay a final dividend in respect of the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

The Company operates in a single business segment. The principal activities of the Company are the manufacture and distribution of ethical pharmaceutical products.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The results for the year reflect an underlying growth in output of the Company's core activities. The investment necessary to support and develop the business has been maintained. Capital investment during the year on production facilities and equipment amounted to £89.5m (1997: £52.1 m).

The Company expects continuing growth in activity. Emphasis will continue to be placed upon quality, customer service, cost-effectiveness and new product development.

DIRECTORS

The following served as Directors of the Company during the year:

| | | |
|-----------------|------------|---------------------------|
| Mr T.C.Tyson | (Chairman) | Appointed 1 June 1998 |
| Dr G.J.Blaker | (Chairman) | Resigned 1 June 1998 |
| Mr J.R.Baxter | | |
| Mr P.L.Bruce | | Resigned 18 December 1998 |
| Dr J.R.Caldwell | | Resigned 19 August 1998 |
| Dr D.Pulman | | |

Dr A.Bell and Mr T.J.Miller were appointed Directors of the Company on 1 January 1999.

GLAXO OPERATIONS UK LIMITED

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

DIRECTORS (continued)

The Directors in office at 31 December 1998 had notifiable interests in shares and options of Glaxo Wellcome plc at 31 December 1998 and 1 January 1998 (or date of appointment if later*) as set out below:

| | Ordinary Shares of 25p each | | Options on Ordinary Shares of 25p each | | | |
|------------|--------------------------------|---------------|--|---------|-----------|---------------|
| | 31 Dec 1998 | 1 Jan 1998 | 31 Dec 1998 | Granted | Exercised | 1 Jan 1998 |
| T Tyson | - | - | 86,968 | - | - | 86,968 * |
| J R Baxter | 171 | - | 29,348 | 4,234 | (6,818) | 31,932 |
| D Pulman | 1,037 | 1,403 | 21,055 | 5,525 | (15,838) | 31,368 |

YEAR 2000

The Directors have implemented a Company-wide programme to minimise the risk of business interruption from Year 2000 issues. This requires investigation of the uncertainties, finding and correcting non-compliant hardware and software, working with vendors and other partners in the supply chain and developing contingency plans.

The Company 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.

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 Company estimates that it has spent approximately £3 million in the year to 31 December 1998 and will spend approximately £14 million in total over the duration of the Year 2000 project. These costs relate to investigation, remediation and testing, which are written off as incurred.

The Year 2000 issue has no precedent, with consequent uncertainties as to the scale of the problem, particularly externally to the Company. The Company continues to make every effort to avoid the possibility of business disruption.

GLAXO OPERATIONS UK LIMITED

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

PAYMENTS TO SUPPLIERS

The Company operates procedures to ensure that suppliers are paid on time. In particular, the Company seeks:

- To settle terms of payment with suppliers when agreeing the terms of the transaction;
- To ensure that suppliers are made aware of the terms of payment; and
- To abide by the terms of payment.

The procedures include arrangements for accelerated payment of small suppliers.

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

The number of creditor days in relation to trade creditors at 31 December 1998 is 36.

STAFF

At 31 December 1998, 4,924 people employed by Glaxo Wellcome plc in the United Kingdom performed their duties on behalf of the Company. Personnel and human resource policies and programmes take their direction from a framework of corporate values that encourages staff to become involved in the Company and which seeks to reward and develop all staff according to their contribution and capability. Staff communications are a high priority. Cascades, monthly communication events, team meetings, Company newspapers and journals and on-site presentations represent some of the methods used to ensure all staff are properly informed.

The Glaxo Wellcome Group's UK employment policy does not discriminate between employees or potential employees on the grounds of colour, race, ethnic and national origin, sex, marital status or religious beliefs. The Glaxo Wellcome Group gives full consideration to applications for employment from disabled people who can demonstrate that they have the necessary abilities. If an employee becomes disabled whilst in employment, and as a result is unable to perform his or her normal duties, every effort is made to offer suitable alternative employment and assistance with retraining.

Staff can participate directly in the growth of the Glaxo Wellcome Group through both the Glaxo Wellcome Share Option and Savings Related Share Option Schemes.

GLAXO OPERATIONS UK LIMITED

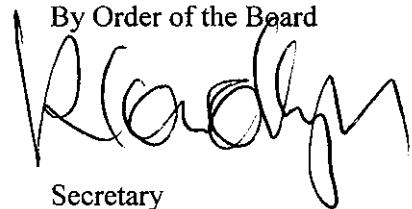
REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

AUDITORS

The Company has elected to dispense with the obligation to appoint Auditors annually. The company's auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998. Following the merger, Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. PricewaterhouseCoopers have expressed their willingness to continue in office and the Board is authorised to fix the remuneration of the Auditors in respect of the financial year just ended.

Registered Office:
Glaxo Wellcome House
Berkeley Avenue
Greenford
Middlesex UB6 0NN

By Order of the Board



Secretary

Date 23/4/99

GLAXO OPERATIONS UK LIMITED

PROFIT AND LOSS ACCOUNT

| | Notes | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|---|-------|--|--|
| TURNOVER | 6 | 643,812 | 560,439 |
| OPERATING COSTS LESS OTHER INCOME | 7 | 562,911 | 517,523 |
| Exceptional items credited against operating profit | 10 | 7,049 | 18,612 |
| TOTAL OPERATING COSTS LESS OTHER INCOME | | 555,862 | 498,911 |
| OPERATING PROFIT | | 87,950 | 61,528 |
| Profit on sale of fixed assets | 10 | - | 12,784 |
| Net interest receivable | 11 | 11,807 | 9,754 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 99,757 | 84,066 |
| Taxation | 12 | 35,282 | 29,684 |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 64,475 | 54,382 |
| Dividends | 13 | - | - |
| RETAINED PROFIT FOR THE PERIOD | | 64,475 | 54,382 |
| Retained profit/(loss) brought forward | | 39,593 | (14,789) |
| Retained profit carried forward | | 104,068 | 39,593 |

The above results all arise from continuing activities.

Statement of Total Recognised Gains and Losses. The Company has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the profit on ordinary activities before taxation and retained profit for the year stated above, and their historical cost equivalents.

GLAXO OPERATIONS UK LIMITED

BALANCE SHEET

| | Notes | 31 December 1998 £'000 | 31 December 1997 £'000 |
|---|-------|------------------------------|------------------------------|
| FIXED ASSETS | | | |
| Tangible assets | 14 | 415,303 | 383,425 |
| CURRENT ASSETS | | | |
| Stocks | 15 | 265,873 | 169,233 |
| Debtors | 16 | 246,481 | 261,295 |
| Cash at bank and in hand | | 163 | 5,641 |
| | | 512,517 | 436,169 |
| CURRENT LIABILITIES | | | |
| CREDITORS: Amounts falling due within one year | 17 | 181,596 | 127,400 |
| NET CURRENT ASSETS | | | |
| | | 330,921 | 308,769 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 746,224 | 692,194 |
| CREDITORS: Amounts falling due after more than one year | 17 | 193 | 424 |
| PROVISIONS FOR LIABILITIES AND CHARGES | | | |
| | 18 | 16,963 | 27,177 |
| NET ASSETS | | | |
| | | 729,068 | 664,593 |
| CAPITAL & RESERVES | | | |
| Called up share capital | 19 | 625,000 | 625,000 |
| Profit and loss account | | 104,068 | 39,593 |
| Equity Shareholders' Funds | | | |
| | 20 | 729,068 | 664,593 |

On behalf of the Board


Director

Approved by the Board on

23/4/99.

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998

1. ULTIMATE PARENT COMPANY

Glaxo Operations UK Limited is a wholly owned subsidiary undertaking of Glaxo Group Limited. The ultimate parent company and ultimate controlling party is Glaxo Wellcome plc. Glaxo Group Limited and Glaxo Wellcome plc are both incorporated in Great Britain. The accounts of Glaxo Wellcome plc can be obtained via our company secretary at Glaxo Wellcome House, Berkeley Avenue, Greenford, Middlesex, UB6 ONN.

2. BASIS OF TRADING

The following trading arrangements are reflected in the accounts:-

- (a) In the course of manufacture of its products the Company purchases certain processed materials from other companies in the Glaxo Wellcome Group.
- (b) The Company sells its products to other companies in the Glaxo Wellcome Group which in turn sell these products on their own account.
- (c) Certain expenditure is incurred by the Company on behalf of other Glaxo Wellcome Group companies and is charged to those companies as appropriate. Certain expenditure relating to the activities of the Company, principally in respect of administration, is incurred by other companies in the Glaxo Wellcome Group and is borne by the Company on appropriate bases.

3. ACCOUNTING CONVENTION

The accounts have been prepared using the historical cost convention and comply with all applicable UK accounting standards.

4. ACCOUNTING POLICIES AND DEFINITIONS

Tangible fixed assets: Tangible fixed assets are stated at cost less a provision for depreciation. Upon 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 profit and loss account. 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 the term of the lease and 50 years |
| Plant and machinery | 10 to 20 years |
| Fixtures and equipment | 4 to 10 years |
| Computer equipment & software | 3 to 5 years |

Stocks: Stocks are included in the accounts at the lower of cost (including manufacturing overheads, where appropriate) and net realisable value.

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

4. ACCOUNTING POLICIES AND DEFINITIONS (continued)

Deferred taxation: Deferred taxation is calculated using the liability method. Taxation deferred or accelerated by reason of material timing differences is accounted for to the extent that it is probable that liabilities or assets will crystallise. Advance corporation tax is carried forward to the extent that it is expected to be recovered.

Operating leases: Rental costs arising under operating leases are charged in the period in which they are incurred.

Finance Leases: Leasing agreements which transfer substantially all the benefits and risks of ownership of an asset are treated as if the asset has been purchased outright. The asset is included in fixed assets and the capital element of the leasing commitment is shown as obligations under finance leases. 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 shorter of the lease term and the useful lives of equivalent owned assets.

Foreign currencies: Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction and foreign currency assets and liabilities are translated into sterling at rates of exchange ruling at the balance sheet date; exchange differences are included in operating profit.

Cash flow statement: The Company is a wholly owned subsidiary undertaking of Glaxo Wellcome plc and the cash flows of the Company will be included in the consolidated group cash flow statement of Glaxo Wellcome plc. Consequently the Company is exempt under the terms of Financial Reporting Standard No. 1 (Revised) from publishing a cash flow statement.

Retirement benefits: The Company participates in schemes for employee retirement benefits which are administered by the ultimate parent company. The costs associated with these schemes are charged to the profit and loss account on a systematic and rational basis over the period during which benefit is derived from employee's services.

Related party disclosures: The Company is a wholly owned subsidiary undertaking of Glaxo Wellcome plc and the profit and loss account of the Company is included within the consolidated profit and loss account of Glaxo Wellcome plc. Consequently the Company is exempt under the terms of Financial Reporting Standard No. 8 from disclosing details of transactions with subsidiaries, associates and joint ventures of the Group.

5. CHANGE IN ACCOUNTING POLICY

Computer Software: The Company has changed its accounting practice in respect of computer software for 1998. Costs incurred in acquiring and developing computer software for internal use are now capitalised as tangible fixed assets, where the software supports a significant business system and the expenditure leads to the creation of an identifiable durable asset. Computer software assets are depreciated over their expected useful lives, and

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

5. CHANGE IN ACCOUNTING POLICY (continued)

reviewed for impairment. This change arises from a trend towards the acquisition of ready made applications that will be of benefit to the Company for several years. In 1998 expenditure of £28 million was capitalised, on which depreciation of £0.5 million was charged; the net effect is £27.5 million. The comparable net effect in previous years is not material and is in respect of projects of lesser significance; accordingly comparative figures have not been restated.

6. TURNOVER AND SEGMENTAL ANALYSIS

Turnover represents goods invoiced during the period, less trade discounts and excludes value added tax.

All turnover and profit on ordinary activities before taxation was attributable to continuing operations in the UK and to the principal activities of the business as detailed in the Report of the Directors.

| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|--|--|--|
| Turnover | | |
| Group companies | 643,812 | 560,439 |
| | | |
| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
| Geographical Analysis of Turnover | | |
| Analysis by destination: | | |
| United Kingdom | 643,812 | 560,439 |

This analysis reflects the location of the Company's immediate customers.

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

7. OPERATING COSTS LESS OTHER INCOME

| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|--|--|--|
| Materials and consumables | 297,076 | 218,844 |
| Staff costs (Note 8) | 140,043 | 119,277 |
| Depreciation | 51,787 | 60,799 |
| Other operating charges | 119,341 | 140,256 |
| | 608,247 | 539,176 |
| Deduct: | | |
| Other operating income | 52,385 | 40,265 |
| | 555,862 | 498,911 |
| Exceptional items deducted above (Note 10) | 7,049 | 18,612 |
| | 562,911 | 517,523 |
| Other operating charges include: | | |
| Auditors' remuneration | | |
| - as auditors | 105 | 120 |
| - for non audit work | 54 | 86 |
| Operating lease rentals | | |
| - land and buildings | - | - |
| - plant and machinery | 116 | 111 |

Depreciation includes £156,000 (1997: £99,000) in respect of tangible fixed assets held under finance leases.

Non audit fees paid to PricewaterhouseCoopers and its associates (being the predecessor partnership of Price Waterhouse and Coopers & Lybrand) during the year were £54,000 (1997: £86,000), all of which related to work done by Coopers & Lybrand, the previous auditors, and its associates.

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

8. STAFF NUMBERS AND COSTS

The staff engaged in the Company's business are employed by Glaxo Wellcome plc and their costs of employment, together with a management fee, are recharged to the Company.

| | Year ended 31 December 1998 Number | Year ended 31 December 1997 Number |
|--|---|---|
| The average number of persons (including executive directors) performing their duties for the Company during the period was as follows:- | | |
| Manufacturing | 5,034 | 4,789 |
| | 5,034 | 4,789 |
| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
| The aggregate payroll costs were as follows: | | |
| Wages and salaries | 127,689 | 123,124 |
| Social security costs | 11,598 | 11,696 |
| Pension costs | 756 | 960 |
| Severance costs arising from integration, including net provisions | - | (16,503) |
| | 140,043 | 119,277 |

Independent actuaries prepare valuations of the funded defined benefit 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 schemes' rules. The latest actuarial valuation of the schemes was at 31st March 1997 and as a result company contributions to the schemes are currently suspended. Details of the pension schemes and the actuarial valuation are given in the accounts of Glaxo Wellcome plc.

In addition to pension benefits, post retirement healthcare benefits are provided to certain former employees in accordance with a scheme run by Glaxo Wellcome plc. Details of the scheme are provided in the accounts of that company.

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

9. REMUNERATION OF DIRECTORS

| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|---|--|--|
| Emoluments for services to the Company | 720 | 355 |
| Pensions contribution | 5 | - |
| Company pension contribution to money purchase schemes | 15 | - |
| | 740 | 355 |

Certain Directors provide services to other Group Companies; their emoluments are apportioned, based on the services provided to those Companies.

Dr G J Blaker was an employee of Glaxo Wellcome plc and was remunerated by that company for his services to the Group as a whole.

Three of the Directors have exercised Share Options within the year (1997 – five).

Highest Paid Director

| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|---|--|--|
| Total emoluments | 251 | 136 |
| Pension contribution | 5 | - |
| Company pension contribution to money purchase schemes | 15 | - |
| Defined benefit pension : | | |
| Accrued pension at end of year | 143 | 38 |

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

10. EXCEPTIONAL ITEMS

| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|--|--|--|
| Exceptional items credited against operating profit | | |
| Integration of UK manufacturing operations (see Note 18) | 7,049 | 18,612 |
| Other exceptional items: | | |
| Profit on sale of Annan manufacturing site | - | 12,784 |
| The integration costs arose from the Group's acquisition of Wellcome plc in March 1995 | | |

11. NET INTEREST RECEIVABLE/(PAYABLE)

| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|------------------------------------|--|--|
| Interest receivable | | |
| - GlaxoWellcome Group undertakings | 13,378 | 9,492 |
| - Bank interest | 7 | 607 |
| | 13,385 | 10,099 |
| Interest payable | | |
| - On finance leases | (38) | (25) |
| - Bank interest | (1,540) | (320) |
| | 11,807 | 9,754 |

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

12. TAXATION

| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|--|--|--|
| UK Corporation Tax payable at 31% (1997: 31.5%) | | |
| - on results for the period | 28,538 | 14,479 |
| - prior year items | 2,500 | - |
| | 31,038 | 14,479 |
| Deferred taxation | 4,244 | 15,205 |
| | 35,282 | 29,684 |

The Corporation tax rate was reduced from 33% to 31% from 31 March 1997.

13. DIVIDENDS

| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|---------------------------|--|--|
| Interim dividend paid | - | - |
| Interim dividend proposed | - | - |
| | - | - |

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

14. TANGIBLE FIXED ASSETS

| | Land and Buildings £'000 | Plant and Machinery £'000 | Fixtures and Equipment £'000 | Assets in Construction £'000 | Total £'000 |
|---|-----------------------------------|---------------------------------|---------------------------------------|------------------------------------|----------------|
| Cost | | | | | |
| At 1 January 1998 | 146,815 | 582,397 | 77,365 | 26,346 | 832,923 |
| Additions | 233 | 3,830 | 8,184 | 77,257 | 89,504 |
| Completions | 2,827 | 28,511 | 2,791 | (34,129) | - |
| Transfers from other Glaxo Wellcome Group Undertakings | - | 1,049 | 143 | - | 1,192 |
| Disposals | (475) | (10,740) | (5,993) | - | (17,208) |
| Transfers to other Glaxo Wellcome Group Undertakings | - | (1,967) | (337) | (3,180) | (5,484) |
| Reclassifications | - | 18 | (18) | - | - |
| At 31 December 1998 | 149,400 | 603,098 | 82,135 | 66,294 | 900,927 |
| Depreciation | | | | | |
| At 1 January 1998 | 43,711 | 350,251 | 55,536 | - | 449,498 |
| Provision for the period | 5,058 | 38,283 | 8,446 | - | 51,787 |
| Transfers from other Glaxo Wellcome Group Undertakings | - | 353 | 67 | - | 420 |
| Disposals | (235) | (10,073) | (5,075) | - | (15,383) |
| Transfers to other Glaxo Wellcome Group Undertakings | - | (588) | (110) | - | (698) |
| Reclassifications | - | 5 | (5) | - | - |
| At 31 December 1998 | 48,534 | 378,231 | 58,859 | - | 485,624 |
| NBV at 31 December 1998 | 100,866 | 224,867 | 23,276 | 66,294 | 415,303 |
| NBV at 31 December 1997 | 103,104 | 232,146 | 21,829 | 26,346 | 383,425 |
| The net book value of land and buildings comprises: | | 1998 £'000 | 1997 £'000 | | |
| Freehold land and buildings/ | | 100,866 | 103,104 | | |

The gross value of tangible fixed assets at 31 December 1998 includes £233,000 (1997: £636,000) in respect of assets held under finance leases. The accumulated depreciation in respect of these assets is £78,000 (1997: £99,000).

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

15. STOCKS

| | 31 December 1998 £'000 | 31 December 1997 £'000 |
|-------------------------------|------------------------------|------------------------------|
| Raw materials and consumables | 72,863 | 42,086 |
| Work in progress | 186,024 | 118,210 |
| Finished goods | 6,986 | 8,937 |
| | 265,873 | 169,233 |

16. DEBTORS

| | 31 December 1998 £'000 | 31 December 1997 £'000 |
|---|------------------------------|------------------------------|
| Amounts falling due within one year: | | |
| Amounts owed by group undertakings | 225,038 | 237,296 |
| Other debtors | 20,567 | 23,675 |
| Prepayments and accrued income | 796 | 258 |
| | 246,401 | 261,229 |
| Amounts falling due after more than one year: | | |
| Other debtors | 80 | 66 |
| | 80 | 66 |
| | 246,481 | 261,295 |

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

17. CREDITORS

| | 31 December 1998 £'000 | 31 December 1997 £'000 |
|--|------------------------------|------------------------------|
| Amounts falling due within one year: | | |
| Bank loans and overdrafts (unsecured) | 36,225 | 18,562 |
| Trade creditors | 35,549 | 25,521 |
| Taxation and social security | 771 | 4,105 |
| Obligations under finance leases | 83 | 135 |
| Other creditors | 16,828 | 6,276 |
| Accruals and deferred income | 27,800 | 23,634 |
| Amounts owed to group undertakings | 34,386 | 30,395 |
| Proposed dividend | 3,232 | 3,232 |
| Corporation tax payable | 26,722 | 15,540 |
| | 181,596 | 127,400 |
| Amount falling due after more than one year: | | |
| Obligations under finance leases | 193 | 424 |
| | 181,789 | 127,824 |
| Net finance lease obligations to which the Company is committed are: | | |
| | 31 December 1998 £'000 | 31 December 1997 £'000 |
| In one year or less | 83 | 135 |
| In two to five years | 193 | 424 |
| In more than five years | - | - |
| | 276 | 559 |

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

18. PROVISIONS FOR LIABILITIES AND CHARGES

| | Deferred Taxation £'000 | Integration Provision £'000 | Other Provisions £'000 | Total £'000 |
|---|-------------------------------|-----------------------------------|------------------------------|----------------|
| Balance at 1 January 1998 | 6,200 | 16,700 | 4,277 | 27,177 |
| Utilised | - | (3,551) | (2,998) | (6,549) |
| (Credit)/charge to profit and loss account | 4,244 | (7,049) | (860) | (3,665) |
| Balance at 31 December 1998 | 10,444 | 6,100 | 419 | 16,963 |

The movement on Other Provisions relates mainly to the utilisation of amounts provided with respect to the disposal of the Annan manufacturing site.

The (asset)/liability for deferred taxation and the full potential liability to deferred taxation relate to:

| | 1998 | | 1997 | |
|--------------------------------|--------------------------------|--------------------------------------|--------------------------------|--------------------------------------|
| | (Asset)/ Provision £'000 | Full Potential Amount £'000 | (Asset)/ Provision £'000 | Full Potential Amount £'000 |
| Accelerated capital allowances | 12,461 | 52,421 | 12,790 | 56,596 |
| Other differences | (2,017) | (2,017) | (6,590) | (6,590) |
| | 10,444 | 50,404 | 6,200 | 50,006 |

19. SHARE CAPITAL

| | 31 December 1998 £'000 | 31 December 1997 £'000 |
|---|------------------------------|------------------------------|
| Authorised Ordinary shares of £1 each | 625,000 | 625,000 |
| Allotted, issued and fully paid Ordinary shares of £1 each | 625,000 | 625,000 |

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Year ended 31 December 1998 £'000 | Year ended 31 December 1997 £'000 |
|-------------------------------------|--|--|
| Profit after taxation | 64,475 | 54,382 |
| Dividends | - | - |
| Net addition to shareholders' funds | 64,475 | 54,382 |
| Opening shareholders' funds | 664,593 | 610,211 |
| Closing shareholders' funds | 729,068 | 664,593 |

21. OPERATING LEASE COMMITMENTS

The commitments of the Company under operating leases to pay rentals for the next year are:

| | 31 December 1998 £'000 | 31 December 1997 £'000 |
|--------------------------------|------------------------------|------------------------------|
| Contracts which expire within: | | |
| One year | 113 | 2 |
| Two to five years | 364 | 105 |
| More than five years | 53 | - |
| | 530 | 107 |

22. CAPITAL COMMITMENTS

| | 31 December 1998 £'000 | 31 December 1997 £'000 |
|---|------------------------------|------------------------------|
| Contracted for but not provided in the accounts | 13,293 | 13,921 |

GLAXO OPERATIONS UK LIMITED

NOTES ON THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1998 (continued)

23. CONTINGENT LIABILITIES

| | 31 December 1998 £'000 | 31 December 1997 £'000 |
|---|------------------------------|------------------------------|
| Indemnities, customs bonds and guarantees given in the ordinary course of business | 750 | 750 |

24. RELATED PARTY TRANSACTIONS

The Company has not entered into any non-Group related party transactions during the year.

GLAXO OPERATIONS UK LIMITED

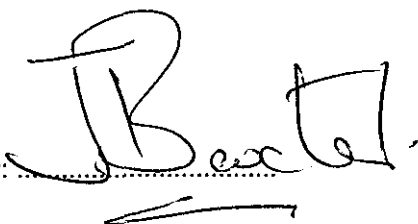
DIRECTORS' STATEMENT OF RESPONSIBILITY IN RELATION TO THE ACCOUNTS

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 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 Company at any time and from which accounts can be prepared to comply with the Companies Act 1985. They are also responsible for ensuring the operation of systems of internal control for safeguarding the assets of the Company and preventing and detecting fraud and other irregularities.

On behalf of the Board

Director:



Date:

23/4/99

GLAXO OPERATIONS UK LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF GLAXO OPERATIONS UK LIMITED

We have audited the financial statements on pages 5 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 9.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 21, 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 directors' 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 adequacy of the 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 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

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

Date: *30 April 1999*