

From the Chairman and Chief Executive Officer



welcome

to the very first GlaxoSmithKline annual review.

Welcome to a new kind of healthcare company. A global business employing the unique talents of over 100,000 people to seek causes and remedies for diseases all over the world: with a sense of hope, and also with a sense of urgency.

Welcome to GlaxoSmithKline: a company that is all about you.

This past year has been momentous for everyone at GlaxoSmithKline. Our big event during the Millennium year was the announcement on 17th January 2000 of our intention to merge Glaxo Wellcome and SmithKline Beecham to create one of the world's leading research-based healthcare companies.

Following regulatory and shareholder approval, the two companies became one on 27th December 2000. Throughout the year, our employees worked hard to achieve two objectives: maintain the momentum of both existing businesses and plan the merger of two strong companies, each with a rich heritage of pharmaceutical discovery and development and a proven record of success in the marketplace. They have succeeded in doing both.

Delivering results Despite all the uncertainty of the integration planning process, we were able to turn in a strong set of results for the year 2000. Sales for the combined Group reached £18 billion with growth of nine per cent (at constant exchange rates, excluding Healthcare Services). Pharmaceuticals had a great year, with particularly good results in the United States – our largest market – which reported sales of £7.7 billion, up 15 per cent. New products – those launched in a major market within the last five years – contributed £2.6 billion of sales, representing 17 per cent of our total pharmaceutical sales, and grew at 60 per cent in 2000.

The business climate in Europe remains demanding but our growth there of six per cent in 2000 was broadly in line with the market. In the rest of the world, sales grew by eight per cent reflecting double-digit growth in Asia Pacific, the Middle East and Africa and Canada. *Zeffix* and *Paxil* were launched in Japan in late 2000 and both products are off to a strong start.

Our Consumer Healthcare business performance was affected by competition in the smoking cessation area. We are confident that the business performance will improve in 2001 and we will also be realising the benefits from our acquisition of Block Drug, completed in January 2001. Block Drug, with sales in more than 100 countries, adds approximately £600 million to GlaxoSmithKline's Consumer Healthcare business and some well-known brands such as *Sensodyne*.

Our vaccines business continues to do well with double-digit growth (11 per cent) resulting from new products such as our combination vaccine, *Infanrix*, which grew by 47 per cent. Continued strength in the near term is expected to be driven by our new vaccines, including the launch in 2001 of five new vaccines.

Financial outlook Pharmaceutical sales growth is a key driver of GlaxoSmithKline's current strong business performance. The company will also benefit from the delivery of at least £1.6 billion in cost savings by 2003 as a result of both the merger and the manufacturing restructuring plans already in place.

These benefits and the performance of the business have led the company to forecast earnings per share growth (excluding merger and restructuring costs and the effects of currency) for 2001 of around 13 per cent. This is despite the impact of product divestments required by regulatory bodies in order to complete the merger which will have the effect of reducing the company's earnings per share expectation for the year by six per cent.

In 2002, the company expects earnings per share growth to accelerate to the mid teens, reflecting strong business performance boosted by cost savings.

Becoming the industry leader We have started life as a new company at a rapid pace, implementing many of the plans we worked on last year.

Our mission is nothing less than to improve the quality of human life by enabling people to do more, feel better and live longer. That mission gives us purpose. Our size gives us opportunity. But it is our spirit as a company – our passion for innovation and achievement, coupled with an unmatched sense of urgency – that we believe will enable us to attain success as a world class leader.

Bringing two companies together is complex and full of challenge. We must complete the integration quickly to realise the full benefits of the merger, with proper respect for our employees. That will be done. Beyond integration, our priorities are to improve R&D productivity, achieve excellence in product commercialisation, be the partner of choice for in-licensing and work in partnership with governments, agencies and charities to expand access to our medicines.

Building our new product portfolio In 2000 we invested £2.5 billion in R&D. That, and our previous investment in key technologies – now fully integrated into our business – have yielded a formidable early stage pipeline of promising compounds that offer great hope for better medicines against diseases such as cancer, obesity, diabetes and heart disease.

We have also radically redesigned our R&D organisation to achieve the benefits of scale without sacrificing the advantages of a small, flexible working environment. The strong link between research and commercial operations built into the new structure will also enable us to maximise the value of our medicines through excellence in product commercialisation –

another key driver of our business. As a current market leader in four of the five top therapeutic areas – central nervous system (CNS), respiratory, metabolic/gastro-intestinal (GI) and anti-infectives – we are in a strong position to achieve that goal.

CNS is our largest product sales category, led by *Seroxat/Paxil* which became number one in the US selective serotonin reuptake inhibitor market for new retail prescriptions in 2000. We expect to expand its value in 2001 from approvals to market the product to treat general anxiety disorder and post traumatic stress disorder.

In respiratory, *Flixotide/Flovent* remains the world's leading asthma medicine. *Seretide* has enjoyed strong launches in Europe and will be launched in the USA as *Advair* in April 2001 where we have high hopes for its success.

We are also the industry leaders in medicines that treat HIV/AIDS with *Combivir* and *Ziagen* both growing well. In December 2000, we launched the first triple combination medicine to fight HIV/AIDS – *Trizivir* – in the USA and will be launching it across Europe in 2001.

Our metabolic/GI business suffered a blow in 2000 with the withdrawal of our recently launched medicine, *Lotronex* – the first effective treatment for irritable bowel syndrome – as a result of the US Food and Drug Administration concerns over side effects. However, in the same therapeutic category, *Avandia*, our new diabetes treatment, had an exceptional year and was the single biggest contributor to the company's growth in 2000. This market has great growth potential, and we will be expanding the treatment options for *Avandia* in order to provide its benefits to even more patients.

So, we have strong products growing in the marketplace and many promising compounds coming through early stage R&D. Meanwhile, we will add new compounds to the portfolio through intelligent in-licensing. We have already announced an unprecedented nine licensing agreements in the last 12 months, most recently E Merck's partial agonist for depression and Sepsicure's endotoxin binder for sepsis, both in Phase II of clinical trials.

Meeting society's challenges Leadership and size bring visibility and accountability. We recognise our responsibility to society wherever we operate, and we will listen to and address legitimate concerns as they affect our business. Shareholders will be aware that the creation of GlaxoSmithKline has coincided with an upsurge of public comment and concern on two issues in particular: the use of animals in the discovery and testing of medicines and access to medicines in the developing world.

GlaxoSmithKline is required by governmental regulatory agencies to submit data on the safety and efficacy of new

medicines derived from animal models. We make every effort to reduce the number of animals used in our research through computer modelling and other techniques. However, those methods cannot yet replicate the complex physiological processes in living creatures which can influence whether a drug substance is safe or toxic to different organs. So, while we must continue to use animals to discover and develop new medicines, we ensure that they are well cared for, beyond the high standards set by regulators. We unreservedly condemn the use of threats and intimidation against any individual engaged in legitimate and lawful activity – in our case, employees engaged in the discovery and development of medicines with the potential to save or prolong human life.

The devastating impact of the HIV/AIDS epidemic on the populations and economies of developing countries, particularly in sub-Saharan Africa, has thrown the role and responsibilities of the pharmaceutical industry – as providers of medicines effective in the treatment of the disease – into sharp relief. GlaxoSmithKline has moved quickly to build on the leadership exhibited by our two previous companies, which included in May 2000 a groundbreaking pledge to supply three HIV/AIDS medicines to developing country governments at price reductions of around 90 per cent. In February 2001, we extended our commitment by offering to supply these same deep discounts to non-governmental organisations, UN agencies and also to employers in Africa that have direct access to patients through their own clinics and hospitals.

As the world leader in the discovery and development of medicines that effectively treat HIV/AIDS, GlaxoSmithKline is determined to play its full part in dealing with this desperate humanitarian crisis which is blighting and destroying the lives of so many millions of people. Yet it disappoints our employees and our other stakeholders that much of the public comment has so far failed to convey the immense complexity of the issue or give due credit for the substantial contribution your company is already making.

Real progress in increasing the number of patients treated will only come through concerted action whereby companies such as GlaxoSmithKline work actively in partnership with governments that have the political will to develop real solutions; donor funders who can help buy medicines; and organisations on the ground working to provide medical facilities, establish reliable drug distribution systems, and provide patients with proper care and treatment. We will keep shareholders updated on our progress.

Acknowledgements Despite the merger activity, both companies were honoured with awards, recognising excellence in a wide range of activities. Our first award as GlaxoSmithKline came even before the merger was completed, when we were voted Britain's Most Admired Company in the annual Management Today awards, an accolade we are determined to live up to.


We are deeply indebted to all our employees for their commitment and are proud of what they achieved this year. Their success has laid the strong foundations on which we are now building GlaxoSmithKline.

We wish to thank those former Directors of Glaxo Wellcome and SmithKline Beecham who have left the company as a consequence of the merger. Executive Directors Andrew Bonfield, James Cochrane and Jeremy Strachan all made extremely valuable contributions to the success of the former businesses and in helping bring about the merger. Arthur Li and Baroness Hooper departed after giving valuable service as Non-Executive Directors. Derek Bonham has decided not to seek election as a Non-Executive Director at the forthcoming Annual General Meeting and he too is thanked for his services to Glaxo Wellcome and to GlaxoSmithKline.

On behalf of your Board and Corporate Executive Team, we also thank shareholders for their support towards the creation of GlaxoSmithKline. We are committed to achieving the best return, not only for the shareholders but for all the stakeholders depicted in this first Annual Review of our vibrant new company.



Sir Richard Sykes
Chairman



JP Garnier
Chief Executive Officer