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Financial Statements

Directors' responsibilities in respect of the preparation of the financial statements

The Directors are required by UK company law to prepare for each accounting period financial statements which give a true and fair view of the state of affairs of the Group and the Company as at the end of the accounting period and of the profit or loss for that period. In preparing the financial statements the Directors are required to select and apply consistently suitable accounting policies framed by reference to reasonable and prudent judgements and estimates. Applicable accounting standards also have to be followed and a statement made to that effect in the financial statements, subject to any material departures being disclosed and explained in the notes to the financial statements. The Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business. The Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor's report

To the Members of Zeneca Group PLC.

We have audited the financial statements on pages 41 to 71.

Respective responsibilities of directors and auditor

As described above the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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. 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 Group'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 affairs of the Company and the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

4 March 1998

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

Group Profit and Loss Account

For the year ended 31 December

	Notes	1997 £m	1996 £m
Turnover		5,194	5,363
Operating costs	2	(4,190)	(4,421)
Other operating income	2	79	101
Operating profit	2	1,083	1,043
Share of profits less losses of associated undertakings		8	(19)
Profits less losses on sale or closure of operations	4	—	(36)
Profit on ordinary activities before interest		1,091	988
Net interest payable	5	(10)	(13)
Profit on ordinary activities before taxation		1,081	975
Profit before exceptional items		1,081	1,011
Exceptional items	4	—	(36)
Taxation	6	(345)	(320)
Profit on ordinary activities after taxation		736	655
Attributable to minorities		(6)	(12)
Net profit for the financial year		730	643
Dividends to Shareholders	7	(365)	(332)
Profit retained for the year		365	311
Earnings per 25p Ordinary Share before exceptional items (pence)	8	77.0p	70.6p
Earnings per 25p Ordinary Share (pence)	8	77.0p	67.8p
Weighted average number of Ordinary Shares in issue (millions)	8	948	947

Statement of Total Recognised Gains and Losses

For the year ended 31 December

	Notes	1997 £m	1996 £m
Net profit for the financial year		730	643
Net unrealized holding gains on short-term investments	14	1	1
Exchange adjustments on net assets	21	(63)	(128)
Translation differences on foreign currency borrowings	21	(3)	46
Tax on translation differences on foreign currency borrowings	21	1	(15)
Total recognised gains and losses relating to the year		666	547

£m means millions of pounds sterling

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Balance Sheets

At 31 December	Notes	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
Fixed assets					
Tangible fixed assets	10	1,951	1,822	-	-
Intangible assets	10	81	25	-	-
Fixed asset investments	11	122	118	536	530
		2,154	1,965	536	530
Current assets					
Stocks	12	728	681	-	-
Debtors	13	1,399	1,379	1,850	1,810
Short-term investments	14	426	716	-	-
Cash		303	259	-	-
		2,856	3,035	1,850	1,810
Total assets		5,010	5,000	2,386	2,340
Creditors due within one year					
Short-term borrowings	15	(166)	(215)	(1)	(1)
Current instalments of loans	17	(17)	(12)	-	-
Finance leases		(4)	(5)	-	-
Other creditors	16	(1,676)	(1,638)	(301)	(278)
		(1,863)	(1,870)	(302)	(279)
Net current assets		993	1,165	1,548	1,531
Total assets less current liabilities		3,147	3,130	2,084	2,061
Creditors due after more than one year					
Loans	17	(510)	(476)	(356)	(349)
Finance leases		(12)	(18)	-	-
Other creditors	16	(13)	(22)	-	-
		(535)	(516)	(356)	(349)
Provisions for liabilities and charges	18	(420)	(476)	-	-
Net assets		2,192	2,138	1,728	1,712
Capital and reserves					
Called-up share capital	19	237	237	237	237
Share premium account	21	24	9	24	9
Merger reserve	21	285	285	-	-
Other reserves	21	132	295	1,255	1,255
Profit and loss account	21	1,482	1,208	212	211
Shareholders' funds - equity interests	20	2,160	2,034	1,728	1,712
Minority equity interests		32	104	-	-
Shareholders' funds and minority interests		2,192	2,138	1,728	1,712

The accounts on pages 41 to 71 were approved by the Board of Directors on 4 March 1998 and were signed on its behalf by:

 J.D.F. Barnes
Director

 J.R. Symonds
Director

Statement of Group Cash Flow

For the year ended 31 December

	Notes	1997 £m	1996 £m
Cash flow from operating activities			
Net cash inflow from trading operations	22	1,235	1,155
Outflow related to exceptional items	23	(66)	(76)
Net cash inflow from operating activities		1,169	1,079
Returns on investments and servicing of finance			
Interest and dividends received	24	55	54
Interest paid		(66)	(69)
Dividends paid by subsidiary undertakings to minority interests		(45)	(9)
		(56)	(24)
Tax paid		(320)	(290)
Capital expenditure and financial investment			
Cash expenditure on fixed assets	10	(457)	(373)
New fixed asset investments		(7)	(8)
Disposals of fixed assets		21	9
		(443)	(372)
Acquisitions and disposals			
Acquisitions and purchase of minority interest	25	(196)	(1)
Investments in associated undertakings		(3)	(19)
Disposals of business operations		2	162
Disposals of investments in associated undertakings		1	4
		(196)	146
Dividends paid to Shareholders		(341)	(305)
Net cash (outflow) inflow before management of liquid resources and financing			
	26	(187)	234
Management of liquid resources			
Movement in short-term investments and fixed deposits (net)		292	(94)
Financing	27	(32)	(39)
Increase in cash in the period		73	101
Increase in cash above		73	101
(Decrease) increase in overdrafts	26	(19)	13
	26	54	114
Foreign currency translation effect	26	(10)	(18)
Balance sheet movement in cash		44	96

Financial Statements

Accounting policies

Basis of Accounting

The accounts are prepared under the historical cost convention, modified to include the market value of certain current asset investments held by Group subsidiaries as described below, in accordance with the Companies Act 1985 and applicable accounting standards. The following paragraphs describe the main accounting policies. The accounting policies of some overseas subsidiaries and associated undertakings do not conform with UK Accounting Standards and, where appropriate, adjustments are made on consolidation in order to present the Group accounts on a consistent basis.

Depreciation

Zeneca's policy is to write off the book value of each tangible fixed asset evenly over its estimated remaining life. Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Under this policy it becomes impracticable to calculate average asset lives exactly. However, the total lives approximate to 25 years for buildings and 10 years for plant and equipment. Depreciation of assets qualifying for grants is calculated on their full cost. Intangible assets, including patents, separately acquired are capitalized and amortized over their useful lives in line with the benefits accruing. If related products fail, the remaining unamortized amounts are immediately written off to revenue expense. Internally developed intangible assets are not capitalized.

Environmental Liabilities

Zeneca is exposed to environmental liabilities relating to its past operations, principally in respect of soil and groundwater remediation costs. Provisions for these costs are made when expenditure on remedial work is probable and the cost can be estimated within a reasonable range of possible outcomes.

Foreign Currencies

Profit and loss accounts in foreign currencies are translated into sterling at average rates for the relevant accounting periods. Assets and liabilities are translated at exchange rates prevailing at the date of the Group balance sheet. The results of operations in hyper-inflationary economies are measured using a relatively stable currency as the functional currency, with gains and losses arising on net monetary assets or liabilities taken to the profit and loss account.

Exchange differences on short-term foreign currency borrowings and deposits are included with net interest payable. Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating profit. In the consolidated financial statements exchange differences arising on consolidation of the net investments in overseas subsidiary undertakings and associated undertakings are taken directly to reserves via the statement of total recognised gains and losses. Differences on relevant foreign currency loans, together with related tax, are taken to reserves via the statement of total recognised gains and losses and offset against the differences on net investments, as they are considered to be a hedge against movements on the net investments.

Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets. The Group's policy up to and including 1997 is to eliminate goodwill arising upon acquisitions against reserves. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the gross amount, at current exchange rates, of any related goodwill previously taken directly to reserves. The Group will adopt Financial Reporting Standard 10 – 'Goodwill and Intangible Assets' in 1998.

Investments

An associated undertaking is a company in which Zeneca has a participating interest (between 20% and 50% inclusive) and on whose commercial and financial policy decisions Zeneca exercises significant influence.

Zeneca's share of the profits less losses of all significant associated undertakings is included in the Group profit and loss account on the equity accounting basis. The holding value of significant associated undertakings in the Group balance sheet is calculated by reference to Zeneca's equity in the net tangible assets of such undertakings, as shown by the most recent accounts available, adjusted where appropriate.

Fixed asset investments, other than in associated undertakings, are stated at cost less provision for any permanent diminution in value.

Current asset investments held by Group subsidiaries are valued at market value and unrealized gains and losses are taken directly to reserves via the statement of total recognised gains and losses. Realized gains and losses are taken to profit and loss account. The principal Group subsidiaries concerned are Zeneca's insurance companies, where current asset investments are actively matched against insurance liabilities.

Leases

Assets held under finance leases are capitalized and included in tangible fixed assets at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. The obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors due within, or creditors due after, one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to profit and loss account as incurred.

Post-retirement Benefits

The pension costs relating to UK retirement plans are assessed in accordance with the advice of independent qualified actuaries. The amounts so determined include the regular cost of providing the benefits under the plans which it is intended should remain a level percentage of current and expected future earnings of the employees covered under the plans. Variations from the regular pension cost are spread on a systematic basis over the estimated average remaining service lives of current employees in the plans. Retirement plans of non-UK subsidiary undertakings are accounted for in accordance with local conditions and practice. With minor exceptions, these subsidiary undertakings recognise the expected cost of providing pensions on a systematic basis over the average remaining service lives of employees in accordance with the advice of independent qualified actuaries. The costs of providing post-retirement benefits other than pensions, principally healthcare, are charged to the profit and loss account on a consistent basis over the average service lives of employees. Such costs are assessed in accordance with the advice of independent qualified actuaries.

Research and Development

Research and development expenditure is charged to profit in the year in which it is incurred.

Stock Valuation

Finished goods are stated at the lower of cost or net realizable value and raw materials and other stocks at the lower of cost or replacement price. The first in, first out or an average method of valuation is used. In determining cost, depreciation is included but selling expenses and certain overhead expenses (principally central administration costs) are excluded. Net realizable value is determined as estimated selling price less costs of disposal.

Taxation

The charge for taxation is based on the profits for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes. However, no provision is made for taxation deferred by reliefs unless there is reasonable evidence that such deferred taxation will be payable in the future.

Turnover

Turnover excludes inter-company turnover and value added taxes.

Financial Statements

Notes relating to the accounts

1 Composition of the Group

The Group accounts consolidate the accounts of Zeneca Group PLC (the 'Company') and its subsidiary undertakings, of which there were 196 at 31 December 1997, including one quasi-subsidiary. Owing to local conditions and to avoid undue delay in the presentation of the Group accounts, two minor subsidiaries prepare accounts to 30 September and one to 31 March; the Salick Health Care Group prepares its accounts to 30 November 1997.

2 Operating profit

	1997 £m	1996 £m
Turnover	5,194	5,363
Operating costs		
Cost of sales	(1,977)	(2,250)
Distribution costs	(163)	(181)
Research and development	(653)	(602)
Selling, general and administrative expenses	(1,397)	(1,388)
	(4,190)	(4,421)
Other operating income		
Government grants	1	1
Royalties	48	64
Other income	30	36
	79	101
Operating profit	1,083	1,043
Year 2000 and EMU conversion costs included above	(13)	—
Charge for depreciation included above	(216)	(217)
Gross profit, as defined by the Companies Act 1985	3,217	3,113
Effect of Group insurance activities		
Insurance results are reported within the following headings		
Miscellaneous operating profit (included in Note 9)	(5)	(1)
Interest receivable and similar income (included in Note 5)	11	15
	6	14

3 Note of historical cost profits and losses

There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before tax.

4 Exceptional items

	1997 £m	1996 £m
Profits less losses on sale or closure of operations and related provisions		
Disposal of Textile Colours and minor Specialties businesses	-	(36)
Tax credits on exceptional items (see Note 6)	-	10
	-	(26)

5 Net interest payable

	1997 £m	1996 £m
Interest payable and similar charges		
Loan interest	(34)	(34)
Interest on short-term borrowings and other financing costs	(27)	(30)
	(61)	(64)
Interest receivable and similar income from investments		
Securities	5	9
Short-term deposits	46	42
	51	51
Net interest payable	(10)	(13)

Financial Statements

Notes relating to the accounts

6 Taxation

Profit and loss account	1997 £m	1996 £m
UK taxation		
Corporation tax	215	149
Double taxation relief	(69)	(7)
Deferred taxation	11	—
	157	142
Overseas taxation		
Overseas taxes	183	171
Deferred taxation	1	8
	184	179
Associated undertakings	4	(1)
Tax on profit on ordinary activities	345	320

UK and overseas taxation have been provided at current rates on the profits earned for the periods covered by the Group accounts. The rate of UK corporation tax is reduced from 33% to 31% effective from 1 April 1997 (1996 33%). To the extent that dividends remitted from overseas subsidiaries and associated undertakings are expected to result in additional taxes, appropriate amounts have been provided. No taxes have been provided for unremitted earnings of Group companies overseas, as these are, in the main, considered permanently employed in the businesses of these companies and, in the case of associated undertakings, the taxes would not be material. Unremitted earnings may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends.

Exceptional items included in tax on ordinary activities

Deferred tax relief on exceptional items	—	(10)
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Statement of total recognised gains and losses

Changes in tax legislation in 1996 give rise, in certain circumstances, to tax charges or credits on currency differences on borrowings that are taken to reserves via the statement of total recognised gains and losses. Tax credits on such currency translation differences amounted to £1m in 1997 (1996 £15m charge), and have been reported in the statement of total recognised gains and losses.

Balance sheet	1997 £m	1996 £m
Deferred taxation asset movement		
At beginning of year	58	61
Profit and loss account	(12)	(8)
Other movements	12	5
At end of year	58	58

6 Taxation (continued)**Deferred taxation**

The deferred tax assets accounted for at the balance sheet date and the potential amounts of deferred taxation are disclosed below.

	1997 £m	1996 £m
Accounted for at 31 December		
Exceptional item provisions	2	12
Miscellaneous timing differences	56	46
ACT recoverable (see Note 13)	21	31
	79	89
Not accounted for at 31 December		
UK capital allowances utilised in excess of depreciation	(204)	(206)
Miscellaneous timing differences including exceptional item provisions	175	161
	(29)	(45)
Full potential deferred taxation asset	50	44

No deferred tax asset has been accounted for in respect of post-retirement benefits.

The parent Company had no deferred tax assets or liabilities (actual or potential) at 31 December 1997.

7 Dividends

	1997 Pence per 25p Share	1996 Pence per 25p Share	1997 £m	1996 £m
Interim, paid 3 November 1997	13.5p	12.5p	128	118
Second interim, to be confirmed as final, payable 5 May 1998	25.0p	22.5p	237	214
	38.5p	35.0p	365	332

8 Earnings per 25p Ordinary Share

	1997	1996
Net profit for the financial year before exceptional items (£m)	730	669
Exceptional items after tax (£m) (see Note 4)	–	(26)
Net profit for the financial year (£m)	730	643
Average number of Ordinary Shares in issue (millions)	948	947
Earnings per Ordinary Share before exceptional items (pence)	77.0p	70.6p
Earnings (loss) per Ordinary Share on exceptional items (pence)	–	(2.8)p
Earnings per Ordinary Share (pence)	77.0p	67.8p

The effect on earnings per 25p Ordinary Share of the issue of shares under option (see Note 19) would not be material.

Earnings per Ordinary Share before exceptional items has been calculated to eliminate the impact of exceptional items on the results of the business.

Financial Statements

Notes relating to the accounts

9 Segment information

Classes of Business

	Turnover		Operating profit		Profit before interest and tax	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Pharmaceuticals	2,565	2,435	786	757	786	757
Salick Health Care	121	110	3	6	3	6
Agrochemicals	1,631	1,801	223	224	223	224
Agrochemicals	1,631	1,684	223	227	223	227
Seeds	-	117	-	(3)	-	(3)
Specialties	885	1,025	85	70	85	34
Inter-business eliminations and Miscellaneous	(8)	(8)	(14)	(14)	(14)	(14)
Share of profits less losses of associated undertakings					8	(19)
	5,194	5,363	1,083	1,043	1,091	988

Zeneca's policy is to transfer products internally at external market prices.

From 1 August 1996, Zeneca and Cooperatie Cosun U.A. merged their Seeds businesses in a joint venture, named Advanta B.V., and its results are included under Share of profits less losses of associated undertakings from 1 August 1996.

	Capital expenditure		Depreciation		Net assets	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Pharmaceuticals	201	141	105	97	1,211	1,049
Salick Health Care	24	20	6	6	71	85
Agrochemicals	141	140	59	65	833	823
Specialties	61	57	37	40	418	375
Miscellaneous	40	21	9	9	17	8
	467	379	216	217		
Net operating assets					2,550	2,340
Investments in associated undertakings					85	88
Net non-operating liabilities					(443)	(290)
					2,192	2,138

Net non-operating liabilities include short-term investments and cash, short-term borrowings, loans, and debtors and creditors not attributable to business segments.

9 Segment information (continued)

Geographic areas

The information opposite is re-analyzed in the table below by geographic area. The figures for each geographic area show the net operating assets owned by and the turnover and profit made by companies located in that area; export sales and related profits are included in the areas from which those sales were made.

	Net operating assets		Turnover		Operating profit		Profit before interest and tax	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
United Kingdom								
Sales in the United Kingdom			425	368				
Export sales			1,883	2,076				
	1,584	1,388	2,308	2,444	517	469	517	455
Continental Europe	282	266	1,477	1,665	137	148	142	125
The Americas	502	473	2,668	2,579	380	356	382	336
Asia, Africa & Australasia	182	213	622	670	49	70	50	72
	2,550	2,340	7,075	7,358	1,083	1,043	1,091	988
Inter-area eliminations			(1,881)	(1,995)				
	2,550	2,340	5,194	5,363	1,083	1,043	1,091	988

Inter-area turnover shown above includes sales from the UK to overseas subsidiaries of £1,457m (1996 £1,634m).

Geographic markets

	1997 £m	1996 £m
Turnover in each geographic market in which customers are located		
United Kingdom	439	376
Continental Europe	1,412	1,591
The Americas	2,509	2,442
Asia, Africa & Australasia	834	954
Total turnover	5,194	5,363

Employees

	1997	1996
Average number of people employed by the Group in		
United Kingdom	12,400	12,200
Continental Europe	6,200	6,000
The Americas	10,300	10,300
Asia, Africa & Australasia	2,500	2,600
Total employees	31,400	31,100

The number of people employed by the Group at the end of 1997 was 32,100 (1996 30,400).

Notes relating to the accounts

10 Fixed assets

GROUP	Land and buildings £m	Plant and equipment £m	Capital expenditure and assets in course of construction £m	Total tangible assets £m	Intangible assets £m
Cost					
At beginning of year	797	2,226	268	3,291	56
Exchange adjustments	(13)	(27)	(3)	(43)	—
Capital expenditure	—	—	407	407	60
Transfer of assets into use	78	304	(382)		
Acquisitions, disposals and other movements	(1)	(88)	(9)	(98)	(7)
At end of year	861	2,415	281	3,557	109
Depreciation					
At beginning of year	264	1,205		1,469	31
Exchange adjustments	(6)	(16)		(22)	—
Acquisitions, disposals and other movements	(1)	(51)		(52)	(8)
Charge for year	32	179		211	5
At end of year	289	1,317		1,606	28
Net book value at 31 December 1997	572	1,098	281	1,951	81
Net book value at 31 December 1996	533	1,021	268	1,822	25

Capital expenditure in the year of £467m did not include any capitalized finance leases; cash expenditure on fixed assets was £457m. Land and buildings included non-depreciated land which cost £54m.

The net book value of the tangible fixed assets of the Group at 31 December 1997 included capitalized finance leases of £18m, comprising cost of £34m and accumulated depreciation thereon of £16m. In respect of capitalized leases, the depreciation charge for the year was £6m and finance charges were £1m.

	Group	
	1997 £m	1996 £m
The net book value of land and buildings comprised		
Freeholds	557	518
Long leases (over 50 years unexpired)	3	4
Short leases	12	11
	572	533

11 Fixed asset investments

GROUP	Associated undertakings £m	Other investments		Total £m
		Listed £m	Unlisted £m	
Cost				
At beginning of year	101	27	3	131
Additions	3	4	4	11
Disposals	(1)	—	—	(1)
Other movements, including exchange	(8)	—	(1)	(9)
At end of year	95	31	6	132
Share of post-acquisition reserves				
At beginning of year	(13)			(13)
Retained profit	3			3
At end of year	(10)			(10)
Net book value at 31 December 1997	85	31	6	122
Net book value at 31 December 1996	88	27	3	118

The market value of the listed investments at 31 December 1997 was £32m (1996 £28m).

COMPANY	Subsidiary investments		Total £m
	Shares £m	Loans £m	
Cost			
At beginning of year	180	350	530
Exchange adjustments	—	6	6
Net book value at 31 December 1997	180	356	536
Net book value at 31 December 1996	180	350	530

None of the investments held directly by the parent Company are listed.

Information on principal subsidiary and associated undertakings of the Group is given on page 71.

12 Stocks

	Group	
	1997 £m	1996 £m
Raw materials and consumables	197	165
Stocks in process	216	191
Finished goods and goods for resale	315	325
	728	681

Financial Statements

Notes relating to the accounts

13 Debtors

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Amounts due within one year				
Trade debtors	969	935	—	—
Amounts owed by subsidiary undertakings			1,850	1,810
Amounts owed by associated undertakings	1	10	—	—
Deferred taxation (see Note 6)	19	28	—	—
Other debtors	167	191	—	—
Prepayments and accrued income*	85	64	—	—
	1,241	1,228	1,850	1,810
Amounts due after more than one year				
Other debtors	75	61	—	—
Deferred taxation (see Note 6)	39	30	—	—
ACT recoverable	21	31	—	—
Prepayments and accrued income*	20	28	—	—
	1,396	1,378	1,850	1,810
Securitised rent receivables	3	1	—	—
Debtors	1,399	1,379	1,850	1,810

*Group figures include prepaid pension costs (Note 28).

Included in other debtors are amounts totalling £24m (1996 £47m) in respect of the Group's insurance subsidiaries relating to reinsurance contracts.

Rent receivables in respect of a property were securitised under an arrangement established by Stauffer Chemical Company (SCC) in 1984. The receivables were securitised under a Trust Indenture in connection with the issue of US\$245m of non-recourse Zero Coupon Secured Notes due 1994-2018 on behalf of SCC. SCC's interest in the receivables and its obligations under the Trust Indenture were vested in Zeneca Holdings Inc. (ZHI) by way of an assignment and assumption agreement. Neither SCC as the issuer of the notes nor ZHI as assignee of SCC's interest is obliged to support any losses of the assets pledged under the Trust Indenture, nor does either intend to do so. Repayment of the finance is solely secured by rent receivables from the property, payment of which is further secured by an irrevocable letter of credit drawn on a first class bank. The net present value of these arrangements amounts to a net asset of £7m (1996 £5m). This asset was recorded in the accounts as part of the acquisition accounting of Stauffer since 1987, and is reported in the balance sheet under short-term investments (£4m) and debtors (£3m net). The net income recorded in the Group accounts amounted to £2m (1996 £1m). A summary of the financial statements of Stauffer Chemical Company Trust is set out below.

Stauffer Chemical Company Trust	1997 £m	1996 £m
Income and expenditure account		
Surplus for the financial year	2	1
Trust distributions	(1)	(1)
Surplus retained for the year	1	—
Balance sheet		
Debtors	66	50
Cash and short-term investments	4	4
Total assets	70	54
Creditors	(63)	(49)
Net assets	7	5
Cash flow		
Increase in cash	—	—

14 Short-term investments

The Group's short-term investments were classified as available-for-sale at year ends 1997 and 1996. Carrying value was substantially the same as fair value at both year ends.

GROUP

	Cost £m	Estimated fair value £m	Gross unrealized gains £m	Gross unrealized losses £m	Net gains and losses £m
At 31 December 1997					
Listed debt securities	22	21	–	(1)	(1)
Other debt securities	4	4	–	–	–
	26	25	–	(1)	(1)
Listed equity investments	–	–	–	–	–
Investment securities	26	25	–	(1)	(1)
Fixed deposits	401	401	–	–	–
Short-term investments	427	426	–	(1)	(1)
At 31 December 1996					
Listed debt securities	56	53	–	(3)	(3)
Other debt securities	4	4	–	–	–
	60	57	–	(3)	(3)
Listed equity investments	2	2	–	–	–
Investment securities	62	59	–	(3)	(3)
Fixed deposits	657	657	–	–	–
Short-term investments	719	716	–	(3)	(3)
Movement in unrealized holding gains and losses			–	2	2
Net movement, after minority interests					1

Current asset investments held by Group subsidiaries are marked to market on a specific identification basis. The net movement in unrealized holding gains and losses is a gain of £2m (1996 £3m). The net gain, after minority interests of £1m (1996 £1m) has been taken to reserves via the statement of total recognised gains and losses.

The proceeds from sales of investment securities were £52m (1996 £233m). Realized gains and losses are taken to the profit and loss account. In 1997 gross realized gains were £1m (1996 £1m) and gross realized losses were £2m (1996 £2m), producing a net realized loss of £1m (1996 £1m).

The Group's insurance subsidiaries hold cash and short-term investments totalling £100m (1996 £201m), of which £67m (1996 £104m) is required to meet insurance solvency requirements and which, as a result, is not readily available for the general purposes of the Group.

Contractual maturities of debt securities are as follows:

	Cost £m	Estimated fair value £m
1998	26	25

Notes relating to the accounts

15 Short-term borrowings

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Bank borrowings				
Secured by floating charge	3	1	–	–
Unsecured	103	154	1	1
	106	155	1	1
Other borrowings (unsecured)	60	60	–	–
	166	215	1	1

16 Other creditors

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Amounts due within one year				
Trade creditors	529	479	–	–
Amounts owed to subsidiary undertakings			64	64
Corporate taxation	250	254	–	–
Value added and payroll taxes and social security	36	33	–	–
Other creditors*	436	452	–	–
Accruals	188	206	–	–
Dividends to Shareholders	237	214	237	214
	1,676	1,638	301	278
Amounts due after more than one year				
Corporate taxation	–	1	–	–
Other creditors*	12	19	–	–
Grants not yet credited to income	1	2	–	–
	13	22	–	–

*Included in other creditors are amounts totalling £99m (1996 £121m) to meet insurance obligations of the Group's insurance subsidiaries. Other creditors also include costs charged as exceptional items in previous years (Note 4) and accrued pension costs (Note 28).

17 Loans

	Repayment Dates	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
Secured loans					
US Dollars (5.9 to 8%), secured by fixed charge	1998/2012	9	10	-	-
US Dollars (12.3% and 12.7%), secured by fixed charge*	1998/2010	51	-	-	-
Indian Rupees (17.5%), secured by fixed charge		-	2	-	-
Total secured		60	12	-	-
Unsecured loans					
Sterling					
Bank loan – variable rate	1998/2002	7	9	-	-
US Dollars					
Bank loan – variable rate	2001	48	47	-	-
6.3% Guaranteed notes	2003	119	176	-	-
7% Guaranteed debentures	2023	178	174	-	-
6.58% Loan	2003	-	-	178	175
7.2% Loan	2023	-	-	178	174
Others	1998/2013	7	8	-	-
Yen (1.95 to 5%)	1998/2000	28	33	-	-
Other foreign currencies (5.86 to 7.1%)	1998/2003	80	29	-	-
Total unsecured		467	476	356	349
Total loans		527	488	356	349
Loans or instalments thereof are repayable					
After 5 years from balance sheet date		404	368	356	349
From 2 to 5 years		87	91	-	-
From 1 to 2 years		19	17	-	-
Total due after more than one year		510	476	356	349
Total due within one year		17	12	-	-
Total loans		527	488	356	349

Loans from banks included in the table above amounted to £107m (1996 £126m) of which £nil (1996 £2m) was secured. Details in the above tables are shown after reflecting currency and interest rate swaps.

*12.3% and 12.7% represent the interest rates on the nominal value of the loans of US\$ 70m. The loans have been included on the Balance Sheet at fair value, using a discount rate of 8.6%.

Notes relating to the accounts

18 Provisions for liabilities and charges

GROUP	Employee benefits* £m	Reorganisation, environmental, and other provisions £m	Total £m
At beginning of year	287	189	476
Profit and loss account	57	23	80
Net amounts paid or becoming current	(58)	(81)	(139)
Other movements, including exchange	1	2	3
At end of year	287	133	420

*Includes provisions for unfunded post-retirement benefits (Note 28).

No provision has been released or applied for any purposes other than that for which it was established.

19 Called-up share capital of parent company

	Authorized 1997 £m	Allotted, called-up and fully paid	
		1997 £m	1996 £m
Ordinary Shares (25p each)	237	237	237
Unissued Ordinary Shares (25p each)	63		
	300	237	237

The number of Ordinary Shares issued during the year totalled 2,146,730, comprising issues in respect of the exercise of options.

At 31 December 1997 there were options outstanding in respect of 2,938,759 Ordinary Shares of 25p under the Zeneca 1993 Senior Staff Share Option Scheme and the Zeneca 1994 Executive Share Option Scheme (1996 4,375,358) and 5,339,936 Ordinary Shares of 25p under the Zeneca Savings-Related Share Option Scheme (1996 4,680,786). These options are normally exercisable in the period 1998 to 2007 (1997 to 2006) at subscription prices of £4.98 to £20.55 (1996 £4.09 to £14.81). The prices of certain of the above options were set relative to ICI options granted to employees in the years prior to demerger. The weighted average subscription price of options outstanding at 31 December 1997 was £11.52.

Options granted to Directors are shown in Note 30.

During 1997 movements in the number of shares under option comprised new options issued 1,593,146, options exercised 2,147,674, and options lapsed, waived, or forfeited 222,921. At the end of 1997 there were 16,133,389 shares available for the granting of options (1996 17,439,212).

20 Reconciliation of movements in shareholders' funds

GROUP	1997 £m	1996 £m
Shareholders' funds at beginning of year	2,034	1,861
Net profit for the financial year	730	643
Dividends	(365)	(332)
	365	311
Issues of Zeneca Group PLC Ordinary Shares	15	2
Goodwill	(192)	(47)
Exchange adjustments on net assets	(63)	(128)
Translation differences on foreign currency borrowings	(3)	46
Tax on translation differences on foreign currency borrowings	1	(15)
Net unrealized holding gains on short-term investments (see Note 14)	1	1
Other movements	2	3
Net addition to shareholders' funds	126	173
Shareholders' funds at end of year	2,160	2,034

21 Reserves

GROUP	Share premium account £m	Merger reserve £m	Goodwill and other reserves £m	Associated under- takings £m	Profit and loss account £m	1997 Total £m	1996 Total £m
At beginning of year	9	285	308	(13)	1,208	1,797	1,624
Profit retained for year				3	362	365	311
Share premiums	15					15	2
Goodwill			(192)			(192)	(47)
Exchange adjustments:							
Goodwill			25		(25)	-	-
Net assets				1	(64)	(63)	(128)
Translation differences on foreign currency borrowings					(3)	(3)	46
Tax on translation differences on foreign currency borrowings					1	1	(15)
			25	1	(91)	(65)	(97)
Net unrealized holding gains on short-term investments			1			1	1
Other movements				(1)	3	2	3
At end of year	24	285	142	(10)	1,482	1,923	1,797

In the Group accounts, exchange losses of £3m (1996 £46m gain) on foreign currency loans have been offset in reserves against exchange movements on the net investment in overseas subsidiaries and associated undertakings.

The movement in goodwill includes £192m (1996 £47m) of goodwill on acquisitions and purchase of minority interest written off against reserves.

The cumulative amount of goodwill resulting from acquisitions, net of disposals, amounted to £1,112m (1996 £945m), using 1997 year end rates of exchange.

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21 Reserves (continued)

There are no significant statutory or contractual restrictions on the distribution of current profits of subsidiary or associated undertakings; undistributed profits of prior years are, in the main, permanently employed in the businesses of these companies.

COMPANY	Share premium account £m	Other reserves £m	Profit and loss account £m	1997 Total £m	1996 Total £m
Reserves					
At beginning of year	9	1,255	211	1,475	1,473
Net profit for the financial year			366	366	332
Dividends			(365)	(365)	(332)
Share premiums	15			15	2
At end of year	24	1,255	212	1,491	1,475

As permitted by section 230 of the Companies Act 1985, the Company has not presented its profit and loss account.

22 Net cash inflow from trading operations

	1997 £m	1996 £m
Operating profit	1,083	1,043
Depreciation	216	217
Stocks increase	(88)	(34)
Debtors increase	(135)	(86)
Creditors increase	169	3
Other non-cash movements	(10)	12
	1,235	1,155

23 Outflow related to exceptional items

This includes expenditure charged to exceptional provisions relating to business rationalization and restructuring including severance and other employee costs.

24 Interest and dividends received

	1997 £m	1996 £m
Interest received	53	52
Dividends received from equity accounted associated undertakings	2	2
	55	54

25 Acquisitions and purchase of minority interest

	Acquiree Book Values £m	Fair Value Adjustments £m	Total £m
Acquisitions			
Tangible fixed assets	2	–	2
Intangible fixed assets	1	(1)	–
Current assets	3	–	3
Liabilities	(3)	–	(3)
Movement in net assets	3	(1)	2
Goodwill			49
Fair value of consideration			51
Cash acquired			(2)
			49
Purchase of minority interest			147
Net cash consideration			196

Assets and liabilities are adjusted to fair values on external valuations and internal reviews. The principal acquisition was the purchase of Mogen International N.V. on 26 June 1997 for a total cost of £48m.

The purchase of minority interest relates to the acquisition of the remaining 50% of Salick Health Care, Inc. (SHC) on 10 April 1997. SHC has been regarded as a subsidiary undertaking and its results have been consolidated into the Group results from 13 April 1995, the date of the acquisition of an initial 50% controlling shareholding.

26 Net cash funds/net debt

The table below provides an analysis of net cash funds/net debt and a reconciliation of net cash flow to movement in net cash funds/net debt.

	At 1 Jan 1997	Cash flow	*Other non-cash	Exchange movements	At 31 Dec 1997
Loans due after 1 year	(476)	–	(34)	–	(510)
Current instalments of loans	(12)	16	(23)	2	(17)
Finance leases	(23)	8	–	(1)	(16)
Total loans and lease finance	(511)	24	(57)	1	(543)
Short-term investments	716	(292)	1	1	426
Cash	259	54		(10)	303
Overdrafts	(91)	19		3	(69)
Short-term borrowings, excluding overdrafts	(124)	23	–	4	(97)
	760	(196)	1	(2)	563
Net cash funds	249	(172)	(56)	(1)	20
Financing item included in cash movements above					
Issue of shares		(15)			
Net cash outflow before management of liquid resources and financing		(187)			

*Including mortgages taken over on acquisition of a freehold property.

Notes relating to the accounts

27 Financing

	Notes	1997 £m	1996 £m
Issue of Zeneca Group PLC Ordinary Shares		15	2
Issue of shares by subsidiaries to minority interests		—	1
Issue of shares	26	15	3
Repayment of lease finance	26	(8)	(7)
New loans	26	—	1
Loans repaid	26	(16)	(22)
Net decrease in short-term borrowings	26	(23)	(14)
		(39)	(35)
Net cash outflow from financing		(32)	(39)

28 Post-retirement benefits

Pensions

The Company, and most of its subsidiaries, operate or participate in retirement plans which cover the majority of employees (including Directors) in the Group. These plans are either defined contribution, where the level of company contribution is fixed at a set level or percentage of an employee's pay, or defined benefit, where benefits are based on employees' years of service and average final remuneration. All plans are, generally, funded through separate trustee-administered funds. The pension cost for the Group's main defined benefit plans is established in accordance with the advice of independent qualified actuaries based on valuations undertaken on varying dates.

With regard to the Group's main UK defined benefit plan, the latest actuarial valuation was carried out at 31 March 1997 and the pension cost assessed using the projected unit credit method. The significant assumptions used in this valuation were that, against a background of long term UK price inflation averaging 4% pa, investment returns would average 8.4% pa, salary increases 6% pa, and pension increases 3.75% pa. The asset valuation model assumes long term dividend growth in UK and overseas equities of 1% pa and 2.5% pa respectively above the rate of inflation. The valuation took account of the consequences of the removal of UK dividend tax relief. The market value of the UK fund's assets at the valuation date was £1,745m, equivalent, after allowing for future increases in earnings and pensions, to 88% of the benefit obligation that had accrued to members at the valuation date. The Company has increased its rate of contribution to the fund in accordance with the actuary's advice. The cost of the deficit is being charged in the accounts as a level percentage of salaries over active members remaining service lives. The actuary estimated that had the Minimum Funding Requirement basis applied, the fund's solvency level would have been 100%.

In total the Group's main defined benefit plans (including the UK plan) held assets at their most recent valuation dates whose market values amounted to £2,243m. After allowing for future increases in earnings and pensions, 90% of the benefit obligation that had accrued to members at the valuation dates was covered by the actuarial value of the assets of the plans and by the value of provisions set aside in subsidiary companies' accounts at the same dates.

The total pension cost for the Group for 1997 was £100m (1996 £109m). In Zeneca's Group balance sheet at 31 December 1997, accrued pension costs amounted to £24m (1996 £21m) and were included in other creditors (Note 16); provisions for unfunded benefit obligations, included in provisions (Note 18) amounted to £92m (1996 £117m). Prepaid pension costs amounting to £20m (1996 £16m) were included in debtors (Note 13).

28 Post-retirement benefits (continued)

Post-retirement benefits other than pensions

In the US, and to a lesser extent in some other countries, Zeneca's employment practices include the provision of healthcare and life insurance benefits for retired employees. Some 6,200 retired employees and covered dependants currently benefit from these provisions and some 9,300 current employees will be eligible on retirement. Zeneca accrues for the present value of such retiree benefit obligations over the working life of the employee.

The cost of post-retirement benefits other than pensions for the Group in 1997 was £14m (1996 £11m). Provisions for the benefit obligations at 31 December 1997 amounted to £147m, of which £140m was included in provisions for employee benefits (Note 18) and £7m was included in other creditors (Note 16). Other than this provision there were no plan assets at 31 December 1997. The future costs of benefits are assessed in accordance with the advice of independent qualified actuaries and are based on a weighted average discount rate of 7% and a weighted average assumed healthcare costs trend rate of 8% reducing to 5% per annum.

29 Employee costs and share schemes

The average number of people employed by the Group in 1997 was 31,400 (1996 31,100) and the costs incurred during the year in respect of these employees were:

	1997 £m	1996 £m
Salaries	926	966
Social security costs	113	122
Pension costs	100	109
Other employment costs	77	100
	1,216	1,297

The Directors believe that, together with the basic salary system, the Group's employee incentive schemes, which have been approved by shareholders, should provide a competitive and market-related package to motivate employees. They should also align the interests of employees with those of shareholders, as a whole, through long-term share ownership in the Company. The Group's UK schemes are described below; other arrangements apply outside the UK.

The Zeneca Employee Performance Bonus Plan

A discretionary bonus scheme based on the Group's trading results, related to the achievement of performance targets at both individual business unit and Zeneca Group overall levels.

Employees are offered the opportunity to take any bonus that may be payable under the scheme in the form of cash or of Ordinary Shares in the Company through a share retention scheme.

The Zeneca Executive Performance Bonus Plan

A similar bonus scheme and share retention scheme for senior employees who do not participate in the Zeneca Employee Performance Bonus Plan. An outline of this plan is given in the Report of the Remuneration and Nomination Committee on page 36. Bonuses for senior employees, as well as reflecting corporate and business performance, can also be affected (both up and down) by individual performance.

The Zeneca 1994 Executive Share Option Scheme

Options to subscribe for Ordinary Shares in the Company may be granted to selected qualifying employees. The Remuneration and Nomination Committee is responsible for the Scheme and a brief description is also included in their Report on page 37. In particular, it sets performance conditions for the exercise of options from time to time. The initial performance condition is that earnings per share should show growth of at least 1.25 times the UK Retail Price Index over a three year period.

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29 Employee costs and share schemes (continued)

The Zeneca Savings Related Share Option Scheme

Employees may make regular monthly savings contributions over a three or five year period and may apply for options to acquire Zeneca shares at a 10% discount to market price at the time of grant.

30 Directors' interests in shares and debentures

The interests at 31 December 1997 of the persons who on that date were Directors (including the interests of their families) in shares and debentures of the Company and its subsidiaries are shown below, all of which were beneficial.

	Interest in Ordinary Shares, including shares held in trust, at 1 January 1997 or appointment date	Shares held in trust at 1 January 1997 or appointment date	Net shares acquired	Interest in Ordinary Shares, including shares held in trust, at 31 December 1997	Shares held in trust at 31 December 1997
Sir Sydney Lipworth	5,000			5,000	
Sir David Barnes	96,339	14,276	111,444	207,783	25,720
P. Doyle	16,714	8,270	46,062	62,776	14,482
T. F. W. McKillop	18,842	11,996	38,196	57,038	23,644
A. I. H. Pink	20,310	18,746	65,649	85,959	25,502
M.P. Pagnell	3,990	3,490	3,268	7,258	6,758
J. R. Symonds			2,950	2,950	
Sir Peter Bonfield	500			500	
Sir Richard Greenbury	500			500	
F. L. V. Meysman	500			500	
Sir Jeremy Morse	2,387			2,387	
Dame Bridget Ogilvie	500			500	
T. H. Wyman	656			656	

Shares held in trust above are long-term incentive bonus shares appropriated under the Zeneca Executive Performance Bonus Plan which have not yet been released. During the period 1 January 1998 to 4 March 1998 there was no change in the interests of Directors shown in this note. In the event that Ordinary Shares are appropriated in 1998 to Directors pursuant to the Executive Performance Bonus Plan in respect of the year to 31 December 1997 the Directors would have an interest in such appropriated shares.

The interests of Directors in options to subscribe for Ordinary Shares of the Company, which include options granted under the Savings Related Share Option Scheme, together with options granted and exercised during the year are included in the table opposite.

30 Directors' interests in shares and debentures (continued)

		No. of Shares Under Option	Exercise price per share*	Market price at date of exercise	First date exercisable*	Last date exercisable*
Sir David Barnes	At 1 Jan 1997	270,209	782p		24.06.93	28.03.06
	Exercised	77,498	568p	1776p	24.06.93	28.03.99
	Exercised	28,596	526p	1776p	24.06.93	27.03.00
	Exercised	18,425	498p	1776p	03.04.94	23.06.00
	At 31 Dec 1997	145,690	983p		28.05.95	28.03.06
P. Doyle	At 1 Jan 1997	156,979	737p		24.06.93	28.03.06
	Granted	24,885	1740p		04.04.00	03.04.07
	Granted	551	1933p		14.08.00	13.08.07
	Exercised	72,111	568p	1837.5p	24.06.93	28.03.99
	Exercised	23,200	588p	1837.5p	24.06.93	30.05.99
	Exercised	2,850	748p	1926p	05.04.97	04.04.04
	At 31 Dec 1997	84,254	1227p		27.03.98	13.08.07
J.C. Mayo	At 1 Jan 1997	175,267	716p		22.03.96	28.03.06
	Granted	31,960	1740p		04.04.00	03.04.07
	Exercised	104,487	574p	1837.5p	22.03.96	23.06.00
	Exercised	24,200	630p	1837.5p	24.06.96	23.06.03
	Exercised	10,000	748p	1940.5p	05.04.97	04.04.04
	Cancelled	31,960	1740p		04.04.00	03.04.07
	At date of resignation	36,580	1168p		01.10.97	11.09.00
T. F. W. McKillop	At 1 Jan 1997	136,905	845p		24.06.93	28.03.06
	Granted	22,109	1740p		04.04.00	03.04.07
	Exercised	30,423	568p	1837.5p	24.06.93	28.03.99
	Exercised	12,421	498p	1837.5p	03.04.94	23.06.00
	Exercised	11,182	664p	1837.5p	28.05.95	27.05.02
	Exercised	9,600	630p	1837.5p	24.06.96	23.06.03
	At 31 Dec 1997	95,388	1229p		05.04.97	03.04.07
A. I. H. Pink	At 1 Jan 1997	176,970	701p		24.06.93	28.03.06
	Granted	33,558	1740p		04.04.00	03.04.07
	Granted	1,209	1933p		14.08.00	13.08.07
	Exercised	34,727	568p	1837.5p	24.06.93	28.03.99
	Exercised	31,278	588p	1837.5p	24.06.93	30.05.99
	Exercised	24,663	620p	1837.5p	24.06.93	30.08.99
	Exercised	13,469	526p	1837.5p	24.06.93	27.03.00
	Exercised	12,421	498p	1837.5p	03.04.94	23.06.00
	Exercised	1,035	664p	1837.5p	28.05.95	27.05.02
	Exercised	21,300	630p	1837.5p	24.06.96	23.06.03
	Exercised	6,250	748p	1790p	05.04.97	04.04.04
	At 31 Dec 1997	66,594	1491p		27.03.98	13.08.07
M. P. Pragnell	At 1 Jan 1997	71,279	1034p		06.04.98	28.03.06
	Granted	24,138	1740p		04.04.00	03.04.07
	At 31 Dec 1997	95,417	1213p		06.04.98	03.04.07
J. R. Symonds	At 1 Oct 1997	—				
	Granted	30,656	2055p		01.10.00	30.09.07
	At 31 Dec 1997	30,656	2055p		01.10.00	30.09.07

*Exercise prices at 1 January and 31 December are weighted averages.

*First and last exercise dates of groups of options, within which periods there are shorter exercise periods.

Notes relating to the accounts

30 Directors' interests in shares and debentures (continued)

The aggregate amount of gains made by Directors on the exercise of share options during the year amounted to £7m (1996 £nil). The market price of the shares at 31 December 1997 was 2141p and the range during 1997 was 1594p to 2265p. The Register of Directors' Interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe.

31 Emoluments of Directors

The total emoluments of the Directors of the Company for the year are set out below.

	Salary and fees £'000	Bonuses Cash £'000	Shares* £'000	Taxable benefits £'000	Other+ £'000	Total 1997 £'000	Total 1996 £'000
Sir Sydney Lipworth	165			1		166	151
Sir David Barnes	590	15	30	10		645	852
P. Doyle	325	8	16	13		362	468
J. C. Mayo	266	13		16	169	464	577
T. F. W. McKillop	335		84	11		430	487
A. I. H. Pink	355	9	18	12		394	508
M. P. Pragnell	285		14	11		310	-
J. R. Symonds	79		8	3		90	-
Sir Peter Bonfield	27					27	24
Sir Richard Greenbury	32					32	28
F.L.V. Meysman	27					27	5
Sir Jeremy Morse	27					27	24
Dame Bridget Ogilvie	27					27	-
T. H. Wyman	32					32	43
Former Directors							8
	2,572	45	170	77	169	3,033	3,175

Details of share options granted to, and exercised by directors and the aggregate of gains realised on exercised options in the year are given in Note 30.

*The figures stated above include the cost to the Company of providing the matching contribution of shares in respect of that part of the bonus which is to be taken in shares by each Director. All such shares are held in trust and will be released to each Director upon fulfilment of the conditions and under the terms of the plan described on page 36 as part of the Report of the Remuneration and Nomination Committee.

+Payment related to the conversion of an unfunded pension promise with regard to earnings above the earnings cap into a funded unapproved retirement benefit (FURB).

31 Emoluments of Directors (continued)

Directors' Pension Entitlement (per annum)	Sir David Barnes £'000	P Doyle £'000	T F W McKillop £'000	A I H Pink £'000	J C Mayo £'000	M P Pragnell £'000	J R Symonds £'000
Defined Benefit Arrangements							
1. Accrued pension at 1 January 1997	375	189	146	190	56		
2. Transfer to a money purchase arrangement					(35)		
3. Increase in accrued pension during year as a result of inflation	44*	7	5	6	—		
4. Adjustment to accrued pension as a result of salary increase relative to inflation	2	19	21	21	1		
5. Increase in accrued pension as a result of additional year's service	13	8	8	8	2		
6. Accrued pension at 31 December 1997 or date of leaving service	434	223	180	225	24		
7. Employee contributions during year	—	13	13	14	9		
8. Age at 31 December 1997 (years)	61 ⁹ / ₁₂	59 ³ / ₁₂	54 ⁹ / ₁₂	59 ¹⁰ / ₁₂			
9. Pensionable service (years)	40 ¹ / ₁₂	34 ⁴ / ₁₂	28 ³ / ₁₂	35 ³ / ₁₂			
Money Purchase Arrangements							
Company contributions paid					277	95	8

*Includes late retirement uplift

In common with other senior employees in the UK who are members of the Zeneca Pension Fund, the normal pension age for each Director is 62. However, their accrued pension is available from age 60 without any actuarial reduction. In addition, the accrued pension is available, unreduced, from age 50 if the Company consents to a request for early retirement.

On the death of a former senior employee in retirement, the accrued pension shown is guaranteed payable for the first five years of retirement and then reduces to two thirds of this amount should there be a surviving spouse or other dependant. Under the Rules of the Zeneca Pension Fund any member may choose higher or lower levels of survivor's pensions at retirement, subject to Inland Revenue limits, in return for an adjustment to their own pension of equivalent actuarial value. Pensions are also payable to dependant children.

In the event of a senior employee becoming incapacitated from performing his work then a pension is payable immediately as if such person had reached normal retirement age, based on current pensionable salary.

In the event of death prior to retirement, dependants are entitled to a pension of two thirds of the pension that would have been earned had such person remained in service to age 62 plus a capital sum of four times pensionable pay.

Pensions in payment are increased annually in line with inflation, as measured by the Retail Price Index, up to a maximum of 5%.

Notes relating to the accounts

32 Commitments and contingent liabilities

	1997 £m	1996 £m
Contracts placed for future capital expenditure not provided for in these accounts	186	205

Included in the above total are contracts related to certain product purchase and licence agreements with deferred consideration obligations, the amount of which is variable depending upon particular 'milestone' achievements. Sales of the products to which these 'milestones' relate could give rise to additional payments, contingent upon the sales levels achieved. Guarantees and contingencies arising in the ordinary course of business, for which no security has been given, are not expected to result in any material financial loss.

In addition to the above, on 17 December 1997, Zeneca announced agreement subject to regulatory approval to acquire Ishihara Sangyo Kaisha Ltd's US based worldwide chlorothalonil business and international distribution rights outside Asia Pacific to four other agrochemical products for an anticipated purchase price of US\$ 500 million (£301m at £1 = \$1.66). The acquisition was completed on 4 February 1998.

On 8 December 1997, Zeneca gave notice of termination of the pharmaceuticals distribution agreement between it and ICI Australia Ltd (now called Orica Ltd). The agreement provides for Zeneca to make Orica Ltd a payment, the amount of which will be determined by independent valuation, by way of compensation for termination and for the assets of the business to be transferred.

Financial instruments

At 31 December 1997, Zeneca had outstanding forward foreign exchange contracts to sell currency with nominal principal amounts of £452m (1996 £380m) for the purpose of hedging non-sterling commercial transactions which existed at the date of the balance sheet. At that date, Zeneca also had entered into contracts to buy currency and sell sterling to a value of £230m to partially hedge the cost of acquisitions in progress. The majority of the contracts, which were arranged with commercial banks, had a maturity of six months or less from that date. At 31 December 1997, the Group held interest and cross currency swaps totalling £126m (1996 £76m) which were arranged with commercial banks for the purpose of hedging interest rate and currency movements on external borrowings.

Zeneca has also entered into forward foreign exchange and currency option contracts to hedge anticipated, but not firmly committed, non-sterling commercial transactions for 1998. The contracts were arranged with commercial banks. In relation to these Zeneca had, at 31 December 1997, outstanding forward foreign exchange contracts to sell currency with a notional principal value of £99m (1996 £142m) equivalent, and currency option contracts to sell with a notional principal value of £552m (1996 £401m) equivalent. Gains and losses on these transactions are recognised in income in the same period as the hedged transaction.

Environmental

Zeneca has environmental liabilities at some currently or formerly owned, leased and third party sites in the US. Zeneca, or its indemnitees, have been named under US legislation as potentially responsible parties ('PRP') in respect of a considerable number of sites (although Zeneca expects to be indemnified against liabilities associated with certain of these sites by the seller of the businesses associated with such sites) and actively participates in, or monitors, the clean-up activities of sites at which it is a PRP. Stauffer Management Company, a subsidiary of the Company, established in 1987 to own and manage certain assets and liabilities of Stauffer Chemical Company, which was acquired that year, has identified a number of environmentally impaired sites for which it may have responsibility that will, in aggregate, require significant expenditure on clean-up and monitoring.

The requirement in the future for Zeneca ultimately to take action to correct the effects on the environment of prior disposal or release of chemical substances by Zeneca or other parties, and its cost, pursuant to environmental laws and regulations, is inherently difficult to estimate. The Group has provisions at 31 December 1997 in respect of such costs in accordance with the accounting policy on page 44. Although there can be no assurance, management believes that,

32 Commitments and contingent liabilities (continued)

taking account of these provisions, the cost of addressing currently identified environmental obligations, as Zeneca currently views these obligations, is unlikely to impair materially Zeneca's financial position. Such contingent costs, to the extent that they exceed applicable provisions, could have a material adverse effect on Zeneca's results of operations for the relevant period.

Litigation

In December 1994 Zeneca brought patent infringement proceedings, under its US patent for its breast cancer medicine, 'Nolvadex', against the Canadian generic drug company, Novopharm Limited ('Novopharm'). The suit was brought as a result of Novopharm filing an Abbreviated New Drug Application (ANDA) with the US FDA seeking to enable it to commercialise a generic version of 'Nolvadex'. Judgement was entered in Zeneca's favour in April 1996. Novopharm appealed and in April 1997, the US Court of Appeals for the Federal Circuit affirmed the judgement, holding Zeneca's 'Nolvadex' patent valid and enforceable.

In January and February 1996 Zeneca received separate notifications that each of Mylan Pharmaceuticals Inc. ('Mylan') and Pharmachemie B.V. ('Pharmachemie') respectively had filed an ANDA with the US FDA to commercialise a generic version of 'Nolvadex' and asserting that Zeneca's relevant patent property was invalid and unenforceable. Zeneca completely disputes the position taken by Mylan and Pharmachemie and has initiated separate patent infringement proceedings against Mylan and Pharmachemie. Both matters are pending.

Proceedings brought against Zeneca Inc. in the US by Schering Corporation ('Schering') alleging that use of Zeneca's prostate cancer product 'Casodex' in association with LHRH analogues infringed patent property owned jointly by Schering and Roussel UCLAF S.A. ('Roussel') ended in partial summary judgement in favour of Zeneca. The decision was affirmed on appeal by the US Court of Appeals for the Federal Circuit thus confirming Zeneca's right to sell 'Casodex' in LHRH combination therapy.

The Group has provisions as at 31 December 1997 in respect of costs associated with the proposed settlement of certain anti-trust class actions against more than 20 major drug manufacturers including Zeneca Inc. While Zeneca has consistently denied liability and continues to believe it has meritorious defences to these claims, it has concluded that settling certain of these actions where appropriate is the prudent course of action given the inherent risks and costs of litigation and to avoid further business disruption.

Zeneca is also involved in various other legal proceedings, which include some remaining consumer and retail pharmacy anti-trust class and individual retail pharmacy actions in the US outside the scope of the settlements described above, and other litigation considered typical to its businesses, covering product liability, infringements of intellectual property rights and validity of certain patents.

Notes relating to the accounts

33 Leases

The total rentals under operating leases, charged as an expense in the profit and loss account, are disclosed below.

	1997 £m	1996 £m
Rentals under operating leases	22	22
Commitments under leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which each lease expires.		
Obligations under operating leases comprise		
Land and buildings		
Expiring within 1 year	2	2
Expiring during years 2 to 5	4	10
Expiring thereafter	6	7
	12	19
Other assets		
Expiring within 1 year	2	3
Expiring during years 2 to 5	7	6
Expiring thereafter	1	2
	10	11
Obligations under finance leases comprise		
Rentals due within 1 year	5	8
Rentals due during years 2 to 5	9	13
Rentals due thereafter	8	9
Less interest element	(6)	(7)
	16	23

The Group had no commitments (1996 £nil) under finance leases at the balance sheet date which were due to commence thereafter.

34 Statutory and other information

Included in debtors are interest free loans of £18,000 to two officers of the Company. These loans are provided in accordance with the Company's policy of providing relocation assistance to staff who have been transferred. One officer also leases a car from the company in accordance with the local benefit arrangements of the country in which he is located. Payments under the lease in 1997 amounted to £7,000.

Remuneration of auditors for the statutory audit charged in the Group accounts for 1997 was £2.3m (1996 £2.3m) and that for the Company was £1,000 (1996 £1,000). Fees paid to the auditors of the parent Company and to their associates for non-statutory 'audit' work, accounting, information systems, project support and taxation advice to the parent Company and its UK subsidiaries were £1.6m (1996 £3.3m). Other fees paid to affiliates of the auditors of the parent Company worldwide amounted to £0.9m (1996 £0.7m).

The Group had no material related party transactions which might reasonably be expected to influence decisions made by the users of these financial statements.

Principal subsidiary and associated undertakings

At 31 December 1997	Class of capital	Percentage of voting share capital held	Principal activity
United Kingdom			
Zeneca Limited England	Ordinary	100#	Research and manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchandising of Zeneca products
Zeneca Insurance Company Limited England	Ordinary	100	Insurance and reinsurance underwriting
Continental Europe			
Zeneca Pharma S.A. France	Ordinary	100	Research, manufacture and merchandising of pharmaceuticals
Zeneca Holding GmbH Germany	Ordinary	100	Manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchandising of Zeneca products
Zeneca S.p.a. Italy	Ordinary	100	Manufacture of pharmaceuticals; merchandising of Zeneca products
Stauffer Chemical B.V. The Netherlands	Common	100	Manufacture of agrochemicals
Advanta B.V. The Netherlands	Ordinary	50†	Processing and merchandising of seeds
The Americas			
Zeneca Brasil Ltda. Brazil	Ordinary	100	Manufacture of agrochemicals and specialty chemicals; merchandising of Zeneca products
Zeneca Holdings Inc. USA	Common	100	Manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchandising of Zeneca products
IPR Pharmaceuticals Inc. Puerto Rico	Common	100	Manufacture of pharmaceuticals
Salick Health Care, Inc. USA	Common	100	Provision of disease-specific healthcare services
Asia, Africa & Australasia			
Zeneca China Limited Hong Kong	Ordinary	100	Merchandising of Zeneca products
Zeneca Yakuhin K.K. Japan	Ordinary	60	Merchandising of pharmaceutical products
Zeneca K.K. Japan	Ordinary	100	Manufacture of pharmaceuticals; merchandising of Zeneca products
#shares held directly	†equity accounted associated undertaking		

The companies listed above are those whose results or financial position principally affected the figures shown in the Group's annual accounts. A full list of subsidiaries and associated undertakings will be annexed to the Company's next annual return filed with the Registrar of Companies. The country of registration or incorporation is stated below each company. The accounting dates of principal subsidiary and associated undertakings are 31 December, except for Salick Health Care, Inc. which is 30 November. Zeneca operates through 196 subsidiary companies. Products are manufactured in some 21 countries worldwide and are sold in well over 100 countries.

Financial Statements

Group financial record

For the years ended 31 December	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m
Turnover and profits					
Turnover	4,440	4,480	4,898	5,363	5,194
Operating profit before exceptional items	704	797	894	1,043	1,083
Exceptional items charged to operating profit	—	(138)	(65)	—	—
Operating profit after exceptional items	704	659	829	1,043	1,083
Profit on ordinary activities before interest	721	697	638	988	1,091
Net interest payable	(88)	(38)	(19)	(13)	(10)
Profit on ordinary activities before taxation	633	659	619	975	1,081
Net profit for the financial year	431	443	336	643	730
Dividends to Shareholders	(260)	(270)	(293)	(332)	(365)
Return on sales					
Operating profit before exceptional items as a percentage of sales	15.9%	17.8%	18.3%	19.4%	20.9%
Balance sheets					
Fixed assets	1,684	1,733	1,905	1,847	2,032
Fixed asset investments	26	39	40	118	122
Current assets	3,309	2,909	3,148	3,035	2,856
Total assets	5,019	4,681	5,093	5,000	5,010
Creditors due within one year	(2,360)	(1,896)	(2,024)	(1,870)	(1,863)
Total assets less current liabilities	2,659	2,785	3,069	3,130	3,147
Creditors due after more than one year	587	552	567	516	535
Provisions for liabilities and charges	501	490	537	476	420
Minority equity interests	72	58	104	104	32
Shareholders' equity	1,499	1,685	1,861	2,034	2,160
	2,659	2,785	3,069	3,130	3,147
Capital gearing					
Net debt as a percentage of shareholders' funds	13.1%*	0.8%*	1.6%*	—*	—
Cash flow					
Net cash inflow from operating activities	833	872	956	1,079	1,169
Returns on investments and servicing of finance	(141)	(46)	(25)	(24)	(56)
Taxation	(116)	(163)	(278)	(290)	(320)
Capital expenditure and financial investment	(296)	(301)	(280)	(372)	(443)
Acquisitions and disposals	40	89	(125)	146	(196)
Dividends paid to Shareholders	(99)	(263)	(274)	(305)	(341)
Net cash flow before management of liquid resources and financing	221	188	(26)	234	(187)
Management of liquid resources and financing	447+	(233)	33	(133)	260
Increase (decrease) in cash	668+	(45)	7	101	73

FRS 1 (Revised 1996) has been adopted from 1996. *Reflects movement in cash and cash equivalents as the relevant information to calculate the increase in cash as defined in the new Standard is not available.

*Net debt has been restated to include finance lease obligations.

Zeneca share information

	1993	1994	1995	1996	1997
Ordinary Shares in issue – millions					
At year end	945	946	947	947	949
Weighted average for year	850	946	946	947	948
Stock Market price – per 25p Ordinary Share	Pence	Pence	Pence	Pence	Pence
Highest	841.5	898.5	1334.0	1758.5	2265.0
Lowest	594.5	674.5	841.5	1227.0	1594.0
At year end	840.5	878.5	1246.0	1647.5	2141.0
Earnings per 25p Ordinary Share before exceptional items	48.9	55.2	62.0	70.6	77.0
Earnings per 25p Ordinary Share	50.7	46.8	35.6	67.8	77.0
Dividends (net of tax credit)	27.5	28.5	31.0	35.0	38.5

Additional information for US investors

Differences between United Kingdom and United States accounting principles

The Group's financial statements are prepared in accordance with generally accepted accounting principles applicable in the United Kingdom (UK GAAP), which differ in certain significant respects from those applicable in the United States (US GAAP). The following are the main differences which are relevant to the Group's financial statements.

Capitalization of interest

Interest incurred as part of the cost of constructing fixed assets is capitalized and amortized over the life of the asset under US GAAP. In accordance with common UK practice, Zeneca does not capitalize such interest in its financial statements.

Dividends

Under UK GAAP ordinary share 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.

Deferred taxation

Deferred taxation is provided on a full liability basis under US GAAP; in the UK no provision is made for taxation deferred by reliefs unless there is reasonable evidence that such deferred taxation will be payable in the foreseeable future.

Goodwill

Under US GAAP goodwill arising on acquisitions accounted for under the purchase method is capitalized and amortized over its estimated useful life. Goodwill is amortized using the straight line method over periods up to 40 years. Goodwill is computed under US GAAP after ascribing fair values to all assets acquired including identifiable intangible assets, which are amortized over their useful lives. In the UK the normal practice up to and including 1997 is for goodwill and intangible assets which are inseparable from the business to be eliminated immediately upon acquisition against income retained and other reserves.

Pension expense

UK and US pension expense accounting standards differ notably in the permitted valuation methods and in the way surpluses and deficits are accounted for. In addition, under UK GAAP assets are valued at the discounted present value of income streams whilst under US GAAP market related values are used.

Restructuring costs

Under US GAAP the criteria for recognition of restructuring costs, particularly employee termination benefits, are more restrictive than under UK GAAP.

Financial Statements

Additional information for US investors (continued)

Foreign exchange

Under UK GAAP unrealized gains and losses on foreign currency transactions to hedge anticipated, but not firmly committed, foreign currency transactions may be deferred and accounted for at the same time as the anticipated transactions. Under US GAAP such deferral is not permitted except in certain defined circumstances.

Statement of consolidated income and balance sheet

Set out below is a summarised version of the UK GAAP financial statements using a format and terminology customary in the US. These have been prepared from, and should be read in conjunction with, the audited results of the Group. Each statement is followed by details of the adjustments necessary to restate net income and shareholders' equity to US GAAP. For convenience only, sterling figures have been translated into US dollars at the 31 December 1997 rate of £1 = \$1.66.

	Years ended 31 December			
	1997 £m	1996 £m	1997 \$m	1996 \$m
Summarised income statement				
Sales	5,194	5,363	8,622	8,903
Operating income	1,083	1,043	1,798	1,731
Income from ordinary activities before interest	1,091	988	1,811	1,640
Net interest expense	(10)	(13)	(17)	(22)
Income from ordinary activities before taxation	1,081	975	1,794	1,618
Taxes on income from ordinary activities	(345)	(320)	(572)	(531)
Income from ordinary activities after taxation	736	655	1,222	1,087
Income attributable to minorities	(6)	(12)	(10)	(20)
Net income (UK GAAP)	730	643	1,212	1,067
Adjustments to conform to US GAAP				
Capitalization, less disposals and amortization of interest	3	(5)	5	(8)
Deferred taxation	12	(6)	20	(10)
Pension expense	10	(15)	17	(25)
Post-retirement benefits/plan amendment	3	3	5	5
Purchase accounting adjustments, including goodwill and intangibles	(49)	(34)	(82)	(57)
Restructuring costs	-	(14)	-	(23)
Unrealized gains on foreign exchange	(12)	12	(20)	20
	(33)	(59)	(55)	(98)
Net income in accordance with US GAAP	697	584	1,157	969
Net income (US GAAP) per Ordinary Share (basic)	73.5p	61.7p	+\$3.66	+\$3.07
Net income (US GAAP) per Ordinary Share (diluted)	73.2p	61.5p	+\$3.65	+\$3.06
Dividends per 25p Ordinary Share	38.5p	35.0p	+\$2.40	+\$2.18

*Per American Depositary Share (ADS). On the basis of three Zeneca Ordinary Shares being represented by each ADS.

The Board have approved a change in ratio of Ordinary Shares to American Depositary Shares from 3:1 to 1:1. The record date for the change in ratio will be 30 March 1998 and the effective date for this change will be 8 April 1998.

The current income tax convention between the UK and the USA includes provisions which entitle qualifying US resident ADS holders to a refund of the UK tax credit of 20/80ths attaching to the dividend less a 15% withholding tax charged on the sum of the dividend and the credit. Subject to certain limitations the withholding tax may be offset against US federal taxes on certain overseas income. For ADS holders able to benefit fully under these arrangements the dividend of 38.5 pence per Ordinary Share would represent \$2.40 per ADS using the conversion rate of £1 = \$1.66. The UK tax credit of 20/80ths is based on the lower rate of income tax prevailing in the UK on 4 March 1998, the date on which the Zeneca Group audited financial statements were signed.

	At 31 December			
	1997 £m	1996 £m	1997 \$m	1996 \$m
Summarised consolidated balance sheet				
UK Basis				
Assets				
Current assets				
Cash and marketable securities	729	975	1,210	1,619
Receivables	1,399	1,379	2,322	2,289
Inventories	728	681	1,209	1,130
Total current assets	2,856	3,035	4,741	5,038
Other assets: non-current investments	122	118	203	196
Property, plant and equipment (net of depreciation)	1,951	1,822	3,239	3,025
Intangible assets	81	25	134	41
Total assets	5,010	5,000	8,317	8,300
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	1,680	1,643	2,789	2,727
Short-term debt	166	215	276	357
Long-term debt due within one year	17	12	28	20
Total current liabilities	1,863	1,870	3,093	3,104
Long-term debt not due within one year	510	476	847	790
Other liabilities and deferred income	445	516	738	857
Minority interests	32	104	53	173
Shareholders' equity	2,160	2,034	3,586	3,376
Issued Shares	237	237	393	393
Premiums paid in excess of par value	24	9	40	15
Merger reserve	285	285	473	473
Income retained and other reserves	1,614	1,503	2,680	2,495
Total liabilities and shareholders' equity (UK basis)	5,010	5,000	8,317	8,300
Total shareholders' equity (UK basis)	2,160	2,034	3,586	3,376
Adjustments to conform to US GAAP				
Capitalization, less disposals and amortization of interest	104	101	173	168
Dividends	237	214	393	355
Deferred taxation	(40)	(45)	(66)	(74)
Pension expense	(113)	(121)	(188)	(201)
Post-retirement benefits/plan amendment	(28)	(30)	(46)	(50)
Purchase accounting adjustments, including goodwill and intangibles	713	600	1,183	996
Unrealized gains on foreign exchange	-	12	-	20
	873	731	1,449	1,214
Shareholders' equity in accordance with US GAAP	3,033	2,765	5,035	4,590

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
consolidated accounts of Zeneca Group PLC and its
subsidiary undertakings
(Companies Act 1985 - S231; Schedule 5 Part II)
As at 31st DECEMBER 1997

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of 28

Class of Capital	Held by	Held %
-----	-----	-----
ORDINARY	Zeneca Group PLC	100.00
Full Name: ZENECA LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
Full Name: ZENCO (NO 5) LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : UK		
Full Name: ZENECA TONER RESINS LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : UK		
Full Name: ZENCO (NO 7) LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : UK		
Full Name: ZENECA EMPLOYEE SHARE TRUST LTD		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
Full Name: ZENECA SHARE TRUST LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
Full Name: ZENCO (NO 8) LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : UK		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
consolidated accounts of Zeneca Group PLC and its
subsidiary undertakings
(Companies Act 1985 - S231; Schedule 5 Part II)
As at 31ST DECEMBER 1997

Class of Capital	Held by	Held %
-----	-----	-----
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENCO (NO 9) LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : UK		
Full Name: ZENCO (NO 10) LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : UK		
ORDINARY	Subsidiary(ies)	100.00
Full Name: DTBA LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: IVEAGH TECHNOLOGY DEVELOPMENTS LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: PLANT PROTECTION LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: MARLBOROUGH BIO-POLYMERS LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
CUM PREFERENCE 10% ORDINARY	Subsidiary(ies) Subsidiary(ies)	100.00 100.00
Full Name: AVLEX LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II)
As at 31ST DECEMBER 1997

Class of Capital	Held by	Held %
-----	-----	-----
ORDINARY	Subsidiary(ies)	100.00
Full Name: STUART PHARMACEUTICALS LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	51.00
Full Name: IC INSURANCE LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: CARE LABORATORIES LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: CARE PRODUCTS LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENCO CFD LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
DEFERRED ORDINARY	Subsidiary(ies)	100.00
ORDINARY	Subsidiary(ies)	100.00
Full Name: PLANT SCIENCE LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: STAHL GB LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Class of Capital	Held by	Held %
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ORDINARY	Subsidiary(ies)	100.00
Full Name: CAMBRIDGE RESEARCH BIOCHEMICALS LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: STAHL AUSTRALIA PTY. LTD.		
Country of Incorporation: AUSTRALIA		
Country of Registration		
(UK Companies only) : N/A		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA CORP		
Country of Incorporation: CANADA		
Country of Registration		
(UK Companies only) : N/A		
COMMON	Subsidiary(ies)	100.00
Full Name: COMPREHENSIVE CANCER CENTERS OF NEW YORK, INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
COMMON NPV	Subsidiary(ies)	100.00
Full Name: STAHL CANADA LTD		
Country of Incorporation: CANADA		
Country of Registration		
(UK Companies only) : N/A		
COMMON	Subsidiary(ies)	100.00
Full Name: ZENECA DELAWARE HOLDINGS INC.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
COMMON	Subsidiary(ies)	100.00
Full Name: ATKEMIX NINE INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Class of Capital	Held by	Held %
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COMMON	Subsidiary(ies)	100.00
Full Name: ATKEMIX TEN INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: CCC MANAGEMENT COMPANY OF CALIFORNIA, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: ATKEMIX TWELVE INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: ZENECA INTERNATIONAL INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: CCC MANAGEMENT COMPANY, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: STUART DISEASE MANAGEMENT SERVICES, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: THE BREAST CENTER, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Class of Capital	Held by	Held %
-----	-----	-----
COMMON	Subsidiary(ies)	100.00
Full Name: CCC MANAGEMENT COMPANY OF NEW YORK, INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: STAUFFER MANAGEMENT COMPANY INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ATKEMIX THIRTY-SEVEN INC.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: STAUFFER CHEMICAL CO CANADA, LIMITED		
Country of Incorporation: CANADA		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA REINSURANCE COMPANY LIMITED		
Country of Incorporation: B.VIRGIN IS		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ACORGA LIMITED		
Country of Incorporation: BERMUDA		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA FOREIGN SALES CORPORATION		
Country of Incorporation: BARBADOS		
Country of Registration		
(UK Companies only) : N/A		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

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Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	51.00
Full Name: ARBIL INTERNATIONAL INSURANCE LIMITED		
Country of Incorporation: B.VIRGIN IS		
Country of Registration		
(UK Companies only) : N/A		
Full Name: SALICK HEALTH CARE HOLDINGS INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA HOLDINGS FINANCIAL CORP.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: CAMBRIDGE RESEARCH BIOCHEMICALS INCORPORATED		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA RESINS HOLDINGS INC.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA HOLDINGS INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA INC.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
consolidated accounts of Zeneca Group PLC and its
subsidiary undertakings
(Companies Act 1985 - S231; Schedule 5 Part II)
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Class of Capital	Held by	Held %
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COMMON	Subsidiary(ies)	100.00
Full Name: Z-MONT INSURANCE COMPANY LIMITED		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: COMPREHENSIVE CANCER CENTERS INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA PHARMA INC		
Country of Incorporation: CANADA		
Country of Registration		
(UK Companies only) : N/A		
Full Name: CORPUS CHRISTI HOLDINGS INC.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA METALEX INC.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: CENTURY DIALYSIS CORPORATION		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: INTERCENTER CANCER RESEARCH GROUP, INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
consolidated accounts of Zeneca Group PLC and its
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Class of Capital	Held by	Held %
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COMMON	Subsidiary(ies)	100.00
Full Name: AURORA MEDICAL SUPPLIES, INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: AMBULATORY DIAGNOSTIC SERVICES, INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: SHC LABORATORIES, INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: DAY CARE HOSPITALS, INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: COMPREHENSIVE CANCER CENTERS, INC - PHILADELPHIA		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: DESERT DIALYSIS CLINIC, INC.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: COMPREHENSIVE CANCER CENTERS INC. - KANSAS CITY		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II)
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Class of Capital	Held by	Held %
-----	-----	-----
COMMON A	Subsidiary(ies)	100.00
COMMON B	Subsidiary(ies)	100.00
COMMON	Subsidiary(ies)	100.00
COMMON	Subsidiary(ies)	100.00
COMMON	Subsidiary(ies)	100.00
PREFERENCE	Subsidiary(ies)	100.00

Full Name: INFUSX, INC
Country of Incorporation: U.S.A.
Country of Registration : N/A
(UK Companies only)

Full Name: INFUCARE CALIFORNIA, INC.
Country of Incorporation: U.S.A.
Country of Registration : N/A
(UK Companies only)

Full Name: CCCLP CORP
Country of Incorporation: U.S.A.
Country of Registration : N/A
(UK Companies only)

Full Name: CCC OF NORTH MIAMI BEACH, INC
Country of Incorporation: U.S.A.
Country of Registration : N/A
(UK Companies only)

Full Name: SPECIALTY HOSPITALS, INC.
Country of Incorporation: U.S.A.
Country of Registration : N/A
(UK Companies only)

Full Name: COMPREHENSIVE CANCER CENTERS - WEST VALLEY INC
Country of Incorporation: U.S.A.
Country of Registration : N/A
(UK Companies only)

Full Name: SALICKNET INC.
Country of Incorporation: U.S.A.
Country of Registration : N/A
(UK Companies only)

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II)
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Class of Capital	Held by	Held %
-----	-----	-----
COMMON	Subsidiary(ies)	100.00
Full Name: MULTI-ORGAN TRANSPLANT HOSPITALS, INC.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
Full Name: SALICK HEALTH CARE, INC		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
COMMON	Subsidiary(ies)	100.00
Full Name: STAHL DE MEXICO, S.A. DE C.V.		
Country of Incorporation: MEXICO		
Country of Registration		
(UK Companies only) : N/A		
NO PAR VALUE : ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA NICARAGUA, SOCIEDAD ANONIMA		
Country of Incorporation: NICARAGUA		
Country of Registration		
(UK Companies only) : N/A		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA PHARMA INC.		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
COMMON	Subsidiary(ies)	100.00
Full Name: ZENECA HOLDING GMBH		
Country of Incorporation: GERMANY		
Country of Registration		
(UK Companies only) : N/A		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA B.V.		
Country of Incorporation: HOLLAND		
Country of Registration		
(UK Companies only) : N/A		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231/ Schedule 5 Part II)
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Class of Capital	Held by	Held %
-----	-----	-----
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA ITALIA SRL		
Country of Incorporation: ITALY		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA SPECIALTIES SAS		
Country of Incorporation: FRANCE		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA ESPECIALIDADES S.A.		
Country of Incorporation: SPAIN		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA GMBH		
Country of Incorporation: GERMANY		
Country of Registration		
(UK Companies only) : N/A		
Full Name: RHEIN-PHARMA GMBH		
Country of Incorporation: GERMANY		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA AS		
Country of Incorporation: DENMARK		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA S.A.		
Country of Incorporation: FRANCE		
Country of Registration		
(UK Companies only) : N/A		

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System Ref : CISR0162C

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II) As at 31ST DECEMBER 1997

Class of Capital	Held by	Held %
-----	-----	-----
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA A/S		
Country of Incorporation: NORWAY		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA AB		
Country of Incorporation: SWEDEN		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA EPSILON B.V.		
Country of Incorporation: HOLLAND		
Country of Registration		
(UK Companies only) : N/A		
Full Name: ZENECA HOLDING SPAIN SA		
Country of Incorporation: SPAIN		
Country of Registration		
(UK Companies only) : N/A		
Full Name: STAHL ITALIA SPA		
Country of Incorporation: ITALY		
Country of Registration		
(UK Companies only) : N/A		
Full Name: STAHL (DEUTSCHLAND) GMBH		
Country of Incorporation: GERMANY		
Country of Registration		
(UK Companies only) : N/A		
Full Name: STAHL POLYVINYL INTERNATIONAL BV		
Country of Incorporation: HOLLAND		
Country of Registration		
(UK Companies only) : N/A		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II)
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Class of Capital	Held by	Held %
ORDINARY STOCK 'A'	Subsidiary(ies)	100.00
ORDINARY STOCK	Subsidiary(ies)	100.00
SERIES A	Subsidiary(ies)	100.00
SERIES B	Subsidiary(ies)	100.00
PARTS SOCIALES	Subsidiary(ies)	100.00
ORDINARY	Subsidiary(ies)	100.00
ORDINARY	Subsidiary(ies)	100.00
ORDINARY	Subsidiary(ies)	100.00

Full Name: STAHL HOLLAND B.V.
Country of Incorporation: HOLLAND
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA RESINS B.V.
Country of Incorporation: HOLLAND
Country of Registration : N/A
(UK Companies only)

Full Name: STAHL IBERICA, S.A.
Country of Incorporation: SPAIN
Country of Registration : N/A
(UK Companies only)

Full Name: STAHL FRANCE SARL
Country of Incorporation: FRANCE
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA ZETA B.V.
Country of Incorporation: HOLLAND
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA JOTA B.V.
Country of Incorporation: HOLLAND
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA RHO B.V.
Country of Incorporation: HOLLAND
Country of Registration : N/A
(UK Companies only)

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Class of Capital	Held by	Held %
-----	-----	-----
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA SIGMA B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA KAPPA B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA OMEGA B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: MOGEN INTERNATIONAL NV Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: MOGEN LICENSING BV Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: MOGEN BEHEER BV Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: STUART PHARMA AB Country of Incorporation: SWEDEN Country of Registration : N/A (UK Companies only)		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Class of Capital	Held by	Held %
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ORDINARY	Subsidiary(ies)	100.00
ORDINARY	Subsidiary(ies)	100.00
'A' SHARES	Subsidiary(ies)	100.00
ORDINARY	Subsidiary(ies)	100.00
ORDINARY	Subsidiary(ies)	100.00
CAPITAL STOCK	Subsidiary(ies)	100.00
QUOTAS	Subsidiary(ies)	99.88

Full Name: ZENECA FARMA S.A.
Country of Incorporation: SPAIN
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA HOLDINGS B.V.
Country of Incorporation: HOLLAND
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA (CZ) S.R.O.
Country of Incorporation: CZECH REPUBLIC
Country of Registration : N/A
(UK Companies only)

Full Name: AO ZENECA
Country of Incorporation: RUSSIA
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA LLC
Country of Incorporation: RUSSIA
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA OESTERREICH GmbH
Country of Incorporation: AUSTRIA
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA - PRODUTOS BIOTECNICIA, LDA
Country of Incorporation: PORTUGAL
Country of Registration : N/A
(UK Companies only)

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Class of Capital	Held by	Held %
ORDINARY STOCK 'A'	Subsidiary(ies)	100.00
Full Name: ZENECA AG Country of Incorporation: SWITZERLAND Country of Registration : N/A (UK Companies only)		
ORDINARY STOCK 'A'	Subsidiary(ies)	100.00
Full Name: STAHL CHEMICAL INDUSTRIES GMBH Country of Incorporation: AUSTRIA Country of Registration : N/A (UK Companies only)		
QUOTAS	Subsidiary(ies)	100.00
Full Name: STAHL PORTUGUESA ACABAMENTOS PARA PELES E Country of Incorporation: PORTUGAL Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: STAUFFER CHEMICAL B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA POLSKA SP. Z.O.O. Country of Incorporation: POLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA HUNGARY KFT Country of Incorporation: HUNGARY Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA YUGOSLAVIA D.O.O. Country of Incorporation: YUGOSLAVIA Country of Registration : N/A (UK Companies only)		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

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Class of Capital	Held by	Held %
'A' SHARES	Subsidiary(ies)	
Full Name: ZENECA SLOVAKIA S.R.O. Country of Incorporation: SLOVAKIA Country of Registration : N/A (UK Companies only)		100.00
Full Name: STAUFFER CHEMICAL (EUROPE) S.A. Country of Incorporation: SWITZERLAND Country of Registration : N/A (UK Companies only)	ORDINARY Subsidiary(ies)	100.00
Full Name: ZENECA OY Country of Incorporation: FINLAND Country of Registration : N/A (UK Companies only)	ORDINARY Subsidiary(ies)	100.00
Full Name: ZENECA HELIAS S.A. Country of Incorporation: GREECE Country of Registration : N/A (UK Companies only)	NOMINATIVE Subsidiary(ies)	100.00
Full Name: ZENECA AGRO - PRODUTOS PARA A AGRICULTURA, Country of Incorporation: PORTUGAL Country of Registration : N/A (UK Companies only)	ORDINARY Subsidiary(ies)	100.00
Full Name: ZENECA RESINS S A Country of Incorporation: SPAIN Country of Registration : N/A (UK Companies only)	ORDINARY Subsidiary(ies)	100.00
Full Name: ZENECA AGRO, S.A. Country of Incorporation: SPAIN Country of Registration : N/A (UK Companies only)	ORDINARY Subsidiary(ies)	100.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings (Companies Act 1985 - S231; Schedule 5 Part II) As at 31ST DECEMBER 1997

Class of Capital	Held by	Held %
ORDINARY A	Subsidiary(ies)	100.00
ORDINARY CLASS I	Subsidiary(ies)	100.00
ORDINARY CLASS II	Subsidiary(ies)	100.00
QUOTAS	Subsidiary(ies)	100.00
Full Name: ZENECA FARMACEUTICA DO BRASIL LTDA		
Country of Incorporation: BRAZIL		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY STOCK 'A'	Subsidiary(ies)	100.00
Full Name: ZENECA URUGUAY S.A.		
Country of Incorporation: URUGUAY		
Country of Registration : N/A		
(UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: ZENECA PANAMERICANA, S.A.		
Country of Incorporation: GUATEMALA		
Country of Registration : N/A		
(UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: AGROQUIMICOS ALPHA, S.A.		
Country of Incorporation: GUATEMALA		
Country of Registration : N/A		
(UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: AGROINSUMOS, S.A.		
Country of Incorporation: GUATEMALA		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY A	Subsidiary(ies)	100.00
ORDINARY B	Subsidiary(ies)	100.00
Full Name: ANTL-MEX SA DE CV		
Country of Incorporation: MEXICO		
Country of Registration : N/A		
(UK Companies only)		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

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Class of Capital	Held by	Held %
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COMMON	Subsidiary(ies)	100.00
Full Name: IPR PHARMACEUTICALS, INC		
Country of Incorporation: PUERTO RICO		
Country of Registration : N/A		
(UK Companies only)		
Full Name: ZENECA DOMINICANA, S.A.		
Country of Incorporation: DOMINICAN REPUBLIC		
Country of Registration : N/A		
(UK Companies only)		
Full Name: ZENECA COSTA RICA, S.A.		
Country of Incorporation: COSTA RICA		
Country of Registration : N/A		
(UK Companies only)		
Full Name: STAHL BRASIL S.A.		
Country of Incorporation: BRAZIL		
Country of Registration : N/A		
(UK Companies only)		
Full Name: ZENECA BRASIL LTDA		
Country of Incorporation: BRAZIL		
Country of Registration : N/A		
(UK Companies only)		
Full Name: ZENECA CHILE SA		
Country of Incorporation: CHILE		
Country of Registration : N/A		
(UK Companies only)		
Full Name: ZENECA (MALAYSIA) SDN. BHD.		
Country of Incorporation: MALAYSIA		
Country of Registration : N/A		
(UK Companies only)		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

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Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA VENEZUELA S.A. Country of Incorporation: VENEZUELA Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA S.A.I.C. Country of Incorporation: ARGENTINA Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	67.00
Full Name: PRODUCTOS STAHL DE COLOMBIA S.A. Country of Incorporation: COLOMBIA Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA S.A. Country of Incorporation: CHILE Country of Registration : N/A (UK Companies only)		
ORDINARY CLASS I ORDINARY CLASS II	Subsidiary(ies) Subsidiary(ies)	100.00 100.00
Full Name: ZENECA MEXICO, S.A. DE C.V. Country of Incorporation: MEXICO Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	51.00
Full Name: ZENECA ICI AGROCHEMICALS LIMITED Country of Incorporation: INDIA Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
consolidated accounts of Zeneca Group PLC and its
subsidiary undertakings
(Companies Act 1985 - S231; Schedule 5 Part II)
As at 31ST DECEMBER 1997

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Class of Capital	Held by	Held %
-----	-----	-----
COMMON	Subsidiary(ies)	99.99
ORDINARY NON-VOTING DEFERRED SHARE	Subsidiary(ies) Subsidiary(ies)	100.00 100.00
COMMON REDEEMABLE PREFERENCE	Subsidiary(ies) Subsidiary(ies)	100.00 100.00
ORDINARY	Subsidiary(ies)	100.00
ORDINARY	Subsidiary(ies)	100.00
SERIES A SERIES B	Subsidiary(ies) Subsidiary(ies)	51.00 51.00
ORDINARY	Subsidiary(ies)	100.00

Full Name: ZENECA PHARMA PHILIPPINES, INC.
Country of Incorporation: PHILIPPINES
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA CHINA LIMITED
Country of Incorporation: HONG KONG
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA KOREA LIMITED
Country of Incorporation: SOUTH KOREA
Country of Registration : N/A
(UK Companies only)

Full Name: STAHL KOREA LTD
Country of Incorporation: SOUTH KOREA
Country of Registration : N/A
(UK Companies only)

Full Name: STAHL JAPAN LIMITED
Country of Incorporation: JAPAN
Country of Registration : N/A
(UK Companies only)

Full Name: ZENECA AGRO ASIATIC LTD
Country of Incorporation: THAILAND
Country of Registration : N/A
(UK Companies only)

Full Name: STAHL ASIA PTE LTD
Country of Incorporation: SINGAPORE
Country of Registration : N/A
(UK Companies only)

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II)
As at 31ST DECEMBER 1997

Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	100.00
Full Name: STAHL SINGAPORE PACIFIC PRIVATE LIMITED		
Country of Incorporation: SINGAPORE		
Country of Registration : N/A		
(UK Companies only)		
Full Name: ZENECA TURKIYE LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration : ENGLAND		
(UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: PT.ZENECA PHARMA INDONESIA		
Country of Incorporation: INDONESIA		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY	Subsidiary(ies)	70.00
Full Name: PT ZENECA AGRI PRODUCTS INDONESIA		
Country of Incorporation: INDONESIA		
Country of Registration : N/A		
(UK Companies only)		
COMMON	Subsidiary(ies)	60.00
Full Name: ZENECA YAKUHHIN K.K.		
Country of Incorporation: JAPAN		
Country of Registration : N/A		
(UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: ZENECA K.K.		
Country of Incorporation: JAPAN		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY A PREFERENCE	Subsidiary(ies) Subsidiary(ies)	49.00 49.00
Full Name: ZENECA PHARMA ASIATIC LIMITED		
Country of Incorporation: THAILAND		
Country of Registration : N/A		
(UK Companies only)		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II) As at 31ST DECEMBER 1997

Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA ILAC SANAYI VE TICARET A.S. Country of Incorporation: TURKEY Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA SPECIALTIES PRIVATE LIMITED Country of Incorporation: SINGAPORE Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA PHARMA (SINGAPORE) PTE LIMITED Country of Incorporation: SINGAPORE Country of Registration : N/A (UK Companies only)		
Full Name: P.T. ZENECA COLOURS INDONESIA Country of Incorporation: INDONESIA Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA SINOPHARM DEVELOPMENT CONSULTING COMPANY Country of Incorporation: CHINA P.R. Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA SOUTH AFRICA (PTY) LTD Country of Incorporation: SOUTH AFRICA Country of Registration : N/A (UK Companies only)		
Full Name: ICI SOUTH AFRICA PHARMACEUTICALS (PROPRIETARY) Country of Incorporation: SOUTH AFRICA Country of Registration : N/A (UK Companies only)		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II) As at 31ST DECEMBER 1997

Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA AGROCHEMICALS SA (PTY) LIMITED		
Country of Incorporation: SOUTH AFRICA		
Country of Registration : N/A		
(UK Companies only)		
Full Name: MAGADI SODA (1975) LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration : ENGLAND		
(UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ICI PLANT-CHEM (PTY) LTD		
Country of Incorporation: SOUTH AFRICA		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA ZIMBABWE (PRIVATE) LIMITED		
Country of Incorporation: ZIMBABWE		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: STUART PHARMACEUTICALS (SOUTH AFRICA)		
Country of Incorporation: SOUTH AFRICA		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA INTERNATIONAL LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration : ENGLAND		
(UK Companies only)		
COMMON A COMMON B	Subsidiary(ies) Subsidiary(ies)	51.10 51.10
Full Name: PRODUCTOS STAHL DE VENEZUELA C.A.		
Country of Incorporation: VENEZUELA		
Country of Registration : N/A		
(UK Companies only)		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II) As at 31ST DECEMBER 1997

Class of Capital	Held by	Held %
'A' SHARES	Subsidiary(ies)	
Full Name: AGROPROGRESS Country of Incorporation: UKRAINE Country of Registration : N/A (UK Companies only)		100.00
Full Name: IMPERIAL CHEMICAL (PHARMACEUTICALS) LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	Subsidiary(ies)	100.00
Full Name: I.C. INSURANCE HOLDINGS LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	Subsidiary(ies)	51.00
Full Name: ZENECA INSURANCE COMPANY LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : UK (UK Companies only)	Subsidiary(ies)	100.00
Full Name: MARLOW FOODS LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	Subsidiary(ies)	100.00
Full Name: NOVACOTE FLEXPACK LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	Subsidiary(ies)	100.00
Full Name: ZENECA INVESTMENTS LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	Subsidiary(ies)	100.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the consolidated accounts of Zeneca Group PLC and its subsidiary undertakings

(Companies Act 1985 - S231; Schedule 5 Part II)
As at 31ST DECEMBER 1997

Class of Capital	Held by	Held %
-----	-----	-----
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA NOMINEES LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration : ENGLAND		
(UK Companies only)		
Full Name: ZENECA WILMINGTON INC		
Country of Incorporation: U.S.A.		
Country of Registration : N/A		
(UK Companies only)		
Full Name: ZENECA FINANCE (NETHERLANDS) COMPANY		
Country of Incorporation: UNITED KINGDOM		
Country of Registration : ENGLAND		
(UK Companies only)		
Full Name: ZENECA FINANCE LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration : ENGLAND		
(UK Companies only)		
Full Name: ZENECA HOLDINGS LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration : UK		
(UK Companies only)		
Full Name: ZENECA BIOSCIENCE LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration : UK		
(UK Companies only)		
Full Name: STAUFFER CHEMICAL COMPANY TRUST		
Country of Incorporation: U.S.A.		
Country of Registration : N/A		
(UK Companies only)		
Number of Companies listed 196		

COMMON	Subsidiary(ies)	100.00
System Ref : CISR0162C		

Zeneca Group PLC and subsidiary undertakings
 SHAREHOLDINGS IN ASSOCIATED UNDERTAKINGS
 (Companies Act 1985 - S231; Schedule 5 Part II)
 As at 31ST DECEMBER 1997

Page 1
 of 2

Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	49.90
Full Name: TEIJIN AGROCHEMICALS LTD Country of Incorporation: JAPAN Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	50.00
Full Name: ADVANTA B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
NOMINATIVE NO PAR VALUE	Subsidiary(ies)	50.00
Full Name: MONTROSE CHEMICAL CORPORATION OF CALIFORNIA Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
GENERAL PARTNERSHIP CAPITAL	Subsidiary(ies)	50.00
Full Name: IMAGE POLYMERS COMPANY Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
QUOTAS	Subsidiary(ies)	49.00
Full Name: COLOMBIANA DE COLINA LTDA Country of Incorporation: COLOMBIA Country of Registration : N/A (UK Companies only)		
QUOTAS	Subsidiary(ies)	50.00
Full Name: HIFLON PLASTICOS AVANCAADOS LTDA Country of Incorporation: BRAZIL Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	20.95
Full Name: SWAZILAND AGRICULTURAL SUPPLIES LTD Country of Incorporation: SWAZILAND Country of Registration : N/A (UK Companies only)		

Class of Capital		Held by	Held %
ORDINARY		Subsidiary(ies)	
			50.00

Full Name: I.C. INSURANCE SERVICES LIMITED
Country of Incorporation: UNITED KINGDOM
Country of Registration : ENGLAND
(UK Companies only)

No of Companies listed: 8

Class of Capital		Held by		Held %
EQUITY		Subsidiary(ies)		0.77
Full Name: ATUL LIMITED				
Country of Incorporation: INDIA				
Country of Registration				
(UK Companies only) : N/A				
Full Name: UNITED INSURANCE COMPANY				
Country of Incorporation: B.VIRGIN IS				
Country of Registration				
(UK Companies only) : N/A				
Full Name: OVERSEAS MEDICAL VENTURES NV-NETHERLANDS ANTILLES				
Country of Incorporation: NED. ANTILLES				
Country of Registration				
(UK Companies only) : N/A				
Full Name: TORTUGA CASUALTY COMPANY				
Country of Incorporation: B.VIRGIN IS				
Country of Registration				
(UK Companies only) : N/A				
Full Name: UKRAGROBUSINESS				
Country of Incorporation: UKRAINE				
Country of Registration				
(UK Companies only) : N/A				
Number of Companies listed 5				

ZENECA Group PLC

COMPANY NO: 2723534

SIGNED ON PAGE 38

ZENECA

ANNUAL REPORT AND ACCOUNTS

1997

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Zeneca Pharmaceuticals Major products and developments: mode of action and indication	IBC

Zeneca's purpose is to be continuously successful, by providing specialised products and services which improve human health, nutrition, and quality of life. In achieving this, we will maintain the following values:

Customer focus

We will remain alert to our customers' needs, and respond quickly and positively to them.

Innovation

We will be continuously innovative, responding to changes in the global business environment, turning new ideas into practical and profitable products.

Personal development

We will encourage everyone in Zeneca continuously to test assumptions, to develop their capabilities and to learn from each other's experience.

Ethical standards

We will maintain high professional and ethical standards; we will be open and honest, positive and constructive, and worthy of trust and respect in all our activities.

Social responsibilities

We will be welcomed as responsible partners in all the communities in which we operate.

Wealth creation

We will create wealth in both the short and long term, so as to improve the value of our shareholders' investment, and to pass on a vibrant and successful company to future generations.

Key Achievements in 1997

For the shareholder . . .

- Group profit before tax up 7%; at constant currency up 24%, ahead of 15% target.
- Dividend up 10%, EPS up 9%.
- Sales of new pharmaceutical products continue to meet or exceed expectations.
- Further progress of the Pharmaceuticals' research and development (R&D) pipeline, which now comprises 87 development projects including 26 new chemical entities.
- Agreed high quality fungicide acquisition reinforces Agrochemicals' leading global position.
- Benefits of Specialties' restructuring delivers significant increase in profit.

For the customer . . .

- Substantial progress of new anti-cancer products, particularly 'Casodex' prostate cancer therapy, now the leading brand of anti-androgen in the US, Italy and Germany, and 'Arimidex' treatment for advanced breast cancer, the only product in its class to have demonstrated statistically significant patient survival benefits over the most prescribed competitor compound.
- Primary care range further strengthened with strong growth for 'Accolate' asthma therapy and first launches of 'Zomig' migraine treatment.
- First launches of 'Seroquel', a new schizophrenia therapy offering good clinical effectiveness and reduced side effects, leading to improved patient compliance.
- Successful international launch of the new broad-spectrum fungicide, 'Amistar', now registered in 37 countries for use on 20 crops.
- Fungicide portfolio enhanced through agreement to acquire Ishihara Sangyo Kaisha's 'Bravo', which complements 'Amistar'.
- Opening of new pharmaceuticals intermediates and toner resins plants increases Specialties' capacity to meet growing customer needs.

For the future . . .

- 23% increase in Group capital investment and 8% increase in R&D spend further strengthens the platform for future growth.
- Continued external collaborations and internal investment aim to double Pharmaceuticals' R&D output over the next five years and help ensure a strong pipeline of products in the next millennium – including new approaches to cancer treatment which will support progress towards the goal of becoming world number one in oncology.
- Progress towards leadership in fungal control furthered by acquisition of biotechnology company, Mogen International N.V. – with 'Amistar', 'Bravo' and a second generation strobilurin in development, this will enable a unique combination of chemical and gene-based solutions to plant disease problems.
- Increased investment in Specialties' strategic research, and expansion of research facilities, to develop advanced technology products.
- Continued review of potential product licensing and acquisition opportunities to further strengthen the product portfolio.

Group Financial Highlights

Zeneca is active in the following areas of business: Zeneca Pharmaceuticals researches and develops ethical medicines for serious health conditions. Salick Health Care is a leading US provider of comprehensive cancer diagnostic and treatment services. Zeneca Agrochemicals researches and develops crop protection products. Zeneca Specialties provides a broad range of products for customer industries including healthcare, agrochemicals, paints, leather and imaging applications.

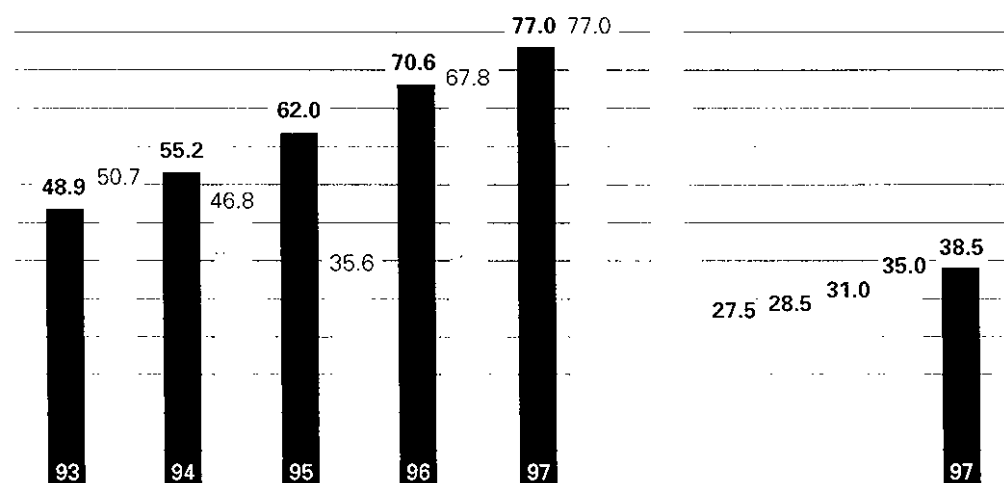
	1997 £m	1996 £m	% change
Turnover	5,194	5,363	-3%
Operating profit before exceptional items	1,083	1,043	+4%
Profit before exceptional items and taxation	1,081	1,011	+7%
Profit before taxation	1,081	975	+11%
Net profit for the financial year	730	643	+14%
Earnings per Ordinary Share	77.0p	67.8p	+14%
Earnings per Ordinary Share before exceptional items	77.0p	70.6p	+9%
Dividend per Ordinary Share	38.5p	35.0p	+10%

Dividend for 1997	Pence	Payment date
First interim dividend	13.5p	3 November 1997
Second interim dividend	25.0p	5 May 1998

Earnings per Ordinary Share pence

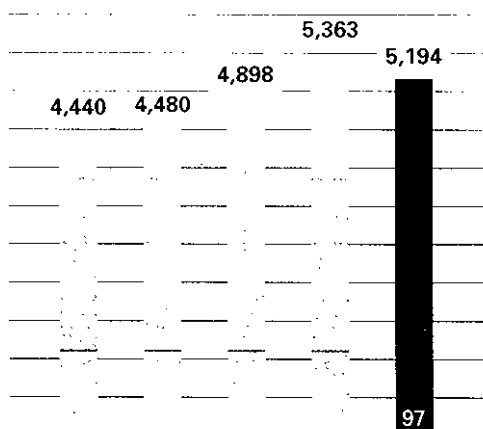
Dividends pence

Figures in **bold** denote 'Before exceptional items'

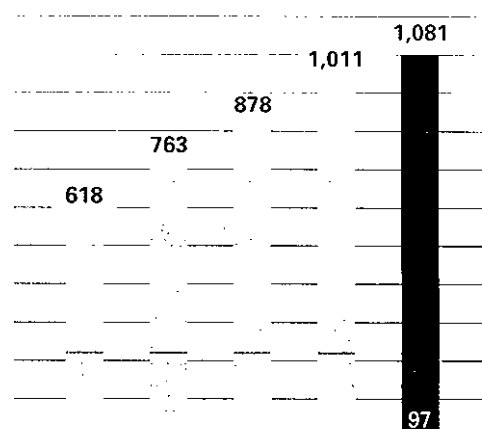


Five year progression £m

Turnover



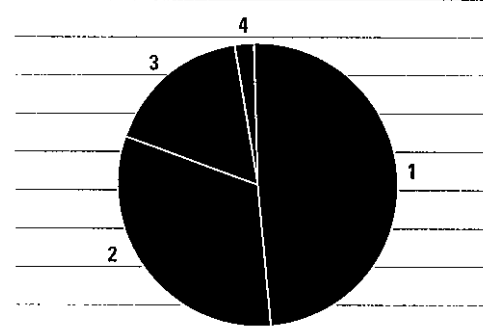
Profit before exceptional items and taxation



1997 Turnover £m

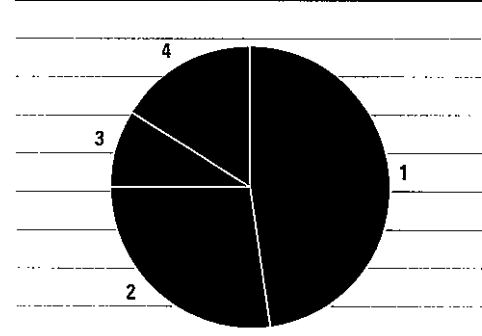
By Business

1 Pharmaceuticals	2,565 (49%)
2 Agrochemicals	1,631 (32%)
3 Specialties	885 (17%)
4 Salick Health Care	121 (2%)



By Customer Location

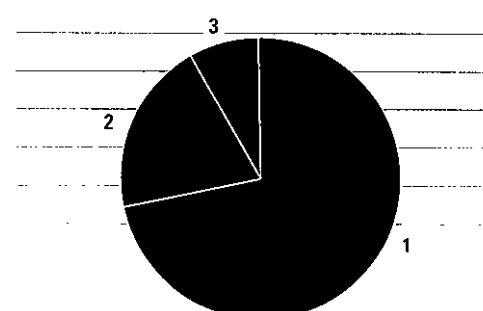
1 The Americas	2,509 (48%)
2 Continental Europe	1,412 (27%)
3 United Kingdom	439 (9%)
4 Asia, Africa & Australasia	834 (16%)



1997 Operating profit £m

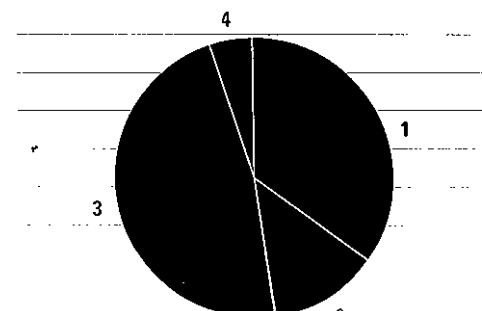
By Business

1 Pharmaceuticals	786 (72%)
2 Agrochemicals	223 (20%)
3 Specialties	85 (8%)
4 Salick Health Care	3 (<1%)



By Geographic Area, including exports

1 The Americas	380 (35%)
2 Continental Europe	137 (13%)
3 United Kingdom	517 (47%)
4 Asia, Africa & Australasia	49 (5%)

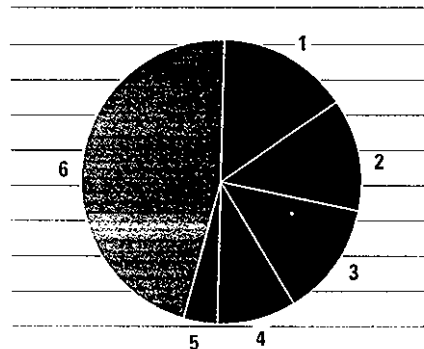


The Businesses at a Glance

Pharmaceuticals

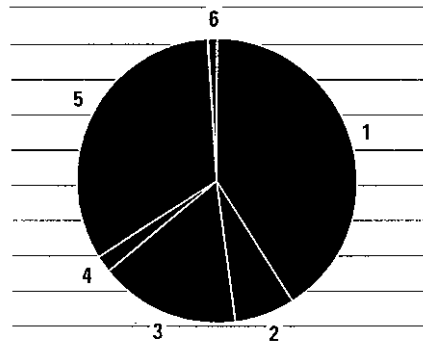
World Market by Therapeutic Area*

1 Cardiovascular	15%
2 Infection	13%
3 Central Nervous System	13%
4 Respiratory	9%
5 Cancer	4%
6 Others	46%



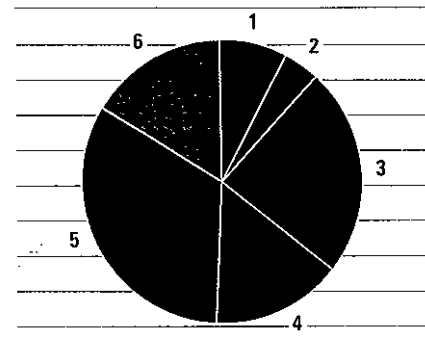
Zeneca Sales by Therapeutic Area

1 Cardiovascular	41%
2 Infection	7%
3 Central Nervous System	16%
4 Respiratory	2%
5 Cancer	33%
6 Others	1%



Zeneca R&D Expenditure by Therapeutic Area

1 Cardiovascular	8%
2 Infection	4%
3 Central Nervous System	24%
4 Respiratory	15%
5 Cancer	33%
6 Others	16%

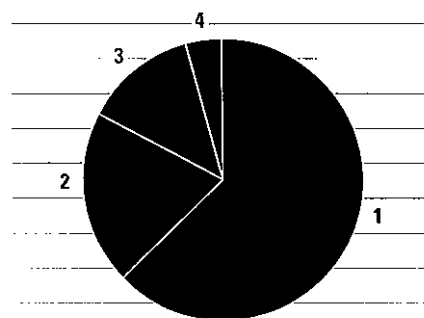


*Source: IMS Global Services (1996 data)

Agrochemicals

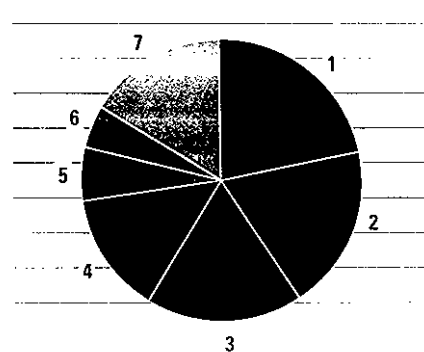
Zeneca Sales by Product Sector

1 Herbicides	63%
2 Insecticides	20%
3 Fungicides	13%
4 Others	4%



Zeneca Sales by Crop Type

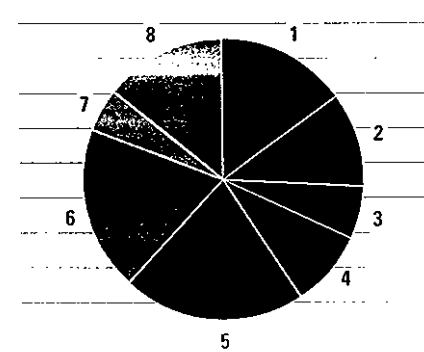
1 Horticulture	22%
2 Oilseeds	19%
3 Maize	18%
4 Wheat and Barley	14%
5 Rice	6%
6 Cotton	5%
7 Others	16%



Specialties

Zeneca Sales by Business Area

1 Industrial Colours	15%
2 Biocides	11%
3 LifeScience Molecules	6%
4 Performance & Int. Chemicals	9%
5 Stahl	21%
6 Resins	19%
7 Marlow Foods	5%
8 Toll Manufacturing & Other	14%



Pharmaceuticals: Major Products and Development Portfolio

	Cancer	Cardiovascular	CNS	Respiratory	Metabolism/Other
Sales	Zoladex Arimidex	Zestril range	Diprivan	Accolate	Merrem
	Nolvadex Tamoxifen	Tenormin range	Zomig		Hibitane range
	Casodex	Inderal	Seroquel		Apatef*
Phase III		Sular*			
	Faslodex (Adv.BC)	Zestril (CHF)	ZD0859#1	Accolate (Paeds)	
	Zoladex (IVF)	Zestril (Diabetes)	Zomig FM	Accolate (Jp)	
	Zoladex 10.8mg (Endomet.)		Zomig (adolescents)		
	Zoladex 10.8mg (FIB)		Zomig (aura)		
	Zoladex 10.8mg (PC) (Jp)		Zomig (cluster headache)		
	Zoladex 1.8mg (Gyn) (Jp)		Seroquel SR		
	Zoladex Adj (BC)		Seroquel (ad. labelling)		
	Casodex (EPC)		Seroquel (once daily)		
	Casodex Mono		Seroquel 150/300mg		
	Casodex 80mg (Jp)		Seroquel (Jp)		
	Arimidex 1st Line				
	Arimidex Adj				
Phase II	Arimidex (Jp)	ZD2486 (GpIIb/IIIa)	Zomig (IN)	Accolate SR	ZD6169 (KCO)
	Faslodex (Gyn)		Zomig (Jp)	ZD8321 (HNEI)	
	Tamoxifen (Jp & Other)		ZD4953 (EP1)		
	ZD9331 (TSI)				
	ZD1839 (RTKI)				
Phase I & Pre-Clinical	ZD0101 (Anti Ang*)				
	ZD2767 (ADEPT)	ZD1611 (Endoth. antag.)	ZD6804 (EP1)	ZD0892 (HNEI)	ZD2315 (MHC)
	Zoladex Alternative Formulations	ZD2574 (Endoth. antag.)	ZD6416 (EP1)	ZD4407 (SLPOI)	ZD5522 (ARI)
		ZD4054 (Endoth. antag.)	ZD9379 (GLY)		ZD0947 (KCO)
	ZD9063P	ZD4927 (Xa)	ZD7349 (VLA ₁)		ZD9720 (OSC)
	ZD1304 (VLA ₁)				
	ZD3980 (Anti Andr)				

*Indicates licensing arrangements. Note: further details of the Pharmaceuticals major product range, mode of action and indications can be found on the inside back cover.

Agrochemicals: Major Products

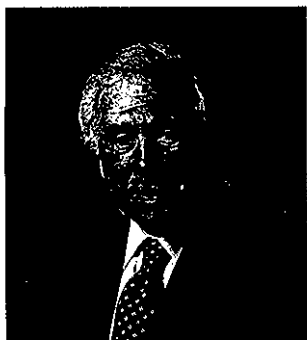
Crop treated	Horticulture	Oilseeds	Maize	Wheat and Barley	Rice	Cotton	Others
Herbicides	Gramoxone	Gramoxone	Gramoxone	Touchdown	Gramoxone	Gramoxone	Gramoxone
	Touchdown	Touchdown	Touchdown	Achieva	Ordram	Fusilade	Touchdown
	Fusilade	Fusilade	Sulpass	Boxer	Eupigoss		Fusilade
	Reglone	Reglone	Mikado				Reglone
		Flex	Eradicane				
Insecticides	Karate	Karate	Karate	Karate	Karate	Karate	Karate
	Dimor		Force				Ambush
Fungicides	Amistar			Amistar	Amistar		Amistar
	Bravo			Bravo			Bravo
	Avil			Avil			
	Impact			Impact			
	Shirlan						

Note: the darker shaded areas represent major segments of the world agrochemicals market.

Specialties: Major Products

Business Area	Industrial Colours	Biocides	LifeScience Molecules	Performance & Intermediate Chemicals	Stahl	Resins	Marlow Foods
Applications	Specialist colours (high purity dyes, inks and chemicals) for the non-impact printing markets; high performance pigments for paint and plastics applications; additives for paints, plastics and inks; paper dyes	Industrial Biocides eg Proxel and Promexal preservatives, Densil and Vanquish fungicides, Vantocil disinfectants and Cosmocil preservative for personal care Swimming pool products eg Baquacil	Complex intermediates and active ingredients to support the development and manufacture of new medicinal, nutritional and agrochemical products based on the application of innovative biotechnology and organic chemistry	Mining chemicals, fine organics, special drug mixtures, polymer and monomer stabilisers and intermediates, and chemical intermediates for agrochemicals	Leather chemicals, shoe finishes and coatings for fabrics	Binders and additives for architectural and industrial coatings and adhesives/ printing inks	Quorn myco-protein food

Chairman's Statement



Sir Sydney Lipworth

Continued growth

Zeneca continued to make strong progress in 1997. Profit before tax for the year increased by 7% from £1.01 billion in the previous year to £1.08 billion, while sales, at £5.19 billion, were down by 3% over those of 1996 (£5.36 billion). As a high proportion of Zeneca's sales and profits are earned abroad, it is particularly creditable that these results were achieved during a period of sustained sterling strength. Indeed, measured in constant currency, Zeneca's sales showed a 7% increase while profit before tax grew by 24% – the fifth consecutive year of steady growth.

The Board has recommended a second interim dividend of 25.0p, bringing the dividend for the year up to 38.5p. This equates to a 10% increase over the 1996 payment of 35.0p.

Market focus

Zeneca's three main businesses all performed well in 1997, reflecting the effectiveness of the Group's strategy in its chosen business sectors. Zeneca Pharmaceuticals targets three major markets: oncology, primary care and specialist/hospital care; Zeneca Agrochemicals is consolidating its product range to focus on its largest, most successful brands and Zeneca Specialties has restructured its portfolio to concentrate on those businesses which offer highest growth potential.

The Group's principal pharmaceutical and agrochemical markets are underpinned by increasing demand for improved healthcare and nutrition. While changing economic conditions may affect this in the short term, the long term underlying trend is towards growth in these areas. Similarly, Zeneca Specialties focuses on selected industrial sectors that are driven by the need for high value differentiated products.

New products to support future success

Zeneca continues to make steady progress in the roll-out of its new product range across its key markets. New products are central to the Group's continued success. In 1997, the increased spend on sales and marketing and increased capital expenditure outlined in last year's Report enabled Zeneca to maximise early sales of new products such as 'Seroquel' for schizophrenia, the migraine therapy 'Zomig', and the agricultural fungicide, 'Amistar'.

The Group also increased its research and development expenditure in 1997 by 8% to support the continued delivery of effective new products designed to meet customer needs in the future.

Senior management changes

There have been a number of announcements regarding Zeneca's senior management during the year.

I am pleased to report that Sir David Barnes has agreed to continue as Chief Executive until the 1999 Annual General Meeting (AGM), an extension of one year to his contract.

I warmly welcome our new Finance Director, Jonathan Symonds, who succeeds John Mayo. Formerly Chairman of KPMG's global pharmaceuticals group, Jonathan has specialised knowledge and experience in the pharmaceutical and chemical industries.

I wish John Mayo every success in his future career and I would like to pay tribute to the part he played in the creation of Zeneca and its subsequent success.

Michael O'Brien relinquished his post of Chief Executive Officer of Zeneca Specialties to become Chief Executive Officer of Salick Health Care in the US. He is succeeded at

Specialties by Jeremy Scudamore, formerly of Zeneca Agrochemicals. I wish both Jeremy and Michael every success in their new roles.

One of our Board members, Tom Wyman, has given notice that he will be retiring at the 1998 AGM. Tom has been a Non-Executive Director of Zeneca since its inception and we shall miss him. I would like to take this opportunity to thank him for the significant contribution he has made to our success.

People

I have been Chairman of Zeneca for three years and I continue to be impressed by the skills and enthusiasm of its employees. 1997 was another year of external recognition for many of Zeneca's people including Ray Martin, the force behind the transformation of Zeneca's pension scheme, who was named UK Pension Manager of the Year by Pension Management Magazine. Two employees from Zeneca Agrochemicals, Peter Plant and Peter Edwards, were awarded MBEs in the New Year's Honours. I warmly congratulate the recipients of these well-deserved awards.

Awards for our businesses, which also reflect the calibre of the Company's staff, included the UK Department of Trade and Industry's National Languages for Export Award to Zeneca Pharmaceuticals, a Queen's Award for Technological Achievement for Zeneca's LifeScience Molecules business, and the Food from Britain Export Achievement Award for our 'Quorn' meat-alternative business. My congratulations to all those involved in the achievement of these awards.

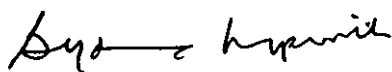
The Zeneca Science Teaching Trust

Last year I announced our millennium project, the Zeneca Science Teaching Trust, a registered charity which will provide funding and training to help improve the teaching of science in the UK. The programme began in autumn 1997 with four pilot projects to identify training needs among primary school teachers with responsibility for science education and then provide any training required to help those teachers further develop their science teaching skills. The Trust aims to foster young people's interest in science, to ensure that young scientists realise their full potential, and – in the longer term – help promote a better understanding of science within the community at large.

Future prospects

Key to Zeneca's business success are the people who make it happen, and I would like to thank my Board colleagues and all Zeneca employees for their continued commitment and contribution to the Group's success.

Zeneca's achievements over the last five years have been considerable. The effectiveness of the Group's strategy, the quality of its people, its global commercial strengths and leading edge scientific skills, all give me great confidence in our ability to continue building on these achievements.



Sir Sydney Lipworth
Chairman

Chief Executive's Review



Sir David Barnes

A high quality performance

Sales of £5.19 billion and profits of £1.08 billion reflect a high quality performance by all three businesses during the year. At constant currency, profits before tax were up 24% compared with 1996, exceeding the 15% aspirational growth rate I referred to in last year's Report.

We have also made good progress towards our other key aspirational targets outlined in the 1996 Report, namely: becoming the leading company in the field of cancer treatment; strengthening our position in primary care; reinforcing our leading position in non-selective herbicides; becoming a world leader in fungicides, and being an upper quartile performer in all three business sectors.

Business overview

Zeneca Pharmaceuticals had an excellent year and, at constant currency, increased sales by 16% and profits by 17%. Demand for new products continued to meet or exceed expectations, including further success for 'Casodex' prostate cancer therapy and 'Arimidex' advanced breast cancer treatment. Sales volumes of our established prostate cancer treatment, 'Zoladex', also increased strongly and its continuing success underlines the benefits arising from the introduction of new formulations. In primary care, sales of the new asthma therapy 'Accolate', now approved in 12 countries, showed strong growth. Early sales of the more recently launched treatments, 'Zomig' for migraine and 'Seroquel' for schizophrenia, are very encouraging. The 'Zestril' family of cardiovascular medicines, first launched ten years ago, continued to be the single largest selling product group within the primary care portfolio in 1997, with sales reaching a record £632 million (over US\$1 billion) – again reflecting our commitment to maximising the benefits of our established products.

Zeneca has a strong track record of innovation. Between October 1995 and December 1997, we launched 10 new pharmaceutical products in the US – more than any other company serving that market. Continued internal investment combined with selective external alliances aim to double pharmaceuticals R&D output in the next five years and help ensure a strong pipeline of new products. Currently, the pipeline consists of 87 development projects, including 26 new chemical entities.

During the year, we completed the acquisition of Salick Health Care, Inc. in a move which gives us a wider perspective on all aspects of cancer care.

In 1997, Zeneca Agrochemicals consolidated its position as one of the world's top three crop protection companies through good growth in its non-selective herbicides, particularly 'Touchdown'; the successful international launch of its new fungicide 'Amistar'; the agreement to acquire Ishihara Sangyo Kaisha's US-based global chlorothalonil business and international distribution rights to four recently-introduced products; and the purchase of the biotechnology company, Mogen International N.V. A strong underlying performance by Agrochemicals was offset by the impact of exchange rates and difficulties in South East Asian markets. Whilst reported profits for the year were very slightly lower than in 1996, profits increased by 19% after adjusting for currency and minor product disposals.

The restructuring of Zeneca Specialties so as to focus on high growth businesses contributed substantially to its 41% profit increase, after adjusting for currency and business disposals. Specialist Colours and LifeScience Molecules delivered a particularly strong performance, reflecting their ability to respond to changing customer needs in rapidly expanding markets. The opening of a new pharmaceutical intermediates plant

and a new toner resins plant during the year increases Zeneca Specialties' capacity to meet future growth opportunities.

In South East Asian markets, the Group is seeking to mitigate the effect of economic turmoil and the associated collapse in local currencies which in 1997 led to some reduced sales, particularly in Agrochemicals.

Year 2000 and the European Economic Monetary Union (EMU)

Zeneca is making good progress in its programme to prepare its computer systems for the Year 2000 date change. The majority of the work will be completed by the end of 1998.

In addition, recent investment in modern information systems will enable Zeneca to trade in the euro currency in all European countries from January 1999 as the EMU initiative moves into its implementation phase.

People

Zeneca's 1997 performance could not have been achieved without the commitment and hard work of all our employees. I would like to thank them for their contribution and pay tribute to their quality and enthusiasm. Their spirit and determination give me great confidence in the future.

Safety, Health and Environment (SHE)

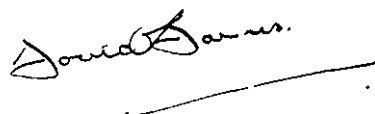
Since 1993, Zeneca has made substantial progress against its aim continuously to improve its SHE performance, which remains good by general standards. However, some aspects of our 1997 performance were disappointing and these areas are now being reviewed as particular targets for improvement. For further details of our SHE performance, see pages 24-25 of this Report.

The foundation for future success

The crossed Z (**Z**) of Zeneca's logotype was derived from an ancient alchemists' symbol meaning *to solve*, and the Group's success is founded on our ability to provide solutions to customer problems. All the major products in development at the time of demerger have been progressed successfully to market, in parallel with a continued commitment to the focused research and development of further new products.

1998 will be a pivotal year with a new wave of major product launches in a wide range of countries, the opening of new manufacturing facilities, and the continued restructuring of the R&D portfolio to speed the discovery and development of innovative, effective products which offer substantial new customer benefits.

Our performance since demerger has been a significant achievement. Since Zeneca's formation in 1993, profits before tax have grown by 145% to £1.08 billion and market capitalisation, at the end of 1997, had increased nearly four-fold to £20.3 billion. I would like to thank shareholders for their support and encouragement during the five years of our existence. I believe we have built a substantial base on which Zeneca will continue to grow and perform strongly in the years to come.

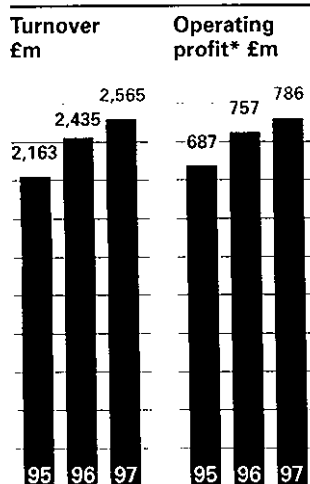


Sir David Barnes
Chief Executive



Tom McKillop
Chief Executive Officer
Zeneca Pharmaceuticals

Zeneca Pharmaceuticals



*Before exceptional items

Between 1991 and 1997
Zeneca achieved 18%
compound growth
in its worldwide
anti-cancer sales

Pharmaceuticals

Meeting patients' needs

Zeneca Pharmaceuticals concentrates its skills and resources on developing high quality, clinically effective medicines for three major markets: oncology, primary care and specialist/hospital care. These products are also designed to offer other substantial patient benefits not addressed by existing therapies, such as simplicity of use, rapid action and reduced side effects.

Sales growth in these markets will be based on Zeneca's ability to maximise the potential of its established products by developing them for other uses, its wide-ranging marketing strengths, and its capacity to deliver new and innovative products through successful research and development.

Zeneca targets the countries where its products have the most growth potential. The US, with its 33% share of the world pharmaceuticals market, its high demand for healthcare and its ready market acceptance of safe and effective new products, is a priority. In 1997, to support sales of its new primary care products in the US, Zeneca Pharmaceuticals increased its sales force by 60%. The business also continues to expand its activities in developing markets such as South America, Eastern Europe and the Far East.

For the future, significant investment and efficiency improvements in research and development aim to double R&D output over the next five years. Zeneca is also broadening its experience in healthcare through Stuart Disease Management Services and Salick Health Care in the US.

Highlights of the year included:

- Continued strengthening of the oncology portfolio with further success for the new products. Sales of oncology products grew by 10%.
- Primary care position further strengthened with strong growth for 'Accolate' anti-asthma therapy and first launches of 'Zomig' treatment for migraine.
- First launch of 'Seroquel', a new schizophrenia therapy offering good clinical effectiveness and reduced side effects, leading to improved patient compliance.
- Further progress of the R&D pipeline which now comprises 87 development projects, including 26 new chemical entities.
- Continued enhancement of R&D technologies and productivity through selected external alliances.

Zeneca in Oncology

The breadth of Zeneca's anti-cancer portfolio is already impressive. The development of new uses for existing products, combined with new approaches to cancer treatments and attention to patient needs, has enabled the business to make substantial progress towards its goal of becoming world number one in oncology.

Major oncology products

The prostate cancer treatment, 'Zoladex', is Zeneca's best selling anti-cancer medicine and is a good example of how Zeneca actively manages the life cycle of its established products by exploring their use in other illnesses or in combination with other treatments. For example, 'Zoladex' has shown improved survival for prostate cancer patients when it is combined with radiotherapy, compared to radiotherapy treatment alone.

Zeneca has also developed new formulations of 'Zoladex' which give increased patient benefits and open up further market opportunities. Strong sales volume growth for

'Zoladex' in 1997 reflects the convenience of the longer acting, 12 week 'Zoladex' LA depot, which is now available in 38 countries.

Future growth in 'Zoladex' sales will be driven by further new applications. Already used in pre and peri menopausal breast cancer, it should also be licensed for use in early stage disease in 1999. The gynaecology market provides additional opportunities for growth and 'Zoladex' is already licensed for endometriosis and uterine fibroids. To date, 12 countries have approved its use in endometrial thinning prior to ablation and two submissions have been made to support its use in *in-vitro* fertilisation.

Sales of 'Casodex' 50mg, the advanced prostate cancer treatment used in combination with LHRH analogues such as 'Zoladex', more than doubled in 1997. 'Casodex' is now approved in 57 countries, and its efficacy and patient benefits have made it the leading brand of anti-androgen in the US, Italy and Germany.

Extensive clinical trial work has been undertaken to explore the use of 'Casodex' as a single therapy and in earlier diagnosed prostate cancer. Recent data has shown that, as monotherapy, 'Casodex' offers equivalent patient survival to castration, the standard therapy for locally advanced disease. Zeneca has made regulatory submissions for a 150mg monotherapy in advanced prostate cancer in five countries and first approvals are anticipated in 1998. Long term studies to determine its value in early prostate cancer, an untouched market three times the size of the advanced disease market, continue on track.

To further increase sales of both 'Casodex' and 'Zoladex' in the US, Zeneca entered into an agreement in 1997 with UroCor Inc. The two products will be promoted by UroCor's sales team, which specialises in urological disease management and provides a diagnostics and therapeutics package. The first benefits of this agreement, which became effective early in 1998, should be realised later this year.

Rapid adoption of the new advanced breast cancer therapy, 'Arimidex', boosted worldwide sales to more than £50 million. 'Arimidex' is the only product in its class to have demonstrated statistically significant patient survival benefits over the most prescribed competitor compound. Like 'Zoladex', 'Arimidex' should shortly be licensed for use in early stage breast cancer. It is also being evaluated for use following surgery in first line breast cancer patients, and for use in combination with 'Nolvadex'.

In 1997 the challenge by Novopharm Limited to Zeneca's US patent for tamoxifen citrate, the active ingredient in Zeneca's breast cancer therapy, 'Nolvadex', was dismissed by the US Court of Appeals for the Federal Circuit. This confirms the validity of Zeneca's US patent which is effective until 2002 and Zeneca continues vigorously to defend this patent against two other generic companies. In most other major markets, 'Nolvadex' is now off-patent.

'Tomudex', the cytotoxic colo-rectal cancer therapy launched in 1996, is now available in 11 countries. Results from development work using 'Tomudex' in combination with other cytotoxics for colo-rectal cancer are encouraging, and the product is also showing potential in a number of other cancer areas such as pancreatic and non-small cell lung cancer.

New oncology products in development

Phase III clinical trials of the first selective anti-oestrogen, 'Faslodex', in advanced breast cancer are proceeding as planned and early results suggest that it delivers an improved duration of benefit and side effect profile compared with standard therapy. Zeneca is also evaluating 'Faslodex' for use in benign gynaecological conditions. Unlike some other

Zeneca Pharmaceuticals Sales of Key Products

	1997 Sales £m	Growth % over 1996 Constant currency
Oncology		
Zoladex	348	17
Casodex	122	94
Arimidex	51	180
Nolvadex	308	14
Others	3	n/a
Primary Care		
Zestril	392	14
Tenormin	37	5
Accolate	3	n/a
Zomin	2	n/a
Others	3	16
Specialist/Hospital Care		
Seroquel	31	n/a
Diprivan	347	9
Merrem	60	19
Others	175	6
Total	2,565	16

The recorded incidence of prostate cancer grew by 15% between 1993 and 1997, with increases occurring in both developed and developing countries

In 1997, sales of Zeneca's new
pharmaceutical products continued
to meet or exceed expectations.

SEROQUEL

30
21

anti-oestrogens, pre-clinical trials of 'Faslodex' have shown that it has a bone-sparing effect. This augurs well for its long term use to treat disorders such as endometriosis where the onset of osteoporosis curtails use of some anti-hormonal products. Such additional indications for 'Faslodex' could double the product's sales in the first decade of the next century. Zeneca is developing a depot formulation which offers simplicity of dosing to improve compliance and patient convenience.

Other products in the oncology development portfolio include ZD 9331, an anti-metabolite for use in a variety of tumours. Currently in Phase II trials, ZD 9331 has a unique profile of action and the added advantage of a potential oral formulation. The targeted chemotherapy, ADEPT (Antibody Directed Enzyme Prodrug Therapy), has entered cancer patient studies following successful work to refine the dosage and develop a manufacturing route for this large, complex molecule. In 1997 Zeneca licensed, from CarboMed, Inc., a potential anti-cancer agent, ZD 0101, which acts by preventing blood vessels forming in the tumour thereby depriving it of nutrients and oxygen. ZD 1839, which blocks abnormal signalling mechanisms in cancer cells and has potential in non-small cell lung cancer, pancreatic cancer and other cancers, is currently in Phase II trials. Initial evaluation indicates that it would be compatible with a convenient, once daily dosage.

Zeneca in Primary Care

Zeneca has a firmly established position in primary care and the business continues to build and develop its global primary care customer base, focusing on three large and rapidly growing disease areas where there remain substantial levels of unmet need: the central nervous system, respiratory and cardiovascular.

Central Nervous System (CNS)

Estimates suggest that some 10% of the world's population suffer from migraine at some point during their lives. The pain and other symptoms associated with migraine make it a disabling condition which seriously affects the sufferer's quality of life. It is an area of significant previously unmet need and both patients and clinicians seek a product which combines consistent, rapid symptom relief with good tolerability and simplicity of use.

In response to this need, Zeneca has launched 'Zomig', an acute migraine treatment which is now approved in more than 20 countries. Early customer feedback and sales progress are confirming the product's efficacy and patient acceptability. In an innovative approach to the product's marketing, Zeneca used a Virtual Reality computer programme and the Trigeminal Express, a simulated journey through the brain, which allow prescribers to experience migraine symptoms and demonstrate how 'Zomig' treats an attack. These initiatives stimulated much media coverage, particularly in the US where 'Zomig' was launched in January 1998.

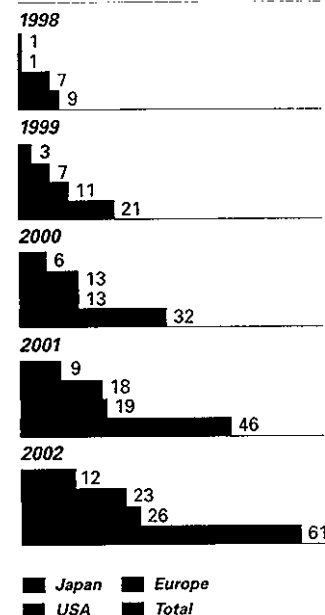
As one of a new class of products, 'Zomig' is contributing significantly to an overall expansion of the market for migraine therapies as the efficacy and benefits of the new class become more widely known. 'Zomig' strengthens Zeneca's primary care product portfolio and broadens its range of central nervous system treatments available to neurologists. Future studies will focus on several migraine sub-types and adolescent/paediatric migraines. At least two additional formulations, including an intranasal version, are in development.

Respiratory

Asthma is a serious and complex disorder which affects all age ranges, and the unpredictability of attacks can make life even more difficult for the sufferer. Zeneca's

Expected major new product and line extension approvals

Japan/USA/Europe 1998-2002



'Accolate' is included
in the latest US
Asthma Guidelines
for the diagnosis and
management of asthma,
issued by the National
Institutes of Health

new asthma therapy, 'Accolate', is designed to prevent attacks rather than treat the symptoms once an attack has begun and comes in an easy-to-take tablet form.

'Accolate' is now approved in 12 countries and during the year, Zeneca strengthened its marketing effort to support future sales. In the US, where patient influence on treatment choice is significantly increasing, Zeneca used direct-to-consumer media advertising in key population areas to inform and encourage rapid market acceptance. Zeneca is also forging relationships with new customers such as allergists and pulmonologists and, as part of this programme, has provided an educational grant to the Asthma & Allergy Foundation of America. In addition to the funding, Zeneca actively participates in the Foundation's programmes by offering facilitator training to managed care customers to help them teach asthmatic teenagers how to manage their disease.

This co-ordinated US marketing approach has been translated into sales success: a year after its launch, over 1.6 million 'Accolate' prescriptions had been written in the US and the treatment already commands nearly 9% share of the US asthma controller market. Over 760,000 patients have already been treated with 'Accolate'.

Trials of 'Accolate' in children are well advanced, with regulatory submissions planned for 1998.

The occurrence of Churg Strauss syndrome in association with 'Accolate' has now been put into context. Current evidence suggests that because 'Accolate' is effective in treating more severe steroid-dependent asthmatic patients, enabling the physician to withdraw oral steroids, the underlying condition of Churg Strauss syndrome has been unmasked in a very small number of patients. The US Food and Drug Administration and other regulatory authorities continue to accept the favourable benefit/risk ratio for 'Accolate' in asthma, and further regulatory approvals are anticipated in 1998.

Cardiovascular

Heart disease is the greatest cause of death in the Western world, and its incidence is increasing in developing countries. Zeneca has a broad range of successful products targeted at this substantial area of need.

The 'Zestril' family of cardiovascular medicines was first launched ten years ago for the treatment of hypertension. Since then it has continued to grow and increase market share, with 1997 sales of over £630m, which reflects the product benefits, Zeneca's marketing strengths and its sustained customer focus based on new formulations. Recent studies revealed the benefits of the use of 'Zestril' within the critical 24 hours of a heart attack and during 1997, Zeneca gained further approvals for this new use, including those from regulatory authorities in Italy and Canada.

Zeneca's ATLAS study to confirm the benefits of high doses of the active compound in 'Zestril' on patient survival has now been reported to the American College of Cardiology.

Two studies of the use of 'Zestril' in diabetes have shown that it helps reduce the kidney and eye complications associated with the disease. UK approval for its use in normotensive, insulin-dependent and hypertensive, non-insulin dependent diabetics was received in early 1998. 'Zestril' is the first long-acting ACE-inhibitor with this indication and further approvals are anticipated in other countries throughout 1998.

Despite fierce competition, "Sular", the sustained release calcium channel blocker licensed from Bayer A.G., showed promising growth in 1997.

New primary care products in development

Zeneca's primary care research and development is focused on pain relief, respiratory and cardiovascular medicines, metabolic disease and treatments for urinary incontinence.

Treatment of the various types of chronic pain presents a major opportunity and Zeneca is developing several novel approaches to address this highly unsatisfied market. One of its most advanced pain relief projects centres on ZD 4953, an EP1 antagonist which selectively blocks the effect of a specific, pain related prostaglandin.

Phase I trials have shown ZD 2486, an anti-platelet glycoprotein antagonist, to be orally active and potentially effective against unstable angina and other acute coronary syndromes.

The quality of life of an estimated 30 million people worldwide is severely and chronically impaired by urinary incontinence, which is a significant unmet medical need. Zeneca's ZD 6169, a potassium channel opener in Phase II trials, is targeted at reducing bladder contractility and avoids the side-effects of currently available products.

Zeneca in Specialist/Hospital Care

Zeneca has a number of important products which are used by specialists and in hospitals, and its hospital contact gives the business access to key opinion forming groups such as leading clinicians and researchers.

Schizophrenia is the most common form of severe mental illness, affecting one in every 100 people, usually between the ages of 15 and 45. Existing treatments are effective but many have such distressing side effects that patients stop taking the medication. This is dangerous to the patient's state of health, frustrating for the physician and costly for the healthcare service because it often necessitates multiple hospital admissions.

Studies using Zeneca's new atypical antipsychotic, 'Seroquel', in over 3,000 patients have confirmed that it is effective in managing both the positive symptoms (such as hallucinations/delusions) and negative symptoms (such as emotional withdrawal/lack of motivation) of schizophrenia. Furthermore, it avoids the debilitating side-effects, such as movement disorders, associated with some traditional antipsychotics. Its tablet formulation and range of dosage have also increased acceptance for 'Seroquel' amongst physicians and patients by providing the flexibility of dosing that is so often requested. 'Seroquel' was launched in the UK and the US in 1997 and further approvals and launches in most other major markets are expected in 1998. Work on new formulations is underway and initial trials have also indicated that 'Seroquel' may have potential to treat psychoses in Parkinson's Disease and Alzheimer's Disease in the elderly – a market which could potentially double the product's use.

Sales volume of the intravenous anaesthetic, 'Diprivan', increased during the year, particularly in the intensive care unit (ICU) sedation markets. The 2% formulation which is especially suited to ICU sedation and the 'Diprifusor' system which provides a simpler method of administration, were both launched in Europe in 1997 and have been very well received by anaesthetists. The modified formulation of 'Diprivan' introduced in the US in June 1996 was recently granted a US patent until 2015.

'Merrem', the broad-spectrum antibiotic, is now available in most major markets and enjoyed rapid sales progress, particularly in Germany, the UK, Brazil and Turkey.

At the end of 1997, Zeneca and Faulding Services Inc. agreed to terminate the arrangement which gave Zeneca exclusive US rights to distribute and promote

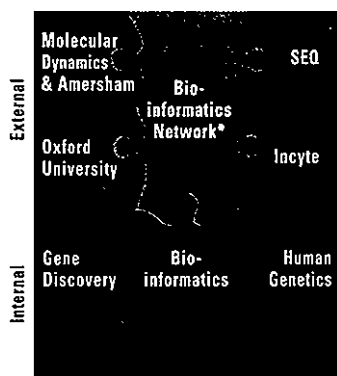


In order to meet projected demand for products including 'Zomig', 'Accolate', 'Zoladex' and 'Seroquel', Zeneca has invested in additional manufacturing capacity at its sites in Macclesfield and Avlon, UK and in Guayama, Puerto Rico.

Worldwide sales of anti-psychotic medications are expected to grow to around £2.5 billion by the year 2000, due to the introduction of new treatments such as 'Seroquel'

Operational Review

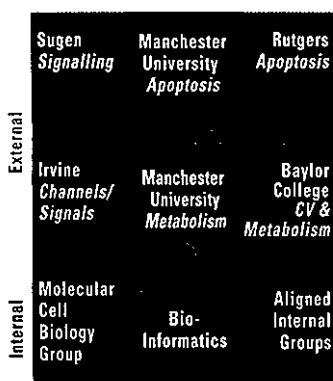
Assembling the Genomics Jigsaw



A portfolio of complementary collaborations in genomics, integrated with in-house research, is the state-of-the-art platform for Zeneca's discovery of new drug targets. Its external partners include Incyte Pharmaceuticals, Inc.; Molecular Dynamics, Inc.; Nycomed Amersham plc; SEQ, Ltd; and Oxford University.

* The Bioinformatics Network is a collection of collaborations with a variety of academic centres

Assembling the Cell Biology Jigsaw



Full exploitation of Zeneca's genomics platform, to link drug targets to disease processes, involves internal research and collaborations with world leaders in cell biology such as Sugan Inc.; the University of Manchester, Rutgers, the State University of New Jersey; Baylor College of Medicine and the University of California, Irvine.

"Kadian", an oral treatment for moderate to severe cancer pain. This enables Zeneca to concentrate its resources on its other proprietary cancer products.

New specialist/hospital care products in development

In respiratory medicine, Zeneca is progressing ZD 8321, a neutrophil elastase inhibitor currently in Phase II trials for acute respiratory distress syndrome (ARDS), a life threatening condition which affects both adults and children. The compound may also have potential in cystic fibrosis and chronic obstructive pulmonary disease.

Other preclinical and early clinical developments in specialist/hospital care cover stroke, venous thrombosis, unstable angina, disease modification in adult rheumatoid arthritis, pain, severe asthma, gynaecology and diabetes. These areas of significant medical need not only enhance Zeneca's spread of interests in hospital care but in many cases link with its primary care research and development activities.

Improving research and development effectiveness

Zeneca is using scientific advances to broaden and extend its already strong technology platform. Existing and new external alliances and internal investments will increase the number and quality of products offered up for development to help ensure a strong pipeline of new products in the next millennium. These investments aim to double Zeneca's research output during the next five years.

A medical revolution is being driven by the Human Genome Project which will reveal the genetic basis for disease, advances in understanding of how human cells function at a molecular level and improvements in data handling, storage and retrieval offered by bioinformatics. Zeneca's target discovery approach relies on the combined exploitation of genomics, cell biology and bioinformatics to unravel disease processes.

In 1997, Zeneca announced new collaborations including those with Molecular Dynamics, Inc., Nycomed Amersham plc and Oxford University in the UK, and with the University of California, Irvine in the US. These alliances complement Zeneca's own capability in genomics and cell biology and will expedite the identification of disease targets.

Zeneca's recently formed Pharmacogenetics Group will evaluate how people are genetically different in respect of susceptibility to disease and how each individual responds to medicines. This information can be used to design better research programmes, identify uses for compounds and select patients for clinical trials.

Pharmacogenetic information will also lead to product opportunities in the key therapeutic areas for Zeneca Diagnostics which focuses on developing tests to help clinicians make more informed treatment decisions based on a patient's genetic make-up.

High throughput screening, an efficient way of finding the most promising lead compounds, is at the heart of Zeneca's lead discovery programme which ranks among the best in the pharmaceuticals industry. Collaborations such as those with Xenova Group plc and Pharmacopeia, Inc. have boosted the number of compounds available for screening, and internal investment in high technology robotics has accelerated evaluation rates to more than 10,000 compounds tested in 25 screens every week – over double the rate of a year ago.

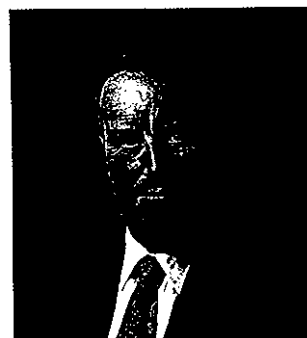
These collaborations have been matched with in-house research programmes in gene discovery, human genetics and bioinformatics to convert genomic data into drug targets as quickly as possible.

Broadening healthcare experience

Patients, clinicians and healthcare payers are key customers for Zeneca and business success centres on understanding and meeting their needs. For this reason, the Company has extended its interests beyond pharmaceuticals into the broader world of healthcare provision.

In 1997 Zeneca completed its purchase, for US\$240 million, of the remaining 50% of Salick Health Care, Inc. (SHC) which it did not already own. SHC is a leading US provider of diagnostic and therapeutic services to patients with cancer and kidney failure. During the year, SHC made significant investments in key areas such as information technology and managed care and in new facilities such as the Saint Vincent's Comprehensive Cancer Center in New York and the Cancer and Blood Institute in Palm Springs, California.

Stuart Disease Management Services Inc (SDMS) works with healthcare organisations in the US to provide customised disease and information management programmes. SDMS is currently developing a dynamic, patient-focused, integrated data facility which will provide internet-based decision support services.



Michael O'Brien
Chief Executive Officer
Salick Health Care

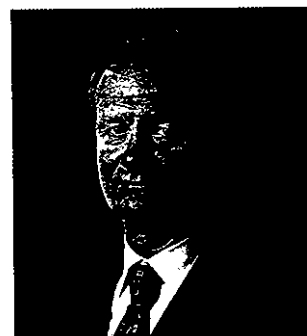
Agrochemicals

Strengthening the portfolio

In 1997 Zeneca Agrochemicals consolidated its position as one of the world's top three crop protection companies, expanding its strong portfolio of broad-spectrum products. The business increased its share of both the important North American and European markets. Significant new investments in biotechnology, fungal control and manufacturing capacity strengthened the platform for future growth.

Highlights of the year included:

- Successful international launch of the new broad-spectrum fungicide, 'Amistar'.
- Acquisition and successful integration of the Dutch biotechnology company, Mogen International N.V.
- Increased production capacity for the non-selective herbicide, 'Touchdown'.
- Agreed acquisition from Ishihara Sangyo Kaisha of 'Bravo', a major fungicide, and distribution rights to a new nematicide, a further fungicide and two herbicides.



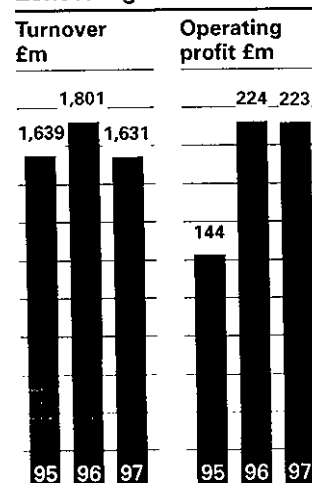
Michael Pragnell
Chief Executive Officer
Zeneca Agrochemicals

Fungal control

During the year Zeneca made substantial progress towards its goal of achieving a leading position in the global fungal control market, currently valued at some US\$6 billion in sales.

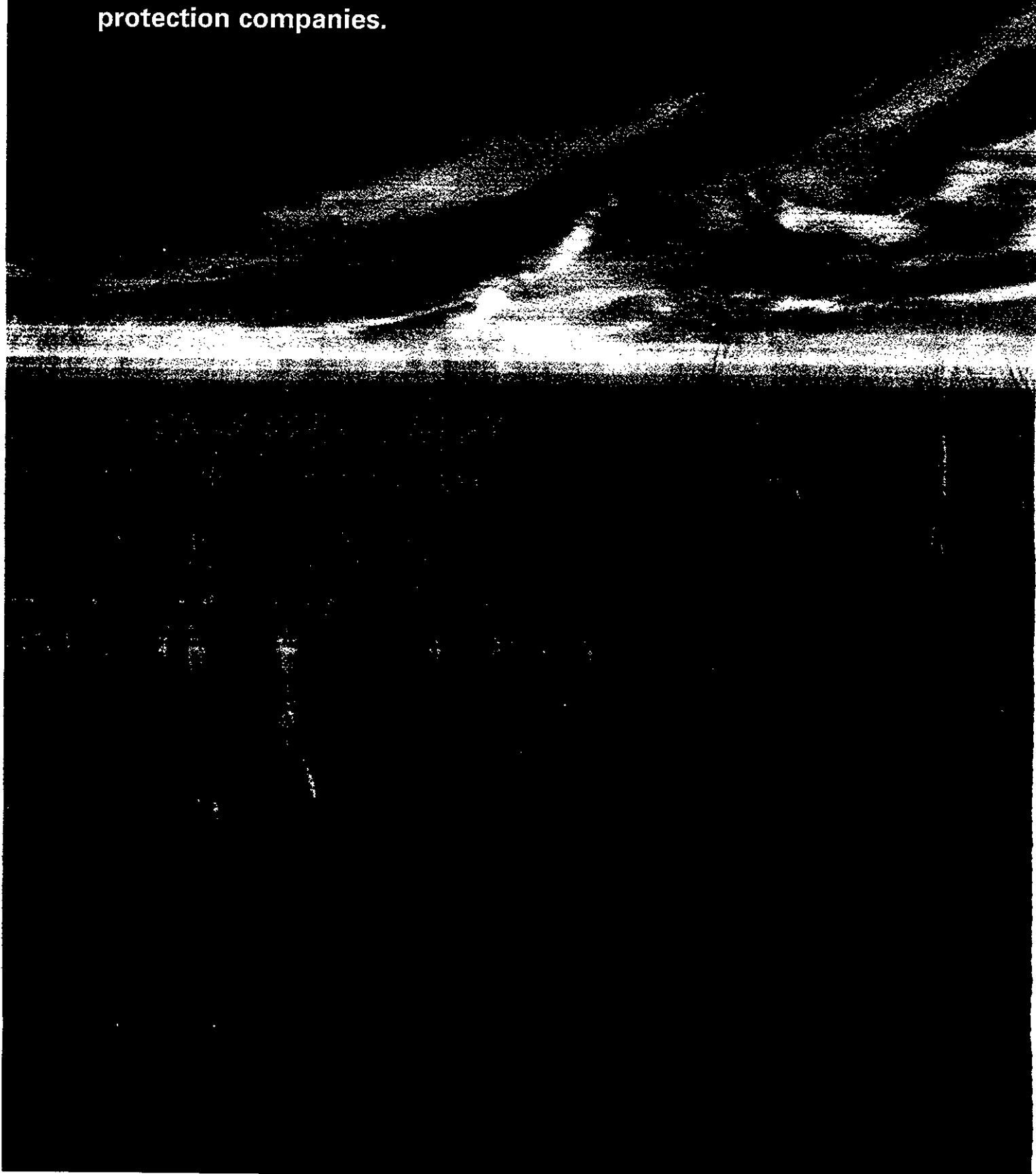
Zeneca significantly increased its market presence with the international launch and roll-out of the novel mode of action fungicide, 'Amistar'. By developing the product across a full range of crops, Zeneca was able to maximise early sales and market coverage. In all, 37 registrations on 20 crops have been obtained. Customer reaction has been excellent. A notable increase in market share was gained in Germany where substantial yield increases were realised through use of 'Amistar'. Market share gains were also made in the US where the product, known as 'Abound', was the first fungicide to be registered under the Environmental Protection Agency's Reduced Risk Pesticide Scheme. This accelerates the approval of products with superior environmental and toxicological profiles – properties which are highly valued by the customer. The US registration, which covers turf and various food crops, has helped expedite registrations in other territories. Further launches, which include use on rice and other important crops, are planned for 1998, when 'Amistar' will be registered in all major markets.

Zeneca Agrochemicals



Note: 95 and 96 include Seeds

**In 1997, Zeneca consolidated
its position as one of the
world's top three crop
protection companies.**



In February 1998, Zeneca acquired the worldwide chlorothalonil business from Ishihara Sangyo Kaisha, Ltd. of Japan. Chlorothalonil, which is manufactured in the US and sold internationally as 'Bravo', is one of the world's largest selling fungicides. With its multi-site mode of action, it is the ideal partner for 'Amistar'. The acquisition will strengthen Zeneca's presence in the key fungicide markets of Europe and the Americas.

The acquisition of Mogen International N.V. in Holland, a leading international plant biotechnology company in genetic modification for fungal resistance, further supports Zeneca's aim of building a world leading position in fungal control. The company will provide a central focus for Zeneca's biotechnology research in this area.

To sustain the momentum created by recent product launches and acquisitions, Zeneca is developing new chemical and gene-based fungal control solutions for commercialisation post 2000. Early field development of a follow-up to 'Amistar' is underway. Further leads are being tested alongside the gene effects Zeneca is developing so that growers will eventually be able to integrate chemical and gene-based solutions to control plant disease.

Insect control

In 1997 volumes of the broad-spectrum insecticide, 'Karate', were marginally below the record levels achieved in 1996, due to reduced insect pest incidence worldwide. In the US, the superior performance of 'Karate' as the insecticide of choice on genetically modified cotton contributed to this performance. Future sales of 'Karate' will be supported by the successful development of a unique micro-encapsulated formulation.

The soil insecticide for maize, 'Force', had another successful year and increased its share of the US market.

New manufacturing capacity to support future growth of both 'Karate' and 'Force' is on schedule for commissioning in early 1998.

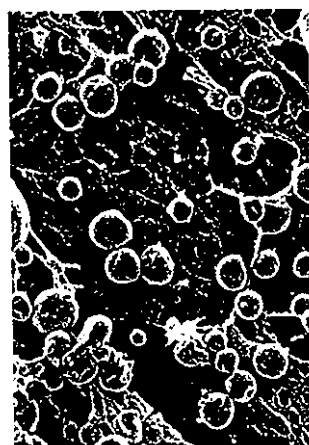
Weed control

Sales volume of non-selective herbicides increased to record levels in 1997. Sales of 'Gramoxone' in the Americas offset the effects of the cold, dry spring conditions in Europe and a deteriorating market in Asia where late rains and adverse economic conditions depressed demand.

Zeneca again increased market share of 'Touchdown', its systemic non-selective herbicide, in a competitive market place. Significant growth was achieved in Latin America, due in part to an innovative integrated weed control programme in Brazil which combines the benefits of 'Touchdown' and 'Gramoxone', offering farmers weed control which is both more efficacious and longer-lasting. In 1997, capacity for the new plant to manufacture the key intermediate for 'Touchdown' was doubled at the international production site in Huddersfield, UK; commissioning will continue through 1998.

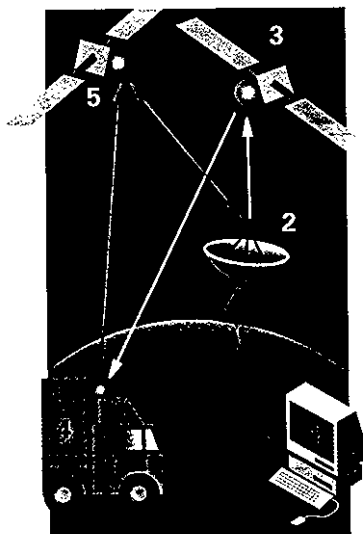
In selective herbicides, Zeneca achieved major progress with the soya herbicide, 'Flex', through successful technical development of a product to offer growers a broader spectrum of weed control. Sales in the US almost doubled, and grew strongly in Latin America. In the selective wheat and barley herbicide market, the North American team took full advantage of an increased crop area to increase sales of 'Achieve'. Plant capacity has been expanded in anticipation of further growth in North America. The maize herbicide 'Surpass' had record sales in 1997, helped by the launch of a new formulation in the US.

Zeneca estimates that 'Amistar' will be the single largest fungicide product in the world by the year 2000



The new 'Karate' micro-encapsulation formulation (shown here at x4000 magnification) represents a technology breakthrough and offers the customer improved crop application and handling benefits.

Operational Review



- 1 Customer fleet management
- 2 Network management centre
- 3 Positioning satellite
- 4 On-board communications terminal
- 5 Communications satellite

Zeneca Ag Products in the US uses satellite technology to speed customer deliveries.



Jeremy Scudamore
Chief Executive Officer
Zeneca Specialties

A significant addition to Zeneca's portfolio of maize products will be the new development herbicide ZA 1296, which has a novel mode of action and is progressing well through development. First registration submissions have now been made.

Crop quality

Following the successful launch of its genetically modified tomato in the UK, Zeneca has become recognised as a leader in the European agricultural biotechnology industry. Plans are in hand to launch the tomato in other European countries. Building on this experience, Zeneca is actively expanding programmes for enhancements in other crops, such as bananas and potatoes. In December 1997, Zeneca announced that it had purchased a 20% equity interest in the integrated grain technology company, Exseed Genetics LLC in the US. This will provide access to valuable starch-modification technology which can be applied to maize, wheat and rice.

Looking forward

Whilst the underlying drivers of the crop protection industry, population and economic growth, remain positive, the sector is entering a period of unprecedented change. The impact and contribution from biotechnology will increase and Zeneca is well positioned to capitalise on future market opportunities. In the regulatory arena standards continue to rise, as with the Food Quality Protection Act in the US. As an industry leader in regulatory affairs and technical advocacy, Zeneca is in a strong position to meet these demands. With its portfolio of broad-spectrum products and chemical and gene-based research pipeline, Zeneca is well placed to continue to make a significant contribution to world food production.

Specialties

A year of substantial progress

The strategic rationalisation and reorganisation of the Specialties businesses, started in 1996 and continued in 1997, has begun to deliver significant benefits and contributed to a 41% overall profit growth for the year, after adjusting for currency and business disposals. Specialties continues to focus resources on businesses which offer highest growth potential and in which Zeneca has relevant advanced technology. Further geographical growth and continuous improvement in established and niche businesses are also expected to contribute to improved profitability and return on sales in the coming years.

Highlights of the year included:

- Strong sales growth in Specialist Colours and LifeScience Molecules.
- The opening of a state-of-the-art pharmaceuticals intermediate plant to meet growth opportunities in LifeScience Molecules.
- The opening of a new toner resins plant in Europe.
- A Queen's Award for Technological Achievement.
- Increased investment in strategic research, and expansion of research facilities, to develop advanced technology products.

Specialist Colours

Sales of high purity dyes and ink formulations for home and office printers continued to grow strongly in 1997, reflecting the rapid expansion of ink jet printing in the small office/home market. Specialist Colours' close collaboration with the world's leading printer manufacturers has driven strong volume growth in the full range of high performance, proprietary black and coloured dyes.

Further investment in high technology manufacturing at the key production sites at Grangemouth in the UK and at Wilmington in the US has enabled the business to meet current high levels of demand and will provide for future anticipated growth. A phased move into new manufacturing assets at Grangemouth will enable Specialist Colours to create additional capacity for new products in line with its strategic growth plan.

High growth in the Specialist Colours business is underpinned by significant investment in research and development. The business' scientists continue to work with leading equipment manufacturers to develop new and technically superior products for an array of new applications such as photo realistic and wide format printing. Fundamental research is also focused on novel concepts for new products which will expand business in the rapidly growing digital imaging area.

LifeScience Molecules (LSM)

Strong customer partnerships are at the heart of LSM's success. During the year, the business expanded its customer contact team to include technologists, analytical and regulatory personnel who, alongside the sales force, now work directly with customers to determine their needs more quickly and authoritatively. Early investment in new state-of-the-art manufacturing facilities, and the successful development of contracts with leading international pharmaceutical and agrochemical companies, contributed to a 17% sales increase in 1997.

To help build customer confidence in its ability to meet the stringent requirements of the life science industries, LSM has adopted an 'open access' policy whereby customers regularly visit its manufacturing plants.

LSM's technical skills, which are central to its ability to meet customer needs, were recognised in 1997 by a Queen's Award for Technological Achievement. This seventh award to Specialties was for a novel continuous fermentation process developed to make a unique enzyme used in agrochemical herbicide intermediate production.

Biocides

The improved performance by Industrial Biocides in 1997 reflects growth in all its major territories, additional business gained with key customers and rigorous cost control. Pricing pressures and competition in this sector remain strong. During the year, the business restructured to focus on those industries which present future growth opportunities.

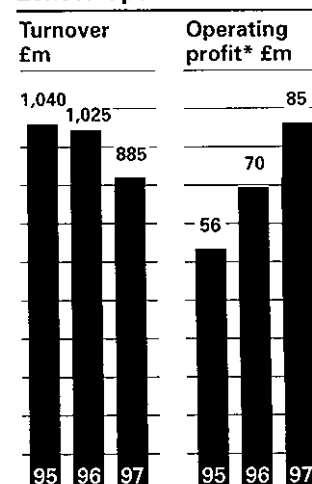
In 1997 Zeneca launched an important new biocide, 'Vanquish', which strengthens its range of fungicides for the plastics industry. Biocides is also now benefiting from integration into Zeneca Agrochemicals' high throughput screening of new anti-fungal agents at Jealotts Hill Research Station, UK.

During the year, Zeneca achieved registration for its chlorine-free pool and spa care products, 'Baquacil' and 'BaquaSpa', in California, US – a state with over one million private pools and a similar number of spas.

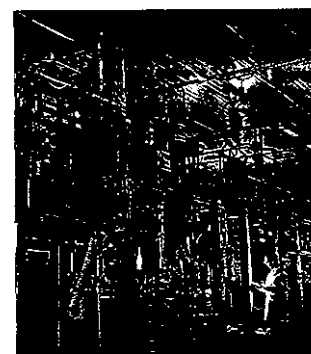
Resins

Resins achieved good volume and profit growth in 1997. Continued development of new products to fulfil customer performance needs, together with increased demand for waterborne coatings, resulted in a further US\$10 million investment in capacity for acrylic emulsions and polyurethane dispersions in the US and Holland. Demand for acrylic solid resins and acrylic emulsions was particularly buoyant in Asia and Europe.

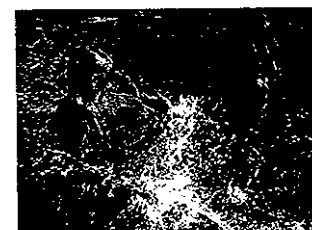
Zeneca Specialties



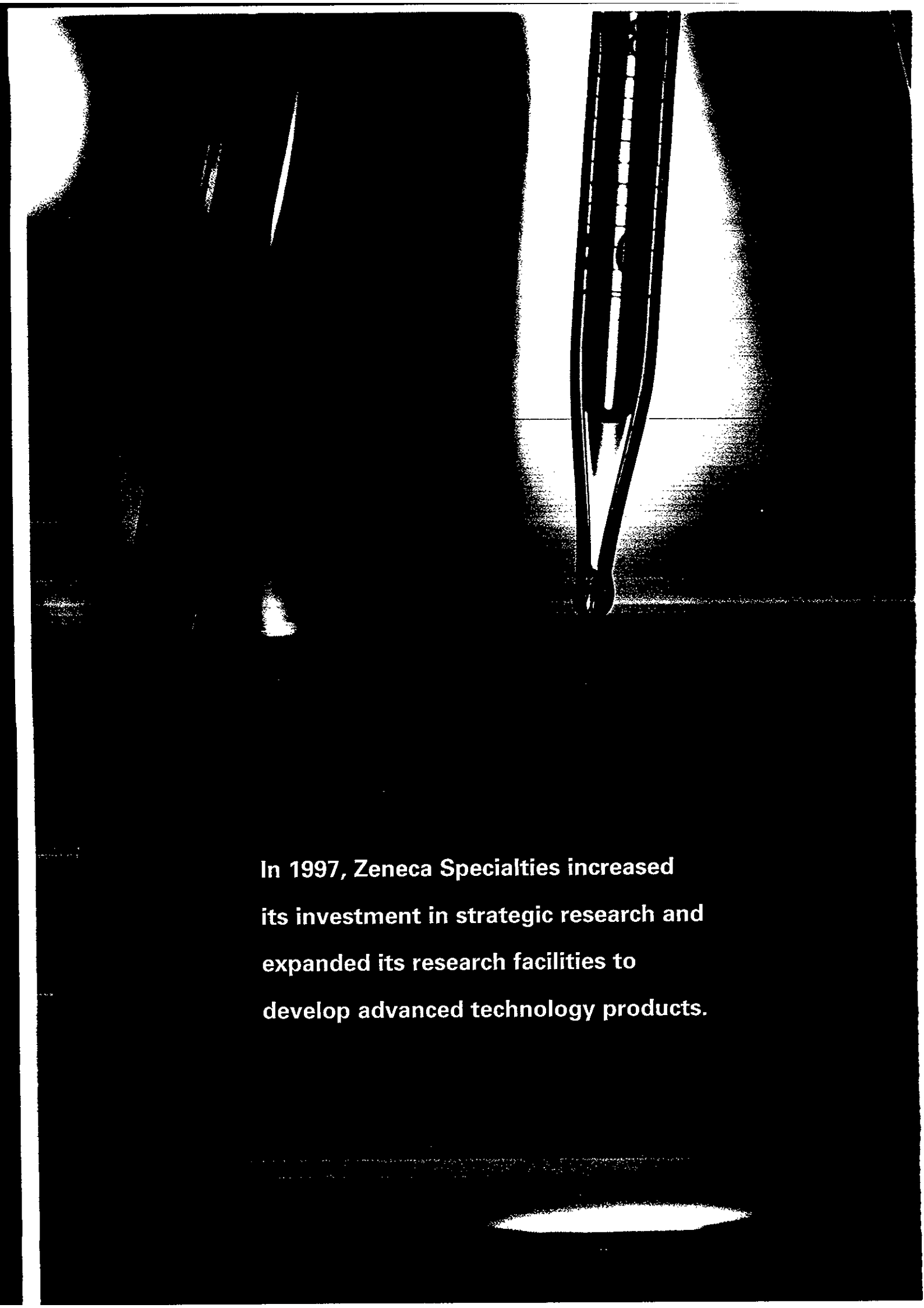
* Before exceptional items



Specialties' investment in new manufacturing provides for future growth.



'Baquacil', launched in California, US in 1997, is now used for pool care in more than 25 countries.



**In 1997, Zeneca Specialties increased
its investment in strategic research and
expanded its research facilities to
develop advanced technology products.**

Image Polymers, Zeneca Resin's joint venture with Mitsui Toatsu Chemicals, opened its new £13 million plant at Grangemouth in the UK which doubles the business' international capacity to make technically differentiated toner resins used in laser printers and photocopiers.

Stahl

Stahl's focus on high performance products, sustained strong demand in its leather chemicals business and continued volume growth in 'Permuthane' coatings for flexible substrates, have helped the business maintain the excellent progress it made last year.

As part of Specialties' strategy to extend its global reach in established businesses, Stahl is building a new plant in India to supply products directly to the country's growing leather market. The business also opened a new applications laboratory in Bangladesh to provide local technical support facilities for customers, and established new business operations in Japan to support the local market.

Performance & Intermediate Chemicals (PIC)

PIC's Metal Extraction Products business achieved record sales in 1997. Central to this success is the business' long-term partnership approach. Zeneca technicians work closely with customers in the mining industry to assist in the design and commissioning of new solvent extraction facilities for obtaining valuable metals. Metal Extraction Products' strong performance contrasts with the Chemical Intermediates business which reported lower sales due to highly competitive pricing in key product sectors and prolonged contractual negotiations. Overall, PIC's sales were 13% lower compared with 1996.

Pigments & Additives

The Additives business again reported strong sales growth with increased demand for 'Solsperse' hyperdispersants in the paint, plastics and inks sectors. The Pigments business saw only modest growth due to supply constraints and highly competitive trading conditions.

Marlow Foods

Another good year

Marlow Foods continued its strong growth in 1997 with sales 40% ahead of 1996, at constant currency. Strategically, the business is focusing on its branded range of added value 'Quorn' meals and during the year extended the 'Quorn' range by launching over 40 new products. The increased choice and consistent quality of 'Quorn' products has fuelled customer demand, enhanced market share and reinforced its position as the leading meat alternative brand in the UK. The company also gained recognition for successfully developing its international sales by winning the 1997 Food from Britain Export Innovation Award.

In 1997, two of the Specialties businesses, Resins and Stahl, were awarded Class A quality status in Manufacturing Resource Planning (MRP II), after an independent review which covered all aspects of business, from order receipt through manufacturing to customer delivery



Marlow Foods launched 40 new 'Quorn' products during 1997, including Deli slices and a range of ready meals.

Safety, Health and Environment

Figure 1

Zeneca classified accident rates

Number of classified accidents for every 100,000 hours worked

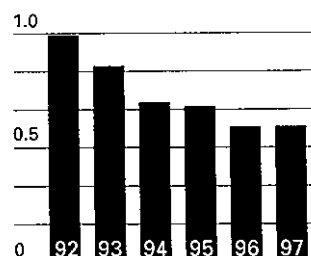


Figure 2

Zeneca occupational illness

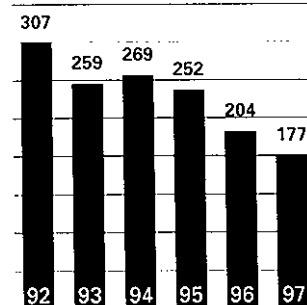
Number of cases reported

	1996	1997
Skin disorder	52	16
Dust disease of the lungs	0	0
Respiratory conditions	17	3
Poisoning-toxic effects	0	0
Physical agents	1	1
Repeated trauma	38	35
Others (including stress and travel related)	73	80

Figure 3

Carbon dioxide index

Tonnes per £ million turnover



Zeneca's Safety, Health and Environment Policy

In pursuit of its business objectives, it is Zeneca's policy to manage its activities to give benefit to society, ensuring that:

- They meet all relevant laws, regulations and international agreements.
- They are conducted safely, protecting the health of all employees and all persons who may be affected.
- They are acceptable to the community at large.
- Their environmental impact is reduced to a practicable minimum at an acceptable cost to Zeneca and society.

An ongoing commitment

Good safety, health and environment (SHE) management is essential to Zeneca's continued success and the Group gives careful consideration to all the SHE aspects of its worldwide business activities. Zeneca aims continuously to improve SHE performance and ensure that all its activities are conducted in line with the requirements of the Group's stated policy.

SHE management

Zeneca's global business encompasses many different activities. With such diversity, it is important that all employees share a common understanding of the requirements of good SHE performance and the Group's commitment to it. To this end, in addition to its SHE policy, management system and standards, Zeneca also provides managers with guidelines as to good practice in the control of SHE risks at work.

The Group's overall objectives are: to demonstrate compliance with Zeneca SHE policy and standards and all relevant laws; to identify and manage major SHE risks, and to reduce SHE related incidents and losses to a practicable minimum. The priorities associated with these objectives are reviewed annually and plans put in place by each business to address any areas identified for improvement. Performance is monitored throughout the year and the cycle completed with an annual review of progress by the Zeneca Executive Council.

1997 SHE performance

Regulatory compliance

Discharges to the environment from Zeneca's plants are licensed according to national regulations. Zeneca has 68 plants subject to numerical limits, of which 61 achieved better than 95% compliance. Environmental performance standards continue to rise and where improvements have been needed, or breaches of regulations have occurred, these have been actively progressed in consultation with the authorities. In most cases, the non-compliances related to minor infringements of discharge consents. However, there was a prosecution involving a fine and increased emphasis is being placed overall on local and specialist audits to promote further improvement.

Safety

Significant effort is put into managing safety in all Zeneca's work environments and incidents are recorded and investigated so that any necessary action can be taken to prevent recurrence. Fig 1 shows the classified accident rate, which is the number of injury accidents (for every 100,000 hours worked) requiring more than simple first aid treatment. Whilst Zeneca's performance is good by general standards, the injury record for driving and manufacturing deteriorated during the year and is being targeted for improvement. Tragically, there were four fatalities in 1997, of which three were the

result of driving accidents in Brazil, Belarus and France. The fourth occurred on a manufacturing plant in France when an employee fell, fracturing his skull.

Driving is a part of business life today, with nearly 100 million miles driven annually by employees. This large mileage, together with the hazards of the road, present a high risk environment for drivers. This area of safety management has been closely scrutinised and new and demanding policies and programmes aimed at reducing risk have been put in place.

Employee health

Zeneca's employee health programmes focus on the reduction of those conditions which occur most frequently: skin disorders, musculo-skeletal problems and others such as stress and business travel related illness (see Fig 2). Work-related stress cases have remained at a relatively constant level with the subject more widely and openly discussed. Significant emphasis is placed on the role managers must play in the primary prevention of work related stress through appropriate organisation of work and the adoption of good management processes.

Continued attention is given to improving the reporting of occupational illness and to supporting managers in the recognition of preventative measures. The application of risk assessment, appropriate control measures, employee training and occupational illness investigation are all key areas.

Environmental protection

The reduction of waste is an important measure of environmental improvement and the amount of both total waste and hazardous waste produced have continued to show a downward trend (see Figs 4 and 5). The quantity of hazardous waste produced in 1997 fell by some 10% compared with the previous year and now stands at 62% of the 1992 levels. However, the volume of non-hazardous process waste has increased in line with the growth of production.

Zeneca's production output has steadily increased over the years. As the amount of waste produced is related to output, a clearer measure of progress can be seen in Fig 6, which relates hazardous waste production to sales turnover (adjusted for inflation).

Zeneca is not a major industrial user of energy but recognises that energy conservation is important in reducing greenhouse gases and the impact on the environment, and also in making operational cost savings. Fig 3 shows the carbon dioxide emissions associated with the Group's energy consumption (excluding transport) as an index related to total sales. The continuing reduction reflects the benefits of Zeneca's investment in gas-fired heat and power plant, and other site-based energy saving initiatives.

Product safety

The safety, health and environmental impact of Zeneca's products is carefully considered at all stages of development, manufacture, use and disposal. As part of this stewardship, Zeneca aims to ensure safe distribution of its products and also provides customers with information and training necessary to help them use products correctly and safely.

Safety in use is a major consideration in the development of products. For example, Zeneca's new fungicide, 'Amistar', was the first fungicide to be registered under the US Environmental Protection Agency's Reduced Risk Pesticide Scheme which gives accelerated approval for products with superior environmental and toxicological profiles.

Figure 4

Total waste

'000 Tonnes per year

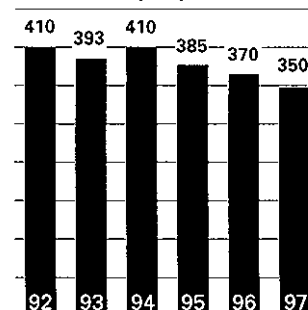


Figure 5

Hazardous wastes

Emissions (tonnes)

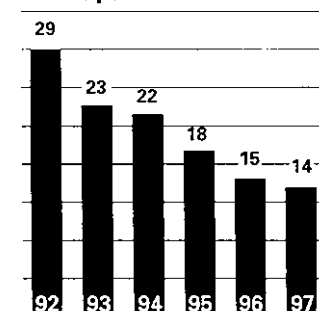
	To Land	To Air	To Water	Total
92	112,000	4,600	140	117,000
93	99,000	4,800	90	104,000
94	94,000	3,800	100	98,000
95	84,000	3,700	180	88,000
96	77,000	2,800	140	80,000
97	70,000	2,100	94	72,000

*Hazardous waste tonnages were revised after 1995, due to the reclassification of some effluents

Figure 6

Hazardous wastes

Tonnes per £ million turnover†



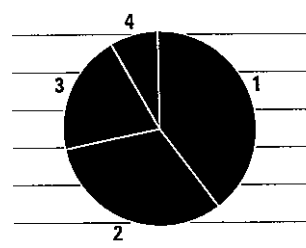
†Turnover figures have been adjusted for inflation and currency changes relative to 1993

People and Community

Percentage of employees by geographic area

At end 1997

1 UK	40%
2 The Americas	32%
3 Continental Europe	20%
4 Asia, Africa & Australasia	8%



Total number of employees 32,100



In Mauritius, Zeneca is helping the international conservation group, the Jersey Wildlife Preservation Trust, to manage rodents that eat the eggs and chicks of the Echo Parakeet and threaten the survival of the world's rarest parrot.

Living the values

Following the employee corporate values survey in 1996, Zeneca published its Group purpose and values which are set out on the inside front cover of this Report, and its employment principles which are outlined below.

The new statements, which apply wherever Zeneca operates in the world, are integral to the continuing development of an open culture within which employees understand and share a commitment to Zeneca's core values and business objectives, and are given the opportunities to develop their individual contribution. The values and principles contained in the statements are also important to Zeneca's shareholders, customers and the community in general who have an interest in these aspects of the Group, as well as the products and services it provides.

Developing leadership skills

Leadership skills are essential to Zeneca's continued success. Following a study by an international group of senior managers, the Group recently defined its leadership expectations in terms of output, values and behaviour. These criteria have been shared with the businesses which have responded by devising leadership training programmes tailored to their specific needs. For example, Pharmaceuticals has launched a Business Leadership Programme comprising workshops in three stages covering leadership and learning, business and personal change, project management and team working.

Continuing community support

In 1997, Zeneca renewed its sponsorship of the British Red Cross with a commitment to helping the charity in its aid work worldwide for a further two years. As part of this programme, Zeneca's continued support will enable the Red Cross to extend its anti-malarial work in Vietnam to a wider community development project which will focus on the implementation of disaster preparedness and community-based first aid programmes.

In addition to national and international projects, Zeneca also supports initiatives which benefit the Group's local communities. In the US, for example, Zeneca is supporting a local school, the P. S. duPont Elementary School in Wilmington, by providing more than 100 employee volunteers to the school for projects ranging from tutoring to career day speakers. Zeneca has also donated 30 computers to the school to help students develop computer care and maintenance skills.

Zeneca employment principles and values

People are Zeneca's key intellectual assets

Zeneca's success depends on making the best use of the knowledge, skills and inventiveness of its employees. They must be continuously developed, and every opportunity taken to share learning and experience across traditional barriers.

Employees are Zeneca's ambassadors

Zeneca's reputation for high professional ethical standards depends on the actions and behaviour of its employees. Both internally and externally, all must be open and honest, positive and worthy of trust and respect.

Zeneca and its employees have mutual responsibilities and expectations

Zeneca expects employees to use their full talents in the active pursuit of business objectives. Employees can expect to be treated fairly, with dignity and respect, and with due concern for their needs.

Common employment principles will apply throughout the Group

The following principles shall be applied in all businesses and territories; detailed practice will depend on the local requirements and culture:

- A healthy and safe working environment
- Competitive remuneration packages, rewarding superior performance
- Equality of opportunity for all
- Information and consultation opportunities about work
- Discussion and coaching about personal performance
- Opportunities for each individual to develop his/her skills
- Opportunities for everyone to use their talent and initiative
- Encouragement to discuss and learn from both successes and mistakes
- Encouragement to speak up honestly
- Confidence and pride in oneself and Zeneca

The Board of Directors



Sir Sydney Lipworth ^{OC} (66)

Chairman

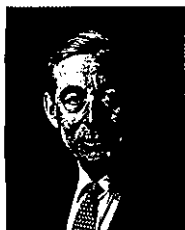
Deputy Chairman and Director of National Westminster Bank Plc, Director of Carlton Communications Plc, and Chairman of the Financial Reporting Council (all Non-Executive). Formerly Chairman of the Monopolies and Mergers Commission.



Sir Jeremy Morse ^{*†} ^{KCMG} (69)

Non-Executive Director

A Nominated Member of the Council of Lloyds.



Sir David Barnes ^{CBE} (62)

Chief Executive and Chairman of the Zeneca Executive Council

Deputy Chairman of Business in the Community. Member of the Board of Trustees of the British Red Cross.



Tom Wyman ^{*†} (68), US citizen

Non-Executive Director and Chairman of the Audit Committee

Retired Chairman, S G Warburg & Co. Former Chairman and Chief Executive Officer, CBS Incorporated. Non-Executive Director of AT&T, General Motors Corporation and Hughes Electronics Corporation.



Alan Pink (60)

Executive Director

Has overall responsibility for strategic planning, human resources, public affairs and the Americas

Non-Executive Director of Smiths Industries Plc.



Sir Richard Greenbury ^{*} (61)

Non-Executive Director and Chairman of the Remuneration and Nomination Committee

Chairman and Chief Executive Officer of Marks and Spencer p.l.c. Member of the Supervisory Board of Philips Electronics N.V.



Peter Doyle ^{CBE} (59)

Executive Director

Has overall responsibility for R&D, manufacturing, SHE, and Europe

Non-Executive Director of Oxford Molecular Group PLC. Member of The Royal Commission on Environmental Pollution and the Central Research and Development Committee for the National Health Service.



Dame Bridget Ogilvie ^{*} (59)

Non-Executive Director

Director (Chief Executive) of the Wellcome Trust. Non-Executive Director of the Lloyds TSB Group Plc.



Tom McKillop (54)

Executive Director and Chief Executive Officer of Zeneca Pharmaceuticals

Non-Executive Director of Nycomed Amersham plc.



Sir Peter Bonfield ^{*†} ^{CBE, FENG} (53)

Non-Executive Director

Chief Executive of British Telecommunications plc, Deputy Chairman of ICL plc and Vice President of the British Quality Foundation.



Michael Pragnell (51)

Executive Director and Chief Executive Officer of Zeneca Agrochemicals

Non-Executive Director of David S Smith (Holdings) PLC.



Frank Meysman ^{*} (45)

Non-Executive Director

Chairman of the Board of Management of Sara Lee/DE N.V. and Director and Executive Vice President of Sara Lee Corporation, Member of the Supervising Board VNU B.V. (Publishing).



Jonathan Symonds (39)

Executive Director

Has overall responsibility for finance, insurance, information technology and investor relations

^{*} Member of the Remuneration and Nomination Committee

[†] Member of the Audit Committee

Financial Review

Sales

	£m	Growth* %
Pharmaceuticals	2,565	16
Salick Health Care	121	16
Agrochemicals	1,631	6
Specialties	885	(6)
Miscellaneous	(8)	n/a
	5,194	7

*Based on constant currency

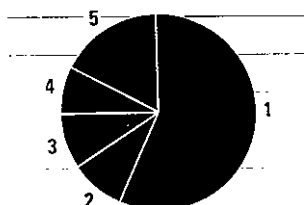
Operating profit

	£m	Growth* %
Pharmaceuticals	786	17
Salick Health Care	3	(33)
Agrochemicals	223	24
Specialties	85	51
Miscellaneous	(14)	n/a
	1,083	21

*Based on constant currency

Zeneca currency exposure

1 USD	57%
2 DEM	9%
3 FRF	9%
4 JPY	8%
5 Other	17%



Group Financial Performance Summary

Sales

The Group's sales in 1997, at £5,194 million, were 3% lower than in 1996 due to the strength of sterling and the disposal of peripheral businesses; excluding these effects sales were up 11%. Prices were largely unchanged and the increase came from strong volume growth driven by the launch of new products. The strength of sterling reduced sales by 10% (£522 million), and population changes in 1996 by 4% (principally Advanta and Textile Colours). Growth was particularly strong in the Americas which now make up 48% of turnover (up from 45% in 1996). Group export sales from the UK were £1.9 billion (1996 £2.1 billion).

The Group results are summarised on page 2, and the charts on page 3 show the relative size of sales and operating profit by class of business and geographic area. Additional information is shown by business segment in Note 9 to the accounts on pages 50 and 51.

Profits

Operating profit amounted to £1,083 million, an increase of 4% on 1996. Excluding the effects of adverse exchange rate movements (-17%) and acquisitions and disposals (2%), the underlying increase was 19%.

The margins generated from sales volume growth increased profits by 45%, but this was substantially offset by the impact of adverse exchange rate movements and higher costs. The increased costs were mainly due to selling, marketing and launch costs for new products and increased research and development expenditure.

Share of profits less losses of associated undertakings includes Zeneca's share of the results of Advanta, the seeds joint venture with Cooperatie Cosun U.A., from August 1996. The results include a profit of £5 million from the new operational group. The results in 1996 included Zeneca's share of exceptional costs, £12 million, arising on formation.

Net interest expense, at £10 million, was £3 million lower than in 1996 mainly due to higher Group liquidity and higher rates of interest income.

Group profit before exceptional items and tax increased by £70 million (7%) to £1,081 million. At constant currency the increase was 24%. The taxation charge for 1997 of £345 million represented an effective tax rate of 31.9%, slightly down on 1996 (32.7%) principally due to the reduction in the UK Corporation Tax rate.

Net profit attributable to Ordinary Shareholders amounted to £730 million compared with £643 million in 1996. Earnings per 25p Ordinary Share (on a pre exceptional basis) were 77.0p compared with 70.6p in 1996, an increase of 9%.

Exchange rate impact

The Group's reported performance for 1997 was heavily impacted by the strength of sterling, which reduced sales by 10% and operating profits by 17%. Over 90% of Zeneca's sales in 1997 were denominated in foreign currencies, whilst a significant proportion of Zeneca's costs were denominated in pounds sterling. As can be seen from the table on the left, Zeneca's currency exposure is principally to the US dollar, the French franc, the deutschmark and the Japanese yen. The mix of currencies, location of costs and phasing of sales has produced differing impacts of currency on each of the businesses.

Zeneca's policy, where appropriate, is to seek to reduce the impact of exchange rates by hedging a proportion of its transaction exposures. As a result of the substantial strengthening of sterling in 1997, these activities generated benefits of some £50 million in 1997. Further detail of Zeneca's treasury policy and activities is given on page 32.

Business Performance

The following individual business comments exclude the impact of exchange rate movements.

Pharmaceuticals

Pharmaceuticals' sales increased by 16%; 21% of total sales are now attributable to new products launched since 1995.

Sales of Primary Care products grew by 13%. 'Zestril' sales increased by 14%, continuing to outperform the ACEi and combination classes in most major markets. Sales of 'Accolate' were £53 million following an excellent reception to the product in the US. The launch of 'Zomig' in a number of markets in 1997 produced sales of £12 million. Sales of 'Tenormin' declined by 5%.

Oncology sales increased by 21%. 'Zoladex' sales grew by 17% despite competitive pricing pressure but with volume assisted by new data highlighting the benefits of combining 'Zoladex' with radiation therapy. 'Casodex' (sales £122 million) and 'Arimidex' (sales £51 million) have become the leading products in their individual classes in most markets. 'Nolvadex' sales increased by 1%.

Sales of Specialist and Hospital Care products increased by 15%. 'Diprivan' sales increased by 9%. The first launches of 'Seroquel' have been encouraging and sales totalled £31 million. Significant growth in 'Merrem' was achieved across all markets with sales totalling £60 million.

Pharmaceuticals' operating profit increased by 17% to £786 million. Strong volume growth was supported by investment in sales and marketing effort in most markets and increased research and development expenditure.

Salick Health Care

Salick Health Care's sales were £121 million, 16% higher than in 1996 due to the expansion of the cancer centre network. Operating profits of £3 million reflect this continued network expansion and infrastructure investment.

Agrochemicals

Agrochemicals' achieved sales volume growth of 4% and price increases of 2%. Herbicide sales increased by 8%; 'Touchdown', 'Surpass', 'Achieve' and 'Flex' continued to perform strongly, but sales of 'Gramoxone' and 'Fusilade' were unchanged. Insecticide sales fell by 4% due to low pest pressure in Asia, Europe and North America. Fungicide sales grew by 33% driven by the successful launch of 'Amistar' in 22 countries in 1997, achieving sales of £63 million.

Sales in North America grew by 6% and 'Amistar' contributed almost half of this growth. In Europe sales increased by 10% principally due to 'Amistar', whilst strong growth in 'Touchdown' more than offset reduced insecticide sales. In Latin America sales grew by 15% with Brazil and Argentina as the main drivers of growth. Sales in Asia, Africa and Australasia fell by 5% due to adverse weather and deteriorating economic conditions in Asia.

Pharmaceuticals' sales

	£m	Growth* %
Primary Care	1,117	13
Oncology	835	21
Specialist/ Hospital Care	613	15
	2,565	16

*Based on constant currency

Agrochemicals' sales

	£m	Growth* %
Herbicides	1,025	8
Insecticides	329	(4)
Fungicides	204	33
Others	73	(16)
	1,631	6

*Based on constant currency

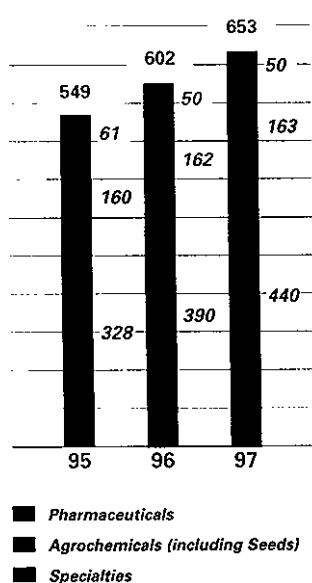
Financial Review

Operating profit in the Agrochemicals business was £223 million, an underlying increase of 19% on a constant population and exchange basis, due principally to volume and price increases. The short term economic effects in Asia, which principally impact the Agrochemicals business, are as yet uncertain but the Group will endeavour to mitigate adverse effects wherever possible.

Specialties

Excluding the effect of the disposals of Textile Colours, Specialty Inks and minor Biological Products businesses, Specialties' underlying sales increased by 6%. Industrial Colours increased sales by 20% due to strong demand in the Specialist Colours business, and LifeScience Molecules increased sales by 23% due to continued expansion of pharmaceutical intermediates. Performance and Intermediate Chemicals' sales were 6% lower due to some pricing pressures and the phasing of certain contracts. Resins' sales increased by 4% driven by continued growth in Europe, Stahl sales were slightly ahead of last year's record levels. 'Quorn' sales grew by 40% following further expansion of the product range. Operating profit for the Specialties business was £85 million, an increase of 41% excluding the effect of disposals, reflecting strong volume gains and the benefits from the rationalisation and reorganisation strategy.

Research and development costs £m



Research, Development and Licensing

Zeneca actively manages the life cycle of its products by exploring their use in other illnesses or in combination with other treatments. The Group's portfolio is particularly suitable for life cycle management. The pharmaceutical R&D pipeline currently contains 87 development projects including 26 new chemical entities.

The Group's R&D expenditure in 1997 amounted to £653 million, an increase of 19% in the last three years, over the same period R&D expenditure by Pharmaceuticals increased by over 30%. R&D expenditure, as a percentage of sales, was 13%. The Group continued to strengthen its technology base during 1997 through agreements with Pharmacopeia Inc., Xenova Group plc, Oxford University, the University of California Irvine, Molecular Dynamics Inc., Nycomed Amersham plc, CarboMed Inc., and SEQ Ltd.

Product launch and life cycle management costs are a significant feature of the cost base and are likely to continue to be so.

Year 2000 and EMU

During 1997 Zeneca has continued to position itself for the dual challenges of dealing with the Year 2000 date change (commonly known as the millennium bug) and preparing for European Economic and Monetary Union (EMU).

Zeneca gives the millennium bug issue a very high priority and is making good progress with the programme to prepare its computer systems for the Year 2000. Preparations began in 1996. The majority of the work will be completed by the end of 1998 and appropriate contingency plans are being developed to ensure business continuity. This includes working with our suppliers and customers with the objective of seeking an uninterrupted supply of goods and services through the millennium change. The cost of Year 2000 compliance, including the cost of modifying or replacing systems or equipment directly affected by the problem, is expected to be around £70 million, of which £13 million was incurred in 1997 and £45 million is expected to be incurred in 1998. The balance will be spent in 1999 and 2000 on final testing and contingency support for critical business systems.

Preparations are also being made to enable Zeneca to trade in the euro currency in all European countries from January 1999, as the EMU initiative moves into its implementation phase. Zeneca is reviewing its European operations in order to assess the business impact of monetary union. Recent investment in modern information systems has positioned Zeneca to trade in the euro at an early stage, in response to the requirements of our customers and other trading partners. Full conversion of all internal systems to the euro will require expenditure, currently estimated as £25 million, spread over the period 1998-2002. The exact timing of the expenditure programme will be dependent on the timetable for country membership which will be agreed by the Heads of State Council meeting in May 1998.

Dividends

Zeneca Group PLC paid a first interim dividend for 1997 of 13.5p (net of tax credit) per 25p Ordinary Share on 3 November 1997. The Annual General Meeting will be asked to confirm a second interim dividend of 25p payable on 5 May 1998, as the final dividend for 1997, making a total dividend of 38.5p for the year, an increase of 10% on the 1996 dividend. The payment of these dividends requires £365 million (1996 £332 million), excluding Advance Corporation Tax, leaving £365 million (1996 £311 million) retained in the Group. The dividend was covered twice by earnings.

Investments and divestments

The Group's fixed capital expenditure amounted to £467 million, up from £379 million in 1996. Capital expenditure is currently running at 2.2 times depreciation as investment in production capacity for new products continues. This includes new plant for 'Amistar', 'Touchdown', 'Zoladex', 'Zomig' and LifeScience Molecules intermediates production. Salick Health Care have invested in further permanent cancer care facilities at Saint Vincent's Hospital, New York, and the Cancer and Blood Institute, California.

The remaining 50% of Salick Health Care, Inc. was acquired in April 1997 for £148 million. Zeneca acquired Mogen International N.V. in June 1997 for £48 million.

On 4 February 1998, the Group acquired the world-wide chlorothalonil business of Ishihara Sangyo Kaisha Ltd (ISK), and the distribution rights outside Asia Pacific to four of ISK's recently introduced products for an anticipated purchase price of US\$500 million. On 8 December 1997, Zeneca gave notice of termination of the pharmaceuticals distribution agreement between it and ICI Australia Ltd (now called Orica Ltd). The agreement provides for Zeneca to make Orica Ltd a payment, the amount of which will be determined by independent valuation, by way of compensation for termination and for the assets of the business to be transferred.

Cash flow

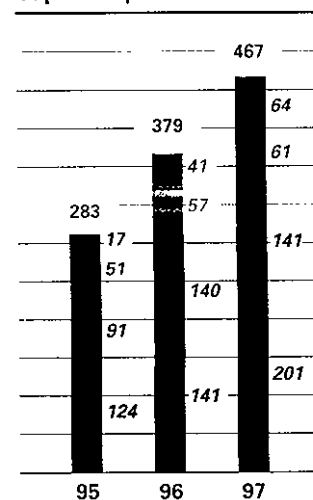
The movements in the Group's cash and cash equivalents are set out in the Statement of Group Cash Flow on page 43, the main elements of which are shown in the table alongside. The principal changes compared to 1996 were the cash outflows of £196 million on acquisitions compared to the cash inflow of £162 million in 1996 from disposals. In addition, capital expenditure increased by £84 million. The net cash outflow before management of liquid resources and financing amounted to £187 million.

Capitalisation

Zeneca had no net debt at the end of 1997, leaving the Group ungeared, net cash funds amounted to £20 million.

Zeneca issued 2.1 million Ordinary Shares in 1997 under the Company share option

Capital expenditure £m



■ Pharmaceuticals
 ■ Agrochemicals (including Seeds)
 ■ Specialties
 ■ Other

Cash flow £m

Net cash inflow from operating activities	1,169
Applied to	
Taxation	320
Shareholder dividends	341
Cash expenditure on fixed assets	457
Acquisitions	196
Other	42
Outflow	1,356
Cash deficit	(187)
	1,169

schemes, bringing the number of shares in issue to 949.1 million at year end. Group reserves were reduced by the adverse effect of exchange rate movements on translation of overseas assets and liabilities of £65 million, reflecting the strengthening of sterling against major currencies during 1997. Nevertheless, shareholders' funds increased by a net £126 million to £2,160 million at year end.

Treasury policy and liquidity

The Group's treasury activities are co-ordinated and managed by the Group Treasury in accordance with policies and procedures approved by the Board. UK and overseas treasury activities, which are not operated as profit centres, are subject to close management supervision and internal and external audit.

The principal financial exposure of the Group is to movements in foreign exchange rates, particularly the US dollar. This results from the international range of the Group's business activities, which in itself provides a balance against dependence on any area. The Group's exposure is managed centrally by the Group Treasury using cash and currency forecasts updated monthly by the Business units.

100% of transaction exposures on working capital balances, which typically extend for a period of three months, are hedged using forward foreign exchange contracts. Additionally, a benchmark of 50% of forecast future transaction exposures extending for twelve months are selectively hedged using a mixture of purchased currency options and forward foreign exchange contracts. This policy is intended to smooth the year-on-year movement in exchange rates and reduce short-term volatility.

The Group is relatively unexposed to movements in interest rates due to the low level of debt and the nature of its businesses, which do not show significant sensitivity to interest rate changes.

The Group's debt has an average maturity of 12 years; roughly 80% is US dollar denominated with fixed rates of interest of around 7% or less.

Undrawn committed bank facilities at 31 December 1997 totalled US\$1,400 million with maturities ranging from 2001 through to 2002. These facilities are used, in part, to support the Group's US commercial paper programme. Uncommitted facilities and issues of commercial paper are used mainly to finance the Group's seasonal working capital requirements. Zeneca maintains a universal shelf registration with the Securities and Exchange Commission in the US for an amount of US\$750 million, providing further flexibility in accessing US capital markets.

The Group's exposure to counterparty credit risk is tightly controlled through its treasury activities, with specific limits applied to counterparties and to transaction categories.

The Group trades in well over 100 countries worldwide. Trading in some developing countries, which are subject to political and economic uncertainty, can give rise to exposure to sovereign risk and payment difficulties. The Group has a policy of reducing such exposure where possible through appropriate insurance, the use of third party trade finance, and letters of credit.

Employees

The number of people employed by the Group increased by 1,700 to 32,100 during 1997, principally to support new product launches. The main changes were in the UK (600), Continental Europe (500), the Americas (400), and Asia, Africa and Australasia (200).

The Board

Details of the Board appear on page 27. During 1997, John Mayo resigned from the Board on 1 October. In succession and with effect from the same date Jonathan Symonds was appointed as an Executive Director.

Rotation of Directors

At the Annual General Meeting in 1998, Jonathan Symonds retires under Article 72 of the Company's Articles of Association; Sir David Barnes, Sir Peter Bonfield, Sir Richard Greenbury and Sir Sydney Lipworth retire under Article 90. All are recommended for re-election. Details of service contracts are given on page 38.

Principal activities

The Company is the holding company for a group of subsidiaries whose principal activities are described in the Operational and Financial Reviews, which are incorporated in this report by reference. Principal subsidiary and associated undertakings and locations are given on page 71.

Dividends

The dividends for 1997 of 38.5 pence per Ordinary Share amount to £365 million.

Corporate Governance

The Company already complies with a substantial proportion of the principles listed in the recently published Report of the Hampel Committee on Corporate Governance. However, the Board will be reviewing these and the further set of principles to be produced by that Committee in 1998 to ensure that the Company continues, where this is key to proper and effective management, to operate in accordance with best practice.

Internal control

The Board has overall responsibility for Zeneca's system of internal financial control which aims to safeguard the Group's assets, ensure that proper accounting records are maintained and that the financial information used within the business and for publication is reliable. Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss. Key features of the Group's system of internal financial control are as follows:

Group values and standards

The Group Code of Ethics states that "It is the policy of Zeneca Group PLC that Group companies, and their employees, observe high standards of integrity and act with due skill, care, diligence and fairness in the conduct of business". Management recognises that such standards make a significant contribution to the overall control environment and seek, by their words and actions, to reinforce them throughout the business. In 1997 the Group issued two key statements resulting from a survey of an international cross-section of employees in 1996. "Zeneca's Purpose and Core Values" and "Zeneca's Employment Principles and Values" which between them define key elements of the core values and beliefs underlying the culture of the Group.

Organisation

The Board is responsible for the Group's objectives, policies and stewardship of the Group's resources. It meets at least nine times a year and concentrates mainly on strategy and financial performance. The Zeneca Executive Council is responsible for the management of the business and its members comprise the Executive Directors of the Board and the Business Chief Executive Officers. It meets twice a month for prompt review of business issues and decisions on matters not reserved to the Board. Business

The Directors of Zeneca Group PLC present their report for the year ended 31 December 1997, together with the accounts of the Company for the year. These will be laid before the shareholders at the Annual General Meeting to be held on 22 May 1998.

The Notice of the Annual General Meeting is contained in the document addressed to shareholders dated 30 March 1998.

During 1997, Zeneca fully complied with the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance

Directors' Report

Chief Executive Officers are responsible for the management and performance of their respective businesses within the framework of Group policies, reserved powers and routine reporting requirements. They are supported in their duty to maintain effective internal controls within their business by business audit committees, made up of business team members, with the business internal audit manager and external audit director in attendance. An internal guide to the organisation and conduct of the Group sets out the role of the Board and its Committees, Zeneca's delegated authorities and reserved powers, the means of operation of the business and the roles of corporate functions.

Financial information and control

The Group has in place a range of procedures to monitor and control the risks against the achievement of its objectives. Group businesses are subject to periodic strategy reviews, to an annual budget process requiring forecasts for the next two years together with a sensitivity and risk analysis, to quarterly updates of those forecasts and to monthly reporting and explanation of actual performance and variances. All material capital investments must be submitted for approval with the support of an information set which includes a requirement to identify and discuss risks and alternatives. Treasury operations are centralised, operate within defined limits and are subject to regular reporting requirements.

The business audit committees maintain a review of business risk management processes and report thereon to the Group Audit Committee.

Monitoring of controls

The Group Audit Committee has received and considered reports on the effectiveness of the Group's system of financial control. These include an annual assessment of the state of control from the internal audit function, reports from the external auditors on matters identified in the course of their statutory audit work, a review of the work of each of the business audit committees, and management assurance of the maintenance of control. The latter is based on an annual 'Letter of Assurance' by which responsible managers confirm the adequacy of their systems of control, their compliance with the Group policies, and report any control weaknesses identified in the past year.

Year 2000

In 1997 the Group Audit Committee reviewed progress of the Year 2000 Review Board, set up by the Executive Council to manage the overall risks associated with the millennium date change. Further details are given in the Financial Review.

Auditor's review of Cadbury compliance

The auditor, KPMG Audit Plc, has confirmed that in its opinion, with respect to the Directors' statements on internal financial control above and going concern, the Directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which it is aware from its audit work on the financial statements; and that the Directors' statement on page 33 appropriately reflects the Company's compliance with the other paragraphs of the Code specified by the Listing Rules for their review.

The auditor has carried out its review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require it to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures, or on the ability of the Group and Company to continue in operational existence.

The Directors have a reasonable expectation that the Group and the parent Company have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the accounts

Auditor

A resolution will be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc of 8, Salisbury Square, London EC4Y 8BB, as auditor of the Company.

Purchase of own shares

At the Annual General Meeting, the Company will be seeking a renewal of its current permission from shareholders to purchase its own shares.

Charitable contributions

The Group contributed £7.8 million (£5.7 million in the UK) to charity in 1997. This includes the first donation of £5 million made to the Zeneca Science Teaching Trust.

Allotments

Changes in the Company's Ordinary Share capital during the year, including allotments of shares under the Company's share schemes, are given in Note 19 relating to the accounts.

Political contributions

No political contributions were made in the UK in 1997.

Payment of suppliers

It is Company policy to agree appropriate payment terms with all suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment and, subject to their compliance, to abide by the terms of payment. The total owed to trade creditors at the balance sheet date was equivalent to 60 days average purchases.

Employee involvement

Zeneca maintains an open management style and involves its employees both in daily decisions and longer term matters. The Company is fully committed to keeping all of its employees informed about their work unit and the wider business, as well as discussing the implications of major business changes and other relevant matters. In line with legal requirements and cultural standards, more formal national and business level employee consultation arrangements exist in some countries, including the UK. A forum for employee consultation at European level, chaired by the Chief Executive, was introduced in 1995. Details of employees' share schemes appear in Note 29 relating to the accounts.

Equal opportunities

Zeneca believes that every employee should be treated with the same respect and dignity. It values the rich diversity and creative potential of people with differing backgrounds and abilities, and encourages a culture of equal opportunities in which personal success depends on personal merit and performance. It is Company policy that there should be no discrimination against any person for any reason that is not relevant to the effective performance of their job. All judgements about people for the purposes of recruitment, development and promotion will be made solely on the basis of their ability and potential in relation to the needs of the job. Every manager is responsible for implementing this policy.

Employment of people with disabilities

It is Company policy that people with disabilities should have the same consideration as others with respect to recruitment, retention and personal development. Depending on their skills and abilities, they enjoy the same career prospects as other employees and the same scope for realising potential. The Company also takes all reasonable steps to ensure that its working environments can accommodate special needs.

Report of the Remuneration and Nomination Committee on behalf of the Board of the Company

Membership and remit

During 1997, the members of the Committee were Sir Richard Greenbury (Chairman of the Committee), Sir Peter Bonfield, Sir Jeremy Morse, Tom Wyman, Frank Meysman and Dame Bridget Ogilvie. They are all of the Non-Executive Directors of the Company and are independent and have no personal financial interest in matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the Company.

The remit of the Committee, inter alia, is to determine the Company's policy for executive remuneration and the entire individual remuneration package for the Executive Directors and most senior management. It also makes proposals to the Board for any new appointments as Directors of the Company, and the Chairman of the Company, Sir Sydney Lipworth, attends as a full member of the Committee to consider proposed new appointments.

Policy on Executive Directors' remuneration

The remuneration package for Executive Directors should, in its components and overall value:

- attract and retain Directors of the highest quality, and
- motivate them to achieve the highest level of Company performance consistent with the best interests of shareholders.

The package should also:

- take account of the design and overall value of the package provided by other employers with whom the Company competes for such Directors
- reflect the annual and longer term performance of the Company and Directors, as measured against targets agreed by the Committee
- encourage individual shareholding
- align the interests of the Executive Directors with those of the shareholders, and
- be seen to be fair by comparison with the packages of other groups of employees within the Company.

Components of the remuneration package

The package, which is reviewed from time to time, comprises at present:

- a competitive base salary
- an annual performance incentive
- a longer term performance incentive
- pension and other benefits

Competitive base salary: the actual salary for each of the Executive Directors is determined by the Committee and is effective from 1 January each year. These salaries reflect the experience and sustained performance of the individuals to whom they apply, as judged annually by the Committee.

Annual performance incentive: an annual bonus is available to the Executive Directors, calculated on the performance of the Company as measured against targets agreed with the Committee for that particular year. For Directors, the annual bonus calculated on this basis is 20% of salary for 100% achievement of targets. This could increase (on a sliding scale) to a maximum of 40% where achievement is greater than 100% of target. The Committee may apply an individual multiplier of 0 to 1.5 to the bonus on a discretionary

and exceptional basis to reward or reflect individual performance. 50% of the bonus must be taken in Ordinary Shares in the Company and the remainder in cash or shares at the option of the individual Director. Bonus taken in shares is normally matched by an equivalent contribution of shares by the Company. Shares are awarded through an employee benefit trust, by way of a conditional appropriation, and will be released to the Director upon satisfaction of the condition which, subject to exceptions, is that the Director must remain employed by the Company for four years after the appropriation. Shares are otherwise forfeited. No dividends are payable prior to release. Resolutions are being put to the Annual General Meeting to reduce the said four year period to three years and to increase the percentage multipliers used to determine the bonus. Under the proposed new percentages, for 100% achievement of targets a bonus of 25% of salary (rather than 20%) will be paid which could rise (on a sliding scale) to a maximum of 50% (rather than 40%) where achievement is greater than 100% of target. This is described more fully in the Chairman's letter to shareholders accompanying the Notice of Annual General Meeting.

Longer term performance incentive: Directors are also rewarded for improvement in the performance of the Group sustained over a period of years in the form of share options and the policy is that these are granted incrementally to the value of four times each Director's salary. The exercise of options granted under the 1994 Executive Share Option Scheme is currently subject to the performance condition disclosed to and approved by shareholders at the Annual General Meeting in 1994. Before any exercise, earnings per share must grow by at least 1.25 times the UK Retail Price Index over three years. There is a policy, subject to the discretion of the Committee, of phasing the grant of replacement options following any exercise. A resolution to strengthen the performance condition to the rise in the UK retail price index over three years plus 3% is being put to the Annual General Meeting. This is described more fully in the Chairman's letter to shareholders accompanying the Notice of Annual General Meeting.

Full details of Directors' interests in Ordinary Shares of the Company and its subsidiaries (including options), together with options granted and exercised in 1997 are set out in Note 30 relating to the accounts.

Pension and other benefits: Normally, Directors participate in the Zeneca contributory pension scheme and are members of the Zeneca Pension Fund which provides a pension of up to two-thirds of basic salary on retirement at age 62 with at least 20 years' service. The scheme also provides for dependants' pensions and lump sums on death in service.

In respect of Directors whose pensionable earnings are in excess of the earnings limit imposed by the Finance Act 1989, money purchase Funded Unapproved Retirement Benefit Schemes are available. The Company has agreed to pay 30% of salary in excess of the earnings cap which can be paid, fully or in part, into such a scheme, with any balance to the Director. However, this is currently under review as it is the intention to devise new arrangements that will provide greater equivalence of benefits with Directors who are not subject to the earnings cap. At present two Directors, Michael Pagnell and Jonathan Symonds fall into this category and it is their pension arrangements that are being reviewed.

Note 31 relating to the Accounts sets out the information required by the Listing Rules of the London Stock Exchange relating to Directors' pension entitlements.

Other customary benefits, e.g. car and fuel, health benefits, Savings Related Share Option Scheme, are made available as required.

Directors' Report

Value and market positioning of the remuneration package: the total value of the remuneration package is judged by comparison with the value of the packages of a 'basket' of UK headquartered competitor companies. These are chosen on the basis of: similarity of business, turnover, profitability, general performance and structure, but are not restricted to bioscience and pharmaceutical companies.

Emoluments in 1997: the total emoluments of each of the Directors of the Company in 1997 are set out in Note 31 relating to the accounts.

Service contracts

Each Executive Director normally has a service contract with a notice period of two years subject to retirement, normally, at the age of 62. However, Jonathan Symonds has a contract for a period of three years from 1 October 1997. After one year, it will be terminable with a notice period of two years and thus be on a basis consistent with other Executive Directors. The contract of Sir David Barnes expires at the conclusion of the Annual General Meeting of the Company in 1999. Sir Sydney Lipworth has a service contract with a notice period of 12 months. To comply with the Listing Rules of the London Stock Exchange, at the time of the Annual General Meeting on 22 May 1998 the unexpired term of the service contract of Directors with contracts will be 28 months for Jonathan Symonds and 12 months for both Sir David Barnes and Sir Sydney Lipworth.

External appointments

With the specific approval of the Board in each case, Executive Directors may accept external appointments as non-executive directors of other companies and retain any related fees paid to them.

Best practice provisions

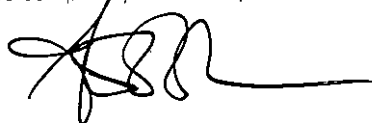
The Company has given full consideration to, and complied with, all the best practice provisions annexed to the Listing Rules of the London Stock Exchange with the following exceptions:

(1) Executive Directors normally have service contracts with a notice period of two years. Until the beginning of 1995, the service contracts provided for a notice period of three years and the Executive Directors agreed voluntarily without compensation to reduce this to two years. It is not currently proposed that this should be reduced further. Any compensation payment for termination would be subject to mitigation but a reduction to one year's notice would place the Executive Directors in a substantially worse position than many members of the Company's UK workforce. For example, employees aged in their mid-fifties, with over 10 years' service, can expect to receive 21 months' salary in the event of redundancy under the Company's contractual severance arrangements.

(2) Two Directors, Sir David Barnes and Peter Doyle, were, prior to demerger, directors of Imperial Chemical Industries PLC and pursuant to the then practice in ICI, their pensions are to be calculated on the basis of salary plus the average of the previous three years' performance bonuses prior to retirement, subject to a maximum of 110% of salary. This provision has been incorporated into their contracts with the Company and there is no similar provision in the contracts of the other Executive Directors.

(3) A Committee of Executive Directors determines the remuneration of the Non-Executive Directors, which complies completely with the spirit of the best practice provisions.

On behalf of the Board:
4 March 1998



G H R Musker
Secretary

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Financial Statements

Directors' responsibilities in respect of the preparation of the financial statements

The Directors are required by UK company law to prepare for each accounting period financial statements which give a true and fair view of the state of affairs of the Group and the Company as at the end of the accounting period and of the profit or loss for that period. In preparing the financial statements the Directors are required to select and apply consistently suitable accounting policies framed by reference to reasonable and prudent judgements and estimates. Applicable accounting standards also have to be followed and a statement made to that effect in the financial statements, subject to any material departures being disclosed and explained in the notes to the financial statements. The Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business. The Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor's report

To the Members of Zeneca Group PLC.

We have audited the financial statements on pages 41 to 71.

Respective responsibilities of directors and auditor

As described above the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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. 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 Group'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 affairs of the Company and the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

4 March 1998

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

Group Profit and Loss Account

For the year ended 31 December

	Notes	1997 £m	1996 £m
Turnover		5,194	5,363
Operating costs	2	(4,190)	(4,421)
Other operating income	2	79	101
Operating profit	2	1,083	1,043
Share of profits less losses of associated undertakings		8	(19)
Profits less losses on sale or closure of operations	4	—	(36)
Profit on ordinary activities before interest		1,091	988
Net interest payable	5	(10)	(13)
Profit on ordinary activities before taxation		1,081	975
Profit before exceptional items		1,081	1,011
Exceptional items	4	—	(36)
Taxation	6	(345)	(320)
Profit on ordinary activities after taxation		736	655
Attributable to minorities		(6)	(12)
Net profit for the financial year		730	643
Dividends to Shareholders	7	(365)	(332)
Profit retained for the year		365	311
Earnings per 25p Ordinary Share before exceptional items (pence)	8	77.0p	70.6p
Earnings per 25p Ordinary Share (pence)	8	77.0p	67.8p
Weighted average number of Ordinary Shares in issue (millions)	8	948	947

Statement of Total Recognised Gains and Losses

For the year ended 31 December

	Notes	1997 £m	1996 £m
Net profit for the financial year		730	643
Net unrealized holding gains on short-term investments	14	1	1
Exchange adjustments on net assets	21	(63)	(128)
Translation differences on foreign currency borrowings	21	(3)	46
Tax on translation differences on foreign currency borrowings	21	1	(15)
Total recognised gains and losses relating to the year		666	547

£m means millions of pounds sterling

Financial Statements

Balance Sheets

At 31 December	Notes	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
Fixed assets					
Tangible fixed assets	10	1,951	1,822	–	–
Intangible assets	10	81	25	–	–
Fixed asset investments	11	122	118	536	530
		2,154	1,965	536	530
Current assets					
Stocks	12	728	681	–	–
Debtors	13	1,399	1,379	1,850	1,810
Short-term investments	14	426	716	–	–
Cash		303	259	–	–
		2,856	3,035	1,850	1,810
Total assets		5,010	5,000	2,386	2,340
Creditors due within one year					
Short-term borrowings	15	(166)	(215)	(1)	(1)
Current instalments of loans	17	(17)	(12)	–	–
Finance leases		(4)	(5)	–	–
Other creditors	16	(1,676)	(1,638)	(301)	(278)
		(1,863)	(1,870)	(302)	(279)
Net current assets		993	1,165	1,548	1,531
Total assets less current liabilities		3,147	3,130	2,084	2,061
Creditors due after more than one year					
Loans	17	(510)	(476)	(356)	(349)
Finance leases		(12)	(18)	–	–
Other creditors	16	(13)	(22)	–	–
		(535)	(516)	(356)	(349)
Provisions for liabilities and charges	18	(420)	(476)	–	–
Net assets		2,192	2,138	1,728	1,712
Capital and reserves					
Called-up share capital	19	237	237	237	237
Share premium account	21	24	9	24	9
Merger reserve	21	285	285	–	–
Other reserves	21	132	295	1,255	1,255
Profit and loss account	21	1,482	1,208	212	211
Shareholders' funds - equity interests	20	2,160	2,034	1,728	1,712
Minority equity interests		32	104	–	–
Shareholders' funds and minority interests		2,192	2,138	1,728	1,712

The accounts on pages 41 to 71 were approved by the Board of Directors on 4 March 1998 and were signed on its behalf by:

Sir David Barnes
Director

J.R. Symonds
Director

Statement of Group Cash Flow

For the year ended 31 December

	Notes	1997 £m	1996 £m
Cash flow from operating activities			
Net cash inflow from trading operations	22	1,235	1,155
Outflow related to exceptional items	23	(66)	(76)
Net cash inflow from operating activities		1,169	1,079
Returns on investments and servicing of finance			
Interest and dividends received	24	55	54
Interest paid		(66)	(69)
Dividends paid by subsidiary undertakings to minority interests		(45)	(9)
		(56)	(24)
Tax paid		(320)	(290)
Capital expenditure and financial investment			
Cash expenditure on fixed assets	10	(457)	(373)
New fixed asset investments		(7)	(8)
Disposals of fixed assets		21	9
		(443)	(372)
Acquisitions and disposals			
Acquisitions and purchase of minority interest	25	(196)	(1)
Investments in associated undertakings		(3)	(19)
Disposals of business operations		2	162
Disposals of investments in associated undertakings		1	4
		(196)	146
Dividends paid to Shareholders		(341)	(305)
Net cash (outflow) inflow before management of liquid resources and financing	26	(187)	234
Management of liquid resources			
Movement in short-term investments and fixed deposits (net)		292	(94)
Financing	27	(32)	(39)
Increase in cash in the period		73	101
Increase in cash above		73	101
(Decrease) increase in overdrafts	26	(19)	13
	26	54	114
Foreign currency translation effect	26	(10)	(18)
Balance sheet movement in cash		44	96

Financial Statements

Accounting policies

Basis of Accounting

The accounts are prepared under the historical cost convention, modified to include the market value of certain current asset investments held by Group subsidiaries as described below, in accordance with the Companies Act 1985 and applicable accounting standards. The following paragraphs describe the main accounting policies. The accounting policies of some overseas subsidiaries and associated undertakings do not conform with UK Accounting Standards and, where appropriate, adjustments are made on consolidation in order to present the Group accounts on a consistent basis.

Depreciation

Zeneca's policy is to write off the book value of each tangible fixed asset evenly over its estimated remaining life. Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Under this policy it becomes impracticable to calculate average asset lives exactly. However, the total lives approximate to 25 years for buildings and 10 years for plant and equipment. Depreciation of assets qualifying for grants is calculated on their full cost. Intangible assets, including patents, separately acquired are capitalized and amortized over their useful lives in line with the benefits accruing. If related products fail, the remaining unamortized amounts are immediately written off to revenue expense. Internally developed intangible assets are not capitalized.

Environmental Liabilities

Zeneca is exposed to environmental liabilities relating to its past operations, principally in respect of soil and groundwater remediation costs. Provisions for these costs are made when expenditure on remedial work is probable and the cost can be estimated within a reasonable range of possible outcomes.

Foreign Currencies

Profit and loss accounts in foreign currencies are translated into sterling at average rates for the relevant accounting periods. Assets and liabilities are translated at exchange rates prevailing at the date of the Group balance sheet. The results of operations in hyper-inflationary economies are measured using a relatively stable currency as the functional currency, with gains and losses arising on net monetary assets or liabilities taken to the profit and loss account.

Exchange differences on short-term foreign currency borrowings and deposits are included with net interest payable. Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating profit. In the consolidated financial statements exchange differences arising on consolidation of the net investments in overseas subsidiary undertakings and associated undertakings are taken directly to reserves via the statement of total recognised gains and losses. Differences on relevant foreign currency loans, together with related tax, are taken to reserves via the statement of total recognised gains and losses and offset against the differences on net investments, as they are considered to be a hedge against movements on the net investments.

Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets. The Group's policy up to and including 1997 is to eliminate goodwill arising upon acquisitions against reserves. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the gross amount, at current exchange rates, of any related goodwill previously taken directly to reserves. The Group will adopt Financial Reporting Standard 10 – 'Goodwill and Intangible Assets' in 1998.

Investments

An associated undertaking is a company in which Zeneca has a participating interest (between 20% and 50% inclusive) and on whose commercial and financial policy decisions Zeneca exercises significant influence.

Zeneca's share of the profits less losses of all significant associated undertakings is included in the Group profit and loss account on the equity accounting basis. The holding value of significant associated undertakings in the Group balance sheet is calculated by reference to Zeneca's equity in the net tangible assets of such undertakings, as shown by the most recent accounts available, adjusted where appropriate.

Fixed asset investments, other than in associated undertakings, are stated at cost less provision for any permanent diminution in value.

Current asset investments held by Group subsidiaries are valued at market value and unrealized gains and losses are taken directly to reserves via the statement of total recognised gains and losses. Realized gains and losses are taken to profit and loss account. The principal Group subsidiaries concerned are Zeneca's insurance companies, where current asset investments are actively matched against insurance liabilities.

Leases

Assets held under finance leases are capitalized and included in tangible fixed assets at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. The obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors due within, or creditors due after, one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to profit and loss account as incurred.

Post-retirement Benefits

The pension costs relating to UK retirement plans are assessed in accordance with the advice of independent qualified actuaries. The amounts so determined include the regular cost of providing the benefits under the plans which it is intended should remain a level percentage of current and expected future earnings of the employees covered under the plans. Variations from the regular pension cost are spread on a systematic basis over the estimated average remaining service lives of current employees in the plans. Retirement plans of non-UK subsidiary undertakings are accounted for in accordance with local conditions and practice. With minor exceptions, these subsidiary undertakings recognise the expected cost of providing pensions on a systematic basis over the average remaining service lives of employees in accordance with the advice of independent qualified actuaries. The costs of providing post-retirement benefits other than pensions, principally healthcare, are charged to the profit and loss account on a consistent basis over the average service lives of employees. Such costs are assessed in accordance with the advice of independent qualified actuaries.

Research and Development

Research and development expenditure is charged to profit in the year in which it is incurred.

Stock Valuation

Finished goods are stated at the lower of cost or net realizable value and raw materials and other stocks at the lower of cost or replacement price. The first in, first out or an average method of valuation is used. In determining cost, depreciation is included but selling expenses and certain overhead expenses (principally central administration costs) are excluded. Net realizable value is determined as estimated selling price less costs of disposal.

Taxation

The charge for taxation is based on the profits for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes. However, no provision is made for taxation deferred by reliefs unless there is reasonable evidence that such deferred taxation will be payable in the future.

Turnover

Turnover excludes inter-company turnover and value added taxes.

Financial Statements

Notes relating to the accounts

1 Composition of the Group

The Group accounts consolidate the accounts of Zeneca Group PLC (the 'Company') and its subsidiary undertakings, of which there were 196 at 31 December 1997, including one quasi-subsidiary. Owing to local conditions and to avoid undue delay in the presentation of the Group accounts, two minor subsidiaries prepare accounts to 30 September and one to 31 March; the Salick Health Care Group prepares its accounts to 30 November.

2 Operating profit

	1997 £m	1996 £m
Turnover	5,194	5,363
Operating costs		
Cost of sales	(1,977)	(2,250)
Distribution costs	(163)	(181)
Research and development	(653)	(602)
Selling, general and administrative expenses	(1,397)	(1,388)
	(4,190)	(4,421)
Other operating income		
Government grants	1	1
Royalties	48	64
Other income	30	36
	79	101
Operating profit	1,083	1,043
Year 2000 and EMU conversion costs included above	(13)	—
Charge for depreciation included above	(216)	(217)
Gross profit, as defined by the Companies Act 1985	3,217	3,113
	1997 £m	1996 £m
Effect of Group insurance activities		
Insurance results are reported within the following headings		
Miscellaneous operating profit (included in Note 9)	(5)	(1)
Interest receivable and similar income (included in Note 5)	11	15
	6	14

3 Note of historical cost profits and losses

There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before tax.

4 Exceptional items

	1997 £m	1996 £m
Profits less losses on sale or closure of operations and related provisions		
Disposal of Textile Colours and minor Specialties businesses	–	(36)
Tax credits on exceptional items (see Note 6)	–	10
	–	(26)

5 Net interest payable

	1997 £m	1996 £m
Interest payable and similar charges		
Loan interest	(34)	(34)
Interest on short-term borrowings and other financing costs	(27)	(30)
	(61)	(64)
Interest receivable and similar income from investments		
Securities	5	9
Short-term deposits	46	42
	51	51
Net interest payable	(10)	(13)

Financial Statements

Notes relating to the accounts

6 Taxation

	1997 £m	1996 £m
Profit and loss account		
UK taxation		
Corporation tax	215	149
Double taxation relief	(69)	(7)
Deferred taxation	11	–
	157	142
Overseas taxation		
Overseas taxes	183	171
Deferred taxation	1	8
	184	179
Associated undertakings	4	(1)
Tax on profit on ordinary activities	345	320

UK and overseas taxation have been provided at current rates on the profits earned for the periods covered by the Group accounts. The rate of UK corporation tax is reduced from 33% to 31% effective from 1 April 1997 (1996 33%). To the extent that dividends remitted from overseas subsidiaries and associated undertakings are expected to result in additional taxes, appropriate amounts have been provided. No taxes have been provided for unremitted earnings of Group companies overseas, as these are, in the main, considered permanently employed in the businesses of these companies and, in the case of associated undertakings, the taxes would not be material. Unremitted earnings may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends.

Exceptional items included in tax on ordinary activities

Deferred tax relief on exceptional items	–	(10)
--	---	------

Statement of total recognised gains and losses

Changes in tax legislation in 1996 give rise, in certain circumstances, to tax charges or credits on currency differences on borrowings that are taken to reserves via the statement of total recognised gains and losses. Tax credits on such currency translation differences amounted to £1m in 1997 (1996 £15m charge), and have been reported in the statement of total recognised gains and losses.

	1997 £m	1996 £m
Balance sheet		
Deferred taxation asset movement		
At beginning of year	58	61
Profit and loss account	(12)	(8)
Other movements	12	5
At end of year	58	58

6 Taxation (continued)

Deferred taxation

The deferred tax assets accounted for at the balance sheet date and the potential amounts of deferred taxation are disclosed below.

	1997 £m	1996 £m
Accounted for at 31 December		
Exceptional item provisions	2	12
Miscellaneous timing differences	56	46
ACT recoverable (see Note 13)	21	31
	79	89
Not accounted for at 31 December		
UK capital allowances utilised in excess of depreciation	(204)	(206)
Miscellaneous timing differences including exceptional item provisions	175	161
	(29)	(45)
Full potential deferred taxation asset	50	44

No deferred tax asset has been accounted for in respect of post-retirement benefits.

The parent Company had no deferred tax assets or liabilities (actual or potential) at 31 December 1997.

7 Dividends

	1997 Pence per 25p Share	1996 Pence per 25p Share	1997 £m	1996 £m
Interim, paid 3 November 1997	13.5p	12.5p	128	118
Second interim, to be confirmed as final, payable 5 May 1998	25.0p	22.5p	237	214
	38.5p	35.0p	365	332

8 Earnings per 25p Ordinary Share

	1997	1996
Net profit for the financial year before exceptional items (£m)	730	669
Exceptional items after tax (£m) (see Note 4)	–	(26)
Net profit for the financial year (£m)	730	643
Average number of Ordinary Shares in issue (millions)	948	947
Earnings per Ordinary Share before exceptional items (pence)	77.0p	70.6p
Earnings (loss) per Ordinary Share on exceptional items (pence)	–	(2.8)p
Earnings per Ordinary Share (pence)	77.0p	67.8p

The effect on earnings per 25p Ordinary Share of the issue of shares under option (see Note 19) would not be material.

Earnings per Ordinary Share before exceptional items has been calculated to eliminate the impact of exceptional items on the results of the business.

Financial Statements

Notes relating to the accounts

9 Segment information

Classes of Business

	Turnover		Operating profit		Profit before interest and tax	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Pharmaceuticals	2,565	2,435	786	757	786	757
Salick Health Care	121	110	3	6	3	6
Agrochemicals	1,631	1,801	223	224	223	224
Agrochemicals	1,631	1,684	223	227	223	227
Seeds	–	117	–	(3)	–	(3)
Specialties	885	1,025	85	70	85	34
Inter-business eliminations and Miscellaneous	(8)	(8)	(14)	(14)	(14)	(14)
Share of profits less losses of associated undertakings					8	(19)
	5,194	5,363	1,083	1,043	1,091	988

Zeneca's policy is to transfer products internally at external market prices.

From 1 August 1996, Zeneca and Cooperatie Cosun U.A. merged their Seeds businesses in a joint venture, named Advanta B.V., and its results are included under Share of profits less losses of associated undertakings from 1 August 1996.

	Capital expenditure		Depreciation		Net assets	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Pharmaceuticals	201	141	105	97	1,211	1,049
Salick Health Care	24	20	6	6	71	85
Agrochemicals	141	140	59	65	833	823
Specialties	61	57	37	40	418	375
Miscellaneous	40	21	9	9	17	8
	467	379	216	217		
Net operating assets					2,550	2,340
Investments in associated undertakings					85	88
Net non-operating liabilities					(443)	(290)
					2,192	2,138

Net non-operating liabilities include short-term investments and cash, short-term borrowings, loans, and debtors and creditors not attributable to business segments.

9 Segment information (continued)

Geographic areas

The information opposite is re-analyzed in the table below by geographic area. The figures for each geographic area show the net operating assets owned by and the turnover and profit made by companies located in that area; export sales and related profits are included in the areas from which those sales were made.

	Net operating assets		Turnover		Operating profit		Profit before interest and tax	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
United Kingdom								
Sales in the United Kingdom			425	368				
Export sales			1,883	2,076				
	1,584	1,388	2,308	2,444	517	469	517	455
Continental Europe	282	266	1,477	1,665	137	148	142	125
The Americas	502	473	2,668	2,579	380	356	382	336
Asia, Africa & Australasia	182	213	622	670	49	70	50	72
	2,550	2,340	7,075	7,358	1,083	1,043	1,091	988
Inter-area eliminations			(1,881)	(1,995)				
	2,550	2,340	5,194	5,363	1,083	1,043	1,091	988

Inter-area turnover shown above includes sales from the UK to overseas subsidiaries of £1,457m (1996 £1,634m).

Geographic markets

	1997 £m	1996 £m
Turnover in each geographic market in which customers are located		
United Kingdom	439	376
Continental Europe	1,412	1,591
The Americas	2,509	2,442
Asia, Africa & Australasia	834	954
Total turnover	5,194	5,363

Employees

	1997	1996
Average number of people employed by the Group in		
United Kingdom	12,400	12,200
Continental Europe	6,200	6,000
The Americas	10,300	10,300
Asia, Africa & Australasia	2,500	2,600
Total employees	31,400	31,100

The number of people employed by the Group at the end of 1997 was 32,100 (1996 30,400).

Financial Statements

Notes relating to the accounts

10 Fixed assets

GROUP	Land and buildings £m	Plant and equipment £m	Capital expenditure and assets in course of construction £m	Total tangible assets £m	Intangible assets £m
Cost					
At beginning of year	797	2,226	268	3,291	56
Exchange adjustments	(13)	(27)	(3)	(43)	–
Capital expenditure	–	–	407	407	60
Transfer of assets into use	78	304	(382)		
Acquisitions, disposals and other movements	(1)	(88)	(9)	(98)	(7)
At end of year	861	2,415	281	3,557	109
Depreciation					
At beginning of year	264	1,205		1,469	31
Exchange adjustments	(6)	(16)		(22)	–
Acquisitions, disposals and other movements	(1)	(51)		(52)	(8)
Charge for year	32	179		211	5
At end of year	289	1,317		1,606	28
Net book value at 31 December 1997	572	1,098	281	1,951	81
Net book value at 31 December 1996	533	1,021	268	1,822	25

Capital expenditure in the year of £467m did not include any capitalized finance leases; cash expenditure on fixed assets was £457m. Land and buildings included non-depreciated land which cost £54m.

The net book value of the tangible fixed assets of the Group at 31 December 1997 included capitalized finance leases of £18m, comprising cost of £34m and accumulated depreciation thereon of £16m. In respect of capitalized leases, the depreciation charge for the year was £6m and finance charges were £1m.

	Group	
	1997 £m	1996 £m
The net book value of land and buildings comprised		
Freeholds	557	518
Long leases (over 50 years unexpired)	3	4
Short leases	12	11
	572	533

11 Fixed asset investments

GROUP	Associated undertakings £m	Other investments		Total £m
		Listed £m	Unlisted £m	
Cost				
At beginning of year	101	27	3	131
Additions	3	4	4	11
Disposals	(1)	–	–	(1)
Other movements, including exchange	(8)	–	(1)	(9)
At end of year	95	31	6	132
Share of post-acquisition reserves				
At beginning of year	(13)			(13)
Retained profit	3			3
At end of year	(10)			(10)
Net book value at 31 December 1997	85	31	6	122
Net book value at 31 December 1996	88	27	3	118

The market value of the listed investments at 31 December 1997 was £32m (1996 £28m).

COMPANY	Subsidiary investments		Total £m
	Shares £m	Loans £m	
Cost			
At beginning of year	180	350	530
Exchange adjustments	–	6	6
Net book value at 31 December 1997	180	356	536
Net book value at 31 December 1996	180	350	530

None of the investments held directly by the parent Company are listed.

Information on principal subsidiary and associated undertakings of the Group is given on page 71.

12 Stocks

	Group	
	1997 £m	1996 £m
Raw materials and consumables	197	165
Stocks in process	216	191
Finished goods and goods for resale	315	325
	728	681

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13 Debtors

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Amounts due within one year				
Trade debtors	969	935	–	–
Amounts owed by subsidiary undertakings			1,850	1,810
Amounts owed by associated undertakings	1	10	–	–
Deferred taxation (see Note 6)	19	28	–	–
Other debtors	167	191	–	–
Prepayments and accrued income*	85	64	–	–
	1,241	1,228	1,850	1,810
Amounts due after more than one year				
Other debtors	75	61	–	–
Deferred taxation (see Note 6)	39	30	–	–
ACT recoverable	21	31	–	–
Prepayments and accrued income*	20	28	–	–
	1,396	1,378	1,850	1,810
Securitised rent receivables	3	1	–	–
Debtors	1,399	1,379	1,850	1,810

*Group figures include prepaid pension costs (Note 28).

Included in other debtors are amounts totalling £24m (1996 £47m) in respect of the Group's insurance subsidiaries relating to reinsurance contracts.

Rent receivables in respect of a property were securitised under an arrangement established by Stauffer Chemical Company (SCC) in 1984. The receivables were securitised under a Trust Indenture in connection with the issue of US\$245m of non-recourse Zero Coupon Secured Notes due 1994-2018 on behalf of SCC. SCC's interest in the receivables and its obligations under the Trust Indenture were vested in Zeneca Holdings Inc. (ZHI) by way of an assignment and assumption agreement. Neither SCC as the issuer of the notes nor ZHI as assignee of SCC's interest is obliged to support any losses of the assets pledged under the Trust Indenture, nor does either intend to do so. Repayment of the finance is solely secured by rent receivables from the property, payment of which is further secured by an irrevocable letter of credit drawn on a first class bank. The net present value of these arrangements amounts to a net asset of £7m (1996 £5m). This asset was recorded in the accounts as part of the acquisition accounting of Stauffer since 1987, and is reported in the balance sheet under short-term investments (£4m) and debtors (£3m net). The net income recorded in the Group accounts amounted to £2m (1996 £1m). A summary of the financial statements of Stauffer Chemical Company Trust is set out below.

Stauffer Chemical Company Trust	1997 £m	1996 £m
Income and expenditure account		
Surplus for the financial year	2	1
Trust distributions	(1)	(1)
Surplus retained for the year	1	–
Balance sheet		
Debtors	66	50
Cash and short-term investments	4	4
Total assets	70	54
Creditors	(63)	(49)
Net assets	7	5
Cash flow		
Increase in cash	–	–

14 Short-term investments

The Group's short-term investments were classified as available-for-sale at year ends 1997 and 1996. Carrying value was substantially the same as fair value at both year ends.

GROUP

	Cost £m	Estimated fair value £m	Gross unrealized gains £m	Gross unrealized losses £m	Net gains and losses £m
At 31 December 1997					
Listed debt securities	22	21	–	(1)	(1)
Other debt securities	4	4	–	–	–
	26	25	–	(1)	(1)
Listed equity investments	–	–	–	–	–
Investment securities	26	25	–	(1)	(1)
Fixed deposits	401	401	–	–	–
Short-term investments	427	426	–	(1)	(1)
At 31 December 1996					
Listed debt securities	56	53	–	(3)	(3)
Other debt securities	4	4	–	–	–
	60	57	–	(3)	(3)
Listed equity investments	2	2	–	–	–
Investment securities	62	59	–	(3)	(3)
Fixed deposits	657	657	–	–	–
Short-term investments	719	716	–	(3)	(3)
Movement in unrealized holding gains and losses			–	2	2
Net movement, after minority interests					1

Current asset investments held by Group subsidiaries are marked to market on a specific identification basis. The net movement in unrealized holding gains and losses is a gain of £2m (1996 £3m). The net gain, after minority interests of £1m (1996 £1m) has been taken to reserves via the statement of total recognised gains and losses.

The proceeds from sales of investment securities were £52m (1996 £233m). Realized gains and losses are taken to the profit and loss account. In 1997 gross realized gains were £1m (1996 £1m) and gross realized losses were £2m (1996 £2m), producing a net realized loss of £1m (1996 £1m).

The Group's insurance subsidiaries hold cash and short-term investments totalling £100m (1996 £201m), of which £67m (1996 £104m) is required to meet insurance solvency requirements and which, as a result, is not readily available for the general purposes of the Group.

Contractual maturities of debt securities are as follows:

	Cost £m	Estimated fair value £m
1998	26	25

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15 Short-term borrowings

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Bank borrowings				
Secured by floating charge	3	1	—	—
Unsecured	103	154	1	1
	106	155	1	1
Other borrowings (unsecured)	60	60	—	—
	166	215	1	1

16 Other creditors

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Amounts due within one year				
Trade creditors	529	479	—	—
Amounts owed to subsidiary undertakings			64	64
Corporate taxation	250	254	—	—
Value added and payroll taxes and social security	36	33	—	—
Other creditors*	436	452	—	—
Accruals	188	206	—	—
Dividends to Shareholders	237	214	237	214
	1,676	1,638	301	278
Amounts due after more than one year				
Corporate taxation	—	1	—	—
Other creditors*	12	19	—	—
Grants not yet credited to income	1	2	—	—
	13	22	—	—

*Included in other creditors are amounts totalling £99m (1996 £121m) to meet insurance obligations of the Group's insurance subsidiaries. Other creditors also include costs charged as exceptional items in previous years (Note 4) and accrued pension costs (Note 28).

17 Loans

		Group		Company	
	Repayment Dates	1997 £m	1996 £m	1997 £m	1996 £m
Secured loans					
US Dollars (5.9 to 8%), secured by fixed charge	1998/2012	9	10	–	–
US Dollars (12.3% and 12.7%), secured by fixed charge*	1998/2010	51	–	–	–
Indian Rupees (17.5%), secured by fixed charge		–	2	–	–
Total secured		60	12	–	–
Unsecured loans					
Sterling					
Bank loan – variable rate	1998/2002	7	9	–	–
US Dollars					
Bank loan – variable rate	2001	48	47	–	–
6.3% Guaranteed notes	2003	119	176	–	–
7% Guaranteed debentures	2023	178	174	–	–
6.58% Loan	2003	–	–	178	175
7.2% Loan	2023	–	–	178	174
Others	1998/2013	7	8	–	–
Yen (1.95 to 5%)	1998/2000	28	33	–	–
Other foreign currencies (5.86 to 7.1%)	1998/2003	80	29	–	–
Total unsecured		467	476	356	349
Total loans		527	488	356	349
Loans or instalments thereof are repayable					
After 5 years from balance sheet date		404	368	356	349
From 2 to 5 years		87	91	–	–
From 1 to 2 years		19	17	–	–
Total due after more than one year		510	476	356	349
Total due within one year		17	12	–	–
Total loans		527	488	356	349

Loans from banks included in the table above amounted to £107m (1996 £126m) of which £nil (1996 £2m) was secured. Details in the above tables are shown after reflecting currency and interest rate swaps.

*12.3% and 12.7% represent the interest rates on the nominal value of the loans of US\$ 70m. The loans have been included on the Balance Sheet at fair value, using a discount rate of 8.6%.

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18 Provisions for liabilities and charges

GROUP	Employee benefits* £m	Reorganisation, environmental, and other provisions £m	Total £m
At beginning of year	287	189	476
Profit and loss account	57	23	80
Net amounts paid or becoming current	(58)	(81)	(139)
Other movements, including exchange	1	2	3
At end of year	287	133	420

*Includes provisions for unfunded post-retirement benefits (Note 28).

No provision has been released or applied for any purposes other than that for which it was established.

19 Called-up share capital of parent company

	Authorized 1997 £m	Allotted, called-up and fully paid	
		1997 £m	1996 £m
Ordinary Shares (25p each)	237	237	237
Unissued Ordinary Shares (25p each)	63		
	300	237	237

The number of Ordinary Shares issued during the year totalled 2,146,730, comprising issues in respect of the exercise of options.

At 31 December 1997 there were options outstanding in respect of 2,938,759 Ordinary Shares of 25p under the Zeneca 1993 Senior Staff Share Option Scheme and the Zeneca 1994 Executive Share Option Scheme (1996 4,375,358) and 5,339,936 Ordinary Shares of 25p under the Zeneca Savings-Related Share Option Scheme (1996 4,680,786). These options are normally exercisable in the period 1998 to 2007 (1997 to 2006) at subscription prices of £4.98 to £20.55 (1996 £4.09 to £14.81). The prices of certain of the above options were set relative to ICI options granted to employees in the years prior to demerger. The weighted average subscription price of options outstanding at 31 December 1997 was £11.52.

Options granted to Directors are shown in Note 30.

During 1997 movements in the number of shares under option comprised new options issued 1,593,146, options exercised 2,147,674, and options lapsed, waived, or forfeited 222,921. At the end of 1997 there were 16,133,389 shares available for the granting of options (1996 17,439,212).

20 Reconciliation of movements in shareholders' funds

GROUP	1997 £m	1996 £m
Shareholders' funds at beginning of year	2,034	1,861
Net profit for the financial year	730	643
Dividends	(365)	(332)
	365	311
Issues of Zeneca Group PLC Ordinary Shares	15	2
Goodwill	(192)	(47)
Exchange adjustments on net assets	(63)	(128)
Translation differences on foreign currency borrowings	(3)	46
Tax on translation differences on foreign currency borrowings	1	(15)
Net unrealized holding gains on short-term investments (see Note 14)	1	1
Other movements	2	3
Net addition to shareholders' funds	126	173
Shareholders' funds at end of year	2,160	2,034

21 Reserves

GROUP	Share premium account £m	Merger reserve £m	Goodwill and other reserves £m	Associated under- takings £m	Profit and loss account £m	1997 Total £m	1996 Total £m
At beginning of year	9	285	308	(13)	1,208	1,797	1,624
Profit retained for year				3	362	365	311
Share premiums	15					15	2
Goodwill			(192)			(192)	(47)
Exchange adjustments:							
Goodwill			25		(25)	-	-
Net assets				1	(64)	(63)	(128)
Translation differences on foreign currency borrowings					(3)	(3)	46
Tax on translation differences on foreign currency borrowings					1	1	(15)
			25	1	(91)	(65)	(97)
Net unrealized holding gains on short-term investments			1			1	1
Other movements				(1)	3	2	3
At end of year	24	285	142	(10)	1,482	1,923	1,797

In the Group accounts, exchange losses of £3m (1996 £46m gain) on foreign currency loans have been offset in reserves against exchange movements on the net investment in overseas subsidiaries and associated undertakings.

The movement in goodwill includes £192m (1996 £47m) of goodwill on acquisitions and purchase of minority interest written off against reserves.

The cumulative amount of goodwill resulting from acquisitions, net of disposals, amounted to £1,112m (1996 £945m), using 1997 year end rates of exchange.

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21 Reserves (continued)

There are no significant statutory or contractual restrictions on the distribution of current profits of subsidiary or associated undertakings; undistributed profits of prior years are, in the main, permanently employed in the businesses of these companies.

COMPANY	Share premium account £m	Other reserves £m	Profit and loss account £m	1997 Total £m	1996 Total £m
Reserves					
At beginning of year	9	1,255	211	1,475	1,473
Net profit for the financial year			366	366	332
Dividends			(365)	(365)	(332)
Share premiums	15			15	2
At end of year	24	1,255	212	1,491	1,475

As permitted by section 230 of the Companies Act 1985, the Company has not presented its profit and loss account.

22 Net cash inflow from trading operations

	1997 £m	1996 £m
Operating profit	1,083	1,043
Depreciation	216	217
Stocks increase	(88)	(34)
Debtors increase	(135)	(86)
Creditors increase	169	3
Other non-cash movements	(10)	12
	1,235	1,155

23 Outflow related to exceptional items

This includes expenditure charged to exceptional provisions relating to business rationalization and restructuring including severance and other employee costs.

24 Interest and dividends received

	1997 £m	1996 £m
Interest received	53	52
Dividends received from equity accounted associated undertakings	2	2
	55	54

25 Acquisitions and purchase of minority interest

	Acquiree Book Values £m	Fair Value Adjustments £m	Total £m
Acquisitions			
Tangible fixed assets	2	–	2
Intangible fixed assets	1	(1)	–
Current assets	3	–	3
Liabilities	(3)	–	(3)
Movement in net assets	3	(1)	2
Goodwill			49
Fair value of consideration			51
Cash acquired			(2)
			49
Purchase of minority interest			147
Net cash consideration			196

Assets and liabilities are adjusted to fair values on external valuations and internal reviews. The principal acquisition was the purchase of Mogen International N.V. on 26 June 1997 for a total cost of £48m.

The purchase of minority interest relates to the acquisition of the remaining 50% of Salick Health Care, Inc. (SHC) on 10 April 1997. SHC has been regarded as a subsidiary undertaking and its results have been consolidated into the Group results from 13 April 1995, the date of the acquisition of an initial 50% controlling shareholding.

26 Net cash funds/net debt

The table below provides an analysis of net cash funds/net debt and a reconciliation of net cash flow to movement in net cash funds/net debt.

	At 1 Jan 1997 £m	Cash flow £m	*Other non-cash £m	Exchange movements £m	At 31 Dec 1997 £m
Loans due after 1 year	(476)	–	(34)	–	(510)
Current instalments of loans	(12)	16	(23)	2	(17)
Finance leases	(23)	8	–	(1)	(16)
Total loans and lease finance	(511)	24	(57)	1	(543)
Short-term investments	716	(292)	1	1	426
Cash	259	54	–	(10)	303
Overdrafts	(91)	19	–	3	(69)
Short-term borrowings, excluding overdrafts	(124)	23	–	4	(97)
	760	(196)	1	(2)	563
Net cash funds	249	(172)	(56)	(1)	20
Financing item included in cash movements above					
Issue of shares		(15)			
Net cash outflow before management of liquid resources and financing		(187)			

*Including mortgages taken over on acquisition of a freehold property.

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27 Financing

	<i>Notes</i>	1997 £m	1996 £m
Issue of Zeneca Group PLC Ordinary Shares		15	2
Issue of shares by subsidiaries to minority interests		–	1
Issue of shares	26	15	3
Repayment of lease finance	26	(8)	(7)
New loans	26	–	1
Loans repaid	26	(16)	(22)
Net decrease in short-term borrowings	26	(23)	(14)
		(39)	(35)
Net cash outflow from financing		(32)	(39)

28 Post-retirement benefits

Pensions

The Company, and most of its subsidiaries, operate or participate in retirement plans which cover the majority of employees (including Directors) in the Group. These plans are either defined contribution, where the level of company contribution is fixed at a set level or percentage of an employee's pay, or defined benefit, where benefits are based on employees' years of service and average final remuneration. All plans are, generally, funded through separate trustee-administered funds. The pension cost for the Group's main defined benefit plans is established in accordance with the advice of independent qualified actuaries based on valuations undertaken on varying dates.

With regard to the Group's main UK defined benefit plan, the latest actuarial valuation was carried out at 31 March 1997 and the pension cost assessed using the projected unit credit method. The significant assumptions used in this valuation were that, against a background of long term UK price inflation averaging 4% pa, investment returns would average 8.4% pa, salary increases 6% pa, and pension increases 3.75% pa. The asset valuation model assumes long term dividend growth in UK and overseas equities of 1% pa and 2.5% pa respectively above the rate of inflation. The valuation took account of the consequences of the removal of UK dividend tax relief. The market value of the UK fund's assets at the valuation date was £1,745m, equivalent, after allowing for future increases in earnings and pensions, to 88% of the benefit obligation that had accrued to members at the valuation date. The Company has increased its rate of contribution to the fund in accordance with the actuary's advice. The cost of the deficit is being charged in the accounts as a level percentage of salaries over active members remaining service lives. The actuary estimated that had the Minimum Funding Requirement basis applied, the fund's solvency level would have been 100%.

In total the Group's main defined benefit plans (including the UK plan) held assets at their most recent valuation dates whose market values amounted to £2,243m. After allowing for future increases in earnings and pensions, 90% of the benefit obligation that had accrued to members at the valuation dates was covered by the actuarial value of the assets of the plans and by the value of provisions set aside in subsidiary companies' accounts at the same dates.

The total pension cost for the Group for 1997 was £100m (1996 £109m). In Zeneca's Group balance sheet at 31 December 1997, accrued pension costs amounted to £24m (1996 £21m) and were included in other creditors (Note 16); provisions for unfunded benefit obligations, included in provisions (Note 18) amounted to £92m (1996 £117m). Prepaid pension costs amounting to £20m (1996 £16m) were included in debtors (Note 13).

28 Post-retirement benefits (continued)

Post-retirement benefits other than pensions

In the US, and to a lesser extent in some other countries, Zeneca's employment practices include the provision of healthcare and life insurance benefits for retired employees. Some 6,200 retired employees and covered dependants currently benefit from these provisions and some 9,300 current employees will be eligible on retirement. Zeneca accrues for the present value of such retiree benefit obligations over the working life of the employee.

The cost of post-retirement benefits other than pensions for the Group in 1997 was £14m (1996 £11m). Provisions for the benefit obligations at 31 December 1997 amounted to £147m, of which £140m was included in provisions for employee benefits (Note 18) and £7m was included in other creditors (Note 16). Other than this provision there were no plan assets at 31 December 1997. The future costs of benefits are assessed in accordance with the advice of independent qualified actuaries and are based on a weighted average discount rate of 7% and a weighted average assumed healthcare costs trend rate of 8% reducing to 5% per annum.

29 Employee costs and share schemes

The average number of people employed by the Group in 1997 was 31,400 (1996 31,100) and the costs incurred during the year in respect of these employees were:

	1997 £m	1996 £m
Salaries	926	966
Social security costs	113	122
Pension costs	100	109
Other employment costs	77	100
	1,216	1,297

The Directors believe that, together with the basic salary system, the Group's employee incentive schemes should provide a competitive and market-related package to motivate employees. They should also align the interests of employees with those of shareholders, as a whole, through long-term share ownership in the Company. The Group's UK schemes are described below; other arrangements apply outside the UK.

The Zeneca Employee Performance Bonus Plan

A discretionary bonus scheme based on the Group's trading results, related to the achievement of performance targets at both individual business unit and Zeneca Group overall levels.

Employees are offered the opportunity to take any bonus that may be payable under the scheme in the form of cash or of Ordinary Shares in the Company through a share retention scheme.

The Zeneca Executive Performance Bonus Plan

A similar bonus scheme and share retention scheme for senior employees who do not participate in the Zeneca Employee Performance Bonus Plan. An outline of this plan is given in the Report of the Remuneration and Nomination Committee on page 36. Bonuses for senior employees, as well as reflecting corporate and business performance, can also be affected (both up and down) by individual performance.

The Zeneca 1994 Executive Share Option Scheme

Options to subscribe for Ordinary Shares in the Company may be granted to selected qualifying employees. The Remuneration and Nomination Committee is responsible for the Scheme and a brief description is also included in their Report on page 37. In particular, it sets performance conditions for the exercise of options from time to time. The initial performance condition is that earnings per share should show growth of at least 1.25 times the UK Retail Price Index over a three year period.

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29 Employee costs and share schemes (continued)

The Zeneca Savings Related Share Option Scheme

Employees may make regular monthly savings contributions over a three or five year period and may apply for options to acquire Zeneca shares at a 10% discount to market price at the time of grant.

30 Directors' interests in shares and debentures

The interests at 31 December 1997 of the persons who on that date were Directors (including the interests of their families) in shares and debentures of the Company and its subsidiaries are shown below, all of which were beneficial.

	Interest in Ordinary Shares, including shares held in trust, at 1 January 1997 or appointment date	Shares held in trust at 1 January 1997 or appointment date	Net shares acquired	Interest in Ordinary Shares, including shares held in trust, at 31 December 1997	Shares held in trust at 31 December 1997
Sir Sydney Lipworth	5,000			5,000	
Sir David Barnes	96,339	14,276	111,444	207,783	25,720
P. Doyle	16,714	8,270	46,062	62,776	14,482
T. F. W. McKillop	18,842	11,996	38,196	57,038	23,644
A. I. H. Pink	20,310	18,746	65,649	85,959	25,502
M.P. Pragnell	3,990	3,490	3,268	7,258	6,758
J. R. Symonds			2,950	2,950	
Sir Peter Bonfield	500			500	
Sir Richard Greenbury	500			500	
F. L. V. Meysman	500			500	
Sir Jeremy Morse	2,387			2,387	
Dame Bridget Ogilvie	500			500	
T. H. Wyman	656			656	

Shares held in trust above are long-term incentive bonus shares appropriated under the Zeneca Executive Performance Bonus Plan which have not yet been released. During the period 1 January 1998 to 4 March 1998 there was no change in the interests of Directors shown in this note. In the event that Ordinary Shares are appropriated in 1998 to Directors pursuant to the Executive Performance Bonus Plan in respect of the year to 31 December 1997 the Directors would have an interest in such appropriated shares.

The interests of Directors in options to subscribe for Ordinary Shares of the Company, which include options granted under the Savings Related Share Option Scheme, together with options granted and exercised during the year are included in the table opposite.

30 Directors' interests in shares and debentures (continued)

		No. of Shares Under Option	Exercise price per share ⁺	Market price at date of exercise	First date exercisable [*]	Last date exercisable [*]
Sir David Barnes	At 1 Jan 1997	270,209	782p		24.06.93	28.03.06
	Exercised	77,498	568p	1776p	24.06.93	28.03.99
	Exercised	28,596	526p	1776p	24.06.93	27.03.00
	Exercised	18,425	498p	1776p	03.04.94	23.06.00
	At 31 Dec 1997	145,690	983p		28.05.95	28.03.06
P. Doyle	At 1 Jan 1997	156,979	737p		24.06.93	28.03.06
	Granted	24,885	1740p		04.04.00	03.04.07
	Granted	551	1933p		14.08.00	13.08.07
	Exercised	72,111	568p	1837.5p	24.06.93	28.03.99
	Exercised	23,200	588p	1837.5p	24.06.93	30.05.99
	Exercised	2,850	748p	1926p	05.04.97	04.04.04
	At 31 Dec 1997	84,254	1227p		27.03.98	13.08.07
J.C. Mayo	At 1 Jan 1997	175,267	716p		22.03.96	28.03.06
	Granted	31,960	1740p		04.04.00	03.04.07
	Exercised	104,487	574p	1837.5p	22.03.96	23.06.00
	Exercised	24,200	630p	1837.5p	24.06.96	23.06.03
	Exercised	10,000	748p	1940.5p	05.04.97	04.04.04
	Cancelled	31,960	1740p		04.04.00	03.04.07
	At date of resignation	36,580	1168p		01.10.97	11.09.00
T. F. W. McKillop	At 1 Jan 1997	136,905	845p		24.06.93	28.03.06
	Granted	22,109	1740p		04.04.00	03.04.07
	Exercised	30,423	568p	1837.5p	24.06.93	28.03.99
	Exercised	12,421	498p	1837.5p	03.04.94	23.06.00
	Exercised	11,182	664p	1837.5p	28.05.95	27.05.02
	Exercised	9,600	630p	1837.5p	24.06.96	23.06.03
	At 31 Dec 1997	95,388	1229p		05.04.97	03.04.07
A. I. H. Pink	At 1 Jan 1997	176,970	701p		24.06.93	28.03.06
	Granted	33,558	1740p		04.04.00	03.04.07
	Granted	1,209	1933p		14.08.00	13.08.07
	Exercised	34,727	568p	1837.5p	24.06.93	28.03.99
	Exercised	31,278	588p	1837.5p	24.06.93	30.05.99
	Exercised	24,663	620p	1837.5p	24.06.93	30.08.99
	Exercised	13,469	526p	1837.5p	24.06.93	27.03.00
	Exercised	12,421	498p	1837.5p	03.04.94	23.06.00
	Exercised	1,035	664p	1837.5p	28.05.95	27.05.02
	Exercised	21,300	630p	1837.5p	24.06.96	23.06.03
	Exercised	6,250	748p	1790p	05.04.97	04.04.04
	At 31 Dec 1997	66,594	1491p		27.03.98	13.08.07
M. P. Pragnell	At 1 Jan 1997	71,279	1034p		06.04.98	28.03.06
	Granted	24,138	1740p		04.04.00	03.04.07
	At 31 Dec 1997	95,417	1213p		06.04.98	03.04.07
J. R. Symonds	At 1 Oct 1997	-				
	Granted	30,656	2055p		01.10.00	30.09.07
	At 31 Dec 1997	30,656	2055p		01.10.00	30.09.07

⁺Exercise prices at 1 January and 31 December are weighted averages.

^{*}First and last exercise dates of groups of options, within which periods there are shorter exercise periods.

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30 Directors' interests in shares and debentures (continued)

The aggregate amount of gains made by Directors on the exercise of share options during the year amounted to £7m (1996 £nil). The market price of the shares at 31 December 1997 was 2141p and the range during 1997 was 1594p to 2265p. The Register of Directors' Interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe.

31 Emoluments of Directors

The total emoluments of the Directors of the Company for the year are set out below.

	Salary and fees £'000	Bonuses Cash £'000	Shares* £'000	Taxable benefits £'000	Other† £'000	Total 1997 £'000	Total 1996 £'000
Sir Sydney Lipworth	165			1		166	151
Sir David Barnes	590	15	30	10		645	852
P. Doyle	325	8	16	13		362	468
J. C. Mayo	266	13		16	169	464	577
T. F. W. McKillop	335		84	11		430	487
A. I. H. Pink	355	9	18	12		394	508
M. P. Pragnell	285		14	11		310	—
J. R. Symonds	79		8	3		90	—
Sir Peter Bonfield	27					27	24
Sir Richard Greenbury	32					32	28
F. L. V. Meysman	27					27	5
Sir Jeremy Morse	27					27	24
Dame Bridget Ogilvie	27					27	—
T. H. Wyman	32					32	43
Former Directors							8
	2,572	45	170	77	169	3,033	3,175

Details of share options granted to, and exercised by, Directors and the aggregate of gains realised on exercised options in the year are given in Note 30.

*The figures stated above include the cost to the Company of providing the matching contribution of shares in respect of that part of the bonus which is to be taken in shares by each Director. All such shares are held in trust and will be released to each Director upon fulfilment of the conditions and under the terms of the plan described on page 36 as part of the Report of the Remuneration and Nomination Committee.

†Payment related to the conversion of an unfunded pension promise with regard to earnings above the earnings cap into a funded unapproved retirement benefit (FURB).

31 Emoluments of Directors (continued)

Directors' Pension Entitlement (per annum)	Sir David Barnes £'000	P Doyle £'000	T F W McKillop £'000	A I H Pink £'000	J C Mayo £'000	M P Pragnell £'000	J R Symonds £'000
Defined Benefit Arrangements							
1. Accrued pension at 1 January 1997	375	189	146	190	56		
2. Transfer to a money purchase arrangement					(35)		
3. Increase in accrued pension during year as a result of inflation	44*	7	5	6	–		
4. Adjustment to accrued pension as a result of salary increase relative to inflation	2	19	21	21	1		
5. Increase in accrued pension as a result of additional year's service	13	8	8	8	2		
6. Accrued pension at 31 December 1997 or date of leaving service	434	223	180	225	24		
7. Employee contributions during year	–	13	13	14	9		
8. Age at 31 December 1997 (years)	61 ⁹ / ₁₂	59 ³ / ₁₂	54 ³ / ₁₂	59 ¹⁰ / ₁₂			
9. Pensionable service (years)	40 ¹ / ₁₂	34 ⁴ / ₁₂	28 ³ / ₁₂	35 ³ / ₁₂			
Money Purchase Arrangements							
Company contributions paid					277	95	8

*Includes late retirement uplift

In common with other senior employees in the UK who are members of the Zeneca Pension Fund, the normal pension age for each Director is 62. However, their accrued pension is available from age 60 without any actuarial reduction. In addition, the accrued pension is available, unreduced, from age 50 if the Company consents to a request for early retirement.

On the death of a former senior employee in retirement, the accrued pension shown is guaranteed payable for the first five years of retirement and then reduces to two thirds of this amount should there be a surviving spouse or other dependant. Under the Rules of the Zeneca Pension Fund any member may choose higher or lower levels of survivor's pensions at retirement, subject to Inland Revenue limits, in return for an adjustment to their own pension of equivalent actuarial value. Pensions are also payable to dependant children.

In the event of a senior employee becoming incapacitated from performing his work then a pension is payable immediately as if such person had reached normal retirement age, based on current pensionable salary.

In the event of death prior to retirement, dependants are entitled to a pension of two thirds of the pension that would have been earned had such person remained in service to age 62 plus a capital sum of four times pensionable pay.

Pensions in payment are increased annually in line with inflation, as measured by the Retail Price Index, up to a maximum of 5%.

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32 Commitments and contingent liabilities

	1997 £m	1996 £m
Contracts placed for future capital expenditure not provided for in these accounts	186	205

Included in the above total are contracts related to certain product purchase and licence agreements with deferred consideration obligations, the amount of which is variable depending upon particular 'milestone' achievements. Sales of the products to which these 'milestones' relate could give rise to additional payments, contingent upon the sales levels achieved. Guarantees and contingencies arising in the ordinary course of business, for which no security has been given, are not expected to result in any material financial loss.

In addition to the above, on 17 December 1997, Zeneca announced agreement subject to regulatory approval to acquire Ishihara Sangyo Kaisha Ltd's US based worldwide chlorothalonil business and international distribution rights outside Asia Pacific to four other agrochemical products for an anticipated purchase price of US\$ 500 million (£301m at £1 = \$1.66). The acquisition was completed on 4 February 1998.

On 8 December 1997, Zeneca gave notice of termination of the pharmaceuticals distribution agreement between it and ICI Australia Ltd (now called Orica Ltd). The agreement provides for Zeneca to make Orica Ltd a payment, the amount of which will be determined by independent valuation, by way of compensation for termination and for the assets of the business to be transferred.

Financial instruments

At 31 December 1997, Zeneca had outstanding forward foreign exchange contracts to sell currency with nominal principal amounts of £452m (1996 £380m) for the purpose of hedging non-sterling commercial transactions which existed at the date of the balance sheet. At that date, Zeneca also had entered into contracts to buy currency and sell sterling to a value of £230m to partially hedge the cost of acquisitions in progress. The majority of the contracts, which were arranged with commercial banks, had a maturity of six months or less from that date. At 31 December 1997, the Group held interest and cross currency swaps totalling £126m (1996 £76m) which were arranged with commercial banks for the purpose of hedging interest rate and currency movements on external borrowings.

Zeneca has also entered into forward foreign exchange and currency option contracts to hedge anticipated, but not firmly committed, non-sterling commercial transactions for 1998. The contracts were arranged with commercial banks. In relation to these Zeneca had, at 31 December 1997, outstanding forward foreign exchange contracts to sell currency with a notional principal value of £99m (1996 £142m) equivalent, and currency option contracts to sell with a notional principal value of £552m (1996 £401m) equivalent. Gains and losses on these transactions are recognised in income in the same period as the hedged transaction.

Environmental

Zeneca has environmental liabilities at some currently or formerly owned, leased and third party sites in the US. Zeneca, or its indemnitees, have been named under US legislation as potentially responsible parties ('PRP') in respect of a considerable number of sites (although Zeneca expects to be indemnified against liabilities associated with certain of these sites by the seller of the businesses associated with such sites) and actively participates in, or monitors, the clean-up activities of sites at which it is a PRP. Stauffer Management Company, a subsidiary of the Company, established in 1987 to own and manage certain assets and liabilities of Stauffer Chemical Company, which was acquired that year, has identified a number of environmentally impaired sites for which it may have responsibility that will, in aggregate, require significant expenditure on clean-up and monitoring.

The requirement in the future for Zeneca ultimately to take action to correct the effects on the environment of prior disposal or release of chemical substances by Zeneca or other parties, and its cost, pursuant to environmental laws and regulations, is inherently difficult to estimate. The Group has provisions at 31 December 1997 in respect of such costs in accordance with the accounting policy on page 44. Although there can be no assurance, management believes that,

32 Commitments and contingent liabilities (continued)

taking account of these provisions, the cost of addressing currently identified environmental obligations, as Zeneca currently views these obligations, is unlikely to impair materially Zeneca's financial position. Such contingent costs, to the extent that they exceed applicable provisions, could have a material adverse effect on Zeneca's results of operations for the relevant period.

Litigation

In December 1994 Zeneca brought patent infringement proceedings, under its US patent for its breast cancer medicine, 'Nolvadex', against the Canadian generic drug company, Novopharm Limited ('Novopharm'). The suit was brought as a result of Novopharm filing an Abbreviated New Drug Application (ANDA) with the US FDA seeking to enable it to commercialise a generic version of 'Nolvadex'. Judgement was entered in Zeneca's favour in April 1996. Novopharm appealed and in April 1997, the US Court of Appeals for the Federal Circuit affirmed the judgement, holding Zeneca's 'Nolvadex' patent valid and enforceable.

In January and February 1996 Zeneca received separate notifications that each of Mylan Pharmaceuticals Inc. ('Mylan') and Pharmachemie B.V. ('Pharmachemie') respectively had filed an ANDA with the US FDA to commercialise a generic version of 'Nolvadex' and asserting that Zeneca's relevant patent property was invalid and unenforceable. Zeneca completely disputes the position taken by Mylan and Pharmachemie and has initiated separate patent infringement proceedings against Mylan and Pharmachemie. Both matters are pending.

Proceedings brought against Zeneca Inc. in the US by Schering Corporation ('Schering') alleging that use of Zeneca's prostate cancer product 'Casodex' in association with LHRH analogues infringed patent property owned jointly by Schering and Roussel UCLAF S.A. ('Roussel') ended in partial summary judgement in favour of Zeneca. The decision was affirmed on appeal by the US Court of Appeals for the Federal Circuit thus confirming Zeneca's right to sell 'Casodex' in LHRH combination therapy.

The Group has provisions as at 31 December 1997 in respect of costs associated with the proposed settlement of certain anti-trust class actions against more than 20 major drug manufacturers including Zeneca Inc. While Zeneca has consistently denied liability and continues to believe it has meritorious defences to these claims, it has concluded that settling certain of these actions where appropriate is the prudent course of action given the inherent risks and costs of litigation and to avoid further business disruption.

Zeneca is also involved in various other legal proceedings, which include some remaining consumer and retail pharmacy anti-trust class and individual retail pharmacy actions in the US outside the scope of the settlements described above, and other litigation considered typical to its businesses, covering product liability, infringements of intellectual property rights and validity of certain patents.

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Notes relating to the accounts

33 Leases

The total rentals under operating leases, charged as an expense in the profit and loss account, are disclosed below.

	1997 £m	1996 £m
Rentals under operating leases	22	22
Commitments under leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which each lease expires.		
Obligations under operating leases comprise		
Land and buildings		
Expiring within 1 year	2	2
Expiring during years 2 to 5	4	10
Expiring thereafter	6	7
	12	19
Other assets		
Expiring within 1 year	2	3
Expiring during years 2 to 5	7	6
Expiring thereafter	1	2
	10	11
Obligations under finance leases comprise		
Rentals due within 1 year	5	8
Rentals due during years 2 to 5	9	13
Rentals due thereafter	8	9
Less interest element	(6)	(7)
	16	23

The Group had no commitments (1996 £nil) under finance leases at the balance sheet date which were due to commence thereafter.

34 Statutory and other information

Included in debtors are interest free loans of £18,000 to two officers of the Company. These loans are provided in accordance with the Company's policy of providing relocation assistance to staff who have been transferred. One officer also leases a car from the company in accordance with the local benefit arrangements of the country in which he is located. Payments under the lease in 1997 amounted to £7,000.

Remuneration of auditors for the statutory audit charged in the Group accounts for 1997 was £2.3m (1996 £2.3m) and that for the Company was £1,000 (1996 £1,000). Fees paid to the auditors of the parent Company and to their associates for non-statutory 'audit' work, accounting, information systems, project support and taxation advice to the parent Company and its UK subsidiaries were £1.6m (1996 £3.3m). Other fees paid to affiliates of the auditors of the parent Company worldwide amounted to £0.9m (1996 £0.7m).

The Group had no material related party transactions which might reasonably be expected to influence decisions made by the users of these financial statements.

Principal subsidiary and associated undertakings

At 31 December 1997	Class of capital	Percentage of voting share capital held	Principal activity
United Kingdom			
Zeneca Limited England	Ordinary	100#	Research and manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchandising of Zeneca products
Zeneca Insurance Company Limited England	Ordinary	100	Insurance and reinsurance underwriting
Continental Europe			
Zeneca Pharma S.A. France	Ordinary	100	Research, manufacture and merchandising of pharmaceuticals
Zeneca Holding GmbH Germany	Ordinary	100	Manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchandising of Zeneca products
Zeneca S.p.a. Italy	Ordinary	100	Manufacture of pharmaceuticals; merchandising of Zeneca products
Stauffer Chemical B.V. The Netherlands	Common	100	Manufacture of agrochemicals
Advanta B.V. The Netherlands	Ordinary	50†	Processing and merchandising of seeds
The Americas			
Zeneca Brasil Ltda. Brazil	Ordinary	100	Manufacture of agrochemicals and specialty chemicals; merchandising of Zeneca products
Zeneca Holdings Inc. USA	Common	100	Manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchandising of Zeneca products
IPR Pharmaceuticals Inc. Puerto Rico	Common	100	Manufacture of pharmaceuticals
Salick Health Care, Inc. USA	Common	100	Provision of disease-specific healthcare services
Asia, Africa & Australasia			
Zeneca China Limited Hong Kong	Ordinary	100	Merchandising of Zeneca products
Zeneca Yakuhin K.K. Japan	Ordinary	60	Merchandising of pharmaceutical products
Zeneca K.K. Japan	Ordinary	100	Manufacture of pharmaceuticals; merchandising of Zeneca products
#shares held directly	†equity accounted associated undertaking		

The companies listed above are those whose results or financial position principally affected the figures shown in the Group's annual accounts. A full list of subsidiaries and associated undertakings will be annexed to the Company's next annual return filed with the Registrar of Companies. The country of registration or incorporation is stated below each company. The accounting dates of principal subsidiary and associated undertakings are 31 December, except for Salick Health Care, Inc. which is 30 November. Zeneca operates through 196 subsidiary companies. Products are manufactured in some 21 countries worldwide and are sold in well over 100 countries.

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Group financial record

For the years ended 31 December	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m
Turnover and profits					
Turnover	4,440	4,480	4,898	5,363	5,194
Operating profit before exceptional items	704	797	894	1,043	1,083
Exceptional items charged to operating profit	–	(138)	(65)	–	–
Operating profit after exceptional items	704	659	829	1,043	1,083
Profit on ordinary activities before interest	721	697	638	988	1,091
Net interest payable	(88)	(38)	(19)	(13)	(10)
Profit on ordinary activities before taxation	633	659	619	975	1,081
Net profit for the financial year	431	443	336	643	730
Dividends to Shareholders	(260)	(270)	(293)	(332)	(365)
Return on sales					
Operating profit before exceptional items as a percentage of sales	15.9%	17.8%	18.3%	19.4%	20.9%
Balance sheets					
Fixed assets	1,684	1,733	1,905	1,847	2,032
Fixed asset investments	26	39	40	118	122
Current assets	3,309	2,909	3,148	3,035	2,856
Total assets	5,019	4,681	5,093	5,000	5,010
Creditors due within one year	(2,360)	(1,896)	(2,024)	(1,870)	(1,863)
Total assets less current liabilities	2,659	2,785	3,069	3,130	3,147
Creditors due after more than one year	587	552	567	516	535
Provisions for liabilities and charges	501	490	537	476	420
Minority equity interests	72	58	104	104	32
Shareholders' equity	1,499	1,685	1,861	2,034	2,160
	2,659	2,785	3,069	3,130	3,147
Capital gearing					
Net debt as a percentage of shareholders' funds	13.1%*	0.8%*	1.6%*	–*	–
Cash flow					
Net cash inflow from operating activities	833	872	956	1,079	1,169
Returns on investments and servicing of finance	(141)	(46)	(25)	(24)	(56)
Taxation	(116)	(163)	(278)	(290)	(320)
Capital expenditure and financial investment	(296)	(301)	(280)	(372)	(443)
Acquisitions and disposals	40	89	(125)	146	(196)
Dividends paid to Shareholders	(99)	(263)	(274)	(305)	(341)
Net cash flow before management of liquid resources and financing	221	188	(26)	234	(187)
Management of liquid resources and financing	447 ⁺	(233)	33	(133)	260
Increase (decrease) in cash	668 ⁺	(45)	7	101	73

FRS 1 (Revised 1996) has been adopted from 1996. ⁺Reflects movement in cash and cash equivalents as the relevant information to calculate the increase in cash as defined in the new Standard is not available.

*Net debt has been restated to include finance lease obligations.

Zeneca share information

	1993	1994	1995	1996	1997
Ordinary Shares in issue – millions					
At year end	945	946	947	947	949
Weighted average for year	850	946	946	947	948
Stock Market price – per 25p Ordinary Share	Pence	Pence	Pence	Pence	Pence
Highest	841.5	898.5	1334.0	1758.5	2265.0
Lowest	594.5	674.5	841.5	1227.0	1594.0
At year end	840.5	878.5	1246.0	1647.5	2141.0
Earnings per 25p Ordinary Share before exceptional items	48.9	55.2	62.0	70.6	77.0
Earnings per 25p Ordinary Share	50.7	46.8	35.6	67.8	77.0
Dividends (net of tax credit)	27.5	28.5	31.0	35.0	38.5

Additional information for US investors

Differences between United Kingdom and United States accounting principles

The Group's financial statements are prepared in accordance with generally accepted accounting principles applicable in the United Kingdom (UK GAAP), which differ in certain significant respects from those applicable in the United States (US GAAP). The following are the main differences which are relevant to the Group's financial statements.

Capitalization of interest

Interest incurred as part of the cost of constructing fixed assets is capitalized and amortized over the life of the asset under US GAAP. In accordance with common UK practice, Zeneca does not capitalize such interest in its financial statements.

Dividends

Under UK GAAP ordinary share 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.

Deferred taxation

Deferred taxation is provided on a full liability basis under US GAAP; in the UK no provision is made for taxation deferred by reliefs unless there is reasonable evidence that such deferred taxation will be payable in the foreseeable future.

Goodwill

Under US GAAP goodwill arising on acquisitions accounted for under the purchase method is capitalized and amortized over its estimated useful life. Goodwill is amortized using the straight line method over periods up to 40 years. Goodwill is computed under US GAAP after ascribing fair values to all assets acquired including identifiable intangible assets, which are amortized over their useful lives. In the UK the normal practice up to and including 1997 is for goodwill and intangible assets which are inseparable from the business to be eliminated immediately upon acquisition against income retained and other reserves.

Pension expense

UK and US pension expense accounting standards differ notably in the permitted valuation methods and in the way surpluses and deficits are accounted for. In addition, under UK GAAP assets are valued at the discounted present value of income streams whilst under US GAAP market related values are used.

Restructuring costs

Under US GAAP the criteria for recognition of restructuring costs, particularly employee termination benefits, are more restrictive than under UK GAAP.

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Additional information for US investors (continued)

Foreign exchange

Under UK GAAP unrealized gains and losses on foreign currency transactions to hedge anticipated, but not firmly committed, foreign currency transactions may be deferred and accounted for at the same time as the anticipated transactions. Under US GAAP such deferral is not permitted except in certain defined circumstances.

Statement of consolidated income and balance sheet

Set out below is a summarised version of the UK GAAP financial statements using a format and terminology customary in the US. These have been prepared from, and should be read in conjunction with, the audited results of the Group. Each statement is followed by details of the adjustments necessary to restate net income and shareholders' equity to US GAAP. For convenience only, sterling figures have been translated into US dollars at the 31 December 1997 rate of £1 = \$1.66.

	Years ended 31 December			
	1997 £m	1996 £m	1997 \$m	1996 \$m
Summarised income statement				
Sales	5,194	5,363	8,622	8,903
Operating income	1,083	1,043	1,798	1,731
Income from ordinary activities before interest	1,091	988	1,811	1,640
Net interest expense	(10)	(13)	(17)	(22)
Income from ordinary activities before taxation	1,081	975	1,794	1,618
Taxes on income from ordinary activities	(345)	(320)	(572)	(531)
Income from ordinary activities after taxation	736	655	1,222	1,087
Income attributable to minorities	(6)	(12)	(10)	(20)
Net income (UK GAAP)	730	643	1,212	1,067
Adjustments to conform to US GAAP				
Capitalization, less disposals and amortization of interest	3	(5)	5	(8)
Deferred taxation	12	(6)	20	(10)
Pension expense	10	(15)	17	(25)
Post-retirement benefits/plan amendment	3	3	5	5
Purchase accounting adjustments, including goodwill and intangibles	(49)	(34)	(82)	(57)
Restructuring costs	–	(14)	–	(23)
Unrealized gains on foreign exchange	(12)	12	(20)	20
	(33)	(59)	(55)	(98)
Net income in accordance with US GAAP	697	584	1,157	969
Net income (US GAAP) per Ordinary Share (basic)	73.5p	61.7p	+\$3.66	+\$3.07
Net income (US GAAP) per Ordinary Share (diluted)	73.2p	61.5p	+\$3.65	+\$3.06
Dividends per 25p Ordinary Share	38.5p	35.0p	+\$2.40	+\$2.18

*Per American Depositary Share (ADS). On the basis of three Zeneca Ordinary Shares being represented by each ADS.

The Board have approved a change in ratio of Ordinary Shares to American Depositary Shares from 3:1 to 1:1. The record date for the change in ratio will be 30 March 1998 and the effective date for this change will be 8 April 1998.

The current income tax convention between the UK and the USA includes provisions which entitle qualifying US resident ADS holders to a refund of the UK tax credit of 20/80ths attaching to the dividend less a 15% withholding tax charged on the sum of the dividend and the credit. Subject to certain limitations the withholding tax may be offset against US federal taxes on certain overseas income. For ADS holders able to benefit fully under these arrangements the dividend of 38.5 pence per Ordinary Share would represent \$2.40 per ADS using the conversion rate of £1 = \$1.66. The UK tax credit of 20/80ths is based on the lower rate of income tax prevailing in the UK on 4 March 1998, the date on which the Zeneca Group audited financial statements were signed.

Summarised consolidated balance sheet	At 31 December			
	1997 £m	1996 £m	1997 \$m	1996 \$m
UK Basis				
Assets				
Current assets				
Cash and marketable securities	729	975	1,210	1,619
Receivables	1,399	1,379	2,322	2,289
Inventories	728	681	1,209	1,130
Total current assets	2,856	3,035	4,741	5,038
Other assets: non-current investments	122	118	203	196
Property, plant and equipment (net of depreciation)	1,951	1,822	3,239	3,025
Intangible assets	81	25	134	41
Total assets	5,010	5,000	8,317	8,300
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	1,680	1,643	2,789	2,727
Short-term debt	166	215	276	357
Long-term debt due within one year	17	12	28	20
Total current liabilities	1,863	1,870	3,093	3,104
Long-term debt not due within one year	510	476	847	790
Other liabilities and deferred income	445	516	738	857
Minority interests	32	104	53	173
Shareholders' equity	2,160	2,034	3,586	3,376
Issued Shares	237	237	393	393
Premiums paid in excess of par value	24	9	40	15
Merger reserve	285	285	473	473
Income retained and other reserves	1,614	1,503	2,680	2,495
Total liabilities and shareholders' equity (UK basis)	5,010	5,000	8,317	8,300
Total shareholders' equity (UK basis)	2,160	2,034	3,586	3,376
Adjustments to conform to US GAAP				
Capitalization, less disposals and amortization of interest	104	101	173	168
Dividends	237	214	393	355
Deferred taxation	(40)	(45)	(66)	(74)
Pension expense	(113)	(121)	(188)	(201)
Post-retirement benefits/plan amendment	(28)	(30)	(46)	(50)
Purchase accounting adjustments, including goodwill and intangibles	713	600	1,183	996
Unrealized gains on foreign exchange	-	12	-	20
	873	731	1,449	1,214
Shareholders' equity in accordance with US GAAP	3,033	2,765	5,035	4,590

Shareholder Information

Shareholders

Percentage analysis at 31 December of issued share capital

By fund type	1997	1996	By size of account No. of shares	1997	1996
Pension funds	40.6	42.3	1 – 250	1.2	1.2
Insurance funds	13.2	13.4	251 – 500	2.1	2.2
Overseas institutions	14.7	11.7	501 – 1,000	3.1	3.3
Unit trusts	8.0	7.6	1,001 – 5,000	4.8	5.1
	76.5	75.0	5,001 – 10,000	0.7	0.7
Others	9.3	9.7	10,001 – 50,000	2.6	2.8
Holdings 50,000 shares or less	14.2	15.3	50,001 – 1,000,000	24.2	24.1
			over 1,000,000	61.3	60.6
Issued share capital	100.0	100.0	Issued share capital	100.0	100.0

At 31 December 1997, Zeneca Group PLC had 218,805 registered holders of 949,061,853 Ordinary Shares of 25 pence each. In addition there were approximately 10,600 holders of American Depositary Receipts representing 3.43 per cent of the issued share capital. The ADRs, each of which is equivalent to three Ordinary Shares, are issued by Morgan Guaranty Trust Company of New York.

Substantial shareholdings

On 2 March 1998 (less than one month prior to the date of the Notice of Annual General Meeting) The Capital Group Companies, Inc., had disclosed an interest in 38,635,130 Ordinary Shares of the Company, being 4.07% of the issued Ordinary Share capital in accordance with the requirements of Sections 198-208 of the Companies Act 1985. No other person held a notifiable interest in shares, comprising 3% or more of the issued Ordinary Share capital of the Company, appearing in the register of interests in shares maintained under the provisions of Section 211 of the Companies Act 1985.

Dividend payments

The record date for the second interim dividend payable on 5 May 1998 (in the UK) and 12 May 1998 (in the US) is 20 March 1998. Shares will trade ex-dividend on the London Stock Exchange from 16 March 1998. ADRs will trade ex-dividend on the New York Stock Exchange from 18 March 1998. Future dividends will normally be paid as follows:

First interim: Announced in early August and paid in November
 Second interim: Announced in early March and paid in May

Results

Unaudited trading results of Zeneca Group PLC are published six monthly, and in respect of the first six months of 1998, on 6 August 1998.

Capital gains tax base cost of shares at demerger

Shares in Zeneca Group PLC acquired on demerger from ICI will be treated as having a base cost for capital gains tax purposes ascertained by reference to the values of Zeneca and ICI Shares on 1 June 1993 calculated in accordance with the provisions of Section 272 of the Taxation of Chargeable Gains Act 1992. The base cost of any holding of ICI Shares on that date will be adjusted on the same basis. The relevant prices on The London Stock Exchange on 1 June 1993 were: Zeneca – 625.75p and ICI – 631.75p. The base cost of the pre-demerger ICI Shares will therefore be split between the post-demerger Zeneca and ICI Shares in the proportion: Zeneca – 0.49761 and ICI – 0.50239.

Registrar and Transfer Office

The Zeneca Registrar
 Lloyds Bank Registrars
 The Causeway
 Worthing
 West Sussex BN99 6DA
 Telephone (01903) 502541

Depository for ADRs

Morgan Guaranty Trust Company of New York
 60 Wall Street
 New York
 New York 10260
 Telephone (212) 648 3208

Zeneca Pharmaceuticals

Major products and developments: mode of action and indication

Oncology

Zoladex – LHRH (Luteinising Hormone Releasing Hormone) analogue for prostate cancer, pre- and peri-menopausal breast cancer, certain benign gynaecological disorders, eg endometriosis, uterine fibroids and endometrial thinning

Nolvadex – cytostatic hormone, anti-oestrogen for breast cancer

Casodex – oral anti-androgen for prostate cancer

Arimidex – aromatase inhibitor for breast cancer

Tomudex – thymidylate synthase inhibitor for colo-rectal cancer

Faslodex – selective anti-oestrogen for breast cancer, in Phase III clinical development, and in Phase II development for gynaecology indications

Specialist/Hospital Care

Diprivan – intravenous anaesthetic for induction and maintenance of anaesthesia, sedation of adult intensive care patients

Seroquel – dopamine and serotonin antagonist for schizophrenia and other psychotic disorders

Merrem/Meronem – broad spectrum injectable antibiotic for use against a wide range of infections (licensed from Sumitomo Pharmaceuticals Co Limited)

Hibitane – hospital skin antiseptic

Apatef* – antibiotic for serious bacterial infections (licensed from Yamanouchi Pharmaceutical Co., Ltd)

Primary Care

Zestril – ACE (Angiotensin Converting Enzyme) inhibitor for hypertension, congestive heart failure and for use within 24 hours of a heart attack (under licence from Merck & Co Inc)

Zestoretic – ACE inhibitor/diuretic for hypertension (under licence from Merck & Co Inc)

Tenormin – beta blocker for hypertension, angina and other cardiovascular uses

Tenoretic – combination beta blocker/diuretic for hypertension, IHD

Inderal – beta blocker for hypertension, angina and other uses

Sular* – calcium channel blocker for hypertension (licensed from Bayer A.G. for sale in a number of world markets)

Accolate – oral leukotriene receptor antagonist for mild to moderate asthma

Zomig – a 5-HT_{1D} agonist for the acute treatment of migraine

* Sular is a trade mark owned by Bayer A.G.

* Apatef is a trade mark owned by Yamanouchi Pharmaceutical Co., Ltd.

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