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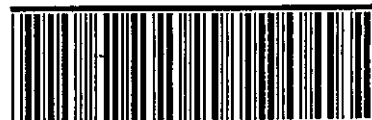
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Zeneca Group PLC

Group Accounts

For the year ended 31 December 1996

ZENECA



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COMPANIES HOUSE 28/07/97

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ACCOUNTS

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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 of the Group 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

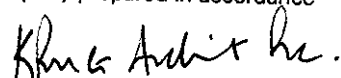
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

10 March 1997



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

FINANCIAL STATEMENTS

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 December

	Notes	1996 £m	1995 £m
Turnover		5,363	4,898
Operating costs	2	(4,421)	(4,175)
Ongoing		(4,421)	(4,110)
Exceptional	4	–	(65)
Other operating income	2	101	106
Operating profit	2	1,043	829
Operating profit before exceptional items		1,043	894
Exceptional items charged to operating profit	4	–	(65)
Share of profits less losses of associated undertakings		(19)	3
Profits less losses on sale or closure of operations	4	(36)	(194)
Profit on ordinary activities before interest		988	638
Net interest payable	5	(13)	(19)
Profit on ordinary activities before taxation		975	619
Profit before exceptional items		1,011	878
Exceptional items	4	(36)	(259)
Taxation	6	(320)	(268)
Profit on ordinary activities after taxation		655	351
Attributable to minorities		(12)	(15)
Net profit for the financial year		643	336
Dividends to Shareholders	7	(332)	(293)
Profit retained for the year		311	43
Earnings per 25p Ordinary Share before exceptional items (pence)	8	70.6p	62.0p
Earnings per 25p Ordinary Share (pence)	8	67.8p	35.6p
Weighted average number of Ordinary Shares in issue (millions)	8	947	946

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December

	Notes	1996 £m	1995 £m
Net profit for the financial year		643	336
Net unrealized holding gains on short-term investments	14	1	5
Net foreign currency translation differences and recognised exchange (losses) gains	21	(128)	30
Translation differences on foreign currency borrowings	21	46	–
Tax on translation differences on foreign currency borrowings	21	(15)	–
Total recognised gains and losses relating to the year		547	371

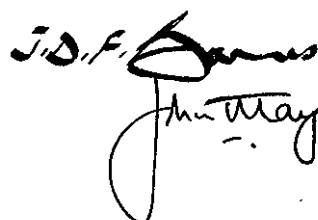
£m means millions of pounds sterling

FINANCIAL STATEMENTS

BALANCE SHEETS

As at 31 December		Group		Company	
	Notes	1996 £m	1995 £m	1996 £m	1995 £m
Fixed assets					
Tangible fixed assets	10	1,822	1,887	–	–
Intangible assets	10	25	18	–	–
Fixed asset investments	11	118	40	530	562
		1,965	1,945	530	562
Current assets					
Stocks	12	681	851	–	–
Debtors	13	1,379	1,505	1,810	1,808
Short-term investments	14	716	629	–	–
Cash	14	259	163	–	–
		3,035	3,148	1,810	1,808
Total assets		5,000	5,093	2,340	2,370
Creditors due within one year					
Short-term borrowings	15	(215)	(241)	(1)	(1)
Current instalments of loans	17	(12)	(25)	–	–
Other creditors	16	(1,643)	(1,758)	(278)	(275)
		(1,870)	(2,024)	(279)	(276)
Net current assets		1,165	1,124	1,531	1,532
Total assets less current liabilities		3,130	3,069	2,061	2,094
Creditors due after more than one year					
Loans	17	(476)	(536)	(349)	(384)
Other creditors	16	(40)	(31)	–	–
		(516)	(567)	(349)	(384)
Provisions for liabilities and charges	18	(476)	(537)	–	–
Net assets		2,138	1,965	1,712	1,710
Capital and reserves					
Called-up share capital	19	237	237	237	237
Share premium account	21	9	7	9	7
Merger reserve	21	285	285	–	–
Other reserves	21	295	265	1,255	1,255
Profit and loss account	21	1,208	1,067	211	211
Shareholders' funds - equity interests	20	2,034	1,861	1,712	1,710
Minority equity interests		104	104	–	–
Shareholders' funds and minority interests		2,138	1,965	1,712	1,710

The accounts on pages 41 to 71 were approved by the Board of Directors on 10 March 1997 and were signed on its behalf by:



Sir David Barnes
C. Mayo

Director
Director

STATEMENT OF GROUP CASH FLOW

For the year ended 31 December

	Notes	1996 £m	1995 £m
Cash flow from operating activities			
Net cash inflow from trading operations before exceptional items	22	1,155	1,052
Outflow related to exceptional items	23	(76)	(96)
Net cash inflow from operating activities		1,079	956
Returns on investments and servicing of finance			
Interest and dividends received	24	54	48
Interest paid		(69)	(60)
Dividends paid by subsidiary undertakings to minority interests		(9)	(13)
		(24)	(25)
Tax paid		(290)	(278)
Capital expenditure and financial investment			
Cash expenditure on fixed assets	10	(373)	(279)
New fixed asset investments		(8)	(9)
Disposals of fixed assets		9	8
		(372)	(280)
Acquisitions and disposals			
Acquisitions of subsidiary undertakings		(1)	(141)
Investments in associated undertakings	25	(19)	—
Disposals of business operations	26	162	1
Disposals of investments in associated undertakings		4	15
		146	(125)
Dividends paid to Shareholders		(305)	(274)
Net cash inflow (outflow) before management of liquid resources and financing	27	234	(26)
Management of liquid resources			
Movement in short-term investments and fixed deposits (net)	28	(94)	(15)
Financing	29	(39)	48
Increase in cash in the period per FRS 1 (Revised 1996)	27	101	7
Increase in cash above	27	101	
Increase in overdrafts	27	13	
	27	114	
Foreign currency translation effect	27	(18)	
Balance sheet movement in cash		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 associates 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.

The financial statements have been prepared after taking into consideration the accounting simplifications introduced to the Companies Act 1985 and the continuing obligations of the Listing Rules of the London Stock Exchange Limited for companies listed on the London Stock Exchange; the Urgent Issues Task Force consensus on 'Tax on foreign currency translation differences taken to reserves'; the Greenbury Study Group and Institute and Faculty of Actuaries recommendations on disclosure of directors' pension entitlements; and the early adoption of Financial Reporting Standard 1 (Revised 1996) – 'Cash Flow Statements'.

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. Prior year amounts have been restated to reflect the separate identification of these intangible assets.

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. UK Accounting Standards require that purchased goodwill be eliminated either upon acquisition against reserves or by amortization over a period. Elimination against reserves has been selected as appropriate to the goodwill purchases made during the periods presented. 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.

Investments

An associated undertaking is a company in which Zeneca has a participating interest (between 20 per cent and 50 per cent 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 associates, 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, and Salick Health Care, Inc.

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 realisable 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 realisable 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 186 at 31 December 1996, including one quasi-subsidiary. Owing to local conditions and to avoid undue delay in the presentation of the Group accounts, two subsidiaries prepare accounts to 30 September and one to 31 March; the Salick Health Care Group prepares its accounts to 31 August but interim accounts to 30 November are drawn up for consolidation purposes.

2 OPERATING PROFIT

	1996 £m	1995 £m
Turnover	5,363	4,898
Operating costs		
Cost of sales	(2,250)	(2,102)
Distribution costs	(181)	(180)
Research and development	(602)	(549)
Administrative and other expenses	(1,388)	(1,344)
	(4,421)	(4,175)
Other operating income		
Government grants	1	1
Royalties	64	73
Other income	36	32
	101	106
Operating profit	1,043	829
Charge for depreciation included above	217	194
Gross profit, as defined by the Companies Act 1985	3,113	2,796

	1996 £m	1995 £m
Effect of Group insurance activities		
Insurance results are reported within the following headings		
Miscellaneous operating profit (included in Note 9)	(1)	1
Interest receivable and similar income (included in Note 5)	15	19
	14	20

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

	1996 £m	1995 £m
Charged in arriving at operating profit		
Provisions for restructuring of Pharmaceuticals' distribution, manufacturing and R&D activities	—	(59)
Provisions for restructuring of Specialties businesses	—	(6)
Exceptional operating items	—	(65)
Profits less losses on sale or closure of operations and related provisions		
Disposal of interests in associated undertakings	—	10
Disposal of Textile Colours and minor Specialties businesses	(36)	—
Goodwill write down of Seeds business in anticipation of Zeneca VanderHave joint venture (Advanta)*	—	(159)
Provision for disposal of Specialties' Inks business, including goodwill write off £38m*	—	(45)
	(36)	(194)
Exceptional items within profit on ordinary activities before taxation	(36)	(259)
Tax credits on exceptional items (see Note 6)	10	9
	(26)	(250)

Exceptional items included in operating profit in 1995 were charged to Administrative and other expenses.

* As the goodwill associated with both Seeds and Specialty Inks had already been written off to reserves when the businesses were originally acquired, the goodwill write off of £197m in 1995 had no effect on Group cash flow, net assets, shareholders' funds or financial gearing.

5 NET INTEREST PAYABLE

	1996 £m	1995 £m
Interest payable and similar charges		
Loan interest	34	36
Interest on short-term borrowings and other financing costs	30	26
	64	62
Interest receivable and similar income from investments		
Securities	(9)	(17)
Short-term deposits	(42)	(26)
	(51)	(43)
Net interest payable	13	19

FINANCIAL STATEMENTS

NOTES RELATING TO THE ACCOUNTS

6 TAXATION

Profit and loss account	1996 £m	1995 £m
UK taxation		
Corporation tax	149	113
Double taxation relief	(7)	(5)
Deferred taxation	—	13
	142	121
Overseas taxation		
Overseas taxes	171	168
Deferred taxation	8	(22)
	179	146
Associated undertakings	(1)	1
Tax on profit on ordinary activities	320	268

UK and overseas taxation have been provided at current rates on the profits earned for the periods covered by the Group accounts. The current rate of UK corporation tax is 33 per cent (1995 33 per cent). 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

Tax relief on exceptional items*	(10)	(9)
----------------------------------	------	-----

*Including deferred tax relief of £10m (1995 £4m). Only marginal reliefs were available for the 1995 exceptional charges, a large proportion of which represented historical goodwill which would not qualify for relief.

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 charges on such currency translation differences amounted to £15m in 1996, and have been reported in the statement of total recognised gains and losses.

Balance sheet	1996 £m	1995 £m
Deferred taxation asset movement		
At beginning of year	61	48
Profit and loss account	(8)	9
Other movements	5	4
At end of year	58	61

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.

	1996 £m	1995 £m
Accounted for at 31 December		
Timing differences on UK capital allowances and depreciation	—	—
Exceptional item provisions	12	24
Miscellaneous timing differences	46	37
ACT recoverable (see Note 13)	31	45
	89	106
Not accounted for at 31 December		
UK capital allowances utilised in excess of depreciation	(206)	(187)
Exceptional item provisions and miscellaneous timing differences	161	165
	(45)	(22)
Full potential deferred taxation asset	44	84

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 1996.

7 DIVIDENDS

	1996 Pence per 25p Share	1995 Pence per 25p Share	1996 £m	1995 £m
Interim, paid 7 November 1996	12.5p	11.25p	118	106
Second interim, to be confirmed as final, payable 6 May 1997	22.5p	19.75p	214	187
	35.0p	31.0p	332	293

8 EARNINGS PER 25p ORDINARY SHARE

	1996	1995
Net profit for the financial year before exceptional items (£m)	669	586
Exceptional items after tax (£m) (see Note 4)	(26)	(250)
Net profit for the financial year (£m)	643	336
Average number of Ordinary Shares in issue (millions)	947	946
Earnings per Ordinary Share before exceptional items (pence)	70.6p	62.0p
Earnings (loss) per Ordinary Share on exceptional items (pence)	(2.8)p	(26.4)p
Earnings per Ordinary Share (pence)	67.8p	35.6p

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 underlying results of the business.

NOTES RELATING TO THE ACCOUNTS

9 SEGMENT INFORMATION

Classes of Business

	<i>Turnover</i>		<i>Operating profit before exceptional items</i>		<i>Profit before interest and tax</i>	
	<i>1996 £m</i>	<i>1995 £m</i>	<i>1996 £m</i>	<i>1995 £m</i>	<i>1996 £m</i>	<i>1995 £m</i>
Pharmaceuticals	2,435	2,163	757	687	757	629
Salick Healthcare	110	62	6	7	6	7
Agrochemicals	1,801	1,639	224	144	224	(15)
Agrochemicals	1,684	1,495	227	192	227	192
Seeds	117	144	(3)	(48)	(3)	(207)
Specialties	1,025	1,040	70	56	34	14
Inter-business eliminations and Miscellaneous	(8)	(6)	(14)	–	(14)	–
Share of profits less losses of associated undertakings					(19)	3
	5,363	4,898	1,043	894	988	638

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

The Seeds business became part of a joint venture with Royal VanderHave Group, named Advanta, and its results are included under Share of profits less losses of associated undertakings from 1 August 1996.

Inter-business eliminations and Miscellaneous

The results in 1995 include the recovery of past environmental litigation costs from external insurers.

	<i>Capital expenditure</i>		<i>Depreciation</i>		<i>Net assets</i>	
	<i>1996 £m</i>	<i>1995 £m</i>	<i>1996 £m</i>	<i>1995 £m</i>	<i>1996 £m</i>	<i>1995 £m</i>
Pharmaceuticals	141	124	97	84	1,049	1,044
Salick Healthcare	20	7	6	3	85	58
Agrochemicals	140	91	65	59	823	832
Specialties	57	51	40	42	375	630
Miscellaneous	21	10	9	6	8	(43)
	379	283	217	194		
Net operating assets					2,340	2,521
Investments in associated undertakings					88	13
Net non-operating liabilities					(290)	(569)
					2,138	1,965

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-analysed 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.

	<i>Net operating assets</i>		<i>Turnover</i>		<i>Operating profit before exceptional items</i>		<i>Profit before interest and tax</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
United Kingdom								
Sales in the United Kingdom			368	291				
Export sales			2,076	1,881				
	1,388	1,363	2,444	2,172	469	402	455	344
Continental Europe	266	367	1,665	1,507	148	80	125	(32)
The Americas	473	504	2,579	2,269	356	333	336	248
Asia, Africa & Australasia	213	287	670	727	70	79	72	78
	2,340	2,521	7,358	6,675	1,043	894	988	638
Inter-area eliminations			(1,995)	(1,777)				
	2,340	2,521	5,363	4,898	1,043	894	988	638

Inter-area turnover shown above includes sales from the UK to overseas subsidiaries of £1,634m (1995 £1,481m).

Geographic markets

	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>
Turnover in each geographic market in which customers are located		
United Kingdom	376	303
Continental Europe	1,591	1,457
The Americas	2,442	2,182
Asia, Africa & Australasia	954	956
Total turnover	5,363	4,898

Employees

	<i>1996</i>	<i>1995</i>
Average number of people employed by the Group in		
United Kingdom	12,200	12,300
Continental Europe	6,000	6,200
The Americas	10,300	10,200
Asia, Africa & Australasia	2,600	2,700
Total employees	31,100	31,400

The number of people employed by the Group at the end of 1996 was 30,400 (1995 32,000).

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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	874	2,266	245	3,385	58
Exchange adjustments	(51)	(98)	(10)	(159)	(4)
Capital expenditure	—	—	364	364	15
Transfer of assets into use	49	274	(323)		
Disposals and other movements	(75)	(216)	(8)	(299)	(13)
At end of year	797	2,226	268	3,291	56
Depreciation					
At beginning of year	272	1,226		1,498	40
Exchange adjustments	(16)	(56)		(72)	(3)
Disposals and other movements	(26)	(144)		(170)	(10)
Charge for year	34	179		213	4
At end of year	264	1,205		1,469	31
Net book value at 31 December 1996	533	1,021	268	1,822	25
Net book value at 31 December 1995	602	1,040	245	1,887	18

Capital expenditure in the year of £379m includes capitalized finance leases of £15m; cash expenditure on fixed assets was £373m. Land and buildings includes non-depreciated land which cost £54m.

The net book value of the tangible fixed assets of the Group at 31 December 1996 includes capitalized finance leases of £25m, comprising cost of £37m and accumulated depreciation thereon of £12m. In respect of capitalized leases, the depreciation charge for the year was £5m and finance charges were £2m.

	Group	
	1996 £m	1995 £m
The net book value of land and buildings comprised		
Freeholds	518	590
Long leases (over 50 years unexpired)	4	3
Short leases	11	9
	533	602

11 FIXED ASSET INVESTMENTS

GROUP	Associated undertakings £m	Other investments		Total £m
		Listed £m	Unlisted £m	
Cost				
At beginning of year	9	19	12	40
Additions	155	8	–	163
Disposals	(2)	–	(9)	(11)
Goodwill on acquisition	(47)	–	–	(47)
Exchange adjustments	(14)	–	–	(14)
At end of year	101	27	3	131
Share of post-acquisition reserves				
At beginning of year	4			4
Retained loss	(19)			(19)
Other movements, including exchange	2			2
At end of year	(13)			(13)
Provisions				
At beginning of year	–	–	(4)	(4)
Released	–	–	4	4
At end of year	–	–	–	–
Net book value at 31 December 1996	88	27	3	118
Net book value at 31 December 1995	13	19	8	40

The market value of the listed investments at 31 December 1996 was £28m (1995 £25m).

COMPANY	Shares £m	Subsidiary investments		Total £m
		Loans £m		
Cost				
At beginning of year	180	382		562
Exchange adjustments	–	(32)		(32)
Net book value at 31 December 1996	180	350		530
Net book value at 31 December 1995	180	382		562

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	
	1996 £m	1995 £m
Raw materials and consumables	165	208
Stocks in process	191	229
Finished goods and goods for resale	325	414
	681	851

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13 DEBTORS

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts due within one year				
Trade debtors	935	980	—	—
Amounts owed by subsidiary undertakings			1,810	1,808
Amounts owed by associated undertakings	10	—	—	—
Deferred taxation (see Note 6)	28	18	—	—
Other debtors	191	290	—	—
Prepayments and accrued income*	64	70	—	—
	1,228	1,358	1,810	1,808
Amounts due after more than one year				
Other debtors	61	38	—	—
Deferred taxation (see Note 6)	30	43	—	—
ACT recoverable	31	45	—	—
Prepayments and accrued income*	28	20	—	—
	1,378	1,504	1,810	1,808
Securitised rent receivables	1	1	—	—
Debtors	1,379	1,505	1,810	1,808

*Group figures include prepaid pension costs (Note 30).

Included in debtors are amounts totalling £47m (1995 £138m) 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 \$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 £5m (1995 £6m) – 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 (£1m net). The net income recorded in the Group accounts amounted to £1m (1995 £1m). A summary of the financial statements of Stauffer Chemical Company Trust is set out below.

Stauffer Chemical Company Trust	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>
Income and expenditure account		
Surplus for the financial year	1	1
Trust distributions	(1)	(1)
Surplus retained for the year	—	—
Balance sheet		
Debtors	50	55
Cash and short-term investments	4	5
Total assets	54	60
Creditors	(49)	(54)
Net assets	5	6
Cash flow		
Increase in cash	—	—

14 SHORT-TERM INVESTMENTS AND CASH

FRS 1 (Revised 1996) has introduced a new definition of cash. As a result, the 1995 comparative figures for short-term investments and cash have been restated to reflect that Standard. However, in the balance sheet cash is still shown gross of overdrafts, which are included under short-term borrowings to comply with the Companies Act 1985. The Group's short-term investments were classified as available-for-sale at year ends 1996 and 1995. Carrying value was substantially the same as fair value at both year ends.

GROUP

<i>At 31 December 1996</i>	<i>Cost £m</i>	<i>Estimated fair value £m</i>	<i>Gross unrealized gains £m</i>	<i>Gross unrealized losses £m</i>	<i>Net gains and losses £m</i>
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)

At 31 December 1995

Listed debt securities	100	94	—	(6)	(6)
Other debt securities	2	2	—	—	—
Listed equity investments	3	3	—	—	—
Unlisted equity investments	1	1	—	—	—
Investment securities	106	100	—	(6)	(6)
Fixed deposits	529	529	—	—	—
Short-term investments	635	629	—	(6)	(6)
Net change in unrealized holding gains and losses					3
Net change, after minority interests					1

Current asset investments held by Group subsidiaries are marked to market on a specific identification basis. The net change in unrealized holding gains and losses is a gain of £3m (1995 £10m gain). The net change, after minority interests, of £1m (1995 £5m gain) has been taken to reserves via the statement of total recognised gains and losses.

The proceeds from sales of investment securities were £233m (1995 £361m). Realized gains and losses are taken to the profit and loss account. In 1996 gross realized gains were £1m (1995 £7m) and gross realized losses were £2m (1995 £6m), producing a net realized loss of £1m (1995 £1m gain).

The Group's insurance subsidiaries hold cash and short-term investments totalling £201m (1995 £252m), of which £104m (1995 £155m) 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:

	<i>Cost £m</i>	<i>Estimated fair value £m</i>
1997	6	6
1998 – 2001	35	33
2002 – 2006	14	13
Thereafter	5	5
	60	57

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15 SHORT-TERM BORROWINGS

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Bank borrowings				
Secured by floating charge	1	1	—	—
Unsecured	154	151	1	1
	155	152	1	1
Other borrowings (unsecured)	60	89	—	—
	215	241	1	1

16 OTHER CREDITORS

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts due within one year				
Trade creditors	479	532	—	—
Amounts owed to subsidiary undertakings			64	88
Corporate taxation	254	222	—	—
Value added and payroll taxes and social security	33	38	—	—
Obligations under finance leases	5	5	—	—
Other creditors*	452	570	—	—
Accruals	206	204	—	—
Dividends to Shareholders	214	187	214	187
	1,643	1,758	278	275
Amounts due after more than one year				
Corporate taxation	1	1	—	—
Obligations under finance leases	18	14	—	—
Other creditors*	19	15	—	—
Grants not yet credited to income	2	1	—	—
	40	31	—	—

*Included in other creditors are amounts totalling £121m (1995 £245m) to meet insurance obligations of the Group's insurance subsidiaries. Other creditors also include costs charged as exceptional items (Note 4) and accrued pension costs (Note 30).

17 LOANS

	<i>Repayment dates</i>	<i>Group 1996 £m</i>	<i>1995 £m</i>	<i>Company 1996 £m</i>	<i>1995 £m</i>
Secured loans					
US Dollars (5.9 to 8%), secured by fixed charge	1997/2012	10	12	—	—
Indian Rupees (17.5%), secured by fixed charge	1997/1998	2	2	—	—
Total secured		12	14	—	—
Unsecured loans					
Sterling					
Bank loan – variable rate	1997/2002	9	44	—	—
US Dollars					
Bank loan – variable rate	2001	47	52	—	—
6.30% Guaranteed Notes	2003	176	191	—	—
7% Guaranteed Debentures	2023	174	190	—	—
6.58% Loan	2003	—	—	175	192
7.2% Loan	2023	—	—	174	192
Others	1998/2013	8	10	—	—
Yen (1.95 to 5%)	1997/2000	33	53	—	—
Other foreign currencies	1997/2002	29	7	—	—
Total unsecured		476	547	349	384
Total loans		488	561	349	384
Loans or instalments thereof are repayable					
After 5 years from balance sheet date		368	460	349	384
From 2 to 5 years		91	63	—	—
From 1 to 2 years		17	13	—	—
Total due after more than one year		476	536	349	384
Total due within one year		12	25	—	—
Total loans		488	561	349	384

Loans from banks included in the table above amounted to £126m (1995 £165m) of which £2m (1995 £2m) was secured. Details in the above tables are shown after reflecting currency swaps.

18 PROVISIONS FOR LIABILITIES AND CHARGES

GROUP	<i>Employee benefits* £m</i>	<i>Reorganisation, environmental, and other provisions £m</i>	<i>Total £m</i>
At beginning of year	296	241	537
Profit and loss account	61	55	116
Net amounts paid or becoming current	(37)	(82)	(119)
Other movements, including exchange	(33)	(25)	(58)
At end of year	287	189	476

*Includes provisions for unfunded post-retirement benefits (Note 30).

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

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19 CALLED-UP SHARE CAPITAL OF PARENT COMPANY

	Authorized 1996 £m	Allotted, called-up and fully paid 1996 £m	1995 £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 265,951, comprising issues in respect of the exercise of options.

At 31 December 1996 there were options outstanding in respect of 4,375,358 Ordinary Shares of 25p under the Zeneca 1993 Senior Staff Share Option Scheme and the Zeneca 1994 Executive Share Option Scheme (1995 3,812,340) and 4,680,786 Ordinary Shares of 25p under the Zeneca Savings-Related Share Option Scheme (1995 3,581,630). These options are normally exercisable in the period 1997 to 2006 (1996 to 2005) at subscription prices of £4.09 to £14.81 (1995 £4.09 to £11.28). 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 1996 was £9.33.

Options granted to Directors are shown in Note 32.

During 1996 movements in the number of shares under option comprised new options issued 2,088,978, options exercised 265,951, and options lapsed, waived, or forfeited 160,853. At the end of 1996 there were 17,439,212 shares available for the granting of options (1995 19,359,358).

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

GROUP	1996 £m	1995 £m
Shareholders' funds at beginning of year	1,861	1,685
Net profit for the financial year	643	336
Dividends	(332)	(293)
Issues of Zeneca Group PLC Ordinary Shares	311	43
Goodwill on acquisitions/disposals	2	4
Net foreign currency translation differences and recognised exchange (losses) gains	(47)	99
Translation differences on foreign currency borrowings	(128)	30
Tax on translation differences on foreign currency borrowings	46	—
Net unrealized holding gains on short-term investments (see Note 14)	(15)	—
Other movements	1	5
	3	(5)
Net addition to shareholders' funds	173	176
Shareholders' funds at end of year	2,034	1,861

21 RESERVES

GROUP	Share premium account £m	Merger reserve £m	Goodwill and other reserves £m	Associated under- takings £m	Profit and loss account £m	1996 Total £m	1995 Total £m
At beginning of year	7	285	261	4	1,067	1,624	1,449
Profit retained for year				(19)	330	311	43
Share premiums	2					2	3
Goodwill on acquisitions/disposals			(47)			(47)	99
Exchange adjustments:							
Goodwill			93		(93)	—	—
Net assets				2	(130)	(128)	30
Translation differences on foreign currency borrowings					46	46	—
Tax on translation differences on foreign currency borrowings					(15)	(15)	—
			93	2	(192)	(97)	30
Net unrealized holding gains on short-term investments			1			1	5
Other movements					3	3	(5)
At end of year	9	285	308	(13)	1,208	1,797	1,624

In the Group accounts, exchange adjustments of £46m (1995 £nil) 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 £47m (1995 £98m) of goodwill on acquisitions written off against reserves and £nil (1995 £197m) of goodwill relating to disposals written back to reserves and charged to the profit and loss account.

The cumulative amount of goodwill resulting from acquisitions, net of disposals, amounted to £945m (1995 £991m), using 1996 year end rates of exchange.

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	1996 Total £m	1995 Total £m
Reserves					
At beginning of year	7	1,255	211	1,473	1,474
Net profit for the financial year			332	332	289
Dividends			(332)	(332)	(293)
Share premiums	2			2	3
At end of year	9	1,255	211	1,475	1,473

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

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22 NET CASH INFLOW FROM TRADING OPERATIONS BEFORE EXCEPTIONAL ITEMS

	1996 £m	1995 £m
Operating profit	1,043	829
Exceptional items within operating profit	–	65
Operating profit before exceptional items	1,043	894
Depreciation	217	194
Stocks increase	(34)	(40)
Debtors increase	(86)	(27)
Creditors increase	3	26
Other non-cash movements	12	5
	1,155	1,052

23 OUTFLOW RELATED TO EXCEPTIONAL ITEMS

This includes expenditure charged to exceptional provisions relating to business rationalisation and restructuring and for sale or closure of operations, including severance and other employee costs.

24 INTEREST AND DIVIDENDS RECEIVED

	1996 £m	1995 £m
Interest received	52	46
Dividends received from equity accounted associated undertakings	2	2
	54	48

25 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	1996 £m
Cash consideration included in contribution to Seeds joint venture Advanta	15
Investment in other associated undertakings	4
Total cash consideration	19

Zeneca and Cosun Cooperatie UA merged their global seeds businesses, Zeneca Seeds and Royal VanderHave Group, in August 1996 into a joint business operation named Advanta. Each company owns 50% of the new holding company, Advanta B.V.

26 DISPOSALS OF BUSINESS OPERATIONS

	1996 £m
Disposals of business operations resulted in the following net asset movements	
Tangible fixed assets	43
Net current assets	154
Provisions for liabilities and charges	(1)
	196
Profit and loss account – exceptional items	(36)
Total consideration	160
Deferred consideration from earlier disposals	2
Cash consideration	162

The cash consideration for disposals of business operations relates to items which were treated as exceptional in the current and previous years. Apart from the disposal proceeds, the contribution of the divested businesses and subsidiary undertakings to the cash flows of the Group was not material.

27 NET DEBT/NET CASH FUNDS

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

	At 1 Jan 1996	Cash flow	*Acquisitions and disposals	Other non-cash	Exchange movements	At 31 Dec 1996
Loans due after 1 year	(536)	(1)	2	10	49	(476)
Current instalments of loans	(25)	22	–	(10)	1	(12)
Total loans	(561)	21	2	–	50	(488)
Short-term investments	629	94	–	–	(7)	716
Cash	163	114			(18)	259
Overdrafts	(89)	(13)			11	(91)
Short-term borrowings, excluding overdrafts	(152)	14	–	–	14	(124)
	551	209	–	–	–	760
Net (debt) cash funds	(10)	230	2	–	50	272
Financing items included in cash movements above						
Issue of shares		(3)				
Repayment of lease finance		7				
Net cash inflow before management of liquid resources and financing		234				

*Excluding cash and overdrafts.

28 SHORT-TERM INVESTMENTS AND FIXED DEPOSITS

Insurance liabilities within the Group's insurance subsidiaries are actively matched by the purchase and sale of short-term investments and deposits.

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29 FINANCING

	<i>Notes</i>	<i>1996 £m</i>	<i>1995 £m</i>
Issue of Zeneca Group PLC Ordinary Shares		2	4
Issue of shares by subsidiaries to minority interests		1	2
Issue of shares	27	3	6
Repayment of lease finance	27	(7)	(4)
New loans	27	1	35
Loans repaid	27	(22)	(13)
Net (decrease) increase in short-term borrowings	27	(14)	24
		(35)	46
Net cash (outflow) inflow from financing		(39)	48

30 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.

With regard to the main Group defined benefit plans, formal actuarial valuations are undertaken triennially on varying dates. The actuarial assumptions used to calculate the value of the past service liabilities of the Group's pension plans vary according to the economic conditions of the country in which they are situated and relate to the latest actuarial valuations of the plans. The weighted average discount rate used in determining the actuarial present values of the benefit obligations was 8.5 per cent. The weighted average expected long-term rate of return on investments was 9 per cent. The weighted average rates of increase of future earnings and future pensions were 6 per cent and 3 per cent respectively. After allowing for future increases in earnings and pensions, 93 per cent 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 market value of the fund assets of the main Group plans at the most recent valuation dates was £1,765m; the market value at 31 December 1996 was £2,109m.

The total pension cost for the Group for 1996 was £109m (1995 £95m). In Zeneca's Group balance sheet at 31 December 1996, accrued pension costs amounted to £21m (1995 £43m) and are included in other creditors (Note 16); provisions for unfunded benefit obligations, included in provisions (Note 18) amounted to £117m (1995 £125m). Prepaid pension costs amounting to £16m (1995 £16m) are included in debtors (Note 13).

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 6,000 retired employees and covered dependants currently benefit from these provisions and some 9,200 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 1996 was £11m (1995 £12m). Provisions for the benefit obligations at 31 December 1996 amounted to £136m and are included in provisions for employee benefits (Note 18). Other than this provision there were no plan assets at 31 December 1996. 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 7.5 per cent and a weighted average assumed healthcare costs trend rate of 9 per cent reducing to 6 per cent per annum.

31 EMPLOYEE COSTS AND SHARE SCHEMES

The average number of people employed by the Group in 1996 was 31,100 (1995 31,400) and the costs incurred during the year in respect of these employees were:

	1996 £m	1995 £m
Salaries	966	928
Social security costs	122	112
Pension costs	109	95
Other employment costs	100	88
	1,297	1,223

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.

The Zeneca Savings Related Share Option Scheme

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

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32 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The interests at 31 December 1996 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.

	<i>Interest in Ordinary Shares, including shares held in trust, at 1 January 1996</i>	<i>Shares held in trust at 1 January 1996</i>	<i>Shares bought (sold)</i>	<i>Interest in Ordinary Shares, including shares held in trust, at 31 December 1996</i>	<i>Shares held in trust at 31 December 1996</i>
Sir David Barnes	86,877	4,814		96,339	14,276
Sir Peter Bonfield	500			500	
P. Doyle	11,232	2,788		16,714	8,270
Sir Richard Greenbury	500			500	
Sir Sydney Lipworth	5,000			5,000	
J. C. Mayo	11,504	1,504		17,416	7,416
T. F. W. McKillop	10,654	3,808		18,842	11,996
F. L. V. Meysman			500	500	
Sir Jeremy Morse	2,387			2,387	
A. I. H. Pink	8,484	6,920		20,310	18,746
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 1997 to 10 March 1997 there was no change in the interests of Directors shown in this note. In the event that Ordinary Shares are appropriated in 1997 to Directors pursuant to the Executive Performance Bonus Plan in respect of the year to 31 December 1996 the Directors would have an interest in such appropriated shares.

32 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (continued)

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 below.

		<i>No. of Shares Under Option</i>	<i>Exercise price per share⁺</i>	<i>Market price at date of exercise</i>	<i>First date exercisable[*]</i>	<i>Last date exercisable[*]</i>
Sir David Barnes	At 1 Jan 1996	205,259	607p		24.06.93	26.03.05
	Granted	64,663	1337p		29.03.99	28.03.06
	Granted	287	1357p		01.12.99	31.05.00
	At 31 Dec 1996	270,209	782p		24.06.93	28.03.06
P. Doyle	At 1 Jan 1996	141,818	673p		24.06.93	26.03.05
	Granted	14,653	1337p		29.03.99	28.03.06
	Granted	508	1357p		01.12.01	31.05.02
	At 31 Dec 1996	156,979	737p		24.06.93	28.03.06
J. C. Mayo	At 1 Jan 1996	152,149	621p		22.03.96	26.03.05
	Granted	22,831	1337p		29.03.99	28.03.06
	Granted	287	1357p		01.12.99	31.05.00
	At 31 Dec 1996	175,267	716p		22.03.96	28.03.06
T. F. W. McKillop	At 1 Jan 1996	103,835	689p		24.06.93	26.03.05
	Granted	32,562	1337p		29.03.99	28.03.06
	Granted	508	1357p		01.12.01	31.05.02
	At 31 Dec 1996	136,905	845p		24.06.93	28.03.06
A. I. H. Pink	At 1 Jan 1996	154,138	606p		24.06.93	26.03.05
	Granted	22,832	1337p		29.03.99	28.03.06
	At 31 Dec 1996	176,970	701p		24.06.93	28.03.06

No options were exercised or lapsed during the year. The market price of the shares at 31 December 1996 was 1647.5p and the range during 1996 was 1227p to 1758.5p. The Register of Directors' Interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe.

⁺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.

FINANCIAL STATEMENTS

NOTES RELATING TO THE ACCOUNTS

33 EMOLUMENTS OF DIRECTORS

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

	<i>Salary and fees £'000</i>	<i>Bonuses Cash £'000</i>	<i>Shares* £'000</i>	<i>Taxable benefits £'000</i>	<i>Sub-total £'000</i>	<i>Pension contribs. £'000</i>	<i>Total 1996 £'000</i>	<i>Total 1995 £'000</i>
Sir Sydney Lipworth	150			1	151		151	71
Sir David Barnes	525	105	210	12	852	46	898	651
P. Doyle	285	57	114	12	468	50	518	423
J. C. Mayo	310		248	19	577	34	611	429
T. F. W. McKillop	285		192	10	487	50	537	—
A. I. H. Pink	310	62	124	12	508	54	562	503
Sir Peter Bonfield	24				24		24	21
Sir Richard Greenbury	28				28		28	24
Miss G. M. Lewis	8				8		8	21
F.L.V. Meysman	5				5		5	—
Sir Jeremy Morse	24				24		24	21
T. H. Wyman	43				43		43	40
Former Directors							—	988
	1,997	224	888	66	3,175	234	3,409	3,192

*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.

The table which follows shows the number of Directors of the Company whose emoluments, excluding Company pension contributions, during the year were within the bands stated.

<i>Emoluments</i>	<i>Number</i>		<i>Emoluments</i>	<i>Number</i>	
	<i>1996</i>	<i>1995</i>		<i>1996</i>	<i>1995</i>
£0 – 5,000	1	—	£375,001 – 380,000	—	1
£5,001 – 10,000	1	1	£415,001 – 420,000	—	1
£20,001 – 25,000	2	4	£455,001 – 460,000	—	1
£25,001 – 30,000	1	—	£465,001 – 470,000	1	—
£35,001 – 40,000	—	1	£485,001 – 490,000	1	—
£40,001 – 45,000	1	—	£505,001 – 510,000	1	—
£70,001 – 75,000	—	1	£575,001 – 580,000	1	—
£150,001 – 155,000	1	—	£645,001 – 650,000	—	1
£240,001 – 245,000	—	1	£850,001 – 855,000	1	—
£285,001 – 290,000	—	1			

Two of the Directors whose emoluments are shown above for 1996 were Directors for part of the year only (1995 three).

33 EMOLUMENTS OF DIRECTORS (continued)

Directors' Pension Entitlement (per annum)	Sir David Barnes £'000	P Doyle £'000	J C Mayo £'000	T F W McKillop £'000	A I H Pink £'000
1. Accrued pension at 1 January 1996	303	163	42	99	162
2. Increase in accrued pension during year as a result of inflation	28	4	1	2	4
3. Adjustment to accrued pension as a result of salary increase relative to inflation	31	15	4	39	17
4. Increase in accrued pension as a result of additional year's service	13	7	9	6	7
5. Accrued pension at 31 December 1996	375	189	56	146	190
6. Employee contributions during year	—	14	12	14	16
7. Age at 31 December 1996 (years)	60 ⁹ / ₁₂	58 ³ / ₁₂	40 ⁸ / ₁₂	53 ⁹ / ₁₂	58 ¹⁰ / ₁₂
8. Pensionable service (years)	39 ¹ / ₁₂	33 ⁴ / ₁₂	4 ³ / ₁₂ *	27 ³ / ₁₂	34 ³ / ₁₂

* plus transferred in service of 2 years 1 month from a former employment

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%.

FINANCIAL STATEMENTS

NOTES RELATING TO THE ACCOUNTS

34 COMMITMENTS AND CONTINGENT LIABILITIES

	1996 £m	1995 £m
Contracts placed for future capital expenditure not provided for in these accounts	205	90

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.

Financial instruments

At 31 December 1996, Zeneca had outstanding forward foreign exchange contracts to sell currency with nominal principal amounts of £380m (1995 £395m). The contracts were taken out with commercial banks for the purpose of hedging non-sterling commercial transactions which existed at the date of the balance sheet. The majority of the contracts had a maturity of six months or less from that date. At 31 December 1996, the Group held interest and cross currency swaps totalling £76m (1995 £29m) which were taken out 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 1997. The contracts were taken out with commercial banks. In relation to these Zeneca had, at 31 December 1996, outstanding forward foreign exchange contracts to sell currency with a notional principal value of £142m (1995 £216m) equivalent, and currency option contracts to sell with a notional principal value of £401m (1995 £328m) 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 a potentially responsible party ('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 1996 in respect of such costs in accordance with the accounting policy on page 44. Although there can be no assurance, management believes that, 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.

Salick Healthcare

In April 1995 Zeneca purchased 50% of Salick Health Care, Inc. ('SHC'), a leading US provider of disease-specific healthcare services, for US\$204 million cash (£127m equivalent). SHC shareholders have a Put option over the remaining 50% shareholding, exercisable at two and one half years from the date of initial purchase. Zeneca will be obliged to pay or to procure payment to SHC of all monies required to finance the cash consideration for the purchase by SHC of the Put shares at a Put price of US\$42 per share, which, based on the number of shares outstanding at 31 December 1996 approximates to US\$238 million (£141m at £1=\$1.69). The remaining 50% may be bought by SHC at Zeneca's request within a four year period from the date of the initial purchase at a price which will be set according to a number of variables including in the first two and one half years from the date of initial purchase a minimum and maximum price

34 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(in the range of US\$233 million to US\$283 million based on the number of SHC shares outstanding at 31 December 1996). Zeneca has also entered into a number of agreements and indemnities with SHC in relation to the transaction.

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 has appealed against this judgement, which appeal is pending.

In January and February 1996 Zeneca received separate notifications that each of Mylan Pharmaceuticals Inc ('Mylan') and Pharmachemie BV ('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 have been 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 infringes patent property owned jointly by Schering and Roussel UCLAF S.A. ('Roussel'). Zeneca is defending this action vigorously, including contesting the validity of the patent, having established an agreement with Roussel which gives Zeneca a licence to commercialise 'Casodex' in the US with LHRH analogues. Zeneca has obtained partial summary judgement (on the basis of the licence with Roussel). The summary judgement has been affirmed by the US Court of Appeals of the Federal Circuit thus confirming Zeneca's right to sell 'Casodex' in LHRH combination therapy. Schering may seek further appellate review of the judgement and/or pursue a claim for patent infringement in the period before Zeneca was licensed by Roussel. In either case Zeneca is confident it will prevail in these matters. 'Casodex' itself is protected by patents which are unaffected by this litigation.

The Group had provisions as at 31 December 1996 in respect of costs associated with the proposed settlement of certain anti-trust class actions initiated by retail pharmacies 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 this settlement is the prudent course of action given the inherent risks and costs of litigation and to avoid further business disruption. The settlement has been approved by the US District Court and is now on appeal to the US Court of Appeals.

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 settlement described above, and other litigation considered typical to its businesses, covering product liability, infringements of intellectual property rights and validity of certain patents.

FINANCIAL STATEMENTS

NOTES RELATING TO THE ACCOUNTS

35 LEASES

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

	1996 £m	1995 £m
Rentals under operating leases	22	30
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	6
Expiring during years 2 to 5	10	3
Expiring thereafter	7	2
	19	11
Other assets		
Expiring within 1 year	3	4
Expiring during years 2 to 5	6	7
Expiring thereafter	2	2
	11	13
Obligations under finance leases comprise		
Rentals due within 1 year	8	6
Rentals due during years 2 to 5	13	14
Rentals due thereafter	9	3
Less interest element	(7)	(4)
	23	19

Obligations under finance leases are included in other creditors (Note 16).

The Group had no commitments (1995 £13m) under finance leases at the balance sheet date which were due to commence thereafter.

36 STATUTORY AND OTHER INFORMATION

Included in debtors are interest free loans of £56,000 to three 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.

Remuneration of auditors for the statutory audit charged in the Group accounts for 1996 was £2.3m (1995 £2.5m). Fees paid to the auditors of the parent Company and its UK subsidiaries for non-statutory 'audit' work, accounting, information systems, project support and taxation advice were £3.3m (1995 £2.9m). Other fees paid to affiliates of the auditors of the parent Company worldwide amounted to £0.7m (1995 £0.5m).

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

<i>At 31 December 1996</i>	<i>Class of capital</i>	<i>Percentage of voting share capital held</i>	<i>Principal activity</i>
United Kingdom			
Zeneca Limited England	Ordinary	100	Research and manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchanting of Zeneca products
IC Insurance Holdings Limited England	Ordinary	51#	Insurance and reinsurance underwriting
Continental Europe			
Zeneca Pharma S.A. France	Ordinary	100#	Research, manufacture and merchanting of pharmaceuticals
Zeneca Holding GmbH Germany	Ordinary	100#	Manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchanting of Zeneca products
Zeneca S.p.a. Italy	Ordinary	100#	Manufacture of pharmaceuticals; merchanting of Zeneca products
Stauffer Chemical B.V. The Netherlands	Common	100#	Manufacture of agrochemicals
Advanta B.V. The Netherlands	Ordinary	50#†	Processing and merchanting of seeds
The Americas			
Zeneca Brasil S.A. Brazil	Ordinary	100#	Manufacture of agrochemicals and specialty chemicals; merchanting of Zeneca products
Zeneca Holdings Inc. USA	Common	100#	Manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchanting of Zeneca products
IPR Pharmaceuticals Inc. Puerto Rico	Common	100#	Manufacture of pharmaceuticals
Salick Health Care, Inc. USA	Common	50#	Provision of disease-specific healthcare services
Asia, Africa & Australasia			
Zeneca China Limited Hong Kong	Ordinary	100#	Merchanting of Zeneca products
Zeneca Yakuhin K.K. Japan	Ordinary	60#	Merchanting of pharmaceutical products
Zeneca K.K. Japan	Ordinary	100#	Manufacture of pharmaceuticals; merchanting of Zeneca products

#shares held indirectly †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 shall be annexed to the Company's next annual return filed with the Registrar of Companies.

The country of principal operations and 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 31 August. Zeneca operates through 186 subsidiary companies. Products are manufactured in some 25 countries worldwide and are sold in well over 100 countries.

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GROUP FINANCIAL RECORD

For the years ended 31 December

	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m
Turnover and profits					
Turnover	3,979	4,440	4,480	4,898	5,363
Operating profit before exceptional items	587	704	797	894	1,043
Exceptional items charged to operating profit	(304)	–	(138)	(65)	–
Operating profit after exceptional items	283	704	659	829	1,043
Profit on ordinary activities before interest	254	721	697	638	988
Net interest payable	(152)	(88)	(38)	(19)	(13)
Profit on ordinary activities before taxation	102	633	659	619	975
Net profit for the financial year	80	431	443	336	643
Dividends to Shareholders	n/a	(260)	(270)	(293)	(332)
Return on sales					
Operating profit before exceptional items as a percentage of sales	14.8%	15.9%	17.8%	18.3%	19.4%
Balance sheets					
Fixed assets	1,559	1,684	1,733	1,905	1,847
Fixed asset investments	33	26	39	40	118
Current assets	2,488	3,309	2,909	3,148	3,035
Total assets	4,080	5,019	4,681	5,093	5,000
Creditors due within one year	(2,617)	(2,360)	(1,896)	(2,024)	(1,870)
Total assets less current liabilities	1,463	2,659	2,785	3,069	3,130
Creditors due after more than one year	932	587	552	567	516
Provisions for liabilities and charges	419	501	490	537	476
Minority equity interests	57	72	58	104	104
Shareholders' equity	55	1,499	1,685	1,861	2,034
	1,463	2,659	2,785	3,069	3,130
Capital gearing					
Net debt as a percentage of shareholders' funds	n/a	12.5%	0.3%	0.5%	–
Cash flow					
Net cash inflow from operating activities	682	833	872	956	1,079
Returns on investments and servicing of finance	(472)	(141)	(46)	(25)	(24)
Taxation	(74)	(116)	(163)	(278)	(290)
Capital expenditure and financial investment	(238)	(296)	(301)	(280)	(372)
Acquisitions and disposals	72	40	89	(125)	146
Dividends paid to Shareholders	–	(99)	(263)	(274)	(305)
Net cash flow before management of liquid resources and financing	(30)	221	188	(26)	234
Management of liquid resources and financing	50 ⁺	447 ⁺	(233)	33	(133)
(Decrease) increase in cash	20 ⁺	668 ⁺	(45)	7	101

FRS 1 (Revised 1996) has been adopted for the 1996 Cash Flow Statement. + 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. 1992 figures were not restated for FRS 5 or UITF 6 as pro forma information only was available for Zeneca.

ZENECA SHARE INFORMATION

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

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 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.

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.

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION FOR US INVESTORS (CONTINUED)

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 USA. 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 1996 rate of £1 = \$1.69.

SUMMARISED INCOME STATEMENT	Years ended 31 December			
	1996 £m	1995 £m	1996 \$m	1995 \$m
Sales	5,363	4,898	9,063	8,278
Operating income	1,043	829	1,763	1,401
Income from ordinary activities before interest	988	638	1,670	1,078
Net interest expense	(13)	(19)	(22)	(32)
Income from ordinary activities before taxation	975	619	1,648	1,046
Taxes on income from ordinary activities	(320)	(268)	(541)	(453)
Income from ordinary activities after taxation	655	351	1,107	593
Income attributable to minorities	(12)	(15)	(20)	(25)
Net income (UK GAAP)	643	336	1,087	568
Adjustments to conform to US GAAP				
Capitalization, less disposals and amortization of interest	(5)	1	(8)	2
Deferred taxation	(6)	(15)	(10)	(25)
Pension expense	(15)	(16)	(25)	(27)
Post-retirement benefits/plan amendment	3	2	5	3
Purchase accounting adjustments, including goodwill and intangibles : amortization	(34)	(35)	(58)	(59)
sale or closure of operations	-	73	-	123
Restructuring costs	(14)	14	(24)	24
Unrealized gains on foreign exchange	12	5	20	8
	(59)	29	(100)	49
Net income in accordance with US GAAP	584	365	987	617
Net income (US GAAP) per Ordinary Share	61.7p	38.6p	+\$3.13	+\$1.95
Dividends per 25p Ordinary Share	35.0p	31.0p	+\$2.22	+\$1.96

*Per American Depositary Share (ADS). Three Zeneca Ordinary Shares are represented by each ADS.

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 35 pence per Ordinary Share would represent \$2.22 per ADS using the conversion rate of £1 = \$1.69. The UK tax credit of 20/80ths is based on the lower rate of income tax prevailing in the UK on 10 March 1997, the date on which the Zeneca Group audited financial statements were signed.

FINANCIAL STATEMENTS

SUMMARISED CONSOLIDATED BALANCE SHEET

	At 31 December			
	1996	1995	1996	1995
	£m	£m	\$m	\$m
UK Basis				
Assets				
Current assets				
Cash and marketable securities	975	792	1,648	1,338
Receivables	1,379	1,505	2,330	2,544
Inventories	681	851	1,151	1,438
Total current assets	3,035	3,148	5,129	5,320
Other assets: non-current investments	118	40	199	68
Property, plant and equipment (net of depreciation)	1,822	1,887	3,080	3,189
Intangible assets	25	18	42	30
Total assets	5,000	5,093	8,450	8,607
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	1,643	1,758	2,777	2,971
Short-term debt	215	241	363	407
Long-term debt due within one year	12	25	20	42
Total current liabilities	1,870	2,024	3,160	3,420
Long-term debt not due within one year	476	536	805	906
Other liabilities and deferred income	516	568	872	960
Minority interests	104	104	176	176
Shareholders' equity	2,034	1,861	3,437	3,145
Issued Shares	237	237	401	401
Premiums paid in excess of par value	9	7	15	12
Merger reserve	285	285	482	482
Income retained and other reserves	1,503	1,332	2,539	2,250
Total liabilities and shareholders' equity (UK basis)	5,000	5,093	8,450	8,607
Total shareholders' equity (UK basis)	2,034	1,861	3,437	3,145
Adjustments to conform to US GAAP				
Capitalization, less disposals and amortization of interest	101	106	171	179
Dividends	214	187	362	316
Deferred taxation	(45)	(27)	(76)	(46)
Pension expense	(121)	(109)	(204)	(184)
Post-retirement benefits/plan amendment	(30)	(35)	(51)	(59)
Purchase accounting adjustments, including goodwill and intangibles	600	627	1,014	1,060
Restructuring costs	-	14	-	24
Unrealized gains on foreign exchange	12	-	20	-
	731	763	1,236	1,290
Shareholders' equity in accordance with US GAAP	2,765	2,624	4,673	4,435

Zeneca acquired a 50 per cent shareholding in Salick Health Care, Inc. ('SHC') on 13 April 1995 with a Call option to purchase the remaining 50 per cent shareholding, exercisable within a four year period. By virtue of the Call option, SHC has been regarded for accounting purposes as a subsidiary of Zeneca and its results have been consolidated into the Group results, with a 50 per cent minority interest allowed for. Under US GAAP the investment in SHC could be treated as an equity accounted investment. The difference in treatment would have no effect on net income or shareholders' equity.

Zeneca Group PLC and subsidiary undertakings
 OTHER SIGNIFICANT SHAREHOLDINGS
 (Companies Act 1985 - S231; Schedule 5 Part II)
 As at 31ST DECEMBER 1996

Class of Capital		Held by	Held %
EQUITY		Subsidiary(ies)	2.33

Full Name: ATUL PRODUCTS LIMITED			
Country of Incorporation: INDIA			
Country of Registration			
(UK Companies only) : N/A			

Full Name: UNITED INSURANCE COMPANY			
Country of Incorporation: CAYMAN ISLANDS			
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: CAYMAN ISLANDS			
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			

ORDINARY	PREFERENCE
CLASS A COMMON NON-VOTING	
CLASS B VOTING	
REDEEMABLE	
PREFERENCE	
Subsidiary(ies)	Subsidiary(ies)
2.43	2.43
2.43	2.43
17.50	12.33

Zeneca Group PLC and subsidiary undertakings
 SHAREHOLDINGS IN ASSOCIATED UNDERTAKINGS
 (Companies Act 1985 - S231; Schedule 5 Part II)
 As at 31ST DECEMBER 1996

Class of Capital		Held by	Held %
-----		-----	-----
ORDINARY		Subsidiary(ies)	49.90
ORDINARY		Subsidiary(ies)	50.00
ORDINARY A ORDINARY B		Subsidiary(ies) Subsidiary(ies)	25.50 25.50
'A' SHARES		Subsidiary(ies)	100.00
NOMINATIVE NO PAR VALUE		Subsidiary(ies)	50.00
PARTNERSHIP		Subsidiary(ies)	37.50
PARTNERSHIP		Subsidiary(ies)	50.00

Full Name: TEIJIN AGROCHEMICALS LTD
 Country of Incorporation: JAPAN
 Country of Registration
 (UK Companies only) : N/A

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

Full Name: BLAIR INTERNATIONAL INSURANCE (CAYMAN) LIMITED
 Country of Incorporation: CAYMAN ISLANDS
 Country of Registration
 (UK Companies only) : N/A

Full Name: AGROPROGRESS
 Country of Incorporation: UKRAINE
 Country of Registration
 (UK Companies only) : N/A

Full Name: MONTROSE CHEMICAL CORPORATION OF CALIFORNIA
 Country of Incorporation: U.S.A.
 Country of Registration
 (UK Companies only) : N/A

Full Name: CORPUS CHRISTI GLOBAL CHEMICALS COMPANY
 Country of Incorporation: U.S.A.
 Country of Registration
 (UK Companies only) : N/A

Full Name: IMAGE POLYMERS EUROPE
 Country of Incorporation: HOLLAND
 Country of Registration
 (UK Companies only) : N/A

Zeneca Group PLC and subsidiary undertakings
 SHAREHOLDINGS IN ASSOCIATED UNDERTAKINGS
 (Companies Act 1985 - S231; Schedule 5 Part II)
 As at 31ST DECEMBER 1996

Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	50.00
Full Name: IMAGE POLYMERS EUROPE (UK)		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : UK		
Full Name: IMAGE POLYMERS COMPANY		
Country of Incorporation: U.S.A.		
Country of Registration		
(UK Companies only) : N/A		
GENERAL PARTNERSHIP CAPITAL	Subsidiary(ies)	50.00
Full Name: COLOMBIANA DE COLINA LTDA		
Country of Incorporation: COLOMBIA		
Country of Registration		
(UK Companies only) : N/A		
QUOTAS	Subsidiary(ies)	49.00
Full Name: BARCLAYS DE ZOETE WEDD SECURITIES (ASIA) LTD		
Country of Incorporation: HONG KONG		
Country of Registration		
(UK Companies only) : N/A		
ORDINARY	Subsidiary(ies)	50.00
Full Name: HIFLON PLASTICOS AVANCADOS LTDA		
Country of Incorporation: BRAZIL		
Country of Registration		
(UK Companies only) : N/A		
QUOTAS	Subsidiary(ies)	50.00
Full Name: SWAZILAND AGRICULTURAL SUPPLIES LTD		
Country of Incorporation: SWAZILAND		
Country of Registration		
(UK Companies only) : N/A		
ORDINARY	Subsidiary(ies)	21.00
Full Name: I.C. INSURANCE SERVICES LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
ORDINARY STOCK		
Subsidiary(ies)		
50.00		
No of Companies listed: 14		

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 1996

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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		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENCO (NO 5) LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration (UK Companies only) : UK		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENCO (NO 7) LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration (UK Companies only) : UK		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA EMPLOYEE SHARE TRUST LTD Country of Incorporation: UNITED KINGDOM Country of Registration (UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA SHARE TRUST LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration (UK Companies only) : ENGLAND		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENCO (NO 8) LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration (UK Companies only) : UK		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENCO (NO 9) LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration (UK Companies only) : UK		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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(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: ZENCO (NO 10) 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: DTBA LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration			
(UK Companies only) : ENGLAND			
Full Name: IVEAGH TECHNOLOGY DEVELOPMENTS LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration			
(UK Companies only) : ENGLAND			
Full Name: PLANT PROTECTION LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration			
(UK Companies only) : ENGLAND			
Full Name: MARLBOROUGH BIO-POLYMERS LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration			
(UK Companies only) : ENGLAND			
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 1996

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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			
Full Name: IC INSURANCE LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration			
(UK Companies only) : ENGLAND			
Full Name: CARE LABORATORIES LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration			
(UK Companies only) : ENGLAND			
Full Name: CARE PRODUCTS LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration			
(UK Companies only) : ENGLAND			
Full Name: ZENCO CFD LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration			
(UK Companies only) : ENGLAND			
Full Name: PLANT SCIENCE LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration			
(UK Companies only) : ENGLAND			
Full Name: STAHL GB 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 1996

Class of Capital		Held by	Held %
ORDINARY		Subsidiary(ies)	100.00
Full Name: CAMBRIDGE RESEARCH BIOCHEMICALS LIMITED			
Country of Incorporation: UNITED KINGDOM			
Country of Registration : ENGLAND			
(UK Companies only)			
Full Name: STAHL AUSTRALIA PTY. LTD.			
Country of Incorporation: AUSTRALIA			
Country of Registration : N/A			
(UK Companies only)			
Full Name: COMPREHENSIVE CANCER CENTERS OF NEW YORK, INC			
Country of Incorporation: U.S.A.			
Country of Registration : N/A			
(UK Companies only)			
Full Name: ZENECA CANADA INC.			
Country of Incorporation: CANADA			
Country of Registration : N/A			
(UK Companies only)			
Full Name: ZENECA CORP.			
Country of Incorporation: CANADA			
Country of Registration : N/A			
(UK Companies only)			
Full Name: STAHL CANADA LTD			
Country of Incorporation: CANADA			
Country of Registration : N/A			
(UK Companies only)			
Full Name: ZENECA DELAWARE HOLDINGS 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
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(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: ATKEMIX NINE INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
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: 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: STUART DISEASE MANAGEMENT SERVICES, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
COMMON	Subsidiary(ies)	50.00
Full Name: THE BREAST CENTER, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: STAUFFER MANAGEMENT COMPANY 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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(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: ATKEMIX THIRTY-SEVEN INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)			
COMMON	Subsidiary(ies)		100.00
Full Name: STAUFFER CHEMICAL CO CANADA Country of Incorporation: CANADA Country of Registration : N/A (UK Companies only)			
ORDINARY	Subsidiary(ies)		100.00
Full Name: ZENECA REINSURANCE COMPANY LIMITED Country of Incorporation: CAYMAN ISLANDS Country of Registration : N/A (UK Companies only)			
ORDINARY	Subsidiary(ies)		100.00
Full Name: ACORGA LIMITED Country of Incorporation: BERMUDA Country of Registration : N/A (UK Companies only)			
COMMON	Subsidiary(ies)		100.00
Full Name: ZENECA FOREIGN SALES CORPORATION Country of Incorporation: BARBADOS Country of Registration : N/A (UK Companies only)			
ORDINARY	Subsidiary(ies)		51.00
Full Name: ARBIL INTERNATIONAL INSURANCE LIMITED Country of Incorporation: CAYMAN ISLANDS Country of Registration : N/A (UK Companies only)			
COMMON	Subsidiary(ies)		100.00
Full Name: ATKEMIX THIRTY-EIGHT 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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(Companies Act 1985 - S231; Schedule 5 Part II)
As at 31ST DECEMBER 1996

Class of Capital		Held by	Held %
COMMON		Subsidiary(ies)	100.00
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	COMMON STOCK	Subsidiary(ies)	100.00
Country of Incorporation: U.S.A.			
Country of Registration			
(UK Companies only)			N/A
Full Name: ZENECA RESINS HOLDINGS INC.	COMMON	Subsidiary(ies)	100.00
Country of Incorporation: U.S.A.			
Country of Registration			
(UK Companies only)			N/A
Full Name: ZENECA HOLDINGS INC	COMMON	Subsidiary(ies)	100.00
Country of Incorporation: U.S.A.			
Country of Registration			
(UK Companies only)			N/A
Full Name: ZENECA INC.	COMMON	Subsidiary(ies)	100.00
Country of Incorporation: U.S.A.			
Country of Registration			
(UK Companies only)			N/A
Full Name: Z-MONT INSURANCE COMPANY	COMMON	Subsidiary(ies)	100.00
Country of Incorporation: U.S.A.			
Country of Registration			
(UK Companies only)			N/A
Full Name: ZENECA PHARMA INC	COMMON	Subsidiary(ies)	100.00
Country of Incorporation: CANADA			
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 %
COMMON		Subsidiary(ies)	100.00
Full Name: CORPUS CHRISTI HOLDINGS INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)			
Full Name: ZENECA METALEX INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)			
Full Name: CENTURY DIALYSIS CORPORATION Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)			
Full Name: INTERCENTER CANCER RESEARCH GROUP, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)			
Full Name: AURORA MEDICAL SUPPLIES, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)			
Full Name: AMBULATORY DIAGNOSTIC TESTING SERVICES, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)			
Full Name: SHC LABORATORIES, 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
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(Companies Act 1985 - S231; Schedule 5 Part II)
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Class of Capital	Held by	Held %
COMMON	Subsidiary(ies)	50.00
Full Name: DAY CARE HOSPITALS, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		
Full Name: COMPREHENSIVE CANCER CENTERS, INC - PHILADELPHIA Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	Subsidiary(ies)	50.00
Full Name: DESERT DIALYSIS MEDICAL CLINIC, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	Subsidiary(ies)	50.00
Full Name: COMPREHENSIVE CANCER CENTERS INC. - KANSAS CITY Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	Subsidiary(ies)	50.00
Full Name: INFUSX, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	Subsidiary(ies)	50.00
Full Name: INFUCARE CALIFORNIA, INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	Subsidiary(ies)	50.00
Full Name: CCCLP CORP Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	Subsidiary(ies)	50.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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(Companies Act 1985 - S231; Schedule 5 Part II)
As at 31ST DECEMBER 1996

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	Class of Capital	Held by	Held %
	COMMON	Subsidiary(ies)	50.00
Full Name: CCC OF NORTH AMERICA 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)	COMMON	Subsidiary(ies)	50.00
Full Name: COMPREHENSIVE CANCER CENTERS - WEST VALLEY INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	COMMON	Subsidiary(ies)	50.00
Full Name: SALICKNET INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	COMMON	Subsidiary(ies)	50.00
Full Name: MULTI-ORGAN TRANSPLANT HOSPITALS, INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	COMMON	Subsidiary(ies)	50.00
Full Name: SALICK HEALTH CARE, INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	COMMON	Subsidiary(ies)	50.00
Full Name: ACABADOS STAHL DE MEXICO, S.A. DE C.V. Country of Incorporation: MEXICO Country of Registration : N/A (UK Companies only)	ORDINARY	Subsidiary(ies)	100.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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subsidiary undertakings
(Companies Act 1985 - S231; Schedule 5 Part II)
As at 31ST DECEMBER 1996

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Class of Capital		Held by	Held %
NO PAR VALUE :		Subsidiary(ies)	
ORDINARY			
Full Name: STAHL DE MEXICO, S.A. DE C.V. Country of Incorporation: MEXICO Country of Registration : N/A (UK Companies only)			100.00
Full Name: ZENECA NICARAGUA, SOCIEDAD ANONIMA Country of Incorporation: NICARAGUA Country of Registration : N/A (UK Companies only)		Subsidiary(ies)	100.00
Full Name: ZENECA PHARMA INC. Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		Subsidiary(ies)	100.00
Full Name: BLAIRMONT INSURANCE COMPANY Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)		Subsidiary(ies)	51.00
Full Name: ZENECA HOLDING GMBH Country of Incorporation: GERMANY Country of Registration : N/A (UK Companies only)		Subsidiary(ies)	100.00
Full Name: ZENECA B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		Subsidiary(ies)	100.00
Full Name: ZENECA ITALIA SRL Country of Incorporation: ITALY Country of Registration : N/A (UK Companies only)		Subsidiary(ies)	100.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA ESPECIALIDADES S.A. Country of Incorporation: SPAIN Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA GMBH Country of Incorporation: GERMANY Country of Registration : N/A (UK Companies only)		
ORDINARY STOCK 'A'	Subsidiary(ies)	100.00
Full Name: RHEIN-PHARMA GMBH Country of Incorporation: GERMANY Country of Registration : N/A (UK Companies only)		
'A' SHARES	Subsidiary(ies)	100.00
Full Name: ZENECA AS Country of Incorporation: DENMARK Country of Registration : N/A (UK Companies only)		
ORDINARY A	Subsidiary(ies)	100.00
Full Name: ZENECA S.A. Country of Incorporation: FRANCE Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA PHARMA S.A. Country of Incorporation: FRANCE Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA IRELAND LIMITED Country of Incorporation: REPUBLIC OF IRELAND Country of Registration : N/A (UK Companies only)		

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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As at 31ST DECEMBER 1996

Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA S.p.A. Country of Incorporation: ITALY Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA NV Country of Incorporation: BELGIUM Country of Registration : N/A (UK Companies only)	Subsidiary(ies)	100.00
Full Name: SOPRA S.A. Country of Incorporation: FRANCE Country of Registration : N/A (UK Companies only)	ORDINARY STOCK Subsidiary(ies)	100.00
Full Name: SOLPLANT S.p.A. Country of Incorporation: ITALY Country of Registration : N/A (UK Companies only)	ORDINARY A Subsidiary(ies)	100.00
Full Name: STAHL INTERNATIONAL B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)	ORDINARY Subsidiary(ies)	100.00
Full Name: ZENECA A/S Country of Incorporation: NORWAY Country of Registration : N/A (UK Companies only)	ORDINARY Subsidiary(ies)	100.00
Full Name: ZENECA AB Country of Incorporation: SWEDEN Country of Registration : N/A (UK Companies only)	ORDINARY Subsidiary(ies)	100.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA OY Country of Incorporation: FINLAND Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA EPSILON B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)	ORDINARY	Subsidiary(ies) 100.00
Full Name: ZENECA HOLDING SPAIN SA Country of Incorporation: SPAIN Country of Registration : N/A (UK Companies only)	ORDINARY	Subsidiary(ies) 100.00
Full Name: STAHL ITALIA SPA Country of Incorporation: ITALY Country of Registration : N/A (UK Companies only)	ORDINARY	Subsidiary(ies) 100.00
Full Name: STAHL (DEUTSCHLAND) GMBH Country of Incorporation: GERMANY Country of Registration : N/A (UK Companies only)	ORDINARY STOCK 'A'	Subsidiary(ies) 100.00
Full Name: STAHL POLYVINYL INTERNATIONAL BV Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)	ORDINARY STOCK 'A'	Subsidiary(ies) 100.00
Full Name: STAHL HOLLAND B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)	ORDINARY STOCK 'A'	Subsidiary(ies) 100.00

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 STOCK	Subsidiary(ies)	100.00
Full Name: ZENECA RESINS B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
SERIES A SERIES B	Subsidiary(ies) Subsidiary(ies)	100.00 100.00
Full Name: STAHL IBERICA, S.A. Country of Incorporation: SPAIN Country of Registration : N/A (UK Companies only)		
PARTS SOCIALES	Subsidiary(ies)	100.00
Full Name: STAHL FRANCE SARL Country of Incorporation: FRANCE Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA ZETA B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA JOTA B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA RHO B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA SIGMA B.V. Country of Incorporation: HOLLAND 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		Subsidiary(ies)		100.00
Full Name: ZENECA KAPPA B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)				
Full Name: ZENECA OMEGA B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)				
Full Name: STUART PHARMA AB Country of Incorporation: SWEDEN Country of Registration : N/A (UK Companies only)				
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)				

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Class of Capital	Held by	Held %
CAPITAL STOCK	Subsidiary(ies)	100.00
Full Name: ZENECA OESTERREICH GmbH Country of Incorporation: AUSTRIA Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA - PRODUTOS BIOCIENTIA, LDA Country of Incorporation: PORTUGAL Country of Registration : N/A (UK Companies only)	QUOTAS	99.88
Full Name: ZENECA AG Country of Incorporation: SWITZERLAND Country of Registration : N/A (UK Companies only)	ORDINARY STOCK 'A'	100.00
Full Name: STAHL CHEMICAL INDUSTRIES GMBH Country of Incorporation: AUSTRIA Country of Registration : N/A (UK Companies only)	ORDINARY STOCK 'A'	100.00
Full Name: STAUFFER CHEMICAL B.V. Country of Incorporation: HOLLAND Country of Registration : N/A (UK Companies only)	ORDINARY	100.00
Full Name: ZENECA POLSKA SP. Z.O.O. Country of Incorporation: POLAND Country of Registration : N/A (UK Companies only)	ORDINARY	100.00
Full Name: ZENECA HUNGARY KFT Country of Incorporation: HUNGARY Country of Registration : N/A (UK Companies only)	ORDINARY	100.00

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Class of Capital	Held by	Held %
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA YUGOSLAVIA D.O.O. Country of Incorporation: YUGOSLAVIA Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA SLOVAKIA S.R.O. Country of Incorporation: SLOVAKIA Country of Registration : N/A (UK Companies only)		
Full Name: STAUFFER CHEMICAL (EUROPE) S.A. Country of Incorporation: SWITZERLAND Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA HELIAS S.A. Country of Incorporation: GREECE Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA AGRO - PRODUTOS PARA A AGRICULTURA, Country of Incorporation: PORTUGAL Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA RESINS S A (SPAIN) Country of Incorporation: SPAIN Country of Registration : N/A (UK Companies only)		
Full Name: ZENECA AGRO, S.A. Country of Incorporation: SPAIN 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 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)			
Full Name: ZENECA URUGUAY S.A.		ORDINARY STOCK 'A'	Subsidiary(ies)
Country of Incorporation: URUGUAY			100.00
Country of Registration : N/A			
(UK Companies only)			
Full Name: ZENECA PANAMERICANA, S.A.		ORDINARY STOCK	Subsidiary(ies)
Country of Incorporation: GUATEMALA			100.00
Country of Registration : N/A			
(UK Companies only)			
Full Name: AGROQUIMICOS ALPHA, S.A.		ORDINARY STOCK	Subsidiary(ies)
Country of Incorporation: GUATEMALA			100.00
Country of Registration : N/A			
(UK Companies only)			
Full Name: AGROINSUMOS, S.A.		ORDINARY STOCK	Subsidiary(ies)
Country of Incorporation: GUATEMALA			100.00
Country of Registration : N/A			
(UK Companies only)			
Full Name: ANYL-MEX SA DE CV		ORDINARY B	Subsidiary(ies)
Country of Incorporation: MEXICO		ORDINARY A	Subsidiary(ies)
Country of Registration : N/A			100.00
(UK Companies only)			100.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Class of Capital	Held by	Held %
-----	-----	-----
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)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA COSTA RICA, S.A.		
Country of Incorporation: COSTA RICA		
Country of Registration : N/A		
(UK Companies only)		
COMMON	Subsidiary(ies)	100.00
Full Name: STAHL BRASIL S.A.		
Country of Incorporation: BRAZIL		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY A	Subsidiary(ies)	100.00
Full Name: ZENECA BRASIL LTDA		
Country of Incorporation: BRAZIL		
Country of Registration : N/A		
(UK Companies only)		
QUOTAS	Subsidiary(ies)	100.00
Full Name: ZENECA CHILE SA		
Country of Incorporation: CHILE		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA (MALAYSIA) SDN. BHD.		
Country of Incorporation: MALAYSIA		
Country of Registration : N/A		
(UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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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 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 NON-VOTING DEFERRED SHARE	Subsidiary(ies) Subsidiary(ies)	99.00 99.00
Full Name: ZENECA CHINA LIMITED Country of Incorporation: HONG KONG 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	Subsidiary(ies)	100.00
Full Name: STAHL KOREA LTD Country of Incorporation: SINGAPORE Country of Registration : N/A (UK Companies only)		
ORDINARY B	Subsidiary(ies)	51.00
Full Name: ZENECA AGRO ASIATIC LTD Country of Incorporation: THAILAND Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: STAHL ASIA PTE LTD Country of Incorporation: SINGAPORE Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA TURKIYE LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)		
ORDINARY	Subsidiary(ies)	70.00
Full Name: PT.ZENECA PHARMA INDONESIA Country of Incorporation: INDONESIA Country of Registration : N/A (UK Companies only)		
ORDINARY STOCK 'A'	Subsidiary(ies)	70.00
Full Name: PT ZENECA AGRI PRODUCTS INDONESIA Country of Incorporation: INDONESIA Country of Registration : N/A (UK Companies only)		
ORDINARY	Subsidiary(ies)	60.00
Full Name: ZENECA YAKUHHIN K.K. Country of Incorporation: JAPAN 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 1996

Class of Capital		Held by	Held %
ORDINARY		Subsidiary(ies)	
Full Name: ZENECA K.K. Country of Incorporation: JAPAN Country of Registration : N/A (UK Companies only)			
Full Name: ZENECA PHARMA ASIATIC LIMITED Country of Incorporation: THAILAND Country of Registration : N/A (UK Companies only)			
Full Name: ZENECA ABDI IBRAHIM ILAC SANAYI VE TICARET A.S. Country of Incorporation: TURKEY Country of Registration : N/A (UK Companies only)			
Full Name: ZENECA RESINS PTE LTD 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: ZENECA ADVANCED COLOURS AND CHEMICALS(SHENZEN) LTD Country of Incorporation: CHINA P.R. Country of Registration : N/A (UK Companies only)			
Full Name: PT ZENECA COLOURS INDONESIA Country of Incorporation: INDONESIA 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	Subsidiary(ies)	75.00
Full Name: ZENECA SINO-PHARM CONSULTING DEVELOPMENT 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)	ORDINARY	Subsidiary(ies)	100.00
Full Name: ICI SOUTH AFRICA PHARMACEUTICALS (PROPRIETARY) Country of Incorporation: SOUTH AFRICA Country of Registration : N/A (UK Companies only)	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)	ORDINARY	Subsidiary(ies)	100.00
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: FARMERS ORGANISATION (PTY) LTD Country of Incorporation: SOUTH AFRICA Country of Registration : N/A (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

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Full Name:	Country of Incorporation:	Country of Registration:	(UK Companies only)	Class of Capital	Held by	Held %
Full Name: ZENECA ZIMBABWE (PRIVATE) LIMITED	Country of Incorporation: ZIMBABWE	Country of Registration	: N/A	ORDINARY	Subsidiary(ies)	100.00
Full Name: STUART PHARMACEUTICALS (SOUTH AFRICA)	Country of Incorporation: SOUTH AFRICA	Country of Registration	: N/A	ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA AGROCHEMICALS MAROC	Country of Incorporation: MOROCCO	Country of Registration	: N/A	ORDINARY	Subsidiary(ies)	51.00
Full Name: ZENECA INTERNATIONAL LIMITED	Country of Incorporation: UNITED KINGDOM	Country of Registration	: ENGLAND	ORDINARY	Subsidiary(ies)	100.00
Full Name: PRODUCTOS STAHL DE VENEZUELA C.A.	Country of Incorporation: VENEZUELA	Country of Registration	: N/A	COMMON A COMMON B	Subsidiary(ies) Subsidiary(ies)	51.10 51.10
Full Name: IMPERIAL CHEMICAL (PHARMACEUTICALS) LIMITED	Country of Incorporation: UNITED KINGDOM	Country of Registration	: ENGLAND	ORDINARY	Subsidiary(ies)	100.00
Full Name: I.C. INSURANCE HOLDINGS LIMITED	Country of Incorporation: UNITED KINGDOM	Country of Registration	: ENGLAND	ORDINARY	Subsidiary(ies)	51.00

SHAREHOLDINGS IN SUBSIDIARY UNDERTAKINGS included in the
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Full Name: Country of Incorporation: Country of Registration (UK Companies only)	Class of Capital	Held by	Held %
Full Name: ZENECA INSURANCE COMPANY LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : UK (UK Companies only)	ORDINARY	Subsidiary(ies)	100.00
Full Name: MARLOW FOODS LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	ORDINARY	Subsidiary(ies)	100.00
Full Name: NOVACOTE FLEXPACK LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA INVESTMENTS LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA NOMINEES LIMITED Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA WILMINGTON INC Country of Incorporation: U.S.A. Country of Registration : N/A (UK Companies only)	COMMON	Zeneca Group PLC	100.00
Full Name: ZENECA FINANCE (NETHERLANDS) COMPANY Country of Incorporation: UNITED KINGDOM Country of Registration : ENGLAND (UK Companies only)	ORDINARY	Subsidiary(ies)	100.00

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Class of Capital	Held by	Held %
-----	-----	-----
ORDINARY	Subsidiary(ies)	100.00
Full Name: ZENECA FINANCE LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : ENGLAND		
Full Name: ZENECA HOLDINGS LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : UK		
Full Name: ZENECA BIOSCIENCE LIMITED		
Country of Incorporation: UNITED KINGDOM		
Country of Registration		
(UK Companies only) : UK		
ORDINARY	Subsidiary(ies)	100.00
Number of Companies listed 185		

ZENECA Group PLC

COMPANY NO: 2723534

SIGNED ON PAGE 38

ZENECA

ANNUAL REPORT AND ACCOUNTS

1996

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Zeneca's purpose is to be continuously successful, by providing specialised products and services which improve human health, nutrition and quality of life around the world.

In achieving this, we will maintain the following values: customer focus, innovation, employee development, ethical standards, social responsibility and wealth creation.

Zeneca is active in the following areas of business: Zeneca Pharmaceuticals researches and develops ethical medicines for seven therapeutic areas:— cancer, cardiovascular, metabolism and endocrinology, musculoskeletal, central nervous system, infection and respiratory. Salick Health Care, Inc. is the leading US multi-site provider of comprehensive cancer diagnostic and treatment services. Zeneca Agrochemicals researches and develops crop protection products. Zeneca Specialties provides a range of products including leather coatings, colours, resins and biocides.

KEY ACHIEVEMENTS FOR 1996

For the shareholder . . .

- Sales reach £5.4 billion and profits top £1 billion for the first time.
 - Dividend up by 13%, EPS up by 14%.
 - Strong cash flow resulting in net cash funds of £272 million.
-

For the customer . . .

- Successful progress of new products:

'Casodex' advanced prostate cancer treatment is well received by the market for its efficacy, oral administration and favourable tolerability.

'Zoladex' LA, the first long-acting, three month, slow-release prostate cancer treatment, designed for convenient dosage, receives positive market reaction.

'Arimidex' advanced breast cancer treatment now launched in most major territories worldwide. New research initiated by Zeneca shows improved patient survival over the leading competitor compound.

'Accolate', a new oral anti-asthma therapy, is successfully launched – the first of a new class of medicines, leukotriene receptor antagonists, to receive US Food and Drug Administration clearance.

'Zomig', a novel fast-acting anti-migraine treatment acquired in 1996, makes good progress towards 1997 launch.

'Amistar', a new broad-spectrum fungicide for use on a wide range of crops, gains rapid registrations because of its good toxicological and environmental profile. Early sales are promising.

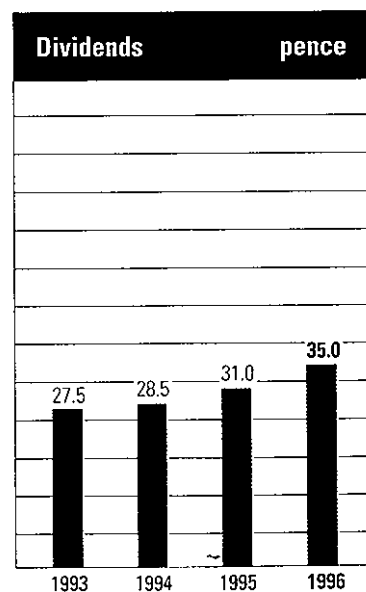
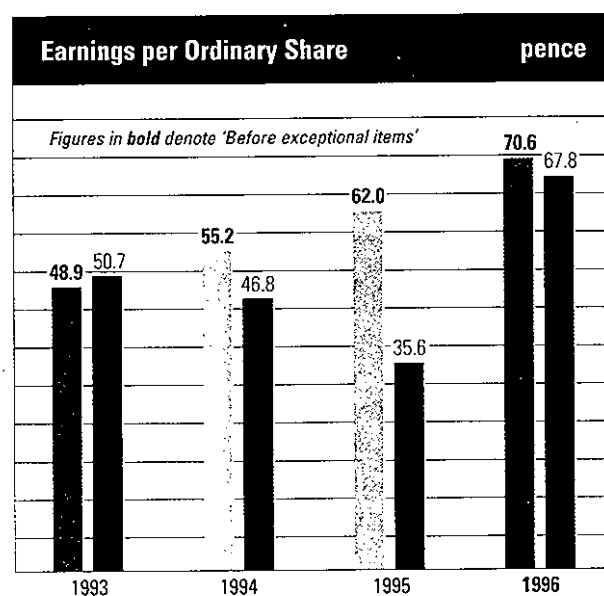
For the future . . .

- 10% increase in Group research and development spend and increased external collaborations will help boost innovation, productivity and regulatory approvals.
- 34% increase in Group capital investment will support rapid availability of new products worldwide.
- Sales force expansion will enable Zeneca to market more powerfully its exciting new products in established and emerging markets.

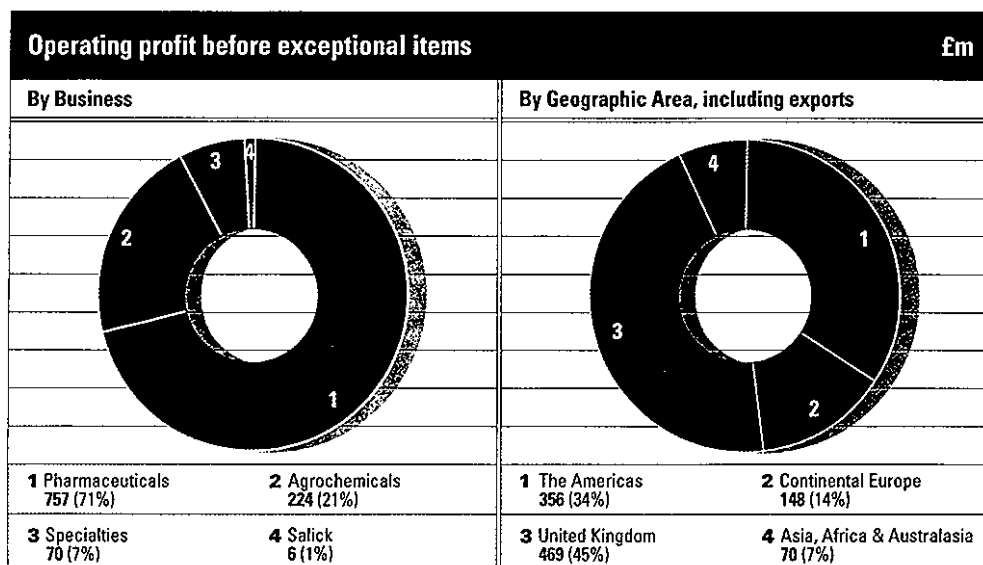
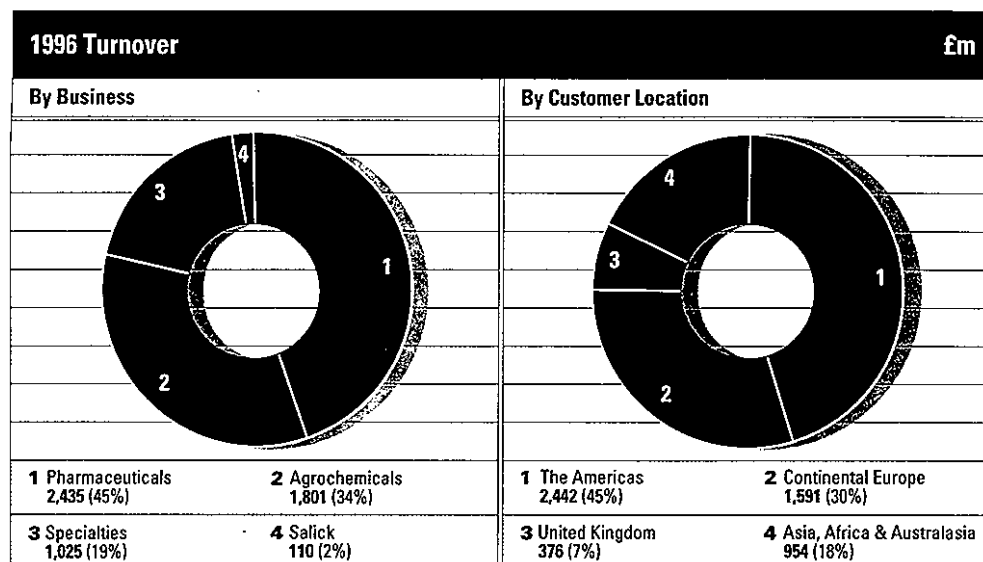
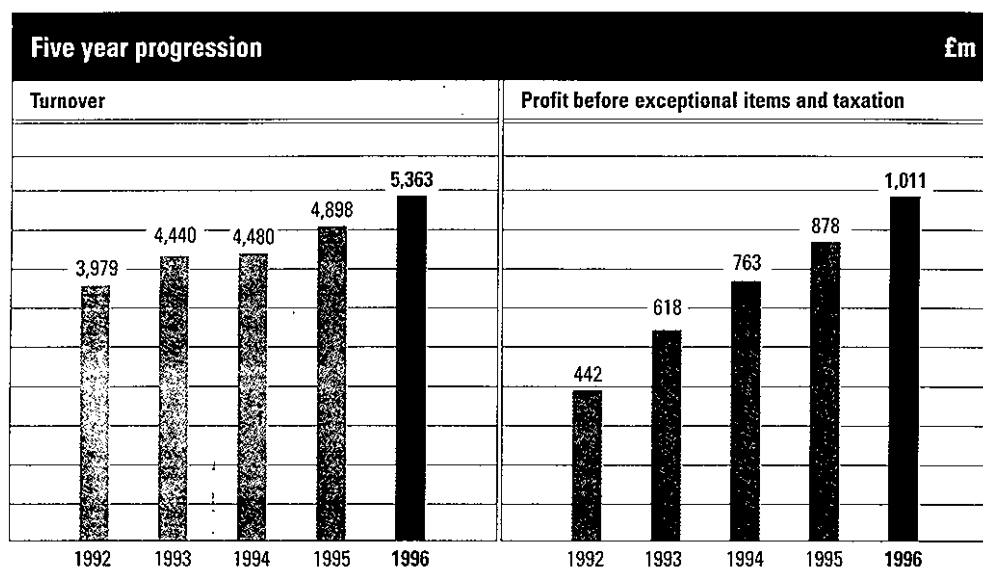
GROUP FINANCIAL HIGHLIGHTS

	1996 £m	1995 £m	% increase
Turnover	5,363	4,898	9%
Operating profit before exceptional items	1,043	894	17%
Profit before exceptional items and taxation	1,011	878	15%
Profit before taxation	975	619	58%
Net profit for the financial year	643	336	91%
Earnings per Ordinary Share	67.8p	35.6p	90%
Earnings per Ordinary Share before exceptional items	70.6p	62.0p	14%
Dividend per Ordinary Share	35.0p	31.0p	13%

Dividend for 1996	Pence	Payment Date
First interim dividend	12.5p	7 November 1996
Second interim dividend	22.5p	6 May 1997

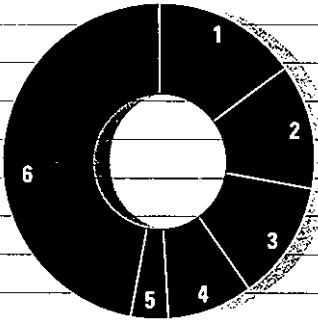
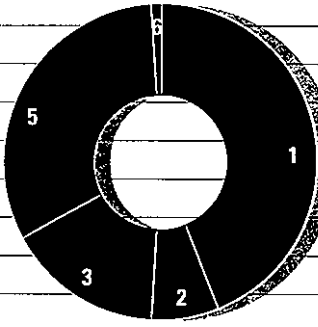
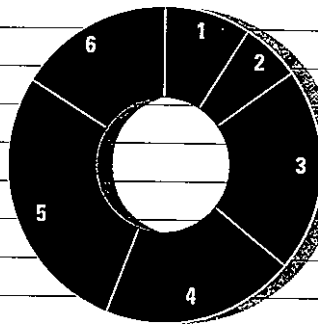


GROUP FINANCIAL HIGHLIGHTS



THE BUSINESSES AT A GLANCE

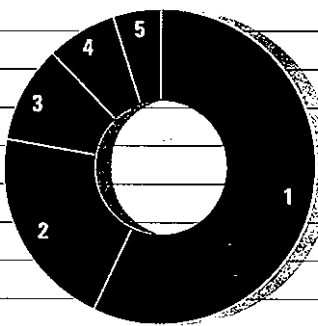
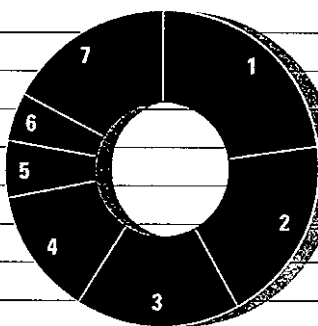
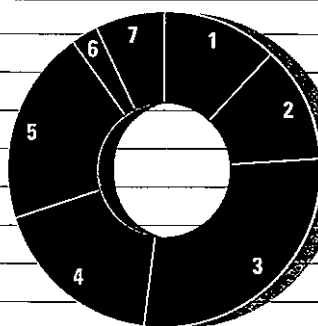
PHARMACEUTICALS

World Market by Therapeutic Area*	Zeneca Sales by Therapeutic Area	Zeneca R&D Expenditure by Therapeutic Area
		
1 Cardiovascular 15%	1 Cardiovascular 44%	1 Cardiovascular 9%
2 Infection 13%	2 Infection 7%	2 Infection 6%
3 Central Nervous System 12%	3 Central Nervous System 16%	3 Central Nervous System 21%
4 Respiratory 9%	4 Respiratory 0%	4 Respiratory 20%
5 Cancer 4%	5 Cancer 32%	5 Cancer 28%
6 Others 47%	6 Others 1%	6 Others 16%
*Source: IMS AG (1995 data)		

SALICK

Zeneca has a 50% interest in Salick Health Care, Inc., the leading US multi-site provider of comprehensive cancer diagnostic and treatment services.

AGROCHEMICALS

Zeneca Sales by Product Area	Zeneca Sales by Crop Type	Zeneca Sales by Business Area
		
1 Herbicides 57%	1 Horticulture 23%	1 Textile Colours 12%
2 Insecticides 21%	2 Maize 19%	2 Industrial Colours 12%
3 Fungicides 10%	3 Oilseeds 17%	3 Other Organics Businesses 28%
4 Seeds 7%	4 Wheat & Barley 13%	4 Resins 18%
5 Others 5%	5 Rice 6%	5 Stahl 20%
	6 Cotton 5%	6 Marlow Foods 3%
17 months' sales prior to formation of joint venture	7 Others 17%	7 Others 7%

PHARMACEUTICALS: Major Products and Development Pipeline

		Development compounds	Regulatory and launch phases	Established products
Cancer	<i>Nolvadex, Zoladex, Metastron*, Casodex, Arimidex, Kadian*, Zoladex LA</i>			●
	<i>Tomudex</i>		●	
	<i>Faslodex, ZD2767, ZD9331, ZD1839</i>	●		
Cardiovascular & Metabolism	<i>Inderal, Tenormin, Tenoretic, Zestril, Zestoretic, Silar*</i>			●
	<i>ZD2486, ZD6169, ZD1611, ZD2574</i>	●		
Central Nervous System	<i>Diprivan, Fluothane, Elavil</i>			●
	<i>Seroquel, Zomig</i>		●	
	<i>ZD3638, ZD4953, ZD9379</i>	●		
Infection	<i>Hibitane, Apatel*, Amphocil*, Merrem*</i>			●
Respiratory	<i>Accolate</i>		●	
	<i>ZD7944, ZD8321</i>	●		

Further details of the Pharmaceuticals product range, mode of action, indications and *licensing arrangements can be found on the inside back cover

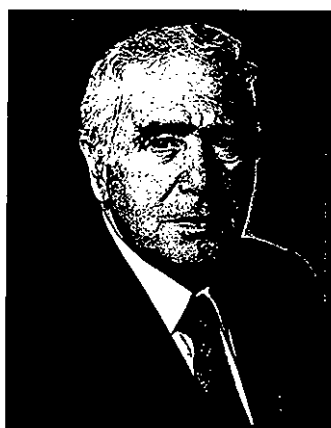
AGROCHEMICALS: Major Products

	Herbicides	Insecticides	Fungicides
Horticulture	<i>Gramoxone Touchdown Fusilade Reglone</i>	<i>Karate Pirimor</i>	<i>Amistar Anvil Impact Captan Shirlan</i>
Maize	<i>Gramoxone Surpass ~ Mikado Eradicane</i>	<i>Karate Force</i>	
Oilseeds	<i>Touchdown Fusilade Reglone Flex Racer</i>	<i>Karate</i>	
Wheat & Barley	<i>Touchdown Achieve/Grasp Boxer</i>	<i>Karate</i>	<i>Amistar Anvil Impact</i>
Rice	<i>Gramoxone Ordram Fujigrass</i>	<i>Karate</i>	<i>Amistar</i>
Cotton	<i>Gramoxone Fusilade</i>	<i>Karate</i>	
Others	<i>Gramoxone Touchdown Fusilade Reglone</i>	<i>Karate Ambush Cymbush</i>	<i>Amistar</i>

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

SPECIALTIES: Major Products

Business	Applications
Organic Chemicals	
Industrial Colours	Specialist colours (high purity inks and chemicals) for the non-impact printing markets; high performance pigments for paint and plastic applications; additives for paints, plastics and inks; paper dyes
Biocides	Industrial biocides, eg: <i>Proxel</i> and <i>Promexal</i> preservatives, <i>Densil</i> fungicides, <i>Vantocil</i> disinfectants and <i>Cosmocil</i> preservative for personal care Swimming pool products, eg: <i>Baquacil</i>
LifeScience Molecules	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
Performance & Intermediate Chemicals	Mining chemicals, fine organics, special drug mixtures, polymer and monomer stabilisers and intermediates, and chemical intermediates for agrochemicals
Coatings	
Resins	Binders and additives for architectural and industrial coatings and adhesives/printing inks
Stahl	Leather chemicals, shoe finishes and coatings for fabrics
Others	
Marlow Foods	<i>Quorn</i> myco-protein food



Profits top £1 billion for the first time

1996 was an excellent year for Zeneca, and I am pleased to report that all three businesses performed well. Since 1993, the year of the demerger, profits before exceptional items have shown steady annual growth. In 1996, they crossed the £1 billion mark for the first time, increasing 15% from £878 million in 1995 to £1.01 billion. Group sales improved by 9%, from £4.9 billion to £5.36 billion, and exports reached a record £2 billion, continuing Zeneca's performance as one of the UK's leading exporters.

These results and our sustained performance over four years confirm the benefits of our focused strategy which has reinforced the performance of our core businesses, delivered new products to the market, divested non-core activities and invested for continued growth.

We are well placed to meet future challenges, and our confidence in the future is reflected in the dividend; the Board has recommended a second interim dividend of 22.5p bringing the dividend for the year up to 35.0p. This equates to a 13% increase over the 1995 payment of 31.0p.

A leader in our chosen fields

Zeneca is a leading international bioscience company and our achievements in 1996 underline this claim. Zeneca Pharmaceuticals has strong positions in its chosen therapeutic areas and has reinforced its powerful oncology portfolio with a number of new product launches during the year. Zeneca Agrochemicals has increased its share of the total agrochemicals' market which itself grew in 1996. Similarly, almost all Zeneca Specialties' businesses performed well in their respective business sectors.

We have defined our areas of strength, and all our efforts are now concentrated on building and reinforcing Zeneca's future in these sectors.

Investing for the future

Effective research and development is the lifeblood of a science-based company, and key to Zeneca's future success. In 1996, we significantly increased R & D expenditure by 10% to £602 million, and expanded our portfolio of selective external collaborations to further complement our in-house innovative capabilities.

The development and launch of new products calls for an increase in capital expenditure to ensure that they are available to the market as soon as regulatory approvals have been received. Bringing to market Zeneca's wealth of new products necessitated an increase in capital expenditure in 1996 to £379 million. Each investment proposal is carefully considered and we are at all times vigilant to contain costs and to maximise the use of existing resources.

People

The Board has made a number of senior appointments since the last annual report. Michael Pragnell was appointed an Executive Director from 1 January 1997, in addition to his remaining as Chief Executive Officer of the Agrochemicals business, and I congratulate him on his new, broader role.

Frank Meysman, Chairman of the Board of Management of Sara Lee/DE N.V. and Senior Vice President of the Sara Lee Corporation, became a Non-Executive Director on 1 November 1996 and Dame Bridget Ogilvie, Director of the Wellcome Trust, joined the Board as a Non-Executive Director on 1 January 1997. Frank Meysman's

international experience of high quality, branded consumer products and Dame Bridget's extensive background in the field of medical research will bring further strength to the Non-Executive representation on the Board. I look forward to working with them.

Honours

It is with great pleasure that I am able to record the award of honours in 1996 to several of my colleagues in Zeneca. I would particularly like to congratulate Sir David Barnes on his knighthood for services to the pharmaceutical industry. David has been tireless in his endeavours to develop Zeneca and his contribution to both the Company and the industry has been profound. I am delighted that his efforts have been recognised in this way.

Other members of the Zeneca Group to be honoured in 1996 include Dame Bridget Ogilvie whose DBE award is a fitting reward for her considerable efforts in fostering scientific research. Dr Ed Dart was awarded a CBE for his services to industry and science, and Ian Sneddon received an MBE for his work with the local community around our manufacturing site in Grangemouth, Scotland. I would like to congratulate all the recipients of these well-deserved honours.

During the year Zeneca received other awards which underline the skills of our people and the high standards of the Group. Professor Nigel Poole received a prize from the Chemical Industries Association for his outstanding contribution to the public understanding of the issues surrounding the introduction of genetically modified tomato paste and puree. The Group was also included in Industry Week's 100 Best Managed Companies listing during 1996, and won the Gartmore Pooled Pensions Money Purchase Award.

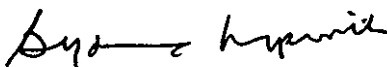
The Zeneca Science Teaching Trust

Zeneca is finalising plans for an exciting project for the Millennium: the Zeneca Science Teaching Trust. The Trust will actively promote science education, particularly at the primary school level. The annual income from the Trust Fund will be used to help provide additional teachers, science equipment and support materials to improve science teaching. Zeneca has for many years been committed to fostering the understanding of science and supporting science education, and I believe that the launch of this Trust is a most fitting way for us to mark the Millennium.

Future prospects

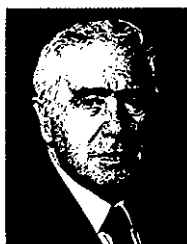
Zeneca's success in 1996 was only possible through the sustained endeavours of everyone in the Group, and I would like to thank my Board colleagues and all Zeneca employees for their commitment: this year's results are a tribute to their skill and hard work.

Zeneca's profit growth has been steady and consistent in dynamic markets that are highly complex and scientifically demanding. Our businesses are well placed to continue to capitalise on future opportunities and maintain their success in years to come, and I look forward to the future with confidence and anticipation.



Sir Sydney Lipworth
Chairman

BOARD OF DIRECTORS



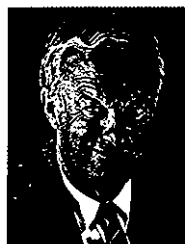
Sir Sydney Lipworth



Sir David Barnes



Sir Richard Greenbury *



Tom Wyman **



Peter Doyle



John Mayo



Alan Pink



Sir Jeremy Morse **



Tom McKillop



Sir Peter Bonfield **



Frank Meysman *

*Member of the
Remuneration
and Nomination
Committee

**Member of the
Audit Committee

Sir Sydney Lipworth QC (65)

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 David Barnes CBE (61)

Chief Executive

Non-Executive Director of Redland PLC. Deputy Chairman of Business in the Community.

Sir Richard Greenbury (60)

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

Chairman and Chief Executive Officer of Marks and Spencer p.l.c. Non-Executive Director of Lloyds TSB Group Plc.

Tom Wyman (67), US citizen

Non-Executive Director and Chairman of the Audit Committee

Senior Adviser, SBC Warburg Inc. Non-Executive Director of AT&T, General Motors Corporation and Hughes Electronics Corporation.

Peter Doyle CBE (58)

Executive Director

Has overall responsibility for research and development, manufacturing, safety, health and the environment, and Europe. Member of The Royal Commission on Environmental Pollution and the Central Research and Development Committee for the National Health Service.

John Mayo (40)

Executive Director

Has overall responsibility for finance, insurance, information technology, and Asia, Africa and Australasia. Non-Executive Director of Pentland Group plc and Non-Executive Director of Newcastle United PLC.

Alan Pink (59)

Executive Director

Has overall responsibility for strategic planning, human resources, public affairs and The Americas, and is Chairman of Zeneca Pensions Trustee Limited and a Director of Salick Health Care, Inc. Non-Executive Director of Smiths Industries Plc.

Sir Jeremy Morse KCMG (68)

Non-Executive Director

A Nominated Member of the Council of Lloyds.

Tom McKillop (53)

Executive Director and Chief Executive Officer of the Pharmaceuticals Business

A Director of Salick Health Care, Inc. and a Non-Executive Director of Amersham International Plc.

Sir Peter Bonfield CBE, FEng (52)

Non-Executive Director

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

Frank Meysman (44)

Non-Executive Director

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

Dame Bridget Ogilvie (58), *Director of the Wellcome Trust, was appointed to the Board as a Non-Executive Director and Michael Pragnell* (50), *Chief Executive Officer of the Agrochemicals Business, was appointed to the Board as an Executive Director, in each case with effect from 1 January 1997.*

A record year for Zeneca

1996 has been a year of determined achievement. The implementation of our focused strategy has delivered record sales of £5.4 billion, profits of £1.01 billion before exceptional items (+15%), exports of £2.1 billion (+10%) and positive cash flow of £234 million. All three businesses performed strongly and contributed to these results.

Pharmaceuticals achieved good volume growth of 14% from both existing products and from the successful introduction of new anti-cancer treatments; pricing pressures continued, especially in Japan and some European markets. Agrochemicals achieved good results in all regions and its range of herbicides, especially 'Gramoxone' and 'Touchdown', showed impressive growth of 16%. Our leading insecticide, 'Karate', delivered record sales. Specialties' results demonstrated the benefits arising from the restructuring of their business portfolio with an increase in profits of 25%.

1996 was an important year for our new products. Pharmaceuticals achieved a record number of national product approvals and product launches. The new asthma therapy, 'Accolate', and the prostate cancer treatment, 'Casodex', have been particularly well received in the US. The breast cancer therapy, 'Arimidex', which complements Zeneca's range of products in this therapeutic area, has shown early promise. Recent clinical trials have shown that 'Arimidex' offers improved patient survival compared with the leading competitor compound. Agrochemicals' fungicide portfolio was reinforced during the year with the first launches of 'Amistar', a product derived from a natural fungicide which occurs in mushrooms. It offers a great number of benefits including efficacy on a broad range of fungal diseases and utility in a wide variety of crops. Tomato paste made using Zeneca Plant Science's genetically modified fruits was successfully launched in the UK and continues to sell strongly. Once again, 'Quorn' myco-protein food made substantial progress.

Seeking new products

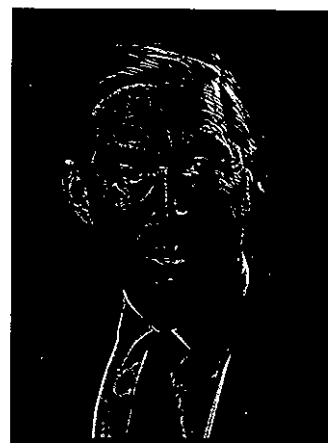
There remain many unmet medical needs. The scientific and technical opportunities to develop new medicines are unparalleled. No single company can rely exclusively on its in-house research and development; thus in 1996 we have continued to increase our external alliances in order to gain immediate, cost-effective access to specialist skills in leading edge science and modern enabling technologies. The carefully selected collaborations with Xenova Group plc, Incyte Pharmaceuticals, Inc., OncorMed Inc. and university centres of excellence, which were announced during the year, reflect this strategy.

Employees

In the four years since Zeneca was established, we have made great progress in creating a distinct and exciting culture. We have recently reviewed with our employees Zeneca's values and principles. These have now been modified slightly to reinforce the way that I wish to see Zeneca evolve. The review confirmed the high level of commitment of our employees to making Zeneca successful. Their imagination, enthusiasm, energy and skills underpin Zeneca's success and I thank them most warmly for their contribution.

Safety Health and Environment (SHE)

We continue to make progress in terms of our safety, health and environmental performances. Zeneca has received recognition for its good record on SHE issues and we remain committed to continuous improvement in these areas.



CHIEF EXECUTIVE'S REVIEW

Hazardous waste reduction is a priority. As we increase our manufacturing capabilities to meet the market demands for an unprecedented number of new products, the absolute volume of associated waste could be expected to rise and such measurements can obscure hard won SHE improvements. The SHE pages (26-27) of this report feature a graph showing our emissions expressed in terms of sales and this reveals the full extent of our progress towards minimising wastes.

Currency

As one of the UK's leading exporters, we are subject to the problems associated with exchange rate volatility. We take sensible measures to mitigate our exposure and smooth the impact of fluctuating currencies but this does not enable us to escape their long term effects. Although exchange rate fluctuations did not have a significant impact on our 1996 results, the continuing strength of sterling may temporarily slow our apparent growth.

Looking to the future

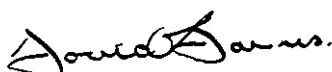
1997 will be another busy, demanding and challenging year. We have an excellent range of new products, clearly defined strategies and the capabilities to capitalise on market opportunities. In particular, there will be greater emphasis on expanding our presence in selected emerging markets, which will lead to a strengthening of our presence in Asia Pacific, Latin America and Eastern Europe.

Significant development and early launch costs were incurred during 1996; the capital investment programme was also increased. It will be necessary to sustain this expenditure in 1997 to support the launch and marketing of products such as the schizophrenia treatment 'Seroquel', the migraine therapy 'Zomig', and the fungicide 'Amistar'. These investments provide a strong platform for further growth.

Our longer term vision is focused and clearly defined. In 1996, I established six aspirational targets for Zeneca. I am delighted that we have already made progress towards meeting these targets, which are:

- to become the leading company in the field of cancer treatment by the development and sale of innovative medicines and, through Salick Health Care, Inc., the provision of comprehensive cancer care
- to enhance our position in primary care through the successful launch of the asthma therapy, 'Accolate', and 'Zomig' for migraine
- to reinforce our leading position in non-selective herbicides
- to make 'Amistar' the leading broad-spectrum fungicide worldwide
- to be an upper quartile performer in all businesses through innovation, effective marketing and leading edge customer service
- to seek to produce average five year earnings growth of 15% per year

These are challenging targets – but I firmly believe that Zeneca has the people, skills, product base, geographical breadth and strategy to achieve them. I am confident that 1997 and subsequent years will see Zeneca continue to grow.



Sir David Barnes
Chief Executive

PHARMACEUTICALS

Focus on the market

Strong international marketing skills and a record number of national product approvals and product launches helped Zeneca Pharmaceuticals deliver a good performance in 1996, with a sales growth of 13%. The development programme progressed well, exemplified by over 100 product approvals worldwide. Development and launch activities led to an increase in costs and a slightly lower operating margin which nonetheless remained in the upper half of the business' target range.

Highlights of the year included:

- Good progress of the new anti-cancer products
- Strengthening of the primary care portfolio
- Research capability enhanced through key external alliances

Zeneca Pharmaceuticals continues to address localised market needs and individual customer requirements with a broad portfolio of products, services and expertise in seven major therapeutic areas: cancer, cardiovascular, metabolism and endocrinology, musculoskeletal, central nervous system, infection and respiratory.

Zeneca and the oncologist

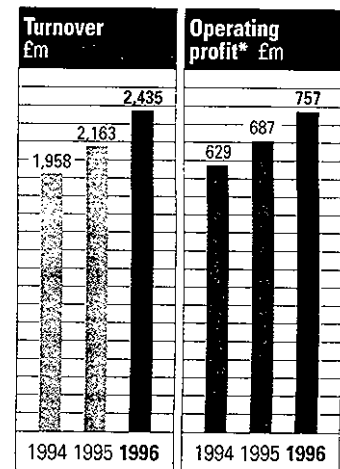
Zeneca Pharmaceuticals provides the most comprehensive range of hormonal cancer treatments in the pharmaceutical industry. The business has built this strong position on the success of 'Nolvadex', the world's largest selling breast cancer medicine and 'Zoladex', a leading prostate cancer therapy. During 1996, Zeneca continued the roll-out of its three new anti-cancer treatments, 'Arimidex', 'Casodex' and 'Tomudex', all of which offer significant customer benefits. Their success, combined with that of existing products and services, will be central to the realisation of Zeneca's aim to become the number one company in anti-cancer.

Rapid approvals were gained in 1995 in the US and in 1996 in major European countries for 'Arimidex', the advanced breast cancer therapy. 'Arimidex' is the first oral selective aromatase inhibitor launched for advanced breast cancer, and the excellent early uptake and market penetration reflect a favourable reception.

Every patient responds differently to a given therapy and for this reason Zeneca offers oncologists a range of treatment options. 'Arimidex' complements 'Nolvadex' and studies to evaluate 'Arimidex' for adjuvant use and first line breast cancer treatment are underway. The business is also developing a pure anti-oestrogen, 'Faslodex', which is in Phase III clinical development in patients with advanced breast cancer. This anti-oestrogen is also being tested for potential applications in benign gynaecological conditions.

Zeneca uses feedback from the oncologists and patients who use its products to develop new applications and improved formulations which offer increased benefits and cost-effectiveness. For example, administration of the new, longer acting, three month 'Zoladex' LA depot, coincides with the routine quarterly assessments of prostate cancer patients by physicians, which is convenient for both parties. The new formulation provides cost savings which marketing teams can demonstrate to healthcare providers on a specially developed computer model.

Zeneca Pharmaceuticals



*Before exceptional items

'Nolvadex' continues to be the world's largest selling breast cancer medicine with in excess of £2.7 billion sales worldwide since its launch

'Arimidex' shows significant patient survival advantages compared with megestrol acetate, a current standard treatment for advanced breast cancer

OPERATIONAL REVIEW

Zeneca Pharmaceuticals Sales of key products		
	1996 Sales £m	Growth % over 1995 Sterling constant
Anti-cancer		
'Nolvadex'	332	-6%
'Zoladex'	333	31%
'Arimidex'	20	n/a
'Casodex'	68	580%
Cardiovascular		
'Zestril'	605	10%
'Tenormin'	397	-2%
Anaesthesia		
'Diprivan'	349	16%
Others	331	24%
TOTAL	2,435	14%

'Zoladex' LA was first launched in 1995. It is now approved for use in over 30 countries including the US.

The efficacy, good tolerability and convenience of once daily oral administration supported successful launches for the advanced prostate cancer treatment, 'Casodex'. Since its launch in late 1995, Zeneca has secured 30 approvals for the use of 'Casodex' in combination with medical or surgical castration, and the business has initiated trials to evaluate the product's potential as a monotherapy and as a treatment for early stage prostate cancer.

In 1995, Schering Corporation filed an action in the US alleging that the use of Zeneca's 'Casodex' in combination with LHRH analogues for the treatment of prostate cancer infringed a patent which is jointly owned by Schering and Roussel UCLAF S.A. The US Court of Appeal has since upheld Zeneca's right to sell 'Casodex' for use in combination therapy and confirmed an earlier summary judgement in Zeneca's favour.

During 1996, Zeneca launched the cytotoxic (cell killing) colo-rectal cancer treatment 'Tomudex' in the UK, Canada, Australia, Luxembourg, Ireland and France. 'Tomudex' is an important addition to the range of treatment options available for colo-rectal cancer – a very serious condition for which the optimum treatment regime often takes some time to define. Zeneca is confident that 'Tomudex' will have a valuable role to play in the treatment of this disease.

Zeneca has two further cancer compounds in pre-clinical development with potential applications in a variety of cancers, including colo-rectal. One, ZD2767, uses Antibody Directed Enzyme Prodrug Therapy to deliver anti-cancer agents to the tumour site. The second, ZD9331, is a thymidylate synthase inhibitor, similar in structure to 'Tomudex' but which is expected to have different properties.

In 1996 the US Food and Drugs Administration approved "Kadian", the oral sustained release morphine formulation for the management of moderate to severe chronic pain, particularly in cancer patients. The product, licensed from Faulding Services, Inc., strengthens Zeneca's oncology portfolio.

Effective marketing of 'Nolvadex' reduced the impact of intense competition from generic tamoxifen and new tamoxifen analogues in countries where the patent property has expired. Whilst sales were slightly lower than in 1995, the product continues to make a significant contribution to Zeneca Pharmaceuticals' profitability.

Zeneca has won a lawsuit in Maryland, US, confirming that Zeneca's US patent for 'Nolvadex' is valid and enforceable until 2002, a ruling which prohibits the generic manufacturer, Novopharm Limited, from selling the generic version, tamoxifen citrate, in the US. Novopharm has appealed this decision, which appeal is pending. There are currently two further challenges to the US patent by generic companies and these are being resisted vigorously by Zeneca in the US courts.

Zeneca in cardiovascular medicine

In the US, Zeneca successfully maintained its 19% share of the ACE-inhibitor market with 'Zestril', the second largest ACE-inhibitor brand in the world.

In Europe, sales of Zeneca's cardiovascular products benefited from a number of successful marketing initiatives including the loan of cardiovascular performance

From contraception to 'Casodex'...

The Zeneca researchers who discovered 'Casodex' advanced prostate cancer treatment were originally looking for anti-progestins to block female sex hormones, as part of a programme to develop novel contraceptives. Zeneca scientists recognised that the compounds being made might also be potent anti-androgens which block the action of the male sex hormone, testosterone.

Certain prostate tumours grow in response to testosterone and Zeneca was already marketing 'Zoladex' which prevents the production of testosterone in the testes. Each patient's metabolism and disease is unique and everyone responds slightly differently to the same medicine, making a range of treatment options desirable. Zeneca recognised that anti-androgens could complement 'Zoladex' in the treatment of prostate cancer since they work in a different way.

The business therefore initiated a screening programme aimed at discovering new anti-androgens which provided increased product benefits compared with existing treatments in the same class.

'Casodex' was launched in 1995 and its efficacy, oral formulation, excellent tolerance and once daily dosing offer significant competitive advantage. In the US, 'Casodex' now has market share, in its class, of around 45% of total prescriptions and of more than 50% of new prescriptions.

Research at Zeneca Pharmaceuticals

'Casodex' complements 'Zoladex' and gives doctors a choice of treatments for patients with prostate cancer

'Casodex' tablets

Prostate cancer is the second most common malignancy amongst men, with an estimated 300,000 new cases reported each year worldwide. Its incidence increases with age.

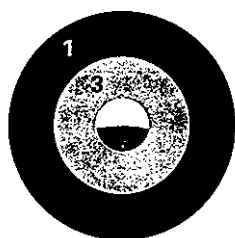
During 1996 the Zeneca cardiovascular portfolio achieved worldwide sales of over £1 billion

How 'Accolate' works

Asthma is an inflammatory disease which causes difficulty in breathing. It is mediated by the action of leukotrienes, which:

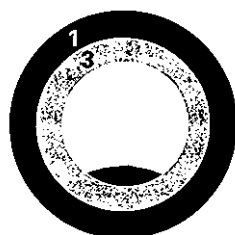
- cause the smooth muscle of the airway wall (1) to contract
- stimulate production of mucus (2) which accumulates, ultimately blocking the airway
- promote oedema and increase blood vessel permeability leading to 'water-logging' in the airway's mucus lining (3)

Before treatment



'Accolate' preserves breathing capability by blocking the action of leukotrienes: the muscle (1) remains relaxed, mucus build-up (2) and water uptake by the mucus lining (3) are reduced

After treatment



The diagrams shown are schematic cross-sections of the airway

monitoring equipment to doctors, diagnosis workshops and publications for patients giving advice on healthier lifestyle options.

Zeneca strengthened its position in cardiovascular medicine by the acquisition, from Bayer AG, of the rights to market and sell "Sular", a sustained release calcium channel blocker, in a number of world markets. The agreements were finalised in 1996 and the product has already been launched successfully in the US, Germany and Holland. This product complements Zeneca's strong cardiovascular range which is led by the ACE-inhibitor 'Zestril' and the beta-blockers 'Tenormin' and 'Inderal'.

During 1996, additional approvals were secured in most major territories for use of 'Zestril' within 24 hours of acute myocardial infarction (heart attack) and this should lead to continued growth in demand. The findings of the independent ATLAS study, the first to assess the impact of high and low dose 'Zestril' on mortality in patients with congestive heart failure, should be presented in March 1998.

Cardiovascular complications are the leading cause of mortality and morbidity in patients with both type one and type two diabetes. As part of its programme to broaden the use of its existing products, Zeneca is now compiling a comprehensive registration package for 'Zestril' which supports its use in diabetic patients. The business aims to make first submissions during 1997. If approved, 'Zestril' is expected to be the first once daily ACE-inhibitor with an indication in diabetes. A new medicine for congestive heart failure and an orally active therapy for treating arterial thrombosis are also in development.

Zeneca and the primary care sector

Zeneca Pharmaceuticals continues to strengthen its position in primary care by increasing its portfolio of products prescribed by general practitioners. The anti-asthma tablet, 'Accolate', and the anti-migraine therapy, 'Zomig', are integral to Zeneca's primary care strategy, and will build on the strong relationships already established through the cardiovascular portfolio.

In 1996, 'Accolate' was launched in Ireland, Finland and the US for the prevention and treatment of chronic asthma in patients aged over 12 years. 'Accolate' is the first leukotriene receptor antagonist, a new class of medicines, to receive US Food and Drug Administration clearance. It has been more than 20 years since a new class of asthma medication has been launched in the US.

The business prepared for the 'Accolate' launches by building relationships with new customers, such as allergists and pulmonologists, and by strengthening its marketing and sales activities, including the recruitment of more than 450 people to the US primary sales force.

Approvals for 'Accolate' in other major markets are expected in 1997 and the business has initiated Phase III Japanese registration studies. In support of its submissions, Zeneca provides health economics data comparing 'Accolate' with placebo. These show how 'Accolate' can limit costs by reducing healthcare worker visits, the use of other medicines, and absenteeism from school or work. Trials of 'Accolate' for the treatment of children aged 12 years and under are in progress and there are a number of other novel respiratory products in development.

Migraine is a therapy area of significant unmet need. In 1996, Zeneca acquired the novel anti-migraine development compound, 'Zomig', completed its Phase III trials

and made the first regulatory submissions in the key markets of Europe and the US. 'Zomig' expands Zeneca's central nervous system interests, and provides further strength in a growing primary care market.

Pain is by far the most common symptom for which patients seek medical advice. Zeneca has been pursuing research in this important area and has begun development of a novel approach to pain therapy, an EP-1 antagonist.

Zeneca Pharmaceuticals made the first regulatory filings for the new schizophrenia therapy, 'Seroquel', in the US and Europe in 1996 and initial launches are scheduled for 1997. The medicine is effective on a broad range of schizophrenia symptoms and exhibits an improved side-effect profile compared with many existing therapies. Initial marketing will be aimed at hospital psychiatrists, but in time the treatment should move into the primary care sector.

During the year Zeneca extended its relationship with Sugen, Inc., the US biotechnology company, and licensed it rights, under a Zeneca patent, to develop and commercialise a novel psoriasis treatment. Dermatology falls outside Zeneca's seven therapeutic areas and the move underlines the business' determination to remain focused, whilst maximising any commercial opportunities arising from its research.

Zeneca in anaesthesia

Promotion of 'Diprivan' was driven by a number of published studies which emphasise the product's benefits in anaesthesia and post-operative sedation in cardiac bypass graft surgery. Zeneca's sales teams have also been emphasising the patient and cost benefits associated with the rapid recovery profile offered by 'Diprivan' and these messages also helped promote sales. In Germany, Zeneca GmbH and Glaxo Wellcome GmbH entered a co-promotion agreement encompassing a number of products including 'Diprivan'. Zeneca also secured rights to market, outside the US and Europe, anaesthetics developed by Ohmeda Pharmaceutical Products Division, Inc.

Zeneca aims to make its products easy to use and has been working with anaesthetists and infusion pump manufacturers to develop 'Diprifusor', an electronic module which forms part of an infusion pump used to administer 'Diprivan' for the maintenance of general anaesthesia. The 'Diprifusor' system makes the technique of using 'Diprivan' similar to that used with volatile anaesthetics and is more convenient for the user.

Zeneca in infection

In 1996, Zeneca secured US Food and Drugs Administration approval for the new broad-spectrum intravenous antibiotic, 'Merrem'. The approval covers the product's use in treating adults and children with certain serious bacterial infections, including meningitis. 'Merrem' is the first carbapenem antibiotic available in the US that can be used in children and does not need to be administered with another compound to prevent its break down in the kidneys. In Germany (where the product is sold as 'Meronem'), a co-promotion with Gruenenthal GmbH led to strong sales.

Zeneca and gynaecology

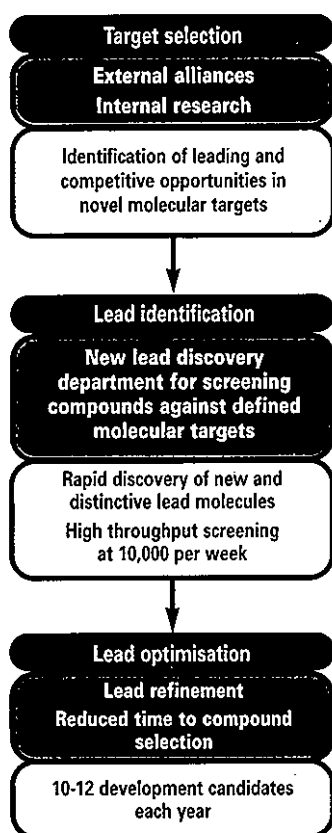
In addition to its value as a prostate cancer therapy, 'Zoladex' was also developed by Zeneca to treat certain benign gynaecological diseases such as endometriosis and fibroids. Endometriosis is a disease affecting some five million women in

The world market for anti-psychotic medication is currently estimated at over £1.4 billion per annum



Licensing 'Diprifusor' involved the regulatory authorities both for drugs and medical devices – a regulatory first for Zeneca

Zeneca Pharmaceuticals: New research process



the US alone and Zeneca is working together with gynaecologists to improve treatment by using 'Zoladex' in conjunction with surgical procedures. The product's mode of action also offers the opportunity to expand its use into other benign gynaecological disease areas. This will help maintain the impressive growth of 'Zoladex' in the future.

Zeneca is also investigating the potential of its novel anti-cancer product, 'Faslodex', in certain benign gynaecological diseases, where it shows significant promise.

Improving customer service in the US

The successful establishment of long term, strategic partnerships with Managed Care groups in the US has enabled Zeneca Pharmaceuticals to secure its position as one of the top four pharmaceutical companies favoured by US Managed Care Organisations.

Stuart Disease Management Services Inc (SDMS) works alongside US Managed Care Organisations to provide customised disease management programmes encompassing total patient care. Its integrated, tailored approach is designed to reduce costs and improve the quality of healthcare. During the year, SDMS successfully concluded agreements with several managed care plans to provide general healthcare consulting services, information management skills and specific disease management expertise in hypertension, congestive heart failure and asthma.

Delivering products worldwide

The success of the Zeneca Pharmaceuticals' sales and marketing teams is supported by a global manufacturing and distribution network. The business is continuing to push forward the review of the supply chain, first announced and reported in 1994. Further improvements in efficiency and team work were made in 1996. These benefits, and judicious investments in new and existing facilities, have enabled Zeneca to supply its new pharmaceutical products quickly and effectively.

The delivery of products to customers in emerging markets can be particularly challenging. In Brazil, Zeneca's wholly owned subsidiary has worked with distributors to develop a 24-hour delivery service for oncology patients, which reduces stockholding and provides rapid access to vital medicines. This contributed to overall business growth which was twice the rate of market growth in Brazil.

Pharmaceuticals for the future

Zeneca Pharmaceuticals' future success will depend on its ability to innovate and provide medicines which offer significant benefits over existing therapies. Advances in modern medical science are now so great and so rapid that it is impossible for one company to undertake all the scientific work relevant to its areas of interest. To complement its own innovative capabilities, therefore, the business continues to enter into selective external collaborations and alliances.

The increased understanding of the human genome and how it affects health is having a profound effect on research and medicine. Zeneca aims to use this new information to improve its understanding of disease, help evaluate the therapeutic potential of novel compounds and diagnostic products, and find new approaches to disease intervention.

In 1996, Zeneca signed an agreement with Incyte Pharmaceuticals, Inc. which provides Zeneca with access to their large and expanding DNA sequence and gene expression databases. This will enable Zeneca to identify and validate new research targets for new drug and diagnostic products from a detailed analysis of human and microbial genes. The business has also established a number of collaborations with UK universities to investigate the genetic basis for rheumatoid arthritis, osteoarthritis and infectious diseases.

Zeneca Pharmaceuticals' research aims to deliver compounds into development in half the time it took in the early 1990s

The effective management of information derived from the various genome initiatives (bioinformatics) will be key to its successful application. Zeneca has invested in state-of-the-art computer systems, has recruited bioinformatics specialists and is working with a number of world leaders, including The National Centre for Biotechnology Information in the US and the European Bioinformatics Institute, to ensure all data can be used productively.

In parallel with Zeneca's increased understanding of the human genome, there is a growing appreciation of how cells are involved in health and disease. Consequently, Zeneca's newly created Molecular and Cell Biology Group will evaluate how key genes contribute to the functioning of human cells. The Group is already working in the US with Rutgers, the State University, New Brunswick, to study the natural processes which determine the death of cells.

Zeneca Pharmaceuticals' activities in the area of human genomics are complemented by Zeneca Diagnostics, which seeks to develop tests for genes associated with disease. During 1996, Diagnostics and OncorMed Inc. entered a collaborative agreement to develop rapid diagnostic tests for the genes associated with inherited breast and colon cancer.

Over the next two years, Zeneca will be expanding its chemistry capability by 40% to capitalise on advances in key areas such as medicinal and synthetic chemistry which provide novel compounds. The business has also adopted robotic assay technology to enable high throughput screening of at least 10,000 new compounds each week which will complement its rational drug design capabilities.

In addition, Zeneca has entered into a three year collaboration agreement with Pharmacoopia, Inc. to design, synthesise and provide new discovery libraries of compounds for screening in a wide range of Zeneca's internal assays.

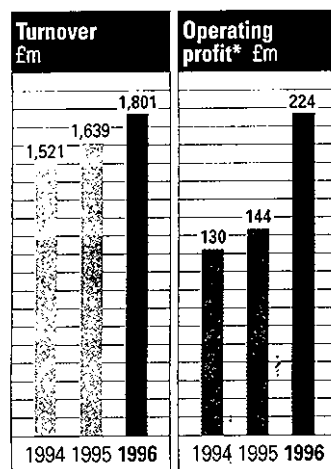
Zeneca has purchased a 4% holding in Xenova Group plc. Xenova is developing proprietary technology for the production and isolation of large and diverse libraries of natural compounds derived from plant, fungal and microbial sources. Zeneca is currently in discussion with Xenova regarding access to these compounds.

SALICK HEALTH CARE, INC.

Zeneca owns 50% of Salick Health Care, Inc., a leading US provider of diagnostic and therapeutic services to patients with cancer and other complex, chronic illnesses.

Salick is investing to expand its services and care programmes and in 1996 signed an agreement with Saint Vincent's Hospital and Medical Center of New York to establish a new, state-of-the-art Comprehensive Cancer Center at Saint Vincent's, and an affiliated managed care network in the greater New York metropolitan area. The new Center will offer 24-hour, seven-days-a-week services for the diagnosis and treatment of cancer.

Zeneca Agrochemicals



*Before exceptional items

AGROCHEMICALS

Sustained performance improvement

A worldwide service and supply capability, combined with a unique range of broad-spectrum products, enabled Zeneca Agrochemicals to capitalise on a third successive year of market growth to increase sales and profit.

Highlights of the year included:

- Growth in all regions of the world and across all product groups
- Strong growth in 'Gramoxone', 'Touchdown' and 'Surpass' herbicide sales
- Record sales of 'Karate' insecticide
- First registrations and sales of the new, broad-spectrum fungicide, 'Amistar'
- Successful UK launch of genetically modified tomato paste
- A record level of capital investment of £140 million for future growth

In the Seeds business, negotiations on the formation of a 50/50 joint venture with Royal VanderHave Group were completed and following approval by the relevant authorities, the new company, Advanta, was launched in August 1996. Advanta is one of the world's top five seeds companies with a strong research base and a wide geographic and crop coverage.

Regional review

Zeneca Agrochemicals sustained double digit growth in all major regions, apart from Europe where an overall strong performance was held back by lower than normal insect pressures.

Performance was particularly good in North America. In an environment where high crop prices fed through to a strong demand for agrochemicals, Zeneca grew sales of many of its major products at above the overall market rate and thus increased total market share.

The business also made significant gains in Latin America, reinforcing Zeneca's position as a leading supplier in the region. Whilst many products contributed to this sales growth, 'Touchdown' herbicide sales were outstanding, almost doubling.

In Asia Pacific, economic growth coupled with improvements in agricultural efficiency to meet the growing food demand were the main factors driving market expansion. Zeneca's recent investment in infrastructure and innovative marketing programmes in the Pacific basin led to strong sales growth which more than offset the continued decline in the Japanese market.

Herbicides

Vigorous marketing and development of the non-selective herbicides 'Gramoxone' and 'Touchdown' resulted in record sales for both: the latter almost doubled as it increased its market share in this fast growing sector. Planned capacity expansions for both products will provide for future growth.

Amongst the selective herbicides for maize, 'Surpass' and 'Mikado' both made significant advances in sales and market share. 'Surpass' continued to grow strongly in the US through the launch of novel formulations aimed at exploiting new market segments – for example, the micro-encapsulated formulation which offers superior weed control in minimum tillage. In Europe, sales of 'Mikado' doubled as the

Sales of 'Gramoxone' and 'Touchdown' herbicides set new records, reinforcing Zeneca's position as a leader in the fast-growing non-selective herbicide sector

From mushroom to market . . .

Zeneca developed 'Amistar' from natural fungicides produced by certain edible mushrooms (*Strobilurus* and *Oudemansiella*) which allow them to compete successfully against other fungi for nutrients. Zeneca's scientists identified the active part of the natural molecule and then modified other areas to enhance such characteristics as stability in sunlight and crop safety.

Field trials in over 50 countries confirmed that 'Amistar' has a unique mode of action, is effective on a wide range of crops, combats fungi from the four main fungal groups, including those resistant to other products, and that it confers yield benefits.

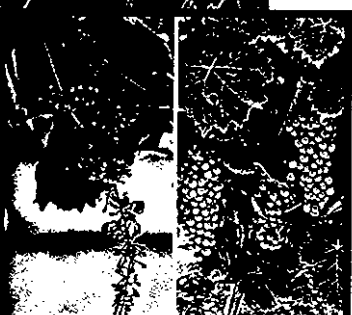
Development work took just seven and a half years compared with an industry average of 10 - 12 years.

In April 1996, 'Amistar' achieved its first registration for use on cereal crops in Germany, just 16 months after submission. It is now approved in 13 countries, including the US where it will be sold for use on turf under the name 'Heritage'. 'Amistar' is being developed for use in over 30 crops in more than 50 countries. 27 launches are planned for 1997 and a further 14 in 1998.

Zeneca is investing £31 million in new 'Amistar' manufacturing facilities at Grangemouth and Yalding, UK and Cold Creek, Alabama, US. Production began in 1996.



The *Oudemansiella* mushroom



Vine downy mildew (left) is one of the fungal diseases controlled by 'Amistar' to promote healthy crop growth (right)

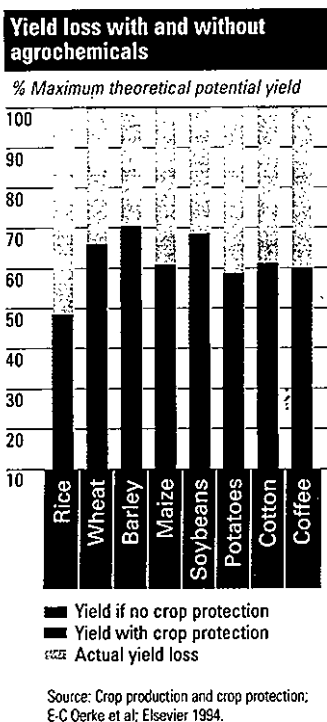


The new 'Amistar' manufacturing facility at Grangemouth, Scotland



'Amistar' packs

**'Amistar' fungicide
helps protect a wide
range of important
crops, including
wheat, the staple food
for around 35% of the
world's population**



'Karate' insecticide sales were boosted by expansion into new outlets, thus exploiting the full potential of this broad-spectrum product

product was successfully launched in Germany and gained further share in France.

The cereal herbicide, 'Achieve', had a very good year, with Zeneca capitalising on its unique selectivity to both wheat and barley to increase sales substantially. The launch of a novel, high strength, granular formulation enabled the business to exploit the product's full potential as cereal prices rose in North America and Europe.

After an excellent performance in 1995, the selective herbicide 'Fusilade' maintained its leading position in the post-emergence grasskiller sector, covering a wide range of crops. The successful launch in Argentina of the complementary product, 'Falcon' herbicide, further reinforced this position.

Insecticides

Despite low insect pressures in the two major markets of North America and Europe, Zeneca had an outstanding year with its insecticides.

Following its success last year, 'Karate' insecticide had another very good year with growth in all regions. In the US, Zeneca Agrochemicals offset the effect of a much reduced cotton area both by expanding the use of 'Karate' into other crops and by successfully positioning it as the insecticide of choice in an integrated crop management system on genetically modified cotton. Programmes using 'Karate' demonstrated significant yield improvements over the untreated crop. This illustrates the benefits of an integrated approach to pest control which combines both chemical and genetic effects.

Zeneca's second largest selling insecticide, 'Force', recovered from low sales in 1995 with considerable growth in 1996, aided by the large maize crop area in the US and despite the entry of new competitor products.

To meet the increasing demand for both these pyrethroids, Zeneca is investing in new capacity and process improvements at its international manufacturing plant in Huddersfield, UK.

Fungicides

Zeneca Agrochemicals achieved a major milestone in 1996 with the first sales in Germany and Ireland of the new broad-spectrum fungicide, 'Amistar'. The German registration was obtained in a record 16 months from submission. Since then, 12 further registrations have been obtained and it is planned to launch the product in 27 markets in 1997. Zeneca expects the product, which represents a novel concept in plant disease control, to establish a leading position in the world fungicide market within the next five years.

Sales of the well established triazole fungicides 'Impact' and 'Anvil' grew strongly in an intensely competitive market. In particular, 'Anvil' benefited from new registrations in the Latin American banana market.

Zeneca Plant Science

Zeneca Plant Science (ZPS) is the business unit within Zeneca Agrochemicals which researches, develops and delivers value-added crop characteristics to growers and processors through the application of biotechnology. In 1996 ZPS launched its first product in the UK – indeed the first genetically modified food to be introduced in

Europe – in the form of a tomato designed to reduce harvesting waste and the energy required for processing.

Puree and paste made from the modified tomato was well received by consumers and retailers. In particular, the policy of clearly labelling the product as genetically modified contributed to its favourable market reception. The experience gained in registering and launching the product will be invaluable to Zeneca in the development of future novel foods.

Research and development

In 1996 Zeneca Agrochemicals invested some £160 million globally in research and development for crop protection. In order to maximise the efficacy of its research, the business has integrated its work in conventional chemistry and biotechnology, whilst also streamlining its programmes in both areas.

In biotechnology, the company is focusing on those crops where it already enjoys core competencies and a strong presence. In conventional chemistry, the screening rate for new products has been substantially increased from 10,000 to 100,000 compounds per year. In order to present a diverse range of compounds to the screens and take full advantage of the latest robotic and combinatorial chemistry techniques, a number of collaborations accessing different compound libraries have been established.

Farmer education and training; product stewardship

Zeneca Agrochemicals is committed to farmer education and training and product stewardship in order to ensure the safe and effective use of its products. Work in this area is particularly pertinent to developing countries and addresses a wide range of interest groups from smallholder farmers and health workers to distributors and plantation operators.

Ongoing projects include a joint study with the Ministry of Agriculture of the People's Republic of China on farmer training needs; collaboration with the Malaysian Department of Health in the preparation of a farmer training programme; a training programme on integrated crop management for cotton growers in Pakistan; organisation of a training course for senior officials from the Department of Agricultural Extension in Thailand; and the training of representatives from the Sri Lankan government's Vector Control Unit. In the latter case, the resulting malaria control programme led to a 90% reduction in cases of malaria in areas where Zeneca's product was used.

Outlook

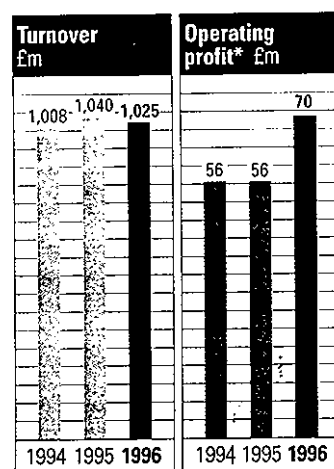
Whilst crop prices showed some signs of weakening in the second half of 1996, most observers expect them to remain high for the next few years, relative to their levels of the early 1990s. Global food stocks remain low and the world will only be able to meet the growing demand for food provided the necessary investments are made in agriculture.

With the scope for further crop area expansion limited by land availability and environmental constraints, agrochemicals will continue to be used and developed to protect and improve crop yields. Zeneca has an exciting development pipeline targeted at these opportunities. This, together with its strength in the growing non-selective herbicide sector and its range of broad-spectrum products including its new fungicides, puts Zeneca in a strong position to capitalise on future market growth.



In early 1996, puree made from Zeneca's genetically modified tomato went on sale in selected outlets of two UK store groups, Safeway and J Sainsbury plc.

Zeneca Specialties



*Before exceptional items

SPECIALTIES

A pivotal year

1996 was a pivotal year for Zeneca Specialties during which its businesses were rationalised and reorganised into a robust portfolio of good quality business areas which Specialties aims to grow organically and through selective acquisition.

Highlights of the year included:

- Divestment of non-core businesses and other successful restructuring initiatives
- Strong advances in sales and profits for most remaining businesses
- 'Quorn' now the largest selling meat-alternative brand in the UK

In the reorganisation, the US-based Specialty Inks business was sold to Sun Chemicals and virtually all staff transferred to the new owner. The sale of Textile Colours to BASF was also completed in 1996 with minimal impact on the other Specialties businesses. Specialties will continue to manufacture textile products under contract for the next three years and some additional services will continue to be provided to BASF on a medium term basis.

A central part of Specialties' strategy is to utilise the mix of core technologies and marketing skills to develop new businesses. Selective alliances and acquisitions are under careful investigation as a means of complementing strategic research activities. This blend of organic growth and selective acquisition will provide a balanced business development programme.

The Organics businesses

Of the Industrial Colours businesses, Specialist Colours, which provides high purity dyes and ink formulations used in reprographic applications, delivered another strong performance in 1996. This reflects the continued success of Specialist Colours' products in the high growth market for home and office ink-jet printers. Manufacturing capacity at the business' CEL production site in Wilmington, US, was increased in 1996 to meet projected customer demands in the ink-jet printing market and a growing number of new applications.

The Pigments and Additives business experienced more difficult trading conditions than in 1995, mainly due to increased competition in the pigments sector, although the Additives business, which provides 'Solsperse' hyperdispersants to the paint, plastics and ink industry, had a highly successful year. A £10 million investment programme in high performance Pigments and Additives manufacturing facilities at Grangemouth, Scotland, progressed as planned in 1996.

Industrial Biocides improved its sales and profit performance compared with 1995 despite intensifying competition. New products in development include 'Dolphin', a fungicide for use in plastics, which is due to be launched in 1997. In addition to its sustained investment in new product developments, Biocides is continuing to seek broader applications for its existing range of products.

In the US, Biocides' pool products business launched a major marketing campaign to raise the profile of 'Baquacil'. The programme centred on business sponsorship of the Olympic gold medal winning US synchronised swimming national team. This boosted 'Baquacil' sales early in the year, which helped offset the impact of adverse weather conditions later in the selling season.

Out of fabrics into photocopiers . . .

Zeneca's Specialist Colours business evolved through the application of Zeneca's core expertise in colour science and organic chemistry to new and developing markets.

Printing inks for non-impact ink-jet printers are formulated as highly purified liquid inks which are fired directly onto the substrate (usually paper).

Customers require inks in strong vibrant colours which do not fade and which bond rapidly to paper to minimise smudging. Specialist Colours has used its expertise in this area to produce a range of high purity ink formulations to meet these demanding criteria.

The ink-jet printing market is growing rapidly as the quality of prints and cost effectiveness of the hardware improves. The technology involved is also becoming relevant to new applications, for example: in replacing conventional four colour printing methods to produce small volumes of posters and magazines; photo-realistic and wide-format printing; and new applications on different substrates, such as textiles.



Molecular structure of a typical ink-jet dye



Liquid inks are fired directly onto a substrate



Ink-jet cartridges used in home and office printers

Zeneca's Specialist Colours' products are being used increasingly in the developing markets for new ink-jet printing applications.

Within Performance and Intermediate Chemicals, the Metal Extractions business continued to grow its global market share and won a major Chilean contract. This business' technology is increasingly being used in the development of new copper mines, particularly in South America.

In 1996, major infrastructure investment was approved to upgrade and modernise the multi-business manufacturing site at Mount Pleasant, US, to support its future as a key production site for the Specialties businesses in the US.

The improved focus achieved by the creation of the LifeScience Molecules business is providing early benefits. The business grew strongly in 1996 as a result of new contracts agreed with major pharmaceutical and agrochemical companies for the supply of complex intermediates. Substantial investment was made in 1996 to expand and upgrade LifeScience Molecules' multi-purpose production plant at Huddersfield, UK, to support these new contracts. The work was completed in March 1997.

The Biomolecules unit of the LifeScience Molecules business entered a collaboration with Roche's Vitamin and Fine Chemicals Division for the production of a specialised product for infant nutrition. The agreement involves the expansion of manufacturing facilities on the Billingham, UK, site. A new facility has also been installed at LifeScience Molecules' Cambridge Research Biochemicals' site in Northwich, UK. The unit will make bulk pharmaceuticals, manufactured to Good Manufacturing Practice standards, for the business' biotechnology company customers.

The Coatings businesses

1996 was a record year for Resins. Sales growth increased and the business benefited from its continued attention to fixed cost reductions and improved margins. Sales growth was particularly good in Western Europe where the environmental advantages of Resins' new generation, high performance, water-based products gained wider recognition. At the end of 1996, Resins acquired the acrylic emulsions business of Dyno Industrier A.S.A., which will be integrated into Resins' European Architectural Coatings business during 1997.

The Image Polymers plant at Grangemouth, UK, is on track to open ahead of schedule in the second half of 1997. Image Polymers is a joint venture with Mitsui Toatsu Chemicals which manufactures and markets resins used in toners for laser printers and photocopiers.

Stahl had an excellent year, with a 16% increase in sales. Its ability to capitalise on and react innovatively to fashion trends, currently for highly finished (shiny) leathers in Europe and North America, contributed to these gains. The business also expanded successfully in the fast growing Asia Pacific leather markets. The Permuthane business, which applies Stahl's coating formulations to synthetic flexible surfaces, showed continued sales growth in 1996.

Marlow Foods

In 1996, sales of the 'Quorn' range approximately doubled for the third consecutive year as several new products were launched in the UK and Europe. The market for meat-free meals has continued its buoyant growth and 'Quorn' products have established a leadership position and quality image. Brand awareness is approaching 90% of the UK population and sales growth in 1997 will be based on further new product introductions and expansion into additional countries.

Part of a global community

Wherever it operates, Zeneca seeks to play a positive role in the community. Each Zeneca business supports charitable, educational and environmental initiatives which help to promote better understanding of Zeneca, as well as providing benefit within their local communities. These activities complement the corporate programme which takes a national and international approach to community support, through such initiatives as the Zeneca Life Science Programme for schools and the sponsorship of the British Red Cross.

Benefits for all

One of the largest community initiatives undertaken by the Group in 1996 was the Zeneca in Action project in the Kiskunsag National Park, Hungary. The event formed part of a major sales conference for Zeneca Agrochemicals' European staff, held to improve the pan-European integration of Zeneca's business activities.

Some 650 employees from 24 countries worked in teams to complete 41 environmental projects designed to benefit the environment and local community and to promote conservation. These included the creation of outdoor educational and recreational areas, new habitats and botanical gardens within the National Park area. The project achieved in one day what the National Park had scheduled to undertake in five years, and helped to promote the value of successful teamwork among the Zeneca employees who took part.

Making a difference in Vietnam

As part of a three year commitment to helping the British Red Cross in its aid work worldwide, Zeneca supported an anti-malarial project in the Quang Ngai region of Vietnam where more than 20% of the population is affected by the disease. This support enabled the Red Cross to provide 6,000 families with bed-nets impregnated with Zeneca insecticide and also funded local community training in malaria prevention and control. Such was the success of the initiative – a 40% reduction in the incidence of malaria in the district – that the Red Cross, again supported by Zeneca, have now moved the project into a second phase which will provide another 8,000 families with bed-nets and further extend the health education programme.

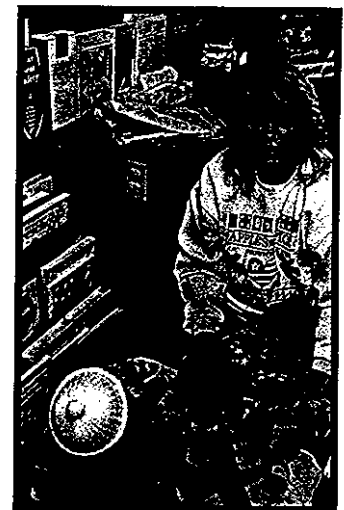
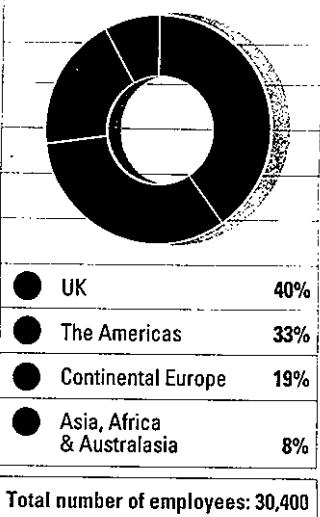
Reinforcing Zeneca's culture and values

In the last three years, Zeneca's identity and reputation have been clearly established around the world, and a new corporate culture is emerging based on its vision and values, especially those concerned with the contribution of employees.

In 1996, the Company carried out a survey among a cross section of employees in seven countries to test their awareness of Zeneca's purpose and values, together with what principles they believed important for Zeneca's sustained business success, and to identify any gaps between aspiration and practice. The results of the survey confirmed the commitment of employees to Zeneca and its underlying principles. In addition, it showed that a number of important principles were considered to be operating well in practice; for example, in respect of the superior quality of products, high respect from customers, and responsibility towards the community. At the same time, areas for improvement were identified and are being addressed.

Following on from the survey, Zeneca has published two new statements setting out its corporate purpose and values, and also its employment principles. These will be key references across the world as Zeneca continues to develop, and a further survey will take place in three years.

Percentage of employees by geographic area (at end 1996)



In the US, Zeneca Inc's REACH community programme centres around a mobile education unit which visits local families with young children and provides information to promote children's health and nutrition.

Figure 1

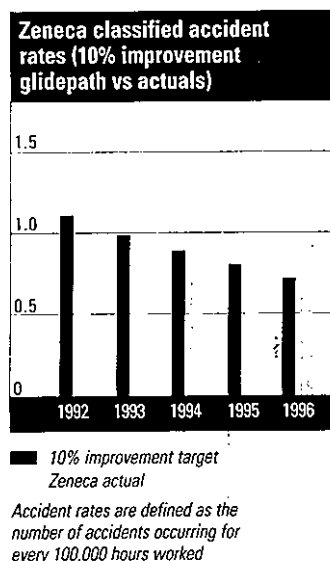
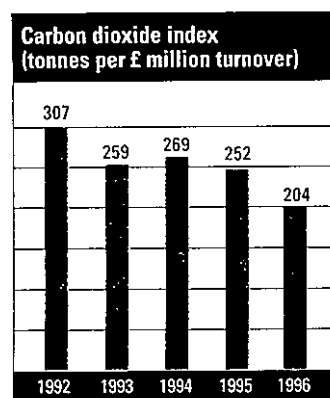


Figure 2



Committed to continuous improvement

Zeneca is committed to continuous improvement of its safety, health and environmental (SHE) performance. Every aspect of the Group's activities, from research to product use, is managed to maximise business opportunities while controlling the risk of accidents and incidents, protecting health, and preventing the loss of materials and energy.

Good SHE management not only protects people and the environment – it also makes a direct and positive contribution to business profitability.

Refining the management system

Continuous improvement of the Group's SHE performance is driven by its SHE management system. Zeneca recently reviewed and refined the system to strengthen its internal auditing procedures and ensure further improvement in SHE performance.

Across all of its activities worldwide, Zeneca's objectives are to:

- demonstrate compliance with Zeneca SHE standards and legal requirements
- identify and manage major SHE risks from invention to ultimate disposal
- reduce SHE related incidents and losses to a practicable minimum

Group priorities in support of these objectives are reviewed annually and plans put in place by each business to address any areas identified for improvement. Performance is then monitored throughout the year and the annual cycle completed by a review of progress against the Group priorities.

1996 SHE performance

Regulatory compliance

Of the 71 sites worldwide which are subject to numerical limits on discharges to the environment, 62 achieved better than 95% compliance. Where improvements have been needed these have been actively progressed in consultation with the relevant regulatory bodies. However, there were 3 minor prosecutions involving small fines. More structured programmes for local and specialist audits are being established to promote further improvements.

Safety

Zeneca puts significant effort into improving safety at work – be it at a manufacturing site, in a laboratory, an office or other working environment. As a result, Zeneca has established a downward trend in the number of classified incidents (injuries requiring more than first aid) which occur and this continued in 1996. There were 14% fewer accidents compared with 1995 and the classified accident rate (the number of accidents occurring per 100,000 hours worked) for 1996 also fell (see Figure 1).

Whilst the Group's performance is good by industry standards, continuous efforts are being made to reduce accidents further. Zeneca's achievements in this area have been recognised by a number of awards including those from the Royal Society for the Prevention of Accidents and the Chemical Industries Association. Many sites achieved over one million hours without notifiable accidents and this reflects the contribution made by all employees to good safety performance.

Zeneca employees collectively drive around 100 million miles on business each year, and the Group puts a great deal of effort into driver education and training programmes aimed at building safe-driving skills. However, the large mileage driven and the hazards presented by this activity resulted in a number of motoring accidents during the reporting year. Tragically, one employee was killed in a road accident in Thailand.

Health

Many of Zeneca's products are designed to have an effect on living systems and the Group takes great care to protect those employees involved in their production and handling.

Zeneca's employee health promotion programmes have been oriented to focus resources on the four most frequently occurring categories of conditions which may be occupationally related (skin conditions, musculoskeletal problems, respiratory illness and other conditions including stress and business travel related illnesses). Managers are being trained to recognise early signs of illness and preventative measures are being developed. Global monitoring has commenced and progress, in terms of the incidence of these disorders, will be reported annually.

Environmental protection

Zeneca is continually reviewing its operations to reduce its wastes and focuses on hazardous wastes as a priority area. Hazardous waste tonnage fell by 9% in 1996 to 68% of the 1992 level (see Figures 3 and 4).

In general, the amount of waste produced rises as the volume of product made increases. This can mask waste reductions achieved through process modification improvements. For this reason it is helpful to relate total hazardous wastes to total sales and Figure 5 shows the progress Zeneca has made in reducing hazardous wastes as an index related to total sales.

Zeneca is not a major industrial user of energy, but recognises that energy conservation contributes to reducing greenhouse gases and operational cost savings. The replacement of old and relatively inefficient coal-fired boilers with gas-fired combined heat and power plants at Grangemouth and Huddersfield manufacturing works in the UK has resulted in the more efficient use of fuel and reduced emissions of carbon dioxide, acid gases and dust. The carbon dioxide emission associated with the Group's total energy consumption, excluding transport, is shown in Figure 2 as an index related to total sales.

Product safety

Zeneca's businesses have systems which consider the SHE aspects of their products at all stages of development, manufacture, use and disposal. Products are developed to meet customers' needs in providing the required effect whilst ensuring that they can be used safely and with minimal risks to the environment. Detailed information and training where necessary is provided to help customers use Zeneca's products correctly and safely.

Effective products continue to be developed which also display improved environmental profiles: for example, Agrochemicals' new fungicide, 'Amistar'. Further details of this product are provided in the Operational Review section of this report.

Improving trends in hazardous wastes

Figure 3

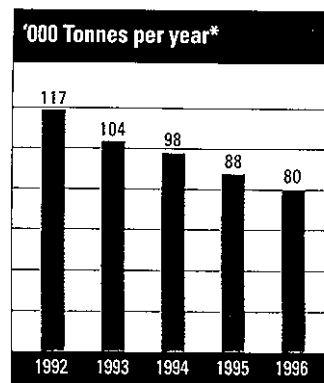
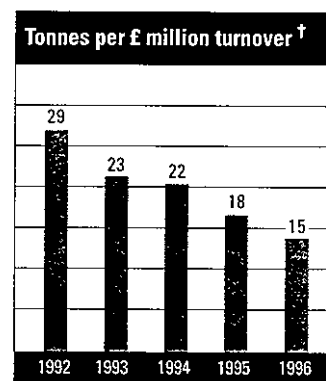


Figure 4

Emissions (tonnes)					
	1992	1993	1994	1995	1996
To Land*	112,000	99,000	94,000	84,000	77,000
To Air	4,600	4,800	3,800	3,700	2,800
To Water	140	90	100	180*	140
Total	117,000	104,000	98,000	88,000	80,000

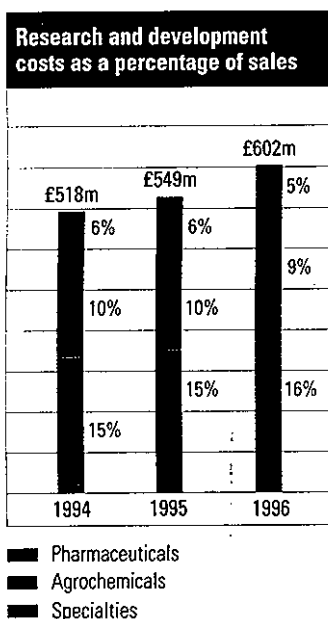
Figure 5



* Hazardous waste tonnages have been revised since the 1995 report, due to the reclassification of some effluents.

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

FINANCIAL REVIEW



Sales

Group sales increased by 9% in 1996 to £5,363 million, breaking the £5 billion barrier for the first time. Sales volumes increased by 11%, while exchange rate and price movements had little effect. Sales were reduced by 2% due to net population effects, comprising the disposals of Specialties Inks, Textile Colours, and minor Biological Products businesses and the transfer of the Seeds business into the Advanta joint venture, partially offset by the first full year contribution of Salick Healthcare sales. The strengthening of sterling over the fourth quarter of 1996 had very little effect on the 1996 trading results as a result of Zeneca's hedging policy (see page 32).

Pharmaceuticals' sales increased by 13% to £2,435 million, with strong volume growth of 14% slightly modified by adverse exchange rate movement effects. Excluding such effects, 'Zestril' sales increased by 10%, with continued strong sales in a number of European markets; sales of 'Zoladex' were up by 31% and 'Diprivan' by 16%; 'Nolvadex' sales were 6% lower than in 1995, mainly due to generic competition and new tamoxifen analogues in the marketplace, and 'Tenormin' sales were 2% lower. Zeneca's newly launched products have begun to make a valuable contribution and collectively have added some £125 million to sales.

Salick Healthcare made its first full year contribution to the Group with sales of £110 million. Underlying sales increased by 10% reflecting the continued growth of the comprehensive cancer care business.

Agrochemicals' sales were £1,801 million, 10% higher than in 1995. Sales volumes grew by 9%, prices increased by 2%, and favourable exchange rate movements added a further 1%. These increases were partially offset by a reduction of 2% due to the transfer of the Seeds business into the Advanta joint venture, which is being equity accounted by Zeneca, in August 1996. Excluding the exchange rate movement effects, Herbicides had another excellent year, with sales up 14%, and 'Gramoxone', 'Touchdown' and 'Surpass' continued to perform strongly. Insecticide sales were 11% higher, driven by strong demand for 'Karate'; and Fungicide sales increased by 9% ahead of the launch of the new broad spectrum fungicide 'Amistar'. Agrochemicals' sales in North America increased by 16%, with underlying growth of 11% supplemented by favourable exchange rate movements of 5%. Underlying sales growth in Europe was 7%; Asia, Africa and Australasia 14%; and Latin America 16%.

Specialties' sales decreased by 1% to £1,025 million. Sales volumes were up by 9%, while prices were marginally down. The disposal of the Specialty Inks, Textile Colours, and certain Biological Products businesses during the year reduced sales by 9%. Excluding exchange rate movement and disposal effects, Organic Chemicals increased sales by 4% despite competitive market conditions, with LifeScience Molecules performing particularly well; Coatings sales were up by 7%, with Stahl showing strong growth and benefiting from current fashion trends; Quorn sales almost doubled to £35 million, helped by the launch of several new product lines.

The spread of Group sales by geographic market in which customers are located has not changed significantly from 1995. Group export sales from the UK exceeded £2 billion for the first time. 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.

Group export
sales from the UK
£2.1 billion

Research, development and licensing

Zeneca's businesses require high levels of investment in the research, development, licensing and launch of new products, and the enhancement of existing products. This activity provides the dynamic for the Group's existence and growth, and the resulting products and related intellectual property are the Group's most valuable assets. The areas covered range from initial broad-range research, including collaboration with other parties, through targetted exploratory development, regulatory approval, and commercialisation, to individual product support in the market. Products may also be licensed at any particular stage of development.

The Group's R&D expenditure in 1996 amounted to £602 million, and licensing, collaboration agreements, and market launch costs were over £150 million. These research, development, licensing and launch costs are likely to remain a significant feature of the cost base as new products are successfully brought to market. The table opposite shows the typical research, development and launch cost profile to get a new product to market.

Profits

Operating profit exceeded £1 billion for the first time, increasing by 26% on 1995 to £1,043 million. Allowing for the exceptional items charged in 1995 and excluding the effects of favourable exchange rate movements, acquisitions, and disposals, the underlying increase was 10%.

Sales volume growth increased profits by 40%, but this was partially offset by higher costs, mainly due to higher volume throughput; selling, marketing, and launch costs for new products; and increased research and development costs.

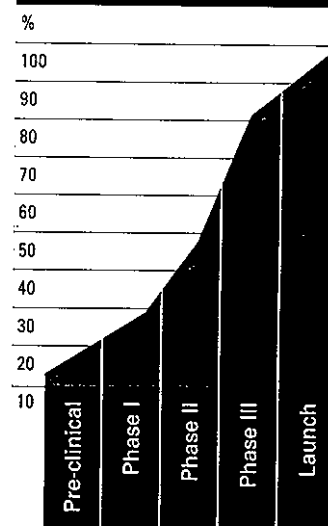
Pharmaceuticals' operating profit, excluding 1995 exceptional items, increased by 10% to £757 million. Excluding the effect of favourable exchange rate movements profits increased by 6%, with the contribution from strong volume growth moderated by the higher fixed costs mentioned above.

Salick Healthcare operating profit, at £6 million, was tempered by additional costs associated with the opening and operating of new comprehensive cancer care centres and the expansion of physician and facility networks, services, and programs.

The Agrochemicals business, excluding Seeds, increased operating profit by 18%, to £227 million. Strong growth in the core Agrochemicals sector as a result of favourable market conditions and a strong performance from both established and new products contributed 9%, while favourable exchange rate movements added a further 9%. The Seeds business reduced losses to £3 million before it became part of the Advanta joint venture with Royal VanderHave Group in August 1996. The joint venture is being accounted for as an associated undertaking, and its results are included under Share of profits less losses of associated undertakings from 1 August 1996.

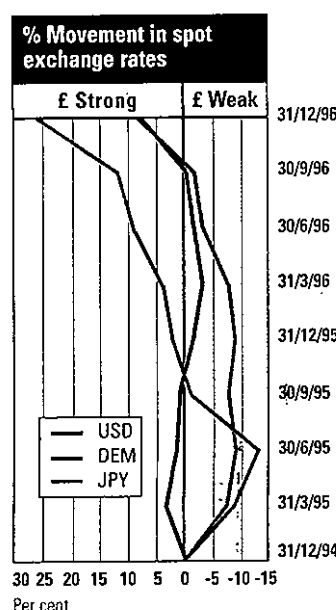
Operating profit in the Specialties business was £70 million, up 25%. While markets remain highly competitive, the business achieved strong volume gains. Excluding exchange rate movement effects, the results of businesses disposed of, and a one-off charge for upgrading and modernising the major US site, operating profit was up 21% on a like-for-like basis.

Phasing of costs to get a new product to market



Return on sales
increased to
19.4%

FINANCIAL REVIEW



The results of the Miscellaneous business segment, which mainly includes corporate costs not allocated to businesses and inter-business eliminations, reflect the recovery of past environmental litigation costs from external insurers in 1995 not repeated in 1996.

Significant, but differing, proportions of Zeneca's revenues, costs, assets, and liabilities are denominated in currencies other than pounds sterling. Over 90% of Zeneca's sales in 1996 were denominated in foreign currencies, while a significant proportion of Zeneca's costs is denominated in pounds. As a result, Zeneca's profit can be significantly affected by movements in exchange rates, in particular movements of the pound against the US dollar. It is estimated that a 5% across the board appreciation in sterling would reduce profit before tax by some £80 million in an unhedged situation. Zeneca's policy, where appropriate, is to seek to reduce the impact of exchange rate movements on its transaction exposures through the purchase of forward contracts or options and to reduce the impact of exchange rate movements on its long-term economic position by structuring debt to reflect the currencies of the underlying asset base.

Share of profits less losses of associated undertakings includes Zeneca's share of the results of Advanta, the seeds joint venture with Royal VanderHave, from August 1996. The results include a share of Advanta's exceptional charge, amounting to £12 million, in respect of rationalisation and restructuring of the combining entities after merger to form a soundly based new operational group, together with a loss of £8 million resulting from normal trading in the seasonally depressed second half of the year.

Profits less losses on sale or closure of operations amounted to a net loss of £36 million arising from the disposal of Textile Colours and certain minor Biological Products businesses, together with related costs to realign business operations resulting from these disposals.

Net interest expense, at £13 million, was £6 million lower than in 1995 mainly due to higher trading cash flows and the proceeds from disposals.

Group profit before exceptional items and tax was £1,011 million, an increase of 15% on 1995. Group profit before tax was £975 million. The taxation charge for 1996 of £320 million represented an effective tax rate of 32.8%. On a pre-exceptional basis, the 1996 effective rate was 32.7%, slightly up on 1995 (31.5%).

Net profit attributable to Ordinary Shareholders amounted to £643 million compared with £336 million in 1995 (£669 million versus £586 million before exceptional items). Earnings per 25p Ordinary Share were 67.8p compared with 35.6p in 1995. Before exceptional items earnings per share were 70.6p compared with 62.0p in 1995, an increase of 14%.

Dividend
increased
by 13%

Dividends

Zeneca Group PLC paid a first interim dividend for 1996 of 12.5p (net of tax credit) per 25p Ordinary Share on 7 November 1996. The Annual General Meeting will be asked to confirm a second interim dividend of 22.5p payable on 6 May 1997, as the final dividend for 1996, making a total dividend of 35p for the year, an increase of 13% on the 1995 dividend. The payment of these dividends requires £332 million (1995 £293 million), excluding Advance Corporation Tax, leaving £311 million

(1995 £43 million) retained in the Group. The dividend was covered twice based on earnings before exceptional items.

Investments and divestments

The Group's fixed capital expenditure amounted to £379 million, up from £283 million in 1995. Capital expenditure is currently running at 1.7 times depreciation as investment in production capacity for new products continues. This includes new plant for 'Amistar', 'Touchdown', 'Accolate' and LifeScience Molecules intermediates production. Meanwhile doubling of capacity of the 'Gramoxone' plant to be built at Nantong in China was announced. Salick Healthcare have acquired further permanent cancer care facilities in California and a new centre at Saint Vincent's Hospital, New York, has been sanctioned. The Group also strengthened its marketing presence in the Far East with the formation of a marketing joint venture, Zeneca Pharma Asiatic Ltd, in Thailand, and plans to expand its sales network in Korea are in train.

Zeneca acquired rights to three new pharmaceutical products, "Sular", 'Zomig', and "Kadian". In addition, an agreement with Incyte Pharmaceuticals, Inc. to access its genomic database was concluded, and collaboration with other organisations on research projects continues and expands.

The strategic initiatives within Specialties, announced in March 1996, were completed with the sale of both Specialty Inks and Textile Colours, and certain minor Biological Products businesses were also disposed.

Zeneca Seeds was merged with Royal VanderHave Group in August 1996 to form a new group called Advanta, owned equally by Zeneca and Cooperatie Cosun UA of The Netherlands.

Cash flow

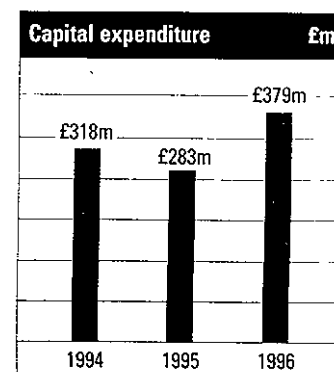
The Group has adopted the provisions of FRS 1 (Revised 1996) in presenting the Statement of Group Cash Flow, as set out on page 43. The main elements of cash flow are shown in the table alongside. The principal changes compared to 1995 were the cash inflow of £162 million from disposals and £140 million less expenditure on acquisitions, partially offset by increased capital expenditure of £94 million. The net cash inflow before management of liquid resources (investment of surplus cash) and financing amounted to £234 million. The financing outflow of £39 million in the year principally related to loan and short-term borrowings repayments.

Capitalisation

Zeneca had no net debt at the end of 1996, leaving the Group effectively ungeared compared with a gearing ratio (net debt as a percentage of shareholders' funds) of 0.5% at the end of 1995. Net cash funds amounted to £272 million.

Zeneca issued 0.3 million Ordinary Shares in 1996 under the Company share option schemes, bringing the number of shares in issue to 946.9 million at year end.

Group reserves were reduced by the adverse effect of exchange rate movements on translation of overseas assets and liabilities of £97 million, reflecting the strengthening of sterling against major currencies during the fourth quarter of 1996. Nevertheless, shareholders' funds increased by a net £173 million to £2,034 million at year end.



Cash flow	£m
Cash generated from trading operations	1,155
Disposals of businesses	162
Inflow	1,317
Applied to:	
Taxation	290
Shareholder dividends	305
Manufacturing facilities	373
Acquisitions and reshaping	96
Sundry other	19
Outflow	1,083
Cash surplus	234
	1,317

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 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. A benchmark of 50% of forecast future transaction exposures extending a further nine 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 13 years; roughly 75% is US dollar denominated with fixed rates of interest of around 7% or less.

Undrawn committed bank facilities at 31 December 1996 totalled \$1,475 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 \$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 Zeneca Group decreased by 1,600 to 30,400 during the year due to disposals and joint venture formation. The main changes were in the US (900), Asia, Africa and Australasia (400), Continental Europe (200), and the UK (100).

The Board

Details of the Board appear on page 8. During 1996, Tom McKillop was appointed an Executive Director (1 January) and Frank Meysman was appointed as a Non-Executive Director (1 November). The announcement was also made of the appointment of two additional Directors with effect from 1 January 1997: Dame Bridget Ogilvie, as a Non-Executive Director, and Michael Pragnell as an Executive Director. Gill Lewis retired at the 1996 Annual General Meeting on 10 May.

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 reviews are incorporated in this report by reference. Principal subsidiary and associated undertakings and locations are given on page 71.

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 31 relating to the accounts.

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 1996, the Group produced a series of manuals establishing a framework and standards, and giving managers guidance, on effective financial controls.

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 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

The Directors of Zeneca Group PLC present their report for the year ended 31 December 1996, 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 23 May 1997.

During 1996, Zeneca fully complied with the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance

DIRECTORS' REPORT

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, which 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 was issued in 1996.

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.

Going concern

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'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 and going concern above, 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 Company's system of internal financial control or corporate governance procedures, or on the ability of the Group and Company to continue in operational existence.

Notice of the Annual General Meeting

The Notice of the Annual General Meeting is contained in the document addressed to shareholders dated 2 April 1997.

Dividends

The dividends for 1996 of 35 pence per Ordinary Share amount to £332 million.

Rotation of Directors

At the Annual General Meeting in 1997, Frank Meysman, Dame Bridget Ogilvie and Michael Pragnell retire under Article 72 of the Company's Articles of Association; Peter Doyle, Sir Jeremy Morse and Tom Wyman retire under Article 90. All are recommended for re-election.

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 £2.3 million (£0.7 million in the UK) to charity in 1996.

Allotments

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

Political contributions

No political contributions were made in the UK in 1996.

Payment of suppliers

It is the Company's policy to agree appropriate terms and conditions with suppliers and, subject to their compliance, to comply with the agreement.

Employment of the disabled

It is Company policy that disabled people should have the same consideration as others for job vacancies. Depending on their skills and abilities, they enjoy the same career prospects as other employees and the same scope for realising potential.

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 the Company's 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.

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

Membership and remit

During 1996, the members of the Committee were Sir Richard Greenbury (Chairman of the Committee), Sir Peter Bonfield, Gill Lewis (until her retirement on 10 May 1996), Sir Jeremy Morse, Tom Wyman and, from his appointment on 1 November 1996, Frank Meysman. Dame Bridget Ogilvie is now also a member of the Committee, following her appointment on 1 January 1997. They are all Non-Executive Directors of the Company 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: salary bands and the actual salary for each of the Executive Directors are determined by the Committee and are effective from 1 January each year. The bands are sufficiently wide to 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.

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 subject to the performance criteria 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.

Full details of Directors' interests in Ordinary Shares of the Company and its subsidiaries (including options), together with options granted and exercised in 1996 are set out in Note 32 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 addition, there is an unfunded promise by the Company, executed by Deed Poll, to maintain the pension of one Executive Director, John Mayo, in respect of pensionable earnings in excess of the earnings limit imposed by the Finance Act 1989. By its terms, he will receive a pension on retirement at the same level that would have otherwise been applied. In Note 33 relating to the accounts there is set out for the first time information relating to the amount of the increase in the accrued pension to which each Director has become entitled in 1996, together with other relevant information.

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

Balance of components: the balance in the content and value of the individual components was reviewed in 1996 and will be reviewed from time to time, taking account of market comparisons and effectiveness.

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 1996: the total emoluments of each of the Directors of the Company in 1996 are set out in Note 33 relating to the accounts.

Service contracts

Each Executive Director has a service contract with a notice period of two years subject to retirement, normally, at the age of 62. To comply with the Listing Rules of the London Stock Exchange, it can be stated that the unexpired term of the service contract of Executive Directors standing for re-election is therefore two years.

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 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 to reduce this to two years. It is not 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:



G H R Musker
Secretary
10 March 1997

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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 of the Group 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 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

10 March 1997

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

FINANCIAL STATEMENTS

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 December

	Notes	1996 £m	1995 £m
Turnover		5,363	4,898
Operating costs	2	(4,421)	(4,175)
Ongoing		(4,421)	(4,110)
Exceptional	4	–	(65)
Other operating income	2	101	106
Operating profit	2	1,043	829
Operating profit before exceptional items		1,043	894
Exceptional items charged to operating profit	4	–	(65)
Share of profits less losses of associated undertakings		(19)	3
Profits less losses on sale or closure of operations	4	(36)	(194)
Profit on ordinary activities before interest		988	638
Net interest payable	5	(13)	(19)
Profit on ordinary activities before taxation		975	619
Profit before exceptional items		1,011	878
Exceptional items	4	(36)	(259)
Taxation	6	(320)	(268)
Profit on ordinary activities after taxation		655	351
Attributable to minorities		(12)	(15)
Net profit for the financial year		643	336
Dividends to Shareholders	7	(332)	(293)
Profit retained for the year		311	43
Earnings per 25p Ordinary Share before exceptional items (pence)	8	70.6p	62.0p
Earnings per 25p Ordinary Share (pence)	8	67.8p	35.6p
Weighted average number of Ordinary Shares in issue (millions)	8	947	946

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December

	Notes	1996 £m	1995 £m
Net profit for the financial year		643	336
Net unrealized holding gains on short-term investments	14	1	5
Net foreign currency translation differences and recognised exchange (losses) gains	21	(128)	30
Translation differences on foreign currency borrowings	21	46	–
Tax on translation differences on foreign currency borrowings	21	(15)	–
Total recognised gains and losses relating to the year		547	371

£m means millions of pounds sterling

FINANCIAL STATEMENTS

BALANCE SHEETS

As at 31 December	Notes	Group		Company	
		1996 £m	1995 £m	1996 £m	1995 £m
Fixed assets					
Tangible fixed assets	10	1,822	1,887	–	–
Intangible assets	10	25	18	–	–
Fixed asset investments	11	118	40	530	562
		1,965	1,945	530	562
Current assets					
Stocks	12	681	851	–	–
Debtors	13	1,379	1,505	1,810	1,808
Short-term investments	14	716	629	–	–
Cash	14	259	163	–	–
		3,035	3,148	1,810	1,808
Total assets		5,000	5,093	2,340	2,370
Creditors due within one year					
Short-term borrowings	15	(215)	(241)	(1)	(1)
Current instalments of loans	17	(12)	(25)	–	–
Other creditors	16	(1,643)	(1,758)	(278)	(275)
		(1,870)	(2,024)	(279)	(276)
Net current assets		1,165	1,124	1,531	1,532
Total assets less current liabilities		3,130	3,069	2,061	2,094
Creditors due after more than one year					
Loans	17	(476)	(536)	(349)	(384)
Other creditors	16	(40)	(31)	–	–
		(516)	(567)	(349)	(384)
Provisions for liabilities and charges	18	(476)	(537)	–	–
Net assets		2,138	1,965	1,712	1,710
Capital and reserves					
Called-up share capital	19	237	237	237	237
Share premium account	21	9	7	9	7
Merger reserve	21	285	285	–	–
Other reserves	21	295	265	1,255	1,255
Profit and loss account	21	1,208	1,067	211	211
Shareholders' funds - equity interests	20	2,034	1,861	1,712	1,710
Minority equity interests		104	104	–	–
Shareholders' funds and minority interests		2,138	1,965	1,712	1,710

The accounts on pages 41 to 71 were approved by the Board of Directors on 10 March 1997 and were signed on its behalf by:

Sir David Barnes
J.C. Mayo

Director
Director

FINANCIAL STATEMENTS

STATEMENT OF GROUP CASH FLOW

For the year ended 31 December

	Notes	1996 £m	1995 £m
Cash flow from operating activities			
Net cash inflow from trading operations before exceptional items	22	1,155	1,052
Outflow related to exceptional items	23	(76)	(96)
Net cash inflow from operating activities		1,079	956
Returns on investments and servicing of finance			
Interest and dividends received	24	54	48
Interest paid		(69)	(60)
Dividends paid by subsidiary undertakings to minority interests		(9)	(13)
		(24)	(25)
Tax paid		(290)	(278)
Capital expenditure and financial investment			
Cash expenditure on fixed assets	10	(373)	(279)
New fixed asset investments		(8)	(9)
Disposals of fixed assets		9	8
		(372)	(280)
Acquisitions and disposals			
Acquisitions of subsidiary undertakings		(1)	(141)
Investments in associated undertakings	25	(19)	—
Disposals of business operations	26	162	1
Disposals of investments in associated undertakings		4	15
		146	(125)
Dividends paid to Shareholders		(305)	(274)
Net cash inflow (outflow) before management of liquid resources and financing	27	234	(26)
Management of liquid resources			
Movement in short-term investments and fixed deposits (net)	28	(94)	(15)
Financing	29	(39)	48
Increase in cash in the period per FRS 1 (Revised 1996)	27	101	7
Increase in cash above	27	101	
Increase in overdrafts	27	13	
	27	114	
Foreign currency translation effect	27	(18)	
Balance sheet movement in cash		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 associates 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.

The financial statements have been prepared after taking into consideration the accounting simplifications introduced to the Companies Act 1985 and the continuing obligations of the Listing Rules of the London Stock Exchange Limited for companies listed on the London Stock Exchange; the Urgent Issues Task Force consensus on 'Tax on foreign currency translation differences taken to reserves'; the Greenbury Study Group and Institute and Faculty of Actuaries recommendations on disclosure of directors' pension entitlements; and the early adoption of Financial Reporting Standard 1 (Revised 1996) – 'Cash Flow Statements'.

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. Prior year amounts have been restated to reflect the separate identification of these intangible assets.

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. UK Accounting Standards require that purchased goodwill be eliminated either upon acquisition against reserves or by amortization over a period. Elimination against reserves has been selected as appropriate to the goodwill purchases made during the periods presented. 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.

Investments

An associated undertaking is a company in which Zeneca has a participating interest (between 20 per cent and 50 per cent 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 associates, 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, and Salick Health Care, Inc.

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 realisable 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 realisable 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 186 at 31 December 1996, including one quasi-sub subsidiary. Owing to local conditions and to avoid undue delay in the presentation of the Group accounts, two subsidiaries prepare accounts to 30 September and one to 31 March; the Salick Health Care Group prepares its accounts to 31 August but interim accounts to 30 November are drawn up for consolidation purposes.

2 OPERATING PROFIT

	1996 £m	1995 £m
Turnover	5,363	4,898
Operating costs		
Cost of sales	(2,250)	(2,102)
Distribution costs	(181)	(180)
Research and development	(602)	(549)
Administrative and other expenses	(1,388)	(1,344)
	(4,421)	(4,175)
Other operating income		
Government grants	1	1
Royalties	64	73
Other income	36	32
	101	106
Operating profit	1,043	829
Charge for depreciation included above	217	194
Gross profit, as defined by the Companies Act 1985	3,113	2,796

	1996 £m	1995 £m
Effect of Group insurance activities		
Insurance results are reported within the following headings		
Miscellaneous operating profit (included in Note 9)	(1)	1
Interest receivable and similar income (included in Note 5)	15	19
	14	20

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

	1996 £m	1995 £m
Charged in arriving at operating profit		
Provisions for restructuring of Pharmaceuticals' distribution, manufacturing and R&D activities	—	(59)
Provisions for restructuring of Specialties businesses	—	(6)
Exceptional operating items	—	(65)
Profits less losses on sale or closure of operations and related provisions		
Disposal of interests in associated undertakings	—	10
Disposal of Textile Colours and minor Specialties businesses	(36)	—
Goodwill write down of Seeds business in anticipation of Zeneca VanderHave joint venture (Advanta)*	—	(159)
Provision for disposal of Specialties' Inks business, including goodwill write off £38m*	—	(45)
	(36)	(194)
Exceptional items within profit on ordinary activities before taxation	(36)	(259)
Tax credits on exceptional items (see Note 6)	10	9
	(26)	(250)

Exceptional items included in operating profit in 1995 were charged to Administrative and other expenses.

* As the goodwill associated with both Seeds and Specialty Inks had already been written off to reserves when the businesses were originally acquired, the goodwill write off of £197m in 1995 had no effect on Group cash flow, net assets, shareholders' funds or financial gearing.

5 NET INTEREST PAYABLE

	1996 £m	1995 £m
Interest payable and similar charges		
Loan interest	34	36
Interest on short-term borrowings and other financing costs	30	26
	64	62
Interest receivable and similar income from investments		
Securities	(9)	(17)
Short-term deposits	(42)	(26)
	(51)	(43)
Net interest payable	13	19

FINANCIAL STATEMENTS

NOTES RELATING TO THE ACCOUNTS

6 TAXATION

	1996 £m	1995 £m
Profit and loss account		
UK taxation		
Corporation tax	149	113
Double taxation relief	(7)	(5)
Deferred taxation	–	13
	142	121
Overseas taxation		
Overseas taxes	171	168
Deferred taxation	8	(22)
	179	146
Associated undertakings	(1)	1
Tax on profit on ordinary activities	320	268

UK and overseas taxation have been provided at current rates on the profits earned for the periods covered by the Group accounts. The current rate of UK corporation tax is 33 per cent (1995 33 per cent). 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

Tax relief on exceptional items*	(10)	(9)
----------------------------------	------	-----

*Including deferred tax relief of £10m (1995 £4m). Only marginal reliefs were available for the 1995 exceptional charges, a large proportion of which represented historical goodwill which would not qualify for relief.

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 charges on such currency translation differences amounted to £15m in 1996, and have been reported in the statement of total recognised gains and losses.

	1996 £m	1995 £m
Balance sheet		
Deferred taxation asset movement		
At beginning of year	61	48
Profit and loss account	(8)	9
Other movements	5	4
At end of year	58	61

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.

	1996 £m	1995 £m
Accounted for at 31 December		
Timing differences on UK capital allowances and depreciation	—	—
Exceptional item provisions	12	24
Miscellaneous timing differences	46	37
ACT recoverable (see Note 13)	31	45
	89	106
Not accounted for at 31 December		
UK capital allowances utilised in excess of depreciation	(206)	(187)
Exceptional item provisions and miscellaneous timing differences	161	165
	(45)	(22)
Full potential deferred taxation asset	44	84

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 1996.

7 DIVIDENDS

	1996 Pence per 25p Share	1995 Pence per 25p Share	1996 £m	1995 £m
Interim, paid 7 November 1996	12.5p	11.25p	118	106
Second interim, to be confirmed as final, payable 6 May 1997	22.5p	19.75p	214	187
	35.0p	31.0p	332	293

8 EARNINGS PER 25p ORDINARY SHARE

	1996	1995
Net profit for the financial year before exceptional items (£m)	669	586
Exceptional items after tax (£m) (see Note 4)	(26)	(250)
Net profit for the financial year (£m)	643	336
Average number of Ordinary Shares in issue (millions)	947	946
Earnings per Ordinary Share before exceptional items (pence)	70.6p	62.0p
Earnings (loss) per Ordinary Share on exceptional items (pence)	(2.8)p	(26.4)p
Earnings per Ordinary Share (pence)	67.8p	35.6p

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 underlying results of the business.

FINANCIAL STATEMENTS

NOTES RELATING TO THE ACCOUNTS

9 SEGMENT INFORMATION

Classes of Business

	<i>Turnover</i>		<i>Operating profit before exceptional items</i>		<i>Profit before interest and tax</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Pharmaceuticals	2,435	2,163	757	687	757	629
Salick Healthcare	110	62	6	7	6	7
Agrochemicals	1,801	1,639	224	144	224	(15)
Agrochemicals	1,684	1,495	227	192	227	192
Seeds	117	144	(3)	(48)	(3)	(207)
Specialties	1,025	1,040	70	56	34	14
Inter-business eliminations and Miscellaneous	(8)	(6)	(14)	–	(14)	–
Share of profits less losses of associated undertakings					(19)	3
	5,363	4,898	1,043	894	988	638

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

The Seeds business became part of a joint venture with Royal VanderHave Group, named Advanta, and its results are included under Share of profits less losses of associated undertakings from 1 August 1996.

Inter-business eliminations and Miscellaneous

The results in 1995 include the recovery of past environmental litigation costs from external insurers.

	<i>Capital expenditure</i>		<i>Depreciation</i>		<i>Net assets</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Pharmaceuticals	141	124	97	84	1,049	1,044
Salick Healthcare	20	7	6	3	85	58
Agrochemicals	140	91	65	59	823	832
Specialties	57	51	40	42	375	630
Miscellaneous	21	10	9	6	8	(43)
	379	283	217	194		
Net operating assets					2,340	2,521
Investments in associated undertakings					88	13
Net non-operating liabilities					(290)	(569)
					2,138	1,965

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-analysed 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.

	<i>Net operating assets</i>		<i>Turnover</i>		<i>Operating profit before exceptional items</i>		<i>Profit before interest and tax</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
United Kingdom								
Sales in the United Kingdom			368	291				
Export sales			2,076	1,881				
	1,388	1,363	2,444	2,172	469	402	455	344
Continental Europe	266	367	1,665	1,507	148	80	125	(32)
The Americas	473	504	2,579	2,269	356	333	336	248
Asia, Africa & Australasia	213	287	670	727	70	79	72	78
	2,340	2,521	7,358	6,675	1,043	894	988	638
Inter-area eliminations			(1,995)	(1,777)				
	2,340	2,521	5,363	4,898	1,043	894	988	638

Inter-area turnover shown above includes sales from the UK to overseas subsidiaries of £1,634m (1995 £1,481m).

Geographic markets	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>
Turnover in each geographic market in which customers are located		
United Kingdom	376	303
Continental Europe	1,591	1,457
The Americas	2,442	2,182
Asia, Africa & Australasia	954	956
Total turnover	5,363	4,898

Employees	<i>1996</i>	<i>1995</i>
Average number of people employed by the Group in		
United Kingdom	12,200	12,300
Continental Europe	6,000	6,200
The Americas	10,300	10,200
Asia, Africa & Australasia	2,600	2,700
Total employees	31,100	31,400

The number of people employed by the Group at the end of 1996 was 30,400 (1995 32,000).

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	874	2,266	245	3,385	58
Exchange adjustments	(51)	(98)	(10)	(159)	(4)
Capital expenditure	—	—	364	364	15
Transfer of assets into use	49	274	(323)		
Disposals and other movements	(75)	(216)	(8)	(299)	(13)
At end of year	797	2,226	268	3,291	56
Depreciation					
At beginning of year	272	1,226		1,498	40
Exchange adjustments	(16)	(56)		(72)	(3)
Disposals and other movements	(26)	(144)		(170)	(10)
Charge for year	34	179		213	4
At end of year	264	1,205		1,469	31
Net book value at 31 December 1996	533	1,021	268	1,822	25
Net book value at 31 December 1995	602	1,040	245	1,887	18

Capital expenditure in the year of £379m includes capitalized finance leases of £15m; cash expenditure on fixed assets was £373m. Land and buildings includes non-depreciated land which cost £54m.

The net book value of the tangible fixed assets of the Group at 31 December 1996 includes capitalized finance leases of £25m, comprising cost of £37m and accumulated depreciation thereon of £12m. In respect of capitalized leases, the depreciation charge for the year was £5m and finance charges were £2m.

	Group	
	1996 £m	1995 £m
The net book value of land and buildings comprised		
Freeholds	518	590
Long leases (over 50 years unexpired)	4	3
Short leases	11	9
	533	602

11 FIXED ASSET INVESTMENTS

GROUP	Associated undertakings £m	Other investments		Total £m
		Listed £m	Unlisted £m	
Cost				
At beginning of year	9	19	12	40
Additions	155	8	—	163
Disposals	(2)	—	(9)	(11)
Goodwill on acquisition	(47)	—	—	(47)
Exchange adjustments	(14)	—	—	(14)
At end of year	101	27	3	131
Share of post-acquisition reserves				
At beginning of year	4			4
Retained loss	(19)			(19)
Other movements, including exchange	2			2
At end of year	(13)			(13)
Provisions				
At beginning of year	—	—	(4)	(4)
Released	—	—	4	4
At end of year	—	—	—	—
Net book value at 31 December 1996	88	27	3	118
Net book value at 31 December 1995	13	19	8	40

The market value of the listed investments at 31 December 1996 was £28m (1995 £25m).

COMPANY	Subsidiary investments		Total £m
	Shares £m	Loans £m	
Cost			
At beginning of year	180	382	562
Exchange adjustments	—	(32)	(32)
Net book value at 31 December 1996	180	350	530
Net book value at 31 December 1995	180	382	562

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	
	1996 £m	1995 £m
Raw materials and consumables	165	208
Stocks in process	191	229
Finished goods and goods for resale	325	414
	681	851

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13 DEBTORS

	<i>Group</i>		<i>Company</i>	
	<i>1996 £m</i>	<i>1995 £m</i>	<i>1996 £m</i>	<i>1995 £m</i>
Amounts due within one year				
Trade debtors	935	980	–	–
Amounts owed by subsidiary undertakings			1,810	1,808
Amounts owed by associated undertakings	10	–	–	–
Deferred taxation (see Note 6)	28	18	–	–
Other debtors	191	290	–	–
Prepayments and accrued income*	64	70	–	–
	1,228	1,358	1,810	1,808
Amounts due after more than one year				
Other debtors	61	38	–	–
Deferred taxation (see Note 6)	30	43	–	–
ACT recoverable	31	45	–	–
Prepayments and accrued income*	28	20	–	–
	1,378	1,504	1,810	1,808
Securitised rent receivables	1	1	–	–
Debtors	1,379	1,505	1,810	1,808

*Group figures include prepaid pension costs (Note 30).

Included in debtors are amounts totalling £47m (1995 £138m) 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 \$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 £5m (1995 £6m) – 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 (£1m net). The net income recorded in the Group accounts amounted to £1m (1995 £1m). A summary of the financial statements of Stauffer Chemical Company Trust is set out below.

Stauffer Chemical Company Trust	<i>1996 £m</i>	<i>1995 £m</i>
Income and expenditure account		
Surplus for the financial year	1	1
Trust distributions	(1)	(1)
Surplus retained for the year	–	–
Balance sheet		
Debtors	50	55
Cash and short-term investments	4	5
Total assets	54	60
Creditors	(49)	(54)
Net assets	5	6
Cash flow		
Increase in cash	–	–

14 SHORT-TERM INVESTMENTS AND CASH

FRS 1 (Revised 1996) has introduced a new definition of cash. As a result, the 1995 comparative figures for short-term investments and cash have been restated to reflect that Standard. However, in the balance sheet cash is still shown gross of overdrafts, which are included under short-term borrowings to comply with the Companies Act 1985. The Group's short-term investments were classified as available-for-sale at year ends 1996 and 1995. Carrying value was substantially the same as fair value at both year ends.

GROUP

	<i>Cost £m</i>	<i>Estimated fair value £m</i>	<i>Gross unrealized gains £m</i>	<i>Gross unrealized losses £m</i>	<i>Net gains and losses £m</i>
<i>At 31 December 1996</i>					
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)
<i>At 31 December 1995</i>					
Listed debt securities	100	94	–	(6)	(6)
Other debt securities	2	2	–	–	–
Listed equity investments	3	3	–	–	–
Unlisted equity investments	1	1	–	–	–
Investment securities	106	100	–	(6)	(6)
Fixed deposits	529	529	–	–	–
Short-term investments	635	629	–	(6)	(6)
Net change in unrealized holding gains and losses					3
Net change, after minority interests					1

Current asset investments held by Group subsidiaries are marked to market on a specific identification basis. The net change in unrealized holding gains and losses is a gain of £3m (1995 £10m gain). The net change, after minority interests, of £1m (1995 £5m gain) has been taken to reserves via the statement of total recognised gains and losses.

The proceeds from sales of investment securities were £233m (1995 £361m). Realized gains and losses are taken to the profit and loss account. In 1996 gross realized gains were £1m (1995 £7m) and gross realized losses were £2m (1995 £6m), producing a net realized loss of £1m (1995 £1m gain).

The Group's insurance subsidiaries hold cash and short-term investments totalling £201m (1995 £252m), of which £104m (1995 £155m) 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:

	<i>Cost £m</i>	<i>Estimated fair value £m</i>
1997	6	6
1998 – 2001	35	33
2002 – 2006	~14	13
Thereafter	5	5
	60	57

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15 SHORT-TERM BORROWINGS

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Bank borrowings				
Secured by floating charge	1	1	–	–
Unsecured	154	151	1	1
	155	152	1	1
Other borrowings (unsecured)	60	89	–	–
	215	241	1	1

16 OTHER CREDITORS

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts due within one year				
Trade creditors	479	532	–	–
Amounts owed to subsidiary undertakings			64	88
Corporate taxation	254	222	–	–
Value added and payroll taxes and social security	33	38	–	–
Obligations under finance leases	5	5	–	–
Other creditors*	452	570	–	–
Accruals	206	204	–	–
Dividends to Shareholders	214	187	214	187
	1,643	1,758	278	275
Amounts due after more than one year				
Corporate taxation	1	1	–	–
Obligations under finance leases	18	14	–	–
Other creditors*	19	15	–	–
Grants not yet credited to income	2	1	–	–
	40	31	–	–

*Included in other creditors are amounts totalling £121m (1995 £245m) to meet insurance obligations of the Group's insurance subsidiaries. Other creditors also include costs charged as exceptional items (Note 4) and accrued pension costs (Note 30).

17 LOANS

	<i>Repayment dates</i>	<i>Group 1996 £m</i>	<i>1995 £m</i>	<i>Company 1996 £m</i>	<i>1995 £m</i>
Secured loans					
US Dollars (5.9 to 8%), secured by fixed charge	1997/2012	10	12	–	–
Indian Rupees (17.5%), secured by fixed charge	1997/1998	2	2	–	–
Total secured		12	14	–	–
Unsecured loans					
Sterling					
Bank loan – variable rate	1997/2002	9	44	–	–
US Dollars					
Bank loan – variable rate	2001	47	52	–	–
6.30% Guaranteed Notes	2003	176	191	–	–
7% Guaranteed Debentures	2023	174	190	–	–
6.58% Loan	2003	–	–	175	192
7.2% Loan	2023	–	–	174	192
Others	1998/2013	8	10	–	–
Yen (1.95 to 5%)	1997/2000	33	53	–	–
Other foreign currencies	1997/2002	29	7	–	–
Total unsecured		476	547	349	384
Total loans		488	561	349	384
Loans or instalments thereof are repayable					
After 5 years from balance sheet date		368	460	349	384
From 2 to 5 years		91	63	–	–
From 1 to 2 years		17	13	–	–
Total due after more than one year		476	536	349	384
Total due within one year		12	25	–	–
Total loans		488	561	349	384

Loans from banks included in the table above amounted to £126m (1995 £165m) of which £2m (1995 £2m) was secured. Details in the above tables are shown after reflecting currency swaps.

18 PROVISIONS FOR LIABILITIES AND CHARGES

GROUP	<i>Employee benefits*</i> £m	<i>Reorganisation, environmental, and other provisions £m</i>	<i>Total £m</i>
At beginning of year	296	241	537
Profit and loss account	61	55	116
Net amounts paid or becoming current	(37)	(82)	(119)
Other movements, including exchange	(33)	(25)	(58)
At end of year	287	189	476

*Includes provisions for unfunded post-retirement benefits (Note 30).

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

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19 CALLED-UP SHARE CAPITAL OF PARENT COMPANY

	Authorized 1996 £m	Allotted, called-up and fully paid 1996 £m	1995 £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 265,951, comprising issues in respect of the exercise of options.

At 31 December 1996 there were options outstanding in respect of 4,375,358 Ordinary Shares of 25p under the Zeneca 1993 Senior Staff Share Option Scheme and the Zeneca 1994 Executive Share Option Scheme (1995 3,812,340) and 4,680,786 Ordinary Shares of 25p under the Zeneca Savings-Related Share Option Scheme (1995 3,581,630). These options are normally exercisable in the period 1997 to 2006 (1996 to 2005) at subscription prices of £4.09 to £14.81 (1995 £4.09 to £11.28). 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 1996 was £9.33.

Options granted to Directors are shown in Note 32.

During 1996 movements in the number of shares under option comprised new options issued 2,088,978, options exercised 265,951, and options lapsed, waived, or forfeited 160,853. At the end of 1996 there were 17,439,212 shares available for the granting of options (1995 19,359,358).

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

GROUP	1996 £m	1995 £m
Shareholders' funds at beginning of year	1,861	1,685
Net profit for the financial year	643	336
Dividends	(332)	(293)
	311	43
Issues of Zeneca Group PLC Ordinary Shares	2	4
Goodwill on acquisitions/disposals	(47)	99
Net foreign currency translation differences and recognised exchange (losses) gains	(128)	30
Translation differences on foreign currency borrowings	46	—
Tax on translation differences on foreign currency borrowings	(15)	—
Net unrealized holding gains on short-term investments (see Note 14)	1	5
Other movements	3	(5)
Net addition to shareholders' funds	173	176
Shareholders' funds at end of year	2,034	1,861

21 RESERVES

GROUP	Share premium account £m	Merger reserve £m	Goodwill and other reserves £m	Associated under- takings £m	Profit and loss account £m	1996 Total £m	1995 Total £m
At beginning of year	7	285	261	4	1,067	1,624	1,449
Profit retained for year				(19)	330	311	43
Share premiums	2					2	3
Goodwill on acquisitions/disposals			(47)			(47)	99
Exchange adjustments:							
Goodwill			93		(93)	-	-
Net assets				2	(130)	(128)	30
Translation differences on foreign currency borrowings					46	46	-
Tax on translation differences on foreign currency borrowings					(15)	(15)	-
			93	2	(192)	(97)	30
Net unrealized holding gains on short-term investments			1			1	5
Other movements					3	3	(5)
At end of year	9	285	308	(13)	1,208	1,797	1,624

In the Group accounts, exchange adjustments of £46m (1995 £nil) 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 £47m (1995 £98m) of goodwill on acquisitions written off against reserves and £nil (1995 £197m) of goodwill relating to disposals written back to reserves and charged to the profit and loss account.

The cumulative amount of goodwill resulting from acquisitions, net of disposals, amounted to £945m (1995 £991m), using 1996 year end rates of exchange.

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	1996 Total £m	1995 Total £m
Reserves					
At beginning of year	7	1,255	211	1,473	1,474
Net profit for the financial year			332	332	289
Dividends			(332)	(332)	(293)
Share premiums	2			2	3
At end of year	9	1,255	211	1,475	1,473

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

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22 NET CASH INFLOW FROM TRADING OPERATIONS BEFORE EXCEPTIONAL ITEMS

	1996 £m	1995 £m
Operating profit	1,043	829
Exceptional items within operating profit	–	65
Operating profit before exceptional items	1,043	894
Depreciation	217	194
Stocks increase	(34)	(40)
Debtors increase	(86)	(27)
Creditors increase	3	26
Other non-cash movements	12	5
	1,155	1,052

23 OUTFLOW RELATED TO EXCEPTIONAL ITEMS

This includes expenditure charged to exceptional provisions relating to business rationalisation and restructuring and for sale or closure of operations, including severance and other employee costs.

24 INTEREST AND DIVIDENDS RECEIVED

	1996 £m	1995 £m
Interest received	52	46
Dividends received from equity accounted associated undertakings	2	2
	54	48

25 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	1996 £m
Cash consideration included in contribution to Seeds joint venture Advanta	15
Investment in other associated undertakings	4
Total cash consideration	19

Zeneca and Cooperatie Cosun UA merged their global seeds businesses, Zeneca Seeds and Royal VanderHave Group, in August 1996 into a joint business operation named Advanta. Each company owns 50% of the new holding company, Advanta B.V.

26 DISPOSALS OF BUSINESS OPERATIONS

1996
£m

Disposals of business operations resulted in the following net asset movements	
Tangible fixed assets	43
Net current assets	154
Provisions for liabilities and charges	(1)
	196
Profit and loss account – exceptional items	(36)
Total consideration	160
Deferred consideration from earlier disposals	2
Cash consideration	162

The cash consideration for disposals of business operations relates to items which were treated as exceptional in the current and previous years. Apart from the disposal proceeds, the contribution of the divested businesses and subsidiary undertakings to the cash flows of the Group was not material.

27 NET DEBT/NET CASH FUNDS

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

	At 1 Jan 1996	Cash flow	*Acquisitions and disposals	Other non-cash	Exchange movements	At 31 Dec 1996
Loans due after 1 year	(536)	(1)	2	10	49	(476)
Current instalments of loans	(25)	22	–	(10)	1	(12)
Total loans	(561)	21	2	–	50	(488)
Short-term investments	629	94	–	–	(7)	716
Cash	163	114			(18)	259
Overdrafts	(89)	(13)			11	(91)
Short-term borrowings, excluding overdrafts	(152)	14	–	–	14	(124)
	551	209	–	–	–	760
Net (debt) cash funds	(10)	230	2	–	50	272
Financing items included in cash movements above						
Issue of shares		(3)				
Repayment of lease finance		7				
Net cash inflow before management of liquid resources and financing		234				

*Excluding cash and overdrafts.

28 SHORT-TERM INVESTMENTS AND FIXED DEPOSITS

Insurance liabilities within the Group's insurance subsidiaries are actively matched by the purchase and sale of short-term investments and deposits.

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29 FINANCING

	<i>Notes</i>	<i>1996 £m</i>	<i>1995 £m</i>
Issue of Zeneca Group PLC Ordinary Shares		2	4
Issue of shares by subsidiaries to minority interests		1	2
Issue of shares	27	3	6
Repayment of lease finance	27	(7)	(4)
New loans	27	1	35
Loans repaid	27	(22)	(13)
Net (decrease) increase in short-term borrowings	27	(14)	24
		(35)	46
Net cash (outflow) inflow from financing		(39)	48

30 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 an employee's years of service and average final remuneration. All plans are, generally, funded through separate trustee-administered funds.

With regard to the main Group defined benefit plans, formal actuarial valuations are undertaken triennially on varying dates. The actuarial assumptions used to calculate the value of the past service liabilities of the Group's pension plans vary according to the economic conditions of the country in which they are situated and relate to the latest actuarial valuations of the plans. The weighted average discount rate used in determining the actuarial present values of the benefit obligations was 8.5 per cent. The weighted average expected long-term rate of return on investments was 9 per cent. The weighted average rates of increase of future earnings and future pensions were 6 per cent and 3 per cent respectively. After allowing for future increases in earnings and pensions, 93 per cent 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 market value of the fund assets of the main Group plans at the most recent valuation dates was £1,765m; the market value at 31 December 1996 was £2,109m.

The total pension cost for the Group for 1996 was £109m (1995 £95m). In Zeneca's Group balance sheet at 31 December 1996, accrued pension costs amounted to £21m (1995 £43m) and are included in other creditors (Note 16); provisions for unfunded benefit obligations, included in provisions (Note 18) amounted to £117m (1995 £125m). Prepaid pension costs amounting to £16m (1995 £16m) are included in debtors (Note 13).

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 6,000 retired employees and covered dependants currently benefit from these provisions and some 9,200 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 1996 was £11m (1995 £12m). Provisions for the benefit obligations at 31 December 1996 amounted to £136m and are included in provisions for employee benefits (Note 18). Other than this provision there were no plan assets at 31 December 1996. 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 7.5 per cent and a weighted average assumed healthcare costs trend rate of 9 per cent reducing to 6 per cent per annum.

31 EMPLOYEE COSTS AND SHARE SCHEMES

The average number of people employed by the Group in 1996 was 31,100 (1995 31,400) and the costs incurred during the year in respect of these employees were:

	1996 £m	1995 £m
Salaries	966	928
Social security costs	122	112
Pension costs	109	95
Other employment costs	100	88
	1,297	1,223

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.

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.

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32 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The interests at 31 December 1996 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.

	<i>Interest in Ordinary Shares, including shares held in trust, at 1 January 1996</i>	<i>Shares held in trust at 1 January 1996</i>	<i>Shares bought (sold)</i>	<i>Interest in Ordinary Shares, including shares held in trust, at 31 December 1996</i>	<i>Shares held in trust at 31 December 1996</i>
Sir David Barnes	86,877	4,814		96,339	14,276
Sir Peter Bonfield	500			500	
P. Doyle	11,232	2,788		16,714	8,270
Sir Richard Greenbury	500			500	
Sir Sydney Lipworth	5,000			5,000	
J. C. Mayo	11,504	1,504		17,416	7,416
T. F. W. McKillop	10,654	3,808		18,842	11,996
F. L. V. Meysman			500	500	
Sir Jeremy Morse	2,387			2,387	
A. I. H. Pink	8,484	6,920		20,310	18,746
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 1997 to 10 March 1997 there was no change in the interests of Directors shown in this note. In the event that Ordinary Shares are appropriated in 1997 to Directors pursuant to the Executive Performance Bonus Plan in respect of the year to 31 December 1996 the Directors would have an interest in such appropriated shares.

32 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (continued)

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 below.

		<i>No. of shares under option</i>	<i>Exercise price per share⁺</i>	<i>Market price at date of exercise</i>	<i>First date exercisable*</i>	<i>Last date exercisable*</i>
Sir David Barnes	At 1 Jan 1996	205,259	607p		24.06.93	26.03.05
	Granted	64,663	1337p		29.03.99	28.03.06
	Granted	287	1357p		01.12.99	31.05.00
	At 31 Dec 1996	270,209	782p		24.06.93	28.03.06
P. Doyle	At 1 Jan 1996	141,818	673p		24.06.93	26.03.05
	Granted	14,653	1337p		29.03.99	28.03.06
	Granted	508	1357p		01.12.01	31.05.02
	At 31 Dec 1996	156,979	737p		24.06.93	28.03.06
J. C. Mayo	At 1 Jan 1996	152,149	621p		22.03.96	26.03.05
	Granted	22,831	1337p		29.03.99	28.03.06
	Granted	287	1357p		01.12.99	31.05.00
	At 31 Dec 1996	175,267	716p		22.03.96	28.03.06
T. F. W. McKillop	At 1 Jan 1996	103,835	689p		24.06.93	26.03.05
	Granted	32,562	1337p		29.03.99	28.03.06
	Granted	508	1357p		01.12.01	31.05.02
	At 31 Dec 1996	136,905	845p		24.06.93	28.03.06
A. I. H. Pink	At 1 Jan 1996	154,138	606p		24.06.93	26.03.05
	Granted	22,832	1337p		29.03.99	28.03.06
	At 31 Dec 1996	176,970	701p		24.06.93	28.03.06

No options were exercised or lapsed during the year. The market price of the shares at 31 December 1996 was 1647.5p and the range during 1996 was 1227p to 1758.5p. The Register of Directors' Interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe.

⁺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.

FINANCIAL STATEMENTS

NOTES RELATING TO THE ACCOUNTS

33 EMOLUMENTS OF DIRECTORS

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

	<i>Salary and fees £'000</i>	<i>Bonuses Cash £'000</i>	<i>Shares* £'000</i>	<i>Taxable benefits £'000</i>	<i>Sub-total £'000</i>	<i>Pension contribs. £'000</i>	<i>Total 1996 £'000</i>	<i>Total 1995 £'000</i>
Sir Sydney Lipworth	150			1	151		151	71
Sir David Barnes	525	105	210	12	852	46	898	651
P. Doyle	285	57	114	12	468	50	518	423
J. C. Mayo	310		248	19	577	34	611	429
T. F. W. McKillop	285		192	10	487	50	537	–
A. I. H. Pink	310	62	124	12	508	54	562	503
Sir Peter Bonfield	24				24		24	21
Sir Richard Greenbury	28				28		28	24
Miss G. M. Lewis	8				8		8	21
F. L. V. Meysman	5				5		5	–
Sir Jeremy Morse	24				24		24	21
T. H. Wyman	43				43		43	40
Former Directors							–	988
	1,997	224	888	66	3,175	234	3,409	3,192

*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.

The table which follows shows the number of Directors of the Company whose emoluments, excluding Company pension contributions, during the year were within the bands stated.

<i>Emoluments</i>	<i>Number</i>		<i>Emoluments</i>	<i>Number</i>	
	<i>1996</i>	<i>1995</i>		<i>1996</i>	<i>1995</i>
£0 – 5,000	1	–	£375,001 – 380,000	–	1
£5,001 – 10,000	1	1	£415,001 – 420,000	–	1
£20,001 – 25,000	2	4	£455,001 – 460,000	–	1
£25,001 – 30,000	1	–	£465,001 – 470,000	1	–
£35,001 – 40,000	–	1	£485,001 – 490,000	1	–
£40,001 – 45,000	1	–	£505,001 – 510,000	1	–
£70,001 – 75,000	–	1	£575,001 – 580,000	1	–
£150,001 – 155,000	1	–	£645,001 – 650,000	–	1
£240,001 – 245,000	–	1	£850,001 – 855,000	1	–
£285,001 – 290,000	–	1			

Two of the Directors whose emoluments are shown above for 1996 were Directors for part of the year only (1995 three).

33 EMOLUMENTS OF DIRECTORS (continued)

Directors' pension entitlement (per annum)	Sir David Barnes £'000	P Doyle £'000	J C Mayo £'000	T F W McKillop £'000	A I H Pink £'000
1. Accrued pension at 1 January 1996	303	163	42	99	162
2. Increase in accrued pension during year as a result of inflation	28	4	1	2	4
3. Adjustment to accrued pension as a result of salary increase relative to inflation	31	15	4	39	17
4. Increase in accrued pension as a result of additional year's service	13	7	9	6	7
5. Accrued pension at 31 December 1996	375	189	56	146	190
6. Employee contributions during year	—	14	12	14	16
7. Age at 31 December 1996 (years)	60 ⁹ / ₁₂	58 ³ / ₁₂	40 ⁸ / ₁₂	53 ⁹ / ₁₂	58 ¹⁰ / ₁₂
8. Pensionable service (years)	39 ¹ / ₁₂	33 ⁴ / ₁₂	4 ³ / ₁₂ *	27 ³ / ₁₂	34 ³ / ₁₂

* plus transferred in service of 2 years 1 month from a former employment

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%.

FINANCIAL STATEMENTS

NOTES RELATING TO THE ACCOUNTS

34 COMMITMENTS AND CONTINGENT LIABILITIES

	1996 £m	1995 £m
Contracts placed for future capital expenditure not provided for in these accounts	205	90

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.

Financial instruments

At 31 December 1996, Zeneca had outstanding forward foreign exchange contracts to sell currency with nominal principal amounts of £380m (1995 £395m). The contracts were taken out with commercial banks for the purpose of hedging non-sterling commercial transactions which existed at the date of the balance sheet. The majority of the contracts had a maturity of six months or less from that date. At 31 December 1996, the Group held interest and cross currency swaps totalling £76m (1995 £29m) which were taken out 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 1997. The contracts were taken out with commercial banks. In relation to these Zeneca had, at 31 December 1996, outstanding forward foreign exchange contracts to sell currency with a notional principal value of £142m (1995 £216m) equivalent, and currency option contracts to sell with a notional principal value of £401m (1995 £328m) 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 a potentially responsible party ('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 1996 in respect of such costs in accordance with the accounting policy on page 44. Although there can be no assurance, management believes that, 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.

Salick Healthcare

In April 1995 Zeneca purchased 50% of Salick Health Care, Inc. ('SHC'), a leading US provider of disease-specific healthcare services, for US\$204 million cash (£127m equivalent). SHC shareholders have a Put option over the remaining 50% shareholding, exercisable at two and one half years from the date of initial purchase. Zeneca will be obliged to pay or to procure payment to SHC of all monies required to finance the cash consideration for the purchase by SHC of the Put shares at a Put price of US\$42 per share, which, based on the number of shares outstanding at 31 December 1996 approximates to US\$238 million (£141m at £1=\$1.69). The remaining 50% may be bought by SHC at Zeneca's request within a four year period from the date of the initial purchase at a price which will be set according to a number of variables including in the first two and one half years from the date of initial purchase a minimum and maximum price

34 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(in the range of US\$233 million to US\$283 million based on the number of SHC shares outstanding at 31 December 1996). Zeneca has also entered into a number of agreements and indemnities with SHC in relation to the transaction.

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 has appealed against this judgement, which appeal is pending.

In January and February 1996 Zeneca received separate notifications that each of Mylan Pharmaceuticals Inc ('Mylan') and Pharmachemie BV ('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 have been 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 infringes patent property owned jointly by Schering and Roussel UCLAF S.A. ('Roussel'). Zeneca is defending this action vigorously, including contesting the validity of the patent, having established an agreement with Roussel which gives Zeneca a licence to commercialise 'Casodex' in the US with LHRH analogues. Zeneca has obtained partial summary judgement (on the basis of the licence with Roussel). The summary judgement has been affirmed by the US Court of Appeals of the Federal Circuit thus confirming Zeneca's right to sell 'Casodex' in LHRH combination therapy. Schering may seek further appellate review of the judgement and/or pursue a claim for patent infringement in the period before Zeneca was licensed by Roussel. In either case Zeneca is confident it will prevail in these matters. 'Casodex' itself is protected by patents which are unaffected by this litigation.

The Group had provisions as at 31 December 1996 in respect of costs associated with the proposed settlement of certain anti-trust class actions initiated by retail pharmacies 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 this settlement is the prudent course of action given the inherent risks and costs of litigation and to avoid further business disruption. The settlement has been approved by the US District Court and is now on appeal to the US Court of Appeals.

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 settlement described above, and other litigation considered typical to its businesses, covering product liability, infringements of intellectual property rights and validity of certain patents.

FINANCIAL STATEMENTS

NOTES RELATING TO THE ACCOUNTS

35 LEASES

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

	1996 £m	1995 £m
Rentals under operating leases	22	30
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	6
Expiring during years 2 to 5	10	3
Expiring thereafter	7	2
	19	11
Other assets		
Expiring within 1 year	3	4
Expiring during years 2 to 5	6	7
Expiring thereafter	2	2
	11	13
Obligations under finance leases comprise		
Rentals due within 1 year	8	6
Rentals due during years 2 to 5	13	14
Rentals due thereafter	9	3
Less interest element	(7)	(4)
	23	19

Obligations under finance leases are included in other creditors (Note 16).

The Group had no commitments (1995 £13m) under finance leases at the balance sheet date which were due to commence thereafter.

36 STATUTORY AND OTHER INFORMATION

Included in debtors are interest free loans of £56,000 to three 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.

Remuneration of auditors for the statutory audit charged in the Group accounts for 1996 was £2.3m (1995 £2.5m). Fees paid to the auditors of the parent Company and its UK subsidiaries for non-statutory 'audit' work, accounting, information systems, project support and taxation advice were £3.3m (1995 £2.9m). Other fees paid to affiliates of the auditors of the parent Company worldwide amounted to £0.7m (1995 £0.5m).

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

<i>At 31 December 1996</i>	<i>Class of capital</i>	<i>Percentage of voting share capital held</i>	<i>Principal activity</i>
United Kingdom			
Zeneca Limited England	Ordinary	100	Research and manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchanting of Zeneca products
IC Insurance Holdings Limited England	Ordinary	51#	Insurance and reinsurance underwriting
Continental Europe			
Zeneca Pharma S.A. France	Ordinary	100#	Research, manufacture and merchanting of pharmaceuticals
Zeneca Holding GmbH Germany	Ordinary	100#	Manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchanting of Zeneca products
Zeneca S.p.a. Italy	Ordinary	100#	Manufacture of pharmaceuticals; merchanting of Zeneca products
Stauffer Chemical B.V. The Netherlands	Common	100#	Manufacture of agrochemicals
Advanta B.V. The Netherlands	Ordinary	50#†	Processing and merchanting of seeds
The Americas			
Zeneca Brasil S.A. Brazil	Ordinary	100#	Manufacture of agrochemicals and specialty chemicals; merchanting of Zeneca products
Zeneca Holdings Inc. USA	Common	100#	Manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchanting of Zeneca products
IPR Pharmaceuticals Inc. Puerto Rico	Common	100#	Manufacture of pharmaceuticals
Salick Health Care, Inc. USA	Common	50#	Provision of disease-specific healthcare services
Asia, Africa & Australasia			
Zeneca China Limited Hong Kong	Ordinary	100#	Merchanting of Zeneca products
Zeneca Yakuhin K.K. Japan	Ordinary	60#	Merchanting of pharmaceutical products
Zeneca K.K. Japan	Ordinary	100#	Manufacture of pharmaceuticals; merchanting of Zeneca products

#shares held indirectly †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 shall be annexed to the Company's next annual return filed with the Registrar of Companies. The country of principal operations and 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 31 August. Zeneca operates through 186 subsidiary companies. Products are manufactured in some 25 countries worldwide and are sold in well over 100 countries.

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GROUP FINANCIAL RECORD

For the years ended 31 December

	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m
Turnover and profits					
Turnover	3,979	4,440	4,480	4,898	5,363
Operating profit before exceptional items	587	704	797	894	1,043
Exceptional items charged to operating profit	(304)	—	(138)	(65)	—
Operating profit after exceptional items	283	704	659	829	1,043
Profit on ordinary activities before interest	254	721	697	638	988
Net interest payable	(152)	(88)	(38)	(19)	(13)
Profit on ordinary activities before taxation	102	633	659	619	975
Net profit for the financial year	80	431	443	336	643
Dividends to Shareholders	n/a	(260)	(270)	(293)	(332)
Return on sales					
Operating profit before exceptional items as a percentage of sales	14.8%	15.9%	17.8%	18.3%	19.4%
Balance sheets					
Fixed assets	1,559	1,684	1,733	1,905	1,847
Fixed asset investments	33	26	39	40	118
Current assets	2,488	3,309	2,909	3,148	3,035
Total assets	4,080	5,019	4,681	5,093	5,000
Creditors due within one year	(2,617)	(2,360)	(1,896)	(2,024)	(1,870)
Total assets less current liabilities	1,463	2,659	2,785	3,069	3,130
Creditors due after more than one year	932	587	552	567	516
Provisions for liabilities and charges	419	501	490	537	476
Minority equity interests	57	72	58	104	104
Shareholders' equity	55	1,499	1,685	1,861	2,034
	1,463	2,659	2,785	3,069	3,130
Capital gearing					
Net debt as a percentage of shareholders' funds	n/a	12.5%	0.3%	0.5%	—
Cash flow					
Net cash inflow from operating activities	682	833	872	956	1,079
Returns on investments and servicing of finance	(472)	(141)	(46)	(25)	(24)
Taxation	(74)	(116)	(163)	(278)	(290)
Capital expenditure and financial investment	(238)	(296)	(301)	(280)	(372)
Acquisitions and disposals	72	40	89	(125)	146
Dividends paid to Shareholders	—	(99)	(263)	(274)	(305)
Net cash flow before management of liquid resources and financing	(30)	221	188	(26)	234
Management of liquid resources and financing	50 ⁺	447 ⁺	(233)	33	(133)
(Decrease) increase in cash	20 ⁺	668 ⁺	(45)	7	101

FRS 1 (Revised 1996) has been adopted for the 1996 Cash Flow Statement. ⁺ 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. 1992 figures were not restated for FRS 5 or UITF 6 as pro forma information only was available for Zeneca.

ZENECA SHARE INFORMATION

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

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 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.

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.

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION FOR US INVESTORS (CONTINUED)

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 USA. 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 1996 rate of £1 = \$1.69.

SUMMARISED INCOME STATEMENT	Years ended 31 December			
	1996 £m	1995 £m	1996 \$m	1995 \$m
Sales	5,363	4,898	9,063	8,278
Operating income	1,043	829	1,763	1,401
Income from ordinary activities before interest	988	638	1,670	1,078
Net interest expense	(13)	(19)	(22)	(32)
Income from ordinary activities before taxation	975	619	1,648	1,046
Taxes on income from ordinary activities	(320)	(268)	(541)	(453)
Income from ordinary activities after taxation	655	351	1,107	593
Income attributable to minorities	(12)	(15)	(20)	(25)
Net income (UK GAAP)	643	336	1,087	568
Adjustments to conform to US GAAP				
Capitalization, less disposals and amortization of interest	(5)	1	(8)	2
Deferred taxation	(6)	(15)	(10)	(25)
Pension expense	(15)	(16)	(25)	(27)
Post-retirement benefits/plan amendment	3	2	5	3
Purchase accounting adjustments, including goodwill and intangibles: amortization	(34)	(35)	(58)	(59)
sale or closure of operations	-	73	-	123
Restructuring costs	(14)	14	(24)	24
Unrealized gains on foreign exchange	12	5	20	8
	(59)	29	(100)	49
Net income in accordance with US GAAP	584	365	987	617
Net income (US GAAP) per Ordinary Share	61.7p	38.6p	+\$3.13	+\$1.95
Dividends per 25p Ordinary Share	35.0p	31.0p	+\$2.22	+\$1.96

+Per American Depositary Share (ADS). Three Zeneca Ordinary Shares are represented by each ADS.

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 35 pence per Ordinary Share would represent \$2.22 per ADS using the conversion rate of £1 = \$1.69. The UK tax credit of 20/80ths is based on the lower rate of income tax prevailing in the UK on 10 March 1997, the date on which the Zeneca Group audited financial statements were signed.

SUMMARISED CONSOLIDATED BALANCE SHEET

	At 31 December			
	1996	1995	1996	1995
	£m	£m	\$m	\$m
UK Basis				
Assets				
Current assets				
Cash and marketable securities	975	792	1,648	1,338
Receivables	1,379	1,505	2,330	2,544
Inventories	681	851	1,151	1,438
Total current assets	3,035	3,148	5,129	5,320
Other assets: non-current investments	118	40	199	68
Property, plant and equipment (net of depreciation)	1,822	1,887	3,080	3,189
Intangible assets	25	18	42	30
Total assets	5,000	5,093	8,450	8,607
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	1,643	1,758	2,777	2,971
Short-term debt	215	241	363	407
Long-term debt due within one year	12	25	20	42
Total current liabilities	1,870	2,024	3,160	3,420
Long-term debt not due within one year	476	536	805	906
Other liabilities and deferred income	516	568	872	960
Minority interests	104	104	176	176
Shareholders' equity	2,034	1,861	3,437	3,145
Issued Shares	237	237	401	401
Premiums paid in excess of par value	9	7	15	12
Merger reserve	285	285	482	482
Income retained and other reserves	1,503	1,332	2,539	2,250
Total liabilities and shareholders' equity (UK basis)	5,000	5,093	8,450	8,607
Total shareholders' equity (UK basis)	2,034	1,861	3,437	3,145
Adjustments to conform to US GAAP				
Capitalization, less disposals and amortization of interest	101	106	171	179
Dividends	214	187	362	316
Deferred taxation	(45)	(27)	(76)	(46)
Pension expense	(121)	(109)	(204)	(184)
Post-retirement benefits/plan amendment	(30)	(35)	(51)	(59)
Purchase accounting adjustments, including goodwill and intangibles	600	627	1,014	1,060
Restructuring costs	–	14	–	24
Unrealized gains on foreign exchange	12	–	20	–
	731	763	1,236	1,290
Shareholders' equity in accordance with US GAAP	2,765	2,624	4,673	4,435

Zeneca acquired a 50 per cent shareholding in Salick Health Care, Inc. ('SHC') on 13 April 1995 with a Call option to purchase the remaining 50 per cent shareholding, exercisable within a four year period. By virtue of the Call option, SHC has been regarded for accounting purposes as a subsidiary of Zeneca and its results have been consolidated into the Group results, with a 50 per cent minority interest allowed for. Under US GAAP the investment in SHC could be treated as an equity accounted investment. The difference in treatment would have no effect on net income or shareholders' equity.

SHAREHOLDER INFORMATION

SHAREHOLDERS

Percentage analysis at 31 December of issued share capital

<i>By fund type</i>			<i>By size of account No. of shares</i>		
	1996	1995		1996	1995
Pension funds	42.3	39.2	1 – 250	1.2	1.4
Insurance funds	13.4	12.9	251 – 500	2.2	2.4
Overseas institutions	11.7	12.6	501 – 1,000	3.3	3.5
Unit trusts	7.6	6.4	1,001 – 5,000	5.1	5.4
	75.0	71.1	5,001 – 10,000	0.7	0.8
Others	9.7	12.6	10,001 – 50,000	2.8	2.8
Holdings 50,000 shares or less	15.3	16.3	50,001 – 1,000,000	24.1	21.9
			over 1,000,000	60.6	61.8
Issued share capital	100.0	100.0	Issued share capital	100.0	100.0

At 31 December 1996, Zeneca Group PLC had 226,985 registered holders of 946,915,123 Ordinary Shares of 25 pence each. In addition there were approximately 12,000 holders of American Depositary Receipts representing 3.52 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 1997 (one month prior to the date of the Notice of Annual General Meeting) no person held a notifiable interest in the issued Ordinary Share capital of the Company appearing in the register of 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 6 May 1997 (in the UK) and 13 May 1997 (in the US) is 21 March 1997. Shares will trade ex-dividend on the London Stock Exchange from 17 March 1997. ADRs will trade ex-dividend on the New York Stock Exchange from 19 March 1997. 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 1997, on 7 August 1997.

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

DEPOSITARY 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

Cardiovascular and Metabolism

Inderal – beta blocker for hypertension, angina and other uses

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

Tenoretic – combination beta-blocker/diuretic for hypertension, IHD

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)

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

Anti-cancer

Zoladex – LHRH (Luteinising Hormone Release Hormone) analogue for prostate cancer, pre- and peri-menopausal breast cancer, certain benign gynaecological disorders

Nolvadex – cytostatic hormone, anti-oestrogen for breast cancer

Metastron* – radiopharmaceutical treatment for relief of bone pain associated with prostate cancer (co-promotion agreement from Amersham International plc)

Casodex – oral anti-androgen for use in conjunction with LHRH analogues for prostate cancer

Arimidex – aromatase inhibitor for breast cancer

Tomudex – thymidylate synthase inhibitor for colorectal cancer, launched in Europe, filing expected in the US in 1997

Kadian* – oral, sustained-release morphine sulphate product (licensed from Faulding Services Inc. for sale in the US)

Faslodex – pure anti-oestrogen for breast cancer, in phase III clinical development

Central Nervous System

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

Fluothane – inhalation anaesthetic

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

Zomig – a 5-HT_{1D} agonist for migraine (rights acquired from GlaxoWellcome plc)

Infection

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)

Amphocil* – proprietary formulation of amphotericin B for severe systemic fungal infections (rights from Sequus Pharmaceuticals Inc)

Respiratory

Accolate – oral leukotriene receptor antagonist for mild to moderate asthma, launched in the US in 1996 and filed in Europe

- * Sular is a trade mark owned by Bayer AG.
- * Kadian is a trade mark owned by F. H. Faulding & Company Limited.
- * Metastron is a trade mark owned by Amersham International plc.
- * Apatef is a trade mark owned by Yamanouchi Pharmaceutical Co., Ltd.
- * Amphocil is a trade mark owned by Sequus Pharmaceuticals Inc.

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