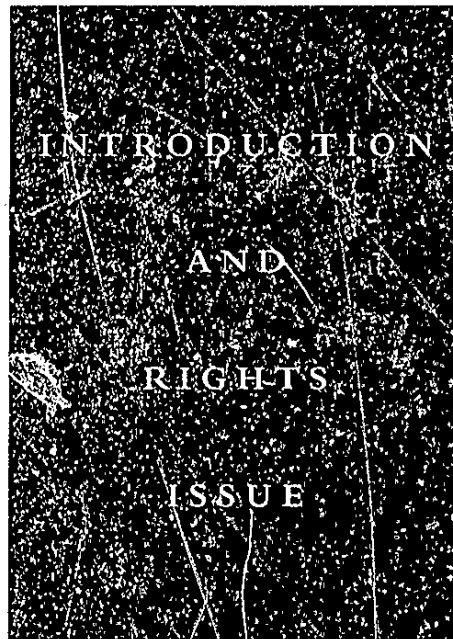


2723534

**ZENECA GROUP PLC**

[ ASTRAZENECA GROUP PLC Co. No. 02723534. (May 17 1993). List of particulars initial public offering underwritten by Warburg, Barclays, Goldman Sachs. Companies House (UK). Source: <https://find-and-update.company-information.service.gov.uk/company/02723534/filing-history?page=56> ]

# ZENECA



A copy of this document, which comprises Listing Particulars relating to ZENECA Group PLC in accordance with the listing rules made under Section 102 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of that Act. This document has been prepared in connection with the Demerger and ZENECA Rights Issue and assumes that, unless the context otherwise requires, the Demerger has become effective and the underwriting of the ZENECA Rights Issue has become unconditional.

The attention of ICI Shareholders not resident in the UK is drawn to paragraph 7 of Part 10 and to paragraph 5(a)(vii) of Part 11.

# ZENECA GROUP PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 2723534)

## Introduction to the Official List

sponsored by

S.G. Warburg & Co. Ltd.

and

Rights Issue

of up to 224,926,166 Ordinary shares at 600p each

in ZENECA Group PLC

underwritten by

S.G. Warburg & Co. Ltd.

Barclays de Zoete Wedd  
Securities Limited

Goldman Sachs  
International Limited



Authorised		SHARE CAPITAL	Issued and fully paid following the Demerger and ZENECA Rights Issue*	
£	Number		£	Number
300,000,000	1,200,000,000	Ordinary shares of 25p each	236,172,475	944,689,900

\*Based on the assumptions set out in paragraph 2(a) of Part 11

The ZENECA Rights shares will, when fully paid, rank pari passu in all respects with the ZENECA Demerger shares, including the right to receive all dividends and other distributions declared, made or paid in respect of the ordinary share capital of the Company. Unless ICI Shareholders have sold or transferred all their ICI Ordinary shares, they should retain this document for reference pending receipt of a ZENECA PAL.

### INDEBTEDNESS

The following sets out the combined borrowings and cash and bank balances of the Group as at the close of business on 31st March, 1993 on the basis that the Demerger had taken place immediately prior to that date. The Group had outstanding loan capital totalling £2,107 million (of which £16 million was secured) bank loans and overdrafts of £256 million (of which £3 million was secured) and capital obligations under finance leases of £10 million. Included in the £2,107 million referred to above are amounts due from ZENECA to the ICI Group of approximately £2,089 million. On 14th April, 1993, a subsidiary of ZENECA issued shares with a nominal value of £157 million, the proceeds of which were used to reduce the amounts due from ZENECA to the ICI Group. On 15th April, 1993 ZENECA refinanced its sterling loans with the ICI Group of £1,364 million, through the issue by a subsidiary of ZENECA of £1,800 million of notes. Part of the proceeds of such notes was deposited with a subsidiary of the ICI Group and, together with £1,300 million of the net proceeds of the ZENECA Rights Issue, will be applied on 29th June, 1993 toward repayment of the £1,800 million amount referred to above as being due from ZENECA to the ICI Group. Save as disclosed, there has been no material change in indebtedness of ZENECA since 31st March, 1993.

Save as aforesaid and apart from intra-Group liabilities and certain matters described in note 32 in Part 8, neither the Company nor any of its subsidiaries had outstanding at that date any mortgages, charges, loan capital (whether outstanding or created but unissued), term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or finance lease commitments, guarantees or other material contingent liabilities. As at 31st March, 1993, the Company itself had not traded and had no liabilities. For the purposes of the above statement of indebtedness and the cash balances referred to below, amounts denominated in currencies other than sterling have been translated into sterling at the exchange rates ruling at the close of business on 31st March, 1993.

The Group's cash and bank balances (including £141 million held by ZENECA's insurance subsidiaries, a major part of which is not readily available for the general purposes of the Group) amounted to £313 million.

### Notice to persons in the United States

This document is being furnished to you solely for your use in evaluating the proposals to be voted on at the Extraordinary General Meeting of ICI Shareholders to be held on 28th May, 1993 and shall not constitute an offer to sell or the solicitation of an offer to subscribe for or purchase any securities.

The Directors, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

In accordance with Section 143 of the Financial Services Act 1986, application has been made to the London Stock Exchange for the admission of the ZENECA Demerger shares and ZENECA Rights shares to the Official List. The application is subject to the passing of the Resolution. The Resolution concerns approval of the Demerger proposals and certain related matters. It is expected that the Demerger, if approved, will become effective on admission of the ZENECA Ordinary shares to the Official List of the London Stock Exchange on 1st June, 1993 and that dealings in the ZENECA Demerger shares, fully paid, and in the ZENECA Rights shares, nil paid, will commence at that time. The London Stock Exchange has agreed to permit dealings in the ZENECA Demerger shares, ZENECA Rights shares and ZENECA Rights shares nil paid, on a "when issued" basis. See Part 10.

S.G. Warburg & Co. Ltd. and Goldman Sachs International Limited are acting for ZENECA Group PLC in relation to the Introduction and ZENECA Rights Issue and are not acting for any other persons and will not be responsible to such persons for providing protection afforded to customers of Warburgs or Goldman Sachs or advising them on the contents of this document or any matter referred to herein.

## ZENECA

The distribution of this document in certain jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of such jurisdictions.

In connection with the ZENECA Rights Issue, S.G. Warburg Securities, Goldman Sachs and Barclays de Zoete Wedd (the "International Marketing Co-ordinators") intend, subject to entering into the agreement with the Company referred to below, through two syndicates of international investment banks (the "Syndicates") to solicit purchasers for, and themselves as principals to sell, fully paid ZENECA Ordinary shares (or ADSs representing ZENECA Ordinary shares) to investors outside the UK and the Republic of Ireland prior to completion of the ZENECA Rights Issue. For the purpose of making such sales of ZENECA Ordinary shares, the International Marketing Co-ordinators will (both before and after such sales are made) purchase nil paid or, in certain circumstances, fully paid ZENECA Rights shares or warrants representing nil paid rights to ADSs and, in the case of nil paid ZENECA Rights shares, subscribe for such ZENECA Rights shares. The Company proposes to enter into an agreement with the International Marketing Co-ordinators pursuant to which it will agree to pay certain commissions to the International Marketing Co-ordinators who will pay certain commissions to the participants in the Syndicates in connection with such transactions. These transactions may be effected on the London Stock Exchange, the New York Stock Exchange or otherwise. These marketing activities, if commenced, may be discontinued at any time. The activities of the International Marketing Co-ordinators in relation to these arrangements will be carried on independently of any market-making activities carried on by them. The Syndicate for the US will be Goldman, Sachs & Co., Barclays de Zoete Wedd Incorporated, S.G. Warburg Securities, Donaldson, Lufkin & Jenrette Securities Corporation, Merrill Lynch & Co., J.P. Morgan Securities Inc., NatWest Securities Corporation, PaineWebber Incorporated and Smith Barney, Harris Upham & Co. Incorporated. The Syndicate for the rest of the world (excluding the UK and the Republic of Ireland) will be S.G. Warburg Securities, Barclays de Zoete Wedd Limited, Goldman Sachs International Limited, ABN AMRO Bank N.V., BNP Capital Markets Limited, Deutsche Bank Aktiengesellschaft, Morgan Stanley International, Nikko Europe Plc and Swiss Bank Corporation.

The arrangements described above may commence at any time prior to the latest time for acceptance and payment in full in respect of ZENECA Rights shares. An announcement will be made to the London Stock Exchange and the New York Stock Exchange immediately prior to the time of such commencement.

Certain firms expected to be registered with the London Stock Exchange as market-makers in ZENECA Demerger shares and ZENECA Rights shares who are connected with the Underwriters and certain of the members of the Syndicates contemplated by the International Marketing Agreement may, as a consequence of the application of US securities laws, be the subject of certain restrictions on their market-making activities during the five dealing days ending on the last date for acceptances. See paragraph 14(k) of Part 11.

## SOURCES OF INFORMATION

All pro forma financial information relating to ZENECA has been extracted or derived from Part 9. All other financial information relating to ZENECA has been either extracted or derived from the Accountants' Report (Part 8) or prepared on a basis consistent with the information contained in that Report.

Except in relation to Pharmaceuticals and Agrochemicals (as to which, see "Statistical Data" on page 139) or where otherwise indicated, figures and percentages included in this document relating to ranking, market size or market share are based on management estimates.

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**ZENECA**

## TIMETABLE

Event	1993
ICI Extraordinary General Meeting	10.00 a.m. on 28th May
Latest time for lodging of transfers in order to be registered by the Demerger Record Date	3.00 p.m. on 28th May
Despatch of ZENECA PALs commences	29th May
Demerger Record Date	7.30 a.m. on 1st June
Demerger expected to become effective	8.30 a.m. on 1st June
ZENECA Rights Issue Record Date	immediately after the Demerger becomes effective on 1st June
Dealings in ZENECA Demerger shares and in ZENECA Rights shares, nil paid, expected to commence*	8.30 a.m. on 1st June
Definitive ZENECA Demerger share certificates expected to be despatched on	4th June
Latest time for splitting ZENECA Rights shares, nil paid	3.00 p.m. on 17th June
Latest time for acceptance and payment in full in respect of ZENECA Rights shares	Midnight on 21st June
Latest time for splitting ZENECA Rights shares, fully paid	3.00 p.m. on 8th July
Latest time for registration of renunciation of ZENECA Rights shares	3.00 p.m. on 12th July
Definitive ZENECA Rights share certificates despatched by	12th August
*Dealings are expected to commence at 2.30 p.m. on 12th May, 1993 on a "when issued" basis, as described in paragraph 1 of Part 10.	
All times stated in this document are London times unless otherwise indicated.	

Assistance in understanding the procedure to be followed in relation to the ZENECA Rights Issue may be obtained by telephoning Lloyds Bank Plc Registrar's Department, The Causeway, Worthing, West Sussex BN99 6DA on 0903 702627.

## DIRECTORS

Sir Denys Hartley Henderson (Chairman)  
 James David Francis Barnes (Chief Executive Officer)  
 Lord Chilver (Non-executive Director)\*†  
 Peter Doyle  
 Sir Richard Greenbury (Non-executive Director)†  
 Gillian Margaret Lewis (Non-executive Director)†  
 John Charles Mayo  
 Sir Christopher Jeremy Morse (Non-executive Director)\*†  
 Alan Ind Harvey Pink  
 Anthony Thomas George Rodgers  
 Thomas Hunt Wyman (Non-executive Director)\*†(US citizen)  
 all of 9 Millbank, London SW1P 3JF.

**ZENECA**

\* member of the audit committee  
 † member of the remuneration and nomination committee

Secretary and Solicitor	Graeme Harold Rankine Musker
Registered and Head Office	Imperial Chemical House 9 Millbank London SW1P 3JF
Registrar	I.C. Parkinson P.O. Box 251 Wexham Road Slough SL2 5DP

## ADVISERS

Sponsor	S.G. Warburg & Co. Ltd.
Financial advisers	S.G. Warburg & Co. Ltd. Goldman Sachs International Limited
Stockbrokers	S.G. Warburg Securities Ltd. de Zoete & Bevan Limited
Auditors and reporting accountants	KPMG Peat Marwick
Solicitors to the Company	Linklaters & Paines
US legal advisers to the Company	Davis Polk & Wardwell
Solicitors to the Sponsor and to the Underwriters	Slaughter and May
US legal advisers to the Underwriters	Sullivan & Cromwell
Principal commercial bankers	Citibank N.A. Midland Bank plc

## OVERVIEW

*The information in this overview should be read in conjunction with the full text of this document, from which it is derived.*

ZENECA is a major international bioscience business engaged in the research, development, manufacture and marketing of ethical (prescription) pharmaceuticals, agricultural chemicals, specialty chemicals, seeds and biological products. Its businesses are research and technology intensive, have international development and marketing skills and have a strong common science base.

ZENECA was created by separating ICI's bioscience activities from its other chemical operations, with effect from 1st January, 1993. Management expects ZENECA to benefit from its continued strong cash flow, providing resources to invest in both its established and developing activities and to build on its record of inventing and developing major new commercial products.

ZENECA

ZENECA is committed to meeting customer needs through focused investment in R&D. In 1992, R&D expenditure totalled £457 million, or approximately 11 per cent. of ZENECA's sales. The Group has extensive technical resources which support manufacturing and process technology capabilities. ZENECA's businesses are also served by regulatory expertise and extensive international marketing, sales and customer service networks.

ZENECA's trading profit before exceptional items for the year ended 31st December, 1992 was £587 million on sales of £3,979 million. Exceptional items before taxation in 1992 amounted to £340 million. Products are manufactured in 25 countries worldwide and are sold in over 100 countries. In 1992, 41 per cent. of Group sales (by customer location) were in the Americas, 33 per cent. in Continental Europe, 8 per cent. in the UK and 13 per cent. in Asia Pacific. ZENECA employed approximately 33,300 people at 31st December, 1992.

## KEY FINANCIAL STATISTICS

The financial information relating to ZENECA set out below has been extracted or derived from Parts 8 and 9, on the bases set out therein.

**ZENECA Rights Issue**

Net proceeds	£1,310 million
Price earnings multiple based on pro forma earnings per share before exceptional items for year ended 31st December, 1992*	13.3 times
Forecast net dividend per share in respect of 1993	27.5p
Gross yield based on forecast dividend in respect of 1993*	5.7%

**Financial information on ZENECA**

	Historical	Pro forma
Earnings per share before exceptional items for year ended 31st December, 1992	48p	45p
Earnings per share after exceptional items for year ended 31st December, 1992	11p	23p

**As at 31st December, 1992**

Pro forma shareholders' equity	£1,522 million
Pro forma net indebtedness	£391 million
Pro forma net gearing	25.7%

\*based on issue price of 600p per Zeneca Rights share

## SUMMARY FINANCIAL RECORD

The summary combined financial information set out below in relation to the three years ended 31st December, 1990, 1991 and 1992 and turnover information for the years ended 31st December, 1988 and 1989 has been extracted from the audited summarised combined financial information contained in the Accountants' Report (set out in Part 8) and should be read in conjunction with, and is qualified in its entirety by reference to, the contents of that Report.

The summary combined financial information is presented on the basis that ICI's bioscience businesses are assumed to have been businesses of ZENECA for all years presented or from the date of acquisition by ICI or to the date of disposal by ICI, as appropriate. Adjustments have been made to, among other items, historical indebtedness, net interest and tax amounts, as further described in the Accountants' Report.

### ZENECA

	Year ended 31st December,				
	1988	1989	1990	1991	1992
	£m	£m	£m	£m	£m
Turnover					
Pharmaceuticals	1,106	1,268	1,375	1,552	1,607
Agrochemicals	1,122	1,276	1,289	1,316	1,288
Specialties	813	917	938	916	936
Trading and Miscellaneous <sup>(1)</sup>	266	293	208	145	148
	3,307	3,754	3,810	3,929	3,979
Trading profit before exceptional items					
Pharmaceuticals			473	536	488
Agrochemicals			108	145	85
Specialties			34	29	26
Trading and Miscellaneous <sup>(1)</sup>			(15)	(28)	(12)
			600	682	587
Profit on ordinary activities before exceptional items and taxation			431	527	442
Exceptional items <sup>(2)</sup>			(77)	4	(340)
Profit on ordinary activities before taxation			354	531	102
Net profit for the financial year			222	345	80
Earnings per share before exceptional items			40p	48p	48p
Earnings per share after exceptional items			31p	48p	11p
Net cash inflow from operating activities			779	726	682

(1) Trading and Miscellaneous comprises the marketing and distribution of ICI Group products undertaken by ZENECA, agency sales on behalf of third parties, the results of the Group's insurance operations, corporate costs not allocated to businesses and inter-class eliminations.

(2) Details of the exceptional items for the years ended 31st December 1990, 1991 and 1992 are given in note 6 of the Accountants' Report.

(3) The financial results of Seeds and Biological Products are included with those of Agrochemicals and Specialties, respectively.

## ZENECA'S BUSINESSES

### *Pharmaceuticals*

Pharmaceuticals, with 1992 sales of £1,607 million, is a large, innovative ethical pharmaceuticals business with an established record of new product invention and commercialisation. It has leading positions in the sale of products in the cardiovascular and anti-cancer therapeutic areas and intravenous anaesthetics, as well as a strong presence in hospital antiseptics. Pharmaceuticals' principal cardiovascular products include Tenormin and Zestril, the world's leading beta-blocker and the third largest selling ACE inhibitor, respectively. Pharmaceuticals is also the world's second largest supplier of anti-cancer medicines, led by Nolvadex and Zoladex, which are leading products in the treatment of breast and prostate cancer, respectively. Nolvadex is the world's largest selling anti-cancer medicine. Zoladex is the second largest selling LHRH analogue. Management believes that Diprivan is the world's largest selling intravenous anaesthetic.

## ZENECA

Pharmaceuticals has a target of putting forward one new compound for regulatory approval each year. Research is concentrated in six therapeutic areas – cardiovascular, anti-cancer, anti-infection, arthritis, respiratory and central nervous system – which draw upon Pharmaceuticals' existing expertise. Pharmaceuticals' leading development products are Merrem, Casodex, Accolate, Arimidex and Seroquel. Research in Pharmaceuticals' laboratories in the UK, US and France is complemented by its extensive international clinical development capability.

Pharmaceuticals' products are sold through a large, geographically balanced sales force with marketing organisations covering the key therapeutic categories in all major markets. Its products are sold in over 100 countries and it has approximately 12,600 employees worldwide. R&D expenditure in 1992 was £256 million, representing approximately 16 per cent. of sales.

### *Agrochemicals*

Agrochemicals (which for financial reporting purposes includes Seeds) is one of the world's largest suppliers of agricultural chemicals, with 1992 sales of £1,288 million. It manufactures and markets a broad range of herbicides, insecticides, fungicides and other products. Agrochemicals has comprehensive geographical and product coverage, with sales in 1992 of over £250 million in each of Europe, the Americas and the rest of the world. The business has a proven record of introducing innovative new products and support for its existing product range, derived from a strong science base which includes environmental skills. Agrochemicals' established product range includes Gramoxone, Fusilade and Karate, and new products are in development which management believes have significant sales potential. The business is R&D intensive, with expenditure (including that of Seeds) totalling £140 million in 1992, representing approximately 11 per cent. of sales. Agrochemicals has a well-developed international marketing network, selling products in over 130 countries. The business employs approximately 7,700 people worldwide. Seeds is a development business which aims to produce high added-value seed products for farmers, food processors and distributors.

### *Specialties*

Specialties (which for financial reporting purposes includes Biological Products) had 1992 sales of £936 million. Its businesses are based on core ZENECA technologies of organic chemistry, coatings and biotechnology and share production facilities for organic chemicals with other ZENECA businesses. Specialties operates established businesses in colours, biocides, fine chemicals and effects and coatings, together with a portfolio of development activities in biological products. Specialties' businesses have leading positions



in selected markets, offering mainly high value-added and often customised products. Management believes that Specialties ranks third in the world reactive dyes market. Recent product introductions include the latest generation of Procion dyes and high wetfastness benzodifuranone dyes. It holds a leading position in the world indigo market and is a leader in the world leather finish market. The resins business has strong market positions in water-based acrylics and urethane resins. Specialties sells products in over 80 countries and employs approximately 7,300 people. R&D expenditure in 1992 totalled £61 million, representing approximately 7 per cent. of sales.

Biological Products, a development business, includes such innovative products as Quorn, a meat alternative, and Biopol biodegradable plastics, as well as Cellmark Diagnostics, a DNA genetic fingerprinting business.

## ZENECA

### ZENECA CURRENT TRADING AND PROSPECTS

ZENECA's trading in 1993 has started on a firm note. Turnover in the first quarter of 1993 was £1,131 million, compared with £1,002 million in the first quarter of 1992, an increase of 13 per cent. Trading profit before exceptional items in the first quarter of 1993 was £204 million, compared with £180 million in 1992, an increase of 13 per cent. Pharmaceuticals' trading profit increased over the first quarter of 1992, with continued strong growth in sales of Zestril, Zoladex, Nolvadex and Diprivan, despite a lower contribution from Tenormin. Agrochemicals' results were below 1992 levels, while Specialties' trading results were ahead of those recorded in the first quarter of 1992. While it is too early in the year to express any definite views regarding the prospects for the full year, the Directors of ZENECA are confident that the Group can build on the good start to the year.

The operating performance of the ZENECA businesses for the three months ended 31st March, 1993 is summarised in Part 5 and was included in the first quarter results of the ICI Group which were released on 29th April, 1993.

### DIVIDENDS

The Board expects to declare two dividends in respect of each year. The first dividend to which holders of ZENECA Ordinary shares will be entitled is the first dividend in respect of 1993, which is expected to be paid before the end of 1993. In the absence of unforeseen circumstances, the Board expects to declare dividends for the year ending 31st December, 1993 totalling not less than 27.5p (net of tax credit) per ZENECA Ordinary share.

### DEMERGER AND ZENECA RIGHTS ISSUE

Under the Demerger, ZENECA Demerger shares will be distributed by way of dividend to ICI Shareholders on the basis of one ZENECA Demerger share for each ICI Ordinary share held as at the Demerger Record Date. ZENECA will thereafter raise approximately £1,310 million (net of expenses) by way of a rights issue of ZENECA Rights shares to be offered to ZENECA Shareholders at a price of 600p per ZENECA Rights share on the basis of 5 ZENECA Rights shares for every 16 ZENECA Demerger shares held on the ZENECA Rights Issue Record Date. The ZENECA Rights Issue has been underwritten by Warburgs, Barclays de Zoete Wedd and Goldman Sachs. As indicated below, £1,300 million of the net proceeds of the ZENECA Rights Issue will be used to reduce ZENECA's indebtedness to the ICI Group.

## RELATIONSHIP WITH THE ICI GROUP

Following the Demerger, ZENECA and ICI will each operate as separate, publicly listed groups and neither ZENECA nor ICI will have any shareholding in the other. Sir Denys Henderson, Chairman of the Company, is also the Chairman of ICI. The ZENECA and ICI Groups have entered into arrangements for the provision of certain goods and services and the sharing of certain facilities, which are to a large extent transitional, and the licensing and cross-licensing of certain technologies.

As at 1st January, 1993, ZENECA owed £1,923 million to the ICI Group, arising out of the reorganisation of the ICI Group prior to the Demerger. This comprised borrowings of £1,364 million and \$850 million (£559 million). On 15th April, 1993, ZENECA issued notes to an ICI Group company under a committed note purchase agreement. The notes issued on that date, which have a face value of £1,800 million, were issued principally to refinance the £1,364 million referred to above and also to provide short term working capital to ZENECA (see note 22 in Part 8). Part of the proceeds of such notes has been deposited with the ICI Group at a market-based rate of interest. £1,300 million of the net proceeds of the ZENECA Rights Issue of approximately £1,310 million, together with the amounts so deposited, will be applied toward repayment of the sterling indebtedness owed to the ICI Group, comprising the notes currently in issue which mature on 29th June, 1993. The dollar indebtedness is repayable by 2002 (or, at ICI's option, at any time after 1st June, 1995) and may be repaid at ZENECA's option at any time after 4th January, 1994. ZENECA Limited will declare and pay a dividend of £70 million (net of tax credit) to ICI on 27th May, 1993.

**ZENECA**

## GROUP STRATEGY

ZENECA aims to build on its position as a major international bioscience group to generate growing, sustainable profits and to reward shareholders appropriately.

ZENECA's strategic priorities are to:

- develop new products that satisfy customer needs and offer clear competitive advantages through innovation, product extensions and appropriate co-operation with other parties
- continue to exploit its global marketing networks in order to realise the commercial potential of its products
- be cost-competitive in all of its business activities by efficiently directing resources in R&D, manufacturing and marketing
- concentrate the Group's resources on an actively managed portfolio of businesses and products which collectively offer the greatest potential for the Group's profitable development

### ZENECA

In pursuit of these objectives, ZENECA will seek to:

- comply in its activities with international safety, health and environmental standards in a cost-effective manner
- provide attractive employment conditions and career development opportunities for its staff and for the long-term benefit of the Group

The Group aims to enhance its development by exploitation of the commercial benefits arising from the complementary nature of its core bioscience and organic chemistry competencies and enabling technologies. This aim will be supported by making best use of common resources such as research and development, manufacturing and regulatory expertise. ZENECA will evaluate regularly the returns achieved by its constituent businesses with a view to effective portfolio management.

In implementing its strategy, ZENECA will seek to direct its activities in the optimum long-term interests of shareholders. The initial priority will be the vigorous development of its Pharmaceuticals business and the selective pursuit of other profitable development opportunities throughout the Group.

## BUSINESSES

### PHARMACEUTICALS

Pharmaceuticals is a large, innovative, ethical pharmaceuticals business with an established record of new product invention and commercialisation. Sales in 1992 were £1,607 million and trading profit before exceptional items was £488 million. It has leading positions in the sale of products in the cardiovascular and anti-cancer therapy areas and intravenous anaesthetics, as well as a strong presence in hospital antiseptics. Its principal cardiovascular products include Tenormin and Zestril, respectively the world's leading beta-blocker and the third largest selling ACE inhibitor. Nolvadex and Zoladex, its principal anti-cancer products, are leading products in the treatment of breast and prostate cancer, respectively.

Sales by main therapeutic area of Pharmaceuticals' products for the last three years are set out below.

**ZENECA**

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Cardiovascular	857	951	903
Anti-cancer	265	314	377
Anaesthetics	67	104	152
Anti-infectives and other products	186	183	175
<b>Total</b>	<b>1,375</b>	<b>1,552</b>	<b>1,607</b>

#### INDUSTRY BACKGROUND

The world market for ethical pharmaceuticals, which in 1991 was estimated at \$190 billion, is concentrated in the major markets of the US, Japan and Western Europe, which together accounted for 76 per cent. of sales. World sales of pharmaceuticals, of which ethical pharmaceuticals form over 80 per cent., increased steadily during the 1980s, growing at an annual compound rate of 13 per cent.. This resulted from a combination of factors, including the ageing population in major markets and the introduction of a number of significant innovations. The success of individual pharmaceutical companies has depended largely on their ability to invent and develop products which represent a significant improvement on the efficacy or side-effect profiles of existing therapies or the ability to introduce new therapies which provide a desirable and cost-effective alternative to treatments such as surgery. The growth in the 1980s was achieved against the background of increasing pressure to contain healthcare expenditure in many markets.

Management believes that, although the underlying factors driving industry growth during the 1980s are continuing in the 1990s, regulatory pressures and price constraints are likely to intensify. The most successful companies will have a combination of innovative research, rapid product development, cost-effective production and global marketing expertise. Management also believes that novel therapeutic solutions with well-defined benefits will have increasing competitive advantages over undifferentiated therapies. The ability to introduce products to the market ahead of competitors will be critical, requiring efficient management of resources. Marketing efforts will need to adapt to the shift in purchasing power away from the individual prescriber and towards integrated healthcare providers, especially in the US.

## ZENECA

### STRATEGY

Pharmaceuticals' principal objective is sustained growth in profits from the discovery, development, manufacture and marketing of innovative prescription medicines which offer benefits for human healthcare.

Pharmaceuticals' strategic priorities are to:

- ensure a steady flow of innovative new products with the target of putting forward one new compound for regulatory approval each year
- continue to focus R&D resources on the therapeutic areas in which it has established strengths and to maintain R&D expenditure at appropriate levels
- achieve rapid commercial development of new products and extensions of existing products
- enhance the new product flow, where appropriate, by licensing, product swaps, various forms of collaboration and selected acquisitions
- take full advantage of its geographical coverage and international marketing network
- improve continually efficiency and cost-effectiveness in all operations, including R&D, manufacturing and marketing
- ensure that high safety standards are applied to all business operations

### PRODUCTS

Pharmaceuticals currently markets five major products. Its three fast-growing products are Zestril, Diprivan and Zoladex which together accounted for £545 million, or 34 per cent., of Pharmaceuticals' 1992 sales. Aggregate sales of these three products grew by 54 per cent. from 1990 to 1991 and by 41 per cent. from 1991 to 1992. Management believes that each of these products has the potential for further growth. Pharmaceuticals will seek to pursue the opportunities presented in the expanding market sectors into which each product is sold by, for example, extending the indications for which each is approved and continuing to develop improvements in product formulation and delivery. Sales of Zestril, Diprivan and Zoladex for the last three years are set out below.

Product	Therapeutic area	Year ended 31st December,		
		1990 £m	1991 £m	1992 £m
Zestril*	Cardiovascular	142	223	294
Diprivan	Anaesthetic	60	95	142
Zoladex	Anti-cancer	49	69	109

\*Includes combination products.

Nolvadex and Tenormin, first launched in 1973 and 1976, respectively, together accounted for £801 million, or 50 per cent., of Pharmaceuticals' sales in 1992, compared with £898 million in 1991 and £850 million in 1990. With the exception of Nolvadex in the US, both of these products have lost patent protection in their major markets. Management is adopting a variety of strategies on a market by market basis to meet the increasing competition from generic products which has arisen upon patent expiry.

Sales of Tenormin and Nolvadex for the last three years are set out below.

Product	Therapeutic area	Year ended 31st December,		
		1990	1991	1992
		£m	£m	£m
Tenormin*	Cardiovascular	634	653	534
Nolvadex	Anti-cancer	216	245	267

\*Includes combination products.

### Cardiovascular

Pharmaceuticals is a world leader in the development of medicines for the treatment of cardiovascular disorders, which account for approximately 20 per cent. of ethical pharmaceutical sales and form the largest therapeutic category in the world pharmaceuticals market. Pharmaceuticals has held this position since 1965 when it introduced Inderal, the first commercially successful beta-blocker. Medicines to treat such disorders, particularly hypertension, include beta-blockers, ACE inhibitors and calcium antagonists. Pharmaceuticals has built on its position in sales of medicines to treat hypertension with the introduction of Tenormin in 1976 and Zestril in 1988. Pharmaceuticals has also developed a range of combination products for the treatment of hypertension, including Tenoretic, Zestoretic and Nif-Ten.

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### Zestril

Zestril, sold under licence from Merck & Co. Inc., is an ACE inhibitor used in the treatment of hypertension and congestive heart failure. In combination with a diuretic, it is also marketed as Zestoretic. Since its launch in 1988, Zestril has achieved an 8 per cent. share of the worldwide plain and combination ACE inhibitor market, which grew from £1.9 billion in 1990 to £2.5 billion in 1992. This position has been achieved against competition from two companies whose longer established products have market shares of 36 per cent. and 26 per cent., respectively. Despite the entry of several new competitors in recent years, Zestril remains the world's third largest selling ACE inhibitor. Management believes that Zestril's success is attributable to a number of factors, including its once-daily form of administration and the strength of Pharmaceuticals' marketing network, promotional efforts and established reputation in the cardiovascular field. Management also believes that Zestril/Zestoretic has considerable sales growth potential, based on expected underlying growth in the ACE inhibitor market, the increased penetration by Zestril of the Japanese market and the use of Zestril in new indications, particularly congestive heart failure.

Sales of Zestril/Zestoretic by major market for the last three years are set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
US	92	134	154
Western Europe	45	76	114
Japan (Zestril only)	-	3	10

Zestril is protected by patents until at least 1999 in the US, Japan and in most of Western Europe. Zestril/Zestoretic's US market share increased from 10 per cent. in 1991 to

11 per cent. in 1992, despite the launch and active promotion of four competing products during this period. Management believes that this increase was due primarily to Zestril's established reputation in the cardiovascular field together with the absence of any clear superiority of the newer entrants.

In February, 1993, the Advisory Committee of the FDA recommended the approval of Zestril for use in congestive heart failure. Following such approval, Zestril will be one of three ACE inhibitors approved for use in this large segment of the cardiovascular market. Pharmaceuticals has also filed for several product line extensions of Zestril/Zestoretic.

Zestril/Zestoretic has also experienced significant growth in Western Europe. Zestril is presently one of the five largest plain ACE inhibitors by sales in each major Western European market. Western European Zestoretic sales increased from £7 million in 1991 to £21 million in 1992, an important part of the overall growth in sales in that region. Zestril was launched in Japan, the second largest market for ACE inhibitors, in 1991.

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### *Tenormin*

Tenormin is a cardio-selective beta-blocker invented by Pharmaceuticals and used mainly in the treatment of hypertension, ischaemic heart disease and abnormal heart rhythms. Tenormin is one of the world's largest selling prescription medicines and is the world's largest selling beta-blocker. Tenoretic and Nif-Ten, which use Tenormin in combination with a diuretic and a calcium antagonist, respectively, provide an enhanced effect in certain indications.

Sales of Tenormin (including Tenormin combinations) by major market for the last three years are set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
US	325	346	222
Western Europe	207	198	200
Japan	59	67	67

The patents for Tenormin have expired in all major markets, most recently the US, and the product is now subject to competition from generic atenolol. Since the expiry of the UK patent in January 1990 and the main US patent in September 1991, sales in those markets have declined significantly and in the US the rate of penetration by generic atenolol was faster than expected. Although sales of Tenormin in the US are expected to continue to decline, management believes that the rate of decline has started to slow. Generic atenolol has been available in Germany since 1988, in France since the end of 1991 and was introduced in Japan in July 1992. Management believes that the high level of brand loyalty, prescribing practices, or a combination of these factors may limit the overall rate of decline in Tenormin sales in markets outside the US compared with that which has occurred in the US.

Pharmaceuticals has sought to meet competition from generic atenolol through a range of measures including strong brand promotion and patient care programmes. Pharmaceuticals also introduced its own generic atenolol in the US shortly before the expiry of the main Tenormin patent. In addition, Pharmaceuticals has a well established range of combination treatments. One of these, Tenoretic, is the leading beta-blocker/diuretic combination product on the US market.

### *Inderal*

Inderal, introduced in 1965, is a beta-blocker invented by Pharmaceuticals and is used in the treatment of hypertension and ischaemic heart disease. It is also used to treat certain types of anxiety and to prevent migraine. Inderal is the third largest selling beta-blocker worldwide even though its patents expired in all major markets by 1984 and generic propranolol has been widely available in recent years. Management believes that Inderal's position is due to its long established reputation and wide variety of uses. Pharmaceuticals' sales of Inderal in 1990, 1991 and 1992 were £65 million, £63 million and £64 million, respectively.

### **Anti-Cancer**

Pharmaceuticals is the world's second largest supplier of anti-cancer medicines, led by its products Zoladex and Nolvadex. World sales of anti-cancer medicines grew from £1.8 billion in 1990 to £2.5 billion in 1992. Anti-cancer medicines are broadly classified as cytostatic hormones, cytotoxic agents or immunomodulators. Zoladex and Nolvadex are cytostatic hormones. This class of treatments, which includes anti-oestrogens, LHRH analogues and anti-androgens, acts to create an adverse environment for the growth of certain cancer cells either by manipulating hormone levels or by decreasing hormone activity. Cytostatic hormones have grown in importance in recent years owing to increasing evidence of efficacy, a more tolerable side-effect profile than cytotoxic agents and because their use is less traumatic than surgery. They now account for approximately 30 per cent. of the world anti-cancer pharmaceutical market.

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### *Zoladex*

Zoladex, an LHRH analogue, is used to treat prostate cancer as an alternative to surgical castration or other medical treatment. LHRH analogues were first introduced during the mid-1980s. Sales of this class of products grew from £160 million in 1990 to £289 million in 1992. Management believes that this has resulted partly from patient preference for this form of treatment and partly from the effectiveness of LHRH analogues. Growth has also resulted from a significant increase in the number of diagnosed cases of prostate cancer, primarily due to the greater availability of screening techniques and the general publicity surrounding medical conditions associated with the prostate. There are currently five major brands of LHRH analogue in the market. Zoladex has the second largest worldwide market share, with 24 per cent., compared with 43 per cent. held by the leading product.

Sales of Zoladex by major market for the last three years are set out below.

	<u>Year ended 31st December,</u>		
	1990	1991	1992
	£m	£m	£m
US	5	12	19
Western Europe	43	52	70
Japan	—	1	15

Since its launch in the UK in 1987, Zoladex has become the UK's largest selling LHRH analogue and it is second or third largest in most of its other major markets. Zoladex sales in the US and Japan have grown rapidly since it was launched in those countries in 1990 and 1991, respectively. In Japan, Zoladex was the second LHRH analogue on the market and the first in depot injection form.

Management believes that the application of LHRH analogues, including Zoladex, in cancer treatment will continue to grow with an ageing population, the increasing



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preference for pharmaceutical treatment over surgical intervention and potential use in the early stages of disease. Zoladex is also beneficial in the treatment of endometriosis and advanced breast cancer. Approval for use in these conditions has been obtained or is being sought. In particular, Pharmaceuticals has recently received FDA approval for the use of Zoladex in the treatment of endometriosis. Since all LHRH analogues possess a similar pharmacological profile, product development concentrates on the method of administration. Zoladex and its principal competitors are administered by monthly depot injection and Pharmaceuticals is developing a long-acting depot injection, which would represent a significant advance over existing delivery systems.

Zoladex is protected by patents covering the active ingredient and, separately, the depot formulation, in the US, Japan, and widely in Western Europe, including France, Germany, Italy (depot formulation only), The Netherlands and the UK. Pharmaceuticals has taken or will take advantage, where possible, of legislation providing for extended patent protection. Patent extension is not available in Germany, where the patent on the active ingredient expires in 1995. Apart from Germany, patent protection for the active ingredient will expire in the above countries between 1997 and 2001. Patent protection for the depot formulation will not expire until 2008 in the US and 2002 in the other countries referred to above.

### *Nolvadex*

Nolvadex is the world's largest selling anti-cancer medicine and is used predominantly in the treatment of breast cancer. Nolvadex was invented by Pharmaceuticals and introduced in 1973 as the world's first anti-oestrogen medicine to be registered for breast cancer treatment. Management believes that Nolvadex is the most widely accepted hormonal therapy in delaying a recurrence of breast cancer following mastectomy. Nolvadex has also been shown to be effective in the treatment of metastatic breast cancer and as an alternative to removal of ovaries and/or ovarian irradiation in pre-menopausal women.

Sales of Nolvadex by major market for the last three years are set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
US	108	137	150
Western Europe	50	50	53
Japan	47	48	52

Patent protection for Nolvadex has expired in all markets other than the US, where the patent is due to expire in 2002. The patent has been the subject of infringement proceedings brought by Pharmaceuticals against a generic manufacturer, Barr Laboratories ("Barr"), in the US courts and settled in March 1993. The terms of the settlement include the appointment of Barr as a non-exclusive distributor of generic tamoxifen in the US until 2002, with Pharmaceuticals manufacturing tamoxifen for sale by Barr from November 1993. Outside the US, the product competes with generic tamoxifen, with the impact on Nolvadex sales and market share varying between markets according to local conditions. Nolvadex sales have continued to grow in Japan and France despite the introduction of generic products. In the UK, Nolvadex now has a stable share of the tamoxifen market. In Italy, generic tamoxifen has been available since 1991 and is slowly affecting sales of Nolvadex, while in Germany both sales and market share have declined since the introduction in the mid-1980s of generic tamoxifen.

## Anaesthetics

Pharmaceuticals has a long history of involvement in the general anaesthesia market, primarily through the introduction into clinical practice in 1956 of the first modern inhalational anaesthetic agent, Fluothane, which is still used worldwide. The use of anaesthetics and intravenous sedatives falls into three broad categories: induction of anaesthesia, maintenance of anaesthesia and sedation of intensive-care patients. Maintenance accounts for about half of the worldwide anaesthetics market, with sedation accounting for about one third and induction the remainder. General anaesthetics are administered either by inhalation or by intravenous injection.

### *Diprivan*

Diprivan, a unique injectable anaesthetic, is believed by management to be the world's largest-selling intravenous anaesthetic. Diprivan was first launched in 1986 in the UK and its worldwide sales have grown from £60 million in 1990 to £142 million in 1992. Diprivan is used mainly in the induction and short-term maintenance of anaesthesia, where it competes with inhalational anaesthetics, and it is also approved in a number of markets for use in the sedation of intensive-care patients. The product is rapidly cleared from the body, permitting patients to recover quickly from anaesthesia or sedation with limited after-effects, making it particularly suitable to meet the increasing demand for out-patient surgery, as well as early transfer from the recovery room to the ward.

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Sales of Diprivan by major market for the last three years are set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
US	19	37	60
Western Europe	36	48	66

Management believes there are several opportunities to expand Diprivan's use, including further penetration as an induction and short-term maintenance agent and possible use in place of inhalational anaesthetics as a long-term maintenance agent. Furthermore, management believes that Diprivan's advantages should position it to compete with sedatives in the intensive-care market. Diprivan has been approved for use in intensive-care sedation in several European markets, including the UK. In March 1993, Diprivan was approved by the FDA for use in intensive-care sedation. Pharmaceuticals is planning to launch Diprivan in Japan in early 1995.

Diprivan is protected by patents in the US and some countries of Western Europe, including the UK, France and The Netherlands. The German patent expired in March 1993. In the US and France, Pharmaceuticals has taken advantage of legislation to obtain extended patent protection until 1996 and 2002, respectively. Similar extensions will be sought in other markets, including the UK and The Netherlands, where these extensions will provide patent protection until 2000. Management believes that this protection, together with the complex manufacturing process and facilities required, may limit the attractiveness of Diprivan and other injectable anaesthetics to generic competitors.

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### Anti-Infectives and Other Products

Pharmaceuticals has had a significant presence in the antiseptics market since the mid-1940s. Its well-known hospital antiseptic, Hibitane, was introduced in 1954 and a companion product, Hibiscrub/ Hibiclens, was introduced in 1971. The antiseptics range generated sales of £73 million, £77 million and £77 million in 1990, 1991 and 1992, respectively. Other products include Apatel (1992 sales £45 million), an antibiotic used mainly to treat and prevent serious infection in hospital patients, and which is sold under licence from Yamanouchi International Limited. Pharmaceuticals also sells the anti-depressants Elavil (US only) and Vivalan (mainly in Europe).

### RESEARCH AND DEVELOPMENT

Pharmaceuticals has an established record of successful R&D. Its R&D activities are aimed at generating a flow of new prescription medicines and preserving or enhancing the competitive advantages and market position of existing products.

In 1992, R&D expenditure represented approximately 16 per cent. of Pharmaceuticals' sales, a proportion which is broadly in line with that of its major competitors. Pharmaceuticals employed 3,400 R&D personnel at the end of 1992, concentrated in the UK and the US. R&D in the pharmaceuticals industry entails considerable uncertainty and is generally characterised by long product development periods and high development costs.

Pharmaceuticals' R&D expenditure for the last three years is set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Research	67	77	80
Development	135	146	176
Total	202	223	256
R&D expenditure as a percentage of			
Pharmaceuticals' sales	14.7%	14.4%	15.9%

Pharmaceuticals' research function aims to put forward for development, on average, six compounds each year. Research is focused on six selected therapeutic areas — cardiovascular, anti-cancer, anti-infection, arthritis, respiratory and central nervous system — which draw upon Pharmaceuticals' existing expertise. Projects that appear to be uncompetitive in terms of performance or that do not achieve their development targets are terminated at regular performance reviews.

Pharmaceuticals works closely with academic institutions and pharmaceutical companies to supplement its own research expertise. Such collaborations broaden the range of early exploratory research and permit access to a wider base of scientists and new technologies. Pharmaceuticals seeks to obtain appropriate commercial rights whenever possible to any resulting patents and technology.

The development process for a pharmaceutical product involves a preclinical evaluation phase followed by several phases of human clinical development. The time taken in the different development phases may vary depending upon the nature and intended use of the compound and the nature and extent of the clinical trials required. In Phase I, a compound is tested in a small group of healthy volunteers for safety, side-effects and

pharmacological profile. In Phase II studies, a compound is tested in a limited number of patients for safety, efficacy, and appropriate dosage. In Phase III, a compound is tested in a larger diverse group of patients to assess safety, efficacy, side effects and dosage in a statistically significant fashion. The results of these clinical trials are submitted to appropriate regulatory bodies with the objective of obtaining approval to sell the compound. After commercial launch, Phase IV trials are often begun to monitor the safety and efficacy of the product in large patient bases. A compound may fail at any stage in this process.

Industry statistics indicate that only a small proportion of compounds entering development succeeds in reaching the market, and there can be no guarantee that the compounds in development will survive the development process and obtain necessary approvals for sale. Pharmaceuticals' development process has taken, on average, between 8 and 11 years from the start of development to submission of an application for regulatory authorisation. In 1991, Pharmaceuticals introduced a programme designed to reduce the average development time to under 7 years, with intermediate targets such as first human administration in 14 months.

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As in the case of research, collaboration also plays an important part in Pharmaceuticals' development activities. For example, the active ingredient in Merrem, Pharmaceuticals' new antibiotic in Phase III development, was invented by Sumitomo Pharmaceuticals Company Limited, researched by Pharmaceuticals and Sumitomo and subsequently jointly developed.

#### **Product Pipeline**

Pharmaceuticals has 13 new chemical entities ("NCEs") in human clinical development. Five NCEs will be in Phase III clinical development during 1993 with applications for approval expected in the next three years. An additional eight NCEs are in Phase I or II human clinical development. Management believes that several of the development compounds are innovative and that, in some cases, Pharmaceuticals is well positioned to apply for approval ahead of competitors.

In Pharmaceuticals' major markets, the NCEs in human clinical development are protected by patents or patent applications owned either by ZENECA or by third parties who have licensed the relevant rights to ZENECA. In most cases, patent protection covers the active ingredient.

The following table shows the main new products and product line extensions for which regulatory filings are expected to be made before 1996 in one or more major markets. The time between filing and regulatory approval is typically one to two years, except in the US where it is two to four years.

*Expected filing pre-1996*

<b>Product name</b>	<b>Type of product</b>	<b>Main area of use</b>
Merrem	Carbapenem antibiotic	Bacterial infection
Accolate	Leukotriene antagonist	Asthma
Casodex	Oral anti-androgen	Prostate cancer
Zoladex	Long-acting depot injection of LHRH analogue	Prostate cancer
Arimidex	Aromatase inhibitor	Breast cancer
Seroquel	Dopamine and serotonin antagonist	Schizophrenia

The extension of Pharmaceuticals' product lines represents an important aspect of its strategy. This can be done by extending the range of existing products to new indications,

increasing the effectiveness of a product (for example by combining it with other compounds), improving the method of administration or enlarging the range of dosages, uses and formulations, Pharmaceuticals has a number of product extensions for which regulatory approval has recently been obtained or applied for, or for which regulatory approval will be sought during the next two years. For example, enhancements to Zestril include its recent combination with various doses of a diuretic to improve prescribing flexibility. Further enhancements include the registrations of a low dosage formulation of Zestril for initiation of ACE inhibitor therapy. Planned line extensions for Zoladex include improved administration through long-acting depot formulations and use in advanced pre-menopausal breast cancer. Planned enhancements for Diprivan include improved delivery systems and an additional formulation for use in intensive-care sedation and in long-term maintenance of anaesthesia.

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### Anti-Cancer

Pharmaceuticals has five products in clinical development for the treatment of cancer.

#### *Casodex*

Casodex is an orally administered anti-androgen being developed for the treatment of advanced prostate cancer. It is in Phase III clinical trials with first regulatory filings expected in 1994. Anti-androgens are generally used for hormone-dependent advanced prostate cancer or where it is particularly desirable to maintain libido.

Casodex has shown significant efficacy in once-daily dosage with high receptor selectivity and good patient tolerance, in particular, minimal gastrointestinal side effects and a low incidence of decreased libido. This contrasts with existing anti-androgen therapies which require more complex dosage schedules and/or show a higher incidence of side effects.

Phase III trials are under way to test whether Casodex, given at higher doses, can replace either LHRH analogues or surgical castration as the primary treatment for prostate cancer. Clinical studies have shown that at higher doses Casodex reduces levels of a biochemical marker for prostate disease, prostate-specific antigen, to levels achieved by LHRH therapy and surgical castration. Casodex's ability to achieve the therapeutic benefits of these existing therapies, without certain of the side effects, loss of libido or other consequences of existing therapies, would represent a significant advance. Casodex is also being developed for administration in a combination therapy with LHRH analogues such as Zoladex.

#### *Arimidex*

Arimidex is a potent aromatase inhibitor which prevents the non-ovarian synthesis of the hormone oestrogen. It is being developed for the treatment of breast cancer. It is taken orally, is selective and does not interfere with adrenal steroid biosynthesis. Clinical studies have shown Arimidex to be well tolerated and effective in reducing circulating oestrogen levels, and it should therefore be effective in preventing the growth of breast cancer in post-menopausal women. Phase III studies will commence this year in the US and Europe. The target date for the first regulatory filing is early 1995. Arimidex shows selectivity and potency in blocking the enzyme responsible for oestrogen synthesis.

#### *ZD 1694*

ZD 1694, a novel cytotoxic agent, inhibits the enzyme thymidylate synthase, thereby limiting growth of cancer cells. Phase II efficacy studies have recently commenced in the treatment of lung, colo-rectal, hepatic, breast and ovarian cancer.

### *Other Anti-Cancer Products*

The table below sets out the other anti-cancer products which Pharmaceuticals has in clinical development.

Name	Class of Product	Indication	Current Phase
Zeneca 182,780	Injectable steroidal anti-oestrogen	Advanced breast cancer	II
ZD 0490	Ricin A Immunotoxin	Colo-rectal cancer	I

### **Anti-Infection**

#### *Merrem*

Merrem is the first DHP stable carbapenem antibiotic with an ultra-broad spectrum of activity. Pharmaceuticals filed for regulatory approval in Italy at the end of 1992 and, subject to approval, plans to launch Merrem there in early 1994. Pharmaceuticals plans to file for regulatory approval of Merrem in other European countries and the US, with the objective of launch during 1994 and early 1995. Merrem is in Phase III clinical trials in the US. Meropenem, the active ingredient, was invented by Sumitomo Pharmaceuticals Company Limited in Japan. Pharmaceuticals subsequently became involved with collaborative research and development of the compound. Pharmaceuticals has a licence from Sumitomo to market Merrem in most territories outside Japan.

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Carbapenem anti-infectives are a new sector of the injectable antibiotic market which has grown rapidly due to their ultra-broad spectrum of activity. The only commercially available carbapenem was launched in 1985 and by 1992 its estimated sales were over \$500 million. Merrem has exhibited a number of advantages over that product and certain other hospital antibiotics, including a broader spectrum of activity, greater potential for use as a monotherapy in severe infections, a better side effect profile and greater ease of use. Management does not expect that any DHP stable carbapenem antibiotic or other competing product with similar characteristics and efficacy to Merrem will be launched for two to three years.

#### *ZD 0870*

ZD 0870 is a potent, broad spectrum azole anti-fungal agent in Phase I studies, being developed for the oral and injectable treatment of systemic mycoses.

### **Respiratory**

Pharmaceuticals has four products in clinical trials for the treatment of asthma and other pulmonary diseases.

#### *Accolate*

Accolate is a potent, selective peptide leukotriene antagonist being developed for use in the treatment of asthma, a disease which is estimated to affect up to 5 per cent. of adults and 10 per cent. of children in most major markets. Leukotrienes are substances that cause the bronchoconstriction typical of an asthmatic attack and help in triggering inflammation and mucous secretion in the lungs. Current treatments for asthma include broncho-dilators, steroids, theophylline and cromoglycate and serve a market estimated by management to exceed £2.5 billion. Accolate is currently in Phase III clinical trials in Europe and the US and is being developed as an orally active treatment which has to be given only twice a day, an important advantage in the treatment of asthma. The first regulatory filing for Accolate is currently anticipated for the end of 1994. An extensive Phase II programme

has demonstrated the effectiveness of Accolate in blocking bronchoconstriction caused by leukotrienes and other challenges. Clinical results to date have shown good patient tolerance, improved pulmonary functions, reduced night-time waking, fewer attacks and less frequent use of inhaled broncho-dilators. Accolate also has potential application as a treatment for hay-fever.

Several competitors are believed to have leukotriene antagonists in clinical development, but management believes that, outside Japan, Accolate is at a more advanced stage of its clinical development than the other comparable compounds.

#### *Other Respiratory Products*

Pharmaceuticals' other respiratory products in clinical development are set out below.

Name	Class of Product	Indication	Current Phase
Zeneca 200,880	Inhibitor of the enzyme human neutrophil elastase	Adult respiratory distress syndrome	II
ZD 2138	Inhibitor of the enzyme 5-lipoxygenase	Asthma	II
ZD 3523	Leukotriene receptor antagonist	Asthma	I

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#### **Central Nervous System**

##### *Seroquel*

Seroquel, a dopamine and serotonin antagonist, is being developed for the treatment of schizophrenia and other psychotic disorders. In Phase II trials involving over 400 patients, Seroquel has been shown to be effective and generally well tolerated. Seroquel will enter Phase III trials this year. The first regulatory filings are currently anticipated by the end of 1995. The compound is designed to be an improvement on existing agents by reducing the incidence of serious side effects. Management believes that the world market for the pharmaceutical treatment of psychotic disorders is currently valued at approximately £600 million.

#### **Arthritis**

##### *ZD 2138*

ZD 2138 is a highly potent and selective inhibitor of the enzyme 5-lipoxygenase which is believed to be important in arthritis, asthma and some other inflammatory conditions. Phase II clinical studies are under way and encouraging preliminary results have been obtained in treating rheumatoid arthritis. To date the product has been well tolerated.

Management believes that a competing product which is in Phase III development has shown efficacy in early studies of asthma and in inflammatory bowel disease, but it appears to be less potent and requires administration two to four times a day. Management believes that the principal advantages of ZD 2138 will be its once-daily administration and its highly selective action.

## Cardiovascular

### ZD 7288

ZD 7288 is a sino-atrial node modulator and is being developed for the treatment of angina pectoris. It has a novel, selective action on the cardiac pacemaker cells, which should provide a therapeutic advantage over calcium antagonists and beta-blockers and make ZD 7288 particularly suitable for angina patients. Phase I studies showed that ZD 7288 significantly reduces exercise heart rate to a level at which anti-anginal efficacy should be demonstrated and that the drug was well tolerated. Phase II studies in angina patients will commence in Europe during 1993.

## SALES AND MARKETING

Pharmaceuticals has invested significant resources in developing an extensive worldwide sales and marketing network, with products sold in over 100 countries. The business has a strong presence in the US and in each of the major Western European markets and operates in all other important pharmaceutical markets. Recent initiatives to expand the sales and marketing network include the formation of local teams in several Eastern European countries, Turkey, South Korea and the People's Republic of China.

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Pharmaceuticals' sales and marketing personnel by major territory as at 31st December, 1992 are set out below.

Western Europe (including HQ)	2,000
US	1,400
Japan	600
Other	400
<hr/> Total	<hr/> 4,400

Pharmaceuticals' marketing plans for new products are developed on an international basis, with detailed planning beginning in the early stages of clinical trials. As product development and trials proceed, research is conducted in individual markets to establish the appropriate marketing strategies, taking into account such issues as the competitive environment and healthcare economics. Concurrently, medical communities are kept informed of the progress of new developments through scientific conferences and publications.

Once product development is complete and regulatory approval obtained, products are launched in the principal world markets as rapidly as possible. Sales and marketing plans are adapted by Pharmaceuticals' territorial subsidiaries to the needs of individual markets. Pharmaceuticals reviews its marketing strategies throughout a product's life cycle to optimise sales and profits by developing new uses and formulations and by giving particular attention to changes in medical needs.

In most of its major markets, Pharmaceuticals maintains separate sales forces to target the primary care (general practitioners) and secondary care (hospital and specialist) sectors. These sales forces receive continuous training to maintain up-to-date medical knowledge and high sales and marketing standards. Where profitable opportunities exist and different expertise may be required, Pharmaceuticals enlarges its sales coverage through licences with third parties. Pharmaceuticals has recently entered into separate promotional agreements with Amersham International plc ("Amersham") and with Miles Inc. ("Miles"), a subsidiary of Bayer AG. Under the agreement with Amersham, Pharmaceuticals will promote Amersham's palliative treatment for cancer-related bone pain, Metastron, initially to certain physicians who treat prostate cancer. Amersham's responsibilities will include



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the manufacture and distribution of Metastron, which has been approved for marketing in a number of countries including the UK and is awaiting approval from the FDA for marketing in the US. Under the agreement with Miles, Pharmaceuticals will jointly promote Cipro, a quinolone antibiotic which was first launched by Miles in 1987. Management believes that the agreement with Miles will enable Pharmaceuticals to build on its long-term commitment to the anti-infective therapeutic area.

Pharmaceuticals' cardiovascular portfolio is marketed primarily to general practitioners and specialist cardiologists, whereas the anti-cancer portfolio, Diprivan and the anti-infectives are marketed to hospital specialists. Marketing efforts are also directed towards explaining the economic and therapeutic benefits of Pharmaceuticals' products to healthcare buying groups such as Health Maintenance Organisations in the US, trust hospitals and budget-holding medical groups in the UK, and insurance groups in Germany. Marketing and sales efforts in all markets are periodically reviewed in the light of the developing product pipeline and forecast changes in the competitive and regulatory environment. For example, Pharmaceuticals expanded the primary care sales network ahead of the launch of Zestril, adapted the hospital sales force to the marketing of Diprivan and established specialist sales forces for Zoladex.

Management believes that Pharmaceuticals' international sales and marketing organisation is well balanced both geographically across the major markets and between central and local resources and expertise. It also believes that Pharmaceuticals' sales and marketing strategies, combined with its product development capabilities and established reputation, have been important factors in the profitable growth of the business.

### COMPETITION

Pharmaceuticals is subject to competition from alternative therapies or products of other international research-based pharmaceutical companies and research-based biotechnology companies. In addition, Pharmaceuticals competes in certain markets with manufacturers of generic products who typically do not incur significant research and development costs and consequently offer generic products at prices considerably lower than those prevailing when patent protection is available.

Pharmaceuticals' competitive position depends in part upon its ability to develop innovative, cost-effective new products, as well as new indications for, and improvements on, existing products. Its competitive position also depends upon, among other things, its ability to compete on the basis of price and to maintain a reputation for quality, efficacy and cost-effectiveness with the purchasing groups to which its products are targeted, as well as the wider group of customers which includes pharmacies, wholesale dealers, hospitals and insurers.

In addition, Pharmaceuticals' ability to attract and retain qualified scientific and other personnel, to develop and implement production and marketing plans, to obtain and maintain patent protection in its significant markets and to secure adequate capital resources is also expected to be an important competitive factor.

## AGROCHEMICALS

Agrochemicals is one of the world's largest suppliers of agricultural chemicals with 1992 sales of £1,288 million and trading profit before exceptional items of £85 million. Its products comprise mainly herbicides, insecticides and fungicides. Other products include garden products, rodenticides and plant growth regulators. Agrochemicals' principal products include the herbicides Gramoxone and Fusilade, and Karate, an insecticide.

The financial results of Agrochemicals include those of Seeds, which is described under "Development Businesses". Agrochemicals' sales for the last three years are set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Herbicides	639	633	623
Insecticides	248	299	262
Fungicides	143	136	158
Seeds	129	139	134
Other agricultural chemicals	130	109	111
Total	1,289	1,316	1,288

**ZENECA**

Agrochemicals has comprehensive geographical and product coverage, with sales in 1992 of £489 million in the Americas, £524 million in Europe and £275 million in the rest of the world, and a product range covering key weeds, diseases and pests in most major crops. Management believes that the scale of Agrochemicals' operations and the breadth of its international network enable it to develop products cost-effectively and to bring them quickly to the market. Agrochemicals has leading positions in Latin America and the Asia Pacific region and is firmly established in the expanding non-selective herbicide sector.

The business has a strong R&D base and a proven record in introducing innovative new products. Agrochemicals' R&D and environmental skills are essential to developing new products, extending its existing product range and achieving product registration and re-registration. The ability to obtain registration and re-registration is an increasingly important competence and one in which management believes Agrochemicals has a competitive advantage.

Planned extensions of the existing product range, and development products such as Touchdown, Surpass and 5504, a non-selective contact herbicide, pre-emergence maize herbicide and broad-spectrum fungicide, respectively, are believed by management to offer profitable growth opportunities. The manufacturing, marketing and administration functions are subject to a continuing rationalisation programme to reduce Agrochemicals' cost base and improve its cost-effectiveness.

### INDUSTRY BACKGROUND

Agricultural chemical products are designed to improve crop yields and food quality and to reduce storage losses. The world market in 1991 was estimated to be valued at \$27 billion, of which the US, Western Europe and Japan together accounted for 68 per cent. In developed countries, the agricultural chemicals industry is in a mature stage. The industry is relatively concentrated, with the ten largest companies now accounting for around 70 per cent. of total worldwide sales. The principal manufacturers of agricultural chemicals are mainly units of large, integrated chemical companies based in Western Europe and North America.

## ZENECA

### *Reglone*

Reglone, a non-selective contact herbicide, is used as a crop desiccant to allow easier harvesting of such crops as potatoes, sunflowers and oilseed rape and to reduce drying costs. Its particular strengths are its speed of action and reliability. Although Reglone ceased to be effectively protected by patents by the beginning of the 1980s, management believes that the complexity of the manufacturing processes, together with Agrochemicals' process technology, have limited generic competition. Western Europe, Eastern Europe and North America accounted for 51 per cent., 13 per cent. and 9 per cent. of sales of Reglone in 1992, respectively.

### *Eradicane/Eptam*

Eradicane and Eptam, which are based on the same active ingredient, are herbicides incorporated into the soil prior to planting and are used to control a wide range of grasses and some broadleaf weeds. Eradicane is used in maize, a major crop sector in the agricultural chemicals market, and Eptam is used on a range of broadleaf crops. The US and Eastern Europe accounted for 73 per cent. of combined sales of Eradicane and Eptam in 1992. Demand for Eradicane has fallen in recent years due to US market conditions favouring sales of competitors' products and to a shortage of foreign exchange in the Commonwealth of Independent States (the "CIS"). Steps are being taken that should improve the long-term profitability of Agrochemicals' maize herbicide business, including a rationalisation of its cost base.

### *Other herbicides*

Agrochemicals has a range of other herbicides, including Ordram, Flex, Grasp, Boxer and Racer. Ordram is a long-established herbicide used on rice and is sold primarily in the US, Japan, Brazil, the CIS and the People's Republic of China. Flex is a post-emergence selective herbicide used to control broadleaf weeds in broadleaf crops, principally soya, and management believes that it has a leading market share in South America and Western Europe. Agrochemicals plans to expand production capacity for Flex. Grasp, a post-emergence wild oat herbicide for use in cereals, was launched as Achieve in Canada, its largest market, in 1992. Boxer is used to control grasses and broadleaf weeds in winter cereals, and Racer is used mainly on sunflowers and potatoes.

### *Insecticides*

Insecticides control various types of insect pests. They are used on chewing pests, such as caterpillars and rootworms, which would otherwise damage crops such as maize, cotton, rice, fruit and vegetables. They are also used to control sucking pests such as aphids which transmit yield-threatening viral diseases and cause quality problems following the harvest.

Agrochemicals' main insecticides are the Karate, Ambush and Cymbush group and Pirimor. The former group belongs to a class of insecticides known as synthetic pyrethroids, which display lower mammalian toxicity and higher activity than most other insecticides in common use. Agrochemicals has an estimated 20 to 25 per cent. share of the world synthetic pyrethroid market sector. The products are used in both the agricultural and public health areas.

### *Karate*

Karate, a pyrethroid insecticide, is Agrochemicals' largest selling insecticide. Pyrethroid insecticides are one of the faster-growing sectors of the insecticide market. Karate was invented by Agrochemicals in 1982 and is protected by patents in most of the major markets in which it is sold, except the People's Republic of China, until at least 1998. Management believes that Karate's competitive advantage comes from superior efficacy and a wide spectrum of pest control. Major crops treated are cotton, maize, oilseeds and cereals.

The US accounted for 26 per cent. of Karate's sales in 1992. Other major markets are France, the People's Republic of China, Germany, the CIS, Pakistan and Brazil.

#### *Ambush, Cymbush, Pirimor and others*

Ambush has a wide range of applications, including use on vegetables, soya, fruit, tomatoes and specialty crops. Cymbush is used mainly on cotton. Pirimor is a specific aphicide used on a wide range of cereal, vegetable and tree crops. It acts rapidly on aphids while having minimal effects on predator insects (for example, ladybirds) or plant pollinators (for example, bees) and its low residues enable crops to be harvested relatively shortly after spraying. Other insecticides supplied include Force, Dyfonate and Actellic. Force and Dyfonate have a significant share of US sales of maize insecticides. Actellic, a broad spectrum insecticide, is sold into specialised market sectors, including stored grain and public health.

**ZENECA**

#### **Fungicides**

Fungicides control plant diseases which affect crop yields, such as cereal mildews, rice blast and potato blight. Fungicide treatments also improve quality as well as yield in many crops, for example by controlling mildew on grapes and scab on apples.

Agrochemicals' main fungicides are Impact and Planete. Impact is used on wheat and barley and the majority of sales are in France, the UK and the CIS. Impact is also used in many European countries, mainly on sugar beet and oilseed rape. Planete was launched in France in 1989 as a successor to Impact for use on wheat. It is the basis of a product range which is effective against all major wheat fungal diseases. Registration for use of Planete on wheat in other European countries is currently planned. Sales of Impact have been static in recent years, reflecting in part its substitution by Planete in France.

Other important fungicides produced by Agrochemicals include Anvil, captan and ethirimol. Anvil is a broad spectrum fungicide with the same active ingredient as Planete. It is used on many crops and its major markets are Italy, France, South Korea and Japan. New registrations are being sought, for example for use on bananas in Central and South America. Captan, a long-established, broad spectrum fungicide, is sold into the vegetable, orchard fruit and seed treatment sectors worldwide. Ethirimol controls mildew on cereals and is sold primarily in Europe, both as a foliar and seed treatment.

#### **Other Agricultural Chemicals**

Agrochemicals continues to develop and market insecticides and rodenticides for the public health sector, building on its strengths in its main markets. In the public health sector, insecticides are used to control mosquitoes, sandflies and other insects that spread disease and rodenticides kill rats, mice and other vermin which carry fatal diseases and consume and contaminate foodstuffs. Agrochemicals also sells a range of garden chemicals and related products to the UK retail market.

#### **SALES AND MARKETING**

Agrochemicals has marketing organisations in most of its major markets, with dedicated sales forces which also offer customer and technical service, product promotion and market support. Agrochemicals' products are sold to the end-user through independent distributors and dealers, most of whom also handle other manufacturers' products. Management believes that this marketing network enables Agrochemicals to launch its products quickly and effectively and to exploit its range of existing products.

## RESEARCH AND DEVELOPMENT

In 1992, Agrochemicals' R&D expenditure (including that of Seeds) represented approximately 11 per cent. of Agrochemicals' sales, a proportion that has remained broadly stable over the last three years. Agrochemicals' R&D has been directed towards providing innovative and differentiated products that respond to the growing requirements for environmentally benign, safer and more effective products and formulations. Between 1980 and 1990, Agrochemicals introduced 18 new active ingredients to the market, which compares favourably with its competitors. Since its product range is relatively complete and registration costs are high, Agrochemicals has become increasingly selective in its choice of development candidates, enabling Agrochemicals to devote greater resources to extending the uses and maintaining the registrations of existing products.

## ZENECA

Agrochemicals' principal areas of R&D expertise are chemical design and synthesis, environmental science, biological characterisation and formulation chemistry. Agrochemicals' new product introduction and re-registration performance has benefited from these strengths and from the toxicological and process technology skills available within ZENECA at the Central Toxicology Laboratory, the Brixham Environmental Laboratory and its manufacturing operations. Management believes that Agrochemicals' environmental expertise provides a competitive advantage in developing environmentally benign products.

Agrochemicals' research is concentrated in the UK and the US, enabling Agrochemicals to draw on different scientific approaches and to recruit from a broader scientific community. Agrochemicals also operates a worldwide network of field stations designed to allow year-round testing on major crops, pests, weeds and diseases. Agrochemicals (including Seeds) employed 2,300 R&D personnel at the end of 1992.

The entire process from the decision to develop a new compound through to registration and launch into the market typically takes between seven and ten years. This process involves a complex interaction between scientific expertise and skills in production, marketing and regulatory management. Agrochemicals uses its international experience of managing this process with a view to achieving speed and security of registration, cost-effective manufacturing and reinforcing its competitive position. Development costs cover both the costs of developing new products and the costs of re-registering and expanding the coverage of existing products.

Agrochemicals' R&D expenditure (including that of Seeds) for the last three years is set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Research	47	50	46
Development	89	83	94
Total	136	133	140
R&D expenditure as a percentage of			
Agrochemicals' sales	10.6%	10.1%	10.9%

## Development Products

Agrochemicals' most important compounds, currently in various stages of market and technical development, are described below. It is not possible to predict the extent to which Agrochemicals' development stage products will progress in the market.

### *Touchdown*

Touchdown is a non-selective herbicide which complements Gramoxone and is expected to strengthen Agrochemicals' position in this market sector. Touchdown has already been launched in a number of countries including the US, Japan, France and Spain and is expected to be marketed in more than 35 countries in 1993, sometimes under other brand names. Touchdown is sold in the US under licence.

### *Surpass*

Surpass, ZENECA's main trade mark for acetochlor, is a pre-emergence maize herbicide which will complement Agrochemicals' maize herbicide, Eradicane. Agrochemicals has recently formed partnerships with Monsanto for the registration and production of acetochlor, which are expected by management to create economies of scale and to enhance the prospects of securing US regulatory approval in time for the 1994 season. Agrochemicals has licensed its safener technology to Monsanto to permit the commercialisation of acetochlor for use on maize in the US. Acetochlor is currently being sold by Agrochemicals in Eastern Europe, the CIS, Argentina and South Africa.

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### *5504*

5504 is a broad spectrum fungicide developed from a novel area of chemistry known as methoxyacrylates. Agrochemicals has obtained or applied for patent protection relating to 5504 in all of its major markets. Management believes this is likely to be one of the first products from this area of chemistry. Management plans to develop a range of products based on this chemistry. The compound has advantages such as a new mode of action to control diseases not adequately treated by existing products. In tests to date, it has shown a promising toxicological and environmental profile. 5504 is potentially well suited for cereals and has possible applications in fungicide sectors such as rice, vegetables, turf and vines, which would significantly broaden Agrochemicals' presence in these sectors.

### *Other*

Agrochemicals also has in development a number of proprietary and licensed products designed to access niche opportunities and defend the position of existing products. In addition, there are several promising compounds in the late research phase.

## ZENECA

### SPECIALTIES

Specialties' businesses are grouped by core technical competencies in organic chemistry, coatings and biotechnology. Specialties' sales in 1992 were £936 million and trading profit before exceptional items was £26 million. The organic chemicals businesses include colours (mainly textile dyes and industrial colours), biocides for the paint, swimming pool and disinfectant markets and fine chemicals for pharmaceutical and agricultural chemical applications. The coatings businesses comprise mainly: Stahl leather finishes, dyes and coatings; resins for the coatings, inks and adhesives markets; and specialty inks. The biological products business, which includes innovations such as Quorn, a meat alternative, and Biopol biodegradable polymers, is discussed under "Development Businesses".

Specialties' products, which are typically sold in low volumes and are often tailored to individual customer requirements, are subject to competition based mainly on price, quality and customer service. Most of Specialties' organic chemicals manufacturing base is located in ZENECA's Fine Chemicals Manufacturing Organisation ("FCMO"), which is described under "Manufacturing and Production".

Sales by business area for the last three years are set out below.

	Year ended 31st December,		
	1990 £m	1991 £m	1992 £m
Organic chemicals	492	473	467
Coatings	399	408	438
Biological products	16	19	21
Other	31	16	10
Total	938	916	936

### STRATEGY

Specialties aims to increase the profits of its established businesses in organic chemicals and coatings by concentrating its research and capital investment on those businesses that have developed and maintained strong market positions, divesting those activities which are less well positioned, focusing on customer service and by continuing to implement its cost reduction programme. This programme was initiated in 1991 and is expected to be largely complete by the end of 1993.

### PRODUCTS

#### Organic Chemicals

##### Colours

Specialties' colours business serves the textiles and industrial markets, which are linked by common chemistry and processes but have widely differing customer profiles.

Sales of Specialties' colours business for the last three years are set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Textile colours	256	219	202
Industrial colours	96	91	98
<b>Total</b>	<b>352</b>	<b>310</b>	<b>300</b>

**ZENECA**

Management estimates that the worldwide market for textile colours in 1992 was in excess of £3.7 billion, largely supplied by a relatively small number of major international chemical companies. Specialties' main textile colours products are Procion reactive dyes, Dispersol disperse dyes and indigo. Procion dyes (used for dyeing cellulose fibres, particularly cotton) represent the largest proportion of Specialties' colours sales and Dispersol dyes (used for dyeing polyester and its blends) the second largest. Indigo is used to dye denim for the production of blue jeans. Specialties is introducing new Procion dyes and a novel range of benzodifuranone dyes offering high wetfastness. Management believes that Specialties ranks third in the world reactive dyes market and holds a leading position in the world indigo market.

Approximately 40 per cent. of Specialties' textile colours sales in 1992 were to the European, Middle Eastern and African markets, and about 30 per cent. were to each of Asia Pacific and the Americas. Products are sold to approximately 4,700 end-use textile customers worldwide, primarily manufacturers of fabrics and textiles and contract dyeing firms. The reduction in textile colours sales from 1990 to 1992 reflected weak market conditions, together with divestments and withdrawals of some product lines.

Specialties' industrial colours are sold mainly to the paint and plastics, paper and non-impact printing markets and are used in applications such as automotive paints. Paint and plastic manufacturers are the largest customer category. The automotive industry requires paint of high product quality and performance and is an attractive market to manufacturers because once a pigment is selected it must usually be available for the life of the model, which may be up to 15 years. Approximately 64 per cent. of Specialties' industrial colours sales in 1992 were in Europe, Africa and the Middle East, with 21 per cent. in the Americas. In 1992, Specialties divested its ink pigments business, which accounted for approximately 28 per cent. of 1992 industrial colours sales.

#### *Biocides, fine chemicals and effects*

These businesses manufacture and market biocides (anti-microbials), fine chemicals and certain chemicals used to produce special effects. Aggregate sales for the three years ended 31st December, 1990, 1991 and 1992 were £140 million, £163 million and £167 million, respectively.

Biocides are chemicals used to control bio-deterioration caused by microbes (bacteria, fungi and algae). Specialties manufactures and sells biocides in industries and markets where regulatory requirements or effects on other product properties are important to the customer. The main industrial biocide brands sold by the business are Proxel preservatives in, for example, polymer emulsion and paint applications, and Vantocil disinfectants for treatment of solid surfaces. Most sales are made in Western Europe, the US and Japan. Specialties' major swimming pool sanitiser brand is Baquacil, a non halogen-based product for the residential pool market, which is sold mainly in the US through dealers.



## ZENECA

Fine chemicals are mostly organic chemicals of relatively high value sold as intermediates or active substances for the pharmaceutical and agricultural chemicals markets. Other end-users include the construction and dye intermediates markets. Specialties' fine chemicals business has five main areas of activity: fine organic chemicals, fluoroaromatics, chiral intermediates, custom synthesis and organophosphates. Approximately 50 per cent. of Specialties' combined fine chemicals sales in 1992 were in the US, 30 per cent. in Western Europe and 8 per cent. in Asia Pacific.

Specialties' effects business includes the manufacture and marketing of chemicals for the hydro-metallurgical extraction of non-ferrous metals, particularly copper. The business markets organo-nitrates which are used in various pharmaceutical dosage forms, including patches for the topical treatment of ischaemic heart disease and injections for congestive heart failure. It also markets fluorochemical repellent finishes for application mainly in the textile industry and manufactures and markets additives to products made by the major international monomer and polymer producers and plastic compounders.

### Coatings

Specialties' coatings businesses consist mainly of Stahl, resins and specialty inks, as well as certain other small businesses. Sales by business segment of Specialties' coatings businesses are set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Stahl	137	137	145
Resins	122	129	137
Specialty inks and others	140	142	156
Total	399	408	438

#### Stahl

With a range of over 9,000 products, Stahl's businesses supply finishes, dyestuffs and process chemicals for leather and ready-for-use coatings, the majority of which are used in the production of synthetic leather materials. Stahl also operates a number of smaller, local businesses in shoe finish chemicals.

The leather finishes business is Stahl's most important activity and management believes that Stahl is one of the world leaders in this area. Its wide-spread customer base consists of a large number of tanneries. Western Europe accounts for the largest proportion of sales, with the balance spread between North America, Latin America and Asia Pacific. The second most important business for Stahl is dyestuffs and process chemicals for use in the tanning and dyeing of leather. Most of Stahl's customers require high colour performance specifications and technical service support. Stahl's ready-for-use coatings business, Permuthane, produces finishing coatings primarily for textile substrates used in industries ranging from footwear to wall coverings.

#### Resins

Specialties' resins business manufactures and markets specialty resins used primarily in the manufacture of coatings, inks and adhesives. The business concentrates on areas in which research and technology are important and in which there are environmental opportunities. These include water-based products, such as water-based acrylics and urethane resins, in which the business has established a strong position. Water-based products are tending to

replace the more mature, solvent-based products, primarily due to increasing environmental and governmental pressures. Approximately 66 per cent. of sales in 1992 were in Western Europe and 24 per cent. in the US. Plans have recently been announced to build a new manufacturing facility in Singapore to serve the growing Asia Pacific market.

#### *Specialty inks and others*

The specialty inks business manufactures and markets over 30,000 different formulations of solvent and water-based flexographic and gravure printing inks for sale primarily to flexible packaging converters in North America. In common with resins, the specialty inks business emphasises water-based products. Specialties' other coatings businesses include Novacote and Holden Flexpack, which manufacture and market specialised adhesives and coatings for sale to foil, film and paper converters for use in flexible packaging materials and various medical and household items, and Thoro, which manufactures specialised building products for sale almost exclusively to distributors, dealers and contractors in the building and construction industry. In April, 1993, Specialties divested Tribol, which accounted for approximately 20 per cent. of 1992 sales of the specialty inks and others business segment.

**ZENECA**

#### **SALES AND MARKETING**

Specialties' businesses employ sales and marketing methods which vary according to the products and market served. For example, the textile colours and Stahl businesses each rely on large sales forces marketing to a wide range of customers. By contrast, many of Specialties' other businesses, including industrial colours, fine chemicals and industrial biocides, sell their products to relatively concentrated groups of customers and therefore require only small sales forces.

Achieving high standards of customer service is a principal goal for Specialties, illustrated by the colours business' "Customer Charter", which contains strict guidelines regarding product quality and service standards. In the coatings business, product customisation is assisted by the business' broad product ranges and proximity to its customers.

#### **RESEARCH AND DEVELOPMENT**

Specialties' R&D combines product development, closely driven by customer requirements, with medium and longer term research organised in areas of technological competence. R&D expenditure, including that of Biological Products, in the three years ended 31st December, 1990, 1991 and 1992 was £58 million, £60 million and £61 million, respectively.

In the organic chemicals businesses, R&D is focused on identifying and patenting new molecules, particularly textile dyes and biocides, and on the development of more environmentally acceptable products. Coatings' R&D is focused on the use of water-dispersible polymers to replace solvent-based products.

## DEVELOPMENT BUSINESSES

ZENECA's development businesses comprise Seeds and Biological Products. Seeds aims to create high added-value seed products for the farmer, food processor and distributor. Biological Products consists of innovative products such as Quorn, a meat alternative, and Biopol biodegradable plastics, as well as Cellmark Diagnostics and Fermentation Products. As development businesses within ZENECA's principal business segments, Seeds and Biological Products' financial results are not reported separately. The financial results of Seeds are included with those of Agrochemicals, and Biological Products' financial results are included with those of Specialties.

### ZENECA

#### STRATEGY

Seeds' objective is to expand its business rapidly in the 1990s, based upon the application of its research skills to produce new, competitive seed lines. The business will focus on the most profitable commercial seed crops and is establishing collaborations with food processors and distributors to share in significant downstream profit opportunities. Management is aiming for the business to achieve profitability by 1996 and believes that there are substantial growth opportunities thereafter.

Biological Products' aim is to grow into a major international business from the present development activities which, due to the investment of significant resources, are currently loss-making. Substantial funds are already committed to increasing the capacity for Quorn and to launch it in new markets which management believes offer significant growth potential. R&D expenditure will be maintained and further investment will be made in Quorn and Biopol as well as in other development opportunities. Profits from Biological Products overall are not expected until the second half of the 1990s, as the priority of the current strategy is growth in sales and the establishment of market positions.

#### SEEDS

Seeds aims to create high added-value products for the farmer, food processor and distributor. Since 1985, significant investment has been made in the acquisition of existing seed companies and the expansion of research programmes, and management believes that it has now established an international bioscience, breeding and marketing base which will enable Seeds to grow organically in its target markets. Seeds is a development business which is currently loss-making. Its 1992 sales totalled £134 million.

The business seeks to produce new seed products that are effective in increasing crop yields, quality or flavour, or overcoming unfavourable growing conditions such as disease, drought or adverse temperatures. R&D expenditure in 1992 was approximately £30 million. Research is highly focused on specific customer needs. Seeds employs a combination of traditional plant breeding skills and bioscience to produce new products. Management believes that bioscience will increase the efficiency and significantly shorten some development times for producing new competitive commercial seed lines through the application of DNA mapping. Management also believes that bioscience research should enable Seeds to introduce new desirable traits to seed products which could not be achieved through traditional plant breeding. The development of a new commercial seed line normally takes between seven and ten years and, although the business has already launched a number of new products from its research programmes, it is likely to be the mid-1990s before the benefits of the research investment are realised.

Seeds seeks to commercialise the benefits from its breeding and bioscience research in two distinct areas, broad-acre crops and fruit and vegetables.

### *Broad-acre crops*

In broad-acre crops, Seeds is seeking to increase its market share by focusing primarily on maize, sugar beet and sunflowers. These crops have been targeted because of their market size and potential profit margins. Seeds sells to distributors and farmers who benefit directly from the added value from enhanced seed. Seeds has established positions in the important maize seed market in the US, the Western Europe sugar beet seed market, and the sunflower seed markets in the Southern Hemisphere, particularly Argentina and Australia. The first product resulting from Seeds' bioscience research, a herbicide resistant maize, was sold in the US in 1992.

### *Fruit and vegetables*

In the fruit and vegetable seed market, Seeds is pursuing collaborations with downstream food processors and distributors to share in the added value which is expected to arise from using products produced from enhanced seed. In developing its position in this market, Seeds has initially concentrated on processed and fresh tomatoes through its ability to regulate the action of certain genes involved in the ripening process. This technology is intended to achieve both production efficiencies and quality improvements in processed tomato products. The business has entered into a collaboration with Hunt-Wesson, Inc., a leading US tomato processor, under which Seeds has agreed to grant Hunt-Wesson rights to use the enhanced seed in return for a share of the resulting cost savings and a royalty on sales of new products incorporating the superior attributes derived from the technology. The business has also entered into an agreement with Dole Fresh Vegetables, Inc., a leading supplier of branded fresh produce in the US, to evaluate the potential of the technology to improve the quality of fresh market tomatoes. Both of these ventures are supported by a collaboration with Petoseed Company, Inc., a leading vegetable seed breeder. Management believes that these collaborations will increase the potential profit available to Seeds and will also reduce Seeds' capital expenditure needs and provide valuable marketing skills. Management believes that this technology may have applications to other produce with similar ripening characteristics, and is actively pursuing possible collaborations.

**ZENECA**

## **BIOLOGICAL PRODUCTS**

### *Quorn*

Quorn mycoprotein is a new branded food ingredient which is a healthy, convenient and natural alternative to meat. Quorn is produced by fermentation of natural sugars. It is low in fat and calories, contains no cholesterol and is also a good source of protein and fibre. The Quorn brand name is protected by trade mark registration in the UK and other markets in which it has been launched. Originally launched in 1985, it is sold both to food manufacturers as an ingredient in ready-made meals and as a home cooking ingredient. There are no directly comparable competitive products either in production or known by management to be under development. The business is also developing Quorn's marketability principally by the use of advertising and the recruitment of experienced food industry executives.

Management believes that the potential market for Quorn exceeds current manufacturing capacity. Construction of new plant in the UK is under way which will increase supply about fivefold. This plant is due for completion early in 1994 and will cost an estimated £37 million. A third Quorn plant with similar capacity to the second Quorn plant has been approved for construction. It is expected to cost approximately £26 million and to take around two years to build.

In the UK, currently Quorn's principal market, customers include major supermarkets and food processors. Extensive research indicates the potential for good consumer acceptance in

other European markets and marketing is being undertaken in Belgium, The Netherlands, Germany and the Republic of Ireland. Prospects for the North American market are being assessed and it is expected that a submission to the FDA for approval to market Quorn in the US will be made in the next two years. In Japan, the market is being assessed in collaboration with a Japanese partner.

#### *Biopol*

Biopol is a naturally derived plastic produced by bacterial fermentation of sugars from natural crops such as maize. Biopol has many of the qualities of conventional plastics including stability, durability and moisture resistance. It is also biodegradable and can be re-used and recycled.

#### **ZENECA**

Principal customers are expected to be plastics converters such as bottle and film manufacturers, although demand is expected to be led by the converters' customers who will specify the material required. The scale and pace of development of the market for biodegradable plastics will depend on consumer demand for environmentally friendly products and environmental legislation stipulating the use of such products. Market development will also be influenced by the ability of manufacturers to provide economically acceptable products. The Biopol brand name is protected by trade mark registration in most of its major markets.

Biopol was first launched in 1990 when Wella shampoo in Biopol bottles was sold in Germany. It has also been used in other personal care products in Germany, the US and Japan. Management believes Biopol will have additional applications in personal hygiene, disposable consumer goods, packaging and certain medical devices.

#### *Other*

Cellmark Diagnostics is engaged in the application of genetic fingerprinting technology, principally for the identity confirmation market. Management believes it has a major share of this sector in the UK market. Its principal genetic fingerprinting products, licensed from The Lister Institute of Preventive Medicine, are sold in over 30 countries. The business is developing a range of DNA medical diagnostic tests, for example, for cystic fibrosis.

Fermentation Products' activities are linked by common skills in fermentation and biotechnology. The business includes agricultural inoculants, which improve conservation of hay and silage for farmers; environmental products, which are principally used for the treatment of liquid effluents; and biotechnology services, such as the development of process technology and the installation and operation of continuous fermentation technology for a range of applications.

## GROUP RESOURCES

### RESEARCH AND DEVELOPMENT

ZENECA's businesses require high levels of expenditure on the research and development of new products, the enhancement of existing products and the improvement of manufacturing efficiency through process technology. In 1992, ZENECA employed approximately 7,000 R&D personnel and R&D expenditure totalled £457 million, representing approximately 11 per cent. of ZENECA's total sales. ZENECA's R&D expenditure for the last three years is set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Pharmaceuticals	202	223	256
Agrochemicals	136	133	140
Specialties	58	60	61
<b>Total</b>	<b>396</b>	<b>416</b>	<b>457</b>

**ZENECA**

ZENECA's R&D strategy is to ensure that R&D within the businesses is prioritised and focused on target markets which are judged to have substantial commercial and profit potential. R&D priorities and programmes are regularly evaluated at the group level in order to ensure their appropriateness as well as the efficiency and cost-effectiveness of the expenditure. Close attention is also paid to ZENECA's competitive technological performance. ZENECA's R&D at the strategic level, directed and monitored by the Board of Directors, is the immediate responsibility of the Director of Research.

ZENECA's R&D draws upon its businesses' shared competencies in bioscience and organic chemistry and in the enabling technologies of toxicology, environmental science, formulation, process technology and information technology. Science Strategy Groups encompassing businesses with common science or technology act to deploy and enhance ZENECA's research competencies in an efficient manner.

Many of ZENECA's products have resulted from its own R&D activities. In certain areas, in-house activities are complemented by sponsored or joint R&D with universities, other research establishments or companies. Also, where commercially appropriate, ZENECA manufactures products under licence using its own process technology expertise.

ZENECA's businesses have R&D facilities located primarily in the UK and the US. Pharmaceuticals' R&D is conducted at the Alderley Park site in Macclesfield, UK and at the Fairfax Campus site in Wilmington, Delaware. Agrochemicals' R&D facilities are principally located at the Jealott's Hill site in Berkshire, UK and at the Western Research Centre in Richmond, California. Specialties' R&D is conducted at sites in Billingham, Blackley and Runcorn in the UK.

ZENECA also has two important corporate research facilities in the UK, the Brixham Environmental Laboratory in Devon and the Central Toxicology Laboratory located at the Alderley Park site. Both provide services to ZENECA's businesses and cooperate with the businesses' own research centres.

## MANUFACTURING AND PRODUCTION

At 31st December, 1992, ZENECA employed approximately 11,600 people (including FCMO) in manufacturing and production in 25 countries. The following table sets out the number of ZENECA's manufacturing and production facilities operated by each business segment and by ZENECA's FCMO in various regions of the world at that date.

	UK	Continental Europe	Americas	Asia Pacific	Other countries
Pharmaceuticals	1	5	6	2	1
Agrochemicals	5	9	21	5	1
Specialties	10	10	39	1	1
FCMO	6	1	3	—	—

## ZENECA

Note: Some facilities serve more than one business.

ZENECA undertakes a wide range of advanced technology manufacturing processes involving chemical and biological transformation, fermentation, formulation and seed production. Many of ZENECA's products are derived from a common base in organic chemistry and use similar manufacturing technology, shared plants and production sites in the FCMO. The FCMO manufactures active ingredients and intermediate chemicals on behalf of Specialties, Agrochemicals and Pharmaceuticals. This approach results in flexibility of operation, lower capital requirements, combined purchasing strength and lower manning levels. In addition, ZENECA benefits from shared expertise and standards in safety, health and the environment.

The Group uses process technology to develop manufacturing processes for new products and to improve existing operations by optimising raw material usage, increasing productivity and minimising by-product formation. These services are provided by centres of expertise located in the UK and the US which also have pilot plant facilities.

Pharmaceuticals' principal bulk production facilities are at Macclesfield in the UK, Plankstadt in Germany and Guayama in Puerto Rico, together with the FCMO site at Severnside in the UK. Agrochemicals' main active ingredient manufacturing facilities are at Grangemouth, Huddersfield and Widnes in the UK, and at Cold Creek, Louisiana and Bayport, Texas in the US. Pharmaceuticals and Agrochemicals formulate, package and label products at locations around the world, close to the principal markets in which such products are sold. Most of Specialties' organic chemicals manufacturing base is located in the FCMO. Specialties' coatings businesses generally manufacture in local markets. Seed production normally occurs close to the market in which the seed will be sold and requires specialised agronomic practices. Biological Products operates a number of specialised facilities, including fermentation plants for the production of Quorn and Biopol and a food manufacturing plant for Quorn.

## MANAGEMENT AND HUMAN RESOURCES

ZENECA is managed by a Board of Directors under the Chairmanship of Sir Denys Henderson. Mr David Barnes is Chief Executive Officer. The Board is supported by an Executive Council under the Chairmanship of Mr Barnes. This Council comprises the Executive Directors (with the exception of the Chairman) and the Chief Executive Officers of Pharmaceuticals and Specialties. The Council has executive authority delegated to it by the Board and is the major decision-making body below the Board. It ensures that prompt and regular decision-making occurs and enables the Board to concentrate, for the most part, on financial performance, senior appointments and strategic issues.

The Council delegates to each of the Chief Executive Officers of the businesses appropriate decision-making authority. The business Chief Executive Officers report to and are responsible to Mr Barnes for the performance of their businesses.

The non-executive directors of ZENECA are Lord Chilver, Sir Richard Greenbury, Miss Gill Lewis, Sir Jeremy Morse and Mr Tom Wyman.

ZENECA intends to operate in full compliance with the Code of Best Practice incorporated within the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance, so far as this is possible in the absence of guidelines yet to be issued by the accountancy bodies.

#### BIOGRAPHICAL INFORMATION

Set out below is biographical information on executive directors and other members of the Executive Council and non-executive directors.

#### ZENECA

**Sir Denys Henderson** (aged 60) is the Chairman of ZENECA and has been Chairman of ICI since 1987, having been a director of ICI since 1980. He is a non-executive director of Barclays PLC and The RTZ Corporation PLC.

**David Barnes CBE** (aged 57) is Chief Executive Officer of ZENECA. He has been a director of ICI since 1986. He has had an overview responsibility for the Pharmaceuticals, Agrochemicals and Seeds businesses and was territorial director for the Americas and Europe. He is a non-executive director of THORN EMI plc.

**Peter Doyle CBE** (aged 54) is an Executive Director and is responsible for research and development and safety, health and the environment. He has been research and technology director of ICI since 1989, and held senior research positions in the Pharmaceuticals and Agrochemicals businesses. Dr. Doyle is also a member of the UK's Medical Research Council and the Prime Minister's Advisory Council on Science and Technology.

**John Mayo** (aged 37) is an Executive Director and is responsible for finance. He was formerly a director of S.G. Warburg & Co. Ltd. and joined ICI in 1992 to help prepare the division of ICI into two separate organisations.

**Tony Rodgers** (aged 52) is an Executive Director and is responsible for personnel and external relations. He has been a director of ICI since 1991 with responsibility for the Eastern Hemisphere, market focus and Group advertising. He was formerly head of the colours business and chairman of the board of the FCMO.

**Alan Pink** (aged 55) is an Executive Director and Chief Executive Officer of Agrochemicals and Seeds. He was formerly the head of ICI Advanced Materials, ICI's General Manager (Planning) and a director of ICI Americas Inc.

**Rodney Brown** (aged 58) is Chief Executive Officer of Specialties, having been appointed in January 1991. He was formerly a group director of ICI Chemicals & Polymers Limited.

**David Friend** (aged 58) is Chief Executive Officer of Pharmaceuticals, having been appointed in 1987. He is President of the European Federation of Pharmaceutical Industries' Associations and is also a Fellow of the Royal Pharmaceutical Society.



## ZENECA

### Non-executive directors

**Lord Chilver FRS** (aged 66) has been a non-executive director of ICI since 1990. He is chairman of English China Clays PLC and Porton International plc.

**Sir Richard Greenbury** (aged 55) has been a non-executive director of ICI since 1992. He is chairman and chief executive officer of Marks & Spencer p.l.c. He is a non-executive director of Lloyds Bank Plc.

**Miss Gill Lewis** (aged 49) is Senior Vice-President and Director of Human Resources for Nestlé S.A. She is also a non-executive director of Pearson plc.

**Sir Jeremy Morse KCMG** (aged 64) has been a non-executive director of ICI since 1981. He is a non-executive director of the Bank of England and a nominated member of the Council of Lloyds. He was formerly chairman of Lloyds Bank Plc.

**Tom Wyman** (aged 63), a US citizen, has been a non-executive director of ICI since 1986. He is chairman of S.G. Warburg & Co. Inc., an executive director of S.G. Warburg Group plc and a non-executive director of American Telephone and Telegraph Company, General Motors Corporation and United Biscuits (Holdings) plc.

Apart from Sir Denys Henderson, all the Directors who are directors of ICI will resign from the board of ICI upon the Demerger becoming effective.

### EMPLOYEES

As at 31st December, 1992, the Group employed 33,300 people, divided functionally and across the main business divisions as follows:

	Pharmaceuticals	Agrochemicals	Specialties	Total
R & D	3,400	2,300	1,400	7,100
Manufacturing and production	3,400	2,600	2,700	8,700
Sales and marketing	4,400	1,800	1,800	8,000
Management and administration	1,400	1,000	1,400	3,800
	12,600	7,700	7,300	27,600
FCMO				2,900
Trading and Miscellaneous				1,000
Group and corporate functions*				1,700
Head Office				100
Total				33,300

\*includes Central Toxicology Laboratory, Brixham Environmental Laboratory and engineering

The geographic distribution of ZENECA's employees as at 31st December, 1992 is set out below:

UK	13,500
Continental Europe	6,700
The Americas	10,700
Asia Pacific	1,800
Other countries	600
	<hr/>
	33,300

#### PENSIONS

ZENECA will continue participating in the ICI Pension Fund in the UK but, following a transitional period of approximately 12 months, it intends to set up a separate pension fund for the Group's employees, deferred pensioners and pensioners, which initially will have the same terms and conditions as the ICI Pension Fund, including an independent professional trustee. See Part 7.

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## FINANCIAL REVIEW

## SELECTED FINANCIAL INFORMATION

Set out below is selected financial information concerning ZENECA in respect of the years ended 31st December, 1990, 1991 and 1992. It has been extracted from the audited summarised combined financial information contained in the Accountants' Report set out in Part 8, and should be read in conjunction with, and is qualified in its entirety by reference to, the contents of such Report.

## SUMMARY OF COMBINED PROFIT AND LOSS ACCOUNTS

## ZENECA

	Year ended 31st December,		
	1990 £m	1991 £m	1992 £m
Turnover	3,810	3,929	3,979
Trading profit before exceptional items	600	682	587
Exceptional items charged to trading profit	—	—	(304)
Other exceptional items	(77)	4	(36)
Profit on ordinary activities before associated undertakings and interest	523	686	247
Share of profits less losses of associated undertakings	2	11	7
Net interest payable*	(171)	(166)	(152)
Profit on ordinary activities before taxation	354	531	102
Taxation on profit on ordinary activities	(120)	(167)	(10)
Profit on ordinary activities after taxation	234	364	92
Attributable to minority interests	(12)	(19)	(12)
Net profit	222	345	80

\*includes interest on the indebtedness assumed by ZENECA prior to the Demerger as if it had been in place throughout the period and takes no account of any reduction following the ZENECA Rights Issue. See note 1 of the Accountants' Report and Part 9 for further information.

## CASH FLOW AND OTHER DATA

	Year ended 31st December,		
	1990 £m	1991 £m	1992 £m
Trading profit before exceptional items	600	682	587
Depreciation	156	156	160
Movements in working capital and other non-cash items	23	(80)	(31)
Net cash inflow from trading operations	779	758	716
Outflow related to exceptional items	—	(32)	(34)
Net cash inflow from operating activities	779	726	682
Cash expenditure on tangible fixed assets	280	206	268

## SUMMARY OF COMBINED STATEMENTS OF NET ASSETS

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Fixed assets	1,324	1,385	1,592
Current assets	1,839	2,015	2,415
<b>Total assets</b>	<b>3,163</b>	<b>3,400</b>	<b>4,007</b>
Creditors due within one year <sup>(1)</sup>	838	925	1,323
Creditors due after more than one year <sup>(1)</sup>	123	127	73
Provisions for liabilities and charges	238	232	419
Minority interests	58	72	57
<b>Net assets before amounts due to the ICI Group</b>	<b>1,906</b>	<b>2,044</b>	<b>2,135</b>
<b>Amounts due to the ICI Group</b>	<b>1,610</b>	<b>1,626</b>	<b>1,923</b>
<b>Net assets<sup>(2)</sup></b>	<b>296</b>	<b>418</b>	<b>212</b>

(1) Excludes amounts due to the ICI Group and takes no account of the proceeds of the ZENECA Rights Issue.

(2) See note 23 of the Accountants' Report for further information on movements in net assets.

**ZENECA**

## RESULTS OF OPERATIONS

ZENECA conducts its business with a view towards long-term growth of profits, which is largely dependent on a flow of new products and product enhancements emanating from substantial and continuing investment in R&D. ZENECA's operating results are affected by a number of factors, the most important of which are new product introductions, the expiry of patents, fluctuations in exchange rates, general economic conditions and the regulatory environment. These factors are important to the long-term development of the Group and may also affect ZENECA's short-term performance. ZENECA's pre-tax profit has been affected by restructuring measures that the Group has undertaken in recent years. Operating results also reflect investment in its Development Businesses, Seeds and Biological Products, which are currently operating at a loss.

Pharmaceuticals' results have been influenced more by the performance in the market place of new products and product extensions, competition from manufacturers of patented and generic products and the pound sterling/US dollar exchange rate than by general economic conditions. Pharmaceuticals' business will continue to be affected by pressure to contain healthcare expenditure in a number of countries including the US (Pharmaceuticals' largest market), as governments and other bodies increasingly seek to control costs.

Agrochemicals' results have been affected by the relative maturity of the agricultural chemicals industry in the developed world, weather conditions (which can influence the demand for certain products), uncertainty over reform of the European Community's Common Agricultural Policy ("CAP"), financial conditions in Eastern Europe and the CIS and the pound sterling/US dollar exchange rate. Agrochemicals' sales and trading profit are heavily weighted towards the first half of the year, primarily reflecting planting and growing cycles in the northern hemisphere. The financial results of Seeds are included with those of Agrochemicals.

Specialties' results in recent years have been influenced by recessionary conditions, particularly in the textile colours business, and the effects of restructuring, under which Specialties has concentrated investment on those businesses which management believes have the greatest potential to increase profit, divested other businesses and reduced its fixed cost base. The financial results of Biological Products are included with those of Specialties.

ZENECA's largest market is the Americas, which accounted for 41 per cent. of total sales (by customer location) in 1992. Continental Europe accounted for 33 per cent. of sales and Asia Pacific, including Japan, 13 per cent. The UK is ZENECA's most important manufacturing base and was also the source of exports of approximately £1.4 billion in 1992 to external customers and to ZENECA's overseas subsidiaries. Although the UK market accounted for only 8 per cent. of external sales in 1992, trading profit before exceptional items generated in the UK comprised 35 per cent. of total trading profit before exceptional items, the difference reflecting royalty receipts and profits on exports from the UK.

## ZENECA

A significant proportion of ZENECA's revenues, costs, assets and liabilities are denominated in currencies other than pounds sterling. Over 90 per cent. of ZENECA's sales in 1992 were denominated in foreign currencies, either as exports from the UK or from overseas operations, while a significant proportion of ZENECA's manufacturing and research costs are denominated in pounds sterling. As a result, ZENECA's trading profit in pounds sterling can be significantly affected by movements in exchange rates, in particular movements of the pound against the US dollar. Appreciation of the pound sterling relative to other currencies, in particular the US dollar, generally has an adverse impact on ZENECA's results while depreciation of the pound sterling generally has a positive impact. ZENECA's policy, where appropriate, is to seek to reduce the impact of exchange rate movements on its transactional exposures through forward contracts or options and by structuring debt to reflect the currencies of the underlying asset base.

Turnover and trading profit before exceptional items for the Group for the three years ended 31st December, 1992 and unaudited results for the three months ended 31st March, 1992 and 1993 are set out below.

	Year ended 31st December,			Three months ended 31st March, (Unaudited)	
	1990 £m	1991 £m	1992 £m	1992 £m	1993 £m
Turnover					
Pharmaceuticals	1,375	1,552	1,607	378	466
Agrochemicals	1,289	1,316	1,288	346	385
Specialties	938	916	936	241	249
Trading and Miscellaneous <sup>(1)</sup>	208	145	148	37	31
	3,810	3,929	3,979	1,002	1,131
Trading profit before exceptional items <sup>(2)</sup>					
Pharmaceuticals	473	536	488	121	154
Agrochemicals	108	145	85	51	37
Specialties	34	29	26	14	20
Trading and Miscellaneous <sup>(1)</sup>	(15)	(28)	(12)	(6)	(7)
	600	682	587	180	204

(1) Trading and Miscellaneous comprises the marketing and distribution of ICI Group products undertaken by ZENECA, agency sales on behalf of third parties, the results of the Group's insurance operations, corporate costs not allocated to businesses and inter-class eliminations.

(2) Exceptional items charged to trading profit were charges of £304 million in 1992 (1991: £nil, 1990: £nil; three months ended 31st March, 1993: £nil, 31st March, 1992: £11 million). Other exceptional items before taxation were net charges of £36 million in 1992 (1991: credits of £4 million, 1990: net charges of £77 million).

#### **First quarter of 1993 compared with first quarter of 1992 (unaudited)**

ZENECA's turnover for the first quarter of 1993 was £1,131 million, compared with £1,002 million in the first quarter of 1992, an increase of 13 per cent. The increase resulted mainly from an increase of 14 per cent, attributable to changes in exchange rates and 1 per cent, due to slightly higher selling prices, partially offset by a decrease of 2 per cent, due to the impact of divestments.

ZENECA's trading profit before exceptional items increased by 13 per cent, from £180 million for the first quarter of 1992 to £204 million in the first quarter of 1993, due principally to a strong first quarter performance by Pharmaceuticals. Sales of Zestril, Dīprivan, Zoladex and Nolvadex were in aggregate some 57 per cent, higher than equivalent sales in the first quarter of 1992, reflecting a 33 per cent, growth in volumes, a 21 per cent, gain from exchange rates and a 3 per cent, increase in prices. Tenormin sales were affected in the US by generic competition and were approximately 10 per cent, lower world-wide than for the first quarter of 1992, reflecting a reduction in underlying volumes of 21 per cent, together with a small price reduction, partially offset by exchange gains of 12 per cent. Agrochemicals' trading profit of £37 million for the first quarter of 1993 was below the level for the first quarter of 1992, due mainly to uncertainties arising from CAP reform, which reduced sales volumes in Western Europe. Elsewhere, Agrochemicals' sales indications are more positive. Specialties' trading profit increased from £14 million in the first quarter of 1992 to £20 million in the first quarter of 1993, due to favourable exchange rates and an improved cost structure.

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#### **1992 compared with 1991**

ZENECA's 1992 sales were £3,979 million, compared with £3,929 million in 1991, an increase of 1 per cent.. This reflected an increase in Pharmaceuticals' sales resulting from strong growth in sales of Zoladex, Zestril/Zestoretic and Dīprivan, which offset a significant decline in Tenormin sales. Agrochemicals' sales declined slightly. Specialties' sales increased, reflecting growth in sales in the Coatings business partially offset by reduced sales in the colours business as a result of the economic recession and divestments.

ZENECA's sales in the Americas were £1,645 million in 1992, or 41 per cent, of total sales, compared with £1,717 million in 1991, or 44 per cent, of total sales. 1992 sales in the UK were £312 million, or 8 per cent, of total sales, and in Continental Europe were £1,315 million, or 33 per cent, of total sales. Together, these accounted for sales of £1,627 million, or 41 per cent, of total sales, compared with £1,561 million in 1991, or 40 per cent, of total sales. Sales in the Asia Pacific region increased by 15 per cent, to £526 million in 1992 from £458 million in 1991, due principally to growth in the sales of Pharmaceuticals and Agrochemicals. ZENECA's 1992 sales in other countries were £181 million compared with £193 million in 1991, a decrease of 6 per cent..

ZENECA's 1992 trading profit before exceptional items was £587 million, compared with £682 million in 1991, a fall of 14 per cent., due primarily to a reduction in trading profit before exceptional items in Agrochemicals and Pharmaceuticals. The decline in Agrochemicals' 1992 trading profit before exceptional items of £60 million, or 41 per cent., was due mainly to price competition and changes in farming practices in the US, a shortage of hard currency in the CIS and uncertainty arising from CAP reform. Pharmaceuticals' 1992 trading profit before exceptional items declined by 9 per cent, from £536 million in 1991 to £488 million, due mainly to the decline in Tenormin sales in the US resulting from generic competition. Losses on Trading and Miscellaneous before exceptional items fell to £12 million from the 1991 level of £28 million, which contained a £21 million provision for environmental remediation costs in the US. Trading profits in Specialties and Agrochemicals also reflected increased investment in ZENECA's

## ZENECA

development activities in Biological Products and Seeds, with losses totalling £29 million and £16 million, respectively, in 1992 compared with £16 million and £10 million, respectively, in 1991.

ZENECA's 1992 pretax profits included net exceptional items before taxation totalling £340 million. The largest item was a provision for rationalisation costs of £195 million relating mainly to initiatives to reduce the cost base and also to certain asset write-downs and provisions. The second largest item was an additional provision of £109 million for future environmental liabilities, to reflect the Group's current experience and more stringent environmental requirements world-wide. Most of the environmental provisions relate to non-operating sites in the US, many of which were acquired as part of Stauffer Chemical Company in 1987. Although there can be no assurance, management believes that, taking account of these and previous provisions, the cost of addressing currently identified environmental obligations (as the Group currently views these obligations) is unlikely to impair materially the Group's financial position. Such contingent costs, to the extent that they exceed applicable provisions, could have a material adverse effect on the Group's results of operations for the relevant period. Also included within exceptional items for 1992 were provisions of £52 million, to cover reorganisation of the Group in preparation for potential demerger, and £39 million, to cover losses arising from the closure of certain manufacturing plants, which were partially offset by gains of £55 million from the sales of certain minor Pharmaceuticals product lines.

### 1991 compared with 1990

ZENECA's 1991 sales were £3,929 million, compared with £3,810 million in 1990, an increase of 3 per cent.. This change reflected an increase in Pharmaceuticals' sales of £177 million, or 13 per cent., and an increase of £27 million in Agrochemicals' sales, or 2 per cent., partially offset by a reduction in Trading and Miscellaneous sales of £63 million, or 30 per cent.. The growth in Pharmaceuticals' sales reflected volume increases, principally in US sales of Zestril/Zestoretic and Nolvadex. The increase in Agrochemicals' sales was due primarily to changes in prices, while the decline in Trading and Miscellaneous sales was due partly to a decline in the level of sales of ICI Group products.

ZENECA's 1991 sales in the Americas were £1,717 million, or 44 per cent. of total sales, compared with £1,557 million in 1990, or 41 per cent. of total sales. ZENECA's 1991 sales in the UK were £284 million, or 7 per cent. of total sales, and in Continental Europe were £1,277 million, or 33 per cent. of total sales. Together, these accounted for sales of £1,561 million, or 40 per cent. of total sales, compared with £1,632 million in 1990, or 43 per cent. of total sales. Agrochemicals' sales in Western Europe fell slightly, partially offset by growth in Pharmaceuticals' sales. 1991 sales to the Asia Pacific region were £458 million, an increase over 1990 of £26 million.

ZENECA's 1991 trading profit before exceptional items was £682 million, compared with £600 million in 1990, an increase of 14 per cent.. This reflected an increase of £63 million, or 13 per cent., in Pharmaceuticals' profits to £536 million and higher profits from Agrochemicals, which increased 34 per cent. to £145 million. Pharmaceuticals benefited from increases in sales in certain principal products, particularly in the US, while the increase in Agrochemicals' profits was due primarily to fixed cost reductions, an increase in sales volumes in the US and changes in product mix. In 1991 the increased loss on Trading and Miscellaneous was caused mainly by increased environmental provisions on non-operating sites in the US. Trading profit before exceptional items of Specialties and Agrochemicals also reflected investment in ZENECA's development activities in Biological Products and Seeds, with losses totalling £16 million and £10 million, respectively, in 1991 and £17 million and £10 million, respectively, in 1990.

### Net Interest Payable

The charge for interest has been determined on the basis set out in note 1 of the Accountants' Report. This comprises net interest paid by ZENECA on external borrowings, on loans existing between the ICI Group and ZENECA and on ZENECA's indebtedness to the ICI Group arising out of the reorganisation of the ICI Group prior to the Demerger, offset by interest received on external deposits and investments, principally in ZENECA's insurance subsidiaries. On this basis, net interest payable amounted to £152 million in 1992, £166 million in 1991 and £171 million in 1990. The reduced interest charge in 1992 was attributable principally to a lower ICI Group average funding rate.

Following the Demerger and the ZENECA Rights Issue, ZENECA will be independently financed. £1,300 million of the net proceeds of the ZENECA Rights Issue will be used to reduce ZENECA's indebtedness to the ICI Group, thereby resulting in a substantial reduction in future net interest expense. On the assumption that the proceeds of the ZENECA Rights Issue had been used to reduce amounts due to the ICI Group as of 1st January, 1992, net interest expense in 1992 would have been approximately £124 million lower at £28 million.

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### Taxation

The charge to taxation has been calculated on the basis set out in note 1 to the Accountants' Report and includes taxation on profits of ZENECA subsidiaries and an allocation of the tax charge of subsidiaries and businesses undertaking both ICI Group and ZENECA activities. The charge to taxation amounted to £10 million in 1992, £167 million in 1991 and £120 million in 1990, representing effective tax rates of 9.8 per cent., 31.5 per cent. and 33.9 per cent., respectively. Tax relief on the exceptional items of £340 million in 1992 was 23 per cent., as certain of the costs will not be tax-deductible in the foreseeable future. Without taking into account the exceptional items, the effective tax rate for 1992 was 19.9 per cent., reflecting a number of non-recurring tax credits, without which the rate would have been broadly similar to the rates reported for 1990 and 1991.

### Distributions

The distributions and transfers out of profits, net of taxation, to ICI by ZENECA subsidiaries and businesses have been treated as reductions in ZENECA's net assets. The entities that comprised ZENECA during the period under review did not have independent distribution policies. Such distributions amounted to £379 million in 1992, £262 million in 1991 and £75 million in 1990. ZENECA Limited will declare and pay a dividend to ICI of £70 million (net of tax credit) on 27th May, 1993. In the absence of unforeseen circumstances, the Board expects to declare dividends in respect of 1993 totalling not less than 27.5p (net of tax credit) per ZENECA Ordinary share. Based on an estimate of 720 million ZENECA Demerger shares, the net annual dividends of ZENECA in respect of 1993 would amount to approximately £198 million. This rate of dividend would also apply to the ZENECA Rights shares, giving rise to an additional net annual dividend payment of £62 million.



## PHARMACEUTICALS

Pharmaceuticals' turnover and trading profit before exceptional items for the last three years are set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Turnover	1,375	1,552	1,607
Trading profit before exceptional items	473	536	488

### 1992 compared with 1991

Pharmaceuticals' 1992 sales were £1,607 million compared with £1,552 million in 1991, an increase of £55 million, or 4 per cent.. This resulted primarily from a strong increase in sales of Zestril/Zestoretic of approximately £71 million, or 32 per cent., over 1991 and increased sales of Zoladex and Diprivan, partially offset by a reduction in Tenormin sales of £119 million, or 18 per cent.. Favourable movements in exchange rates accounted for £29 million of the overall increase in sales for 1992. The volume reduction in US Tenormin sales resulted in an overall decline in Pharmaceuticals' US sales from £741 million in 1991 to £674 million in 1992, a decline of £67 million, or 9 per cent.. Tenormin's major US patent expired in late 1991, leading to a loss of Pharmaceuticals' market share to generic manufacturers. Although sales of Tenormin in the US are expected to continue to decline, management believes that the rate of decline has started to slow.

1992 sales in Western Europe and Japan were £609 million and £190 million, respectively, compared with £533 million and £166 million in the preceding year. Growth in sales in Western Europe and Japan was primarily attributable to increased sales of Zestril/Zestoretic and Zoladex. The growth of sales in Western Europe was also attributable to strong growth in sales of Diprivan.

Pharmaceuticals' 1992 trading profit before exceptional items was £488 million, compared with £536 million in 1991, a decline of 9 per cent.. Trading profit was adversely affected by the decline in sales of Tenormin, particularly in the US market, although this was partially offset by increased profits from the growth in sales of Zestril/Zestoretic, Zoladex and Diprivan in all major markets. The increased profits from Zestril/Zestoretic, Zoladex and Diprivan were primarily attributable to volume growth rather than to price increases.

### 1991 compared with 1990

Pharmaceuticals' 1991 sales were £1,552 million, an increase over 1990 of £177 million, or 13 per cent.. This was principally due to strong volume growth, particularly in sales of Zestril/Zestoretic, which increased by 57 per cent. to £223 million from £142 million, and in sales of Nolvadex, which increased by £29 million, or 13 per cent., to £245 million. Sales of Tenormin were £653 million, compared with £634 million in 1990, primarily due to price increases partially offset by a small volume decline.

Pharmaceuticals' 1991 sales in the US were £741 million, compared with £623 million in 1990, an increase of 19 per cent.. This increase was attributable to higher sales volume of Nolvadex, Diprivan and Zestril/Zestoretic. Sales in 1991 to Western Europe and Japan were £533 million and £166 million, respectively, compared with £496 million and £147 million in the preceding year.

Pharmaceuticals' trading profit before exceptional items was £536 million in 1991, an increase of £63 million, or 13 per cent., over 1990. This increase resulted primarily from increased sales of Zestril/Zestoretic, Nolvadex and Diprivan, particularly in the US market, partially offset by fixed cost increases following the launch of new products.

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## AGROCHEMICALS

Turnover and trading profit before exceptional items of Agrochemicals for the last three years are set out below.

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Turnover	1,289	1,316	1,288
Trading profit before exceptional items	108	145	85

### 1992 compared with 1991

Agrochemicals' sales were £1,288 million in 1992, compared with £1,316 million in 1991, a reduction of £28 million, or 2 per cent.. Herbicide sales in 1992 were broadly unchanged from 1991, reflecting increased sales of the Gramoxone range, particularly in the Asia Pacific region and Latin America, offset by reduced sales of Eradicane and Fusilade. Sales of certain other herbicides were also affected by the reduction in sales in the CIS and Eastern Europe resulting from a shortage of hard currency. Management believes that sales of a wide range of products were adversely affected by uncertainties related to the reform of the CAP, which prompted farmers and distributors to reduce or defer purchases. Management estimates that, due to these factors, worldwide demand for agricultural chemicals in 1992 declined by 2 per cent. in real terms compared with 1991, while the reduction in sales by manufacturers was greater than 2 per cent. because of destocking by distributors. These factors were concentrated in Western Europe. Seeds' sales in 1992 were £134 million, compared with £139 million in 1991, a reduction of 4 per cent., as the business focused on the development of higher value added products.

Western Europe accounted for £466 million, or 36 per cent., of Agrochemicals' sales in 1992, an increase of £40 million, or 9 per cent., compared with 1991. Much of this increase arose in Italy where ZENECA was appointed as sole distributor for BASF agricultural chemical products. Sales in the US were £304 million in 1992 compared with £364 million in 1991, a reduction of 16 per cent.. Sales in the CIS and Eastern Europe were £58 million in 1992 compared with £76 million in 1991. Sales to the Asia Pacific market in 1992 grew by £24 million, or 15 per cent., over 1991.

Agrochemicals' 1992 trading profit before exceptional items was £85 million, compared with £145 million in 1991, a decline of £60 million, or 41 per cent.. The principal causes of this decline were: intense price competition for Fusilade in the US market; reduced sales of the soil-incorporated herbicide Eradicane owing to market conditions which favoured sales of competitors' pre- and post-emergence herbicides; and reduced sales in the CIS and Eastern Europe. Higher trading profits from the Asia Pacific region were achieved in 1992.

### 1991 compared with 1990

Agrochemicals' 1991 sales of £1,316 million were £27 million higher than the 1990 level of £1,289 million, due primarily to price increases partially offset by exchange effects and increased sales of most insecticide and herbicide products, except for Eradicane/Eptam. Seeds' 1991 sales were £139 million compared with £129 million in 1990.

Sales in Western Europe were £426 million, a decrease of £17 million, or 4 per cent.. Much of this reduction was caused by the withdrawal by Seeds from the UK retail sector. US sales were £364 million, an increase of 11 per cent. over 1990. Sales in Asia Pacific

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increased by 11 per cent, while sales in Latin America were broadly unchanged compared with 1990.

Agrochemicals' trading profit before exceptional items in 1991 was £145 million, compared with £108 million in 1990. This increase reflected improved sales of many products, particularly insecticides, combined with the positive effects of a cost reduction programme.

## SPECIALTIES

Specialties' turnover and trading profit before exceptional items for the last three years are set out below.

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	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Turnover	938	916	936
Trading profit before exceptional items	34	29	26

Specialties' sales can be broken down by business as follows:

	Year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Organic Chemicals	492	473	467
Coatings	399	408	438
Biological Products	16	19	21
Other	31	16	10
Total	938	916	936

### 1992 compared with 1991

Specialties' 1992 sales were £936 million, an increase of £20 million, or 2 per cent., compared with 1991. This primarily reflected higher sales from Coatings, which rose by 7 per cent. from £408 million in 1991 to £438 million in 1992. Organic Chemicals' sales in 1992 were £467 million, compared with £473 million in 1991, reflecting growth in biocides and fine chemicals, offset by reduced sales from the colours business due to the recessionary conditions in the textile industry, divestment and withdrawal from certain product lines.

Specialties' trading profit before exceptional items was £26 million in 1992 compared with £29 million in 1991, a fall of 10 per cent.. Specialties' trading profits reflect development costs in its Biological Products activities as well as the profits from its established businesses in Organic Chemicals and Coatings. In 1992, trading profit before exceptional items from Specialties' established businesses was £55 million, compared with £45 million in 1991. The main elements of this increase were higher profits from Coatings and favourable exchange rates, partially offset by the impact of divestments. Losses attributable to Biological Products in 1992 increased to £29 million from £16 million in 1991, reflecting higher levels of R&D and market development expenditure on Quorn and, to a lesser extent, on Biopol.

## 1991 compared with 1990

Specialties' 1991 sales were £916 million compared with £938 million in 1990, a fall of 2 per cent.. This reduction resulted from a decline in colours' sales principally to the textile industry, reflecting recessionary conditions, and Specialties' restructuring programme. Coatings' 1991 sales were £408 million, up from £399 million in 1990, principally reflecting increased resins sales.

Specialties' 1991 trading profit before exceptional items was £29 million, compared with £34 million in 1990, a reduction of £5 million, or 15 per cent. Trading profit from established businesses was £45 million, compared with £51 million in 1990. This reflected reduced profits in the colours and fine chemicals businesses, partially offset by higher profits from Coatings and, within Organic Chemicals, from biocides and effects. The losses incurred in respect of Biological Products in 1991 were £16 million, compared with £17 million in 1990.

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### LIQUIDITY AND CAPITAL RESOURCES

#### General

Prior to 1st January, 1993, ZENECA did not operate as a separate group and, consequently, was neither capitalised nor financed as such. ICI managed its cash resources centrally and cash generated by ZENECA's businesses was returned to ICI either as distributions, transfers of profits, repayments of indebtedness or transfers of cash to the central ICI cash pools for investment throughout the ICI Group, including ZENECA. ZENECA's historical cash flows in respect of distributions to and indebtedness owed to the ICI Group are therefore not indicative of the cash flows expected from an independent entity.

#### Net indebtedness

As at 31st December, 1992, ZENECA had net indebtedness made up as follows:

	£m
Total borrowings from the ICI Group	1,923
Total borrowings from third parties	196
Less: Cash, current asset investments and short-term deposits	(418)
Total net indebtedness	1,701

Included in cash, current asset investments and short-term deposits of £418 million is £305 million in respect of ZENECA's insurance subsidiaries against possible insurance claims and segregated from ZENECA's other assets. Of the £305 million, approximately £210 million was required as at 31st December, 1992 to meet insurance solvency requirements and, therefore, was not readily available for the general purposes of the Group.

The amounts due to the ICI Group of £1,923 million comprised borrowings of £1,364 million and \$850 million (£559 million). On 15th April, 1993, ZENECA issued notes to an ICI Group company under a committed note purchase agreement. The notes issued on that date, which have a face value of £1,800 million, were issued principally to refinance the £1,364 million referred to above and also to provide short term working capital to ZENECA (see note 22 in Part 8). Part of the proceeds of such notes has been deposited with the ICI Group at a market-based rate of interest. £1,300 million of the net proceeds of the ZENECA Rights Issue, together with the amounts so deposited, will be applied toward repayment of the sterling indebtedness owed to the ICI Group. The dollar indebtedness is repayable by

2002 (or, at ICI's option, at any time after 1st June, 1995) and may be repaid at ZENECA's option at any time after 4th January, 1994. ZENECA has negotiated medium-term credit lines, totalling approximately \$1,250 million, which are committed subject to the Demerger.

As at 31st December, 1992, ZENECA's net assets were £212 million. Taking account of the estimated net proceeds from the ZENECA Rights Issue, net assets as at 31st December, 1992 would increase to £1,522 million and total indebtedness would decrease by £1,310 million.

Following the Demerger, ZENECA intends to establish commercial paper and commercial credit facilities and may incur additional short and long-term borrowings from time to time as it deems appropriate.

### Operating Activities

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Net cash inflow from operating activities amounted to £682 million in 1992, £726 million in 1991 and £779 million in 1990. The decrease of £44 million from 1991 to 1992 resulted from a decrease in trading profit before exceptional items of £95 million, partially offset by tighter control of working capital.

The cash outflow relating to exceptional items of £34 million in 1992 and £32 million in 1991 arose largely from the restructuring provisions charged in 1990. The exceptional items charged in 1992 amounting to £340 million are expected to lead to a cash outflow of approximately £300 million, the majority of which is expected to occur before the end of 1995.

Net cash inflow from operating activities in 1991 decreased by £53 million as compared with 1990, due mainly to cash outflow relating to exceptional items of £32 million and to increased working capital requirements of £97 million, offset by increased trading profit of £82 million.

### Investing Activities

The Group's principal investing activity has been its capital expenditure programme, with cash outlays totalling £754 million during the three year period ended 31st December, 1992 (1992: £268 million, 1991: £206 million and 1990: £280 million). This capital expenditure related to expansion of capacity, particularly in Pharmaceuticals, normal sustenance expenditure on plant and environmental expenditures. In 1992, £124 million, or 46 per cent. of total cash outlays on capital expenditure, was incurred in Pharmaceuticals, £64 million, or 24 per cent., in Agrochemicals and £68 million, or 25 per cent., in Specialties. Capital expenditure decreased in 1991 as a result of restrictions placed by ICI on expenditure in Agrochemicals and Specialties. As at 31st December, 1992, commitments for capital expenditure amounted to £224 million (1991: £248 million), of which £83 million was contracted (1991: £44 million).

Cash proceeds from the disposal of non-strategic businesses and product lines amounted to £104 million in 1992, £86 million in 1991 and £277 million in 1990. The disposals were principally from Pharmaceuticals and Specialties and included, in 1990, proceeds of £239 million from the sale of the US over-the-counter pharmaceuticals business.

### Working Capital

ZENECA's working capital (comprising stocks and debtors, excluding deferred taxation, less other creditors payable within one year excluding corporate taxation) amounted to £823 million as at 31st December, 1992, compared with £881 million at 31st December, 1991, a decrease of £58 million. Increases in other creditors of £302 million, principally arising

from exceptional items, were partially offset by increases in stocks and debtors of £244 million. A substantial portion of the increases in debtors, stocks, and other creditors was attributable to movements in exchange rates. ZENECA's working capital requirements are weighted towards the first half of the year, principally due to seasonal requirements within Agrochemicals. ZENECA's committed facilities cover seasonal and other requirements.

#### **Net cash flow before financing**

The net cash flow before financing reported in the Accountants' Report is not indicative of the cash flow of ZENECA which would have arisen had it been an independently financed and managed entity. On the assumption that £1,300 million of the net proceeds of the ZENECA Rights Issue had been used to reduce amounts due to the ICI Group with effect from 1st January, 1992 and that ZENECA's stated dividend policy had been adopted, it is estimated that ZENECA's 1992 net cash inflow before financing would have been approximately £110 million compared with the reported outflow of £40 million. ZENECA Limited will declare and pay ICI a dividend of £70 million (net of tax credit) on 27th May, 1993.

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## INDUSTRY REGULATION AND OTHER LEGAL MATTERS

### PRODUCT REGULATION

#### *Introduction*

ZENECA's products are subject to numerous regulations concerned with their safety and efficacy and, in the case of ethical pharmaceuticals, their pricing. The degree and scope of regulation vary across the different businesses and according to the jurisdiction concerned. Most of the principal markets in which the Group operates are tightly regulated and standards are becoming increasingly demanding.

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Regulations governing ethical pharmaceuticals, agrochemicals and, increasingly, biocides and specialty chemicals are stringent and the manufacture and marketing of these products is normally conditional upon regulatory approval. Registration processes are complex and time-consuming and involve significant expenditure. Compliance with the stringent standards imposed by the principal regulatory agencies, such as the FDA, makes it more likely that applications to similar agencies in other markets will succeed. Nevertheless, approval in one market does not necessarily mean that approval will be accorded in other markets. Regulation is concerned not only with a product's chemical composition but also with matters such as manufacturing, handling, packaging, labelling, distribution, promotion and marketing.

Where necessary, each of ZENECA's businesses maintains dedicated regulatory staff with substantial expertise and experience in applying for, pursuing and maintaining product registrations in different jurisdictions.

#### *Pharmaceuticals — general*

Pharmaceutical product registration or licensing is principally concerned with the safety, efficacy and quality of new medicines. Before a product is approved for marketing, it must undergo exhaustive and lengthy clinical trials. It takes on average between 8 and 11 years from the start of development of a new pharmaceutical compound to the submission of an application for registration. The application will include specific details of the plant and procedures involved in production. The time taken from submission of the application to launch of the product is typically one to two years, except in the US where it is two to four years.

Registrations and licences are normally required to be in the name of the company which is carrying on activities subject to regulation. Before the creation of ZENECA, registrations and licences for ZENECA products were generally held in the name of ICI. It has not yet been practicable, however, to obtain registrations and licences in the name of the relevant ZENECA company for every product in every country in which it is sold. Where necessary, the Group has agreed interim arrangements with regulatory authorities to allow the relevant Group company to continue selling products in respect of which the relevant product licence remains, for an interim period, in the name of ICI.

After a product has been approved by the regulatory authorities and has been launched, it is a condition of the product licence that all aspects relating to its safety, efficacy and quality must be kept under review. Depending on the jurisdiction, fines or other penalties may be imposed for failure to adhere to the conditions of product licences and, in extreme cases, the product licence can be revoked.

During a product's development and following its launch, the product may be the subject of third party studies and reports that evaluate or comment upon its efficacy and relative

benefit, alone and in combination with other products. These studies and reports, even if not widely accepted by the scientific community, may influence the acceptance of the product in the market.

During the life of a product, strict procedures must be in place to monitor, evaluate and report any potential adverse reactions. Where adverse reactions occur or it is judged that they may occur, changes may be required to prescribing advice and to the product licences; in extreme cases, the product may need to be withdrawn.

Internal monitoring procedures are also maintained in relation to registered products to ensure that quality is assured and that operations are conducted in line with approved processes. During the life of a product, improvements and modifications to manufacturing processes may be made either directly by the manufacturer or, as necessary, with the approval of the relevant regulators. Approval is also required for any changes to product formulation, packaging or labelling. In addition, manufacturing plants and processes are subject to periodic external inspection by the regulators as part of their monitoring procedures to ensure that manufacturers are complying with prescribed standards of operation. Any issues identified as a result of such inspections are then addressed following discussion and agreement with the relevant regulators. In addition, the regulatory agencies, in particular the FDA, are seeking continuous enhancements to current industry standards of operation and compliance. Management believes that Pharmaceuticals' current operating practices and enhancement plans are in line with those of other pharmaceutical companies.

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#### *Pharmaceuticals — Pricing*

Prescription medicines are subject to competitive forces which affect prices and are further constrained by price controls which operate in most countries in which Pharmaceuticals sells its products. The mechanisms of price control are many and varied and can result in large price differentials between markets, which may be further aggravated by currency fluctuations. The pharmaceutical industry will continue to be affected by pressure to contain healthcare expenditure as governments and other bodies increasingly seek to control costs.

Currently there is no direct government control of prices in the US. In 1990, however, federal legislation was enacted that required manufacturers to guarantee maximum discounts to state agencies such as the Medicaid programme. This has led to actual and draft legislation proposing similar treatment for other state and federal agencies. As a result, where annual increases in the manufacturers' list prices generally exceeded the increase in the Consumer Price Index ("CPI"), public and government pressure has led to self-imposed constraints to bring manufacturers' average list price increases into line with CPI increases, resulting in lower margins.

In addition, prices are being depressed by indirect pressure from purchasers who formally restrict the range of drugs, based upon therapeutic and cost criteria, that a particular group of doctors may prescribe. Such limited lists or formularies may force manufacturers either to reduce prices or to be excluded from the list, thereby losing all the sales revenue from a substantial doctor population. The use of strict formularies by institutional customers is increasing rapidly in response to the current cost containment environment.

The Clinton administration's healthcare reforms are expected to include a package of "managed care" proposals and, in addition, could include further attempts to restrict price increases to no more than the CPI and to scrutinise the prices of new products to assess if they can be justified by their therapeutic benefits. ZENECA, in line with US pharmaceutical companies, has undertaken to restrict price increases across its product range as a whole to within the US CPI increase.



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Some governments in Europe, notably France, Italy and Spain, set price controls, having regard to the medical, economic and social impact of the product. In other European countries, primarily Germany, the UK and The Netherlands, regulatory agencies are exerting a strong downward pressure on prices by incentives and sanctions to encourage doctors to prescribe cost-effectively. Efforts by the EC Commission to harmonise the disparate national systems have met with little immediate success, leaving the industry exposed to ad hoc national cost containment measures on prices and the consequent parallel trading of its products from markets with prices artificially depressed by governments into those operating on a competitive basis.

There is formal central government control of prices in Japan. New product prices are determined primarily by comparison with existing products for the same medical condition. All existing products are subject to a price review every two years, which usually leads to an overall price reduction of approximately five to ten per cent.. Management believes that the innovative nature of Pharmaceuticals' product range for serious conditions such as cancer and heart disease has to some degree limited exposure to these reductions.

### *Agrochemicals*

The distribution and use of agricultural chemical products are regulated in each of Agrochemicals' main markets. Regulatory authorities have become increasingly demanding about the data required to demonstrate the safety of pesticides during the registration and re-registration processes. The strictest standards are applied in the US, where the Environmental Protection Agency ("EPA") is the leading regulator, and in Japan and Western Europe. The licence for an agricultural chemical product is generally granted for a specific period, after which application must be made to re-register the product. Re-registrations frequently provide a licence to sell for a further ten years, and can be an important means of maintaining a product's market position after patent expiry. The granting of a registration involves consideration of health, safety and environmental issues alongside the performance and benefits of the product. It commonly takes between seven and ten years after the decision to develop a new candidate compound to achieve registration of an agricultural chemical product containing that compound.

Gramoxone, Fusilade and Karate were re-registered in certain key Western European countries in 1992, and applications under the US Federal Insecticide, Fungicide and Rodenticide Act are being progressed. Management believes that taking this into account, together with Agrochemicals' re-registration experience elsewhere, all principal products will be re-registered, as required, in their main markets.

### *Specialties*

Only a minority of Specialties' products require regulatory approval or registration to permit their intended end uses in the markets in which they are sold. However, general legislation requiring notification (reporting of chemical nature and hazard characteristics) of any new chemical substance before commercial manufacture or supply can be undertaken is increasing both in scope of reporting required and the number of authorities which require it. In certain territories, including the US and some EC member states, biocides are regulated in a similar way as agricultural chemical pesticides. In addition, indirect food contact approvals are required for a range of Specialties' biocides and specialised chemicals.

### *Development businesses*

Seed products resulting from traditional plant breeding are not subject to registration requirements. In some parts of the world (for example the EC), official trials are required before new varieties of seed products can be marketed. These trials are not concerned with safety issues but rather with performance relative to industry standards. Other major

jurisdictions such as the US do not require such testing. New seed products developed with the help of bioscience breeding aids are also not subject to registration. However, genetically modified products resulting from bioscience applications will be regulated. The regulatory framework for the commercial release of genetically modified seed products in the US is reasonably well defined and is compatible with implementation of Seeds' longer-term strategy. The regulatory framework in Western Europe and Japan remains to be finalised, although the example set by the US is expected to be influential. Management is confident that Seeds' activities will not be materially impeded by these regulations. The business recognises that plant gene modification to produce new seed products is the subject of public interest and debate which may affect the speed of commercialisation. Seeds is addressing these concerns through positive communication to increase the public's knowledge and awareness of the nature and benefits of this technology and through adherence to the relevant food safety and regulatory requirements.

Quorn must be approved for sale and has been approved in the UK, its principal market, as well as in a number of other European countries. Biopol will be regulated when used in the manufacture of medical devices and food contact materials.

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### INTELLECTUAL PROPERTY

ZENECA attaches great importance to intellectual property rights, in particular patents and trade marks, to protect its investment in R&D, manufacturing and marketing. ZENECA's policy is to seek the widest possible protection for significant product developments in its major markets. It also actively seeks patent protection, where practicable, for new processes, formulations and uses in respect of existing and new products. It monitors competitor activity and vigorously seeks to enforce or defend its patent rights where appropriate. Because of the importance of intellectual property to its businesses, ZENECA continually seeks to maximise its speed and effectiveness in obtaining intellectual property protection.

Patent protection is generally available for new active ingredients and formulations containing them, as well as the uses and processes for their manufacture, provided, in each case, that they meet the basic criteria of novelty, inventiveness and industrial applicability. The duration of patent protection is generally 20 years from filing a patent application in all of ZENECA's main markets except for the US, where it is 17 years from grant. New pharmaceutical and agricultural chemical products typically have a significantly shorter period of effective patent protection after having undergone the lengthy development and registration process preceding launch. Patent life extension has been addressed in respect of pharmaceutical products in all of Pharmaceuticals' principal markets by legislation which extends the period of protection beyond the usual patent expiry date. Such legislation came into force in the US and Japan in the 1980s. In the EC, a regulation addressing patent life extension came into effect in January 1993 in all member states with the exception of Greece, Portugal and Spain, where it will become effective in January 1998. It creates a new form of intellectual property right called a Supplementary Protection Certificate, which confers extended protection, similar in scope to that conferred by a patent, on those products for which a product licence has been granted. Existing Japanese legislation also covers agricultural chemicals and a similar regulation is being pursued for agricultural chemicals in the EC.

Seeds actively seeks to apply for patents for all significant inventions arising from its bioscience research. This is a new area for patenting and, although patents are being granted, particularly in the US where policy is clearer, the extent to which broader patents will be upheld when challenged remains to be determined. Seeds' strategy is to contest selectively competing patents where it believes these are unreasonable and restrictive. Where appropriate, Seeds also applies for plant variety rights which protect the right to

sell commercial plant lines. Seeds is currently engaged in a dispute concerning competing patent property for fruit and vegetable ripening technology. Management believes that this dispute will not materially affect Seeds' current plans.

ZENECA has a policy of registering trade marks extensively throughout its major markets and vigorously defends its trade marks against the registration or use by third parties of the same or similar marks.

#### SAFETY, HEALTH AND THE ENVIRONMENT

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Most aspects of ZENECA's businesses are subject to laws relating to safety, health and the environment ("SHE"). The scope and severity of such laws vary across the different businesses and according to the jurisdiction concerned. The industries in which ZENECA operates are under increasing pressure to reduce the environmental impact of their manufacturing processes and products, primarily as a result of the growing worldwide acceptance of the need for more stringent environmental protection. Consents and licences are normally required for the carrying on of manufacturing processes and these often need to be held in the name of the company carrying on the regulated activity. The Company considers that it has done all that is reasonably practicable to secure, where appropriate, the transfer of such licences and consents into the name of the appropriate Group company. While this administrative process has not yet been completed in all cases, the Company is confident that the respective regulatory authorities will progress the applications expeditiously.

ZENECA demands strict compliance by its businesses with all SHE laws and regulations in each jurisdiction in which it operates. ZENECA's policy is to improve continuously its SHE record, which it believes compares favourably with similar organisations. Management believes that, with certain exceptions that are being addressed, the Group conducts its operations substantially in compliance with relevant SHE regulations in all major markets. However, there have been and may continue to be instances of non-compliance and occasions where breaches occur as a result, for example, of accidental spills and leaks.

The Group has an established programme of SHE expenditure. In 1992, ZENECA's expenditure on SHE related matters totalled £210 million, including both capital and revenue items, of which environmental protection accounted for approximately £100 million. ZENECA estimates that expenditure for environmental protection in 1993 may be as much as £140 million and that SHE expenditure will continue to be substantial in the coming years. Environmental protection expenditure principally includes capital expenditure on new plant, investigation and clean-up of land and groundwater contamination (including related legal costs) and, to a lesser extent, various individual items of revenue expenditure, including environmental testing associated with product registration, waste treatment and disposal, and costs associated with environmental management and waste reduction programmes.

The Group incurs substantial costs in investigating and cleaning up land and groundwater contamination. The level of such costs in the future, which are expected to continue to be substantial, will depend on a number of factors, including the nature and extent of any contamination that may ultimately be found to exist, the need for and type of any remedial work undertaken and the standards required by applicable current and future environmental laws and regulations. Liabilities are generally more likely to crystallise where a contaminated site is to be sold, its use changed or where a regulatory authority imposes a particular remedial measure. Costs of these liabilities may be offset by amounts recovered from third parties, such as previous owners of the sites in question, or through insurance, although the availability of pollution insurance and the scope for recovery under such

insurance are uncertain, particularly in North America. Certain insurance coverage for environmental claims relating to several ZENECA entities, including the Stauffer Management Company ("SMC") claims referred to below, is currently being contested by carriers. The outcome of this litigation will affect the cost of addressing ZENECA's environmental liabilities.

The Group has environmental liabilities at some currently or formerly owned, leased and third-party sites in the US. In particular, the Group or its indemnitees have been named a potentially responsible party ("PRP") in respect of 65 sites under the US Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and similar state statutes (although the Group expects to be indemnified against liabilities associated with 25 of these sites by the seller of the businesses associated with such sites). Under CERCLA, each PRP has joint and several liability for the investigation, remediation and monitoring costs associated with a site designated by the EPA for clean-up. It is also recognised that ZENECA or its indemnitees may be named as a PRP in the future at other sites and may be subject to various other environmental remediation orders or directives of US federal, state and local governmental agencies.

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SMC, a subsidiary of the Company established in 1987 to own and manage certain assets and liabilities of Stauffer Chemical Company ("Stauffer"), which was acquired that year, has identified 49 environmentally impaired sites for which it may have responsibility that will, in aggregate, require significant expenditure on clean-up and monitoring.

As with the Group's general investigation and clean-up costs described above, the level of costs that will be required of the Group in connection with CERCLA and other environmentally impaired sites will depend upon numerous factors including, among other things, the factors described above as well as the number and financial viability of other PRPs, the Group's percentage of responsibility for clean-up at any given site and the methods of remediation ultimately required. The relative importance of these factors varies significantly from site to site. Many sites are at different stages in the regulatory process or at different stages in the process of evaluating environmental damage or alternative remediation methods. Where appropriate, ZENECA actively participates in or monitors the clean-up activities at sites for which it may have financial responsibility, and considers the foregoing factors in evaluating such costs.

For the reasons discussed above, the requirement for the Group ultimately to take action to correct the effects on the environment of prior disposal or release of chemical substances by the Group or other parties, and its cost, are inherently difficult to estimate. The Group has established provisions at 31st December, 1992 in respect of such costs in accordance with the accounting policies described in note 1 of the Accountants' Report. Although there can be no assurance, management believes that, taking account of these provisions, the cost of addressing currently identified environmental obligations, as the Group currently views these obligations, is unlikely to impair materially the Group's financial position. Such contingent costs, to the extent that they exceed applicable provisions, could have a material adverse effect on the Group's results of operations for the relevant period.

#### LITIGATION

ZENECA is subject to a number of environmental litigation proceedings in the US. In particular, in 1990, the US and State of California Trustees filed an action under CERCLA in the US District Court for the Central District of California against defendants including SMC, Montrose Chemical Corporation of California ("Montrose") and several other ZENECA-related entities alleging DDT related natural resource damage near two ocean dump sites, the Los Angeles/Long Beach Harbors and the Palos Verdes Peninsula. Rhône

Poulenc Basic Chemicals Co. ("Rhône Poulenc"), indemnified by SMC, was added as a defendant in 1991. The source of alleged DDT release is the Montrose plant in Torrance, California. Montrose conducted operations at the facility from 1947 until 1982 during which time the property was owned by Stauffer but is currently owned by a subsidiary of SMC. The plaintiffs are seeking recovery for alleged damages to natural resources as well as a declaration of liability for past and future response costs with respect to the former Montrose plant site. The relief sought has not been quantified. The defendants have filed an answer denying liability and the parties are presently conducting discovery. Due to the length of the discovery period ordered, the trial of the case is not expected to commence before 1998. A motion will be filed by the defendants in May 1993 to dismiss the District Court action on statute of limitations grounds.

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ZENECA is also involved in an action instituted in 1991 in the US District Court for the Eastern District of California. US and California State environmental agencies brought suit under CERCLA against Rhône Poulenc for a declaration of liability with respect to past and future response costs related to the release of mining wastes at the Iron Mountain site in Northern California. The relief sought has not been quantified. ZENECA agreed to indemnify Rhône Poulenc for all liabilities arising from this site as part of ZENECA's sale of Stauffer in 1987. Rhône Poulenc has brought counterclaims against state and federal agencies related to the government's construction and operation of dams in the vicinity of Iron Mountain. In response to plaintiffs' motion to dismiss asserted defences in September 1992, the District Court opined that mining wastes covered by the Bevill Amendment to the US Resource Conservation and Recovery Act were exempt from CERCLA enforcement actions. In January 1993, the Court reaffirmed its opinion and, as a result, defendants filed a motion to dismiss the action. On 16th April, 1993, the Court granted the defendants' motion to dismiss. The plaintiffs will have 60 days to appeal from the time the Court enters its order on the decision. The extent of the Bevill Amendment exclusion under CERCLA may be considered later this year by the Ninth Circuit in an unrelated case. On 30th April, 1993, the Environmental Protection Agency issued an Administrative Order to Rhône Poulenc under the Resource Conservation and Recovery Act directing Rhône Poulenc to continue activities originally ordered under CERCLA at the Iron Mountain site. ZENECA is currently evaluating its response to this order.

Pharmaceuticals' patent for Nolvadex has been the subject of infringement proceedings brought by Pharmaceuticals against a generic manufacturer of tamoxifen, Barr Laboratories ("Barr"), in the US federal courts. As a result of a decision of the District Court for the Southern District of New York in May 1992, the patent was rendered unenforceable. While on appeal, in March 1993, the case was settled on terms that included an acknowledgement by Barr that there was a substantial possibility that the patent ultimately would have been held valid and enforceable. The District Court's judgment was vacated, with the effect that the patent continues to be valid and enforceable. The terms of the settlement also provide for the appointment of Barr as a non-exclusive distributor of generic tamoxifen in the US until 2002, with Pharmaceuticals manufacturing tamoxifen for sale by Barr from November 1993, and for certain cash payments to be made by Pharmaceuticals.

ZENECA is also involved in various other legal proceedings of a nature considered typical of its businesses, including litigation relating to product liability and infringements of intellectual property rights and the validity of certain patents. Although there can be no assurance regarding the outcome of any of the proceedings referred to in this paragraph, management believes that they will not have a material adverse effect on ZENECA's financial position.

## DEMERGER AND CONTINUING ARRANGEMENTS WITH ICI

### DEMERGER

An internal reorganisation of the ICI Group, which took effect on 1st January, 1993, was undertaken in order to consolidate the ICI Group's bioscience businesses within a new wholly owned subsidiary, ZENECA Limited. This involved the separation of the ICI Group's worldwide chemical and bioscience interests by way of the transfer of assets (including the share capital of subsidiaries) and liabilities. The reorganisation is substantially complete although certain matters associated with the reorganisation (such as the assignment of certain contracts and the transfer or reissue of certain licences, intellectual property rights and permits) remain to be completed. Management believes that these outstanding matters will not impair in any material respect the ability of ZENECA to carry on its business in the ordinary course. Once the Demerger becomes effective, ZENECA Limited will become a wholly owned subsidiary of the Company. ZENECA and ICI have agreed that, subject to the passing of the Resolution and to the admission of the ZENECA Ordinary shares to the Official List of the London Stock Exchange, ICI will transfer the shares in ZENECA Limited to the Company in exchange and in consideration for which the Company will issue the ZENECA Demerger shares to ICI Shareholders on the basis of one ZENECA Demerger share for each ICI Ordinary share held at the Demerger Record Date, in satisfaction of a dividend to be declared by ICI at the Extraordinary General Meeting on 28th May, 1993.

**ZENECA**

### CONTINUING ARRANGEMENTS WITH ICI

Following the Demerger, ZENECA and ICI will each operate as separate publicly listed companies and neither ZENECA nor ICI will retain any shareholding in the other. Sir Denys Henderson, Chairman of ZENECA, is also Chairman of ICI.

ZENECA and the ICI Group have agreed to transitional arrangements for the provision by each group to the other of certain goods and services, including the provision of certain raw materials, services relating to share registration, payroll, patents and trade mark registrations, telecommunications, computing networks, major hardware and software. The Groups have also entered into agreements for the provision of common services at split manufacturing sites, and certain cross distribution and agency arrangements. The transitional arrangements were agreed with reference to arm's length considerations and were designed to ensure that each party would bear an equitable share of the costs of the relevant goods and services provided and of the costs of termination of such arrangements. They operate, in the large majority of cases, at least until 31st December, 1994. ZENECA has been granted a limited and non-exclusive licence to use the ICI letters and the ICI logo in connection with the ZENECA businesses for a period of up to five years from 1st January, 1993. ZENECA has agreed in principle to grant ICI pre-emption rights at market value over Specialties' resins and Flexpack/Novacote businesses should ZENECA seek to dispose of them in the future.

In addition to the transitional arrangements referred to above, ZENECA and the ICI Group have entered into a number of longer-term agreements covering, for example, the licensing and cross-licensing of certain common interest technology, collaboration in relation to areas of common interest R&D and access by both groups to certain laboratory facilities. Such arrangements were agreed with reference to arm's length considerations.

ICI is a party to arrangements with ICI Australia Limited ("ICI Australia"), its 62.5 per cent. subsidiary, pursuant to which ICI Australia acts as distributor for the sale in Australasia

of Pharmaceuticals' and Agrochemicals' products. ZENECA intends to appoint ICI Australia as its formulator and distributor of certain pharmaceutical and agricultural chemical products in Australasia upon mutually satisfactory arm's length terms to be agreed. The parties will also examine the viability of longer-term joint venture relationships for the formulation and sale of ZENECA's pharmaceutical and agricultural chemical products in such territory.

#### INSURANCE

ZENECA and ICI own an insurance joint venture company in the UK, held as to 51 per cent. by ZENECA and 49 per cent. by ICI. The joint venture company acts as the holding company for a group of companies (the "Insurance Group") providing insurance cover to both ZENECA and the ICI Group as well as to third parties. In addition, ZENECA and the ICI Group have established another joint venture company, equally owned by the two groups, to supply risk management and insurance purchasing services to both groups and to supply certain other support services to the Insurance Group.

#### ZENECA

#### LIABILITIES AND RECIPROCAL INDEMNITIES

Subject to the Demerger becoming effective, ZENECA and ICI have agreed, with effect from 1st January, 1993, to indemnify each other, subject to certain limitations, against certain actual and contingent liabilities associated with the businesses allocated to them in connection with the internal reorganisation of the ICI Group referred to under "Demerger" above. The broad principle underlying these indemnities is to ensure that legal effect is given to the principles upon which it was agreed that the assets and liabilities should be divided between ZENECA and ICI. The arrangements cover a range of matters including liability for breach of warranties and indemnities relating to past disposals of businesses and companies, liabilities arising in respect of current and former employees, environmental liabilities, product liabilities, obligations arising under restrictive covenants, the allocation of liabilities and expenses arising from the restructuring and certain tax liabilities.

ICI has agreed to indemnify the Directors in respect of any expenses reasonably incurred by any Director in connection with his defence of any action or claim which arises, inter alia, in connection with the approval and issue of this document to the extent that they are not covered by insurance or recoverable from third parties. The Company in turn undertakes to indemnify ICI, to the extent that it may lawfully do so, in respect of any payments which ICI may make under its indemnity to the Directors.

#### INTER-GROUP DEBT

As at 1st January, 1993, ZENECA owed £1,923 million to the ICI Group, arising out of the reorganisation of the ICI Group prior to the Demerger. This comprised borrowings of £1,364 million and \$850 million (£559 million). On 15th April, 1993, ZENECA issued notes to an ICI Group company under a committed note purchase agreement. The notes issued on that date, which have a face value of £1,800 million, were issued principally to refinance the £1,364 million referred to above and also to provide short-term working capital to ZENECA (see note 22 in Part 8). Part of the proceeds of such notes has been deposited with the ICI Group at a market-based rate of interest. £1,300 million of the net proceeds of the ZENECA Rights Issue, together with the amounts so deposited, will be applied toward repayment of the sterling indebtedness owed to the ICI Group. The dollar indebtedness is repayable by 2002 (or, at ICI's option, at any time after 1st June, 1995) and may be repaid at ZENECA's option at any time after 4th January, 1994.

## PENSIONS

ZENECA employees are members of approximately 40 pension schemes worldwide. Of these, the ICI Pension Fund (the "ICI Fund") in the UK and the ICI Americas Plan in the US account for about 92 per cent. of the total past service liabilities for employees, deferred pensioners and pensioners of Group companies.

As from 1st January, 1993, ZENECA Limited became a participating employer in the ICI Fund and employees who transferred their employment from the ICI Group to ZENECA Limited continued their membership of the ICI Fund without interruption. It is intended that, upon Demerger and subject to the consent of the trustee (the "Trustee") of the ICI Fund, there will be no immediate changes in the pension arrangements of existing ZENECA employees and ZENECA Limited will continue to participate in the ICI Fund for a transitional period, probably until 31st March, 1994. ZENECA and ICI have agreed to propose to the Trustee that after this period, and if the Trustee so determines, the ICI Fund will be split into two funds with the employees of ZENECA and the deferred pensioners and pensioners whose last employment was with a ZENECA business transferring to a newly formed ZENECA pension fund. A share of the ICI Fund would be transferred to the ZENECA pension fund, which would initially mirror the terms of the ICI Fund and also have an independent professional trustee. ZENECA and ICI have agreed to make reasonable efforts to ensure that the split takes place on this basis, and have entered into arrangements to ensure that liabilities are appropriately shared between them should this not occur.

**ZENECA**

It is proposed that the ICI Americas Plan will be split in a similar manner to the ICI Fund, with the new plan being set up by ICI Americas Inc. It is also proposed that some of ICI's other overseas pension schemes will be split as a result of the Demerger in a similar manner to the ICI Fund.



## ACCOUNTANTS' REPORT ON ZENECA

The following is a copy of a report received from the Reporting Accountants, KPMG Peat Marwick, Chartered Accountants:

 Peat Marwick

1 Puddle Dock  
Blackfriars  
London EC4V 3PD

The Directors  
ZENECA Group PLC  
Imperial Chemical House  
9 Millbank  
London SW1P 3JF

**ZENECA**

The Directors  
S.G. Warburg & Co. Ltd.  
2 Finsbury Avenue  
London EC2M 2PA

12th May, 1993

Dear Sirs

Pursuant to a conditional agreement dated 12th May, 1993 providing for the demerger (the "Demerger") of the bioscience interests (described in note 1 below) of Imperial Chemical Industries PLC ("ICI") and its subsidiaries (together, the "ICI Group"), ICI will transfer its shares in its wholly-owned subsidiary ZENECA Limited to ZENECA Group PLC (the "Company"). The consideration for this transfer will be satisfied by the issue to ICI shareholders of one ordinary share of 25 pence in the Company (an "Ordinary Share"), credited as fully paid, for each Ordinary Share in ICI held at 7.30 am on 1st June, 1993 in satisfaction of the dividend which it is proposed should be declared at an Extraordinary General Meeting of ICI to be held on 28th May, 1993. The Company, incorporated on 17th June, 1992, did not trade from incorporation to 31st December, 1992 and accounts have been drawn up and audited as at that date.

ZENECA Limited was incorporated on 29th April, 1992 and accounts were prepared and audited as at 31st December, 1992. ZENECA Limited did not trade in the period from incorporation to 31st December, 1992 although, under an agreement dated 18th December, 1992, certain of the ICI Group's bioscience interests were transferred to ZENECA Limited prior to 1st January, 1993 with economic benefit retained by the ICI Group until that date. The ICI Group transferred its remaining bioscience interests to ZENECA Limited with effect from 1st January, 1993.

We have examined the audited financial statements of the companies and businesses which will comprise the Company and its subsidiary undertakings (together "ZENECA") for the three years ended 31st December, 1992 on the assumption that the Demerger becomes effective. Our examination has been carried out in accordance with the Auditing Guideline: Prospectuses and the reporting accountant.

The summarised combined financial statements for ZENECA, set out on pages 67 to 99 of the listing particulars relating to Zeneca dated 12th May, 1993 (the "Listing Particulars"), which have been prepared on the basis described in note 1 below (the "Combined Financial Statements"), show ZENECA's combined profit and loss, cash flow and net assets for the years ended, and as at 31st December, 1990, 1991 and 1992, and the combined turnover for the years ended 31st December, 1988 and 1989 as set out in note 12 below. The Combined Financial Statements are based on the audited accounts of the companies and businesses comprising ZENECA, after making such adjustments as we consider necessary. The principal adjustments made are described in the Basis of Preparation set out in note 1 below.

In our opinion the Combined Financial Statements give, for the purposes of the Listing Particulars, a true and fair view of the profit and cash flow of ZENECA for the periods stated and of the state of affairs of ZENECA as at the dates stated therein.

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### **Basis of Preparation of the Combined Financial Statements of ZENECA**

The Combined Financial Statements set out below have been prepared on the following bases:

(i) the Demerger has been approved by the shareholders of ICI at the Extraordinary General Meeting on 28th May, 1993, following which a dividend has been declared by ICI which was satisfied by an issue of ZENECA Ordinary Shares by the Company to ICI shareholders on 1st June, 1993, in consideration for the transfer on that date of ZENECA Limited to the Company;

(ii) the financial statements of the companies and businesses comprising the ICI Group's pharmaceuticals, agrochemicals and specialties businesses and related undertakings have been included in the Combined Financial Statements as if they had been part of ZENECA throughout the three year period ended 31st December, 1992 (the "Period"), or from the date of acquisition by the ICI Group or up to the date of disposal by the ICI Group, as appropriate. Distributions and transfers out of retained income made by ZENECA subsidiaries and businesses have been treated as a reduction in net assets (i.e. as if they were dividends);

(iii) the Combined Financial Statements include interest on the actual loans existing between the ICI Group and ZENECA and on the indebtedness between the ICI Group and ZENECA assumed on 1st January, 1993, adjusted for subsequent capitalisations prior to Demerger, as if such indebtedness had been in place throughout the Period. The charge for interest on such indebtedness takes account of the timing of cash flows on the basis of the average funding rate borne by the ICI Group in each accounting period. For cash flow purposes, interest on the assumed indebtedness to the ICI Group, and associated tax relief, has been treated as a non-cash movement through the loan account with the ICI Group. For net asset statement presentation, indebtedness between the ICI Group and ZENECA has been shown as a net balance since individual financing debtor and creditor balances between the ICI Group and ZENECA will be consolidated prior to the Demerger;

(iv) the taxation charge attributable to ZENECA is based on the charge to taxation of dedicated subsidiaries of the Company and an appropriate allocation of the tax charge incurred by the ICI Group where both bioscience and non-bioscience activities were carried out within a single legal entity. Only actual tax payments by dedicated ZENECA subsidiaries have been included in the combined statement of cash flows; payments by ICI subsidiaries of tax in respect of income attributable to bioscience activities have been treated as non-cash movements; and

(v) references to "£m" are to millions of pounds sterling.

### **Accounting Policies**

#### *Basis of Accounting*

The Combined Financial Statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The following paragraphs describe the main accounting policies. The accounting policies of some overseas subsidiaries do not conform with UK Accounting Standards and, where appropriate, adjustments are made on combination in order to present the Combined Financial Statements on a consistent basis.

**ZENECA**

### *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 20 years for buildings and 30 years for plant and equipment. Depreciation of assets qualifying for grants is calculated on their full cost.

### *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 combined statements of net assets.

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 trading profit. In the combined financial statements exchange differences arising on combination of the net investments in overseas subsidiary undertakings and associated undertakings are taken directly to the statement of total recognised gains and losses. Differences on relevant foreign currency loans are taken to 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 such net assets. UK Accounting Standards require that purchased goodwill be eliminated either upon acquisition against reserves or by amortisation over a period. Elimination against reserves has been selected as appropriate to the goodwill purchases made during the Period. 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 of any related goodwill previously taken directly to reserves.

### *Leases*

Assets held under finance leases are capitalised 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.

### *Pension Costs*

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 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.

### *Associated Undertakings*

An associated undertaking is a company in which ZENECA has a participating interest (of 20 per cent. to 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 combined profit and loss accounts on the equity accounting basis. The holding value of significant associated undertakings in the combined statements of net assets 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.

**ZENECA**

### *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, 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.

### *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.

### *Turnover*

Turnover excludes inter-company turnover and value added taxes. Revenue is recognised at the point at which title passes.

## 2. COMBINED PROFIT AND LOSS ACCOUNTS

**ZENECA**

		For the year ended 31st December,				
	Notes	1990 £m	1991 £m	Before exceptional items 1992 £m	Exceptional items (note 6) 1992 £m	1992 £m
<b>Turnover</b>		3,810	3,929	3,979	-	3,979
Operating costs	8	(3,259)	(3,293)	(3,445)	(304)	(3,749)
Other operating income	8	49	46	53	-	53
<b>Trading profit</b>	8	600	682	587	(304)	283
Share of profits less losses of associated undertakings	9	2	11			7
Profits less losses on sale or closure of operations	6	18	-			16
Provisions for costs of reorganisation	6	(95)	-			(52)
Profit on disposal of fixed assets	6	-	4			-
<b>Profit on ordinary activities before interest</b>		525	697			254
Net interest payable	10	(171)	(166)			(152)
<b>Profit on ordinary activities before taxation</b>		354	531			102
Tax on profit on ordinary activities	11	(120)	(167)			(10)
<b>Profit on ordinary activities after taxation</b>		234	364			92
Attributable to minority interests		(12)	(19)			(12)
<b>Net profit for the financial year</b>		222	345			80
<b>Profit before exceptional items</b>						
Profit from ordinary activities before taxation		431	527			442
Net profit for the financial year		283	341			342
<b>Earnings per Ordinary Share</b>						
before exceptional items (pence)	13	39.6p	47.8p			47.9p
Earnings per Ordinary Share (pence)	13	31.1p	48.3p			11.2p

## 3. STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

		For the year ended 31st December,		
	Notes	1990 £m	1991 £m	1992 £m
<b>Net profit for the financial year</b>	23	222	345	80
Currency translation differences on foreign currency net investments and related loans	23	10	39	93
<b>Total recognised gains and losses relating to the year</b>		232	384	173

#### 4. COMBINED STATEMENTS OF NET ASSETS

	Notes	As at 31st December,		
		1990 £m	1991 £m	1992 £m
<b>Fixed assets</b>				
Tangible assets	14	1,295	1,357	1,559
Investments in participating interests	15	29	28	33
		1,324	1,385	1,592
<b>Current assets</b>				
Stocks	16	674	693	836
Debtors	17	847	973	1,161
Investments and short-term deposits	18	251	273	315
Cash		67	76	103
		1,839	2,015	2,415
<b>Total assets</b>		3,163	3,400	4,007
<b>Creditors due within one year</b>				
Short-term borrowings	19	82	96	149
Current instalments of loans	22	8	8	11
Other creditors	20	748	821	1,163
Amounts due to the ICI Group	22	-	-	1,064
		838	925	2,387
<b>Net current assets</b>		1,001	1,090	28
<b>Total assets less current liabilities</b>		2,325	2,475	1,620
<b>Creditors due after more than one year</b>				
Loans	22	97	94	36
Other creditors	20	26	33	37
Amounts due to the ICI Group	22	1,610	1,626	859
		1,733	1,753	932
<b>Provisions for liabilities and charges</b>	21	238	232	419
<b>Minority interests</b>		58	72	57
		2,029	2,057	1,408
<b>Net assets</b>	23	296	418	212

**ZENECA**

## 5. COMBINED STATEMENTS OF CASH FLOW

**ZENECA**

	Notes	For the year ended 31st December,		
		1990 £m	1991 £m	1992 £m
<b>Cash inflow from operating activities</b>				
Net cash inflow from trading operations	24	779	758	716
Outflow related to exceptional items	25	-	(32)	(34)
<b>Net cash inflow from operating activities</b>		<b>779</b>	<b>726</b>	<b>682</b>
<b>Returns on investments and servicing of finance</b>				
External interest and dividends received	26	33	50	40
External interest paid		(47)	(27)	(38)
Interest paid to the ICI Group		(8)	(15)	(20)
Distributions and transfers to the ICI Group		(126)*	(334)*	(421)*
Dividends paid by subsidiary undertakings to minority interests		(2)	-	(33)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(150)</b>	<b>(326)</b>	<b>(472)</b>
<b>Net tax paid</b>		<b>(211)</b>	<b>(130)</b>	<b>(74)</b>
<b>Investing activities</b>				
Cash expenditure on tangible fixed assets		(280)	(206)	(268)
Acquisitions and new fixed asset investments	27	(41)	(2)	(2)
Disposals	28	277	86	104
Realisation (acquisition) of short-term investments and deposits		10	13	(10)
<b>Net cash outflow from investing activities</b>		<b>(34)</b>	<b>(109)</b>	<b>(176)</b>
<b>Net cash inflow (outflow) before financing</b>		<b>384*</b>	<b>161*</b>	<b>(40)*</b>
<b>Financing</b>				
Net decrease in external loans	29	(6)	(3)	(69)
Net decrease in lease finance	29	-	(1)	(2)
Net decrease in short-term borrowings	29	-	-	(3)
Net cash movements in the debt with the ICI Group	29	(282)	(136)	134
<b>Net cash (outflow) inflow from financing</b>		<b>(288)</b>	<b>(140)</b>	<b>60</b>
<b>Increase in cash and cash equivalents</b>	30	<b>96</b>	<b>21</b>	<b>20</b>

\* The distributions and transfers to the ICI Group and interest paid to the ICI Group are not indicative of the dividends and interest ZENECA will pay as an independently managed and financed entity. In the absence of unforeseen circumstances, the Board of ZENECA expects to declare dividends in respect of 1993 totalling not less than 27.5p (net of tax credit) per Ordinary Share. On the basis of 714 million ICI Ordinary Shares in issue at 31st December, 1992 (see note 13), the net annual dividend in respect of 1993 would amount to approximately £196m.

## 6. EXCEPTIONAL ITEMS

Owing to the material impact that exceptional items have had on the reported results, these items have been disclosed on the face of the combined profit and loss accounts so that their overall effect may be better appreciated.

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
Charged in arriving at trading profit			
Provisions for environmental liabilities	-	-	(109)
Re-assessment to reflect current experience and tightening worldwide requirements. Provisions to remediate impaired sites, principally relating to potential soil and groundwater contamination, have been increased to a more prudent level within the range of possible outcomes.			
Provisions for business rationalisation	-	-	(195)
The cost of restructuring initiatives to address ZENECA's cost base. The initiatives are being taken by all businesses and include actions to streamline operating, corporate and regional support functions. The charge includes employee related costs, principally severance, of £113m and asset write downs and provisions of £69m.			
	-	-	(304)
Profits less losses on sale or closure of operations and related provisions			
Profits	26	-	55
Losses/provisions	(8)	-	(39)
	18	-	16
Provisions for costs of reorganisation in preparation for potential demerger, including professional fees, product registration and labelling costs	-	-	(52)
Provisions for costs of a fundamental reorganisation and restructuring of the ICI Group business portfolio	(95)	-	-
Profit on disposal of fixed assets	-	4	-
Exceptional items within profit (loss) on ordinary activities before taxation	(77)	4	(340)
Exceptional tax credits (see note 11)	16	-	78
	(61)	4	(262)

**ZENECA**



## 7. 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.

## 8. TRADING PROFIT

**ZENECA**

	For the year ended 31st December,				
	1990	1991	Before exceptional items	Exceptional items (note 6)	1992
	£m	£m	£m	£m	£m
<b>Turnover</b>	3,810	3,929	3,979	-	3,979
<b>Operating costs</b>					
Cost of sales	(1,629)	(1,549)	(1,617)	(4)	(1,621)
Distribution costs	(170)	(167)	(155)	(1)	(156)
Research and development	(365)	(376)	(434)	(12)	(446)
Technical service	(31)	(40)	(23)	-	(23)
Administrative and other expenses	(1,064)	(1,161)	(1,216)	(178)	(1,394)
Exceptional provisions for environmental liabilities*	-	-	-	(109)	(109)
	(3,259)	(3,293)	(3,445)	(304)	(3,749)
<b>Other operating income</b>					
Government grants	2	4	2		2
Royalties	19	27	37		37
Other income	28	15	14		14
	49	46	53		53
<b>Trading profit</b>	600	682	587	(304)	283
<b>Charge for depreciation included above</b>	156	156	160	4	164
	1990	1991			1992
	£'000	£'000			£'000
Emoluments of directors**	786	1,121			1,147
Auditors' remuneration	1,500	1,600			1,800

\*Environmental provisions would be classified as administrative and other expenses.

\*\*Directors of the ICI Group who have been appointed as ZENECA directors.

## 9. SHARE OF PROFITS LESS LOSSES OF ASSOCIATED UNDERTAKINGS

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
<b>Share of profits less losses</b>			
Share of undistributed profits less losses	4	2	1
Dividend income	1	4	3
<b>Share of profits less losses before tax</b>	<b>5</b>	<b>6</b>	<b>4</b>
Gains less losses on disposals of investments	(1)	8	3
Amounts written off investments (including provisions raised £nil (1991: £2m; 1990: £2m))	(2)	(3)	-
	<b>2</b>	<b>11</b>	<b>7</b>

Total dividend income from shares in associated undertakings comprised £3m (1991: £4m; 1990: £1m) from unlisted companies.

**ZENECA**

## 10. NET INTEREST PAYABLE

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
<b>Interest payable and similar charges</b>			
Loan interest	10	10	6
Interest on short-term borrowings and other financing costs	23	31	25
	<b>33</b>	<b>41</b>	<b>31</b>
<b>Interest receivable and similar income from current asset investments</b>			
Listed redeemable securities	(10)	(15)	(7)
Short-term deposits	(21)	(29)	(28)
	<b>(31)</b>	<b>(44)</b>	<b>(35)</b>
<b>Net interest payable to the ICI Group</b>	<b>169</b>	<b>169</b>	<b>156</b>
<b>Net interest payable</b>	<b>171</b>	<b>166</b>	<b>152</b>

Loan interest includes £2m (1991: £8m; 1990: £7m) on loans not wholly repayable within 5 years.

# 11. TAX ON PROFIT ON ORDINARY ACTIVITIES

**ZENECA**

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
<b>ZENECA Group PLC and subsidiary undertakings</b>			
<b>UK taxation</b>			
Corporation tax	18	86	99
Double taxation relief	(16)	(49)	(68)
Deferred taxation	(4)	-	(56)
	(2)	37	(25)
<b>Overseas taxation</b>			
Overseas taxes	99	107	93
Deferred taxation	21	21	(59)
	120	128	34
<b>Associated undertakings</b>	2	2	1
<b>Tax on profit on ordinary activities</b>	<b>120</b>	<b>167</b>	<b>10</b>

UK and overseas taxation has been provided on the profits earned for the periods covered by the accounts. UK corporation tax has been provided at the rate of 33 per cent. (1991: 33.25 per cent.; 1990: 35 per cent.). The UK corporation tax charge includes tax relief on interest on the assumed indebtedness from the ICI Group of £46m (1991: £47m; 1990: £31m).

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
<b>Exceptional items included in tax on ordinary activities</b>			
Tax costs of reorganisation in preparation for potential Demerger	-	-	13
Tax relief on exceptional items*	(16)	-	(91)
<b>Total exceptional tax</b>	<b>(16)</b>	<b>-</b>	<b>(78)</b>

\*including deferred tax relief of £88m (1991: £nil; 1990: £nil).

The components of the timing differences giving rise to the total UK and Overseas deferred taxation charge (credit) is analysed as follows:

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
Reorganisation and rationalisation provisions	(12)	-	(30)
Environmental and other provisions	-	7	(43)
Unrealised profits on a non recurring intercompany stock transfer	-	-	(26)
Interest accruals	15	-	-
Other items	14	14	(16)
	17	21	(115)

## 11. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

### Deferred taxation

The amounts of deferred taxation accounted for in the combined statements of net assets and the potential amounts of deferred taxation are disclosed below.

	As at 31st December,	
	1991 £m	1992 £m
<b>Accounted for at 31st December</b>		
Timing differences on UK capital allowances and depreciation	-	-
Exceptional items and miscellaneous timing differences	10	(87)
	10	(87)
<b>Not accounted for at 31st December</b>		
UK capital allowances utilised in excess of depreciation	101	108
Exceptional items and miscellaneous timing differences	(71)	(91)
	30	17
<b>Full potential deferred taxation</b>	40	(70)

**ZENECA**

## 12. SEGMENT INFORMATION

### Classes of Business

The classes of business information shown below includes supplementary audited turnover for the years ended 31st December, 1988 and 1989.

	Turnover for the year ended 31st December,					Total assets less current liabilities as at 31st December,		
	1988 £m	1989 £m	1990 £m	1991 £m	1992 £m	1990 £m	1991 £m	1992 £m
Pharmaceuticals	1,106	1,268	1,375	1,552	1,607	573	667	794
Agrochemicals	1,122	1,276	1,289	1,316	1,288	792	818	876
Specialties	813	817	938	916	936	491	550	512
Trading and Miscellaneous	266	293	208	148	148	41	8	(51)
	3,307	3,754	3,810	3,929	3,979			
Net operating assets						1,897	2,043	2,131
Net non-operating assets (liabilities)						428	432	(511)
						2,325	2,475	1,620

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

Net non-operating assets include assets in course of construction, investments in associated undertakings and other participating interests, current asset investments, short-term deposits and cash, and debtors and creditors not attributable to business segments.

## 12. SEGMENT INFORMATION (continued)

### ZENECA

	Profit before exceptional items for the year ended 31st December,			Profit after exceptional items for the year ended 31st December,		
	1990 £m	1991 £m	1992 £m	1990 £m	1991 £m	1992 £m
Pharmaceuticals	473	536	488	483	536	492
Agrochemicals	108	145	85	108	145	23
Specialties	34	29	26	42	29	(40)
Trading and Miscellaneous	(15)	(28)	(12)	(15)	(24)	(67)
Trading profit before exceptional items	600	682	587			
Share of profits less losses of associated undertakings	2	11	7	2	11	7
Provisions for environmental liabilities				-	-	(109)
Provisions for costs of reorganisation				(95)	-	(52)
Net interest payable	(171)	(166)	(152)	(171)	(166)	(152)
Profit before taxation	431	527	442	354	531	102

The environmental provisions are largely associated with former plant sites, and third party sites, not related to current business operations. The provisions for costs of reorganisation in 1990 arose from a fundamental reorganisation of the ICI Group. The charge relates to Agrochemicals (£32m), Specialties (£29m), and Trading and Miscellaneous (£34m). Provisions for the cost of reorganisation in 1992 are not attributable to business segments.

	Research and development for the year ended 31st December,			Capital expenditure for the year ended 31st December,			Depreciation for the year ended 31st December,		
	1990 £m	1991 £m	1992 £m	1990 £m	1991 £m	1992 £m	1990 £m	1991 £m	1992 £m
Pharmaceuticals	202	223	256	99	90	121	65	60	63
Agrochemicals	136	133	140	83	58	64	49	49	60
Specialties	58	60	61	90	53	69	54	41	48
Trading and Miscellaneous	-	-	-	7	6	14	6	6	10
	396	416	457	279	207	268	174	156	181

Research and development costs include technical service.

### Geographic areas

The information above 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.

## 12. SEGMENT INFORMATION (continued)

	Turnover for the year ended 31st December,			Net operating assets as at 31st December,		
	1990	1991	1992	1990	1991	1992
	£m	£m	£m	£m	£m	£m
UK						
Sales in the UK	304	278	302			
Sales overseas	1,115	1,229	1,403			
	1,419	1,507	1,705	1,034	1,174	1,110
Continental Europe	1,334	1,305	1,326	326	316	326
The Americas	1,582	1,742	1,687	524	516	605
Asia Pacific	340	358	394	93	106	141
Other countries	77	81	72	(80)	(69)	(31)
	4,752	4,993	5,184			
Inter-area eliminations	(942)	(1,064)	(1,205)			
	3,810	3,929	3,979	1,897	2,043	2,131

Inter-area turnover shown above includes sales from the UK to overseas subsidiaries of £1,032m (1991: £874m; 1990: £736m).

	Profit before exceptional items for the year ended 31st December,			Profit after exceptional items for the year ended 31st December,		
	1990	1991	1992	1990	1991	1992
	£m	£m	£m	£m	£m	£m
UK	117	228	203	135	228	167
Continental Europe	115	123	119	115	123	88
The Americas	311	311	238	311	311	126
Asia Pacific	27	29	31	27	33	31
Other countries	2	6	(8)	2	6	(8)
	572	697	583	590	701	404
Inter-area eliminations	28	(15)	4	28	(15)	4
Trading profit before exceptional items	600	682	587			
Share of profit less losses of associated undertakings	2	11	7	2	11	7
Provisions for environmental liabilities				-	-	(109)
Provisions for costs of reorganisation				(95)	-	(52)
Net interest payable	(171)	(166)	(152)	(171)	(166)	(152)
Profit before taxation	431	527	442	354	531	102

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## 12. SEGMENT INFORMATION (continued)

Provisions for environmental liabilities are related to sites in The Americas. The provisions for costs of reorganisation in 1990 arose from a fundamental reorganisation of the ICI Group. The charge relates to the UK (£51m), Continental Europe (£26m), The Americas (£16m), Asia Pacific (£1m) and Other countries (£1m).

### Geographic markets

#### ZENECA

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
Turnover in each geographic market in which customers are located			
UK	317	284	312
Continental Europe	1,315	1,277	1,315
The Americas	1,557	1,717	1,645
Asia Pacific	432	458	526
Other countries	189	193	181
Total turnover	3,810	3,929	3,979

### Employees

	For the year ended 31st December,		
	1990	1991	1992
Average number of people employed by ZENECA in			
UK	14,000	13,800	13,600
Continental Europe	6,900	6,900	6,900
The Americas	12,400	11,800	11,000
Asia Pacific	1,800	1,700	1,700
Other countries	1,100	1,000	700
Total employees	36,200	35,200	33,900

The number of people employed by ZENECA at the end of 1992 was 33,300 (1991: 34,000; 1990: 35,800).

### 13. EARNINGS PER ORDINARY SHARE

	For the year ended 31st December,		
	1990	1991	1992
Net profit for the financial year before exceptional items (£m)	283	341	342
Exceptional items after tax and minorities (£m)	(61)	4	(262)
Net profit for the financial year (£m)	222	345	80
Ordinary Shares (millions)	714	714	714
Earnings per Ordinary Share before exceptional items	39.6p	47.8p	47.9p
Earnings (loss) per Ordinary Share on exceptional items	(8.5)p	0.5p	(36.7)p
Earnings per Ordinary Share	31.1p	48.3p	11.2p

Earnings per Ordinary Share has been calculated on the basis of 714 million ICI Ordinary Shares in issue as at 31st December, 1992. Under the terms of the Demerger the Company will issue one Ordinary Share, credited as fully paid, for every one Ordinary Share in ICI.

Earnings per Ordinary Share before exceptional items has been calculated to show the impact of exceptional items on the results, as such items can have a distorting effect on earnings from year to year and therefore warrant separate consideration.

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### 14. TANGIBLE FIXED ASSETS

	Land and buildings	Plant and equipment	Payments on account and assets in course of construction	Total
	£m	£m	£m	£m
<b>Cost</b>				
At beginning of year	609	1,568	188	2,365
Exchange adjustments	76	139	11	226
New subsidiary undertakings	-	1	-	1
Capital expenditure	-	-	268	268
Transfer of assets into use	50	161	(211)	-
Disposals and other movements	(10)	(136)	-	(146)
At end of year	725	1,733	256	2,714
<b>Depreciation</b>				
At beginning of year	164	844	-	1,008
Exchange adjustments	17	68	-	85
Disposals and other movements	(11)	(108)	-	(119)
Charge for year	25	156	-	181
At end of year	195	960	-	1,155
Net book value at 31st December, 1992	530	773	256	1,559
Net book value at 31st December, 1991	445	724	188	1,357



#### 14. TANGIBLE FIXED ASSETS (continued)

ZENECA's depreciation charge of £181m shown above comprises £164m charged in arriving at trading profit and £17m charged within profits less losses on sale or closure of operations.

The net book value of the tangible fixed assets at 31 December 1992 includes capitalised finance leases of £14m comprising cost of £20m and accumulated depreciation thereon of £6m. The depreciation charge for the year in respect of capitalised leases was £1m and finance charges £2m.

### ZENECA

	As at 31st December,	
	1991 £m	1992 £m
The net book value of land and buildings comprised		
Freeholds	435	518
Long leases (over 50 years unexpired)	7	9
Short leases	3	3
	445	530

#### 15. INVESTMENTS IN PARTICIPATING INTERESTS

	Associated undertakings £m	Other participating interests £m	Total £m
<b>Cost</b>			
At beginning of year	3	10	13
Exchange adjustments	1	1	2
At end of year	4	11	15
<b>Share of post-acquisition reserves less losses</b>			
At beginning of year	17		17
Exchange adjustments	3		3
Retained profits less losses	1		1
At end of year	21		21
<b>Provisions</b>			
At beginning of year	-	(2)	(2)
Other movements	-	(1)	(1)
At end of year	-	(3)	(3)
<b>Net book value at 31st December, 1992</b>	<b>25</b>	<b>8</b>	<b>33</b>
<b>Net book value at 31st December, 1991</b>	<b>20</b>	<b>8</b>	<b>28</b>

None of the above investments is listed.

## 16. STOCKS

	As at 31st December,	
	1991	1992
	£m	£m
Raw materials and consumables	157	181
Stocks in process	152	200
Finished goods and goods for resale	384	455
	693	836

## 17. DEBTORS

	As at 31st December,	
	1991	1992
	£m	£m
<b>Amounts due within one year</b>		
Trade debtors	780	858
Other debtors	98	128
Deferred taxation (see note 21)	—	87
Prepayments and accrued income *	37	36
	915	1,109
<b>Amounts due after more than one year</b>		
Other debtors	58	52
	973	1,161

\*Includes prepaid pension costs (note 33).

## 18. CURRENT ASSET INVESTMENTS AND SHORT-TERM DEPOSITS

	As at 31st December,	
	1991	1992
	£m	£m
Redeemable securities listed on the London Stock Exchange	35	80
Other listed investments	57	27
Total listed investments	92	107
Unlisted investments	4	4
	96	111
Short-term deposits	177	204
	273	315
Included in cash and cash equivalents (see note 30)	177	202
Market value of listed investments	92	107

Included in current asset investments, short-term deposits and cash are amounts totalling £305m (1991: £267m), in respect of ZENECA's 51 per cent. owned insurance subsidiaries of which approximately £210m (1991: £160m) is not readily available for the general purposes of ZENECA.

ZENECA

## 19. SHORT-TERM BORROWINGS

**ZENECA**

	As at 31st December,	
	1991	1992
	£m	£m
<b>Bank borrowings</b>		
Secured by fixed charge	1	-
Secured by floating charge	1	1
Unsecured	93	147
	95	148
Other borrowings (unsecured)	1	1
	96	149
Included in cash and cash equivalents (see note 30)	96	149

## 20. OTHER CREDITORS

	As at 31st December,	
	1991	1992
	£m	£m
<b>Amounts due within one year</b>		
Trade creditors	266	350
Corporate taxation	36	76
Value added and payroll taxes and social security	17	33
Other creditors *	298	469
Accruals	204	235
	821	1,163
<b>Amounts due after more than one year</b>		
Other creditors *	26	31
Grants not yet credited to income	7	6
	33	37

\* Other creditors include amounts totalling £150m (1991: £126m) in respect of ZENECA's 51 per cent. owned insurance subsidiaries to meet their insurance obligations; costs charged as exceptional items in 1992 (note 6); obligations under finance leases (note 31); and accrued pension costs (note 33).

## 21. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation	Employee benefits*	Reorganisation, environmental, and other provisions	Total
	£m	£m	£m	£m
At beginning of 1991	-	115	123	238
Profit and loss account	21	33	29	83
Net amounts paid or becoming current	-	(10)	(66)	(76)
Acquisitions and other movements	(11)	(3)	1	(13)
At beginning of 1992	10	135	87	232
Profit and loss account	(115)	32	248	165
Net amounts paid or becoming current	22	(41)	(76)	(95)
Acquisitions and other movements	(4)	16	18	30
Reclassification to debtors (see note 17)	87	-	-	87
At 31st December, 1992	-	142	277	419

\*Includes provisions for unfunded pension costs (note 33)

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

**ZENECA**

## 22. LOANS

	As at 31st December,	
	1991	1992
	£m	£m
<b>Creditors due within one year</b>		
Current instalment of loans	8	11
Amounts due to the ICI Group	-	1,064
	8	1,075
<b>Creditors due after more than one year</b>		
Loans	94	36
Amounts due to the ICI Group	1,626	859
	1,720	895
	1,728	1,970

## 22. LOANS (continued)

**ZENECA**

	Repayment dates	As at 31st December,	
		1991 £m	1992 £m
<b>Secured loans</b>			
US Dollars (5½ to 10% per cent.)	1993/2012	25	16
Other currencies	1993/1996	1	1
<b>Total secured</b>		<b>26</b>	<b>17</b>
Secured by fixed charge		25	16
Secured by floating charge		1	1
<b>Unsecured loans</b>			
US Dollars			
8½ to 8.85 per cent. bonds	1996/2001	54	—
Others	1993/2013	1	2
		55	2
Other foreign currencies	1993/1999	21	28
		76	30
Amounts due to the ICI Group (see note below)		1,626	1,923
<b>Total unsecured</b>		<b>1,702</b>	<b>1,953</b>
<b>Total loans</b>		<b>1,728</b>	<b>1,970</b>
Loans from banks included in the table above amounted to £29m (1991: £18m) of which £1m (1991: £2m) was secured.			
Loans or instalments thereof are repayable			
After 5 years from balance sheet date			
Lump sums		18	12
Instalments		32	4
		50	16
From 2 to 5 years		594	164
From 1 to 2 years		1,076	715
<b>Total due after more than one year</b>		<b>1,720</b>	<b>895</b>
<b>Total due within one year</b>		<b>8</b>	<b>1,075</b>
		<b>1,728</b>	<b>1,970</b>
<b>Aggregate amount of loans repayable by instalments</b>			
any of which fall due after 5 years		72	4

The amounts payable to the ICI Group include the indebtedness assumed by ZENECA on 1st January, 1993, adjusted for subsequent capitalisations prior to the Demerger, as if it had been in place throughout the period. These include the following principal loans:

- (i) £1,364m payable by ZENECA. On 15th April, 1993 a subsidiary of ICI entered into a committed facility to subscribe for short-term discounted notes issued by a subsidiary of ZENECA.

The facility expires on 30th June 1995 and reduces over time from a facility limit of £2,000m to the following amounts: £1,000m on 15th July, 1993; £300m on 29th December, 1993; and £150m on 29th December, 1994. The facility was used to refinance the £1,364m payable by ZENECA; and

- (ii) three loan agreements totalling \$859m (£559m) payable by a subsidiary of ZENECA. These loan agreements have maturity dates in 2001 and 2002, bear interest at an average rate of 9.2 per cent. per annum and are subject to repayment options between ZENECA and the ICI Group pursuant to which (a) ZENECA may repay the loans at any time after 4th January, 1994 and (b) the ICI Group may require such repayment at any time after 1st June, 1995. For maturity profile purposes the loans have been taken as being repaid at the earliest date.

### 23. MOVEMENTS IN NET ASSETS

### ZENECA

	For the year ended 31st December		
	1990	1991	1992
	£m	£m	£m
Net assets at beginning of year	156	296	418
Net profit for the financial year	222	345	80
Distributions and transfers to the ICI Group, net of taxation	(75)	(262)	(379)
	147	83	(299)
Amounts taken direct to net assets			
Goodwill	(17)	-	-
Exchange adjustments (net)	10	39	93
	(7)	39	93
At end of year	296	418	212

The net assets above have been reduced as at 31st December by a cumulative amount in each year of goodwill written off of £1,028m. Net assets as at 31st December, 1992 include retained income of associated undertakings of £21m (1991: £17m, 1990: £19m).

At 31st December, 1992 the issued share capital of the Company comprised 2 ordinary shares of £1 each and the authorised share capital was 100,000 ordinary shares of £1 each. On 15th February, 1993, 49,998 ordinary shares of £1 each were allotted by the Company to enable it to obtain a certificate to commence business under section 117 Companies Act, 1985. On 20th April, 1993 the authorised share capital was increased to £300m and the authorised and issued share capital was sub-divided into ordinary shares of 25p each.

There are no significant statutory or contractual restrictions on the distribution of current profits of subsidiary or associated undertakings. Undistributed profits are, in the main, employed in the businesses of these companies. The undistributed profits of ZENECA companies overseas may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends.

The Company's Articles of Association state that borrowings, after deducting cash, current asset investments and short term deposits, must not exceed £6,000m before the Annual General Meeting to be held in 1994. Thereafter, borrowings may not exceed an amount equal to three times Capital and Reserves after adding back goodwill eliminated against reserves on retained acquisitions and the amount set aside for deferred taxation. Any borrowings, cash or short term investments held by partly owned subsidiary undertakings are excluded from the calculation in so far as they are attributable to minorities.

## 24. NET CASH INFLOW FROM TRADING OPERATIONS

ZENECA

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
Trading profit	600	682	283
Exceptional items within trading profit	-	-	304
Trading profit before exceptional items	600	682	587
Depreciation	156	156	160
Stocks decrease (increase)	26	(11)	(34)
Debtors increase	(28)	(115)	(13)
Creditors increase	26	53	57
Other non-cash movements, including exchange	(1)	(7)	(41)
	779	758	716

## 25. 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, plant demolition and site clearance. The major part of the 1992 expenditure relates to provisions raised in 1990.

## 26. INTEREST AND DIVIDENDS RECEIVED

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
Interest received	31	49	37
Dividends received from equity accounted associated undertakings	2	1	3
	33	50	40

## 37. ACQUISITIONS AND NEW FIXED ASSET INVESTMENTS

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
<b>Acquisitions and new fixed asset investments.</b>			
Acquisitions of subsidiary undertakings involving			
Fixed assets	8	—	1
Current assets	10	—	2
Total liabilities	(7)	—	(1)
Net assets of subsidiary undertakings acquired	11	—	2
Goodwill	22	—	—
Fair value of consideration for subsidiary undertakings	33	—	2
Investment in equity accounted undertakings	—	2	—
Other investments	7	—	—
	40	2	2
<b>Consideration for acquisitions and new investments</b>			
Cash and cash equivalents acquired	(1)	—	—
Net cash investment	41	2	2
	40	2	2

Fixed and current assets are adjusted to fair value based on external valuations and internal reviews; provisions for closure are made where appropriate.

**ZENECA**

## 28. DISPOSALS

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
<b>Disposals in the year resulted in the following net asset movements</b>			
Tangible fixed assets	17	42	31
Investments in participating interests	—	—	4
Other net current assets	4	11	20
Creditors due after more than one year	—	—	(4)
Provisions for liabilities and charges	(11)	35	(3)
Minority interests	—	—	2
	10	88	50
Goodwill	—	—	1
Profit and loss account			
Ordinary activities	17	(2)	(2)
Exceptional items	11	—	55
	38	86	104



## 28. DISPOSALS (continued)

	For the year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
<b>Satisfied by</b>			
Cash consideration	277	86	104
Deferred consideration	(239)	-	-
	38	86	104

The cash consideration for disposals in 1992 includes £57m with respect to items accounted for as exceptional items in the current and previous years (1991: £70m; 1990: £259m). The cash consideration for 1990 includes the £239m consideration, deferred from 1989, for the over-the-counter pharmaceuticals business in the US.

The cash consideration for disposals includes £3m (1991: £nil; 1990: £nil) relating to equity accounted participating interests.

Apart from the disposal proceeds, the contribution of the divested businesses and subsidiary undertakings to the cash flows was not material.

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## 29. CHANGES IN FINANCING DURING THE YEAR

	Amounts due to the				Total
	ICI Group	External loans	Finance leases	Short-term borrowings*	
	£m	£m	£m	£m	£m
At beginning of 1990	1,963	134	6	-	2,103
Exchange adjustments	(197)	(23)	-	-	(220)
New finance	-	5	-	-	5
Finance repaid	(282)	(11)	-	-	(293)
	(282)	(6)	-	-	(288)
Non-cash movements	126	-	-	-	126
Other movements	-	-	1	-	1
At beginning of 1991	1,610	105	7	-	1,722
Exchange adjustments	10	-	-	-	10
New finance	-	25	-	1	26
Finance repaid	(136)	(28)	(1)	(1)	(166)
	(136)	(3)	(1)	-	(140)
Non-cash movements	142	-	-	-	142
At beginning of 1992	1,626	102	6	-	1,734
Exchange adjustments	71	18	3	-	92
New finance	134	12	-	2	148
Finance repaid	-	(81)	(2)	(5)	(88)
	134	(69)	(2)	(3)	60
Non-cash movements	92	-	-	-	92
Other movements	-	(4)	3	3	2
At 31st December, 1992	1,923	47	10	-	1,980

\* Amount of short-term borrowings repayable more than 3 months from date of advance.

Non-cash movements represent allocated interest from the ICI Group (net of tax relief) on the indebtedness assumed by ZENECA prior to Demerger.

### 30. CASH AND CASH EQUIVALENTS

	For the year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
<b>Balance of cash and cash equivalents</b>			
Cash	67	76	103
Investments and short-term deposits which were within 3 months of maturity when acquired (see note 18)	147	177	202
	214	253	305
Short-term borrowings repayable within 3 months from date of advance (see note 19)	(82)	(96)	(149)
	132	157	156

#### Change in the balance of cash and cash equivalents

At beginning of year	34	132	157
Exchange adjustments	2	4	(21)
Cash inflow for year	96	21	20
At end of year	132	157	156

Cash and cash equivalents comprise cash, investments and short-term deposits which were within 3 months of maturity when acquired and short-term borrowings repayable within 3 months of their advance. Such items in the combined statements of net assets include all amounts with a maturity, at the year end date, of less than one year.

Included in cash and cash equivalents are amounts totalling £201m (1991: £176m; 1990: £140m.) in respect of ZENECA's 51 per cent. owned insurance subsidiaries, a major part of which is not readily available for the general purposes of ZENECA.

### 31. LEASES

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

	For the year ended 31st December,		
	1990	1991	1992
	£m	£m	£m
Hire of plant and machinery	9	15	16
Other	16	12	16
	25	27	32

Commitments under operating 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.

### 31. LEASES (continued)

ZENECA

	For the year ended 31st December		
	1990 £m	1991 £m	1992 £m
Land and buildings			
Expiring within 1 year	1	2	1
Expiring in years 2 to 5	2	8	5
Expiring thereafter	2	2	2
	5	12	8
Other assets			
Expiring within 1 year	3	6	3
Expiring in years 2 to 5	5	15	10
Expiring thereafter	-	-	1
	8	21	14
Obligations under finance leases comprise			
Rentals due within 1 year	2	3	3
Rentals due in years 2 to 5	4	6	9
Rentals due thereafter	3	7	7
Less interest element	(3)	(9)	(9)
	6	7	10

Obligations under finance leases are included in other creditors (note 20).

ZENECA had no commitments under finance leases at the balance sheet date which were due to commence thereafter.

### 32. COMMITMENTS AND CONTINGENT LIABILITIES

	As at 31st December	
	1991 £m	1992 £m
Commitments for capital expenditure not provided for (including acquisitions)		
Contracts placed for future expenditure	44	83
Expenditure authorised but not yet contracted	204	141
	248	224

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.

## 32. COMMITMENTS AND CONTINGENT LIABILITIES

(continued)

At 31st December, 1992, ZENECA had outstanding forward foreign exchange contracts to sell currency with notional principal amounts of £438m (1991 £414m) for the purpose of hedging currency exposures. The contracts were taken out with the ICI Group who have back to back contracts with commercial banks. The majority of the contracts had a maturity of six months or less from the date of the statement of net assets.

ZENECA has entered into forward foreign exchange and currency option contracts to hedge anticipated, but not firmly committed, foreign currency transactions for 1993. The contracts were taken out with the ICI Group who have back to back contracts with commercial banks. At 31st December, 1992, ZENECA had outstanding forward foreign exchange contracts to sell currency with a nominal value of £66m (1991 £nil) equivalent, and currency options contracts to sell with a nominal value of £394m (1991 £nil) equivalent. Realised and unrealised gains and losses on these foreign currency transactions are being deferred to be recognised in income in the same period as the hedged transaction.

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 ("SMC"), a subsidiary of the Company, established in 1987 to own and manage certain assets and liabilities of Stauffer Chemical Company ("Stauffer"), 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, are inherently difficult to estimate. Provisions have been established at 31st December, 1992 in respect of such costs in accordance with the accounting policy in note 1. 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.

ZENECA is also involved in various other legal proceedings of a nature considered typical to its businesses, including litigation relating to product liability, infringements of intellectual property rights and validity of certain patents.

In the US, and to a lesser extent in some other countries, ZENECA's employment practices include the provision of healthcare and life assurance benefits for retired employees. Some 3,700 retired employees currently benefit from these provisions, and some 10,900 current employees will be eligible on retirement. The benefits are currently accounted for on a cash paid basis which results in an annual charge to profits of some £2m in 1992. In the UK accounting standards are moving to a requirement to accrue the present value of such retiree benefit obligations over the working life of the employee. This approach will be adopted in the UK accounts for the year ending 31st December, 1994. It is estimated that the unprovided obligation for ZENECA at the end of 1992, calculated in accordance with the new standards, amounts to some £130m. It is also estimated that, leaving aside the accounting for this unprovided initial liability, the implementation of accrual accounting will reduce profit before tax by some £17m per annum. Tax relief on these charges will be deferred until cash payments are made.

ZENECA

### 33. PENSION COSTS

The majority of ZENECA's employees currently participate in pension schemes operated by the ICI Group. These plans, which cover the majority of employees (including directors) of the ICI Group, are generally of the defined benefit type under which benefits are based on employees' years of service and average final remuneration and are funded through separate trustee-administered funds.

ZENECA Limited became a participating employer in the ICI Pension Fund in the UK (the "Fund") with effect from 1st January, 1993, and employees who transferred to ZENECA Limited continued their membership of the Fund without interruption. It is intended that, upon Demerger, and subject to consent of the Fund's trustee ("the Trustee"), this arrangement will continue during a transitional period, probably until 31st March, 1994. ZENECA Limited will establish a new pension fund with effect from the end of this transitional period.

**ZENECA**

ZENECA and ICI have agreed to propose to the Trustee that, after the transitional period, it transfers ZENECA Limited's active members, and deferred pensioners and pensioners whose last employment was with a ZENECA business to ZENECA's new pension fund. If the Trustee decides to do so, a share of the assets of the Fund, determined by the actuaries to be appropriate and currently estimated to be about 20 per cent., will then be transferred to the new pension fund, whose terms will initially have to mirror the terms of the Fund.

Consideration is being given by the actuaries to the appropriate split of the assets and liabilities of the funds to reflect the obligations of the respective businesses following Demerger. The total pension cost for the ICI Group for 1992 was £208m (1991: £175m, 1990: £151m) of which ZENECA's share is estimated at £75m (1991: £62m, 1990: £56m).

Some of the overseas schemes are to be split as a result of the Demerger in a similar manner to the Fund, the most significant such scheme being the ICI Americas plan.

With regard to the ICI Group's main plans, formal actuarial valuations are undertaken triennially with an annual interim update for SSAP24 purposes. The actuarial valuations have been undertaken on varying dates. The actuarial assumptions used to calculate the value of the past service liabilities of the ICI Group's pension plans vary according to the economic conditions of the country in which they are situated. The weighted average discount rate used in determining the actuarial present values of the benefit obligations was 9.6 per cent. The weighted average expected long-term rate of return on investments was 9.6 per cent. The weighted average rate of increase of future earnings was 6.7 per cent. The actuarial value of the fund assets of these plans was sufficient to cover 97.2 per cent. of the liabilities for accrued benefits. The market value of the assets of the major plans in the ICI Group at the date of the latest actuarial valuations was £6,249m (1991: £6,281m). In respect of the ICI Group's main plans, contributions are based on actuarial advice, to provide assets sufficient to cover the benefit entitlements of plan participants. The contribution rate paid by the ICI Group to the major plan has been increased in line with actuarial advice.

In ZENECA's combined statements of net assets at 31st December, 1992, accrued pension costs amounted to £23m (1991: £15m) and are included in other creditors (note 20); provisions for the benefit obligations of a small number of unfunded plans amounted to £91m (1991: £81m) and are included in provisions for employee benefits (note 21). Prepaid pension costs amounting to £14m (1991: £21m) are included in debtors (note 17).

### 34. PRINCIPAL AND OTHER SUBSIDIARY UNDERTAKINGS

#### Principal Subsidiary Undertakings

Name and Registered Address	Principal Activity	Issued Share Capital as at 31st December, 1992	Percentage of Share Capital Held
<b>United Kingdom</b>			
<b>ZENECA Limited</b> Imperial Chemical House 9 Millbank London SW1P 3JF England	Manufacture of pharmaceuticals, agrochemicals, specialty chemicals and processing of seeds; merchanting of ZENECA products	2* Ordinary shares of £1	100
Imperial Chemical Insurance Limited Imperial Chemical House 9 Millbank London SW1P 3JF England	Insurance and reinsurance underwriting	57,575,700 Ordinary shares of £1	51 #
<b>Continental Europe</b>			
<b>ZENECA Holding GmbH</b> Otto-Hahn-Strasse Postfach 10 31 09 D-6831 Plankstadt Germany	Manufacture of pharmaceuticals, agrochemicals and specialty chemicals; merchanting of ZENECA products	DM 50,000 of shares	100 #
Stauffer Chemical B.V. Wijnhaven 107 3011 WN Rotterdam The Netherlands	Manufacture of agrochemicals	69,600 Common shares of NLG 1,000	100 #
<b>The Americas</b>			
<b>ZENECA Holdings Inc.</b> Concord Pike & New Murphy Road Wilmington Delaware 19897 USA	Manufacture of pharmaceuticals, agrochemicals, specialty chemicals and processing of seeds; merchanting of ZENECA products	256 Shares of common stock of US\$1	100 #
IPR Pharmaceuticals, Inc. South Main Street Sabana Gardens Industrial Park Puerto Rico 00983	Manufacture of pharmaceuticals	45,010,000 Shares of common stock of US\$1	100 #
<b>Asia Pacific</b>			
ICI-Pharmia Limited 5-8, 2-Chome Imabashi Chuo-Ku Osaka 541 Japan	Merchanting of pharmaceutical products	1,000,000 Ordinary shares of ¥1,000	60 #

**ZENECA**

\*As at 12th May, 1993 the issued share capital was 464,566,941 ordinary shares of £1 each.

# shares held indirectly  
All shares are fully paid.

### 34. PRINCIPAL AND OTHER SUBSIDIARY UNDERTAKINGS (continued)

#### Other Subsidiary Undertakings

**ZENECA**

Name	Registered Address	Percentage of Share Capital Held
<b>United Kingdom</b>		
ICI Bioscience Investments Limited	<i>Imperial Chemical House 9 Millbank London SW1P 3JP England</i>	100 #
Marlow Foods Limited	<i>Station Road Industrial Estate Stokesley Middlesbrough Cleveland TS9 7AH England</i>	100 #
I.C. Insurance Holdings Limited	<i>Imperial Chemical House 9 Millbank London SW1P 3JP England</i>	51 #
<b>Continental Europe</b>		
I.C.I. Protection de l'Agriculture S.A.	<i>1 Avenue Newton 92140 Clamart France</i>	100 #
ZENECA Pharma S.A.	<i>"Le Galien" 1 Rue des Chauffours 95022 Cergy France</i>	100 #
ICI Bioscience Holdings B.V.	<i>Wijnhaven 107 3011 WN Rotterdam The Netherlands</i>	100 #
Stahl Polyvinyl International B.V.	<i>Sluisweg 10 5145 PE Waalwijk The Netherlands</i>	100 #
ICI Epsilon B.V.	<i>Wijnhaven 107 3011 WN Rotterdam The Netherlands</i>	100 #
ZENECA Resins B.V.	<i>Sluisweg 12 5145 PE Waalwijk The Netherlands</i>	100 #
ICI Seeds-SES N.V./S.A.	<i>Industriepark 15 B-3300 Tienen Belgium</i>	100 #
<b>The Americas</b>		
Arbil International Insurance Limited	<i>British American Tower George Town Grand Cayman British West Indies</i>	51 #
<b>Asia Pacific</b>		
ZENECA China Limited	<i>14th - 15th Floors One Pacific Place 88 Queensway Central Hong Kong</i>	100 #

# shares held indirectly

### 35. DIFFERENCES BETWEEN UNITED KINGDOM AND UNITED STATES ACCOUNTING PRINCIPLES

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

#### *Deferred taxation*

Deferred taxation is provided on a full deferral 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.

#### *Capitalisation of interest*

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

#### *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. Under UK GAAP assets are valued at the discounted present value of income streams whilst under US GAAP market related values are used.

#### *Goodwill*

Under US GAAP goodwill arising on acquisitions accounted for under the purchase method is capitalised and amortised over a period. Goodwill is amortised 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 amortised 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.

**ZENECA**



The following is a summary of the material adjustments to net profit and net assets of ZENECA which would be required if US GAAP had been applied instead of UK GAAP.

## ZENECA

	For the year ended 31st December,		
	1990 £m	1991 £m	1992 £m
<b>UK GAAP</b>			
Net profit for the financial year (equivalent to net income)			
before exceptional items	283	341	342
Exceptional items, net of taxation	(61)	4	(262)
Net income for the financial year	222	345	80
<b>Adjustments to conform to US GAAP</b>			
Deferred taxation	7	24	(9)
Capitalisation, less disposals and amortisation of interest	22	8	13
Pension expense (i)	(11)	(23)	(9)
Purchase accounting adjustments (goodwill and intangibles)	(53)	(42)	(70)
Others	-	(6)	6
	(35)	(39)	(69)
Disposal of over-the-counter pharmaceuticals business in the US (ii)	127	-	-
Net income in accordance with US GAAP	314	306	11

- (i) Pension expense to be reported under US GAAP will rise significantly in 1993 reflecting the impact of changes in the actuaries' economic assumptions and the demographics relating to the ICI Group's pension plan in the UK.
- (ii) For UK accounting purposes this item was included in the 1989 combined statement of income. Under US GAAP, the gain would not have been recognised until 1990 and is accordingly included as part of net income.

	As at	
	31st December,	
	1991	1992
	£m	£m
<b>UK GAAP</b>		
Net assets, as shown in the combined statements of net assets	418	212
<b>Adjustments to conform to US GAAP</b>		
Deferred taxation	(132)	(132)
Capitalisation, less disposals and amortisation of interest	90	103
Pension expense	9	-
Purchase accounting adjustments	641	730
Others	(6)	-
	602	701
<b>Net assets in accordance with US GAAP (i)</b>	<b>1,020</b>	<b>913</b>

**ZENECA**

- (i) Excludes the effect of new US accounting standards not yet adopted relating to SFAS No. 106 "Employers' Accounting for Post-retirement Benefits Other than Pensions" and SFAS No. 109 "Accounting for Income Taxes". These new standards will be adopted for US GAAP purposes beginning 1st January, 1993. The Company estimates that the combined effect of adopting SFAS Nos. 106 and 109 will decrease US GAAP shareholders' equity by approximately £5 million. Beginning in 1994 for UK GAAP purposes the Company will apply the requirements of a new UK accounting pronouncement which is similar to SFAS No. 106. Application of the accounting pronouncement at 31st December, 1992, would have given rise to a UK GAAP liability of approximately £130 million.

Yours faithfully,

**KPMG Peat Marwick**

**Chartered Accountants**

## **ZENECA PRO FORMA FINANCIAL INFORMATION**

The Directors consider that the financial statements of ZENECA set out in the Accountants' Report are not necessarily indicative of the results that would have arisen if ZENECA had been an independently financed and managed group during the period indicated, or of predictive value as concerns ZENECA's financial results in future periods. Significant changes are to be made to the capital structure of the Company in connection with the Demerger and the ZENECA Rights Issue. Additionally the results for the year ended 31st December, 1992 bore the costs of the reorganisation necessary to give effect to the Demerger.

### **ZENECA**

Illustrative pro forma financial information, adjusted for the consequences of the ZENECA Rights Issue and the elimination of certain costs relating to the formation of ZENECA, prepared on the bases described on page 103 to illustrate the effect of those factors, is set out below.

**1. PRO FORMA COMBINED PROFIT AND LOSS ACCOUNT FOR THE  
YEAR ENDED 31ST DECEMBER, 1992**

	Historical (see note 2 of Part 8) £m	Adjustments		Pro forma £m
		see note 3(c)(i) £m	see note 3(a)(ii) £m	
Turnover	3,979	-	-	3,979
Operating costs	(3,445)	-	-	(3,445)
Other operating income	53	-	-	53
<b>Trading profit before exceptional items</b>	<b>587</b>	<b>-</b>	<b>-</b>	<b>587</b>
Exceptional items charged to trading profit	(304)	-	-	(304)
<b>Trading profit</b>	<b>283</b>	<b>-</b>	<b>-</b>	<b>283</b>
Share of profits less losses of associated undertakings	7	-	-	7
Profits less losses on sale or closure of operations	16	-	-	16
Provisions for costs of reorganisation	(52)	-	52	-
<b>Profit on ordinary activities before interest</b>	<b>254</b>	<b>-</b>	<b>52</b>	<b>306</b>
Net interest payable	(152)	124	-	(28)
<b>Profit on ordinary activities before taxation</b>	<b>102</b>	<b>124</b>	<b>52</b>	<b>278</b>
Tax on profit on ordinary activities	(10)	(41)	4	(47)
<b>Profit on ordinary activities after taxation</b>	<b>92</b>	<b>83</b>	<b>56</b>	<b>231</b>
Attributable to minority interests	(12)	-	-	(12)
<b>Net profit for the financial year</b>	<b>80</b>	<b>83</b>	<b>56</b>	<b>219</b>
<b>Net profit for the financial year before exceptional items</b>	<b>342</b>	<b>83</b>	<b>-</b>	<b>425</b>
<b>Earnings per ZENECA Ordinary Share before exceptional items</b> (pence) (see note 3 (a)(iii))	<b>47.9p</b>			<b>45.0p</b>
<b>Earnings per ZENECA Ordinary Share</b> (pence) (see note 3 (a)(iii))	<b>11.2p</b>			<b>23.2p</b>

£m means millions of pounds sterling.

**ZENECA**

**2. PRO FORMA COMBINED NET ASSET STATEMENT AT  
31ST DECEMBER, 1992**

	Historical (see note 4 of Part 8) £m	Adjustments			Pro forma £m
		see note 3(b)(i) £m	see note 3(b)(ii) £m	see note 3(b)(iii) £m	
<b>Fixed assets</b>	1,592	-	-	-	1,592
<b>Current assets</b>	2,415	-	1,310	(1,300)	2,425
<b>Total assets</b>	4,007	-	1,310	(1,300)	4,017
<b>Creditors due within one year</b>	1,323	-	-	-	1,323
<b>Amounts due to the ICI Group within one year</b>	1,064	-	-	(1,064)	-
	2,387	-	-	(1,064)	1,323
<b>Net current assets</b>	28	-	1,310	(236)	1,102
<b>Total assets less current liabilities</b>	1,620	-	1,310	(236)	2,694
<b>Creditors due after more than one year</b>	73	-	-	-	73
<b>Amounts due to the ICI Group after more than one year</b>	859	-	-	(236)	623
	932	-	-	(236)	696
<b>Provisions for liabilities and charges</b>	419	-	-	-	419
<b>Minority interests</b>	57	-	-	-	57
	1,408	-	-	(236)	1,172
<b>Net assets</b>	212	-	1,310	-	1,522
Net assets may be represented by:					
<b>Capital and reserves</b>					
Share capital		180	56	-	236
Share premium		-	1,254	-	1,254
Merger reserve		285	-	-	285
Reserves		(253)	-	-	(253)
<b>Shareholders' equity</b>		212	1,310	-	1,522

**ENECA**

### 3. BASES ON WHICH THE PRO FORMA FINANCIAL INFORMATION HAS BEEN PREPARED

#### (a) Pro forma combined profit and loss account for the year ended 31st December, 1992

The pro forma combined profit and loss account for the year ended 31st December, 1992 is based on the combined profit and loss account for that year as set out in the Accountants' Report. The specific adjustments are described below:

- (i) The pro forma net interest payable (and related tax relief) has been calculated on the basis that the amounts due to the ICI Group of the equivalent of £1,923 million are reduced by £1,300 million of the net proceeds of the underwritten ZENECA Rights Issue. The adjustment reflects the lower interest charge arising (using the average funding rate borne by the ICI Group in 1992) had such indebtedness been reduced on 1st January, 1992 by application of the net proceeds of the underwritten ZENECA Rights Issue.
- (ii) Exceptional items of £52 million relating to reorganisation of the ICI Group in preparation for potential demerger have been eliminated. Adjustment has been made for the tax relief related to these costs (£9 million), together with the tax costs of reorganisation prior to the Demerger (£13 million).
- (iii) Historical earnings per share data has been calculated on the basis of 714 million ZENECA Ordinary shares to be issued to ICI shareholders in connection with the Demerger based on the number of ICI Ordinary shares in issue at 31st December, 1992. The pro forma earnings per ordinary share data is based on approximately 945 million ordinary shares after giving effect to the estimated number of shares to be issued in connection with the Demerger and the ZENECA Rights Issue. No adjustment has been made for the bonus element of the underwritten ZENECA Rights Issue.

**ZENECA**

#### (b) Pro forma combined balance sheet at 31st December, 1992

The pro forma combined balance sheet at 31st December, 1992 is based on the combined statement of net assets of ZENECA at that date as set out in the Accountants' Report. The combined statement of net assets has been adjusted to reflect the new capital structure of the Group following the Demerger and the ZENECA Rights issue. The specific adjustments are described below:

- (i) On the basis of the estimated number of ICI Ordinary shares in issue at the date the Demerger becomes effective, the Company will issue approximately 720 million ZENECA Demerger shares as consideration for the issued share capital of ZENECA Limited, comprising approximately 465 million ordinary shares of £1 each. A merger reserve will be created, representing the difference between the nominal values of the shares issued and received;
- (ii) The Company will issue approximately 225 million ZENECA Rights shares at a price of £6.00 per ZENECA Rights share, resulting in net cash proceeds of £1,310 million. Underwriting commissions and offering expenses associated with the ZENECA Rights Issue, estimated to be £40 million, will be written off against share premium. Share premium of £1,254 million, net of costs written off, will arise on the transaction.
- (iii) ZENECA will use £1,300 million of the net proceeds of the ZENECA Rights Issue to reduce its sterling indebtedness to the ICI Group by an equivalent amount.

4. LETTER FROM KPMG PEAT MARWICK RELATING TO THE  
PRO FORMA FINANCIAL INFORMATION

**KPMG** Peat Marwick

1 Puddle Dock  
Blackfriars  
London EC4V 3PD

**ZENECA**

The Directors  
ZENECA Group PLC  
Imperial Chemical House  
9 Millbank  
London SW1P 3JF

The Directors  
S.G. Warburg & Co. Ltd.  
2 Finsbury Avenue  
London EC2M 2PA

12th May, 1993

Dear Sirs

We have reviewed the calculations and bases of preparation for the illustrative pro forma combined profit and loss account and earnings per ordinary share for the year ended 31st December, 1992 and the pro forma combined net asset statement at 31st December, 1992 of ZENECA Group PLC (the "Company") and its subsidiary undertakings (together the "pro forma statements") for which the Directors of the Company are solely responsible. The pro forma statements, which have been prepared for illustrative purposes only, are set out in Part 9 of ZENECA's Listing Particulars dated 12th May, 1993.

In our opinion the pro forma statements have, so far as the calculations are concerned, been properly compiled on the bases of preparation set out therein. Further, in our opinion, the bases of preparation are reasonable in the context of the purpose for which the pro forma statements have been prepared.

Yours faithfully,

KPMG Peat Marwick

Chartered Accountants

## **ZENECA RIGHTS ISSUE**

### **1. DETAILS OF THE ZENECA RIGHTS ISSUE**

The ZENECA Rights shares will be offered by ZENECA by way of rights at 600p each to holders of ZENECA Demerger shares on the register as at the ZENECA Rights Issue Record Date, except as described in paragraph 7 below. The ZENECA Rights shares will be provisionally allotted on the following basis:-

**5 ZENECA Rights shares  
for every  
16 ZENECA Demerger shares**

and so in proportion for any other number of ZENECA Demerger shares held on the ZENECA Rights Issue Record Date. The allotment and issue of the ZENECA Rights shares will be made upon and subject to the terms and conditions set out in this document and in the ZENECA PAL. Entitlements of qualifying ZENECA Shareholders will, in accordance with normal practice, be rounded down to the nearest whole number of ZENECA Rights shares and entitlements which would otherwise have arisen will be aggregated and sold for the benefit of ZENECA.

The ZENECA Rights Issue has been underwritten by the Underwriters and is conditional upon the admission of the ZENECA Rights shares to the Official List of the London Stock Exchange becoming effective by 9.00 a.m. on 1st June, 1993. If listing does not become effective on that date or such later date as may be determined under the underwriting agreement but in any event not later than 9.00 a.m. on 15th June, 1993, the provisional allotment of ZENECA Rights shares will lapse. The ZENECA Rights Issue will not be made unless the Demerger becomes effective. If there is a delay in the time at which listing becomes effective, the dates set out in this Part 10 will be subject to alteration.

It is expected that posting of ZENECA PALs in respect of the ZENECA Rights shares to ZENECA Shareholders (other than certain overseas holders referred to in paragraph 7 below) will commence on 29th May, 1993. Application has been made to the London Stock Exchange for the ZENECA Rights shares to be admitted to the Official List and it is expected that admission will become effective and dealings in the ZENECA Rights shares will commence, nil paid, on the London Stock Exchange on 1st June, 1993. The London Stock Exchange announced on 6th May, 1993, that it had agreed to permit dealings in ZENECA Demerger shares, ZENECA Rights shares and ZENECA Rights shares, nil paid, on a "when issued" basis. Dealings on this basis will commence at 2.30 p.m. on 12th May, 1993, and continue until the Demerger becomes effective. If the Demerger does not become effective, all bargains carried out will be deemed null and void.

The ZENECA Rights shares will, when fully paid, rank pari passu in all respects with the ZENECA Demerger shares including the right to receive all dividends and other distributions declared, paid or made.

All documents and remittances will be sent to or by the allottees or their renounees (or their agents, as appropriate) at the risk of the person(s) entitled thereto.

### **2. PROCEDURE FOR ACCEPTANCE AND PAYMENT**

Each ZENECA PAL will set out the holding of ZENECA Demerger shares on which the relevant ZENECA Shareholder's entitlement will have been based, the aggregate number of ZENECA Rights shares which such holder will have been provisionally allotted and the procedure to be followed if such holder wishes to dispose (whether before or after payment of the subscription



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price) of all or part of his entitlement. The ZENECA PAL will also include instructions regarding acceptance and payment.

Persons wishing to subscribe for all or any of the ZENECA Rights shares to which they are entitled should lodge the ZENECA PAL, together with the appropriate remittance for the full amount payable on acceptance, in accordance with the instructions thereon, by post or by hand with Lloyds Bank Plc Registrar's Department, The Causeway, Worthing, West Sussex BN99 6DA so as to arrive not later than midnight on 21st June, 1993, or by hand only with Lloyds Bank Plc Registrar's Department, Issue Section, 2nd Floor, Borsa House, 80 Cheapside, London EC2V 6EE not later than the time and date referred to immediately above.

Cheques and banker's drafts must be in pounds sterling and made payable to "Lloyds Bank Plc — a/c ZENECA", must be crossed "account payee" and drawn on a bank or a building society in the UK which is either a settlement member of the Cheque & Credit Clearing Company Limited or the CHAPS & Town Clearing Company Limited or which has arranged for cheques and banker's drafts to be cleared through the facilities provided for the members of either of those companies and must bear the appropriate sorting code in the top right hand corner. No interest will be allowed on payments made before they are due. Return of the ZENECA PAL with the appropriate remittance will constitute a warranty that the remittance will be honoured on first presentation. ZENECA may elect not to treat as valid any acceptances in respect of which cheques are notified to it or its agent as not having been so honoured. ZENECA reserves the right to have cheques presented on receipt and to instruct Lloyds Bank Plc to seek special clearance of cheques to allow ZENECA to obtain value for remittances at the earliest opportunity. ZENECA may (in its sole discretion) treat a ZENECA PAL as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required.

ZENECA reserves the right (but shall not be obliged) to accept applications in respect of which remittances are received prior to midnight on 21st June, 1993 from an authorised person (as defined in the Financial Services Act 1986) specifying the ZENECA Rights shares concerned and undertaking to lodge the relevant ZENECA PAL duly completed in due course. Subscriptions by Morgan Guaranty Trust Company of New York, as subscription agent in respect of the exercise of ADS Rights, will be valid provided a duly completed ZENECA PAL relating thereto is duly lodged by midnight on 21st June, 1993 and the relative subscription monies are duly received by Lloyds Bank Plc not later than 24th June, 1993.

All enquiries in connection with the ZENECA PALs should be addressed to Lloyds Bank Plc Registrar's Department, The Causeway, Worthing, West Sussex BN99 6DA (telephone 0903 702627).

### 3. SPLITTING AND TRANSFER

A ZENECA Shareholder may wish to split his ZENECA PAL in order to dispose of part of his entitlement or to dispose of the whole to more than one person. A ZENECA PAL may be split (in accordance with the instructions printed on it) if lodged, by post or by hand, with Lloyds Bank Plc Registrar's Department, Issue Section, 2nd Floor, Borsa House, 80 Cheapside, London EC2V 6EE up to 3.00 p.m. on 17th June, 1993 (nil paid) or up to 3.00 p.m. on 8th July, 1993 (fully paid).

The right to accept allotment of all ZENECA Rights shares comprised in any ZENECA PAL or split ZENECA PAL may, save as required by the laws of certain foreign jurisdictions, be transferred by renouncing such right (by completing Form X on the ZENECA PAL) and handing the ZENECA PAL intact to the person through or to whom the ZENECA Rights shares are being disposed of. Once renounced a ZENECA PAL will become a negotiable document in bearer form.

The latest time and date for registration of renunciation is 3.00 p.m. on 12th July, 1993. ZENECA Rights shares will thereafter be in registered form and transferable by instrument of transfer complying with ZENECA's Articles of Association.

#### 4. DESPATCH OF CERTIFICATES

Where a ZENECA PAL has been accepted and paid for in accordance with the provisions of paragraph 2 of this Part 10, the ZENECA PAL, with the receipt at the foot thereof duly completed by Lloyds Bank Plc, will be returned to the person making the payment who, unless he is the original allottee, must have completed the paying agent's box at the foot thereof.

It is expected that definitive share certificates relating to the ZENECA Rights shares will be despatched by post by 12th August, 1993. After such date, ZENECA PALs will cease to be valid for any purpose. From 13th July, 1993 and pending the issue of definitive share certificates, transfers will be certified by Lloyds Bank Plc Registrar's Department, The Causeway, Worthing, West Sussex BN99 6DA against the surrender of fully paid ZENECA PALs or, in the case where renunciation has been registered, against the registration receipt bearing the stamp of Lloyds Bank Plc.

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#### 5. PROCEDURE IN RESPECT OF RIGHTS NOT TAKEN UP

If payment in full for any ZENECA Rights shares provisionally allotted has not been received by midnight on 21st June, 1993 (whether from the original allottee or any person in whose favour the rights have been renounced), the provisional allotment will be deemed to have been declined, in which event it will lapse. The Underwriters will, acting as agents for ZENECA, instruct S.G. Warburg Securities Ltd. and de Zoete & Bevan Limited to endeavour to procure subscriber(s) for such ZENECA Rights shares by not later than 3.00 p.m. on 23rd June, 1993, if a premium over the aggregate of the subscription price and expenses of procuring subscribers can be obtained.

If subscribers for such ZENECA Rights shares are procured on such basis, such shares will be re-allotted at the subscription price to such subscribers and the premium (after deduction of the subscription price and expenses of procuring subscribers) will be paid to the provisional allottees who have not taken up their entitlements pro rata to their lapsed provisional allotments except that, in accordance with normal practice, amounts of less than £3.00 will not be paid to such persons but will be aggregated and retained for the benefit of ZENECA.

Neither ZENECA nor the Underwriters nor any person procuring such subscribers shall be responsible for any loss arising from the terms or timing of any such subscription. If subscribers cannot be procured on the basis described above, the ZENECA Rights shares will be re-allotted to the Underwriters or any sub-underwriters procured by them at the subscription price.

#### 6. TAXATION

The following summaries are based on current law and local taxation authority practice in the particular jurisdictions to which each relates. Each is only a general guide, applies only to shareholders resident in those jurisdictions and may not apply to certain classes of shareholders, such as dealers. ZENECA Shareholders are also referred to paragraph 12 of Part 11. ZENECA Shareholders who are in any doubt as to their tax position should consult their own independent professional tax adviser immediately.

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### (a) UK

#### *Stamp duty and stamp duty reserve tax*

- (i) No stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of ZENECA PALs or split letters of allotment;
- (ii) SDRT will be payable at the rate of £1.50 for every £100 or part of £100 of the subscription price of ZENECA Rights shares subscribed by a depositary or issued into a clearance system. ZENECA has agreed to settle any such liability to SDRT in respect of ZENECA Rights shares subscribed by the depositary on behalf of holders of ADS Rights;
- (iii) the transfer of rights to ZENECA Rights shares represented by ZENECA PALs (whether nil paid or fully paid) for money or money's worth on or before the latest time for registration of renunciation will not be liable to stamp duty, but will be liable to SDRT at the rate of 50p for every £100 or part of £100 of the consideration paid. Where such a purchase is effected through a stockbroker or other financial intermediary that person will normally account for the liability to SDRT and will indicate that this has been done in any contract note issued to a purchaser. In other cases, the purchaser of the rights to the ZENECA Rights shares represented by the ZENECA PAL is liable to pay the SDRT and must account to the Inland Revenue;
- (iv) the transfer on sale of ZENECA Rights shares after the latest time for registration of renunciation will be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within two months) SDRT generally in each case at the rate of 50p for every £100 or part of £100 of the consideration paid; and
- (v) no stamp duty or SDRT will be payable on the registration of ZENECA PALs, whether by the original holders or their renounees.

#### *Taxation of capital gains*

For the purposes of UK taxation of capital gains, if a ZENECA Shareholder takes up all or part of his rights to ZENECA Rights shares, his existing ZENECA Demerger shares and ZENECA Rights shares will be treated as the same asset acquired at the same time as the Demerger. Subscription monies paid for those ZENECA Rights shares will be added to the base cost of the ZENECA Shareholder's existing holding of ZENECA Demerger shares but, for the purpose of calculating indexation allowance on a subsequent disposal of ZENECA Ordinary shares, these monies will only be taken into account from the time at which the ZENECA Shareholder became liable to make or made payment.

If a ZENECA Shareholder sells, or otherwise disposes of, all or part of the ZENECA Rights shares allotted to him or his rights thereto or if he allows his rights to lapse and receives a cash payment in respect thereof, he may, in certain circumstances, incur a liability to taxation on any capital gain realised.

### (b) US

ZENECA will make the ZENECA Rights Issue available to holders of ADSs representing ZENECA Demerger shares by procuring the issue to them of transferable rights to purchase additional ADSs. The issue of such rights, and of rights to purchase ZENECA Rights shares, to a US Holder will not be subject to UK withholding tax. Under current US federal income tax law, a US Holder who receives rights to purchase ZENECA Rights shares or additional ADSs should be considered to have received a taxable distribution. It is anticipated that such distribution will

be reported to US Holders as a dividend in an amount equal to the fair market value of such rights on the date of distribution. No gain or loss will be recognised by a US Holder upon exercise of such rights by him. US Holders should consult their own tax advisers concerning the US tax consequences of the receipt, exercise, lapse or disposition of such rights in the context of their own particular circumstances.

*(c) Republic of Ireland*

For the purpose of Irish taxation of capital gains, if an Irish resident ZENECA Shareholder takes up all or part of his rights to ZENECA Rights shares, such shares will be treated as though they were the same asset, acquired at the same time as the relevant ZENECA Demerger shares in respect of which the rights were granted. Subscription monies paid for the ZENECA Rights shares will be added to the base cost of a ZENECA Shareholder's existing holding of ZENECA Demerger shares. Such monies will be taken into account for indexation purposes from the time at which a ZENECA Shareholder makes or becomes liable to make payment for ZENECA Rights shares.

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If a ZENECA Shareholder sells, or otherwise disposes of, all or part of the ZENECA Rights shares allotted to him, or his rights thereto, or he allows his rights to lapse and receives a cash payment in respect thereof, he may in certain circumstances incur a liability to Irish taxation on the capital gains realised.

## 7. OVERSEAS ZENECA SHAREHOLDERS

*(a) General*

The making of the offer by way of rights to persons who are resident in, or citizens of, countries other than the UK may be affected by the law of the relevant jurisdictions. Such persons should consult their professional advisers as to whether they require any governmental or other consents to enable them to take up their rights or need to observe any applicable legal requirements or other formalities, including the payment of any issue, transfer or other taxes.

No person receiving this document and/or a ZENECA PAL in any territory other than the UK may treat the same as constituting an invitation or offer to him, nor should he in any event use a ZENECA PAL unless, in the relevant territory, such an invitation or offer could lawfully be made to him and such allotment letter could lawfully be used without contravention of any unfulfilled registration or other legal requirements.

Persons (including, without limitation, nominees and trustees) receiving a ZENECA PAL should not in connection with the offer by way of rights distribute or send it in or into Australia, South Africa (unless stamped non-renounceable), France, Japan or their respective territories or possessions or any other jurisdiction where to do so would or might contravene local securities laws or regulations. If a ZENECA PAL is received by any person in any such territory or by the agent or nominee of such a person, he must not seek to take up the shares or renounce such provisional allotment except pursuant to an express agreement with ZENECA. Any person who does forward a ZENECA PAL into any such territory whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph. ZENECA reserves the right to reject a purported acceptance of a provisional allotment represented by a ZENECA PAL, or a renunciation thereof, from, or in favour of, shareholders in any such territory or persons who are acquiring ZENECA Rights shares for resale in any such territory.

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In cases where overseas ZENECA Shareholders do not take up ZENECA Rights shares provisionally allotted to them, the provisions of paragraph 5 above will apply. ZENECA reserves the right to treat as invalid any acceptance of the allotment of ZENECA Rights shares comprised in a ZENECA PAL that appears to ZENECA or its agents to have been executed or despatched in a manner which may involve a breach of the applicable legal or regulatory requirements of any jurisdiction or which does not include the warranty set out in the paragraph therein headed "Overseas ZENECA Shareholders". The attention of ZENECA Shareholders who are not resident in, or whose registered address is outside, the UK is drawn to the information concerning certain jurisdictions in sub-paragraphs (b) to (g) below.

The Underwriters will, acting as agent for the Company, instruct S.G. Warburg Securities Ltd. and de Zoete & Bevan to endeavour, as soon as practicable after the commencement of dealings in the ZENECA Rights shares, to procure purchaser(s) for the rights attributable to ZENECA Shareholders to whom ZENECA PALs are not sent as a result of local securities laws restrictions. The proceeds of any such sales (after deduction of the expenses of sale) will be paid to the ZENECA Shareholders who would otherwise have been entitled to be allotted such shares except that, in accordance with normal practice, amounts of less than £3.00 will not be paid to such persons but will be aggregated and paid to the Company.

### (b) US

The ZENECA Rights shares have been authorised for listing, subject to official notice of issuance, on the New York Stock Exchange in the form of ADSs, each ADS representing three ZENECA Rights shares. The ADSs will be evidenced by ADRs which are to be issued by Morgan Guaranty Trust Company of New York as depositary. It is expected that trading in the ADSs and the ADS Rights will commence on the New York Stock Exchange at 9.30 a.m. (New York City time) on 1st June, 1993.

A registration statement, including a US prospectus, has been filed with the US Securities and Exchange Commission by ZENECA to enable the ZENECA Rights Issue to be made, subject to compliance with applicable US laws and the conditions in the underwriting agreement relevant to the offering in the US, on a corresponding basis to holders of ADSs representing ZENECA Demerger shares, as well as to registered holders of ZENECA Demerger shares with addresses in the US. The terms of the ZENECA Rights Issue for holders of ADRs and the actions that holders should take in respect of it are set out in the US prospectus. All US persons who are holders of ZENECA Demerger shares and who have not received a copy of the US prospectus should request one from the Registrar, PO Box 251, Wexham Road, Slough SL2 5DP (telephone 011 44 753 877008).

Warrants evidencing ADS Rights will expire at 5.00 p.m. (New York City time) on 21st June, 1993.

### (c) Canada

ZENECA has provided notice or applied, as necessary, to securities regulatory authorities in each of the provinces and territories of Canada in order to allow the ZENECA Rights Issue to proceed on the basis that the distribution of the ZENECA PALs and the issue of the ZENECA Rights shares on acceptance of the offer contained in the ZENECA PALs will not be subject to local securities dealer registration and prospectus requirements. In addition, ZENECA has applied for discretionary rulings, where required, in order to permit ZENECA Shareholders to resell the ZENECA PALs and underlying ZENECA Rights shares without being subject to local prospectus (or prospectus exemption) requirements. It is expected that the discretionary rulings, if granted,

will be subject to a condition that the resale be made through the facilities of a stock exchange outside Canada in accordance with the rules of such stock exchange and the laws applicable thereto. In the event that any Canadian securities regulatory authority objects to the proposed ZENECA Rights Issue and such objection is not resolved to the satisfaction of ZENECA or in the event that any discretionary ruling cannot be obtained on terms satisfactory to ZENECA, ZENECA may elect not to make the ZENECA Rights Issue available to shareholders resident in Canada. In such event, ZENECA PALs will not be sent to Canadian shareholders and ZENECA Rights shares will not be offered or sold, directly or indirectly, in Canada or to ZENECA Shareholders with registered addresses in Canada.

*(d) Australia*

- (i) Neither this document nor the ZENECA PAL has been or will be lodged or registered with the Australian Securities Commission under the Australian Corporations Law, as amended. Accordingly, as the Australian Securities Commission has declined to grant the appropriate exemption under section 1084 of the Australian Corporations Law, no invitation to subscribe for or buy the ZENECA Rights shares is being or will be issued, and ZENECA Rights shares are not being offered for subscription or purchase, and may not be sold, renounced or delivered, directly or indirectly, in or into the Commonwealth of Australia, its estates, territories or possessions ("Australia"). Furthermore, ZENECA PALs and other advertisements or other offering material in relation to the ZENECA Rights Issue will not be distributed directly or indirectly to Australia and ZENECA will not be bound to allot or issue ZENECA Rights shares to any shareholder with an address in Australia or to any person with an address in Australia to or in whose favour a ZENECA PAL or any ZENECA Rights shares may be transferred or renounced.
- (ii) Payment under a ZENECA PAL will constitute a representation and warranty that the person entitled to the same has not received, sent or forwarded the ZENECA PAL in or into Australia or to any person or corporation in Australia, and is not subscribing for any of the ZENECA Rights shares with a view to their offer, sale or delivery directly or indirectly in or into Australia or to or for the account of any person in Australia.

*(e) South Africa*

In order to comply with South African law, ZENECA PALs sent to ZENECA Shareholders with registered addresses in South Africa will not be renounceable. ZENECA Shareholders will require the approval of the South African Exchange Control authorities if they wish to take up their entitlement.

*(f) France*

ZENECA has applied to the securities regulatory authorities in France for appropriate approvals to allow the ZENECA Rights Issue to proceed in France in order to permit ZENECA Shareholders resident in France to take up their entitlement. If such approvals are not granted on or before 29th May, 1993, or such later date as may be agreed between ZENECA and the Underwriters, ZENECA PALs will not be sent to French resident shareholders.

*(g) Japan*

In order to comply with Japanese law, ZENECA PALs will not be sent to ZENECA Shareholders with registered addresses in Japan.

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## ADDITIONAL INFORMATION

### 1 ZENECA GROUP PLC

The Company was incorporated and registered in England and Wales as a public limited company under the Companies Act 1985 (the "Act") on 17th June, 1992, under the name Hackplimco (No. Five) Public Limited Company, which was changed to ZENECA Group PLC on 16th February, 1993. The registered office of the Company is Imperial Chemical House, 9 Millbank, London SW1P 3JF.

### 2 SHARE CAPITAL

#### ZENECA

- (a) On incorporation, the Company had an authorised share capital of £100,000, divided into 100,000 ordinary shares of £1 each, of which 2 ordinary shares were issued (fully paid) to the subscribers ("Subscribers") to the Company's Memorandum of Association. On 15th February, 1993, a further 49,998 ordinary shares of £1 each were allotted at par against an undertaking to pay cash, subject to cancellation of such undertaking in the circumstances described below, to one of the Subscribers in order to enable the Company to obtain a certificate to commence business under Section 117 of the Act. On 20th April, 1993, the Company's authorised and issued share capital was subdivided from shares of £1 each into shares of 25p each. This resulted in the authorised share capital of £100,000 being divided into 400,000 ZENECA Ordinary shares and the issued share capital of £2 being divided into 8 ZENECA Ordinary shares. The allotted but unissued share capital of £49,998 was divided into 199,992 ZENECA Ordinary shares. Also on 20th April, 1993, the Company's authorised share capital was increased to £300 million, divided into 1,200,000,000 ZENECA Ordinary shares. There have been no changes to the Company's authorised and issued share capital since its incorporation apart from those changes described above.

On or about 28th May, 1993, the 8 issued ZENECA Ordinary shares referred to above will be transferred at par from the Subscribers to two existing ICI Shareholders. These 8 issued ZENECA Ordinary shares will be taken into account on the issue of the ZENECA Demerger shares to the two ICI Shareholders concerned if the Demerger becomes effective, whereupon the allotment of the 199,992 ZENECA Ordinary shares will automatically be cancelled.

Immediately following the Demerger and ZENECA Rights Issue, the authorised and issued share capital of the Company will, based on the assumptions referred to below, be as follows:

	Authorised	Issued and fully paid
ZENECA Ordinary shares of 25p each	£300,000,000	£236,172,475

The issued and fully paid share capital of the Company shown above is based on the assumptions that (i) the ZENECA Rights shares have been paid up in full, and (ii) the number of ICI Ordinary shares in issue at the Demerger Record Date will be 719,763,734, being the number of ICI Ordinary shares in issue or in respect of which options have been exercised or conditionally exercised on or before 5th May, 1993 and takes no account of approximately 5 million further ICI Ordinary shares which could be issued upon exercise of options after 5th May, 1993.

- (b) Application has been made to the London Stock Exchange to admit the ZENECA Demerger shares and ZENECA Rights shares to the Official List.
- (c) Pursuant to the Company's Articles of Association adopted on 20th April, 1993, the Directors are generally authorised for the purposes of section 80 of the Act to allot ZENECA Ordinary shares or securities convertible into ZENECA Ordinary shares, or to grant options to subscribe for ZENECA Ordinary shares, having an aggregate nominal value equal to the authorised but unissued share capital of the Company at that date of £299,999,998. The provisions of section 89(1) of the Act, to the extent that they are not disapplied, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash. The provisions of section 89(1) are at present generally disapplied, pursuant to the Articles of Association, in connection with the issue of the ZENECA Rights shares and any other issue of equity securities for cash which, when taken together with any other equity securities allotted for cash during the period of the disapplication, do not in aggregate exceed a nominal value of £12 million. The authority and disapplication expires on the date of the Annual General Meeting of the Company in 1994 or, if sooner, on 30th June, 1994.
- (d) Goodwill arising on acquisitions has been written off immediately and negative reserves on consolidation have been created as a result. As at 31st December, 1992, these negative reserves amounted to £253 million, as shown in the Pro Forma Combined Net Asset Statement in Part 9. Upon completion of the ZENECA Rights Issue, an amount equal to the difference between the nominal value of the shares issued and the issue proceeds will be credited to the Company's share premium account, against which the Company intends to write off the expenses of the issue.

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By a special resolution passed at an extraordinary general meeting on 20th April, 1993, the Company resolved to cancel its share premium account. Such cancellation requires the confirmation of the High Court, which will be sought when the amount of the share premium account following the ZENECA Rights Issue is finally determined. The undistributable reserve which will arise on such cancellation will be applied in writing off any existing goodwill, and the balance remaining will be retained for the purpose of writing off goodwill arising on future acquisitions.

- (e) Except pursuant to the ZENECA Rights Issue or in connection with the ZENECA Share Option Schemes, no material issue of shares (other than to ZENECA Shareholders pro rata to their shareholdings) will be made by the Company within one year of the date of this document without the prior approval of ZENECA Shareholders in general meeting.
- (f) Based on their interests in ICI Ordinary shares notified to ICI in accordance with Part VI of the Companies Act 1985, and assuming the Demerger becomes effective but taking no account of the ZENECA Rights Issue, as at 5th May, 1993 (the latest practicable date before the printing of this document) the following persons would have the following interests in 3 per cent. or more of ZENECA's ordinary share capital:

	ZENECA Ordinary shares	Percentage holding
Morgan Guaranty Trust Company of New York *	54,673,913	7.63
Schroder Investment Management Limited	25,934,064	3.62
Prudential Corporation Group of Companies	22,112,985	3.09

\* as depositary for the sponsored ADR facility

The Directors are not aware of any other person who, immediately following the Demerger, would be interested, directly or indirectly, in 3 per cent. or more of the issued share capital of the Company.



### 3 EMPLOYEE SHARE SCHEMES

#### (a) 1993 Senior Staff Share Option Scheme

##### (i) General

The Company has established the ZENECA 1993 Senior Staff Share Option Scheme (the "Scheme") to grant options to acquire ZENECA Ordinary shares ("Options") to Directors and senior ZENECA employees. A copy of the rules of the Scheme is available for inspection at the addresses set out in paragraph 15 of this Part 11. The Scheme is split into two parts, one of which is approved by the Inland Revenue and the other of which is not. The Scheme also enables certain Options to be designated as "A Options" which are subject to special terms described in paragraph (iv) below.

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Options may be granted only up to 19th May, 1994. The offer and grant of all options will be made by a committee of Directors (the "Remuneration Committee"), all or a majority of whom will be non-executive Directors and will not participate in the Scheme. Options may be offered within the period of 30 days following the public announcement of the Company's results for any annual, semi-annual or quarterly period, or in exceptional circumstances. The Remuneration Committee intends to offer Options after the Demerger within the overall and individual Scheme limits.

The number of shares available for the Scheme is limited to the number of ZENECA Ordinary shares which will be approximately 3 per cent. of the issued ordinary share capital of the Company immediately following completion of the ZENECA Rights Issue. Each person's participation will be limited by reference to four times his relevant earnings. However, in respect of each participant who had options under the ICI Senior Staff Share Option Schemes (the "ICI Schemes"), the Remuneration Committee intends to limit the grant of any options under the Scheme to the aggregate value (based on their respective exercise prices) of the options to which each such participant would have been entitled had he still been participating in the ICI Schemes.

##### (ii) Eligibility

All executive Directors and ZENECA employees who devote substantially the whole of their working time to the service of the Group and are not within two years of their normal retirement date are eligible to be granted Options. The Remuneration Committee intends to grant options only to those executive Directors and senior employees who have no outstanding options under the ICI Schemes, except for Sir Denys Henderson, who because of his position as Chairman of both ZENECA and ICI, will be eligible for the grant of A Options.

##### (iii) Terms of Options

The price at which an option may be granted, as determined by the Remuneration Committee, may not (except in respect of A Options) be less than the higher of (1) the nominal value of a ZENECA Ordinary share and (2) the average of the middle market quotations of a ZENECA Ordinary share on the London Stock Exchange as derived from the Daily Official List on the three dealing days preceding the day on which the offer of an Option is made.

Options are not transferable and may only be exercised by persons to whom they are granted or their personal representatives. Except in respect of A Options, they may usually be exercised after the third anniversary from the date of grant up to the seventh or tenth anniversary from the date of grant. In addition, they become exercisable in

specified circumstances, such as cessation of employment by reason of death and certain other circumstances. If the Company is acquired, Options under the Revenue approved part of the Scheme may be exchanged in consideration of the grant of equivalent rights in a different company. The rules of the Scheme provide for adjustments to the terms of Options in the event of any change in the capital structure of the Company and in certain other specified circumstances.

(iv) A Options

The Scheme enables the Remuneration Committee to designate an Option as an A Option. In order to qualify for the grant of A Options, a person must be an executive Director or a ZENECA employee, but is not required to devote substantially the whole of his working time to service under his contract and can be within two years of his normal retirement date. In granting an A Option, the Remuneration Committee may have regard to any options granted under the ICI Schemes ("ICI Options") which have been renounced and may fix the price and exercise period of the A Options by reference to such ICI Options.

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(b) US Schemes

In the US, ZENECA has two senior staff incentive schemes, under which either ZENECA ADSs or stock appreciation rights related to ZENECA ADSs are awarded to participants. The schemes contain provisions which allow for adjustments upon a demerger. There are currently approximately 95 participants in these schemes. ZENECA ADSs necessary to satisfy the awards under these schemes will be purchased on the open market, and no subscription for new ZENECA Ordinary shares will be involved.

#### 4 PENSIONS

Details are set out below of the two most significant pension schemes which ICI operates and in which ZENECA's employees participate. They are in the UK and the US. An indication is given of the manner in which these pension funds are expected to be divided between ZENECA and the ICI Group.

(a) The ICI Pension Fund in the UK (the "Fund")

(i) General

The Fund covers UK resident employees of ICI and ZENECA Limited. As at 31st March, 1993, the Fund had approximately 38,000 active members, 18,000 deferred pensioners, and 78,500 pensioners. The Fund is a defined benefits plan. ICI guarantees the Fund's solvency and due payment of all benefits. ICI has an established practice of granting discretionary pension increases which, together with the inflation-linked guaranteed increases of up to 5 per cent. per annum, have in the past broadly matched inflation.

The sole Trustee of the Fund is ICI Pensions Trustee Limited, a wholly owned subsidiary of The Law Debenture Trust Corporation p.l.c., an independent professional trustee which is listed on the London Stock Exchange. The directors of the Trustee include representatives from the management and employees of both ZENECA Limited and ICI. The assets of the Fund are managed by ICI Investment Management Limited which is a member of the Investment Management Regulatory Organisation and a wholly owned subsidiary of ICI.

(ii) Funding

The most recent actuarial valuation of the Fund was made as at 31st March, 1992 by R. Watson & Sons, the actuaries to the Fund, using the projected unit method.

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The actuaries have calculated that, on the basis of the assumptions adopted in the valuation, the actuarial value of the assets of the Fund as at 31st March, 1992 amounted to 97.2 per cent. of the liabilities for accrued benefits, resulting in a funding shortfall of £161 million.

The long term ICI contribution rate to finance future benefit accruals was 14.5 per cent. of total pensionable pay. The funding shortfall is being met by additional employer contributions over 12 years being the average remaining service lives of the active members. Since 1st April, 1993, all participating companies in the Fund have been contributing at the rate of 18.1 per cent. of total pensionable pay.

### (iii) Equalisation of benefits

In common with all UK pension schemes, action may need to be taken to equalise benefits for men and women following clarification of the European Court judgement of *Barber v. Guardian Royal Exchange*. The actuaries have estimated that, if benefits have to be equalised retrospectively in respect of active members, the extra Fund liability would be £120 million, and ZENECA Limited's share would be some £35 million.

### (iv) Proposed split of the Fund

ZENECA Limited became a participating employer in the Fund with effect from 1st January, 1993, and employees who transferred to ZENECA Limited continued their membership of the Fund without interruption. It is intended that, upon the Demerger, and subject to consent of the Fund's Trustee, this arrangement will continue during a transitional period, probably until 31st March, 1994. ZENECA Limited will establish a new pension fund with effect from the end of this transitional period.

ZENECA and ICI have agreed to propose to the Trustee that it transfer ZENECA Limited's active members, and deferred pensioners and pensioners whose last employment was with a ZENECA business, to ZENECA's new pension fund. If the Trustee decides to do so, a share of the assets of the Fund, determined by the actuaries to be appropriate and currently estimated to be about 20 per cent., will then be transferred to the new pension fund, whose terms will initially have to mirror the terms of the Fund. ZENECA and ICI have agreed to use reasonable efforts to ensure that the split takes place on this basis, and have entered into arrangements to ensure that liabilities are appropriately shared between them should this not occur.

During the transitional period, and to facilitate the splitting of the Fund should the Trustee so decide, arrangements have been made for the assets of the Fund to be split notionally between those members remaining with ICI, and those transferring to ZENECA.

### (v) Contributions

The contribution rate of 18.1 per cent. of total pensionable pay recommended by the actuaries with effect from 1st April, 1993 will continue to be paid by ZENECA Limited (subject to review at the next actuarial valuation) until any split of the Fund, after which a suitable contribution rate will be determined by the actuaries to ZENECA's pension fund.

## (b) The ICI Americas Pension Plan (the "Plan").

### (i) General

Prior to 27th December, 1992 employees of both ZENECA Inc. (formerly ICI Americas Inc.) and ICI Americas Inc. (formerly ICI Chemicals Inc.) participated in the Plan. The

Plan is a defined benefits plan with assets held in a trust maintained by an independent trustee, State Street Bank and Trust Company.

On 27th December, 1992 ZENECA Inc became the sponsoring employer under the Plan and ICI Americas Inc agreed to establish a new plan, on similar terms, for its employees and those pensioners and deferred pensioners of the Plan allocated to it. An appropriate portion of the assets of the Plan will be transferred to the new plan.

(ii) Funding

As at 31st December, 1992, on the basis of the actuarial assumptions adopted, the past service liabilities of the Plan exceeded the fair market value of the assets by approximately \$191 million.

(iii) Proposed split of the Plan

Assets will be allocated to participants of the two companies in accordance with the statutory rules for terminating plans with insufficient assets. Preliminary calculations have indicated that after the split of the assets, the ratio of assets to past service liabilities will be approximately 73 per cent. in respect of ZENECA participants, representing a shortfall of \$122 million.

**ZENECA**

## 5 SUMMARY OF MEMORANDUM AND ARTICLES OF ASSOCIATION

### MEMORANDUM

The Memorandum of Association of the Company provides that the Company's principal objects are to act as and to perform the function of a holding company. The objects of the Company are set out in full in Clause 4 of its Memorandum of Association.

### ARTICLES OF ASSOCIATION

(a) Rights attaching to Ordinary Shares

The following is a description of the rights attaching to the ZENECA Ordinary shares based on the Company's Articles of Association (the "Articles") and English law. This description does not purport to be complete and is qualified in its entirety by the full terms of the Articles.

(i) Voting

Subject to disenfranchisement in the event of (i) non-payment of calls or other monies due and payable in respect of ZENECA Ordinary shares or (ii) non-compliance with a statutory notice requiring disclosure as to beneficial ownership of ZENECA Ordinary shares, and, without prejudice to any special rights previously conferred and subject to any special terms as to voting upon which any shares may be issued or may for the time being be held and to any other provisions of the Articles, on a show of hands every ZENECA Shareholder who is present in person at a general meeting of the Company shall have one vote, and on a poll every ZENECA Shareholder who is present in person or by proxy shall have one vote for every ZENECA Ordinary share held.

(ii) Dividends

Subject to the Statutes (as defined in the Articles), the Company at a general meeting may declare dividends to be paid to ZENECA Shareholders according to their rights and interests in the profits available for distribution, but no dividend shall be declared in excess of the amount recommended by the Board. Except insofar as the rights attaching to, or the terms of issue of, any ZENECA Ordinary share otherwise provide, all dividends shall be declared

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according to the amounts paid-up or credited as paid-up on the shares and apportioned and paid pro rata according to the amounts paid-up or credited as paid-up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may from time to time pay to the ZENECA Shareholders such interim dividends as appear to the Board to be justified by the position of the Company. Any dividend unclaimed after a period of 12 years from the date of declaration shall be forfeited and shall revert to the Company.

(iii) *Distribution of assets on liquidation*

On a winding-up, the liquidator may, with the sanction of an extraordinary resolution of the Company and subject to and in accordance with the Act, divide among the ZENECA Shareholders in specie or kind the whole or any part of the assets of the Company, subject to the rights of any shares which may be issued with special rights or privileges.

## ZENECA

(iv) *Transferability of ZENECA Ordinary shares*

All of the ZENECA Ordinary shares will be in registered form. Any ZENECA Shareholder may freely transfer all or any of his ZENECA Ordinary shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion and without assigning any reason therefor, decline to register any transfer of any ZENECA Ordinary share which is not fully paid. There is no restriction on the registration of a duly stamped transfer of fully paid ZENECA Ordinary shares (except insofar as the transfer is made to or by an infant or patient within the meaning of the Mental Health Act 1983) provided the transfer (a) is lodged with the Company, accompanied by the relevant share certificate and such other evidence of ownership as the Board may reasonably require, (b) is only in respect of one class of share and (c) is, in the case of a transfer to joint holders, in favour of not more than four transferees. If any of the above conditions are not complied with, the Board has discretion whether or not to register the transfer in question.

(v) *Variation of rights*

Subject to the Statutes, the special rights attached to any class of shares for the time being issued may from time to time (whether or not the Company is being wound-up) be altered or abrogated with the written consent of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the issued shares of that class at which a quorum of one or more persons holding or representing by proxy not less than one-third of the issued shares of that class (or in the case of an adjourned meeting such quorum as is specified by the Articles) is present. The special rights conferred upon the holders of any shares or class of share shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be altered by the creation or issue of further shares ranking *pari passu* therewith or the purchase by the Company of any of its own shares.

(vi) *Changes in capital*

Subject to the provisions of the Statutes and to any special rights conferred on the holders of any shares or class of shares, the Company may issue redeemable shares. Subject to the provisions of the Statutes and to any special rights previously conferred on the holders of any existing shares, any share may be issued with such special rights or such restrictions as the Company may determine by ordinary resolution. The Company may by ordinary resolution increase its share capital, consolidate and divide its share capital into shares of a larger amount, sub-divide its share capital into shares of a smaller amount (subject to the provisions of the Statutes) and cancel any shares which have not been taken or agreed to

be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled.

Subject to the provisions of the Statutes the Company may by special resolution reduce its authorised and issued share capital, any capital redemption reserve and any share premium account in any manner. The Company may also, subject to the requirements of the Statutes, purchase its own shares.

(vii) Untraced shareholders

Subject to various notice requirements, the Company may sell any shares of a member or person entitled thereto who is untraceable, if during a period of 12 years, at least three dividends in respect of the shares in question have become payable and the cheques or warrants for all amounts payable to such member or person in respect of his shares have remained uncashed and the Company has received no indication of the existence of such member or person. The net proceeds of sale shall belong to the Company but the member or person who had been entitled to the shares shall become a creditor of the Company in respect of those proceeds.

**ZENECA**

If on three consecutive occasions notices or other communications (including dividend payments) have been sent through the post to any holder of shares to his registered address or to his address for the service of notices but returned undelivered, such holder is not thereafter entitled to receive notices or other such communications until he has supplied the Company with a new address.

(viii) Non-UK shareholders

There are no limitations in the Memorandum or Articles on the rights of non-UK shareholders to hold, or exercise voting rights attaching to, ZENECA Ordinary shares. However, no ZENECA Shareholder is entitled to receive notices from the Company, including notices of general meetings, unless he has given an address in the UK to the Company to which such notices may be sent.

(ix) Sanctions on shareholders

A holder of ZENECA Ordinary shares loses his rights to vote in respect of ZENECA Ordinary shares if and for so long as he or any other person appearing to be interested in those shares fails to comply with a request by the Company under the Act requiring him to give particulars of any interest in those ZENECA Ordinary shares within 28 days in the case of a shareholding representing less than 0.25 per cent. in nominal amount of the share capital of the Company then in issue, or any class thereof, and the Company gives notice of disenfranchisement. In the case of shareholdings representing 0.25 per cent. or more, in nominal amount, of such capital, the compliance period is reduced to 14 days and the sanctions which may be applied by the Company include not only disenfranchisement but also the withholding of the right to receive payment of dividends and other monies payable on, and restrictions on transfers of, the ZENECA Ordinary shares concerned.

(x) Subject to the Statutes, a holder of ZENECA Ordinary shares who having been given an opportunity to do so, does otherwise elect in writing to the Company, may thereafter receive annual summary financial statements if published by the Company, instead of its full report and accounts.

(b) Directors

The Directors (other than those holding full-time salaried employment with the Company) shall be paid by way of fees for their services at such rate and in such proportion as the Board may resolve, a sum not exceeding an aggregate of £500,000 per annum or such larger amount as the Company may by ordinary resolution determine or, in the case of such Directors who are resident outside the UK, such extra remuneration as the Board may determine.

The Directors shall also be paid all expenses properly incurred by them in attending meetings of the Company or of the Board or otherwise in connection with the business of the Company.

A Director who is in any way, whether directly or indirectly, interested in any contract or proposed contract with the Company shall declare the nature of his interest in accordance with the Statutes.

A Director shall not vote, and shall not be counted in a quorum, in respect of any contract, arrangement or proposal in which he has a material interest, except that this prohibition shall not apply to:-

(i) any arrangement for giving any Director any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company or any of its subsidiary undertakings;

(ii) any contract or arrangement by a Director to participate in the underwriting or sub-underwriting of any offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription, purchase or exchange;

(iii) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;

(iv) any contract or arrangement concerning any other company (not being a company in which the Director owns one per cent. or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever. A company shall be deemed to be a company in which a Director owns one per cent. or more if and so long as (but only if and so long as) he is (either directly or indirectly) the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company. For the purpose of this paragraph there shall be disregarded any shares held by a Director as bare or custodian trustee and in which he has no beneficial interest, any shares comprised in a trust in which the Director's interest is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director is interested only as a unit holder;

(v) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefits scheme, share option scheme, share incentive scheme or profit sharing scheme which relates both to Directors and employees of the Company or of any of its subsidiary undertakings and does not accord to any Director as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates;

(vi) any arrangement for the benefit of employees of the Company or of any of its subsidiary undertakings under which the Director benefits in a similar manner to the employees;

(vii) any proposal concerning any insurance which the Company is empowered to purchase or maintain for or for the benefit of any Directors or for persons who include Directors;

and these prohibitions may at any time be suspended or relaxed to any extent, and either generally or in respect of any particular contract, arrangement or transaction, by the Company in general meeting.

**ZENECA**



Subject to the provisions of the Statutes, a Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director, or may act in a professional capacity for the Company on such terms (including remuneration) as the Board may determine. No Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any contract or arrangement entered into by the Company in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such transaction by reason of such Director holding that office.

Notwithstanding Section 293 of the Act, a Director aged 70 or more shall be capable of being appointed a Director and shall not be required to retire by reason of his age.

With effect from the admission of ZENECA Ordinary shares to the Official List of the London Stock Exchange, the qualification of a Director will be the holding of shares of the Company of an aggregate nominal amount of £125. He must obtain his qualification within the later of two months after the date of his appointment and six months after the date of such admission.

**ZENECA**

At each annual general meeting of the Company one-third (or the nearest number to one-third) of the Directors shall retire from office by rotation. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election. The Company may from time to time by ordinary resolution appoint any person to be a Director. The Directors may also from time to time appoint one or more Directors but any Director so appointed shall retire at the next annual general meeting of the Company but shall then be eligible for re-election and any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.

The Board may from time to time appoint one or more Directors to be the holder of any executive office for such period and on such terms as it decides. A Director so appointed shall cease to hold such office when the Board terminates his appointment or in the case of certain Directors appointed to hold an executive office when he ceases to be a Director of the Company.

#### (c) Borrowing Powers

The Articles provide that the aggregate principal amount from time to time remaining undischarged of all moneys borrowed by the Company (exclusive of intra-group borrowings) shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to £6,000 million before the date of the annual general meeting in 1994 or thereafter an amount equal to three times the aggregate of the issued share capital and reserves of the Company adjusted in the manner set out in the Articles.

## 6 DIRECTORS' INTERESTS

(a) Immediately following the Demerger, and taking no account of the ZENECA Rights Issue, the Directors and their immediate families will have the interests in the ZENECA Ordinary shares as shown in the table below based on their holdings of ICI Ordinary shares according to the ICI register of Directors' share interests as at 10th May, 1993, the latest practicable date before the printing of this document, such interests being required to be notified to the Company pursuant to Section 324 or Section 328 of the Act, or which are required pursuant to Section 325 of the Act to be entered in the register referred to therein, or which are interests of a person connected

with the Directors within the meaning of Section 346 of the Act (or which would have been required to be so notified by those Directors had they been directors of ICI):

## ZENECA

ZENECA Ordinary shares	
Sir Denys Henderson	21,274
J D F Barnes	2,813
P Doyle	3,050
J C Mayo	Nil
A I H Pink	430
A T G Rodgers	600
Lord Chilver	1,000
Sir Richard Greenbury	500
Miss G M Lewis	Nil
Sir Jeremy Morse	1,819
T H Wyman	500

The Directors do not have any interests in any other company within the Group. They may be granted options under the share option scheme described in paragraph 3 of this Part 11.

(b) There are no outstanding loans by any member of ZENECA to any Director, nor any guarantees provided by any such member for the benefit of any Director.

(c) Save as disclosed in paragraph 7(j) of this Part 11, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of ZENECA and which has been effected by ZENECA during the current or immediately preceding financial year or which was effected by ZENECA during any earlier financial year and remains in any respect outstanding or unperformed.

(d) Each of the Directors named below has entered into a service contract with a member of the Group, particulars of which are set out below. Such contracts are conditional upon the Demerger becoming effective.

Director	Annual salary	Notice period
	£	
Sir Denys Henderson	257,500	*
J D F Barnes	325,000	3 years
P Doyle	228,560	3 years
J C Mayo	200,000	3 years
A I H Pink	215,000	3 years
A T G Rodgers	209,070	3 years

\*Sir Denys Henderson's service contract expires on the earlier of the date of the Annual General Meeting of the Company in 1995 and 31st May, 1995.

The Chairman and the executive Directors are entitled to participate in a bonus arrangement for 1993 based on the performance of the Group and the performance of the Directors. The amount of bonus paid (if any) will be at the discretion of the Remuneration Committee. 75 per cent. of any bonus will relate to profit performance of the Group and 25 per cent. will relate to the achievement of a cash surplus before dividends and finance charges.

Save as mentioned above, there are no service contracts between any Director and any member of the Group which do not expire or cannot be determined without payment of compensation (other than statutory compensation) within one year and no such contracts are proposed.

Upon the Demerger becoming effective, J D F Barnes, P Doyle and A T G Rodgers will resign as Directors of ICI and their service contracts will terminate without compensation or other payment in respect thereof.

(c) T H Wyman is an executive director of S.G. Warburg Group plc, subsidiaries of which will receive commissions and a fee in connection with the ZENECA Rights Issue, the Underwriting Agreement and the International Marketing Agreement referred to and as defined in paragraph 7 of this Part 11.

(f) There were no emoluments paid to or pensions contributions paid in respect of the Directors in the year ended 31st December, 1992. The estimated remuneration payable to the Directors in respect of the year ending 31st December, 1993 under the arrangements in force at the date of this document and assuming that the service agreements of the executive Directors become unconditional is approximately £1.6 million, excluding amounts that may be paid under bonus or profit-sharing plans and assuming such remuneration payments are made in respect of the full year ending 31st December, 1993. The aggregate amount expected to be set aside by the Group for that period to provide pension, retirement or similar benefits for all Directors is approximately £0.2 million.

**ZENECA**

## 7 MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years immediately preceding the date of this document and are or may be material:-

(a) An agreement dated 18th December, 1992 between ICI and ZENECA Limited (the "UK Hive-down Agreement") pursuant to which ICI agreed to sell and ZENECA Limited agreed to purchase, with effect from 1st January, 1993, certain bioscience businesses of ICI for a consideration consisting of the issue to ICI of ZENECA Limited ordinary shares and the assumption by ZENECA Limited of an amount of indebtedness owed by ICI to subsidiaries of ICI other than members of the Group and of certain liabilities of ICI in connection with such businesses. The UK Hive-down Agreement provided for the number of such ordinary shares to be issued and the value of such inter-company indebtedness to be assumed to be calculated by reference to the net asset value in the accounts of ICI of such businesses as at 1st January, 1993; subsequent thereto, and in accordance therewith, 50,000,000 ordinary shares of £1 each in ZENECA Limited were issued to ICI and approximately £1,619 million of indebtedness was assumed by ZENECA Limited. The UK Hive-down Agreement contains indemnities given by ZENECA Limited to ICI in respect of liabilities of the bioscience businesses acquired pursuant to the agreement and by ICI to ZENECA Limited in respect of liabilities of ICI's retained and other chemical activities.

(b) An agreement dated 27th December, 1992 between ZENECA Inc. and ICI Americas Inc. ("ICI US") (the "US Hive-down Agreement") pursuant to which ZENECA Inc. agreed to transfer to ICI US all of the chemical businesses held by ZENECA Inc., together with the assets of certain central corporate functions. The transfer was made as a contribution to the capital of ICI US. The US Hive-down Agreement provided that ZENECA Inc. will retain all of the bioscience businesses then held by it, as well as the assets of certain corporate functions. In addition, the US Hive-down Agreement contains indemnities given by ICI US to ZENECA Inc. in respect of liabilities of the bioscience businesses and by ICI US to ZENECA Inc. in respect of liabilities of the chemicals businesses and other transferred assets.

## ZENECA

(c) An agreement dated 15th April, 1993 between ICI Finance PLC ("ICI Finance") and ZENECA Limited (the "Committed Note Purchase Agreement"), pursuant to which ZENECA Limited has issued £1,800 million in nominal value of Zero Coupon Notes to ICI Finance and ICI Finance has agreed to subscribe for further notes issued thereunder, subject to the limits of the facility. The facility expires on 30th June, 1995 and reduces over time from a facility limit of £2,000 million to the following amounts: £1,000 million on 15th July, 1993, £300 million on 29th December, 1993 and £150 million on 29th December, 1994. The issue price of notes will reflect floating rates of interest. The Notes will be guaranteed by the Company as from the Demerger. Part of the proceeds of the issue of the £1,800 million nominal value of Notes referred to above was used to provide working capital for ZENECA Limited and was deposited with ICI Finance at a market-based rate of interest. Under a further agreement dated 12th May, 1993, ICI Finance and ZENECA Limited agreed that the balance of any cash on deposit by ZENECA Limited with ICI Finance as at the close of business on 28th May, 1993 would remain on deposit until 29th June, 1993. Such agreement provides for a right of set-off in respect of such deposit and the amount due in respect of the Notes initially issued under the Committed Note Purchase Agreement. The Notes initially issued mature on 29th June, 1993.

(d) A deed of guarantee dated 12th May, 1993 (the "Deed of Guarantee") pursuant to which ZENECA Group PLC has inter alia, and with effect from the Demerger, guaranteed the obligations of ZENECA Holdings Inc. as the borrower pursuant to a US\$500 million Loan Agreement dated 28th June, 1991, a US\$280 million Loan Agreement dated 31st October, 1986 and a US\$70 million Loan Agreement dated 21st December, 1992, in each case with ICI. Such loans bear interest at an average rate of 9.2 per cent. per annum and have maturity dates in 2001 and 2002. The Deed of Guarantee provides for their early repayment at the option of the Company (at any time after 4th January, 1994) or ICI (at any time after 1st June, 1995).

(e) An agreement dated 12th May, 1993 between ICI, the Company and ZENECA Limited (the "Demerger Agreement") pursuant to which, inter alia, ICI and the Company have agreed that, subject to the passing of the Resolution to approve the Demerger and to the agreement of the London Stock Exchange to the admission of the ZENECA Ordinary shares to the Official List, ICI will, pursuant to a scheme for the reconstruction of ICI, transfer or procure the transfer, subject only to the admission to the Official List of the London Stock Exchange of the ZENECA Ordinary shares, of the issued share capital in ZENECA Limited to the Company in exchange and in consideration for which the Company will allot and issue (subject only to such admission) the ZENECA Demerger shares to the ICI Shareholders as at the Demerger Record Date in satisfaction of the dividend payable to ICI Shareholders to be declared pursuant to the Resolution. The parties agreed to use all reasonable efforts to procure fulfilment of the conditions described above. Under the Demerger Agreement, ICI and the Company have made provision as to the allocation between ICI and the Company of certain costs of the Demerger and reorganisation of the ICI Group, as well as provision for the storage of and access to data and archives. The Company and, to the extent it may lawfully do so, ZENECA Limited have jointly and severally agreed to guarantee the performance by ZENECA Limited and other members of the Group of obligations assumed by them pursuant to the terms of certain agreements entered into pursuant to the reorganisation of the ICI Group and to indemnify ICI in relation to any non-compliance with the terms of such agreements. ICI has also agreed to a similar guarantee and indemnity in relation to the performance of or, as the case may be, non-compliance with its subsidiaries' obligations under such agreements.

The Demerger Agreement sets out the basis on which ICI and ZENECA will use all reasonable endeavours to ensure that employees of ZENECA and the deferred pensioners and pensioners whose last employment was with a ZENECA business are transferred from the ICI Pension Fund to a newly formed ZENECA pension fund together with a share of the ICI Pension Fund. The Demerger Agreement also contains arrangements to ensure that pension liabilities are appropriately shared between ICI and ZENECA should this not occur.

The only representation and warranty contained in the Demerger Agreement is given by ICI to the Company with respect to there being no material defects in material assets, no material encumbrances over and no material third party rights in respect of any material assets of the ZENECA businesses and no material liabilities of such businesses, which have not been disclosed to ZENECA or in this document, the omission or disclosure of which makes any statement in this document misleading and disclosure of which investors and their professional advisers would reasonably require and reasonably expect to find in this document.

Such warranty is limited to the best of the personal knowledge and belief, having made all reasonable enquiries, of specified ICI personnel and does not extend to such matters as are, or on reasonable enquiry ought to be, known to specified ZENECA personnel. Liability for breach is limited to £200 million and does not extend to claims which in aggregate fall below £20 million.

## ZENECA

(f) An agreement dated 12th May, 1993 between ICI and the Company, (the "Indemnity Agreement"), pursuant to which, conditional on the Demerger becoming unconditional, ICI and the Company have agreed, subject to certain limitations, with effect from 1st January, 1993, to indemnify each other against certain liabilities (actual or contingent) incurred by members of their respective groups associated with the businesses allocated to them as a result of the reorganisation of the ICI Group, which took effect from 1st January, 1993. The Indemnity Agreement covers a wide range of matters including liabilities for breach of warranties or indemnities relating to past disposals of businesses, companies and assets, liabilities arising in relation to current and former employees, site related liabilities (including environmental liabilities), product liabilities, liabilities arising pursuant to restrictive covenants, claims arising out of the use or exploitation of certain intellectual property rights and technology and claims arising in respect of guarantees and other credit-related obligations.

Under the Indemnity Agreement, liabilities relating to breach of warranties and indemnities relating to past disposals of businesses, companies and assets attach to the group which would have owned the business, company or asset had such sale or disposal not taken place; employer liability generally attaches to the final or current employer of an employee, regardless of who the employer may have been at the time the relevant liability arose; environmental and site related liability attaches to the owner of the freehold property giving rise to the liability in question (or, in the case of leasehold property with an unexpired lease term of more than ten years from 1st January, 1993, to the leaseholder of such property), regardless of when the liability may have arisen or the nature of the liability; product liability generally attaches to the group which manufactured the defective product (or component) in question regardless of which group may have been involved in distributing the product.

The Indemnity Agreement provides that, for a period of 20 years from 1st June, 1993 neither ICI nor the Company will permit a reorganisation, reconstruction, disposal or distribution which, when aggregated with any previous connected transaction(s), involves a disposal of 50 per cent. or more of the consolidated net assets of the relevant party (as shown by the latest published audited consolidated balance sheet for the relevant party) unless such transaction is for fair consideration or the successor to such assets agrees to become bound by the Indemnity Agreement.

(g) A deed dated 12th May, 1993 between ICI and the Company (the "Tax Deed") pursuant to which ICI and the Company have agreed to indemnify each other in limited circumstances against certain tax liabilities, the general principle applied being that taxation liabilities should remain with the legal entity in which they arise.

## ZENECA

(h) An agreement dated 12th May, 1993 between ICI and the Company (the "Taxes Management Agreement") which makes provision for mutual co-operation and assistance in calculating and determining tax liabilities of the respective groups, and generally for the management of certain aspects of their respective group's tax affairs (including group relief matters) for periods prior to the Demerger.

(i) An agreement dated 12th May, 1993 between ICI (1) the Company (2) Warburgs (3) Barclays de Zoete Wedd (4) and Goldman Sachs (5) (the "Underwriting Agreement") pursuant to which Warburgs, Barclays de Zoete Wedd and Goldman Sachs (together the "Underwriters") have agreed to underwrite the ZENECA Rights Issue. The obligations of the Underwriters are conditional, inter alia, on admission of the ZENECA Ordinary shares to the Official List of the London Stock Exchange by not later than 8th June, 1993 or such later date, not being later than 9.00 a.m. on 15th June, 1993, as the Company may with the prior written consent of the Underwriters (which consent shall not be unreasonably withheld or delayed) require. There are further conditions contained in the Underwriting Agreement to the making by the Company of the rights offering in the US but fulfilment of those conditions is not a condition to the making of the ZENECA Rights Issue outside the US. The Underwriters are entitled to receive: (i) a commission of 1¼ per cent. of the aggregate value at the subscription price of the ZENECA Rights shares in respect of the first 30 days of its commitment, commencing on 12th May, 1993; (ii) a further commission(s) of ¼ per cent. of the aggregate value at the subscription price of the ZENECA Rights shares in respect of each period of seven days (or any part thereof) from and including 11th June, 1993 until the date which is two dealing days after the acceptance date under the ZENECA Rights Issue or the date on which the Underwriters' obligations cease and determine under the Underwriting Agreement; and (iii) if the Underwriting Agreement becomes unconditional, a further commission of ¾ per cent. of the aggregate value at the subscription price of the ZENECA Rights shares. Out of these commissions the Underwriters will pay sub-underwriting commissions and a fee to the brokers to the ZENECA Rights Issue. The Company has agreed to indemnify the Underwriters and their affiliates and has given to the Underwriters certain representations, warranties and undertakings. The Company will pay the reasonable legal and other out-of-pocket expenses of the Underwriters. The Underwriters have the right to terminate the Underwriting Agreement in certain circumstances. The obligations of the Underwriters are several and separate, Warburgs being responsible for 50 per cent. and Barclays de Zoete Wedd and Goldman Sachs being responsible each for 25 per cent. of the obligations of the Underwriters. If the Demerger is not completed as contemplated by the Demerger Agreement, ICI will procure that the Company performs its obligations and meets all liabilities to the Underwriters (or any permitted assignee) pursuant to the Underwriting Agreement.

(j) An agreement dated 12th May, 1993 between ICI, the Directors and the Company (the "Legal Costs Indemnity Agreement") pursuant to which ICI has agreed to indemnify the Directors from and against any and all expenses reasonably incurred in defending any action or claim arising, inter alia, in connection with the approval and issue of the Listing Particulars and any US prospectus, in circumstances where it is reasonable for the indemnified director to employ his own legal and other professional advisors. The indemnity does not extend (i) to legal defence costs which are covered by insurance or which are otherwise recoverable from third parties, or (ii) for any expenses incurred in relation to any action or claim notice of which is served on or after 2nd June, 1996. The Company has undertaken to indemnify ICI in respect of payments made by ICI under the indemnity to the extent that payments by the Company to ICI may lawfully be made.

### Proposed agreement

The Company proposes to enter into, on or before the latest time for acceptance and payment in full in respect of ZENECA Rights shares, an agreement with ICI, S.G. Warburg Securities Ltd. (as Global Co-ordinator), S.G. Warburg Securities Ltd., Goldman Sachs International Limited and Barclays de Zoete Wedd (as International Marketing Co-ordinators), and Goldman, Sachs & Co. and S.G. Warburg Securities Ltd. (as Bookrunners) (the "International Marketing Agreement") pursuant to which the International Marketing Co-ordinators will be entitled to commissions of 2.15 per cent. calculated on the aggregate sale price of fully paid ZENECA Ordinary shares (including ZENECA Ordinary shares comprised in ADSs) sold by the International Marketing Co-ordinators to the extent that such sales are covered by purchases of nil paid and, in certain circumstances, fully paid ZENECA Rights shares or warrants representing nil paid rights to ADSs and, in the case of nil paid ZENECA Rights shares, subscription thereof, pursuant to the arrangements described in the agreement. The Global Co-ordinator proposes to pay 1 per cent. of such amount to members of two syndicates of international investment banks (the "Managers") which will solicit purchasers for ZENECA Ordinary shares to be sold by the International Marketing Co-ordinators pursuant to the International Marketing Agreements. The Company will also agree to pay to the Global Co-ordinator £50,000 in respect of syndication expenses and to pay all reasonable out-of-pocket expenses of the Global Co-ordinator, the International Marketing Co-ordinators and the Managers. The International Marketing Co-ordinators will agree to pay to the Company 50 per cent. of the net profit made by them pursuant to the International Marketing Agreement. The International Marketing Agreement will provide for the Company to indemnify the International Marketing Co-ordinators and to give them certain representations, warranties and undertakings. The Company will be entitled to terminate the arrangements covered by the International Marketing Agreement at any time in respect of sales after such termination. Such termination may relate to either or both of the syndicates referred to above. If the Demerger is not completed as contemplated by the Demerger Agreement, ICI will procure that the Company performs its obligations and meets all liabilities to the other parties (or any permitted assignee) pursuant to the proposed International Marketing Agreement.

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### 8 WORKING CAPITAL

The Directors are of the opinion that taking into account available bank and other facilities and the net proceeds of the ZENECA Rights Issue, the Group has sufficient working capital for its present requirements.

## 9 PROPERTIES

Summary details of ZENECA's principal properties are set out below:-

### (a) Freehold properties

## ZENECA

Location	Site area (sq.m.)	Current usage
Alderley Park, Macclesfield, Cheshire, UK	1,618,760	Pharmaceuticals' business and R&D headquarters, CTL
Aylon Works, Severnside, Hallen, Bristol, Avon, UK	708,830	Manufacture of pharmaceuticals and fine organic chemicals
Fernhurst Site, West Sussex, UK	395,746	Agrochemicals and Seeds' headquarters
Huddersfield Works, Leeds Road, Huddersfield, West Yorkshire, UK	1,794,710	Manufacture of colours, agricultural chemicals and other fine organic chemicals
Macclesfield Works, Hurdsfield Industrial Estate, Macclesfield, Cheshire, UK	323,752	Manufacture of pharmaceuticals
Grangemouth Works, Earls Road, Grangemouth, Stirlingshire, UK	693,446	Manufacture of colours, agricultural chemicals, pharmaceuticals and other fine organic chemicals
Viale Dell'Industria, 3, 20040 Caponago (Milano), Italy	34,662	Pharmaceuticals' manufacturing and packing facilities for a number of products both for domestic and international distribution
Otto-Hahn-Strasse, D-6831 Plankstadt, Germany	182,000	Manufacturing and administration buildings
587 Old Baltimore Pike, Newark, Delaware 19711, USA	597,723	Production facility
Fairfax Campus, 1800 Concord Pike, Wilmington, Delaware 19897, USA	28,397 and 42,365	Administrative offices and research centre
Guayama, Puerto Rico	507,020	Pharmaceutical manufacturing site
Carolina, Puerto Rico	15,857	Pharmaceutical manufacturing and packing site

### (b) Leasehold Properties

Location and current usage	Site area (sq.m.)	Unexpired term	Current annual rental
Carolina, Puerto Rico Pharmaceutical warehouse	3,027	Until December 1997	\$174,455



## 10 SUBSIDIARIES

The Company's principal subsidiaries and other subsidiary undertakings are described in paragraph 34 of the Accountants' Report.

## 11 LITIGATION

Save as disclosed in Part 6 under "Litigation", no member of the Group is involved in any legal or arbitration proceedings which may have, or have had, during the 12 months preceding the date of this document a significant effect on the Group's financial position and, so far as the Directors are aware, no such proceedings are pending or threatened against any member of the Group.

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## 12 UK TAXATION

The following summary is based upon the current law and Inland Revenue practice in the UK and assumes that the relevant provisions of the Finance Bill currently before the UK Parliament will be enacted as proposed.

The comments are of a general nature, are not a full description of all relevant tax considerations and may not be applicable to certain categories of investor. Prospective shareholders in the Company who are in any doubt as to their tax position or who are resident for tax purposes outside the UK should consult their professional advisers concerning their liabilities to tax in respect of or relating to the acquisition, holding or disposal of ZENECA Ordinary shares.

### Dividends

There is no UK withholding tax on dividends but when the Company pays a dividend, it has to account to the Inland Revenue for advance corporation tax ("ACT"). The ACT rate is 9/31sts of the net dividend for dividends paid after 5th April, 1993 and will be one quarter of the net dividend for dividends paid after 5th April, 1994.

ZENECA Shareholders who are resident for tax purposes in the UK and who receive a dividend from the Company will normally be entitled to a tax credit of an amount equal to one quarter of the net dividend.

A UK resident individual will be liable to income tax upon the total of the dividend received and the tax credit. Unless the individual is subject to the higher rate of income tax, the tax credit will fully discharge his liability to income tax thereon. If the tax credit exceeds his overall liability to income tax (taking into account his other income and any other tax credits and allowances) he will be able to claim payment of the excess from the Inland Revenue. ZENECA Shareholders who are liable to tax at the higher rate (currently 40 per cent.) will have a further liability to income tax of 20 per cent. in respect of the aggregate of the dividend and the tax credit received.

For a UK resident corporate shareholder, any dividend received and the related tax credit will normally be franked investment income. Where the dividend is paid before 6th April, 1994 and is used by the shareholder for the purposes of setting off franked investment income against franked payments the value of the related tax credit will, for that purpose, be an amount equal to 9/31 sts of the net dividend.

## ZENECA

Shareholders who are charities may be able to benefit from proposed transitional rules which will enable them to obtain additional payments from the Inland Revenue in respect of the associated tax credit on dividends paid to them before 6th April, 1997.

Special provisions will apply to individuals who are not resident in the UK but who are Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands or who fall within certain other classes, which entitle them to a tax credit which may be set off against their total UK income tax liability, or claimed in cash, to the same extent as if they were resident in the UK. Otherwise, the right of a shareholder who is not resident for tax purposes in the UK to claim any part of the tax credit will generally depend upon the existence and terms of any double tax treaty between the UK and the jurisdiction in which that person is resident. Persons who are not resident in the UK should consult their own tax advisers concerning their tax liabilities (in the UK and any other jurisdiction) on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so, and whether any double taxation relief is due in any jurisdiction in which they are subject to tax.

### UK inheritance tax

ZENECA Ordinary shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets or the death of a holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax, even if the holder is neither domiciled in the UK, nor deemed to be domiciled there under special rules relating to long residence or previous domicile in the UK. For these purposes, a transfer of assets at less than full market value may be treated as a gift. Special rules apply to trusts which own assets situated in the UK and to gifts where the donor retains an interest or reserves a benefit.

### Stamp duty

The transfer on sale of ZENECA Ordinary shares will be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within two months) stamp duty reserve tax, generally in each case at the rate of 50p for every £100 or part of £100 of the consideration paid.

## 13 US PROSPECTUS

The prospectus issued in the US contains the following paragraphs:

"ZENECA's businesses operate in competitive markets and, in most cases, its products are subject to stringent regulation. Regulatory pressures and price constraints have been increasing in Pharmaceuticals' major markets. In the US, the Clinton administration's health care reform plans could include further efforts to restrict price increases. Agrochemicals has been affected by uncertainty over reform of the European Community's Common Agricultural Policy, and its business and that of Specialties have been affected by recessionary economic conditions. Complex and costly registration and reregistration procedures apply in all of Agrochemicals' major markets. The availability of patent protection and the timing of patent expiry also can be important factors in certain of ZENECA's businesses, and may lead, in the case of Pharmaceuticals, to increased competition from generic manufacturers of prescription medicines.

The industries in which ZENECA operates are under increasing pressure to reduce their environmental impact and ZENECA's environmental protection expenditure will continue to be substantial. ZENECA's results can also be significantly affected by movements in exchange rates, particularly movements in the pound sterling against the US dollar."

The matters referred to in these paragraphs are dealt with in Parts 3, 5 and 6 of this document.

#### 14 MISCELLANEOUS

- (a) The total expenses incurred by ZENECA in connection with the ZENECA Rights Issue, are estimated to amount to approximately £40 million (excluding UK value added tax).
- (b) Save as disclosed herein there has been no significant change in the financial or trading position of the Group since 31st December, 1992.
- (c) The financial information contained in these Listing Particulars does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the Company in respect of the year ended 31st December, 1992, audited by KPMG, have been delivered to the Registrar of Companies in England and Wales. There has been an unqualified audit report in respect of such statutory accounts and the report did not contain a statement of the kind referred to in Section 237(2) or (3) of the Companies Act 1985.
- (d) Each of KPMG Peat Marwick, R. Watson & Sons, I.M.S. International, Inc. and Wood Mackenzie Consultants Ltd has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its respective report and/or reference to it in the form and context in which such report or reference respectively appears.
- (e) The addresses of the advisers listed on page 4 are as follows: S.G. Warburg & Co. Ltd., 2 Finsbury Avenue, London, EC2; Goldman Sachs International Limited, Peterborough Court, 133 Fleece Street, London, EC4; de Zoete & Bevan Limited, Ebbgate House, 2 Swan Lane, London, EC4; KPMG Peat Marwick, 1 Puddle Dock, Blackfriars, London, EC4; Linklaters & Paines, Barrington House, 59-67 Gresham Street, London, EC2; Slaughter and May, 35 Basinghall Street, London, EC2; Davis Polk & Wardwell, 1 Frederick's Place, London, EC2; Sullivan & Cromwell, St. Olave's House, 9a Ironmonger Lane, London, EC2; Citibank N.A., Cottons Centre, Hay's Lane, London, SE1; and Midland Bank plc, 27-32 Poultry Street, London, EC2.
- (f) The underwriters of the ZENECA Rights Issue are Warburgs, Barclays de Zoete & Drexler and Goldman Sachs, each of which is a member of The Securities and Futures Authority Limited.
- (g) The premium on each ZENECA Rights share on issue at the subscription price under the ZENECA Rights Issue is 575p over the nominal value of 25p.
- (h) The receiving bank for the ZENECA Rights Issue is Lloyds Bank Plc Registrar's Department, The Causeway, Worthing, West Sussex BN99 6DA.
- (i) The ZENECA Rights shares have not been sold, nor are they available, in whole or in part, to the public in conjunction with the application for listing, except under the terms of the ZENECA Rights Issue.
- (j) It is intended that Morgan Guaranty Trust Company of New York will subscribe for the ZENECA Rights shares to which it is entitled under the terms of the ZENECA Rights Issue, to the extent that it receives subscriptions from holders of ADRs for new ADSs, and that Morgan Guaranty Trust Company of New York will issue ADRs in respect of ZENECA Rights shares so taken up.

All US persons qualified to take up rights under the ZENECA Rights Issue who have not otherwise received a copy of the US prospectus relating to the ZENECA Rights Issue should request one from the Registrar, PO Box 251, Wexham Road, Slough SL2 5DP (telephone 011 44 753 877088).

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- (k) Certain firms expected to be registered with the London Stock Exchange as market-makers in ZENECA Demerger shares and ZENECA Rights shares are connected with the Underwriters and certain of the members of the Syndicates contemplated by the International Marketing Agreement. These market-makers will, from the commencement of dealings in the ZENECA shares and the ZENECA Rights shares, carry out their market-making activities in those securities on the London Stock Exchange but, as a consequence of the application of the provisions of Rule 10b-6 of the US Securities Exchange Act of 1934 and exemptive relief therefrom, during the period ending on completion of the US distribution (expected to be the day following the last date for acceptances under the ZENECA Rights Issue), they will be subject to certain restrictions and obligations, including not engaging in transactions for the purpose of creating actual or apparent active trading of those securities and, under certain circumstances during the five dealing days ending on the last date for acceptances, moving to passive market-making in those securities, i.e. following the independent price and size quotations for those securities on the London Stock Exchange.
- (l) ZENECA Ordinary shares are not "wider range" investments for the purposes of the Trustee Investment Act 1961.

### 15 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the offices of Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA and at the registered office of the Company, Imperial Chemical House, 9 Millbank, London SW1P 3JF during usual business hours on any weekday (Saturdays excepted) until 1st June, 1993:-

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Accountants' Report set out in Part 8 and the statement of adjustments thereon;
- (c) the letter from KPMG Peat Marwick set out in paragraph 4 of Part 9;
- (d) the rules of the employee share schemes referred to in paragraph 3 of this Part 11;
- (e) the Directors' service contracts referred to in paragraph 6(d) of this Part 11;
- (f) the material contracts and a draft, subject to modification, of the International Marketing Agreement, referred to in paragraph 7 of this Part 11;
- (g) the letters of consent referred to in paragraph 14(d) of this Part 11; and
- (h) these Listing Particulars.

Dated 12th May, 1993 ✓

## ZENECA'S PRINCIPAL PRODUCTS

## PHARMACEUTICALS

<u>Principal products</u>	<u>Generic name</u>	<u>Type of product</u>	<u>Main area of use</u>
<b>Cardiovascular</b>			
Zestril	lisinopril	ACE inhibitor	Hypertension, congestive heart failure
Zestoretic	lisinopril /hydrochlorothiazide	ACE inhibitor/diuretic	Hypertension
Tenormin	atenolol	Beta-blocker	Hypertension, ischaemic heart disease, angina, abnormal heart rhythms
Tenoretic	atenolol/ chlorthalidone	Combination beta-blocker/diuretic	Hypertension
Nif-Ten	atenolol/ nifedipine	Combination beta-blocker/calcium antagonist	Hypertension, ischaemic heart disease
Inderal	propranolol	Beta-blocker	Hypertension, ischaemic heart disease
<b>Anti cancer</b>			
Zoladex	goserelin	Cytostatic hormone, LHRH analogue	Prostate cancer, pre-menopausal breast cancer, benign gynaecological disorders
Nolvadex	tamoxifen citrate	Cytostatic hormone, anti-oestrogen	Breast cancer
<b>Anaesthetics</b>			
Diprivan	propofol	Intravenous anaesthetic	Induction and maintenance of anaesthesia, sedation of intensive care patients
<b>Anti-infectives</b>			
Hibitane	chlorhexidine	Antiseptic	Hospital skin antiseptic
Apatef	cefoteran	Antibiotic	Bacterial infection

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Not all of the above products have been approved, nor will approvals necessarily be sought or obtained, for the main areas of use in all countries in which ZENECA operates.

## AGROCHEMICALS

<u>Principal products</u>	<u>Type of product</u>	<u>Main area of use</u>
<b>Herbicides</b>		
Gramoxone	Non-selective contact herbicide	Plantations, cereals, fruit crops
Fusilade	Post-emergence grass herbicide	Cotton, soyabeans, sugar beet, oil seed rape
Reglone	Crop desiccant	Potatoes, sunflower, oil seed rape
Eradicane/Eptam	Pre-plant incorporated herbicide	Maize, potatoes, sunflowers, beans
Ordram	Post-emergence grass herbicide	Rice
Grasp/Achieve	Post-emergence wild oat herbicide	Cereal crops

**Insecticides**

Karate

Pirimor

Ambush/Cymbush

Dyfonate

Force

**Fungicides**

Impact

Anvil/Planete

Foliar pyrethroid

Pyrimidine aphicide

Foliar pyrethroid

Organophosphate soil  
insecticide

Soil-applied pyrethroid

Triazole foliar spray

Triazole foliar spray

All major crops

Cereals, sugar beet, potatoes,  
pome fruit

All major crops

Maize

Maize, sugar beet

Cereal crops

Fruit, cereals

**ZENECA**Business

Colours

Biocides

Fine chemicals

Effects

Stahl

Resins

Specialty inks

**SPECIALTIES**Product

Dyes and pigments

Antimicrobial chemicals

Organic chemicals

Organic chemicals

Leather dyes and finishes

High performance and  
water-borne resins

Inks

Main area of useTextile and paper industries,  
paint and plastics industries  
and reprographic productsPaints, disinfectants and  
swimming pool sanitisationPharmaceutical and  
agricultural chemicalsMineral extractions, polymer  
additives and  
pharmaceuticals

Leather and shoe industries

Coatings, adhesives and inks  
industries

Flexible packaging

## GLOSSARY OF TECHNICAL TERMS

The following terms appear in the text and are explained below:-

### PHARMACEUTICALS

ACE inhibitor	Blocks the action of an enzyme in the bio-chemical pathway associated with rises in blood pressure and resistance to blood flow through vessels
antibiotic	An agent that leads to the eradication of bacterial infections
antagonist	An agent that blocks or inhibits a biochemical pathway
anti-infective	An agent that leads to the eradication of any infection
aromatase	An enzyme required in the formation of oestrogen outside the ovary
atenolol	The active ingredient of Tenormin
azole	A class of antifungal agents
beta-blocker	A medicine that blocks the activity of part of the drive to the heart leading to reduced pumping pressure and output
carbapenem	A class of antibiotic
cardiovascular	Pertaining to the heart and blood vessels
cytostatic hormone	A compound that stops cell growth or division
cytotoxic	An agent that kills cells
depot formulation	A formulation that releases a medicine over a prolonged period
DHP	Dehydropeptidase, a kidney enzyme
endometriosis	A benign gynaecological disorder
ethical	For the purposes of this document, describes medicines that can be obtained only on prescription from a physician
generic	Describes a product marketed primarily by reference to its non-proprietary name rather than a brand name and having the same active ingredients and of similar composition to a branded medicine, the patent on which has generally expired
hypertension	High blood pressure
immunomodulator	An agent that modifies the human body's defensive response to disease or foreign material
immunotoxin	A cytotoxic that is targeted by means of the body's defence system
indication	The disease or condition for which a pharmaceutical has been shown to be effective and for which it may be prescribed or promoted
inhibitor	An agent that blocks or inhibits the action of another agent
ischaemia	Inadequate blood supply to an organ of the body
leukotriene	A group of naturally occurring substances that promote inflammation in the body

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LHRH analogue	A synthetic version of the naturally occurring substance that controls, indirectly, the output of sex steroids in males and females
mycoses	Diseases caused by fungi
neutrophil elastase	An enzyme that breaks down connective tissue
propranolol	The active ingredient of Inderal
sino-atrial node modulator	An agent that selectively slows the heart rate
tamoxifen	Tamoxifen citrate, the active ingredient in Nolvadex
thymidylate synthase	An enzyme involved in cell metabolism

## AGROCHEMICALS

active ingredient	A material that without further chemical change can induce a biological effect
agricultural chemicals	Pesticides and plant-growth regulators, but excluding fertilisers
broad spectrum	An agricultural chemical that treats a broad range of weeds, pests or diseases
contact herbicide	A herbicide that affects plants with which it comes into foliar contact
fungicide	A chemical that controls plant diseases
herbicide	A chemical that can control, or suppress the growth of, weeds and other plants
insecticide	A chemical that controls insects and related pests
non-selective herbicide	A herbicide that kills or suppresses all plants
pesticides	Collectively herbicides, insecticides, fungicides and rodenticides
post-emergence herbicide	Application of a herbicide after the crop has emerged from the soil
pre-emergence herbicide	Application of a herbicide where a crop is present but has not yet emerged from the soil
pyrethroids	A chemical class of insecticides that control a wide range of pests
safener	A chemical that reduces crop damage which may be caused by a herbicide
selective herbicide	A herbicide that controls or suppresses some plant species without injury to host crops

## SPECIALTIES

active substance	A material that without further chemical change can induce a biological or physiological effect
algistat	A substance that controls or eliminates algae
biocide	A substance that controls or eliminates microbes
biodegradeable	Capable of being broken down by microbes and/or natural environmental factors, normally to simple end products such as carbon dioxide and water
chiral intermediate	An intermediate used, for example, in chemical synthesis, that, due to its very specific structural geometry (chirality is the property of left or right "handedness" in the geometry of a substance) can react to give equally specific products
custom synthesis	A chemical synthesis to produce an agreed specified compound for a particular customer



fermentation	A process whereby chemical changes are made to organic chemicals by the use of living organisms
fine chemical	A high value chemical made to a specification for use as an intermediate or active substance
fluoroaromatics	Organic chemicals which contain fluorine atoms and a certain ("aromatic") type of ring structure
hydrometallurgy	Extraction of metals or their salts from crude or partly concentrated ores by means of aqueous chemical solutions
microbes	Bacteria, fungi, algae, etc.
mycoprotein	A vegetable protein which comes from a carefully selected natural variety of the mushroom family of plants
non-halogen	Not based on chlorine or bromine release chemicals
organic chemistry	Chemistry associated with the carbon atom. This chemistry often plays a key role in living systems, hence the description "organic"
organophosphate	An organic compound containing one or more phosphate groupings, typically used in the agrochemical industry
transformation	The changing of a substance into another one by chemical or biological means
wetfast (dyes)	Dyestuffs which do not run or wash out in the presence of water

**ZENECA**

## DEFINITIONS

### Definitions

The following definitions apply in this document unless the context requires otherwise:

### ZENECA

Accountants' Report	The report of KPMG Peat Marwick contained in Part 8
ADR	American Depositary Receipt evidencing title to one or more ADSs
ADS	American Depositary Share representing three underlying ZENECA Ordinary shares
ADS Rights	Warrants representing ADSs offered pursuant to the ZENECA Rights Issue
Agrochemicals	The businesses of ZENECA engaged in the manufacture and marketing of agricultural chemicals
Barclays de Zoete Wedd Company	Barclays de Zoete Wedd Securities Limited
CTL	ZENECA Group PLC
Demerger	Central Toxicology Laboratory
Demerger Record Date	The demerger of ZENECA from ICI, as described in this document, pursuant to the Demerger Agreement
Development Businesses	7.30 a.m. on 1st June, 1993, being the time and date for participation in the Demerger
Directors or Board	The businesses of ZENECA engaged in the production and marketing of seeds and biological products and related technologies
Extraordinary General Meeting	The Directors of the Company
FCMO	The extraordinary general meeting of ICI, to be convened on 28th May, 1993
FDA	ZENECA's Fine Chemicals Manufacturing Organisation, including its North American Manufacturing Organisation
Goldman Sachs	The US Food and Drug Administration
ICI	Goldman Sachs International Limited
ICI ADS	Imperial Chemical Industries PLC
ICI Group	American Depositary Share representing four underlying ICI Ordinary shares
ICI Ordinary shares	ICI and its subsidiaries from time to time
ICI Shareholder	Fully paid ordinary shares of £1 each in ICI
London Stock Exchange	A holder of ICI Ordinary shares
NYSE	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
Pharmaceuticals	New York Stock Exchange, Inc.
Pound Sterling, £, pence or p	The businesses of ZENECA engaged in the manufacture and marketing of ethical pharmaceuticals
R&D	Refers to UK currency
Resolution	Research and development, including technical service
Seeds	The resolution to be considered by ICI Shareholders at the Extraordinary General Meeting, concerning the Demerger and certain related matters
	The businesses of ZENECA engaged in the production and marketing of seed products and related technologies

Specialties	The businesses of ZENECA engaged in the manufacture and marketing of colours, biocides, fine chemicals and effects, coatings and biological products
Underwriters	Warburgs, Barclays de Zoete Wedd and Goldman Sachs
US dollar, US\$ or \$	Refers to US currency
US Holder	a beneficial owner of ICI Ordinary shares, ZENECA Ordinary shares, ADSs or ICI ADSs (as the context requires) who is a citizen or resident of the US
Warburgs	S.G. Warburg & Co. Ltd.
ZENECA Demerger shares	Ordinary shares of 25p each in the Company to be issued, credited as fully paid, pursuant to the Demerger, together with the eight ordinary shares of 25p each in the Company allotted to the subscribers upon its formation
ZENECA or Group	(a) in relation to the period prior to the Demerger becoming effective, the pharmaceuticals, agricultural chemicals, seeds and specialty chemical businesses and companies transferred by the ICI Group to ZENECA Limited and its subsidiaries pursuant, inter alia, to the Hive-down Agreements described in paragraphs 7(a) and (b) of Part 11; and (b) in relation to the period after the Demerger becoming effective, the Company and its subsidiaries
ZENECA Ordinary shares	Ordinary shares of 25p each in the Company, including the ZENECA Demerger shares and/or ZENECA Rights shares, as appropriate
ZENECA PAL	A provisional allotment letter issued pursuant to the ZENECA Rights Issue
ZENECA Rights Issue	The proposed rights issue of the Company, described in Part 10
ZENECA Rights Issue Record Date	Such time as immediately follows the Demerger becoming effective
ZENECA Rights shares	Ordinary shares of 25p each in the Company to be issued pursuant to the ZENECA Rights Issue
ZENECA Shareholder	A holder of ZENECA Ordinary shares

## ZENECA

### Statistical data

Except where otherwise indicated, figures included in these Listing Particulars relating to Pharmaceuticals' market size and market share are obtained from syndicated industry sources, primarily I.M.S. International, Inc. ("IMS"), a market research firm internationally recognised by the pharmaceutical industry. The 1992 market size and market share figures included in these Listing Particulars are based primarily on data obtained from an online IMS database.

IMS data may differ from that compiled by ZENECA with respect to its own products. Of particular significance in this regard are the following (1) ZENECA publishes its financial results on a financial year and a half-year interim basis, whereas IMS issues its data on a monthly and quarterly basis; (2) the online IMS database is updated quarterly and uses the average exchange rates for the relevant quarter; (3) IMS data from the United States are not adjusted for Medicaid and similar state rebates; and (4) IMS sales data are compiled using actual wholesaler data from statistically representative panels of retail and hospital pharmacies, which data are then projected by IMS to give figures for national markets.

Except where otherwise indicated, figures included in this document relating to agricultural chemical product market sizes and market shares are obtained from syndicated industry sources, primarily Wood MacKenzie Consultants Ltd., a market research firm internationally recognised by the agricultural chemical industry.

## International Marketing Arrangements

### *Global Co-ordinator*

S.G. Warburg Securities

### *International Marketing Co-ordinators*

S.G. Warburg Securities      Goldman Sachs International Limited  
Barclays de Zoete Wedd Securities Limited

### *US Syndicate*

Goldman, Sachs & Co.  
Barclays de Zoete Wedd Incorporated  
S.G. Warburg Securities  
Donaldson, Lufkin & Jenrette  
Securities Corporation  
Merrill Lynch & Co.  
J.P. Morgan Securities Inc.  
NatWest Securities Corporation  
PaineWebber Incorporated  
Smith Barney, Harris Upham & Co.  
Incorporated

### *Rest-of-World Syndicate*

S.G. Warburg Securities  
Barclays de Zoete Wedd Limited  
Goldman Sachs International Limited  
ABN AMRO Bank N.V.  
BNP Capital Markets Limited  
Deutsche Bank Aktiengesellschaft  
Morgan Stanley International  
Nikko Europe Plc  
Swiss Bank Corporation