

BEECHAM GROUP p.l.c.
(Company Number 227531)

DIRECTORS REPORTS AND ACCOUNTS

31 DECEMBER 1996



Beecham Group plc

INDEX	Page
Directors' report	2
Report of the auditors	6
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9

Beecham Group plc

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996

Registered Office: Four New Horizons Court
Harlequin Avenue
Brentford
Middlesex
TW8 9EP

The Directors present their annual report together with the audited accounts for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES

The Company owns pharmaceutical and other patents from which it derives income and also acts as a holding company.

REVIEW OF BUSINESS

The Company made a profit on ordinary activities after taxation of £163.9 million compared to £213.1 million for 1995, a decrease of £49.2 million.

DIVIDENDS AND RETENTIONS

Interim dividends of 21.0p per A share and 5.2p per B share were declared. These in total amount to £200 million and are the total dividends payable for the 1996 financial year (1995: £450 million). The retained loss for the year of £36.1 million will be transferred from reserves (1995: loss of £236.9 million).

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

DIRECTORS

The following were directors of the Company during the year and at the date of this report:

J.R. Beery

I.C. Borland (appointed 4 June 1996)

R.J. Eaglen

H.R. Collum (resigned 4 June 1996)

Directors' and Officers' liability insurance, paid by SmithKline Beecham plc, was in place during the year.

None of the directors has a beneficial interest in the shares of the Company, or any other group company, other than SmithKline Beecham plc.

Share Simplification

Prior to the simplification of its share capital on 15 April 1996, SmithKline Beecham plc had two classes of share capital, A Shares and Equity Units. Each Equity Unit comprised one B Share of SmithKline Beecham plc and one participating Preferred Share of SmithKline Beecham Corporation ("SB Corp."). Each A Share ADR represented five A Shares and each Equity Unit ADR represented five Equity Units. On April 15, 1996 the SB Corp Preferred Shares were redeemed in exchange for a payment of US\$0.225 per Preferred Share held (US\$1.125 per Equity Unit ADR). Following this redemption a capitalisation issue was made to holders of A Shares on the basis of one new A Share for every 52.6285 shares held on 12 April, 1996. Both A Shares and B Shares were then redesignated as a single class of Ordinary Shares. Directors' Interests in A Shares and Equity Units (and corresponding A Share and Equity Unit ADRs) as at 31 December, 1995 have been restated as interests in Ordinary Shares and Ordinary Share ADRs to reflect the capitalisation issue of A Shares (and A Share ADRs) made as part of the simplification.

Beecham Group plc

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

DIRECTORS (Continued)

The following beneficial interests of the Directors in office at the year end in the shares of the ultimate parent undertaking, SmithKline Beecham plc, have been notified to the Company

		Ord Shares At 31 December
	<u>1996</u>	<u>1995*</u>
J R Beery	6,162	5,153
I C Borland	7,365	7,303
R J Eaglen	7,470	6,666

		Ord ADRs At 31 December
	<u>1996</u>	<u>1995</u>
J R Beery	434	100

	31 December		Options over Ord Shares Exercised/ 31 December	
	<u>1996</u>	<u>Granted</u>	<u>Lapsed</u>	<u>1995*</u>
J R Beery	156,705	22,880	-	133,825
I C Borland	136,695	24,378	18,567	130,884
R J Eaglen	67,845	-	42,961	110,806

	31 December		Options over Ord ADR's Exercised/ 31 December	
	<u>1996</u>	<u>Granted</u>	<u>Lapsed</u>	<u>1995*</u>
J R Beery	20,279	3,044	-	17,235

* Or as at date of appointment if later.

Mid-Term Incentive Plans

On 7 June 1996 and 21 November 1996, the Directors acquired interests in shares as follows under the SmithKline Beecham Mid-Term Incentive Plan. These interests are conditional and will in general vest in whole or in part only to the extent that the Company meets certain performance conditions. They have been acquired on a nil price basis and, to the extent they vest, will be exercisable after 1 January 1999, and 1 January 2000 respectively.

	Ord Shares	Ord ADRs
J R Beery	21,710	2,310
I Borland	17,800	-
R J Eaglen	5,800	-

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

POLICY FOR PAYING CREDITORS

SmithKline Beecham's policy on payment of suppliers and creditors can be found on page 37 of the 1996 Directors' Report of SmithKline Beecham.

DIRECTORS' RESPONSIBILITIES

The Directors are required by the Companies Act 1985 to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

All accounting standards which they consider to be applicable have been followed, subject to any explanations and material departures disclosed in the notes to the financial statements.

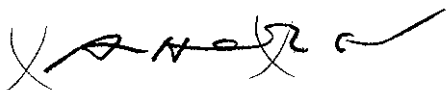
The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

AUDITORS

Price Waterhouse are willing to continue in office as auditors, and their re-appointment will be dealt with at the Annual General Meeting.

By order of the Board



A M Horler

Secretary, 16 July 1997

Beecham Group plc

AUDITORS' REPORT TO THE MEMBERS OF BEECHAM GROUP P.L.C.

We have audited the financial statements on pages 7 to 16 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 5 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1996 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32, London Bridge Street
London SE1 9SY

16 July 1997

Beecham Group plc

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

	Notes	1996 £m	1995 £m
Administrative expenses		-	(4.6)
Other operating (expense)/income		<u>(0.4)</u>	<u>0.6</u>
Trading loss			
Continuing operations		(0.4)	(4.0)
Income from other group companies:			
Dividends		-	5.5
Royalties		150.2	143.0
Exceptional items	2	0.5	31.5
Interest	3	<u>96.2</u>	<u>125.8</u>
Profit on ordinary activities before taxation		246.5	301.8
Tax on profit on ordinary activities	4	<u>(82.6)</u>	<u>(88.7)</u>
Profit for the financial year		163.9	213.1
Dividends Proposed	5	<u>(200.0)</u>	<u>(450.0)</u>
Retained loss transferred from reserves		<u>(36.1)</u>	<u>(236.9)</u>

There were no recognised gains and losses other than those passing through the profit and loss account for the period.

The notes on pages 9 to 16 form an integral part of these accounts.

All operations are continuing.

Beecham Group plc

COMPANY BALANCE SHEET AT 31 DECEMBER 1996

	Notes	1996 £m	1995 £m
Fixed assets			
Investments	7	1,711.1	1,712.0
Current assets			
Debtors	8	60.5	63.2
Creditors : amounts falling due within one year			
Loans and overdrafts	10	(18.6)	(3.2)
Other	9	<u>(888.3)</u>	<u>(871.7)</u>
		(906.9)	(874.9)
Net current liabilities		<u>(846.4)</u>	<u>(811.7)</u>
Total assets less current liabilities		864.7	900.3
Creditors : amounts falling due in more than one year			
Other		<u>(0.6)</u>	<u>(0.6)</u>
Net assets		<u>864.1</u>	<u>899.7</u>
Capital and reserves			
Called up share capital	11	190.8	190.8
Share premium	12	22.2	22.2
Other reserves	12	315.7	315.2
Profit and loss account	14	<u>335.4</u>	<u>371.5</u>
Equity shareholders' interests	13	<u>864.1</u>	<u>899.7</u>

Approved by the board on 16 July 1997
and signed on their behalf by:



J Beery, Director
16 July 1997

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention and comply with all applicable UK Accounting Standards which have been applied consistently.

FOREIGN CURRENCY TRANSLATION

Profits and losses outside the UK are translated to sterling using average rates of exchange for the period. Foreign currency balances are translated to sterling at the rates of exchange ruling at the balance sheet dates.

FIXED ASSET INVESTMENT

Fixed asset investments are stated in the balance sheet at cost less any provision made for permanent diminution in value.

DEFERRED TAXATION

Deferred taxation is provided on timing differences using the liability method where it is probable that tax liabilities or assets will crystallise within the foreseeable future.

DIVIDENDS RECEIVABLE

Dividends receivable from subsidiaries are included in the profit and loss account in the period in respect of which the related dividend is declared.

GOODWILL

Goodwill, representing the excess of the purchase consideration over the fair value of the net separable assets acquired, is eliminated in the balance sheet against reserves in the year of acquisition.

Beecham Group plc

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENTAL INFORMATION

Royalty income from group companies arises under the agreement to sell the Beecham Group p.l.c. pharmaceutical business to SmithKline Beecham plc dated 1 January 1992.

2. EXCEPTIONAL ITEMS

	1996 £m	1995 £m
Profit on disposal of subsidiaries	0.5	31.5
Tax on exceptional items	—	—
	<u>0.5</u>	<u>31.5</u>

3. INTEREST

	1996 £m	1995 £m
Interest Payable		
Bank overdrafts and other short term borrowings	(0.3)	(0.5)
Interest payable on loans with group undertakings	<u>(16.4)</u>	<u>(12.7)</u>
	(16.7)	(13.2)
Interest Receivable		
Interest receivable on deposits and investments held as current assets	0.2	0.1
Interest receivable on loans with group undertakings	<u>112.7</u>	<u>138.9</u>
	112.9	139.0
Interest receivable (net)	<u>96.2</u>	<u>125.8</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. TAXATION

The tax on profit on ordinary activities comprises:

	1996 £m	1995 £m
United Kingdom taxation:		
Corporation tax at 33% (1995 33%)	82.6	90.4
Double taxation relief	(1.2)	(9.9)
Overseas taxation	<u>1.2</u>	<u>8.2</u>
	<u>82.6</u>	<u>88.7</u>
Comprising:		
Current tax	81.4	88.7
Deferred tax	<u>1.2</u>	-
	<u>82.6</u>	<u>88.7</u>

5. DIVIDENDS

Dividends paid and proposed:

	1996 Pence per share	£m	1995 Pence per share	£m
A Shares	20.9632	160.0	47.1672	360.0
B Shares	<u>5.2408</u>	<u>40.0</u>	<u>11.7918</u>	<u>90.0</u>
	<u>26.2040</u>	<u>200.0</u>	<u>58.9590</u>	<u>450.0</u>

6. DIRECTORS' EMOLUMENTS AND AUDITORS' REMUNERATION

The Directors are employees of and are remunerated for their services by SmithKline Beecham plc, the ultimate parent undertaking. The Directors received no remuneration from the Company during the year (1995: nil). The auditors' remuneration has been borne in the ultimate parent undertaking, SmithKline Beecham plc.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. FIXED ASSET INVESTMENTS

	<u>Associated undertaking (listed)</u>	<u>Group companies</u>		<u>Total</u>
	Shares at cost £m	Shares at cost £m	Loans £m	£m
At 1 January 1996	2.1	11.0	1,698.9	1,712.0
Exchange Movements	-	-	(0.4)	(0.4)
Additions	-	-	-	-
Disposals	-	-	(0.5)	(0.5)
At 31 December 1996	<u>2.1</u>	<u>11.0</u>	<u>1,698.0</u>	<u>1,711.1</u>

The market value of the listed investment in the associated undertaking on the basis of overseas stock exchange quotation was £6.4 million (1995 - £4.9 million).

The subsidiary companies and associated undertaking of the Company are shown below.

COUNTRY

Indonesia	PT SmithKline Beecham Pharmaceuticals (70%)
Malaysia	SmithKline Beecham Sendirian Berhad
Nigeria	SmithKline Beecham Nigeria p.l.c. (40%)
Pakistan	Beecham Pakistan (Private) Ltd (60%)
South Africa	SmithKline Beecham Pharmaceuticals (Pty) Ltd SmithKline Beecham Consumer Healthcare (Proprietary) Ltd Beeyar Investments (Proprietary) Ltd

- (i) Equity capital in companies is wholly owned (unless otherwise stated, where the Beecham Group's percentage ownership is shown). Investments in companies are held by Beecham Group p.l.c.
- (ii) The country under which each company appears is both the country of incorporation and of its principal operations.
- (iii) All subsidiaries are pharmaceutical and/or healthcare companies.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. DEBTORS

	1996 £m	1995 £m
Falling due within one year:		
Amounts owed by group companies	48.0	56.0
Other debtors	<u>12.5</u>	<u>6.0</u>
	60.5	62.0
Falling due after more than one year:		
Deferred taxation - restructuring costs	=	<u>1.2</u>
	<u>60.5</u>	<u>63.2</u>

9. OTHER CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996 £m	1995 £m
Amounts owed to group companies	218.0	22.5
Corporation tax	468.8	397.6
Other creditors	1.5	1.6
Dividends	<u>200.0</u>	<u>450.0</u>
	<u>888.3</u>	<u>871.7</u>

10. LOANS AND OVERDRAFTS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996 £m	1995 £m
Bank overdrafts	<u>18.6</u>	<u>3.2</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. CALLED UP SHARE CAPITAL - EQUITY INTERESTS

	1996 £m	1995 £m
Authorised		
1,000,000,000 A shares of 20p each	200.0	200.0
1,000,000,000 B shares of 5p each	<u>50.0</u>	<u>50.0</u>
	<u>250.0</u>	<u>250.0</u>
Issued and fully paid		
763,242,055 of 20p each	152.6	152.6
763,242,055 of 5p each	<u>38.2</u>	<u>38.2</u>
	<u>190.8</u>	<u>190.8</u>

There are no differences in the voting rights of the shares.

12. RESERVES - EQUITY INTERESTS

	Share Premium £m	Other reserves £m	Total reserves £m
At beginning of year	22.2	315.2	337.4
Movements in year:			
Disposal of Goodwill		0.5	0.5
Amount retained for the year	<u>—</u>	<u>—</u>	<u>—</u>
At end of year	<u>22.2</u>	<u>315.7</u>	<u>337.9</u>

The Company's share premium and other reserves are not available for distribution.

The aggregate amount of goodwill net of disposals, eliminated from profit and loss account reserves amounts to £2.1million (1995 - £2.5 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
YEAR ENDED 31 DECEMBER 1996**

	1996 £m	1995 £m
Profit for the financial year	163.9	213.1
Dividends	<u>(200.0)</u>	<u>(450.0)</u>
Net deductions to shareholders' equity	(36.1)	(236.9)
Disposal of Goodwill	0.5	-
Opening shareholders' equity	<u>899.7</u>	<u>1,136.6</u>
Closing shareholders' equity	<u>864.1</u>	<u>899.7</u>

14. RESERVES

	Profit and loss account £m
At 1 January 1996	371.5
Retained loss for the year	<u>(36.1)</u>
At 31 December 1996	<u>335.4</u>

15. CASHFLOW STATEMENTS

A cashflow statement has been included in the consolidated financial statements of SmithKline Beecham plc, the ultimate parent undertaking. The Company is therefore exempt from the requirement to produce a cashflow statement.

16. CONTINGENCIES

The Company, together with fellow group Undertakings has entered into a Group Banking Arrangement with the Company's principal bankers. The Bank holds the right to pay and apply funds from any account of the Company to settle any indebtedness to the Bank of any other party to this agreement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. GROUP ACCOUNTS

The Company is a wholly owned subsidiary of the ultimate parent company and as such has taken advantage of the exemption from preparing group accounts under s.228 of the Companies Act 1985.

18. ULTIMATE PARENT UNDERTAKING

SmithKline Beecham plc, a public limited company registered in England and Wales, is the Company's ultimate parent undertaking. The largest and smallest group of undertakings for which group accounts are prepared, and which include the results of Beecham Group plc, are the consolidated accounts of SmithKline Beecham plc. Copies of the consolidated accounts can be obtained from New Horizons Court, Great West Road, Brentford Middlesex, TW8 9EP.