Annual Report and Accounts 1997

MEDEVA PLC

Headquartered in London, Medeva PLC is an international company which develops, manufactures and markets prescription pharmaceutical products. With over 2,700 employees and operations in the UK, USA, France, Spain, Switzerland, Belgium and the Republic of Ireland the company's business is focused principally on the following therapeutic areas: central nervous system, respiratory, vaccines, hospital products, gastrointestinal and dermatology. Medeva PLC is listed in the UK on the London Stock Exchange and in the USA on the New York Stock Exchange.

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Medeva's Web site can be found at: **www.medeva.com**

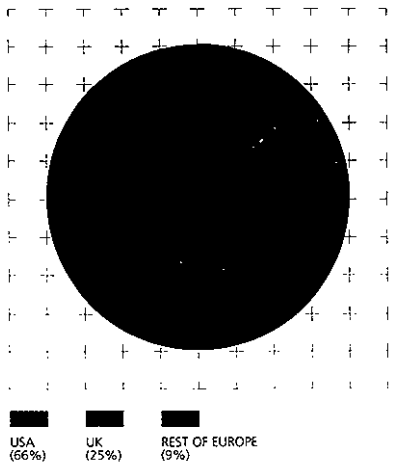
Financial Highlights

TRADING RESULTS	1997	1996	Increase	Increase at CER**
Sales	**£355m**	£332m	**7%**	**13%**
% Gross profit to sales*	**65%**	65%		
Operating profit*	**£114m**	£105m	**9%**	**15%**
% Operating profit to sales*	**32%**	32%		
Profit before tax*	**£111m**	£103m	**7%**	
Tax rate*	**32%**	35%		
Profit after tax*	**£76m**	£67m	**13%**	
SHAREHOLDER RETURNS				
Earnings per share before restructuring*	**21.4p**	20.8p	**3%**	**11%**
Dividends per share	**5.5p**	4.8p	**15%**	
CASHFLOW (see definitions on page 27)				
Funds from operations	**£132m**	£122m	**£10m**	
Net debt at year end	**£50m**	£59m		

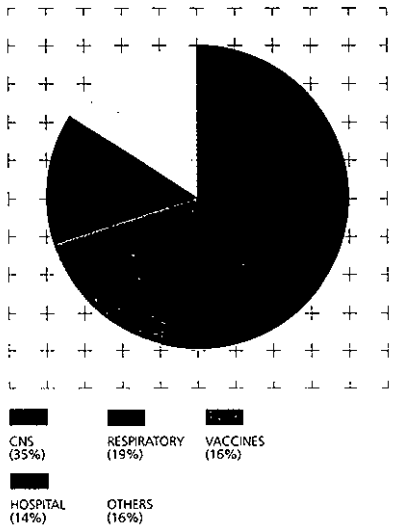
*1996 is stated before restructuring charge of £65m.

**at constant exchange rates.

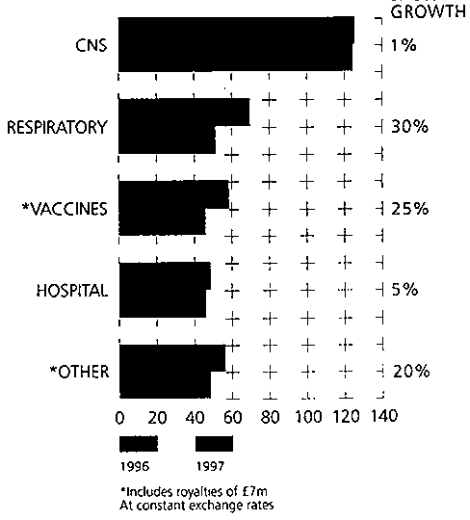
% SALES BY GEOGRAPHICAL REGION



% SALES BY CATEGORY 1997



SALES BY CATEGORY (£m)



*Includes royalties of £7m
At constant exchange rates

Chairman's Review

In 1997, at constant exchange rates, Medeva's sales rose by 13% to £355m; operating profit grew by 15% to £114m and earnings per share grew 11% to 21.4p. We are recommending a 15% increase in the dividend for the year, reflecting these robust results and demonstrating the Directors' confidence in the long term growth prospects of the Company.

Competition to methylphenidate finally arrived, though later than we expected, enabling us to see yet another improvement in the contribution from this product. With the exception of *Ionamin,* which suffered from adverse developments in the anti-obesity market, the US products acquired in 1996 responded well to our promotional efforts and our European business made strong progress.

Our infrastructure was strengthened further during the year. The restructuring of our US operations continues within budget and on schedule, with further savings expected to be made during 1998 and beyond. We extended the reach of our European operations with the acquisition of the CERTA group in Belgium providing us with a sales and marketing infrastructure for the Benelux countries.

In the new product pipeline, our four lead projects made encouraging progress:

- ***Hepagene*** is being developed both as a vaccine and potentially as a treatment. These projects proceeded very positively, with important new clinical trial results announced during 1997. Vaccine and treatment licence applications are planned for the second half of 1998 and 2000 respectively.
- AD32, our bladder cancer product, reached a significant milestone in December 1997 when the first US licence submission was made on schedule.
- Methylphenidate; we are developing two new forms and these projects are proceeding according to plan, with licence applications planned for the second half of 1999.
- ***Asmasal Clickhaler;*** the first of our range of dry powder inhalers was introduced into the UK market in late 1997 and a UK product licence application for *Asmabec Clickhaler* was submitted.

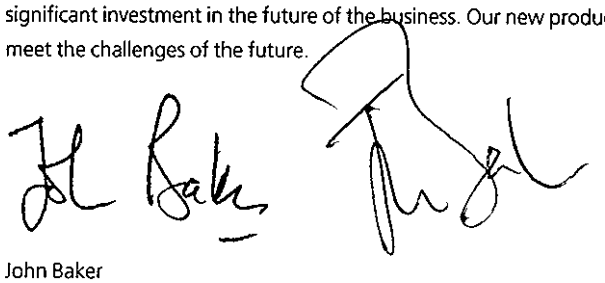
We have set ourselves demanding targets for our development pipeline and hitting them will be a key challenge.

Michael Julien retires from the Board at the Annual General Meeting. Michael has served the Company with distinction for five years, both as a non-Executive Director and in the important role as Chairman of the Audit Committee. His contribution has been much appreciated by his colleagues on the Board and we wish him well in his retirement. We welcome David Williams, Group Managing Director of Bunzl plc, as a non-Executive Director with effect from 1st March 1998.

Once again we are heavily indebted to the commitment and enthusiasm of our employees during 1997. I should like to thank them all for their very significant contribution to the continuing success of the Group.

Whilst in the near term competition to methylphenidate will inevitably affect our overall financial performance leading to a likely pause in our historically strong growth trend, we will continue to drive the growth of our non-methylphenidate business. We believe that new products from our pipeline will provide a sound basis for renewed growth in 2000 and beyond.

Meanwhile, our planned infrastructure is now largely in place, supported by continuing investment in our manufacturing facilities, notably at Rochester and Speke. As the Operating and Financial Review highlights we made further good progress in growing our non-methylphenidate business. We are cash generative and our strong financial base enables us to continue to fund significant investment in the future of the business. Our new product pipeline has clear momentum and we feel well placed to meet the challenges of the future.



John Baker
Chairman

10th February 1998

Chief Executive's Review

The pharmaceutical industry experienced another dynamic year in 1997, showing global sales growth of 7%. Despite industry concerns in recent years, the increasing cost-consciousness of governments in the developed economies has not stifled the delivery of new medicines to the market, particularly as the overall healthcare savings offered by the use of efficacious drugs has been recognised.

The launch of new medicines has continued apace assisted by new research and development technologies and by the shortening of regulatory approval timescales. The use of third party research and development, a cornerstone of Medeva's strategy, is becoming a more common factor in the search for new products even amongst the largest companies. Independent research organisations form an increasingly important sector of our industry.

The adoption of newer drugs by the market has been more rapid than anticipated. Consequently, older medicines, both branded and generic, have in general not fared so well in the world markets. Price competition, and to a lesser extent reduced volumes, have led in many cases to a reduction in anticipated returns. In general, Medeva's products, despite being predominantly older medicines, have held up well against these pressures due to strong branding and to our positioning in niche markets.

> "Medeva's goal is to build a significant and self-sustaining prescription pharmaceutical company through the exploitation of market opportunities for existing products, by acquisition of products which do not enjoy full marketing support from other companies, by continuing development of its international infrastructure, and by state-of-the-art development of licensed-in compounds and proprietary technology."

STRATEGIC DEVELOPMENT

We continued to make progress towards reaching our goal of building a significant and self-sustaining prescription pharmaceutical company which is not dependent on its own primary research for new products.

The restructuring of our US business will provide us with manufacturing facilities and a distribution infrastructure capable of handling additional products and growth in the business for the foreseeable future. In Europe, with the acquisition of CERTA, we have profitable businesses in five countries and the ability to market products in most of the principal markets.

We continued to increase and develop our portfolio of products and broadening the spread of our business ahead of the expected decline in methylphenidate revenues.

Chief Executive's Review

CONTINUED

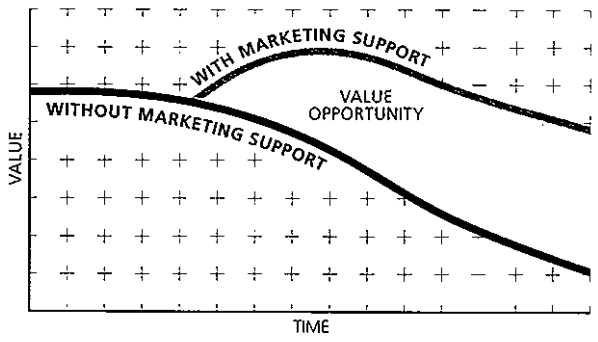
The product development pipeline has significant momentum. Our growing development capabilities were reflected in the appointment of Dr. Steve Chatfield to the new position of Director of Biotechnology to manage our existing projects in this field and to assess new opportunities. During the year we progressed the key product on schedule and, in October, announced milestone clinical trial results for our lead project, ***Hepagene***. Another key product was added with the acquisition from Anthra Pharmaceuticals Inc. of exclusive US marketing rights to their anthracycline derivative, AD32, which is being developed for the treatment of bladder cancer. Our development pipeline has the potential to make significant returns.

REFOCUSED STRATEGIC EMPHASIS

Medeva has made significant progress in building its infrastructure enabling us to shift our main focus to organic product growth and to building our product portfolios by acquisition and through development.

The strategy remains predicated on two characteristics of the industry. The first of these is the constant flow of available products which are not being fully exploited by other companies. This is frequently a function of size where the potential opportunity may not justify allocation of salesforce support by a larger company. It can also be as a result of overcrowding in a particular company's therapeutic area. Medeva has shown it is able successfully to market products which do not form part of the core detailing plans of other pharmaceutical companies, particularly within niche areas where Medeva's smaller salesforces can compete very effectively.

The potential value to be created from successful, focused marketing of a product through the later years of its natural life-cycle can be significant and is clearly demonstrated by the long-term progress achieved with ***Fluvirin***, Medeva's influenza vaccine, and the initial progress the Company has achieved with the products acquired from Rhône-Poulenc Rorer ("RPR") in mid-1996. Product life cycles can also be extended by means of a further stage of development as Medeva has done successfully with, for instance, its paediatric vaccine ***Trivax***.



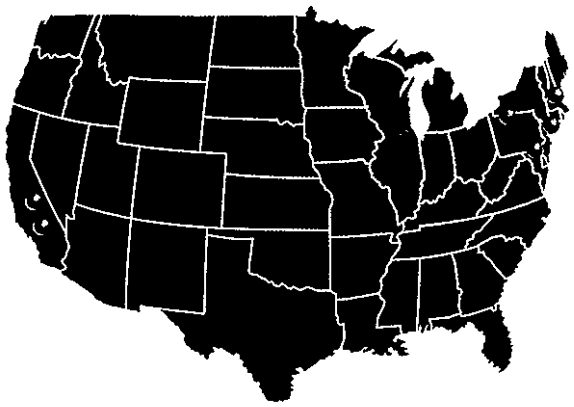
The second characteristic is the accessibility, particularly through partnerships and alliances, of technologies and partly developed products which offer lower risk and lower cost new product opportunities. Within a medium-sized company, Medeva offers a highly customer-focused drug development capability encompassing biotechnology expertise and a commercial infrastructure. With no competing research function of its own, Medeva's interests and those of its development partners are fully aligned. Both culturally and in terms of capabilities, this makes Medeva an attractive partner.

REGIONAL REVIEW

USA

Activity in the year centred on the restructuring of operations backed by investment programmes following the acquisition of the Rochester Business in July 1996. Construction of the new solid dose manufacturing facility at Rochester is progressing to schedule and commissioning of the plant began in the autumn. Building of the new liquid manufacturing facility also commenced during the year. Both facilities are scheduled to be fully operational by late 1999.

The restructuring of our US operations has been underpinned by a major investment programme. At Rochester new solid dose and liquid manufacturing facilities are being constructed to provide capacity for growth in the future.



Medeva's US operations

US salesforce	*185*		
Regional Managers	*12*	*General*	*153*
Hospital	*12*	*Managed care*	*8*

Organised with 12 Regional Business Units, the US salesforce has the flexibility to meet differing seasonal and regional needs across the country. Our niche marketing strategy enables a salesforce of this size to be highly effective.

Chief Executive's Review

CONTINUED

As planned, certain of the satellite facilities have been rationalised. At IMS in California, a large number of low-margin products have been discontinued and cost reductions effected ahead of planned closure. The former Adams Laboratories facility in Fort Worth, Texas has been divested although our range of guaifenesin-based products continue to be manufactured there under a contract manufacturing arrangement.

With 185 sales people operating in 12 regional business units, our salesforce is of an appropriate size to support our highly targeted niche marketing strategy. Its positive impact is becoming increasingly evident with promising growth in prescriptions written for *Tussionex, Zaroxolyn* and *Pediapred* in the second half of 1997. Following the appearance in mid-1997 of adverse health issues surrounding the anti-obesity market we ceased promotion of *Ionamin*. As a consequence we disbanded the part-time salesforce introduced in late 1996 and refocused our detailing on other lead products.

Europe

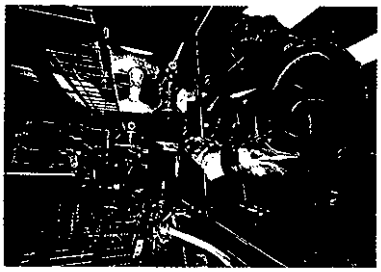
Our European operations performed well with growth supported by initial contributions from products acquired in 1996. The proportionate contribution to Group sales and earnings increased, a trend which is expected to continue as our vaccine business expands and our infrastructure grows.

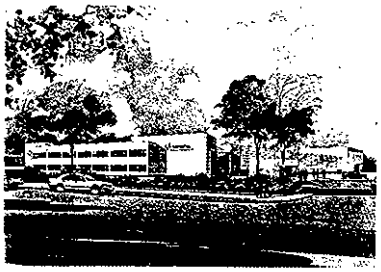
Our vaccine business had a very successful year and remains a core therapeutic area. Capitalising upon its unique position as the only manufacturer of human vaccines in the UK, the Group has invested over £30m in the last five years in the Speke facility. In 1997, the production facilities for the influenza vaccine *Fluvirin* were upgraded and the capacity for manufacturing freeze-dried vaccines such as *Arilvax* (for yellow fever) was expanded. This investment has been rewarded in part by a rapidly growing flow of contract manufacturing business, both from major multinationals and for third party clinical trial purposes. In January 1997, Medeva announced a strategic alliance with Peptide Therapeutics Group plc for the development of new mucosal vaccines and in September, Medeva entered an exclusive agreement with OraVax Inc. for the marketing and distribution of *Arilvax* in the USA.

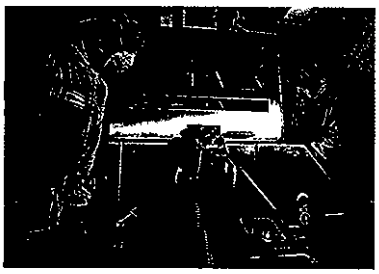
The *Clickhaler* range of dry powder inhalers offers a significant opportunity for Medeva. Following an initial UK launch in late 1997 of the *Asmasal Clickhaler,* the full range is scheduled for launch in the UK and Europe over the next two years, as licences are received. Whilst in the UK the *Spacehaler* metered-dose inhaler range has made modest progress, it is providing a preparatory platform in this market ahead of the *Clickhaler* launches.

Within our new dermatology therapeutic category we saw the first full year contributions from the three products launched in the UK in 1996, *Bettamousse, Micanol* and *Crystacide,* and the launch in 1997 of a further new product, *Cocois*, for treating psoriasis. Dermatology offers niche opportunities and is a field in which we believe we can perform well.

Our French and Spanish businesses continued to consolidate and operate profitably, with sales benefiting from products acquired in 1996. Tillotts in Switzerland produced another strong performance and the installation of new analytical laboratories was completed during the year.







Over £30m has been invested in our Speke vaccine facility over the last five years. In 1997 we increased our capacity for specialist manufacturing of freeze-dried vaccines such as Arilvax.

To expand overall capacity at Speke for our growing vaccines business, including future additional manufacture of Hepagene, a new facility is planned at an adjacent site. Work commences in 1998 and is scheduled for completion in late 1999. At Tillotts, in Switzerland, new analytical laboratories were installed during the year.

Investment at Ashton-under-Lyne has contributed to improved efficiencies and increased our capacity for contract manufacturing. We can now offer clients a broad range of manufacturing options tailored to their requirements.

Medeva's European operations

Europes salesforces	*219*		
UK	*90*	*Belgium*	*6*
France	*62*	*Ireland*	*6*
Spain	*55*		

In the UK our salesforce is structured into three teams reflecting our targeted markets of primary care (general practitioners), secondary care (hospitals) and community care (practice nurses, physicians and retail pharmacy). In France, the salesforce focuses on retail pharmacy and general practitioners whilst, in Spain, the team targets mainly general practitioners. Acquired in July 1997, our Belgian operation's pharmacy salesforce is now being expanded to provide a service to general practitioners. In Ireland the primary targets are general practitioners and hospitals.

Chief Executive's Review
CONTINUED

CERTA, in Belgium, was acquired in July. In addition to an existing range of branded products our latest European addition brings a sales and marketing capability for the Benelux countries. Here, as with our other Continental European operations, the ground is being laid for the launch of new products as they emerge from our pipeline.

In October, on the basis of positive clinical trial results for ***Hepagene,*** both as a vaccine and as a potential treatment, we decided to proceed with the establishment of additional manufacturing capacity. A site adjacent to our existing Speke facility has been secured for this purpose. The initial construction phase is expected to take about 18 months at an estimated cost of £25 million and government grants towards the building project totalling £4 million have been offered.

Dr. Bill Bogie
Chief Executive

10th February 1998

New Product Development Review

THE POTENTIAL FOR MEDEVA

Medeva's strategy is founded on the principle that a pipeline of new products can be generated successfully without the need for an in-house primary research capability. The reasons for this are twofold.

Firstly as recent consolidation in our industry suggests, it is only the largest pharmaceutical companies who can bear the enormous costs and the risk involved in basic discovery, research and development of a substantive stream of new chemical entities (NCEs). At the same time, the size of these companies also dictates a focus on relatively high sales threshold opportunities. Beneath this threshold products will not be developed fully and therein lies an area of significant potential for a company of Medeva's size.

Secondly an increasing amount of primary research is being conducted outside the large pharmaceutical companies, in the biotechnology industry, hospitals and academia. Medeva's opportunity lies in searching out suitable technologies and partially developed products and, through licensing agreements or partnerships, providing the development and marketing capabilities needed to bring new products to the market.

Medeva's development approach permits an increased probability of success of individual development projects, whilst maintaining development expenditure at 7-9% of sales which is roughly half the industry average.

DEVELOPMENT PHILOSOPHY

Medeva has a clear, customer-driven market focus in its development decisions. Instead of phases I, II and III followed by marketing application, as generally used in the industry, our pipeline is classified into "Exploratory Development", "Commercial Development" and "Evergreening".

In the Exploratory Development stage we examine whether a product candidate has the potential to treat a disease without undue toxicity. Product candidates may be partially developed NCEs (e.g. ***Hepagene***) or existing medicines undergoing further development in order to achieve what is clinically, and from a regulatory standpoint, a new drug (e.g. the single isomer form of methylphenidate).

If a therapeutic potential is demonstrated, the market opportunity is then fully assessed. Potential advantages over currently available treatments or the ability to treat a group of patients who are currently untreated is established. We also assess the scope for superior dosage forms or delivery systems for improving compliance and, in today's cost-conscious healthcare environment, for greater overall cost-effectiveness in use. If this comprehensive review indicates a substantial value added opportunity the product is accepted for Commercial Development.

In the Commercial Development phase, products first undergo clinical trials in patients to assess safety and efficacy and to optimise the product profile. The critical values needed for a successful product launch are identified. These are then established as the limits for the development programme so as to move expeditiously to the market and not to "over-research" new products. As the project progresses the database is prepared for a formal submission to the regulatory authorities for marketing approval.

Once the critical development programme has been established, secondary product assets are also defined and product Evergreening plans developed. Medeva is showing that product life cycles can be prolonged and commercial value regenerated through a third stage of development which provides enhancements for maturing products. This third category of development, which we term Evergreening, can include new formulations; new dosage formulations (e.g. a once-daily modified-release form of methylphenidate to eliminate the need for a mid-day dose at school); new delivery systems (e.g. dry powder inhalers to replace metered-dose inhalers for asthmatics); and line extensions which can result in "new" products (e.g. our ***Trivax*** triple vaccine combined with SmithKline Beecham's haemophilus influenzae B, or Hib, launched in January 1997).

Overall, this form of development generates valuable extended product life cycle opportunities at relatively low cost and risk and in a shorter time frame than conventional new product development.

New Product Development Review

CONTINUED

DEVELOPMENT CAPABILITIES

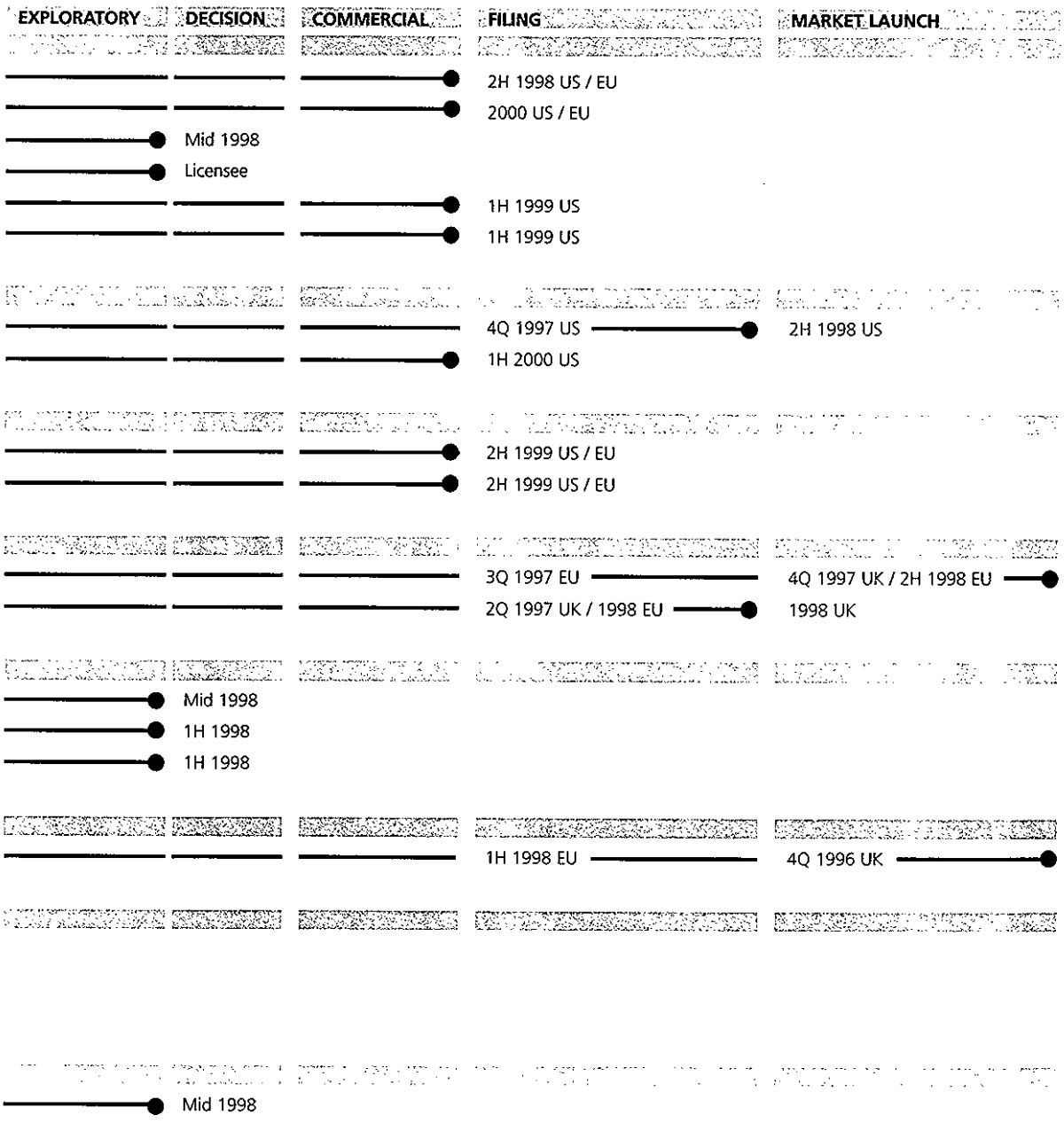
Our development staff numbers nearly 200 people. Located at sites in the UK and the USA, they provide a manufacturing, clinical and regulatory function for the Group. Arising from our work on the ***Hepagene*** project, we have state-of-the-art biotechnology development laboratories and pilot plant facilities. Our capabilities encompass the major technologies employed in biotechnology development.

NEW PRODUCT DEVELOPMENT PIPELINE

THERAPEUTIC AREA	INDICATION	PRE-CLINICAL	DECISION
IMMUNOTHERAPY/VACCINES			
Hepagene	Prevention of hepatitis B		
Hepagene	Treatment of chronic hepatitis B		
Chitosan	Prevention of influenza (intranasal vaccine)		
K26 (improved tetanus)	Prevention of tetanus		
Tetanus/diphtheria booster	Prevention of tetanus and diphtheria in adults		
Arilvax	Prevention of yellow fever		
UROLOGY/ONCOLOGY			
AD32	Bladder cancer: carcinoma-in-situ		
AD32	Bladder cancer: papillary cancer		
CNS			
Methylphenidate	ADHD - modified release		
Methylphenidate	ADHD - single isomer (chiral)		
RESPIRATORY			
Asmasal Clickhaler	Asthma therapy (bronchodilator)		
Asmabec Clickhaler	Asthma prophylaxis (steroid)		
GASTROENTEROLOGY			
Purepa	Inflammatory bowel disease		
Nicotine - acute	Ulcerative colitis		
Nicotine - maintenance	Ulcerative colitis		
DERMATOLOGY			
Bettamousse	Scalp psoriasis (steroid)		
DEVELOPMENT OF PLATFORM TECHNOLOGIES			
Hepatitis B core protein	Prevention & treatment of hepatitis		1H 1998
Fragment C for antigen delivery	Improve responses against vaccine antigens		2H 1998
Live attenuated *S. typhi*	Oral antigen delivery system (in alliance with Peptide Therapeutics)		
PROJECTS IN ALLIANCE WITH PEPTIDE THERAPEUTICS			
Oral typhoid vaccine	Prevention of typhoid fever		
ETEC	Prevention of travellers diarrhoea		2Q 1999

Medeva has development collaborations with pharmaceutical and biotechnology companies and with academic institutions. These are not confined to biotechnology but include pharmaceutical formulations and delivery technology with standard pharmaceuticals as well. Projects are conducted in both Europe and North America.

With the addition of AD32 in 1997, Medeva currently has four lead development projects.



New Product Development Review
CONTINUED

In clinical trials it has been shown that ***Hepagene*** *has the ability to protect individuals who have responded inadequately to previous vaccination. Further clinical trials are in progress designed to show that the vaccine also has the potential to provide an accelerated one-month vaccination regimen which matches the six-month regimen of present vaccines.*

HEPAGENE

Background

Hepatitis B is a highly infectious disease; it is the most prevalent chronic viral infection in the world. There are at least 350 million chronic carriers and about one million deaths per annum worldwide resulting from chronic hepatitis B infection and associated serious liver disease.

In North America and Europe the second generation vaccines used to protect against the hepatitis B virus are genetically engineered biotechnology products and are a significant advance on the first generation of vaccines produced from patients' blood. However they contain only one of the three surface antigens of the virus. By contrast, ***Hepagene*** is the first recombinant HBV vaccine to incorporate significant levels of the components of all three surface antigens. Also, like the virus itself, ***Hepagene's*** surface antigens are glycosylated. As a result, ***Hepagene*** more closely mimics the surface of the hepatitis B virus.

***Hepagene* as a vaccine**

In trials involving over 3000 subjects, the clinical superiority of ***Hepagene*** over the existing second generation vaccine, *Engerix-B*, has been demonstrated in protecting individuals who have responded inadequately to previous vaccination.

Clinical trials currently underway involving over 1,500 subjects are designed to show that ***Hepagene*** also has the potential to provide a one-month (two-dose) accelerated vaccination regimen matching the present vaccines' (*Engerix-B* and *Recombivax HB*) six-month (three-dose) regimen. This would enable rapid protection where speed is important (for example in medical personnel and in those travelling) or where compliance with a six-month regimen may be unreliable, for instance in intravenous drug users and individuals attending sexually transmitted disease clinics.

These studies are due for completion in the first half of 1998. Our intention is then to submit a licence application for the vaccine in both Europe and the USA in the second half of 1998. We will continue to explore the value of this unique vaccine and its ability to benefit those in special clinical circumstances in order to support a superior market position for ***Hepagene*** as a vaccine.

Hepagene as a treatment

Earlier trials demonstrating ***Hepagene's*** powerful immunogenic properties provided scientific grounds to suggest its potential also as an immunotherapy for chronic carriers of hepatitis B. In January 1997, results from a proof of principle study using four monthly doses of ***Hepagene*** in 24 patients with active chronic hepatitis provided evidence supporting this potential with about one third of the patients showing some improvement. These patients would not normally be expected to respond to the only existing, therapy, alpha interferon. The study was extended to eight doses and the results, announced in October, showed a response rate of 36%. Side effects were minimal and response was maintained once treatment stopped.

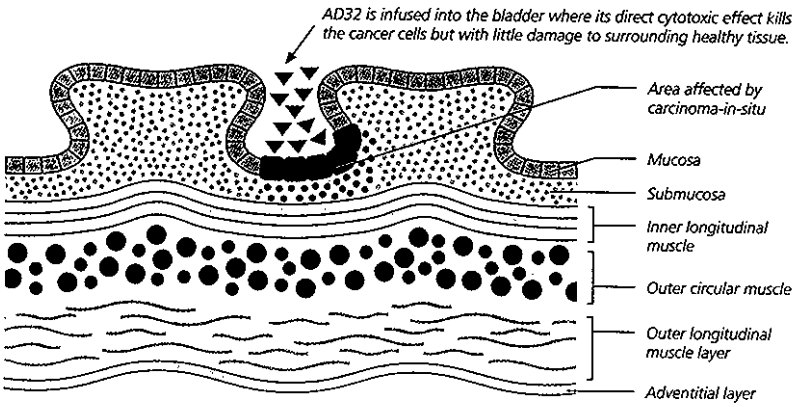
On the basis of these results the decision was taken to proceed into Commercial Development which will be carried out on an international basis in North America, Europe and Asia. A pivotal study involving 120 patients is being conducted in Indonesia together with our partner Janssen Pharmaceutica (a division of Johnson & Johnson). The initial phase of this study involving four doses will be completed at the end of 1998 with an extension to administer at least eight further doses scheduled to finish at the end of 1999. Further work will commence in the first half of 1998 involving both patients who would be considered likely to respond to alpha interferon treatment and those who would not. All patients will receive eight doses and treatment intervals of both two weeks and one month will be evaluated. The work is scheduled for completion at the end of 1999 and Medeva's intention is to submit applications for marketing authorisation for ***Hepagene*** as a treatment in both North America and Europe in the year 2000.

An additional Exploratory Development programme is being conducted in so-called "low replicative" patients who have little or no viral turnover and are anti-HBe antigen positive. These patients would not be expected to respond to antiviral or to alpha interferon treatment and are generally not treated today. However, they make up the majority of chronic hepatitis B carriers and their risk of liver damage is the subject of medical debate. If a treatment with little or no safety risk were developed then a major new market could be opened up.

AD32

In July 1997 we acquired from Anthra Pharmaceuticals Inc. the exclusive US marketing rights to their anthracycline derivative, AD32, which is being developed for the treatment of bladder cancer. A submission for the first indication, carcinoma-in-situ, was made on schedule in December 1997 and we anticipate launching the product in late 1998. Clinical trials for a second indication, in papillary bladder cancer, are underway with a regulatory submission scheduled for early 2000.

Diagramatic representation of the bladder wall



Each year in the USA approximately 5,000 bladder cancer patients with carcinoma-in-situ have their bladders removed following unsuccessful chemotherapy treatment. For about 60% of these patients, AD32 offers the prospect of an alternative to this radical surgery.

New Product Development Review

CONTINUED

METHYLPHENIDATE

Methylphenidate is the drug of choice for the treatment of attention deficit hyperactivity disorder ("ADHD") in the USA where an estimated 3-5% of all school children suffer from the disorder and diagnosis in adults is increasing. Typically a mid-day dose is required which is an unwelcome responsibility for schools and disliked by children. Medeva is developing two approaches which could address this issue. These projects, if successful, provide the potential for Medeva to establish a new position in the US methylphenidate market from 2000 onwards.

Modified release

Medeva is developing a modified release form of methylphenidate in conjunction with Eurand, a unit of American Home Products specialising in contract drug formulation. A formulation has been produced which would eliminate the need for a mid-day dose and would offer a range of dosages to provide dose titratability.

In 1997, an Investigational New Drug Application ("IND") was filed with the Food and Drug Administration ("FDA"). The drug is currently being evaluated in children in the USA. An end-of-phase II meeting is scheduled to be held with the FDA Neuropharmacology Division in the first half of 1998 to progress planning for a New Drug Application ("NDA"). This is expected to be filed in the USA and Europe in the second half of 1999.

Single Isomer, "Chiral" Form

Methylphenidate is a racemic mixture of two isomers and the possibility exists, as with other racemic drugs, that a single isomer may offer advantages. These might include lower dosing, linear pharmacokinetics and reduced potential for abuse and drug interactions.

In partnership with Chiroscience we are developing the d-threo, single isomer form of methylphenidate. An IND has been filed in order to begin the clinical programme in children in the USA, a filing is scheduled for late 1999. Such isomeric drugs are considered by the FDA to be NCEs and they gain 3-5 years marketing exclusivity.

DRY POWDER INHALERS (DPIs)

The first of Medeva's dry powder inhalers, the salbutamol ***Asmasal Clickhaler,*** licensed from ML Laboratories, was introduced in the UK in late 1997 prior to a full launch scheduled for 1998. An application has been made and accepted for a European marketing authorisation under the Mutual Recognition Agreement, and a pan-European licence is anticipated by the end of 1998.

A UK marketing application for the beclomethasone dipropionate version, ***Asmabec Clickhaler,*** was made in 1997. Upon approval Medeva will make a European application under the Mutual Recognition Agreement. A pan-European launch is scheduled for both ***Asmasal*** and ***Asmabec*** in 1999/2000.

In addition to offering individual device advantages, DPI's eliminate the need for CFC propellants. Our launch strategy for Europe is scheduled to coincide with the phasing-out of CFC's around the turn of the century. Additionally we continue to search for a suitable HFA propellant for ***Spacehaler***.

OTHER PRODUCTS

Vaccines

A proof of principle trial for an intranasal influenza vaccine with enhanced efficacy commenced in 1997 and is scheduled for completion by mid-1998. Stimulation of secretory antibody in the nasal mucosa is known to correlate with protection from influenza in animal models and humans. This project is being conducted with Danbiosyst, who are the licensors of chitosan, and Peptide Therapeutics.

Further participation in the development of a needleless delivery form (with Weston Medical) and an adjuvanted form (with Vaxcel Inc.) of influenza vaccine has been suspended pending further development work by the respective partners.

Like our purified pertussis antigen 69kDa *(Pertactin),* K26 is an improved, highly purified immunogen, in this case, for the prevention of tetanus. A proof of principle study was completed successfully in 1997 showing that K26 has improved immunogenicity and we are currently seeking a partner to progress the project into Exploratory Development. An IND is scheduled to be filed in the USA in the first half of 1998 prior to commencing a phase III clinical study with our adult tetanus and diphtheria booster.

Two vaccine projects are already emerging from our alliance with Peptide Therapeutics:
a) A recombinant, live, attenuated, oral, typhoid vaccine entered a placebo-controlled, double-blind, pivotal efficacy study in the USA in late 1997. The study is scheduled for completion in mid-1998 whereupon Medeva will have the option to acquire the product for Commercial Development.

b) An oral form of recombinant, live, attenuated vaccine which protects against infection by enterotoxigenic E. Coli (ETEC), the biggest single cause of traveller's diarrhoea, is under construction. These selected vaccine strains will enter clinical trials in late 1998.

Respiratory

Erythelan, a liquid form of erythromycin, is currently under development by Elan Pharmaceuticals Inc. No significant progress has been made during the year with this product. Medeva entered into a marketing agreement with Elan in 1995 whereby Medeva acquired the exclusive rights to market the product in the USA.

Gastrointestinal

In conjunction with the Mayo Clinic, we are examining the potential use of nicotine in the treatment of ulcerative colitis. Proof of principle studies completed in 1997 provided clear evidence of efficacy when nicotine is delivered directly to the lower bowel. Pivotal clinical studies are scheduled to commence in 1998 following completion of an exploratory dose delivery study.

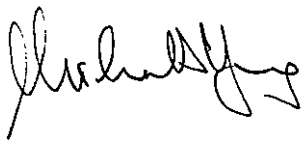
Exploratory evaluation of *Purepa* as a pharmaceutical product for the European Market is in progress and a decision whether to proceed to Commercial Development will be taken in mid-1998.

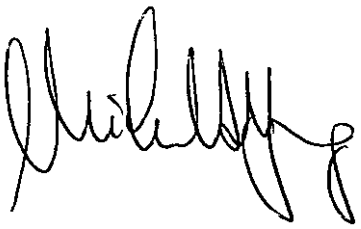
Projects Terminated

The following projects have been terminated following exploratory evaluation as they did not meet our criteria for Commercial Development: bismuth (for treating irritable bowel disease), *Pediapred* (new formulation), and *Purepa* (as a medicinal food in the USA). In the light of health concerns relating to anti-obesity products the planned development work on *Ionamin* (phentermine) will not proceed.

DEVELOPMENT OF PLATFORM TECHNOLOGIES

Arising from our work on *Hepagene* we are developing a proprietary platform technology for improving the immunotherapy for hepatitis based on the core protein of the hepatitis B virus. Our initial focus for the technology is to improve immune responses to hepatitis B. A pre-clinical proof of principle study initiated in late 1997 is due for completion by mid-1998 when a decision will be taken whether to proceed to Exploratory Development. A recombinant component of tetanus toxin has been genetically engineered and is being evaluated for its ability to enhance immune responses against antigens which are otherwise poorly immunogenic. This is expected to be completed in the second half of 1998. The use of live attenuated *Salmonella typhi* is being explored as an oral delivery system for other vaccine antigens. Targets for this technology are under evaluation.





Dr Michael Young
Chief Scientific Officer

10th February 1998

Operating and Financial Review

OVERVIEW

The Group's results in 1997 show growth in underlying sales and profits and the generation of substantial cashflow for investment. In sterling terms, sales grew by 7% and operating profit by 9%. Adjusting for the effects of exchange rate movements, sales grew by 13% and operating profit by 15% giving, at constant exchange rates ("CER"), an increase in earnings per share of 11% over 1996. Like for like sales at CER grew 7% to £283m (excluding Belgium and the 1996 RPR acquisitions).

COMPARABILITY WITH 1996

As the majority of the Group's profits arise in the USA, the results as reported in sterling are materially influenced by changes in the US dollar exchange rate. The performance of sterling against the French, Spanish, Swiss and Belgian currencies also affects reported results, although to a much lesser extent than the US dollar. The average US dollar/sterling exchange rate for 1997 was $1.638, compared with $1.562 for 1996. Applying the 1996 historic exchange rates would increase 1997 reported sterling profit before tax by approximately £6m. The 1996 results are also impacted by the one off restructuring charge of £65m made following the Rochester acquisition, the comparatives in the remainder of this review exclude the 1996 restructuring charge unless otherwise specified.

The year end rate, applied to translation of balances at 31st December, was $1.645 in 1997 and $1.711 in 1996. Medeva does not currently hedge against the effect of exchange rate differences resulting from the translation of foreign currency denominated assets and earnings but does, where appropriate, seek to hedge any significant transactional exposures.

In order to reflect the performance of the underlying business, 1996 sales comparatives given in the remainder of this review have been calculated using 1997 average exchange rates.

SALES

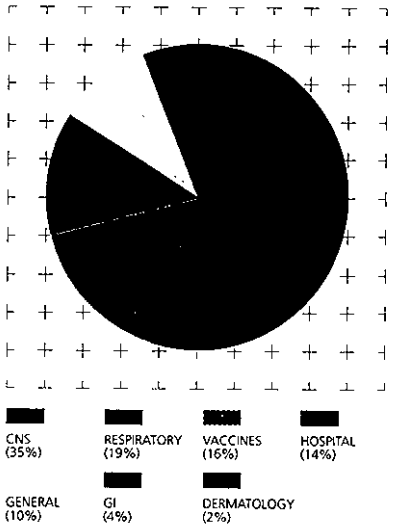
Overall sales growth in the year of 13% was achieved through increases in all of our therapeutic categories.

SALES BY CATEGORY

	1997 £m	1996* £m	Inc.
CNS	125	124	1%
Respiratory	68	52	30%
Vaccines	58	46	25%
Hospital Products	48	46	5%
Gastrointestinal	15	14	12%
Dermatology	6	3	104%
General	35	31	14%
	355	316	13%

* At 1997 average exchange rates

% SALES BY CATEGORY 1997



Central Nervous System (CNS)

The CNS category comprises two products, methylphenidate and *Ionamin,* both of which had a significant effect on the results for the year. Sales of methylphenidate, which is prescribed primarily for the treatment of attention deficit hyperactivity disorder, rose by 10% to £113.5m and accounted for 32% of total Group sales. As signalled, after several years of exceptional growth the market for methylphenidate has now matured with the total number of prescriptions written for the drug (both generic and branded) in 1997 at approximately the same level as in 1996. Despite this static market and the entry of a second generic product in November, the Group continued to capture market share from the branded product. Medeva's share of total prescriptions dispensed in 1997 was 72% (1996: 70%). This volume increase together with average price and mix increases of 7% produced sales growth of 10%.

The other product in the CNS category, ***Ionamin*** (phentermine) has been disappointing in sales terms. In July 1997 significant health concerns were raised over the use of the so-called "fen-phen diet" (co-prescription of fenfluramine and phentermine). These concerns resulted in the withdrawal from the market of fenfluramine and a related drug, dexfenfluramine, in September 1997.

Our cough products Tussionex and Delsym helped drive growth in our respiratory sales in 1997. The Asmasal Clickhaler was introduced into the UK market late in the year, the first of a range of dry powder inhalers. Théralène is a paediatric antihistamine sold in France.

The publicity surrounding the voluntary market withdrawals of fenfluramine and dexfenfluramine at the request of the FDA in September appears to have had a significant impact on the US public's perception of the safety of all anti-obesity drugs and there has been a marked fall in the number of patients attending physicians for treatment. Industry wide prescriptions for anti-obesity products written in the second half of 1997 were running at 40% of the level in the same period in 1996. ***Ionamin*** sales at £11.9m (1996 : £21.3m) have fallen short of our expectations for the year. The litigation surrounding the "fen-phen diet" is discussed in note 22 to the financial statements.

Respiratory

Sales of products in the respiratory category grew by 30% to £67.9m, driven by the first full year contribution from ***Tussionex*** and ***Delsym,*** acquired from RPR in mid-1996. Medeva continued to achieve good contributions from the older guaifenesin-based products, where we have won a number of managed care contracts, and from the generic albuterol MDI, marketed by Apothecon, which has now reached its target 10% volume market share, albeit at depressed prices. ***Semprex-D*** sales were disappointing as we were unable to match the initial efforts of our larger competitors in exploiting the disruption in the US antihistamine market following the withdrawal of a competitor product *Seldane*.

Tussionex, the unique 12 hour anti-tussive, achieved sales of £19.5m compared with £10.4m in the second half of 1996. In response to marketing efforts the product is gaining market share and in the second half of 1997 prescriptions written were 3% ahead of those for the same period in 1996, despite a 7% decline in the market sector.

The performance of ***Delsym,*** the OTC extended-release paediatric cough product, was also very encouraging, with sales of £7.4m in the full year compared with £1m in the second half of 1996. ***Delsym*** responded well to the promotional efforts beginning early in the year, which ensured its presence and positioning in the retail outlets during the current cough/cold season.

Vaccines

Once again the vaccines business achieved excellent results in the year, benefiting from the investment Medeva has made in the Speke manufacturing plant. ***Fluvirin*** sales increased by 18% to £27.3m, reflecting both an 8% increase in the number of doses sold to 16m and the higher average price achieved compared with 1996. Sales of the other vaccines increased by 32% with a strong performance across the portfolio. Diphtheria, Tetanus and ***Trivax*** sales grew 55% to £11.5m benefiting from the co-marketing of ***Trivax-Hib*** with SmithKline Beecham. Medeva also enjoyed a good contribution from vaccine contract manufacturing with sales of £7m being achieved in this highly specialised area.

Operating and Financial Review

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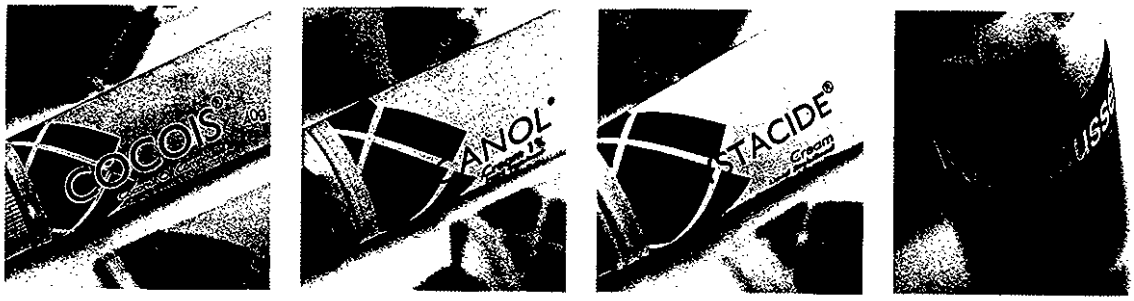


In 1997, Cocois, an ointment for scaly scalp conditions, was added to the new dermatology portfolio. The other three principal products in this category are Micanol, for treating psoriasis, Crystacide for treating skin infections and Bettamousse, a novel steroid formulation for the scalp. Sales for this category doubled in the year.

Hospital Products

Sales of hospital products grew by 5% overall as a result of a full year contribution from *Zaroxolyn* of £13m (compared with £8.5m in the second half of 1996) offset by further declines in the mature generic portfolio. *Zaroxolyn* is a well established diuretic which is responding to active promotion in the USA for resistant oedema, a significant problem in congestive heart failure and severe renal disease. Prescription growth in the second half of the year was 14% compared with the second half of 1996 and Medeva believes that further growth is achievable in this market in 1998.

Some £25m (1996: £30.4m) of the hospital sales are of older generic products (lidocaine, morphine, adrenaline and others) manufactured at the IMS site in California. This business has been declining as Medeva reduces the number of products in the range and as price erosion continues. Of these sales £5.8m (1996 : £6.5m) were made in Europe. Medeva will continue to rationalise this operation aiming to ensure maximum returns are generated through the mature phase of these products life cycles.

Price levels for isoflurane in the USA remain disappointing. Medeva is continuing to expand sales to the veterinary and export markets and expects sales in the future to benefit from the European distribution arrangement with Fresenius AG.

Gastrointestinal

Sales rose 12% to £15.4m representing 4% of total Group sales. The principal product in this category, *Asacol*, achieved a 46% increase in turnover to £7.9m (1996 : £5.4m) due to increased royalties from the US and Canadian markets and increased direct sales in other territories. The good performance of *Asacol* compensated for the decline in the UK brand *Normax* due to generic competition.

Dermatology

The newest product category doubled sales to £6.5m, as the result of a first full year contribution from many of the products. With four principal brands, dermatology is a growing category for the European business.

General Products

General product sales rose 14% to £34.9m and continue to represent a significant proportion of the total sales (10% in 1997). They benefited from the good performance of the UK contract manufacturing business at Medevale which achieved 1997 sales 21% ahead of 1996 at £7.6m. The largest brands in this category are *Pediapred* in the USA and *Coracten* in the UK both of which achieved sales of £4.9m in 1997. *Coracten's* share of the UK calcium antagonist prescription market continues to decline due to generic competition whereas *Pediapred* has shown progress with a 16% increase in prescriptions written in the second half of 1997 compared with the second half of 1996.

Zaroxolyn, a diuretic, and Pediapred, a liquid steroid, responded well to active promotion in the USA. Imurel is an immunosuppressant product sold in Spain. Nécyrane, a nasal spray for rhinitis, forms part of the French respiratory portfolio.

Royalties

The Group's royalty income in the year amounted to £7m, and is included within vaccine and gastrointestinal sales. The royalties arise principally on *Asacol*, which is licensed to Proctor & Gamble in the USA and Canada, and *Pertactin* (69kDa) which is licensed to SmithKline Beecham for inclusion in their acellular pertussis vaccine. ***Pertactin*** is used primarily in *Infanrix* sales which grew significantly in the year generating increased royalty income.

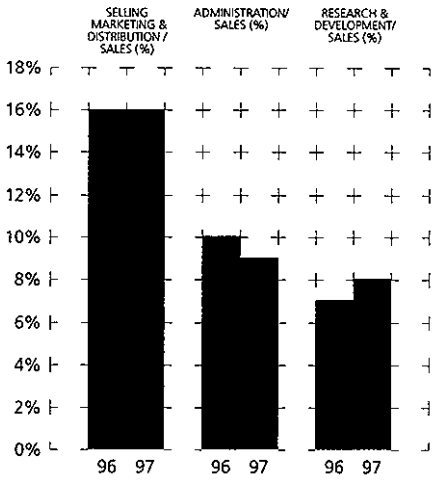
GROSS PROFIT

The 1997 sales generated a gross profit of £232m and a gross margin of 65% which is at the top of the target range and which clearly benefited from the proportion of high margin methylphenidate sales in the 1997 results. The target remains to hold gross margins in excess of 60% in the future, although the achievement of this depends on the extent of any price erosion in the methylphenidate market.

OPERATING EXPENSES

Selling, marketing and distribution expenses grew by 8% to £57m and remained at 16% of sales. These expenses include a full year marketing campaign for our US brands acquired in mid-1996 together with the launch costs of our new UK respiratory products. On 1st July 1997 we terminated the ***Ionamin*** co-promotion agreement and settled the outstanding litigation with Resolve Medical Marketing Corporation ("Resolve"). The settlement provided for the immediate termination of the 47.5% commission arrangements and the acquisition by Medeva of sole marketing rights over the product in return for a series of payments over five years to Resolve with a net present value of £13m. The £13m was established as an intangible asset at 1st July 1997 and is being written off over its estimated useful economic life. The full profit from ***Ionamin*** sales after this write-off, which is charged against this expense category now accrues to Medeva. The amortisation of the ***Ionamin*** intangible asset is charged against this expense category.

OPERATING EXPENSES/SALES



Administration costs at £33m are 2% below the 1996 level despite the full year effect of the Rochester acquisition. The benefits of the US restructuring are now showing through, and at 9% of sales these costs are a percentage point below the previous year.

Development costs of £27m rose by 12% principally due to the ***Hepagene*** development programme. At 8% of sales these costs are within the target range of 7% to 9%.

Operating and Financial Review

CONTINUED

OPERATING PROFIT

The Group's underlying operating profit at CER grew by 15% to £114m, giving an operating margin of 32%, in line with 1996. The extent of competition on methylphenidate sales will have the most significant single effect on our Group operating margin in the future.

RESTRUCTURING

Following the £65m charge in 1996, the US restructuring has proceeded in accordance with the plan outlined last year, with cash expenditure of £14m in 1997. Of this amount £6m related to the upgrading of the Rochester site and a further £8m related to the relocation of marketing, administrative and distribution functions to Rochester. The remaining expenditure will be incurred over the next two years; on the rationalisation of old manufacturing facilities and on future validation costs at the Rochester site.

The disposal of the Fort Worth facility in September was a significant step in the rationalisation of the US manufacturing facilities; the facility was disposed of at its net book value of £3m.

The Rochester capital expenditure programme is on budget. In 1997 £25m was spent and a further £15m is scheduled to be spent in 1998/99, including the £5m spent in 1996, this will bring the total capital expenditure on the new facility to £45m on completion. At the end of this period Medeva will have a state-of-the-art pharmaceutical manufacturing facility with both solid dose and liquid manufacturing and packaging capabilities together with development and quality assurance laboratories.

TAXATION

The underlying tax rate for the year fell from 35% to 32% as a result principally of tax allowances on acquisitions and the changing balance of our business. Based on current expectations and existing tax legislation in the Group's principal operating territories, this rate is not expected to rise.

EARNINGS

Profit after tax attributable to shareholders is £76m compared with £67m, which was the 1996 profit before restructuring at historic exchange rates. Earnings per share grew to 21.4p in the year, a 3% increase over 1996 earnings or 11% at CER.

The weighted average number of shares in issue (354m) increased in the year by 10%, due principally to the full year effect of the Placing and Open Offer used to fund part of the cost of the acquisitions from RPR.

Cash equivalent earnings per share at CER, calculated by adjusting for restructuring and non-cash charges, rose by 10% to 26.5p per share in 1997. The 1997 depreciation and amortisation charges at £18m remain in line with 1996 as our new manufacturing facilities have not yet been commissioned.

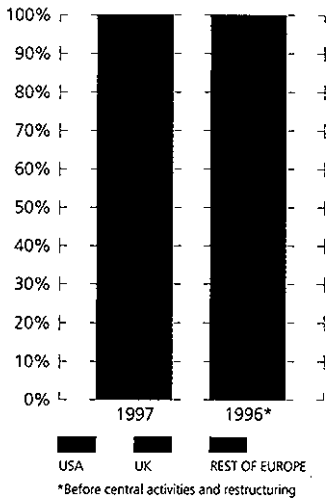
The final dividend proposed by the directors is 3.6p per share which results in a total for the year of 5.5p per share, an increase of 15% over 1996. The dividend will be paid as a foreign income dividend and as a result no share dividend alternative will be available. The dividend is covered 3.9 times by earnings.

GEOGRAPHIC SPREAD OF SALES AND PROFITS

In 1997 the US business contributed 66% of sales and 84% of operating profits before central activities (1996: 69% and 86% respectively). US sales have increased by 7% at CER due in part to the Rochester products acquired in mid 1996. Excluding ***Ionamin***, these products achieved full year sales of £46m which is a 7% increase on pro-forma 1996 sales.

UK sales at £90m were 17% ahead of 1996, with profits £5m higher due to the contribution from the vaccine business. Our other European operations contributed 9% and 4% of sales and profits respectively; boosted by our Belgian acquisition with sales of £3.4m and a full year contribution from the French business acquired from RPR in July 1996.

OPERATING PROFIT BY GEOGRAPHICAL REGION (%)



*Before central activities and restructuring

MAJOR COMPETITIVE FACTORS AND SEASONALITY

Medeva faces competition in all of its markets. The increasing influence of both managed care organisations and governments and the greater use and acceptance of generic products have resulted in widespread price erosion in the industry worldwide. The Group is not immune to these competitive and pricing influences.

Future results are likely to be affected principally by new entrants in the US market for methylphenidate. Methylphenidate is a Schedule II controlled drug which may only be manufactured to quota allocated by the Drug Enforcement Administration ("DEA"). Accordingly, the price erosion frequently witnessed in generic markets as competitors seek to gain market share may be tempered. Medeva's future revenues from this product will depend on the rate at which the DEA allocate additional quotas to the new entrants to this market and the extent of any consequential price erosion.

CNS sales in the year of £125m generated a contribution, before £30m of central and development costs, of approximately £94m while the Group's non-CNS business generated a contribution of £51m.

Demand for certain of Medeva's major products, principally the influenza vaccine and certain respiratory products, is seasonal with the majority of their sales and profits occurring in the second half of the year. These products are material to the Group's profitability and, as most expenses arise evenly throughout the year, earnings in the second half of the year are typically greater than those in the first half. In 1996 reported results were also influenced by the acquisitions from RPR which took effect from 2nd July, 1996. Sales in the second half of 1997 accounted for 55% (1996 - 63%) of the total for the year and operating profits, accounted for 59% (1996 - 69%). Subject to any distortion caused by the effects of methylphenidate competition we expect a similar pattern for 1998.

CASHFLOW AND INVESTING ACTIVITIES

Funds from operations in 1997 were £132m which is £18m in excess of operating profit and £10m ahead of 1996. Resources absorbed by working capital were £17m due to the build up of stocks of the Rochester products. As construction at the new Rochester facility progresses, inventory levels in the USA will be maintained wherever possible at appropriate levels in order to provide a buffer stock during the validation of the new facility. As a result, operating activities generated £115m before the restructuring cash spend of £14m.

Capital expenditure during the second half of the year was £28m, bringing the expenditure in the full year to £42m (1996 : £16m). Expenditure in the second half of the year relates mainly to the Rochester site where work has been accelerated on the

Operating and Financial Review

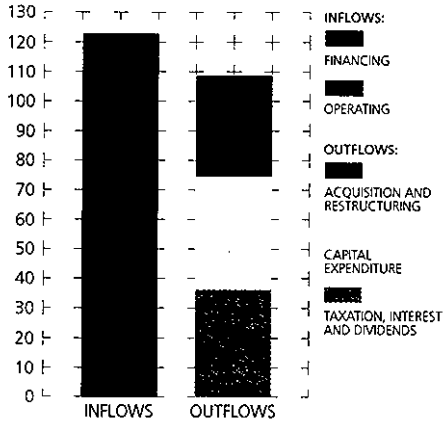
CONTINUED

new liquid dose facilities. Capital expenditure is expected to remain high in 1998 as we complete the upgrading of the Rochester facility and expand the facility at Speke.

Interest, dividends and tax absorbed £36m (1996 : £36m) with reduced cash outflow on tax compensating for higher dividend and interest payments.

Investments absorbed £20m in the year: principally the purchase of the Belgian business for an initial payment of £3m; the bladder cancer product AD32 in the USA for an initial payment of £5m; the dermatological product *Cocois* for Europe for £3m; and a £3m investment in shares in Peptide Therapeutics Group plc.

CASH MOVEMENTS 1997 (£m)



BALANCE SHEET, BORROWINGS AND TREASURY MANAGEMENT

The net assets of the Group at the year end amounted to £101m, an increase of £56m over 1996. Net asset value per share at 31st December 1997 was 28p which is after writing off £551m of goodwill to reserves since 1990, equivalent to 155p per share.

As at 31st December 1997, £58m of the Group loan facility was drawn down and the Group had cash balances of £11m with resulting net borrowing of £47m. At 31st December 1997, the Group had a 5 year unsecured £125m multi-currency medium term facility which is due to expire in February 2001; the Group also has a net overdraft facility of £10m. The current loan is drawn down in US$ and the interest rate is 0.35% above US$ LIBOR. Repayment of borrowings during the year amounted to £24m. Gearing is not an appropriate measure for the Group due to the fact that the balance sheet does not include goodwill. Interest cover is a more relevant measure and for 1997 interest cover was 27 times (1996 : 66 times).

Surplus cash balances are held on short-term deposit with major banks and generally in the currencies in which it is anticipated that future liabilities might arise. Treasury activities are managed centrally, in accordance with guidelines laid down by the Board, and do not operate as a profit centre.

LISTING

At 31st December 1997 the issued share capital was approximately 356m Ordinary Shares. Medeva's primary listing is on the London Stock Exchange. In March 1997, Medeva transferred its US listing from the American Stock Exchange to the New York Stock Exchange. The number of shares traded as ADRs changes on a daily basis but represented approximately 8% of total shares in issue as at 31st December 1997. At that date, it is estimated that approximately 42% of the Company's shares were owned by investors and institutions in or affiliated with organisations located in the USA. The majority of the Company continues to be owned by UK shareholders.

SHARE CAPITAL

Following the announcement of the planned changes in Advance Corporation Tax, the Directors' believe it would now be appropriate for the Company to have available the customary power to buy back up to 10% of the Company's issued share capital. Accordingly, a Special Resolution to this effect will be proposed at the Annual General Meeting.

Garry Watts
Finance Director
10th February 1998

Medeva Product Range

Medeva's business is focused in seven principal therapeutic categories. Portfolios include the following products:

CENTRAL NERVOUS SYSTEM (35%) £125m		MANUFACTURE & MAIN MARKET/S
Methylphenidate	Schedule II, controlled medicine for attention deficit hyperactivity disorder	Made and sold in USA
Ionamin	Resin-based phentermine for obesity	

RESPIRATORY (19%) £68m Medeva's product range addresses diseases of both the upper and lower respiratory tract		
Upper Respiratory Tract		
Tussionex	A 12-hour acting prescription cough treatment (hydrocodone)	Made and sold in USA
Delsym	A 12-hour acting non-narcotic OTC cough treatment, primarily for children	
Semprex-D	Low-sedation antihistamine/decongestant combination	
Atrohist range	Antihistamines with decongestants	
Deconsal and Humibid ranges	Guaifenesin-based expectorants with decongestants/cough suppressants	
Syn-Rx	Guaifenesin-based products in combination pack for sinusitis	
Nécyrane	Nasal spray for rhinitis	Sold in France
Théralène	Paediatric antihistamine	
Lower Respiratory Tract		
Clickhaler	Dry powder inhaler for asthma	Sold in UK
Spacehaler range	Salbutamol (albuterol) & BDP metered-dose inhalers for asthma (vortex mechanism)	Made and sold in UK
Albuterol MDI	Albuterol (salbutamol) metered-dose inhaler for asthma	Made and sold in USA
Trentadil	For the treatment of asthma	Sold in France
Septrin	Broad spectrum antibiotic	Sold in Spain
Rotramin	Antibiotic for respiratory and ear infections	

VACCINES (16%) £58m		
Childhood vaccine range	Includes polio, measles, diphtheria/tetanus/pertussis (DTP), *Trivax-Hib**, BCG	Made in UK and sold Worldwide
Travellers vaccine range	Includes yellow fever *(Arilvax)*, tetanus	
Adult vaccine range	Diphtheria/tetanus	Made and sold in USA (Manufacture will transfer to UK)
Fluvirin	Influenza vaccine	Made in UK and sold Worldwide

HOSPITAL PRODUCTS (14%) £48m		
Morphine	Pain management	Made and sold in USA
Lidocaine	Topical anaesthetic	
Zaroxolyn	Diuretic product for resistant oedema in cardiac failure and renal disease	
Isoflurane	Anaesthetic gas for human & veterinary use	Made USA, sold N and S America
Diamorphine	Pain management	Made and sold in UK

GASTROINTESTINAL (4%) £15m		
Asacol	For treating inflammatory bowel disease	Sold Worldwide
Colpermin	For treating irritable bowel syndrome	Made in Switzerland, sold in Europe
Normax	Laxative, particularly for elderly people	Made and sold in UK

DERMATOLOGY (2%) £6m		
Micanol	Cream for treating psoriasis	Sold in UK
Crystacide	Cream for treating skin infections	
Bettamousse	Steroid mousse formulation for scalp psoriasis	
Cocois	Ointment for treating scaly scalp conditions	
Plurexid	An antiseptic solution	Sold in France

GENERAL PRODUCTS (10%) £35m		
Coracten	For treating high blood pressure (nifedipine)	Made and sold in UK
Pediapred	A liquid steroid for treating allergic, auto-immune and inflammatory illnesses	Made and sold in USA
Imurel	Immunosuppressant for e.g. transplant patients	Sold in Spain
Other products	A range of ointments, creams, suppositories, sterile eye & ear and other products	Principally made in UK. Sales in UK, France, Belgium and Spain

Figures are 1997 sales. Figures in brackets represent % of total 1997 sales
**Hib component from SmithKline Beecham*

Five Year Review

SALES BY PRODUCT AND MAJOR THERAPEUTIC CATEGORY*	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Central Nervous System					
Methylphenidate	**113.5**	103.3	82.7	61.8	32.8
Ionamin	**11.9**	21.3	—	—	—
	125.4	124.6	82.7	61.8	32.8
Respiratory					
Tussionex	**19.5**	10.4	—	—	—
Delsym	**7.4**	1.0	—	—	—
Guaifenesin based products	**11.3**	11.6	18.5	30.9	30.4
Semprex-D	**3.5**	7.1	0.8	—	—
Others	**26.2**	22.0	19.9	17.8	16.7
	67.9	52.1	39.2	48.7	47.1
Vaccines					
Fluvirin	**27.3**	23.2	21.2	15.9	16.1
DT and *Trivax*	**11.5**	7.4	3.0	3.3	0.1
Others**	**18.8**	15.5	13.4	13.9	19.2
	57.6	46.1	37.6	33.1	35.4
Hospital products					
Zaroxolyn	**13.0**	8.5	—	—	—
Lidocaine	**7.8**	8.9	8.5	8.7	7.3
Others**	**26.9**	28.2	32.7	29.1	24.6
	47.7	45.6	41.2	37.8	31.9
Gastrointestinal					
*Asacol***	**7.9**	5.4	—	—	—
Normax	**3.5**	4.9	6.5	6.1	5.7
Others	**4.0**	3.4	1.2	1.5	2.0
	15.4	13.7	7.7	7.6	7.7
Dermatology	**6.5**	3.2	—	—	—
General products					
Coracten	**4.9**	5.9	4.9	4.3	3.4
Pediapred	**4.9**	3.3	—	—	—
Others	**25.1**	21.4	17.0	19.3	21.9
	34.9	30.6	21.9	23.6	25.3
Total net sales	**355.4**	315.9	230.4	212.6	180.2
Disposals and other adjustments***	—	—	15.5	15.2	11.9
Currency adjustments	—	15.9	10.4	11.8	8.3
Total reported sales	**355.4**	331.8	256.3	239.6	200.4

*Sales for all years are stated at 1997 average exchange rates and from the date at which acquired by the Group

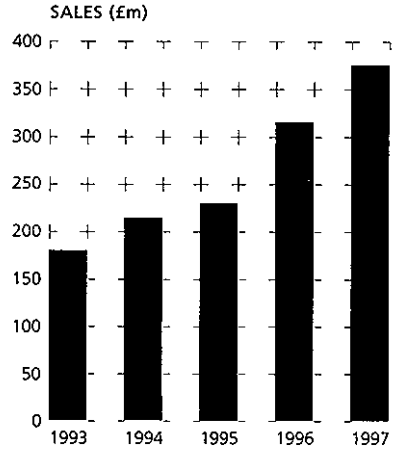
**Sales include royalties

***Restructuring of Armstrong in 1993 and disposal of the oncology business in 1996

	1997	1996	1995	1994	1993
TRADING RESULTS	**£m**	£m	£m	£m	£m
Sales	**355**	332	256	240	200
% Gross profit to sales*	***65%***	*65%*	*66%*	*65%*	*61%*
Operating profit*	**114**	105	78	64	47
% Operating profit to sales*	***32%***	*32%*	*30%*	*27%*	*24%*
*Interest cover (times)**	***27***	*66*	—	—	*43*
Profit before tax*	**111**	103	79	64	46
Profit after tax*	**76**	67	49	40	30
Tax rate	***32%***	*35%*	*38%*	*38%*	*36%*
CASHFLOWS (see definitions on page 27)					
Net operating cashflow*	**115**	127	68	86	46
Net cashflow before investing activities*	**80**	91	33	48	28
Capital expenditure (net)	**(39)**	(16)	(12)	(11)	(17)
Free cashflow*	**41**	75	21	37	11
Intangible assets and investments	**(14)**	(15)	(1)	(6)	(9)
Acquisitions and deferred consideration	**(7)**	(281)	(31)	(31)	(54)
Restructuring	**(14)**	(13)	—	—	—
Disposal of subsidiary	**—**	49	—	—	—
Net cashflow before financing	**6**	(185)	(11)	—	(52)
Share capital	**8**	111	12	4	99
Finance leases	**—**	—	(1)	(1)	(1)
Net cash inflow/(outflow)	**14**	(74)	—	3	46
BALANCE SHEET (see definitions on page 27)					
Fixed assets	**181**	133	128	130	114
Net current operating assets	**56**	42	63	38	46
Net operating assets	**237**	175	191	168	160
Net (borrowings)/cash	**(47)**	(57)	12	13	11
Capital and reserves	**101**	46	150	132	131
Goodwill written off (cumulative)	**551**	544	340	310	280

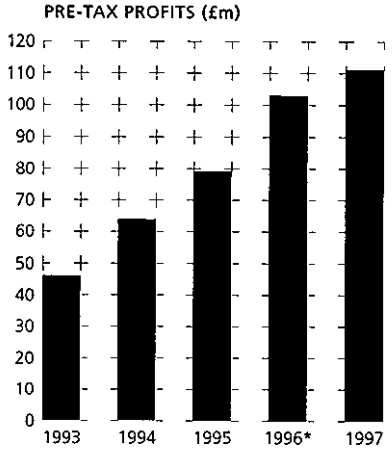
* 1996 is stated before restructuring charge of £65m

SALES (£m)



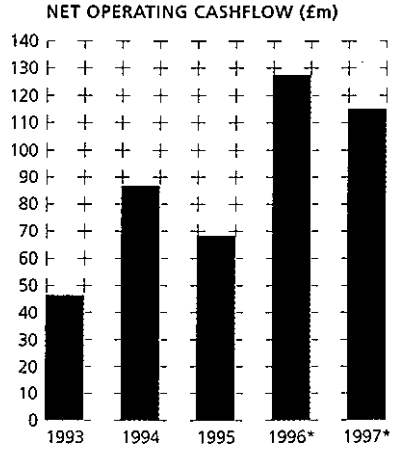
At constant exchange rates

PRE-TAX PROFITS (£m)



*Before restructuring

NET OPERATING CASHFLOW (£m)



*Before restructuring

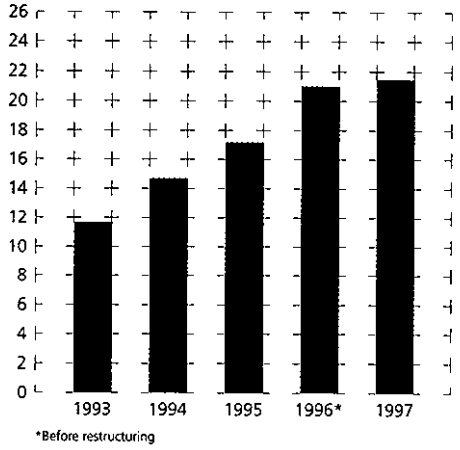
Five Year Review

CONTINUED

SHAREHOLDER RETURNS					
(see definitions on page 27)	**1997**	1996	1995	1994	1993
Earnings per share undiluted*	**21.4p**	20.8p	16.9p	14.6p	11.8p
% Increase	***3%***	*23%*	*16%*	*24%*	*(4%)*
Cash equivalent earning per share*	**26.5p**	25.9p	21.9p	19.8p	15.4p
% Increase	***2%***	*18%*	*11%*	*29%*	*4%*
Dividends per share	**5.5p**	4.8p	4.0p	3.3p	2.7p
% Increase	***15%***	*20%*	*21%*	*22%*	*20%*
*Dividend cover (times)**	***3.9x***	*4.3x*	*4.2x*	*4.4x*	*4.4x*
SHARE PRICE					
Year end	**162p**	256p	268p	163p	138p
High	**330p**	286p	289p	183p	243p
Low	**161p**	208p	163p	122p	96p
SHARE CAPITAL					
Issued:	**m**	m	m	m	m
- at year end	**356**	350	296	279	273
- weighted average	**354**	323	291	276	255
- authorised at year end	**460**	460	398	398	398
MARKET CAPITALISATION					
At year end	**£577m**	£896m	£793m	£455m	£377m
EMPLOYEES					
At year end	**2,718**	2,638	2,215	2,120	2,134

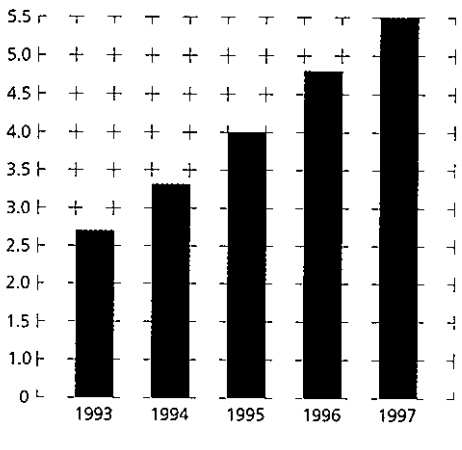
*1996 is stated before restructuring charge of £65m

EARNINGS PER SHARE (PENCE)



*Before restructuring

DIVIDENDS PER SHARE (PENCE)



DEFINITIONS & CALCULATIONS

1 Funds from operations

Operating profit, before restructuring spend, after adding back depreciation and amortisation charges.

2 Net operating cashflow

Funds from operations less movements in working capital.

3 Free cashflow

Operating cashflow, before restructuring spend, less net capital expenditure on tangible fixed assets, interest, dividends and taxation.

4 Net cash inflow/(outflow)

Excludes movement in long term loans.

5 Fixed assets

The fixed assets of the Group were as follows:	**1997** **£m**	1996 £m	1995 £m	1994 £m	1993 £m
Intangible fixed assets	**69**	53	50	57	49
Tangible fixed assets	**103**	74	72	67	63
Investments	**9**	6	6	6	2
	181	133	128	130	114

6 Net (borrowings)/cash balances

Cash at bank and on hand less bank overdrafts and loans both short and long term.

7 Net current operating assets

Current assets excluding cash and taxes, less current operating creditors excluding taxes and borrowings (see Note 15). Derived as follows:

	1997 **£m**	1996 £m	1995 £m	1994 £m	1993 £m
Stock	**43**	30	34	28	30
Debtors	**93**	93	80	61	58
Current operating creditors	**(80)**	(81)	(51)	(51)	(42)
	56	42	63	38	46

8 Net operating assets

Fixed assets plus net current operating assets.

9 Cash equivalent earnings per share

Comprises the profit after tax, before restructuring and after adjusting for the effect of non-cash charges, divided by the weighted average number of shares. Cash equivalent earnings were derived as follows:

	1997 **£m**	1996 £m	1995 £m	1994 £m	1993 £m
Profit after tax before restructuring	**76**	67	49	40	30
Depreciation and amortisation	**18**	17	15	15	9
Cash equivalent earnings	**94**	84	64	55	39

10 Dividend cover

Basic earnings per share divided by dividend per share.

11 Interest cover

Profit before interest and restructuring divided by net interest payable, including interest capitalised, £4.0m (1996: £1.6m).

Medeva PLC Board and Executive Committee

CHAIRMAN

JOHN BAKER

John Baker, aged 60, was appointed Chairman in April 1996, having joined Medeva as a non-Executive Director in October 1995. He chairs the Remuneration Committee and is a member of the Audit, Charities and Nominations Committees. John, who retired as Chairman of National Power PLC in December 1997, is a non-Executive Director of Royal & Sun Alliance Insurance plc and The Maersk Company, Governor of the London Business School and also Chairman of the World Energy Council, Groundwork Foundation and English National Opera.

CHIEF EXECUTIVE

DR BILL BOGIE

Bill Bogie, aged 53, was appointed Chief Executive in January 1994, having joined Medeva as European Regional Director in April 1993. He qualified as a doctor in 1968 and has spent over 20 years in various posts in the UK and abroad with Hoechst, latterly as Executive Director of its UK Pharmaceutical Division. Bill is a member of the Charities and Nominations Committees. He was appointed a Member of the UK Medicines Commission on 1st January 1998.

FINANCE DIRECTOR

GARRY WATTS

Garry Watts, aged 41, was appointed Finance Director in March 1996. He joined Medeva in February 1996 and was previously an audit partner with KPMG responsible for a number of major international pharmaceutical groups and head of KPMG's Healthcare and Life Sciences practice. Garry has been a member of the supervisory board of the Medicines Control Agency since 1991.

REGIONAL DIRECTOR, AMERICAS

JERRY SCHULZE

Jerry Schulze, aged 49, was appointed a Director in February 1996 and is President and Chief Executive Officer of Medeva's US operations. Prior to joining Medeva in September 1995, Jerry spent 23 years with Pfizer Inc., latterly as Vice President, Global Pharmaceutical Planning. He also held top management posts at Pfizer's pharmaceutical businesses in Canada and Germany.

CORPORATE DEVELOPMENT AND GROUP LEGAL DIRECTOR

MARK HARDY

Mark Hardy, aged 44, was appointed a Director in July 1996, having held the position of Medeva's Company Secretary since July 1987. Mark is a solicitor and was a partner of Stringer Saul, Solicitors prior to joining Medeva. He is a member of the Charities Committee.

CHIEF SCIENTIFIC OFFICER

DR MICHAEL YOUNG

Michael Young, aged 58, was appointed a Director in April 1995. Qualifying as a doctor in 1971, he has spent over 20 years in the pharmaceutical industry in positions responsible for clinical and regulatory affairs and strategic product development. Prior to joining Medeva, Michael was Corporate Director of Worldwide Regulatory and Clinical Development at Proctor & Gamble.

NON-EXECUTIVE DIRECTORS

ALAN DALBY

Alan Dalby, aged 61, was appointed a non-Executive Director in January 1997. He is currently Chairman of Reckitt & Colman PLC and a director of two US-based biotechnology companies. Alan spent thirty years with Smithkline Beckman, latterly as Executive Vice President and a member of the Board of Directors and was also President of SmithKline & French. He has held posts in the Pharmaceutical Manufacturers' Association. Alan is a member of the Audit, Nominations and Remuneration Committees.

MICHAEL JULIEN

Michael Julien, aged 59, was appointed a non-Executive Director in March 1993. Michael retired as Chairman of First Choice Holidays PLC and as a non-Executive Director of Diageo PLC (formerly Guinness PLC) in July 1997 and December 1997, respectively. Michael currently chairs the Audit Committee and is a member of the Nominations and Remuneration Committees. He will relinquish these roles when he retires from the Board at the forthcoming Annual General Meeting.

BRYAN RIGBY

Bryan Rigby, aged 65, was appointed a non-Executive Director in September 1993. He is currently Chairman of Streamline Holdings PLC and Chairman of the Nurses Pay Review Body. Until 1993 he was regional Managing Director of BASF AG. Bryan is Chairman of the Trustees of the Medeva Senior Executive Pension Plans and is a member of the Audit, Nominations and Remuneration Committees.

DAVID WILLIAMS

David Williams, aged 52, has been appointed a non-Executive Director with effect from March 1998. He is currently Group Managing Director of Bunzl plc and a non-executive Director of Dewhirst Group plc. He will be Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees.

COMPANY SECRETARY

JOHN MURPHY*

John Murphy, aged 44, was appointed Company Secretary in July 1996, having joined as Medeva's Group Legal Adviser in August 1995. He is a member of Medeva's Executive Committee. John is a solicitor and a partner of Stringer Saul, Solicitors.

DIRECTOR of EUROPEAN OPERATIONS

JOHN FERGUSON*

John Ferguson, aged 42, is responsible for all Medeva's UK and European operations and is a member of the Executive Committee. Previously he was Marketing Director of Knoll Limited, a BASF Company. John joined Medeva in 1991 as Managing Director of Evans Medical Limited.

DIRECTOR of LICENSING AND INTELLECTUAL PROPERTY

DR PETER COZENS*

Peter Cozens, aged 46, is responsible for the Group's Licensing and Intellectual Property and is a member of the Executive Committee. Immediately prior to joining Medeva he was Licensing Manager at The Wellcome Foundation Ltd. Since 1993 he has been a member of the Intellectual Property Advisory Committee for the Bioindustry Association. Peter is also a member of the Biological Patents sub-committee of the International Federation of Pharmaceutical Manufacturers. He joined Medeva in 1991 as Licensing Manager.

** John Murphy, John Ferguson and Dr Peter Cozens are not members of the Medeva PLC Board.*

Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31st December 1997.

Results and Dividends

The profit before tax on the ordinary activities of the Group was £110.9m (1996 : £38.3m). Movements in reserves are set out in note 20 to the financial statements.

The Directors recommend the payment of a final dividend for the year of 3.6p per Ordinary Share (1996 : 3.15p) to be paid on 22nd May 1998 to those members on the register at the close of business on 27th February 1998. Together with the interim dividend of 1.9p per Ordinary Share paid on 10th October 1997, this makes a total dividend payment of 5.5p per Ordinary Share for the year ended 31st December 1997.

The Company is proposing that the 1997 final dividend will be paid as a Foreign Income Dividend ("FID"). Accordingly, no offer will be made under the Medeva PLC Share Dividend Alternative Scheme ("the Scheme") in respect of the 1997 final dividend. Permanent elections (i.e. elections to receive shares in lieu of dividends) under the Scheme will remain in effect, unless revoked, and will apply as and when an offer is next made under the Scheme.

In respect of the 1996 final dividend, a total of 177,170 Ordinary Shares (1996 : 737,410) were allotted under the Scheme, at a price of 311.7p, to approximately 5,700 shareholders (including members of the Company's Profit Sharing Scheme) who elected to receive shares in lieu of cash.

An aggregate of £626 (1996 : £794), being the residual amount arising from the closure of the shareholder accounts, has been paid to The Foundation for Children with Leukaemia.

Business Review and Activities

A review of the Group's business activities during the year, the prospects for the year to December 1998 and likely developments in the business of the Group are detailed in the Chairman's Review, the Chief Executive's Review, the New Product Development Review and the Operating and Financial Review on page 2 to 22. The principal activities of the Group are the development, manufacture and sale of prescription pharmaceutical products. Principal subsidiary and associated undertakings and locations are given in note 12 to the financial statements.

Research and Development

The Group incurred research and development costs of £27.2m in the year (1996: £24.3m) which have been charged to the profit and loss account in accordance with the Group's accounting policy. Details of the Group's research and development activities can be found in the New Product Development Review, on pages 9 to 15.

Directors

The membership of the Board at 10th February 1998 was as follows:

J W Baker	*Chairman*	Dr M D Young	
Dr W Bogie	*Chief Executive*	A J Dalby	*(appointed 1st January 1997)*
G Watts		M F Julien	
M G Hardy		B Rigby	
G H Schulze			

David Williams has been appointed to the Board with effect from 1st March 1998. Michael Julien will retire from the Board at the conclusion of the forthcoming Annual General Meeting.

Directors' Interests

Details of the current Directors' interests in the share capital of the Company as shown in the register maintained in accordance with Section 325 of the Companies Act 1985, together with details of the share options granted and awards made to Directors are disclosed in the Report of the Remuneration Committee.

As at 10th February 1998, the Directors of the Company had an interest, beneficially and non-beneficially, in an aggregate of 161,570 Ordinary Shares, representing 0.05% of the Company's issued share capital.

In addition, Mark Hardy, Dr Bill Bogie, Garry Watts and Dr Michael Young, as Trustees of the Medeva PLC Profit Sharing Scheme were, at 31st December 1997 and 10th February 1998, the registered holders of 152,759 and 152,272 Ordinary Shares, respectively. These shares are held for the benefit of the participants in that Scheme, of which Mark Hardy, Dr Bill Bogie and Garry Watts are also participants.

Re-election and Service Contracts

At the forthcoming Annual General Meeting John Baker, Jerry Schulze and Garry Watts will seek re-election as Directors having retired in accordance with the Company's Articles of Association. David Williams will seek election as a Director, having been appointed to the Board since the last Annual General Meeting.

Jerry Schulze has a rolling contract subject to termination on twelve months notice by the Company and ninety days notice by him. Garry Watts has a rolling contract subject to termination on twelve months notice by the Company and six months notice by him. John Baker and David Williams are non-Executive Directors and have no service contracts with the Company.

Substantial Shareholdings

As at the date of this Report, the Company has been notified of the following substantial interests in its issued ordinary share capital:

	Shares	*Percentage*
Franklin Resources, Inc. (includes Templeton Worldwide, Inc.)	69,929,256	19.63%
Scottish Widows Fund and Life Assurance Society	13,790,699	3.87%

Employees

The Group employs over 2,700 personnel, 41% of whom are based in the United Kingdom. The Group's employment policy is designed to attract, retain and motivate the very best people, recognising that this can be achieved only through offering equal opportunities regardless of sex, race, religion or disability.

Report of the Directors
CONTINUED

Appropriate consideration is given to training and advancement opportunities for the disabled and every effort is made to offer suitable alternative employment or retraining to those who become disabled whilst in the Group's employ.

The success of the Group depends on the quality and performance of its employees and the Group continues to ensure this by communicating with its employees about both local and Group-wide matters; this communication is conducted through notices, newsletters and staff meetings and briefings on a regular basis. The Company encourages all of its employees to participate in the growth of the Group and welcomes staff input at all levels.

Employees are given the opportunity of participating in the Company's share capital through joining one or more of the plans operated by the Company. These include Share Option Schemes, a Sharesave Scheme and a Profit Sharing Scheme. In addition, the Group operates the United States Executive Stock Option Plan and European Executive Share Option Scheme for employees of US and European subsidiaries, respectively. Details of shares and options issued under these schemes are set out in note 19 to the financial statements.

Stock Market Listings

The Company's Ordinary Shares are primarily listed and traded on the London Stock Exchange. The Company's shares are also listed and traded on the New York Stock Exchange in the form of American Depositary Receipts (ADRs). The Ordinary Share to ADR ratio is 4 : 1.

Annual Report Form 20-F

The Company files an Annual Report on Form 20-F with the Securities and Exchange Commission in the USA, pursuant to The Securities Exchange Act 1934. Much of the information contained in the 20-F is detailed in annual reports, financial statements and circulars issued by the Company in this and in previous years.

Creditor Payment Policy

It is the Group's policy with respect to the payment of its suppliers either to use standard terms or to settle the terms of payment when agreeing the terms of each transaction. Where standard terms are not used, suppliers are made aware of the terms of payment; and the Group abides by those terms of payment.

Charitable and Political Donations

The Group made donations to charities amounting to £79,898 (1996: £58,000) of which £51,925 (1996: £46,000) was paid to UK charities. No contributions were made to political organisations (1996 : nil).

Litigation

Details of the principal litigation in which the Group has been involved in 1997 are set out in note 22 to the financial statements.

In the opinion of the Directors the litigations referred to in note 22 will not have a material adverse effect on the Group.

Year 2000

The Directors have appointed a team to deal with Year 2000 compliance and the work of the team is monitored by the Board on a regular basis. The Directors do not expect the costs in relation to the Group's Year 2000 compliance work to exceed £5m.

Group's Health, Safety and Environmental Protection Policies

The Board is committed to maintaining high standards of Health, Safety and Environmental (HS&E) protection and performance as an integral part of its strategy and current activities. The Group's HS&E policies provide the framework and implementation is the responsibility of local management who are supported in this task by specialist staff who provide additional knowledge and guidance. Medeva's aim is to meet the diverse and tightening national and local regulations, applicable to the Group's range of processes and activities in two continents.

Although a young organisation, Medeva has brought together companies with a range of histories and cultures. The Group is, therefore, seeking to bring consistency to these companies by implementing a modern and proactive approach to HS&E policy, appropriate to it's operations and scale of business. This is illustrated by:

- adding skilled professionals as operating complexities and business needs demand;
- following good risk management and loss prevention practice, both within the organisation and in the communities in which the plants are located;
- investing in technical plant and equipment to minimise overall environmental impact and meet increased regulatory standards;
- ensuring due diligence studies include a comprehensive appraisal of HS&E issues which contribute to decision making and define remedial requirements;
- requiring Group companies to report progress in a range of defined parameters as "Indicators of Performance" including usage of utilities to encourage change and drive continuous improvement by responding to trends; and
- providing companies with centrally produced quality guidelines on a range of HS&E policies.

A central programme of focused auditing of site performance against defined HS&E standards and practices is in place. Group audit teams are supplemented by external experts where necessary. Action plans to correct any identified weaknesses are put in place and progress is regularly monitored.

Directors Authority to Allot, Disapplication of Pre-Emption on Allotment

At the Annual General Meeting held in 1997, the Directors were given the authority to allot the Company's Ordinary Shares and also limited power to allot such Ordinary Shares for cash on a non pre-emptive basis. These authorities expire at the conclusion of the 1998 Annual General Meeting and the Directors wish to renew them. Accordingly, a resolution will be put to shareholders to renew, the authority to allot shares up to what is now the existing unissued and uncommitted share capital of the Company amounting to approximately £9.0m in nominal value representing 25% of the present issued share capital. The Directors have no present intention of exercising this authority. This authority will expire at the conclusion of the next Annual General Meeting of the Company, or 15 months after the date of the passing of the resolution, whichever is the earlier.

In addition a resolution will be proposed to give the Directors power to allot shares for cash other than in accordance with the statutory pre-emption right to a limited extent. In conformity with the pre-emption guidelines of the investment committees of the National Association of Pension Funds and the Association of British Insurers, this authority is limited with regard to issues of shares wholly for cash, other than pursuant to a rights issue, up to a maximum nominal value of £1.8m, being 5 per cent. of the present nominal value of issued share capital of the Company. This power will expire at the conclusion of the next Annual General Meeting of the Company, or 15 months after the date of the passing of the resolution, whichever is the earlier.

The resolutions dealing with these matters appear as Resolutions 8 and 9 in the Notice convening the Annual General Meeting. Resolution 8 will be proposed as an Ordinary Resolution and Resolution 9 will be proposed as a Special Resolution.

Report of the Directors

CONTINUED

Purchase of Own Shares

At the forthcoming Annual General Meeting the Company will be seeking shareholders' approval for a resolution which will authorise the Company to purchase up to a maximum of approximately 35.6m of its Ordinary Shares (representing 10 per cent. of the issued share capital of the Company) in the market. Details of the maximum and minimum prices at which these shares may be bought are set out in Resolution 10 contained in the Notice convening the Annual General Meeting.

Your Directors would make use of this authority in appropriate circumstances after the most careful consideration and after taking into account, amongst other things, other investment opportunities and the overall financial position of the Group. The Directors would exercise this power only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and that the purchases are in the best interests of shareholders generally. Any shares purchased under this authority will be cancelled and the number of shares in issue will be reduced accordingly.

This authority will expire at the conclusion of the next Annual General Meeting of the Company or 18 months after the date of the passing of the resolution, whichever is the earlier.

Resolution 10 will be proposed as a Special Resolution.

Annual General Meeting

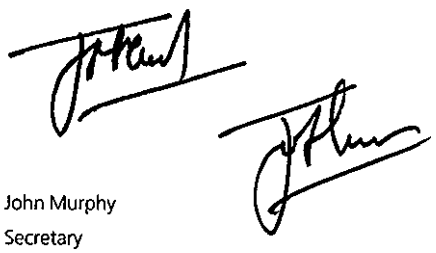
The Annual General Meeting will take place at the Royal Institute of British Architects, 66 Portland Place, London, W1N 4AD on 23rd April 1998 at 11.00 am. A map of the venue and surrounding area can be found on the reverse of the Attendance Card enclosed with these financial statements.

Details of the business to be conducted at the Annual General Meeting are set out in the Notice convening the Meeting dated 10th March 1998. The Special Business to be considered at the meeting is to renew the Directors' authority to allot securities, to disapply pre-emption rights and to authorise the Company to make market purchases of its Ordinary Shares.

Auditors

A resolution will be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company and to authorise the Directors to fix their remuneration.

By Order of the Board



John Murphy
Secretary

10th February 1998

Report of the Remuneration Committee

The Company has complied, throughout the period under review, with Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange.

1 Composition

The Remuneration Committee is comprised wholly of non-Executive Directors, namely John Baker, Alan Dalby, Michael Julien and Bryan Rigby. The Chairman of the Remuneration Committee is John Baker.

2 Principal Function

The principal function of the Remuneration Committee is to determine, on behalf of the Board, the remuneration and other benefits of the Executive Directors and Senior Executives, including pensions, grants under the share option schemes and long term incentive share plan, service contracts and compensation payments. The fees paid to the non-Executive Directors are determined by the Executive Committee of the Board. Non-Executive Directors do not receive any benefits or fees other than the fees for service on the Board and its Committees, as set out on page 38 of this report.

In establishing its remuneration policy, the Remuneration Committee has given full consideration to Section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange.

3 Objectives

The principal objectives of the Remuneration Committee are:

- to ensure that the Company's Senior Executive remuneration policies and practice facilitate the recruitment, retention and motivation of top quality personnel;
- to maintain surveillance over Executive Directors' benefits, including pensions, consider any significant developments and make recommendations for change as appropriate; and
- to ensure that Senior Executives remuneration operates on a best practice basis, aligning, where practicable, the remuneration of Executive Directors and Senior Executives with the interests of shareholders.

4 Policy on Remuneration of Executive Directors

(a) Main components

(i) Basic salaries

The basic salary of each Executive Director is determined by the Remuneration Committee, taking into account the individual's performance and responsibilities. It is the aim of the Committee to reward Directors competitively, having regard to the remuneration paid to the Directors of comparable public companies. The comparators used include major companies in the pharmaceutical sector, small or niche pharmaceutical and bio-technology companies and companies in general industry of comparable size and international scope to Medeva. For guidance, the Remuneration Committee uses published job-matched surveys of comparable public companies and specific surveys are also commissioned from time to time. When determining the Executive Directors' annual salary increases, the Remuneration Committee takes care to consider the pay and employment conditions of all employees throughout the Group.

(ii) Annual performance related bonus

Annual bonuses are payable at the discretion of the Remuneration Committee as a percentage of basic salary up to a maximum of 50% of applicable salary, computed on a sliding scale based on the Company's and individual's performance and earnings per share. Accordingly, if earnings per share reaches a specified minimum determined by the Remuneration Committee at the beginning of each year and the individuals performance is of the required standard, a bonus will become payable. For the year ended 31st December 1997, a bonus of 13% of basic salary as at 31st December 1997 was paid.

(iii) Share option schemes

The Company believes that share ownership by Executive Directors and Senior Executives strengthens the link between their personal interests and those of shareholders and that, subject to satisfying appropriate performance criteria, share option schemes are a useful part of the Executives' remuneration.

Report of the Remuneration Committee
CONTINUED

The exercise of options granted under the Executive Share Option Scheme (Executive Scheme) and United States Executive Stock Option Plan (US Plan) are not subject to the satisfaction of performance criteria and hence, no grants have been made under these schemes to Executive Directors since 1996. Option grants under the European Executive Share Option Scheme (European Scheme) and 1996 Executive Share Option Scheme (1996 Executive Scheme) will only become exercisable if the growth in earnings per share exceeds the Retail Price Index by 2% per annum over a three year period between the date of grant and the date of exercise. The Sharesave Scheme (SAYE Scheme) is open to all UK employees; however, Executive Directors no longer participate since options are granted at up to a 20% discount to the market price.

Remaining options granted under the Company's former long term incentive scheme, the Senior Executive Share Option Scheme (Senior Scheme), are exercisable, subject to the satisfaction of performance criteria which requires the Company's cumulative percentage growth in earnings per share over a three year period, starting with the date of grant, to be no lower than that of the lowest company in the top quarter of the FT-SE 100 share index. This scheme was closed in 1995.

(iv) Long Term Incentive Share Plan

At the Annual General Meeting in 1996, the Shareholders approved the introduction of the Medeva Long Term Incentive Share Plan (LTIP). The purpose of the LTIP is to give Executive Directors of Medeva PLC and certain Senior Executives the opportunity of acquiring shares in the Company dependent upon the Company's performance.

Under the LTIP, shares in Medeva PLC are purchased in the open market and awards are made over shares with a value of up to 100% of base salary. Awards made under the LTIP are exercisable, only to the extent that specific performance criteria covering a three year period have been satisfied. An award cannot be exercised more than seven years after the date on which it is granted.

The performance criteria for all of the awards under the LTIP are that 50% of the options will become exercisable if the Company's total shareholder return, over a fixed three year period, compared with other companies in the FTSE Mid-250, is in the top 25% of those companies (excluding investment trusts); and 50% of the options will only be exercisable if the Company's earnings per share, over a fixed three year period, has increased by more than 45% above the rate of inflation.

The percentage of options that may be exercisable decreases, if the performance criteria set have been satisfied to a lesser extent. The minimum percentage of options exercisable is 12.5% of those awarded, if either:

- the Company's total shareholder return, over a fixed three year period, compared with other companies in the FTSE Mid-250, is in the top 50% (60% for the 1996 award) of those companies (excluding investment trusts), or;
- the Company's earnings per share, over a fixed three year period, has increased by more than 15% above the rate of inflation.

Details of the purchases of Medeva shares made by the trustees of the Medeva Employees' Share Ownership Plan Trust in the open market are shown below:

Date of Purchase	Type	No. of Shares	Price per Share (p)
29th July 1996	Ordinary Shares	543,535	243.5p
24th July 1997	Ordinary Shares	232,577	210.5p

Date of Purchase	Type	No. of ADSs	Price per ADS ($)
25th July 1997	American Depositary Shares	12,625	$14.00

(b) Policy on external appointments

Medeva recognises that its Executive Directors may be invited to take up non-executive directorships or public service appointments and that these can broaden the experience and knowledge of the Director from which the Company will benefit. Accordingly, subject to Board approval, Executive Directors may accept one non-executive appointment, as long as this is not with a competitor and is not likely to lead to a conflict of interest. Executive Directors are allowed to retain any fees paid.

(c) Pensions

The Directors' pension entitlements under the schemes operated by the Group are as follows:

(i) The US director Mr Jerry Schulze has his own personal defined contribution pension scheme into which the company contributed $100,000 (1996: $100,000). The Company has no further liabilities with regard to this scheme.

(ii) All the UK based Executive Directors participate in the Medeva Senior Executive Pension Plan ("MSEPP") on the same basis as other Senior Executives. The MSEPP is a funded, Inland Revenue approved, final salary, occupational pension scheme. Its principal features are:

- a normal retirement age of 60;
- at retirement, and subject to length of service, a pension of up to two thirds of Final Pensionable Salary, subject to Inland Revenue limits;
- life assurance cover of four times pensionable salary, subject to the earnings "cap" referred to in (iii) below;
- spouse's pension on death.

Final Pensionable Salary, for the purpose of the Plan, is the member's basic salary excluding all bonuses and benefits. The potential benefits arising from the MSEPP in 1997 are as follows:

Name of Director	Age at 31.12.97	Years of pensionable service at 31.12.97	Increase in annual pension accruing in 1997 (a) £'000	Accrued annual pension at 31.12.97 (a) £'000	Estimated net increase in transfer value of pension arising in 1997 (b) £'000
Dr W Bogie	53	5	3	13	30
G Watts	41	2	3	5	17
M G Hardy	44	4	3	11	20
Dr M D Young	58	3	3	8	36

Notes:

(a) The figures disclosed assume that the Director's pensions are not restricted under Inland Revenue maxima by benefits accrued under previous employers' arrangements. If the Director had left the service of the Company at 31st December 1997 pensions would only be payable from the normal retirement age of 60.

(b) The transfer value on leaving service has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note 11 less the directors' own contributions over the year.

(iii) All the UK based Executive Directors also participate in the Medeva Senior Executive Additional Pension Plan ("MSEAPP"). The Finance Act 1989 introduced a limit on that part of an employee's pension which could be funded through an approved pension scheme, this earnings "cap" is £84,000 for the 1997/98 tax year. To provide for pension benefits in respect of earnings above this cap, the Company established the MSEAPP. This plan is a defined contribution plan whereby the Company contributes up to 25% of the Executive Director's salary above the earnings cap, to fund additional pension provisions for the benefit of the Executive Director. In addition, the Company provides the Director concerned with an additional salary to compensate for the additional income tax due on the contribution to this Additional Pension plan. This is referred to as the "Salary re pension top up" in the table on page 38. As the MSEAPP is a defined contribution scheme there are no future pension benefits to disclose, the contributions made by the Company on behalf of the UK Directors during 1997 were as follows:

Name of Director	Company contributions in the year to MSEAPP £'000
Dr W Bogie	68
G Watts	23
M G Hardy	22
Dr M D Young	29

Report of the Remuneration Committee

CONTINUED

5 Directors' Remuneration

	Salary £'000	Annual performance related bonuses £'000	Salary re pension top up £'000	Benefits £'000	**Total 1997 £'000**	Total 1996 £'000
Executive Directors						
Dr W Bogie (i)	356	47	46	16	**465**	547
G Watts	204	27	16	13	**260**	296
M G Hardy	173	23	15	13	**224**	265
G H Schulze	280	37	—	12	**329**	454
Dr M D Young	204	27	18	13	**262**	313
Retired Directors						
B D Taylor					—	134
D H Millard					—	45
Total emoluments					**1,540**	2,054
Companys pension contributions (ii)					**204**	198

	Board fees £'000	Board committee fees £'000	**£'000**	£'000
Chairman				
J W Baker	80	—	**80**	64
Non-Executive Directors				
A J Dalby	27	—	**27**	—
M F Julien	27	5	**32**	32
B Rigby	27	5	**32**	32
Retired Director				
K B Sinclair			—	29
Total Non-Executive Remuneration			**171**	157

Payments to former Directors		
J Q Adams (1996 including pension £32,000)	—	245
R S Harris (iii)	**38**	61
W W Gerard (iv)	**111**	160
I R Gowrie-Smith and D J Lees	—	337
B D Taylor (v)	**10**	16
Total paid to former Directors	**159**	819
The notional value of options exercised and sold by Directors serving during the year was:		
Dr W Bogie (vi) (ix)	**472**	—
D H Millard (vii) (ix)	—	687
B D Taylor (viii) (ix)	—	1,572
	472	2,259

Notes:

(i) The highest paid Director in the year.

(ii) In accordance with SI No 570 the Company pension contributions disclosed relate to payments to defined contribution schemes only.

(iii) Steve Harris resigned as a Director in 1995. On 1st July 1995, the Company entered into a 30 month consultancy agreement with Mr Harris. In 1997, £38,000 was paid to Steve Harris Associates in accordance with this agreement. The agreement terminated on 31st December 1997.

(iv) Bill Gerard resigned as a Director in 1994. On 1st May 1995 the Company entered into a 2 year consultancy agreement with B & M Ventures Limited for the future consultancy services of Mr Gerard and £111,000 was paid to B & M Ventures Limited in 1997 which is in accordance with the agreement. The agreement terminated on 30th April 1997.

(v) Bernard Taylor resigned as a Director in April 1996. On 25th April 1996, Tillotts Pharma AG (a subsidiary undertaking) entered into a 3 year consultancy agreement with Mr Taylor. In 1997, £10,000 was paid to Mr Taylor in accordance with the agreement.

(vi) On 20th February 1997, Dr Bill Bogie part exercised an option in respect of 290,000 Ordinary Shares at an exercise price of 96.9p per share; the mid-market price on the day was 292p per share. The value of the exercise, as represented by the difference between the mid-market price and the exercise price, was £566,000. Dr Bogie and his spouse retained 38,500 shares from this exercise. The price received for each of the 251,500 shares sold by Dr Bogie and his spouse was 284p giving a profit of £472,000 before dealing costs.

(vii) On 29th April 1996 Dennis Millard exercised options over 100,000 Ordinary Shares at an exercise price of 124p per share; the mid-market price on the day was 249p per share. On 10th June 1996 Mr Millard exercised options over 200,000 Ordinary Shares at an exercise price of 124p per share, the mid market price on the day was 255p per share. On 20th August 1996 Mr Millard exercised options over 196,500, 13,700 and 24,700 Ordinary Shares at exercise prices of 124p, 135p, and 110.96p respectively; the mid-market price on the day was 251p per share. The value of these exercises, as represented by the difference between the mid-market price and the exercise price was £687,000.

(viii) On 19th August 1996 Bernard Taylor exercised options over 836,364 and 176,645 Ordinary Shares at exercise prices of 88.96p and 110.96p respectively; the mid-market price on the day was 248p per share. The value of these exercises, as represented by the difference between the mid-market price and the exercise price was £1,572,000.

(ix) The notional value of options exercised by all Directors serving during the year was £566,000 (1996 : £2,259,000).

Report of the Remuneration Committee
CONTINUED

6 Directors' Shareholdings

		Number of Ordinary Shares			
		31st December 1997		1st January 1997*	
	Notes	Beneficial	Non-Beneficial	Beneficial	Non-beneficial
J W Baker	(i)	14,333	—	2,333	—
Dr W Bogie	(i) (iii)	81,041	—	39,528	—
G Watts	(i) (iii)	4,192	—	2,407	—
M G Hardy	(iii)	5,156	—	1,500	—
G H Schulze		4,040	—	—	—
Dr M D Young	(ii)	20,000	—	20,000	—
M F Julien	(i)	15,000	—	11,666	—
B Rigby	(i)	12,758	—	9,660	—
A J Dalby		5,050	—	—	—

There were no changes to the holdings of the Directors during the period 1st January 1998 to 10th February 1998.

Notes:

(i) Includes shares held by immediate family of members of the Board;

(ii) Held in the form of American Depositary Receipts.

(iii) Includes shares appropriated under the Medeva PLC Profit Sharing Scheme.

7 Directors' Options

The Company's Directors hold options to subscribe for, and to purchase, Ordinary Shares of the Company under the Medeva PLC Executive Share Option Scheme (Executive Scheme), Medeva PLC Senior Executive Share Option Scheme (Senior Scheme), Medeva PLC 1996 Executive Share Option Scheme (1996 Executive Scheme), Medeva PLC United States Executive Stock Option Plan (US Plan), Medeva PLC Sharesave Scheme (SAYE Scheme) and Medeva Long Term Incentive Share Plan (LTIP) as follows:

Director	Scheme	Options held at 01.01.97	Options granted during year	Options exercised during year	Options held at 31.12.97	Exercise price (p)	Date from which first exercisable	Expiry date
Dr W Bogie	Executive	125,000			125,000	1.93	06.04.93	05.04.03
	Executive	375,000		290,000	85,000	0.97	02.09.93	01.09.03
	Executive	143,000			143,000	1.24	26.03.94	25.03.04
	Senior	400,000			400,000	1.24	26.03.97	25.03.04
	Executive	50,600			50,600	1.35	06.10.94	05.10.04
	Executive	67,900			67,900	†2.36	10.08.95	09.08.05
	SAYE	10,454			10,454	1.65	01.06.98	01.12.98
	1996 Executive	138,600			138,600	†2.53	29.08.99	28.08.03
	LTIP (ii)	142,569			142,569	nil	01.01.99	31.07.03
	1996 Executive		170,400		170,400	†2.13	24.07.00	23.07.04
	LTIP (ii)		43,800		43,800	nil	01.01.00	24.07.04
		1,453,123	214,200	290,000	1,377,323			
G Watts	Executive	159,292			159,292	†2.26	23.02.96	22.02.06
	1996 Executive	158,400			158,400	†2.53	29.08.99	28.08.03
	LTIP (ii)	81,476			81,476	nil	01.01.99	31.07.03
	1996 Executive		97,400		97,400	†2.13	24.07.00	23.07.04
	LTIP (ii)		25,000		25,000	nil	01.01.00	24.07.04
		399,168	122,400		521,568			

Director	Scheme	Options held at 01.01.97	Options granted during year	Options exercised during year	Options held at 31.12.97	Exercise price (p)	Date from which first exercisable	Expiry date
M G Hardy	Executive	209,091			209,091	1.55	15.09.92	14.09.02
	Executive	56,300			56,300	1.21	28.09.94	27.09.04
	Executive	49,200			49,200	2.01	10.08.95	09.08.05
	Executive	8,000			8,000	†2.26	23.02.96	22.02.06
	1996 Executive	67,300			67,300	†2.53	29.08.99	28.08.03
	LTIP (ii)	69,246			69,246	nil	01.01.99	31.07.03
	1996 Executive		82,800		82,800	†2.13	24.07.00	23.07.04
	LTIP (ii)		21,300		21,300	nil	01.01.00	24.07.04
		459,137	104,100		563,237			
G H Schulze	US Plan (i)	214,280			214,280	2.06	22.02.97	21.02.06
	1996 Executive	228,600			228,600	†2.53	29.08.99	28.08.03
	LTIP (ii)	119,850			119,850	nil	01.01.99	31.07.03
	1996 Executive (i)		133,200		133,200	†2.13	24.07.00	23.07.04
	LTIP (i) (ii)		33,920		33,920	nil	01.01.00	24.07.04
		562,730	167,120		729,850			
Dr M D Young	Executive	153,100			153,100	1.78	05.04.95	04.05.05
	Executive	93,200			93,200	†2.36	10.08.95	09.08.05
	1996 Executive	79,200			79,200	†2.53	29.08.99	28.08.03
	LTIP (ii)	81,476			81,476	nil	01.01.99	31.07.03
	1996 Executive		97,400		97,400	†2.13	24.07.00	23.07.04
	LTIP (ii)		25,000		25,000	nil	01.01.00	24.07.04
		406,976	122,400		529,376			

In order to simplify this information the exercise price of the options is rounded to the nearest penny.

(i) The option is granted over ADSs and the exercise price (where applicable) has been converted at a convenience rate of US$1.645 : £1.

(ii) The exercise price for the LTIP is £1 in aggregate for the exercise of any number of shares comprised in an award.

† Options not granted at a discount.

The middle market price of Medeva PLC's Ordinary Shares was 161.5p as at 31st December 1997. The high and low market prices for 1997 were 330p and 161p, respectively. No options lapsed during the year. No current Director was granted or exercised any options during the period from 1st January 1998 to 10th February 1998.

Report of the Remuneration Committee
CONTINUED

8 Directors' Service Contracts

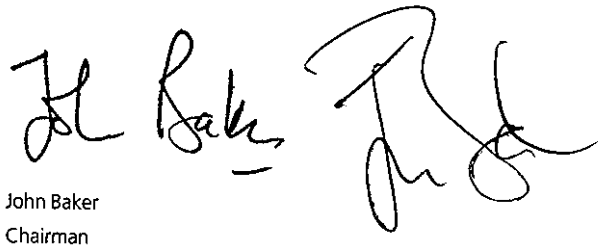
The following are the notice periods under the Directors' service contracts:

	Type of Contract	Termination by Company	Termination by Director
Dr W Bogie	Rolling	24 months	6 months
G Watts	Rolling	12 months	6 months
M G Hardy	Rolling	12 months	6 months
G H Schulze	Rolling	12 months	90 days
Dr M D Young	Rolling	24 months	6 months

The notice periods required for the termination of the Executive Directors' service contracts are either 12 or 24 months as set out above. These service contracts contain provision for the payment of liquidated damages in the event of termination in an amount equal to the Director's gross salary for the relevant notice period. In addition the service contracts of certain Executive Directors provide for compensation to be paid in the event of the Director terminating the service contract due to a change of control of the Company. The Remuneration Committee believes that the periods of notice and other provisions relating to termination in the individual contracts referred to above are appropriate. These provisions will be reviewed in June 1998 at the same time as the other provisions (including basic salary) are reviewed. There are no service contracts for the non-Executive Directors.

9 Compliance with Greenbury

The Auditors' Report on the financial statements set out on page 46 confirms that the scope of their report covers the disclosures contained in this report that are specified for audit by the London Stock Exchange.



John Baker
Chairman

10th February 1998

Corporate Governance Report

Cadbury Code

The Company has complied throughout the period under review with all the provisions of the Code of Best Practice contained in the Cadbury Committee's Report, in accordance with the Listing Rules of the London Stock Exchange.

A statement by the Directors on the Company's internal financial controls and on going concern can be found on page 45 of this report. As recommended by the Cadbury Committee, the auditors have reviewed the Directors' statement on the Company's compliance with the Code and their report is set out on page 46.

Greenbury Report

The Company has given full consideration to the Code of Best Practice issued by the Greenbury Committee and subsequently incorporated in the London Stock Exchange Listing Rules and made recommendations to its Remuneration Committee accordingly. The Company has complied with the disclosure requirements in respect of Directors' remuneration, which can be found in the Report of the Remuneration Committee.

Details of the membership of the Committees of the Board are shown against the individual Directors' names on pages 28 and 29.

Business Ethics

The Company has adopted a Code of Business Ethics which sets out the standards expected of all Group staff and agents in the conduct of the Group's businesses.

Board of Directors

As at 10th February 1998 the Board consisted of five Executive Directors and four non-Executive Directors. Details of the Directors are set out on pages 28 and 29.

All of the Directors have access to the services of the Company Secretary and are entitled to seek independent professional advice in furtherance of their duties, if necessary, at the Company's expense.

The non-Executive Directors have a wide range of knowledge and experience which they contribute to the Board's deliberations. They are independent of the Company's day to day business, in that none of them hold or has held a management role within the Group; and other than their shareholding in the Company, have no business or other relationship which would materially affect their judgment in respect of the Company's business.

Non-Executive Directors are usually appointed for two 3 year terms and are not permitted to stand for re-election after attaining the age of 65 years. They are not entitled to participate in the Group's Share Option Schemes, Executive Plans or Pension Schemes. The non-Executive Directors' remuneration is reviewed by the Executive Committee in December each year.

Details of the Executive Directors' service contracts are set out in the Report of the Remuneration Committee. The service contracts are usually reviewed by the Remuneration Committee on an annual basis in June/July of each year.

The Board of Directors meets on a regular basis to consider a range of business and strategic matters including a review of the performance of the Group's operations on a quarterly basis, the review and approval of the Group's annual report, interim and preliminary announcements, and Group budgets and strategy. The Board delegates the day to day responsibility of managing the Group to a number of committees, details of which are set out below.

Corporate Governance

CONTINUED

Board Committees

The *Executive Committee* is chaired by the Chief Executive, Dr Bill Bogie. The other members of the Committee are the Finance Director, the Chief Scientific Officer, the Corporate Development and Group Legal Director, the Regional Director, Americas, the Company Secretary, the Director of European Operations and the Director of Licensing and Intellectual Property. The Committee normally meets once a month and is responsible for the executive management of the Group, making recommendations to the Board as appropriate. The main functions of the Committee are to consider and approve (or, where relevant, recommend for Board approval) the Group's annual business plan, budget and capital expenditure, product development proposals and the acquisition and disposal of significant assets. In addition, it determines the appointment, remuneration, benefits and responsibilities of Senior Executives in the Group within guidelines agreed with the Remuneration Committee.

The *Nominations Committee* meets as necessary to consider management succession and to make recommendations to the Board on the filling of Board vacancies. The Committee consists of the Company's Chairman, Chief Executive and the non-Executive Directors. The Committee ensures that the composition of the Board is appropriately balanced in expertise and ability.

The *Audit Committee* meets at least four times a year and consists solely of non-Executive Directors. The Committee is currently chaired by Michael Julien, however, following his retirement as a Director of the Company at the forthcoming Annual General Meeting, David Williams will take over as Chairman. Its terms of reference include the review of the Group's annual financial statements and interim and preliminary announcements before their submission to the Board. In addition, it considers the scope, planning and findings of reports undertaken by the external auditors as well as their services and fees, to ensure that an objective and professional relationship is maintained. The Committee is responsible for reviewing and monitoring the Company's internal controls and audit functions, and is authorised to take independent professional advice as it considers necessary.

The *Remuneration Committee*, consists solely of the non-Executive Directors and is chaired by John Baker. The details of the Committee and its report to shareholders can be found on pages 35 to 42.

The Company's *Charities Committee* is chaired by John Baker. The other members of the Committee are Dr Bill Bogie and Mark Hardy. The Committee, which meets at least twice a year is responsible for the distribution of the charity budget allocated by the Board in accordance with Group policy, by determining the level and extent of support to be given to various charities.

In addition, the Executive Committee has delegated the responsibility of the day to day management of its operations to the *US Executive Team*, the *UK and European Management Committees* and the Medeva Group Development *"MGD" Management Committee*.

The *US Executive Team* is chaired by the Regional Director, Americas, Jerry Schulze and consists of the Vice-Presidents of the various functions within the Group's US region.

The *UK and European Management Committees* are both chaired by John Ferguson, the Director of European Operations and consist of the directors of the various functions within the Group's UK and European regions.

The *"MGD" Committee* is chaired by the Chief Scientific Officer, Dr Michael Young, and consists of directors and managers of the various functions within MGD.

The Team and Committees meet on a regular basis to monitor the performance of the operations and to determine the facilitation of synergies and rationalisation regionally and Group-wide, and to develop other priority markets in regions where the Group is not currently represented.

Internal Financial Controls

The Directors of Medeva acknowledge that they are responsible for the system of internal financial control established by the Group and place great emphasis on maintaining a strong control environment. The Directors, through the Audit Committee, have reviewed the effectiveness of the internal financial controls of the Group.

The Directors have established an organisational structure with clearly drawn lines of accountability and delegation of authority. All Group employees are required to adhere to specified codes of conduct at all times and the Board actively promotes a culture of quality and integrity throughout the organisation. The identification and appraisal of risks is primarily carried out through the annual process of preparing business plans and budgets and through the close monitoring of operations.

Financial results and key operational and financial performance indicators are reported regularly throughout the year and variances from plans and budgets are followed up vigorously. The Group has a system of high level financial control procedures which are supplemented by detailed procedures at each operating division. Compliance with these procedures is monitored through a system of self-assessment by the divisions, supplemented by internal and external audit reviews. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material mis-statement or loss.

Going Concern

The Directors have reviewed the Group's budget and cashflow for the year to 31st December 1998 and outline plans for the Group thereafter in the light of the financial position of the Group at 31st December 1997.

The Directors are satisfied that the Group has sufficient resources to continue operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the accounts.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out on page 46, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group 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 on pages 47 to 66, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to use a going concern basis.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

The Directors, having prepared the financial statements, are required to provide to the Auditors such information and explanation as the Auditors think necessary for the performance of their duties.

Auditors' Report to the Members of Medeva PLC

We have audited the financial statements on pages 47 to 66. We have also examined the amounts disclosed relating to emoluments, share options, Long Term Incentive Share Plan interests and pension entitlements of the Directors which form part of the Report of the Remuneration Committee.

Respective Responsibilities of the Directors and Auditors

As described on page 45, 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

REVIEW REPORT ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the Directors' statement on page 43 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice (Code) specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the disclosure requirements of the Listing Rules 12.43(j) and 12.43(v).

Basis of Opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the Directors' statement on internal financial control and going concern on page 45, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and Officers of the company, and examination of relevant documents, in our opinion the Directors' statement on page 45 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditors
London, 10th February 1998

KPMG Audit Plc

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31st DECEMBER 1997

	Notes	1997	1996 Continuing operations before restructuring	1996 Restructuring	1996 Total continuing operations
		£m	£m	£m	£m
Turnover	2	**355.4**	331.8	—	331.8
Cost of sales		**(123.3)**	(115.1)	(60.3)	(175.4)
Gross profit		**232.1**	216.7	(60.3)	156.4
Selling, marketing and distribution expenses		**(57.3)**	(53.2)	(2.1)	(55.3)
Administration expenses		**(33.4)**	(34.1)	(2.8)	(36.9)
Research and development expenses		**(27.2)**	(24.3)	—	(24.3)
Total expenses		**(117.9)**	(111.6)	(4.9)	(116.5)
Operating profit	2	**114.2**	105.1	(65.2)	39.9
Disposal of subsidiary	3	—	—	—	—
Profit on ordinary activities before financing		**114.2**	105.1	(65.2)	39.9
Interest receivable and similar income		**0.2**	2.2	—	2.2
Interest payable and similar charges	4	**(3.5)**	(3.8)	—	(3.8)
Profit on ordinary activities before tax	5	**110.9**	103.5	(65.2)	38.3
Tax on profit on ordinary activities	6	**(35.1)**	(36.2)	7.8	(28.4)
Profit for the financial year		**75.8**	67.3	(57.4)	9.9
Dividends	8	**(19.8)**			(16.7)
Profit/(loss) for the year transferred to/(from) reserves		**56.0**			(6.8)
Earnings per ordinary share	9	**21.4p**	20.8p		3.1p
Dividend per ordinary share					
Interim		**1.9p**			1.65p
Recommended final		**3.6p**			3.15p
		5.5p			4.80p

The acquisition of the Belgian business ("CERTA") became effective on 1st July 1997. As the contribution from this business is not material, there is no separate disclosure on this statement.

The notes on page 53 to 66 from an integral part of these financial statements.

Consolidated Balance Sheet

AS AT 31st DECEMBER 1997

	Notes	1997 £m	1996 £m
Fixed assets			
Intangible assets	10	**69.3**	52.7
Tangible assets	11	**103.3**	74.1
Investments	12	**9.2**	6.1
		181.8	132.9
Current assets			
Stock	13	**43.4**	30.1
Debtors	14	**98.2**	93.2
Cash at bank and in hand		**11.0**	20.9
		152.6	144.2
Creditors - amounts due within one year	15	**(119.8)**	(107.8)
Net current assets		**32.8**	36.4
Total assets less current liabilities		**214.6**	169.3
Creditors - amounts due after more than one year	16,17	**(74.0)**	(91.9)
Provisions for liabilities and charges	18	**(39.6)**	(31.9)
Net assets		**101.0**	45.5
Capital and reserves			
Called up share capital	19	**35.6**	35.0
Share premium account	20	**129.9**	122.6
Goodwill write off and capital reserve	20	**(240.5)**	(233.4)
Profit and loss account	20	**176.0**	121.3
Equity shareholders' funds		**101.0**	45.5

Approved by the Board of Directors on 10th February 1998 and signed on their behalf by:

DR W BOGIE, Chief Executive

G WATTS, Finance Director

The notes on pages 53 to 66 form an integral part of these financial statements.

Consolidated Cashflow Statement

FOR THE YEAR ENDED 31st DECEMBER 1997

	Notes	1997 £m	1997 £m	1996 £m
Cash inflow from operating activities before restructuring	(a)	**115.4**		127.2
Outflow relating to restructuring spend		**(14.0)**		(12.8)
Cash inflow from operating activities after restructuring			**101.4**	114.4
Returns on investments and servicing of finance				
Interest received		**0.2**		2.3
Interest paid		**(4.0)**		(3.5)
Interest element of finance lease payments		**(0.2)**		(0.4)
			(4.0)	(1.6)
Taxation paid			**(14.2)**	(23.0)
Capital expenditure and financial investment				
Receipts from sale of tangible fixed assets		**3.4**		—
Payments made to acquire tangible fixed assets		**(42.3)**		(16.4)
Payment made to Employee Share Ownership Scheme		**(0.6)**		(1.2)
Payments made to acquire intangible fixed assets		**(13.7)**		(29.6)
Payment made to acquire equity investment		**(3.0)**		—
Net cash outflow from capital expenditure and financial investment			**(56.2)**	(47.2)
Acquisition and disposals				
Payments to acquire businesses	(b)	**(2.9)**		(265.2)
Disposal of subsidiary		**—**		49.4
Net cash outflow from acquisitions and disposals			**(2.9)**	(215.8)
Equity dividends			**(17.4)**	(11.8)
Net inflow/(outflow) before financing			**6.7**	(185.0)
Financing				
Receipts from issuing shares		**7.5**		113.7
Expenses of share issues		**—**		(2.6)
Loans drawn down		**—**		117.4
Net capital payments on finance leases		**0.3**		(0.5)
Loan repayments		**(23.7)**		(29.2)
Net cash (outflow)/inflow from financing			**(15.9)**	198.8
(Decrease)/increase in cash in the year			**(9.2)**	13.8

Notes to the Consolidated Cashflow Statement

FOR THE YEAR ENDED 31st DECEMBER 1997

(a) *Net cash inflow from operating activities before restructuring*	**1997 £m**	1996 £m
Operating profit before restructuring	**114.2**	105.1
Non cash items		
Depreciation	**11.1**	11.5
Amortisation	**7.0**	5.1
Funds from operations	**132.3**	121.7
Working capital changes		
(Increase)/decrease in stocks	**(11.2)**	3.9
Decreases/(increase) in debtors	**1.9**	(19.8)
(Decrease)/increase in creditors	**(7.6)**	21.4
	(16.9)	5.5
Net inflow from operating activities before restructuring	**115.4**	127.2

(b) *Acquisition of business and subsidiary undertakings*		
Net (liabilities)/assets acquired	**(1.1)**	20.1
Goodwill	**7.1**	245.1
Total cost of acquisitions	**6.0**	265.2
Less: deferred consideration and accruals	**(3.1)**	—
Net cash outflow for acquisitions	**2.9**	265.2

(c) *Reconciliation of net cashflow to movement in net (debt)/funds*		
(Decrease)/increase in cash in the year	**(9.2)**	13.8
Cash outflow/(inflow) from decrease/(increase) in debt and lease finance	**23.4**	(87.7)
Changes in net debt resulting from cashflows	**14.2**	(73.9)
Loans and finance leases acquired	**(1.2)**	—
Exchange differences	**(3.9)**	5.2
Movement in the year	**9.1**	(68.7)
Net (debt)/funds at 1st January	**(59.3)**	9.4
Net (debt) at 31st December	**(50.2)**	(59.3)

Analysis of net debt

	At 1st Jan 1997 £m	Cashflow £m	Acquisitions £m	Exchange movements £m	At 31st Dec 1997 £m
Cash at bank	20.9	(9.2)	—	(0.7)	11.0
Unsecured loans due after one year	(78.2)	23.7	(0.6)	(3.2)	(58.3)
Finance leases	(2.0)	(0.3)	(0.6)	—	(2.9)
Total	(59.3)	14.2	(1.2)	(3.9)	(50.2)

Consolidated Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31st DECEMBER 1997

	1997 £m	1996 £m
Profit for the financial year	**75.8**	9.9
Exchange adjustments on foreign currency net investments	**(1.3)**	(8.8)
Total recognised gains and losses for the financial year	**74.5**	1.1

Reconciliation of Movements in Consolidated Shareholders' Funds

FOR THE YEAR ENDED 31st DECEMBER 1997

	1997 £m	1996 £m
Profit for the financial year	**75.8**	9.9
Dividends	**(19.8)**	(16.7)
Profit/(loss) for the year transferred to/(from) reserves	**56.0**	(6.8)
Exchange adjustments on foreign currency net investments	**(1.3)**	(8.8)
Share dividends	**0.4**	1.8
Share capital issued (net of costs)	**7.5**	111.1
Goodwill written off on acquisitions	**(7.1)**	(245.1)
Goodwill written back on disposals	**—**	42.9
Net movement in shareholders' funds	**55.5**	(104.9)
Equity shareholders' funds at 1st January	**45.5**	150.4
Equity shareholders' funds at 31st December	**101.0**	45.5

Company Balance Sheet

AS AT 31st DECEMBER 1997

	Notes	1997 £m	1996 £m
Fixed assets			
Tangible assets	11	**0.1**	0.2
Investments	12	**575.7**	569.5
		575.8	569.7
Current assets			
Debtors	14	**6.3**	6.2
Cash at bank and in hand		**5.9**	16.7
		12.2	22.9
Creditors - amounts due within one year	15	**(17.3)**	(21.6)
Net current (liabilities)/assets		**(5.1)**	1.3
Total assets less current liabilities		**570.7**	571.0
Creditors - amounts due after more than one year	17	**(57.7)**	(77.5)
Net assets		**513.0**	493.5
Capital and reserves			
Called up share capital	19	**35.6**	35.0
Share premium account	20	**129.9**	122.6
Goodwill write off and capital reserves	20	**310.4**	310.4
Profit and loss account	20	**37.1**	25.5
Equity shareholders' funds		**513.0**	493.5

Approved by the Board of Directors on 10th February 1998 and signed on their behalf by:

DR W BOGIE, Chief Executive

G WATTS, Finance Director

The notes on pages 53 to 66 form an integral part of these accounts

Notes to the Financial Statements

FOR THE YEAR ENDED 31st DECEMBER 1997

1 ACCOUNTING POLICIES

(a) *Basis of Accounting*

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's and Company's accounts.

(b) *Basis of Consolidation*

Goodwill arising on consolidation, representing the excess of the fair value of the consideration paid over the fair value of the separable net assets acquired, is written off directly to reserves.

(c) *Foreign Currency Translation*

Transactions denominated in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies and the net assets of foreign subsidiaries are translated into sterling at the exchange rate ruling on the balance sheet date. The results of overseas subsidiary companies are translated into sterling at the average rate of exchange for the year. Exchange differences arising on consolidation are recorded as movements on reserves as are those arising on the translation of foreign currency borrowings raised to acquire foreign subsidiaries. All other exchange differences are dealt with through the profit and loss account.

(d) *Turnover*

Turnover comprises the value of goods and services sold to third parties and earned royalties, excluding VAT and similar sales taxes.

(e) *Research and Development*

Research and development costs are charged against operating profit in the period in which they are incurred.

(f) *Deferred Taxation*

Deferred taxation is provided where, in the opinion of the Directors, it is probable that a liability will crystallise in the future and where such liability will not be offset by available tax losses.

(g) *Intangible Fixed Assets*

Intangible fixed assets comprise certain acquired separable brands, licences, trademarks and patents and are valued at historical cost or the fair value attributed at the time of acquisition. Amortisation is provided so as to write off these assets from the point of first commercial sale of product relating to the assets acquired over their estimated useful economic lives, generally over a period of 15 years unless a lesser period is appropriate to a specific asset.

(h) *Depreciation*

Depreciation is provided so as to write off tangible fixed assets on a straight line basis and aims to write down their cost to their residual value over their estimated useful lives as follows:

Plant and machinery	2-10 years
Freehold buildings	50 years
Freehold land	not depreciated
Leasehold property and improvements	over the term of the lease

(i) *Stock*

Stock is stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and is calculated as the average direct cost of production plus attributable overheads.

(j) *Finance Leases, Hire Purchase Agreements and Operating Leases*

Assets acquired under hire purchase agreements and finance leases and the related obligations are included in the balance sheet. The interest element of repayments is charged to the profit and loss account in proportion to the reducing capital element outstanding. Operating lease rental costs are charged to the profit and loss account as they arise.

Notes to the Financial Statements

CONTINUED

1 ACCOUNTING POLICIES (continued)

(k) *Pension*

The Group operates contributory and non-contributory defined benefit and defined contribution pension schemes covering the majority of its UK and US employees. The schemes' funds are administered by trustees and are independent of the Group's finances. Contributions are paid to the schemes in accordance with the recommendations of independent actuaries. The Group's contributions are charged to the profit and loss account so as to spread the costs of pensions over employees' working lives with the Group.

(l) *Long Term Incentive Share Plan*

The Group operates a Long Term Incentive Share Plan for its senior Executives. The Plan is operated by independent trustees who have invested in the shares of the Company. These shares are included within fixed assets. The cost of this scheme is being amortised on a straight line basis over the vesting period of three years.

(m) *New Accounting Standards*

The Group has adopted Financial Reporting Standard 1 (Revised) "Cashflow Statements" during the year. Accordingly, comparatives in the consolidated Cashflow Statement have been restated.

2 ANALYSIS OF TURNOVER, OPERATING PROFIT AND NET ASSETS

(a) *Turnover by destination*

	1997	1996
	£m	£m
United States of America	**245.1**	237.4
United Kingdom	**65.4**	52.2
Rest of Europe	**35.2**	34.7
Rest of World	**9.7**	7.5
	355.4	331.8

(b) *Geographical analysis by country of origin*

	Turnover		Operating profit		Net assets	
	1997	1996	**1997**	1996	**1997**	1996
	£m	£m	**£m**	£m	**£m**	£m
United States of America	**233.6**	228.9	**121.5**	107.3	**58.3**	16.0
United Kingdom	**89.8**	77.0	**17.9**	12.5	**31.0**	18.6
Rest of Europe	**32.0**	25.9	**5.1**	4.6	**11.7**	10.9
	355.4	331.8	**144.5**	124.4	**101.0**	45.5
Central activities			**(30.3)**	(19.3)		
			114.2	105.1		
US restructuring			**—**	(65.2)		
Profit before interest and tax			**114.2**	39.9		

Central activities represent the cost of the Group's head office and central research and development functions. The net assets attributable to the central activities are included within the United Kingdom assets as separate disclosure would not be meaningful.

Substantially all turnover and operating profits are generated from the Group's principal activity being the development, manufacture and sale of prescription pharmaceutical products.

3 DISPOSAL OF SUBSIDIARY

On 6th February 1996 the Group disposed of its German trading operations. The disposal was effective from 1st January 1996.

No gain or loss was generated on this disposal following the reinstatement of £42.9m of goodwill.

4 INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £m	1996 £m
On bank loans wholly repayable within five years	**4.0**	3.4
Finance lease charges	**0.2**	0.4
Less: interest capitalised (see note 11)	**(0.7)**	—
	3.5	3.8

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

(a) *Profit on ordinary activities is stated after charging:*	1997 £m	1996 £m
Depreciation	**11.1**	11.5
Amortisation	**7.0**	5.1
Auditors' remuneration - audit	**0.3**	0.3
- other services in the UK	**0.2**	0.2
- other services overseas	**0.4**	0.2
Operating lease rentals - hire of plant and machinery	**1.6**	1.2
- other	**0.9**	1.0

The Company audit fee included in the above is £0.1m (1996: £0.1m).

(b) *Directors' remuneration*

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Report of the Remuneration Committee on pages 35 to 42.

(c) *Employees*

The average number of staff employed by the Group, including Directors, during the year was:	1997 Number	1996 Number
Production	**1,599**	1,516
Sales and distribution	**601**	471
Research and technical	**281**	189
Administration	**255**	229
	2,736	2,405

The aggregate payroll costs of these persons, including all Directors, were:	£m	£m
Wages and salaries	**71.3**	60.9
Social security costs	**6.2**	5.3
Other costs including pensions	**3.7**	3.5
	81.2	69.7

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge to taxation was comprised of:	**1997 £m**	1996 £m
UK – corporation tax at 31.5%	**3.5**	6.4
Overseas – federal and state income taxes	**12.6**	18.0
Deferred tax	**19.0**	1.8
Prior year adjustments	**—**	2.2
	35.1	28.4

7 PROFIT FOR THE FINANCIAL YEAR

In accordance with the exemption allowed by Section 230 of the Companies Act 1985 the Company has not presented its own profit and loss account. A profit of £31.2m (1996: £13.3m) before dividends payable has been dealt with in Medeva PLC's own accounts.

8 DIVIDENDS

	1997 £m	1996 £m
Interim dividend paid of 1.90p per share (1996: 1.65p)	**6.9**	5.7
Final dividend proposed of 3.60p per share (1996: 3.15p)	**12.9**	11.0
	19.8	16.7

9 EARNINGS PER ORDINARY SHARE

The calculation of earnings per Ordinary Share is based on the profit on ordinary activities after tax of £75.8m (1996: £9.9m) and the weighted average number of Ordinary Shares in issue during the year of 354.4m (1996: 323.1m).

The effect on earnings per 10p Ordinary Share of the issue of shares under option (see note 19) would not be materially different when calculated on a fully diluted basis.

10 INTANGIBLE FIXED ASSETS

	Group £m
COST	
At 1st January 1997	74.2
Additions	22.9
Disposal	—
Exchange differences	0.2
At 31st December 1997	**97.3**
AMORTISATION	
At 1st January 1997	21.5
Charge for the year	6.5
Disposal	—
Exchange differences	—
At 31st December 1997	**28.0**
NET BOOK VALUE	
At 31st December 1997	**69.3**
At 31st December 1996	52.7

The intangible assets above include £19.7m (1996: £15.5m) of assets which have yet to generate commercial sales of the product to which they relate and upon which no amortisation has been charged.

11 TANGIBLE FIXED ASSETS

(a) *Group*

	Land and buildings		Plant and machinery		
	Freehold £m	Long Leasehold £m	Owned £m	Leased £m	Total £m
COST					
At 1st January 1997	15.1	21.8	84.2	11.3	132.4
Additions	4.6	0.9	35.5	2.0	43.0
Acquisition of business	—	0.6	0.1	—	0.7
Exchange differences	0.4	0.5	1.9	—	2.8
Disposals	(0.1)	(1.9)	(4.8)	(1.9)	(8.7)
At 31st December 1997	**20.0**	**21.9**	**116.9**	**11.4**	**170.2**
DEPRECIATION					
At 1st January, 1997	0.5	11.1	40.8	5.9	58.3
Charge for the year	0.6	0.7	8.4	1.4	11.1
Exchange differences	—	0.4	1.4	—	1.8
Disposals	—	(1.0)	(3.1)	(1.2)	(5.3)
Restructuring	—	—	1.0	—	1.0
At 31st December 1997	**1.1**	**11.2**	**48.5**	**6.1**	**66.9**
NET BOOK VALUE					
At 31st December 1997	**18.9**	**10.7**	**68.4**	**5.3**	**103.3**
At 31st December 1996	14.6	10.7	43.4	5.4	74.1

The assets above include £35m (1996: £7.0m) of assets in the course of construction on which no depreciation was charged. Interest of £0.7m (1996: nil) has been capitalised.

(b) *Company*

	Plant and machinery £m
COST	
At 1st January 1997	0.7
Additions	—
At 31st December 1997	**0.7**
DEPRECIATION	
At 1st January 1997	0.5
Charge for the year	0.1
At 31st December 1997	**0.6**
NET BOOK VALUE	
At 31st December 1997	**0.1**
At 31st December 1996	0.2

Notes to the Financial Statements

CONTINUED

12 FIXED ASSET INVESTMENTS	1997	1996
(a) *Group*		
	£m	£m
At 1st January	**6.1**	5.9
Currency translation adjustment	**—**	(0.6)
Additions	**3.6**	1.2
Amortisation	**(0.5)**	(0.4)
At 31st December	**9.2**	6.1

Investments comprise three items. An investment in Matrix Pharmaceuticals Inc., (£5.3m) a company whose shares are listed on the NASDAQ Exchange in the USA. This investment represents a minority interest in this company, is of a long-term strategic nature and is carried in the balance sheet at original cost to the Group. The market value at 31st December 1997 was £1.4m. Additions include the acquisition in January 1997 of new ordinary shares in Peptide Therapeutics Group plc (£3.0m), a company whose shares are traded on the London Stock Exchange. The market value at 31st December 1997 was £2.4m. Investments also include £0.9m in respect of a holding of 776,112 Ordinary Shares of 10p each and 12,625 ADS's (representing 50,500 Ordinary Shares) of the Company, held by the trustees of the Long Term Incentive Share Plan (see Report of the Remuneration Committee).

(b) *Company*	Shares in subsidiary undertakings £m	Amounts due from subsidiary undertakings £m	Other investments £m	Total £m
COST				
At 1st January 1997	98.8	466.5	6.1	571.4
Net additions	1.1	2.0	3.1	6.2
At 31st December 1997	**99.9**	**468.5**	**9.2**	**577.6**
PROVISIONS				
At 1st January 1997	0.7	1.2	—	1.9
At 31st December 1997	**0.7**	**1.2**	—	**1.9**
NET BOOK VALUE				
At 31st December 1997	**99.2**	**467.3**	**9.2**	**575.7**
At 31st December 1996	98.1	465.3	6.1	569.5

12 FIXED ASSET INVESTMENTS (continued)

(c) *Principal subsidiaries*

The Company owns directly or indirectly the whole of the issued share capital of the following companies:

Country of incorporation and operation	Class of shares	Name of Subsidiary	Principal Activity
UK	Ordinary	Evans Healthcare Limited	Manufacture and sale of a range of branded speciality and generic pharmaceutical products including human and animal vaccines.
UK	Ordinary	Evans Medical Limited	
UK	Ordinary	IMS (UK) Limited	
Spain	Ordinary	Evans Medical Espana SA	
France	Ordinary	Evans Medical SA	
Belgium	Ordinary	s.a. CERTA n.v.	
UK	Ordinary Preference	Medevale Pharmaservices Limited	
USA	Ordinary	MD Pharmaceutical Inc	Manufacture and sale of specialist pharmaceutical products, inhaled anaesthetics, injectable pharmaceutical products and drug delivery systems.
USA	Ordinary	Medeva Pharmaceuticals Inc	
USA	Ordinary	Medeva Pharmaceuticals Manufacturing Inc	
USA	Ordinary	International Medication Systems Limited	
USA	Ordinary	Inhalon Pharmaceuticals Inc	
USA	Ordinary	Armstrong Pharmaceuticals Inc	Manufacture of respiratory MDI's
Switzerland	Ordinary	Tillotts Pharma AG	Manufacture and development of a range of products for the treatment of lower gastrointestinal tract diseases.
UK	Ordinary	Medeva Group Research Limited	Research and development of pharmaceutical products for other Group companies.
Netherlands	Ordinary	Medeva BV	Owns licences and other intellectual property relating to pharmaceutical products.

(d) *Goodwill*

Goodwill arising on consolidation of the acquisition of businesses is as follows:

	Goodwill on consolidation £m
At 1st January 1997	543.8
Goodwill arising in 1997 (see below)	7.1
At 31st December 1997	**550.9**

12 FIXED ASSET INVESTMENTS (continued)

The goodwill arising on consolidation of the business acquired in 1997 was calculated as follows:

	£m
Consideration	4.8
Costs of acquisition	1.2
	6.0
Fair value of net liabilities acquired	1.1
Goodwill arising on consolidation	7.1

CERTA

On 1st July 1997, the Group acquired the share capital of CERTA a Belgium business which employs 48 people and markets, distributes and manufactures a wide range of pharmaceutical products in the Belgium and Dutch markets. A cash consideration of Bfr142.2m (£2.3m) was paid on acquisition with a further Bfr150m (£2.5m) payable over the next two years depending on the results of the operations. Annual sales for the year ended 31st December 1996 were £7.7m (Bfr 468m) and operating profit for the same period was £0.6m (Bfr37m). The business contributed turnover of £3.4m and operating profit of £0.1m since the effective date of acquisition.

13 STOCK

	Group	
	1997	1996
	£m	£m
Raw materials and consumables	**15.8**	11.3
Work in progress	**8.7**	8.9
Finished goods, goods for resale and samples	**18.9**	9.9
	43.4	30.1

14 DEBTORS

	Group		Company	
	1997	1996	**1997**	1996
	£m	£m	**£m**	£m
Trade debtors	**82.6**	77.5	**—**	—
Other debtors	**5.0**	8.7	**1.2**	1.4
Prepayments and accrued income	**5.7**	7.0	**0.5**	1.1
ACT recoverable	**4.9**	—	**4.6**	3.7
Total	**98.2**	93.2	**6.3**	6.2
Amounts due within one year	**94.0**	91.3	**5.7**	5.3
Amounts due after one year	**4.2**	1.9	**0.6**	0.9

15 CREDITORS – AMOUNTS DUE WITHIN ONE YEAR

	Group		Company	
	1997 £m	1996 £m	**1997 £m**	1996 £m
Trade creditors	**21.9**	14.7	**—**	—
Other creditors including taxation and social security	**6.0**	4.0	**2.9**	2.1
Accruals and deferred income	**52.3**	62.7	**1.5**	1.9
Current operating creditors	**80.2**	81.4	**4.4**	4.0
Corporation and income taxes	**17.7**	12.3	**—**	6.6
Current operating creditors including taxes	**97.9**	93.7	**4.4**	10.6
Proposed dividend	**12.9**	11.0	**12.9**	11.0
Deferred consideration	**7.4**	2.0	**—**	—
Obligations under finance leases and hire purchase agreements	**1.6**	1.1	**—**	—
	119.8	107.8	**17.3**	21.6

16 CREDITORS – AMOUNTS DUE AFTER MORE THAN ONE YEAR

	Group	
	1997 £m	1996 £m
Bank loans (see note 17)	**58.3**	78.2
Accruals and deferred income	**1.4**	6.7
Deferred consideration	**13.0**	6.1
Obligations under finance leases and hire purchase agreements	**1.3**	0.9
	74.0	91.9

Net obligations under finance leases are repayable as set out below:	**£m**	£m
Amounts payable within one year	**1.7**	1.1
Amounts payable between two and five years	**1.6**	1.1
Less: interest element	**(0.4)**	(0.2)
	2.9	2.0

17 BANK LOANS

	Repayment Date	Group		Company	
		1997 £m	1996 £m	**1997 £m**	1996 £m
Secured loans					
Mortgage loan (variable rate) secured by fixed charge	**2013**	**0.6**	0.7	**—**	—
Total secured loans		**0.6**	0.7	**—**	—
Unsecured loans					
Medium term revolving credit facility (0.35% above LIBOR) drawn down in US$	**2001**	**57.7**	77.5	**57.7**	77.5
Total unsecured loans		**57.7**	77.5	**57.7**	77.5
Total loans due after more than one year		**58.3**	78.2	**57.7**	77.5

Notes to the Financial Statements

CONTINUED

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £m	Restructuring provision £m	Total £m
At 1st January 1997	6.6	25.3	31.9
Included in current creditors less than one year	—	16.0	16.0
Exchange	—	1.6	1.6
Provided in the year			
Other	19.0	—	19.0
Utilised in the year			
Cash spend	—	(14.0)	(14.0)
Transferred to creditors less than one year	—	(13.9)	(13.9)
Fixed asset write down	—	(1.0)	(1.0)
At 31st December 1997	**25.6**	**14.0**	**39.6**

	Group			
Deferred taxation	**1997 Full potential liability £m**	**1997 Provision made £m**	1996 Full potential liability £m	1996 Provision made £m
Accelerated capital allowances	**8.5**	**8.5**	7.3	7.3
Losses and other timing differences	**24.1**	**17.1**	6.3	(0.7)
	32.6	**25.6**	13.6	6.6

There are no unprovided deferred tax liabilities in the Company.

19 SHARE CAPITAL

(a) *Ordinary Shares of 10p each*	Number '000	£m
Authorised		
At 1st January 1997	460,000	46.0
At 31st December 1997	**460,000**	**46.0**
Allotted, issued and fully paid		
At 1st January 1997	350,127	35.0
Issued on exercise of share options	5,840	0.6
Issued to Group profit sharing scheme	21	—
Issued in lieu of cash dividends	177	—
At 31st December 1997	**356,165**	**35.6**

19 SHARE CAPITAL (continued)

Directors' interests in the share capital can be found on page 40.

(b) *Share options and awards*

The Company's Directors, officers and employees (and former Directors, officers and employees) hold options and awards to subscribe and to purchase Ordinary Shares of the Company under the Medeva PLC Long Term Incentive Share Plan (LTIP), Medeva PLC Executive Share Option Scheme (Executive Scheme), Medeva PLC 1996 Executive Share Option Scheme (1996 Executive Scheme), Medeva PLC Senior Executive Share Option Scheme (Senior Scheme), Medeva PLC United States Executive Stock Option Plan (US Plan), Medeva PLC European Executive Share Option Scheme (European Scheme) and the Medeva PLC Sharesave Scheme (SAYE Scheme), as shown below. The Directors' interests in these options can be found in the Report of the Remuneration Committee.

	Executive Scheme '000	Senior Scheme '000	US Plan '000	SAYE **and Others '000	Total '000
Number of shares under option					
At 1st January 1997	4,016	6,440	5,709	2,606	18,771
Shares granted	93	—	1,981	2,067	4,141
Shares exercised	(1,035)	(3,438)	(1,142)	(225)	(5,840)
Shares lapsed	(5)	(1,767)	(241)	(105)	(2,118)
At 31st December 1997	**3,069**	**1,235**	**6,307**	**4,343**	**14,954**
Option price per share	97p - 303p	124p - 195p	89p - 300p*	164p - 294p	

* Convenience exchange rate of US$1.645 : £1;

** Includes European Scheme, LTIP and 1996 Executive Scheme

The options granted under the share option schemes are exercisable as follows:

Executive Scheme	— between nil and ten years from the date of the grant;
Senior Scheme and European Scheme	— between three and ten years from the date of grant, subject to the satisfaction of set performance criteria;
US Plan	— Options vest one-third on the first, second and third anniversaries, and may be exercised up to ten years from the date of grant;
1996 Executive Scheme and LTIP	— between three and seven years from the date of grant, or grant of award, subject to the satisfaction of set performance criteria; and
SAYE Scheme	— in the six months commencing with the date of the completion of the relevant savings contract period, which are three, five and seven years in duration.

Notes to the Financial Statements

CONTINUED

20 RESERVES

(a) *Group*

	Share premium £m	Goodwill write off and capital reserves £m	Profit and Loss £m	Total £m
At 1st January 1997	122.6	(233.4)	121.3	10.5
On exercise of share options	6.9	—	—	6.9
On issue of shares for dividends	0.4	—	—	0.4
Goodwill arising on consolidation	—	(7.1)	—	(7.1)
Profit for the year	—	—	75.8	75.8
Dividends	—	—	(19.8)	(19.8)
Exchange differences	—	—	(1.3)	(1.3)
At 31st December 1997	**129.9**	**(240.5)**	**176.0**	**65.4**
(b) *Company*				
At 1st January 1997	122.6	310.4	25.5	458.5
Premiums on shares issued	7.3	—	—	7.3
Profit for the year	—	—	31.2	31.2
Dividends	—	—	(19.8)	(19.8)
Exchange differences	—	—	0.2	0.2
At 31st December 1997	**129.9**	**310.4**	**37.1**	**477.4**

Net cumulative losses included in the reserves at 31st December 1997 relating to exchange differences on borrowings amounted to £0.5m (1996: gains £2.7m).

21 FINANCIAL COMMITMENTS

(a) *Operating leases*

At 31st December 1997 the Group had annual commitments under non-cancellable operating leases as set out below:

	1997		1996	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	**0.1**	**0.1**	0.1	0.1
In two to five years	**0.8**	**0.2**	2.6	0.5
Over five years	**0.9**	**—**	0.6	—
	1.8	**0.3**	3.3	0.6

The leases of land and buildings are subject to rent reviews every five years.

(b) *Future capital expenditure*

	Group	
	1997	1996
	£m	£m
Contracted for but not provided for	**8.6**	7.1

22 CONTINGENT LIABILITIES AND GUARANTEES

(a) The Group has an unsecured overdraft facility of £20m gross, and £10m net, with National Westminster Bank PLC. At 31st December 1997 the Company had provided guarantees in respect of overdrafts of subsidiary undertakings totalling £14.5m (1996: £19.1m).

(b) The principal litigations in which the Group has been involved in 1997 are discussed below. In common with most trading companies, Medeva and various of its subsidiary undertakings are the subject of a number of legal claims or potential claims against the Group the outcome of which cannot at present be determined. Provision has been made in these accounts for all liabilities which might reasonably be expected to materialise from these claims.

(i) ***Pertactin***

Evans Medical Limited ("Evans") is the owner of patents for ***Pertactin***, the Bordetella pertussis protein also known as 69kDa. Evans has granted SmithKline Beecham an exclusive worldwide licence to use these patents. Under the terms of the licence, Evans has the first option to take proceedings to enforce the patents. A number of patent protection proceedings have been started in Europe, Canada and the USA involving Evans' patents and acellular pertussis vaccines owned by Chiron Corporation and its subsidiaries; American Home Products and its subsidiaries and Connaught Laboratories Limited.

On 16th January 1998 the High Court in England found that one of these patents was invalid, the decision has no effect on Evans' royalty arrangements with SmithKline Beecham.

(ii) ***Ionamin***

In July 1997 significant health concerns were raised over the use of the so-called "fen-phen diet" (co-prescription of fenfluramine and phentermine). These concerns resulted in the voluntary withdrawal from the market of fenfluramine and a related drug dexfenfluramine in September 1997. These withdrawals have been followed by the commencement of a significant number of lawsuits in the USA against manufacturers and prescribers of fenfluramine, dexfenfluramine and phentermines seeking hundreds of millions of US dollars in damages. The most common allegation is that the "fen-phen diet" caused heart valve problems. Medeva has been named in approximately 225 of these cases and anticipates the number will increase materially in the future. The Group's involvement derives from its sale, since 2nd July 1996, of ***Ionamin***, the phentermine prescription pharmaceutical acquired from Fisons Corporation ("Fisons") on that date.

Medeva does not expect to incur any material liability in these cases. Medeva denies liability on a number of grounds including, fundamentally, that ***Ionamin*** does not cause the health conditions complained of. ***Ionamin*** has been marketed since 1959 and the FDA did not request that ***Ionamin*** or any other phentermine be withdrawn from the market. Moreover, Medeva believes it will be indemnified for any unanticipated liability by Fisons (for ***Ionamin*** sold prior to 2nd July, 1996) and by Medeva's product liability insurance carriers (for ***Ionamin*** sold after 2nd July). Medeva's defence costs are being paid by Fisons and its insurance carriers as required by their contractual indemnities. Fisons indemnity obligations are guaranteed by Rhône Poulenc Rorer Inc.

23 PENSIONS

The Group operates a number of pension schemes, the majority being defined benefit arrangements. The assets of the schemes are held in separate trustee administered funds.

Medeva PLC has two UK senior executive pension plans. The Medeva Senior Executive Pension Plan is an approved scheme (approved by the UK Inland Revenue) is a defined benefits plan and the contributions in 1997 were based upon a valuation which was prepared by independent actuaries with an effective date of 1st January 1997. The second scheme, the Medeva Senior Executive Additional Pension Plan, is not approved by the Inland Revenue and is a defined contribution scheme for earnings of members of the approved executive scheme in excess of the earnings cap set by the UK Government each year.

The Group also operates a defined benefits plan which covers the majority of its UK employees, the Medeva UK Pension Plan. The UK pension expense for this plan is based on the results of an actuarial valuation which was carried out as at 6th April 1996. The plan's assets were valued by discounting to the valuation date the expected income from those assets. At the valuation date, the market value of the assets of the plan was £11.5m, and the actuarial value of those assets represented 94% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings.

In the US the Group operates a defined benefit scheme covering substantially all of the Group's US employees, the scheme was introduced on 1st January 1994. The benefits are based on years of service and the employee's annual compensation. The Company's funding policy is to contribute annually an amount equal to the normal cost plus amortisation of the unfunded actuarial accrued liabilities such that the contribution meets both the minimum required and maximum deductable limitations under the Employee Retirement Income Security Act (ERISA). Contributions are intended to provide not only benefits attributed to service to date but also for those expected to be earned in the future. Contributions in 1997 were based on an independent actuarial valuation. The most recent valuation was prepared in December 1997, using the projected unit method. The market value of the scheme's assets (£3.4m) represent 75% of the scheme's liabilities at 31st December 1997, the shortfall is being amortised over nine years.

The assumptions which have the most significant effect on the results of the above valuations are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that investment returns would exceed salary increases by 2% per annum for the UK schemes and by 3% per annum for the US scheme.

The pension charge for the year included in the consolidated profit and loss account is £3.1m (1996: £2.5m). At 31st December 1997, prepayments and provisions resulting from the difference between the amounts recognised as cost and the amounts paid were nil and £0.3m respectively. (1996: £0.2m and £0.7m respectively).

Reconciliation between UK and US Accounting Principles

FOR THE YEAR ENDED 31st DECEMBER 1997

The accounts of the Group 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 is a summary of the material adjustments to profit and shareholders' equity which would be required had the accounts been prepared under US GAAP rather than UK GAAP.

(i) *Effect on profit for the year ended 31st December 1997*

	Notes	**1997 £m**	1996 £m
Profit after taxation under UK GAAP		**75.8**	9.9
US GAAP adjustments:			
Goodwill and intangibles	(a)	**(62.5)**	(47.7)
Profit on disposal of Ribosepharm	(a)	**—**	12.2
Acquisition accounting	(b)	**—**	(13.4)
Deferred tax	(c)	**0.4**	10.3
Pensions	(d)	**0.1**	(0.1)
Compensation expense	(e)	**(0.2)**	(0.9)
Restructuring	(f)	**(9.8)**	17.8
Other		**(0.8)**	0.3
Net profit/(loss) under US GAAP		**3.0**	(11.6)

(ii) *Effect on Shareholders' Equity as at 31st December 1997*

		£m	£m
Shareholders' equity as stated under UK GAAP		**101.0**	45.5
US GAAP adjustments:			
Goodwill and intangibles	(a), (b)	**280.8**	326.2
Deferred tax	(c)	**6.8**	5.6
Pensions	(d)	**(0.4)**	(0.5)
Dividends	(g)	**12.9**	11.0
Fixed asset investments	(h)	**(4.6)**	(2.7)
Other		**(0.7)**	0.1
Restructuring	(f)	**8.0**	17.8
Shareholders' equity as stated under US GAAP		**403.8**	403.0

Reconciliation between UK and US Accounting Principles

FOR THE YEAR ENDED 31st DECEMBER 1997

CONTINUED

Notes

(a) Goodwill and intangible assets

Goodwill on consolidation is written off directly to reserves under UK GAAP but the goodwill is capitalised and amortised over its useful life under US GAAP, usually over 10 years. Intangible assets which are generally amortised over 15 years under UK GAAP are written off over 10 years for US GAAP purposes. Additionally, the Group has purchased certain intangible assets which, in accordance with UK GAAP, it has capitalised and is amortising over their estimated useful economic lives. Under US GAAP, intangible assets are written off in the period incurred where their lives are indeterminate. On disposals profits will differ from UK GAAP due to amortisation of goodwill that has been recorded for US GAAP.

(b) Acquisition accounting

The treatment of certain aspects of the acquisition of companies is different between US GAAP and UK GAAP. The 1996 adjustment relates to inventory which under UK GAAP is recognised at replacement cost. Under US GAAP inventory is recognised at selling price less an allowance for selling expenses. The 1996 adjustment also leads to a difference in the calculation of goodwill between UK GAAP and US GAAP.

(c) Deferred taxation

Under UK GAAP, deferred tax is only accounted for to the extent that taxation liabilities on benefits will crystallise in the forseeable future. Under US GAAP, deferred tax is accounted for on all timing differences and a valuation allowance is established in respect of those deferred tax assets where it is more likely that some portion will not be realised.

(d) Pensions

The methods for accounting for pension costs differ between UK GAAP and US GAAP.

(e) Compensation expense

This represents the difference between the market value and exercise price of share options issued to employees under the Sharesave Scheme during the year. Whilst this gain is unrealised under UK GAAP, US GAAP requires that the imputed gain to the individual employees be treated as a compensation expense of the Company.

The Company has a Long Term Incentive Share Plan and contributed £0.6m (1996: £1.2m) to independent trustees who manage the plan. Under UK GAAP the Company records the contributions as an asset which is amortised over three years. Under US GAAP a charge to income (1997: £0.6m, 1996 : £1.2m) is recorded at the time of the contribution.

(f) Restructuring

Under US GAAP some of the costs incurred in restructuring the business are expensed in the period in which they occur.

(g) Dividends

Under UK GAAP, final ordinary dividends are provided for in the accounts in the year in respect of which they are recommended by the Board for approval by shareholders. Under US GAAP such dividends are not provided for until the period they are declared by the Directors.

(h) Fixed asset investments

Under UK GAAP, fixed asset investments are stated at cost less provision for permanent diminution in value. Under US GAAP, fixed asset investments are stated at market value and unrealised gains/losses are accounted for in shareholders' equity.

Notice of Annual General Meeting

Notice is hereby given that the Eleventh Annual General Meeting of Medeva PLC will be held at the Royal Institute of British Architects, 66 Portland Place, London, W1N 4AD on Thursday 23rd April 1998 at 11.00 am, to transact the following business:

ORDINARY BUSINESS

Accounts

1 To receive and adopt the Accounts, the Report of the Directors and the Auditors' Report for the year ended 31st December 1997.

Dividend

2 To declare payable on 22nd May 1998 the dividend of 3.6p per Ordinary Share as recommended in the Report of the Directors to holders of Ordinary Shares registered at the close of business on 27th February 1998.

Election of the Directors

3 To re-elect J W Baker as a Director of the Company.

4 To re-elect G H Schulze as a Director of the Company.

5 To re-elect G Watts as a Director of the Company.

6 To elect D M Williams as a Director of the Company, having been appointed to the Board since the last Annual General Meeting.

Auditors

7 To re-appoint KPMG Audit Plc, Chartered Accountants, as auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions of which resolution 8 will be proposed as an Ordinary Resolution and resolutions 9 and 10 as Special Resolutions:

Authority to Allot

8 That the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of £8,998,600 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company or 15 months after the date of the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

Disapplication of Pre-emption Rights

9 That the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) pursuant to the authority conferred by Resolution 8 above as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that this power shall be limited:

(i) to the allotment of equity securities where such securities have been offered (whether by way of rights issue, open offer or otherwise) to the holders of Ordinary Shares in proportion (as nearly as may be) to their existing holdings of Ordinary Shares but subject to such exclusions or other arrangements in connection with the offer as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems under the laws of, or requirements of any regulatory body or any stock exchange in, any territory, or by virtue of shares being represented by depositary receipts, or any other matter whatsoever; and

Notice of Annual General Meeting

CONTINUED

(ii) to the allotment for cash (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £1,780,800.

This power shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months after the date of the passing of this resolution, whichever is the earlier, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Purchase of Own Shares

10 That the Company be unconditionally and generally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary Shares of 10 pence each in its capital subject as follows:

(i) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 35,600,000;

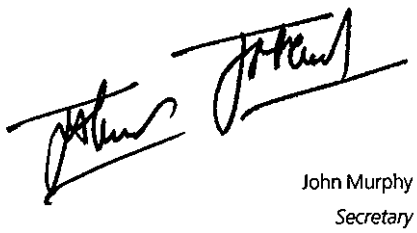
(ii) the minimum price which may be paid for each Ordinary Share is 10 pence;

(iii) the maximum price which may be paid for each Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceeding the day on which the Ordinary Share is purchased;

(iv) this authority shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) at the conclusion of the next Annual General Meeting of the Company or 18 months after the date of the passing of this resolution, whichever is earlier; and

(v) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority and may make a purchase in pursuance of any such contract as if the authority conferred hereby had not expired.

By Order of the Board



John Murphy
Secretary

Registered Office:
10 St James's Street
London, SW1A 1EF

10th March 1998

Notes:

(i) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his or her behalf. A proxy need not be a member. A form of proxy is enclosed.

(ii) The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the office of the Company's Registrars, IRG plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1BR not later than 11.00 am on Tuesday 21st April 1998.

(iii) Copies of the Directors' Service Contracts with the Company (or any of its subsidiaries) and the Register of Interests of Directors (and their families) in the share capital of the Company are available for inspection at the registered office of the Company, during normal business hours on any weekday (public holidays, Saturdays and Sundays excluded) and will be available for inspection at the Royal Institute of British Architects, 66 Portland Place, London, W1N 4AD on Thursday 23rd April 1998 from 10.45 am until the conclusion of the Meeting.

Financial Calendar

11th February 1998	Announcement of results and proposed final dividend for 1997
23rd February 1998	Shares become ex-dividend (ADRs 25th February 1998)
23rd April 1998	1998 Annual General Meeting
22nd May 1998	Payment of final dividend for 1997 (ADRs 2nd June 1998)
July 1998	Announcement of interim results and interim dividend for 1998
August 1998	Shares become ex-dividend
October 1998	Payment of interim dividend for 1998
February 1999	Announcement of results and proposed final dividend for 1998
April 1999	Annual General Meeting

Mentioned in this annual report are:
Asacol, Arilvax, Atrohist, Bettamousse, Clickhaler, Cocois, Colpermin, Coracten, Crystacide, Deconsal, Delsym, Erythelan, Fluvirin, Hepagene, Humibid, Imurel, Ionamin, Micanol, Normax, Nécyrane, Pediapred, Pertactin, Plurexid, Purepa, Quotane, Rotramin, Semprex-D, Septrin, Spacehaler, Syn-Rx, Théralène, Trivax, Trentadil, Tussionex, Zaroxolyn.

These are all trademarks or tradenames owned by or licensed to Medeva PLC and its subsidiary undertakings in certain territories.

Also mentioned are:
Infanrix and Engerix-B (trademarks of SmithKline Beecham)
Recombivax HB (a trademark of Merck)
Seldane (a trademark of Hoechst-Marion Roussel)

Professional Advisers

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Chartered Accountants
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London, EC2P 2HT

PRINCIPAL BANKERS
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