

Annual Report and Accounts 1985-1986

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Wellcome plc
Annual
Report 1986





Wellcome is an international group devoted to the development and marketing of products for the promotion of human and animal health. Its origins go back more than a hundred years. Today, it operates in all the world's major pharmaceutical markets and has manufacturing operations in more than 20 countries. Worldwide the group employs some 19,000 people, of whom 18% are engaged in the group's research and development establishments.



Wellcome

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Financial highlights

	1986 £m	1985 £m
Turnover	1,005.4	1,003.6
Research and development expenditure	132.5	122.0
Profit on ordinary activities before taxation	125.3	121.7
Profit on ordinary activities attributable to shareholders	63.9	59.6
Distributions to shareholders	17.4	16.8
Profit retained for the financial year	46.5	42.8
Earnings per ordinary share (net basis)	7.8p	7.5p
Shareholders' funds	513.6	438.6
Net indebtedness	46.1	71.8
Capital expenditure	88.3	73.7
Average number of employees	18,764	18,342
Average exchange rate - US\$	1.46	1.23

Board of Directors

Chairman and Chief Executive

A J Shepperd BSc (Econ)

Executive Directors

M R Brookman FCA
H Copestick MA, CA
Dr R M Cresswell BSc, PhD, FRSE

R C Devereux MA, CEng, MIMechE
D Godfrey BPharm, FPS
T E Haigler Jnr BS, JD, CPA
P T G Hobbs MA, FIPM
C Matons LLB
Dr H J Schaeffer PhD

Group finance director
Group corporate planning director
Research and development co-ordination director
Operations director
Operations director
Operations director
Group personnel director
Operations director
Vice-president research, development and medical – Burroughs Wellcome Co., USA

Non-executive Directors

Sir Michael Butler GCMG
A W Clausen BA, LLB
Dr A T James CBE, FRS, FIBiol, BSc, PhD
J F Lever QC, MA
Sir Alastair Pilkington FRS

Secretary

H Mitchell BA, Barrister, FCIS

Registered office

The Wellcome Building
PO Box 129, 183 Euston Road
London NW1 2BP
Telephone: 01-387 4477
Telex: 8951486

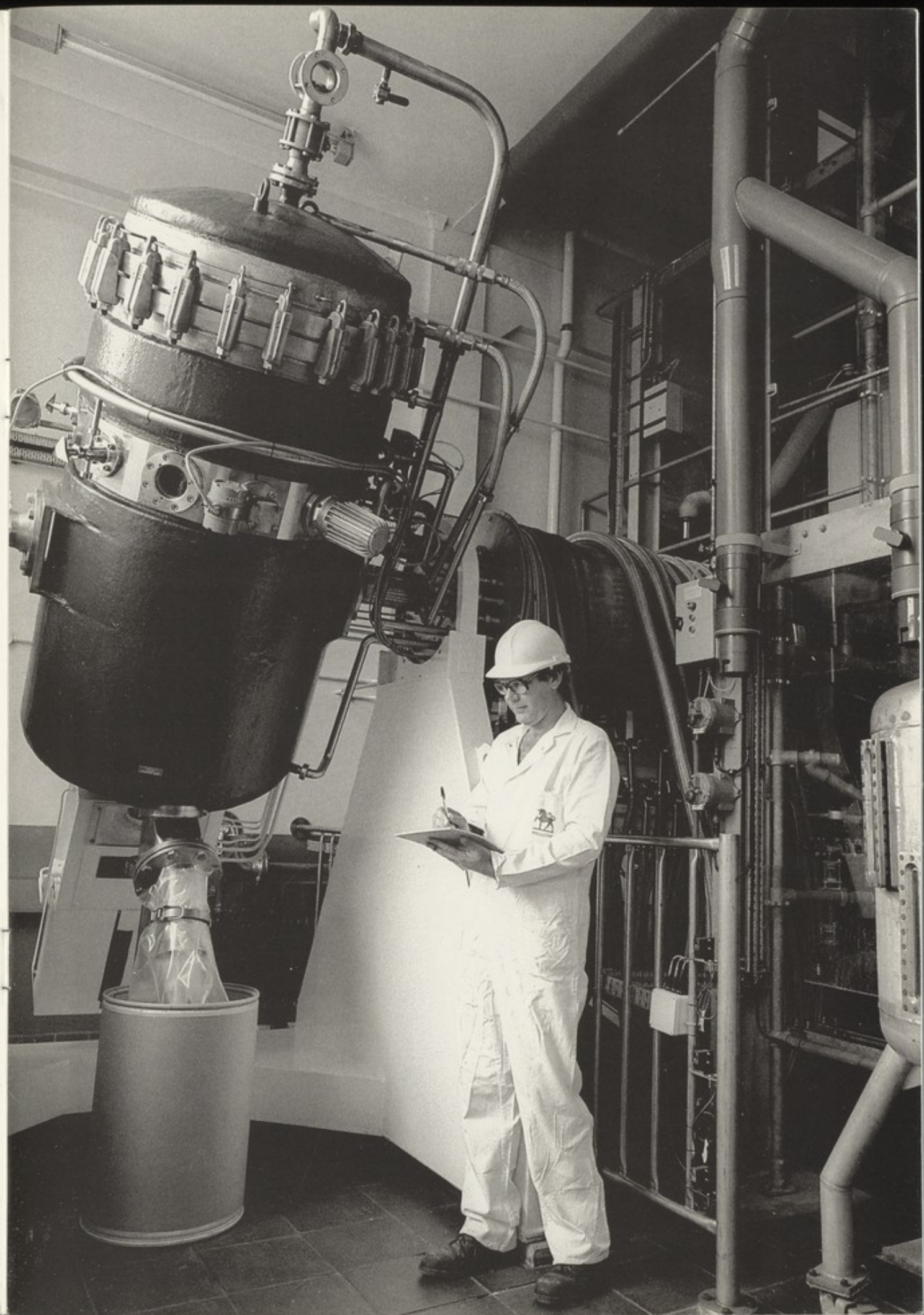
Auditors

Touche Ross & Co

Registrars

Ravensbourne Registration Services Limited
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

OPPOSITE:
*A multiprocessor used in
chemical manufacture at the
Wellcome production centre,
Dartford, Kent.*



Chairman's statement



*Mr A J Shepperd
Chairman and
Chief Executive*

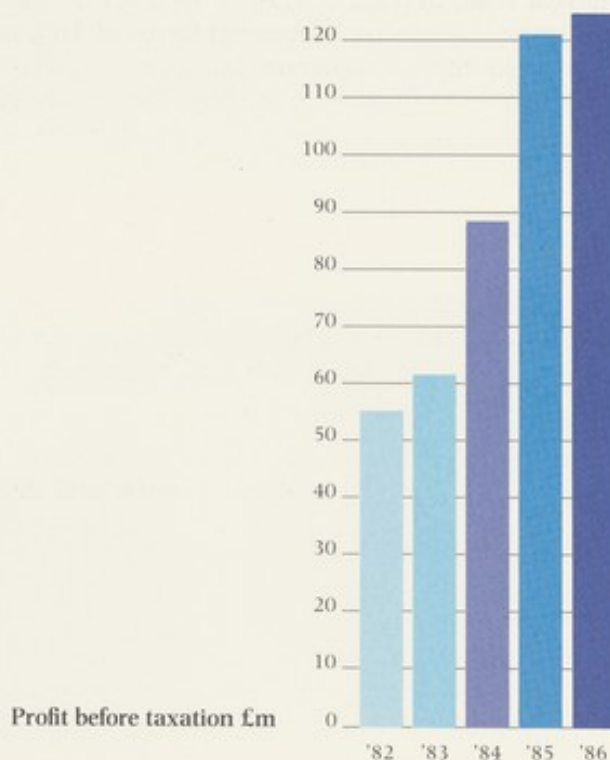
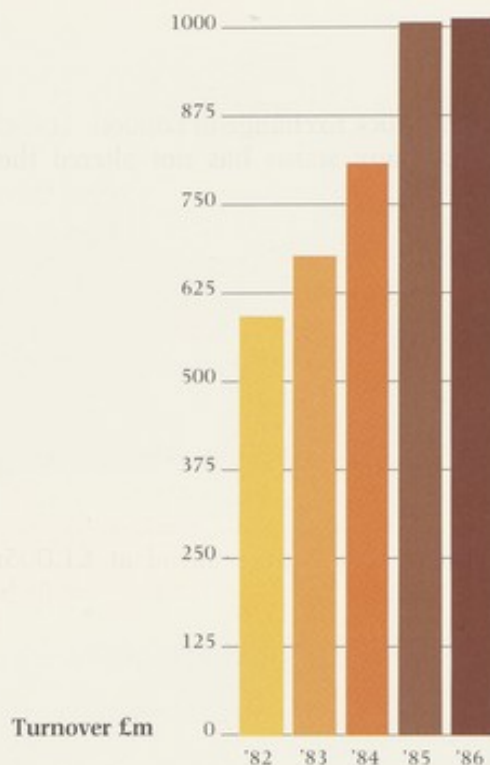
Group results

The major event of the past year for Wellcome was its admission to a listing on The Stock Exchange in London. This change from private to public company status has not altered the internal business management of the group, which continues to be run on a commercial basis but has now made details of our activities of direct interest to a much broader range of people. We now have more than 50,000 shareholders, many of them private investors who share our hopes for the future of the group. Among those private investors, I am delighted to add, are many of our own employees.

Our prospectus, issued in January 1986 pointed out that the results could be adversely affected by the weakening of certain currencies, notably the US dollar, against sterling. In fact, in sterling terms, group turnover was slightly ahead at £1,005m, compared with £1,004m for the previous year. Group profit before taxation was £125.3m, an increase of 3%. The overall group profit margin to turnover was 12.5% against the previous year's figure of 12.1%.

As in recent years, nearly 90% of our turnover was outside the UK. The trading results of our overseas companies are translated at average rates of exchange during the year. With 43% of group turnover and 67% of group trading profit arising in North America, primarily the US, the movements in the US dollar remain particularly important to the group. The US dollar weakened in relation to sterling during the year to an average of 1.46 to the £ compared with 1.23 to the £ last year, an adverse movement for us of 16% which was not offset by the strengthening of most European currencies and also of the Japanese yen in relation to sterling. The movements in exchange rates are estimated to have adversely affected the comparison between the two years by some £110m in respect of turnover and some £20m in respect of profit before taxation. If the 1985 figures are re-expressed at this year's exchange rates, then this year's turnover and profit before taxation figures show increases of 12% and 23% respectively. This growth in group turnover was overseas and notably in the USA, continental Europe and Japan. The continued introduction of ZOVIRAX in the latter two markets particularly assisted this growth.

This increase in group turnover resulted in the profit growth shown in spite of a higher rate of spend on research and development expenditure.



% as compared with 54% in the
islation currently being undertaken
uction in our tax charge. The effect
here should be greater benefits in
ments had applied in 1986 we esti-
would have been £8m lower to give

time of the flotation after expenses
iderable capital expenditure during
at the year end were £46.1m, a
.7m. Net borrowings now represent
pared with 16% for the previous
ontinue in a strong position.

0m Eurosterling 9.75% bond issue
ch £10m was received during the
alise our debt portfolio by replacing
term expiry dates, by a longer-term

mme has continued according to
£88m, compared to £74m in the
r outstanding capital commitments

ne year, £31m was spent in the UK,
ne major chemical manufacturing
t at Dartford which should be com-

£35m particularly directed towards
l production facilities.

ceutical factory in France to replace
is proceeding well and it should be

our new pharmaceutical factory at

luring the year was £132m, repre-
. As anticipated in our prospectus,
the previous year's percentage and
of compounds moving from the
airing more expensive development



*Mr A J Shepperd
Chairman and
Chief Executive*

Group results



The new chemical manufacturing plant building at Greenville, North Carolina, USA.

The recently completed pharmaceutical factory at Cabarita, near Sydney, Australia.



An interior view of the new Cabarita factory.



The tax charge this year is 51% as compared with 54% in the previous year. Changes in tax legislation currently being undertaken in the US should lead to some reduction in our tax charge. The effect will be minimal in 1987 but there should be greater benefits in 1988. If the new US tax arrangements had applied in 1986 we estimate that the group tax charge would have been £8m lower to give a tax charge of 45%.

Finance The issue of new shares at the time of the flotation after expenses raised £45.6m so in spite of considerable capital expenditure during the year group net borrowings at the year end were £46.1m, a reduction during the year of £25.7m. Net borrowings now represent 9% of shareholders' funds, compared with 16% for the previous year. Accordingly our finances continue in a strong position.

During the year we made a £50m Eurosterling 9.75% bond issue which matures in 2006 of which £10m was received during the year. This will enable us to rationalise our debt portfolio by replacing some loans with relatively short-term expiry dates, by a longer-term loan at a fixed interest rate.

Capital expenditure Our capital expenditure programme has continued according to plan. During the year we spent £88m, compared to £74m in the previous year. At the year end our outstanding capital commitments amounted to £96m.

Of the total expenditure during the year, £31m was spent in the UK, the largest amount being on the major chemical manufacturing development and production unit at Dartford which should be completed in 1987.

The expenditure in the USA was £35m particularly directed towards our chemical and pharmaceutical production facilities.

Construction of the new pharmaceutical factory in France to replace our existing facilities in Monaco is proceeding well and it should be commissioned during 1987.

During the year, we completed our new pharmaceutical factory at Cabarita, near Sydney, Australia.

Research and development Our total expenditure on R & D during the year was £132m, representing 13.2% of group turnover. As anticipated in our prospectus, this was an addition of 1% over the previous year's percentage and reflects the increased number of compounds moving from the research stage and therefore requiring more expensive development resources.

One research project which has been the subject of widespread comment is that relating to azidothymidine, an antiviral compound with potential for the treatment of acquired immune deficiency syndrome (AIDS). During the year, we completed a phase I clinical study on this compound in the USA. This established tolerance of patients to the drug, and enabled us to enter a phase II six-months dosing trial. We had expected the results of this to be available early in 1987 and to provide the first scientifically valid evidence on the efficacy of this compound in AIDS patients. However, in September 1986, the independent review body established under the auspices of the US Public Health Service, a US government agency, to monitor this trial concluded that the trial was showing evidence of enhanced survival rates among the patients receiving the drug. It accordingly recommended, on ethical grounds, that we abandon the trial in its placebo-controlled form and provide azidothymidine to all participants in the trial, which we are now doing. We are in the course of applying for a licence to market azidothymidine in the USA. Clinical trials are commencing in other countries including the UK, France and Germany. While we hope that the drug will prove effective in the treatment of this new disease, it is important to keep in mind that much remains to be discovered not only about AIDS but also about the long-term effects of azidothymidine. We have just agreed to spend some £17m on additional general chemical plant in the UK and USA in order to enhance our production facilities for this drug. This is an acceleration of our plans for expanding these facilities.

During 1986, a scientific director was appointed to the Biomedical Research Centre, the new research facility which we are establishing in western Canada jointly with the Terry Fox Medical Research Foundation. This centre will study complex natural molecules which may have therapeutic uses and which could be manufactured by the techniques of biotechnology.

Construction started last summer and the centre is expected to be opened towards the end of 1987.

We have continued to suffer from the illegal activities of certain of those who claim to be interested in animal rights. We welcome the recent enactment in the UK of the Animals (Scientific Procedures) Act 1986, which introduces a modern system of licensing of animal experiments.

Operations – human healthcare

Sales of the group's antiviral product, ZOVIRAX, have continued to increase. This year, global sales reached £105m, a 69% increase over the previous year's figure of £62m. ZOVIRAX has this year become our largest selling product in turnover terms.



The Stock Exchange in London on 14 February 1986, the first day of trading in the shares of Wellcome plc.

Mr A J Shepperd (Chairman) presented King Juan Carlos of Spain with a copy of the Wellcome centenary history in September 1985 on the occasion of the Wellcome board's strategic planning meeting in Madrid.



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there is further sales growth to
RAX has been on the market only
two formulations. We hope to get
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out the future of ZOVIRAX relates to
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lications to authorities in the UK
es to extend the use of oral ZOVIRAX
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the Department of Pharmacy at
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profits than was once the case. This
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FED and SUDAFED, retained their lead
against substantially more aggress-
ore expect higher marketing costs.
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OTC business overall grew by 16%
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s advertised for the first time on
ble beneficial results.

Wellcome plc

The crystal of azidothymidine, a substance developed by Burroughs Wellcome Co in the USA and now under clinical trial for treatment of patients infected by the AIDS virus.



General Sir Hugh Beach, HM Vice Lord-Lieutenant for Greater London, presents The Queen's Award for Technological Achievement in July 1986 to Dr Roy Hughes, on behalf of the Wellcome Research Laboratories, for development with the University of Strathclyde of the new muscle relaxant Tracrium.



Operations – human healthcare

Although this product has gradually become available in most markets over the last five years, there is further sales growth to come. In Japan, for example, ZOVIRAX has been on the market only since the autumn of 1985 in but two formulations. We hope to get further formulations approved there within the next two to three years.

A further reason for optimism about the future of ZOVIRAX relates to its possible use in the treatment of shingles. The oral form has proved to be better than first envisaged for this indication and we have now submitted licence applications to authorities in the UK and some other European countries to extend the use of oral ZOVIRAX to treat shingles, along with the introduction of higher strength tablets. Submissions are also planned in the USA and in due course in Japan.

Sales of our muscle-relaxing agent, TRACRIUM, continued to grow with an increase of 18% in the US sales compared with the previous year. Total sales for the year were £32m. The novel nature of this compound was recognised independently by two awards. In the UK, the Wellcome Research Laboratories shared the Queen's Award for Technological Achievement with the Department of Pharmacy at Strathclyde University for joint work on this product and in Belgium we received the Galenus award. Both of these awards had previously been won by ZOVIRAX.



Other established major products, our antibacterial, SEPTIN and our anti-gout preparations, ZYLORIC, have continued to sell well. However, in the face of generic competition they now make less of a contribution to group turnover and profits than was once the case. This normal trend in the commercial life of a drug is expected to continue.

Our cough and cold products, ACTIFED and SUDAFED, retained their lead positions in the US market, but against substantially more aggressive competition and we can therefore expect higher marketing costs. The US market for over-the-counter products has also recently been affected by a number of tampering incidents. Although these cases have not involved Wellcome products, we have introduced new measures to increase product security.

Despite these conditions our US OTC business overall grew by 16% in dollar terms. SUDAFED had significant growth of nearly 30%. A major success in the US OTC market during the year was NEOSPORIN, our topical antibiotic, which was advertised for the first time on national television with considerable beneficial results.

In the UK, the adverse effects on the sales of products covered by the government's "limited list" have been mitigated to some extent by active promotion of ACTIFED as an over-the-counter product.

The following table shows the breakdown of our global human healthcare sales by product category.

		1986		1985
		£m	%	%
Human healthcare products	Cough and cold preparations	135	16	17
	Anti-virals	105	12	7
	Systemic antibacterials ..	89	11	12
	Topical anti-infectives ..	81	10	10
	Anti-gout preparations ..	73	8	10
	Cardiovascular treatments	66	8	7
	Muscle relaxants	38	4	5
	Analgesics	25	3	4
	Diagnostics	22	3	2
	Vaccines	9	1	1
	Other pharmaceuticals ..	103	12	13
	Other non-pharmaceuticals	97	12	12
	Total human healthcare sales	843	100	100

The deep cell culture technology which was developed at Beckenham by our biotechnology division, Wellcome Biotech, and is used to produce WELLFERON continues to attract interest. We have licensed this technology to Sumitomo Pharmaceuticals in Japan who will shortly commission a plant built in collaboration with us. We have recently entered into a new joint venture with Genetics Institute Inc., a leading US biotechnology company. The jointly owned company, WelGen Manufacturing Inc. which we have established, will be building a plant in the north-eastern United States. This plant will be one of the world's largest manufacturing facilities for human pharmaceutical products based on genetic engineering and biotechnology and is expected to be completed in 1989. Our requirements for the US market for biotechnology products, including tissue plasminogen activator (tPA) and our natural lymphoblastoid interferon, WELLFERON, will be manufactured at this plant.

A great advantage of the deep cell culture technology is its versatility. With its aid our development work on tPA is being carried out in the Beckenham plant. This supplies material for clinical trials which have commenced recently in the USA to evaluate tPA as an anti-thrombotic agent.

During the year, we received approval in the USA and launched NIX, a creme rinse preparation for the treatment of head lice infestation.

OPPOSITE:
Monitoring a manufacturing
process in the Sterile Products
Division at Greenville, North
Carolina, USA.



The other product which we had hoped to launch in the USA this year was our antidepressant WELLBUTRIN for treatment of cases of depression which have resisted more conventional therapies. However, one trial has shown adverse results in patients with a rare condition and accordingly the launch has been suspended pending further discussions with the US FDA.

A problem prevalent throughout the pharmaceutical industry is that of patent lifetime. In the UK, some respite has been promised from one of the more insidious legislative provisions, the so-called "licence of right", which enables competitors to manufacture certain of the products of other people's inventiveness patented before 1 June 1978 during the final four years of patent life. The government indicated last April that it plans to do away with this. We welcome their intention but regret that no action has yet been taken to implement this change.

Our diagnostics business, although small in comparison to our main healthcare business, has continued to grow. The AIDS antibody test developed by Wellcome Diagnostics has an important position in the UK market for testing blood donations and has led to a doubling of turnover for our diagnostics products in the UK. This test has been introduced in a number of overseas territories and we are pursuing actively approval for this product in the USA.

WELLCOZYME HBsAg (a test for hepatitis B) was also launched during the year and is making good progress. Other new products include STAPHAUREX (a rapid test to identify *Staphylococcus aureus*) and new additions to the WELLCOGEN range of rapid tests to detect bacterial meningitis.

The group's pesticides business represents a significant force in the non-agricultural sectors of the world insecticide market. Wellcome's broad pesticide interests mean that the company is involved not only in the important public health pest control markets throughout much of the world, but also in protecting a wide range of materials from insect attack, such as stored cereals, wood, wool, tobacco, flour and other foodstuffs.

Until recently, our pesticides business in the Americas has been limited. In September 1986 we acquired the assets of Fairfield American Corporation in order to develop a base for our industrial and public health pesticides operations in the USA. Fairfield has established marketing, sales and formulation development facilities and a strong market position in the industrial and public health sectors through its PYRENONE range of products, based on natural pyrethrum. Although this is not a major acquisition Fairfield represents an initial base in the USA.

*OPPOSITE:
The vials washing area at the
production plant of Wellcome
Italia at Pomezia, near Rome.*

NON RIMUOVERE LE
PROTEZIONI E I DISPOSITIVI
DI SICUREZZA

E' VIETATO RIPARARE,
OLIARE, REGISTRARE, ELLIPSE
ORGANI IN MOTO



Overall the balance of our business has changed slightly, with faster growth in Japan and western Europe than in the USA. This is primarily due to the increasing number of new launches for ZOVIRAX in these territories. In western Europe, our growth rate for turnover at constant exchange rates exceeded 20% while that in Japan almost doubled. The good performance in continental Europe compared with 1984/85 was helped by the consolidation of a full year's results for Gayoso Wellcome, our Spanish company, and the weakening of sterling against all major European currencies. The dramatic increase in Japanese sales is due almost entirely to sales of ZOVIRAX which is providing a base from which we can increase the growth of our Japanese company.

As a global company we operate in many territories where turbulent trading conditions and currency movements are particularly significant. In the Middle East and North Africa, where the group is strongly established, our business operations have suffered because of restricted revenues in the OPEC territories. The pace of overall economic development slowed significantly in South East Asia. Nevertheless this area offers significant potential growth in the medium term.

Operations – animal healthcare

Coopers Animal Health was formed in October 1984 by a merger of the international animal health businesses of Wellcome and ICI. Coopers has completed its second year of trading and has made considerable progress in establishing its business in many countries of the world. There are now 25 individual operating units trading in well over 100 different countries. All but 3 of the operating units are trading profitably. This is particularly encouraging bearing in mind the continuing depressed state of the animal health market; the resulting strong competition in many market sectors, and the considerable weakening of the US dollar. The problems of farmers in the world's major agricultural areas, notably the USA, Australia and New Zealand have continued and the depression in agriculture obviously affects the demand for Coopers' products.

Included in the group's results is a pre-tax loss for Coopers of £9.7m compared with £8.2m last year. These figures include £4.2m (last year £6.4m) for restructuring and start up costs and are of course before any allocation to minority interests.

Following reviews of structure and strategy in the early part of 1986, action has been taken to reduce operating costs. In the main, this involved restructuring R&D and overhead activities in the UK and general cost reduction in the USA and New Zealand.

*OPPOSITE:
A sachetting machine for
ALCOPAR granules, used for
treatment of hookworm, at
Ikeja, Nigeria.*



In the UK alone, 19 new products have been introduced since formation. Coopers expect to continue its path of development, and further new product introductions are planned in many places during the coming months. In addition, major new development projects are continuing which provide interesting prospects for the longer term.

Access to the research of both Wellcome and ICI provides Coopers with a unique resource. Coopers continues to develop relationships with universities and other scientific institutes, government bodies and commercial companies. This can be expected to enhance the opportunities for Coopers to bring new products to its range, designed to meet the needs of livestock farmers and pet owners.

Community activities

For many years, Wellcome has taken a close interest in the communities in which it is located and, in recent years, the problem of high unemployment in the UK has been of particular concern to the Board. In 1982 we allocated £500,000 to support job-creation and youth training projects aimed at alleviating unemployment, particularly in areas where we have operations. This activity, which we called "Operation Help", has this year been extended with further funding of £200,000 p.a. To ensure that we use this money in the most all round beneficial manner, I asked Sir Alastair Pilkington, one of our non-executive directors, to provide overall guidance to Operation Help. He has very wide experience in the field of community economic initiatives. In addition to applying money to these problems, we believe that we can contribute as much through the application of the skills of Wellcome employees, through full or part-time secondment and provision of expertise. So that we can deploy these resources effectively, we have appointed a community relations manager. The company was one of the early members of The London Enterprise Agency whose work has helped to create over 10,000 new jobs since 1979 through assisting the start-up and development of small businesses. Overall, local enterprise agencies supported by Wellcome are currently helping to create new jobs at a rate of over 2,000 a year.

We have registered with the disaster relief unit of the UK Overseas Development Administration as a source of high activity public health insecticides and technical advice to be called upon in the event of overseas disasters.

Our major contribution to the communities in which we operate must remain that of an enlightened employer. We continue to study best practice throughout the world, in order to ensure that Wellcome remains a company which will attract and keep good employees at all levels of the organisation.

*OPPOSITE:
Preparing the computer
controlled 500 gallon reactor
for charging in the new
chemical manufacturing
facility at Greenville,
North Carolina, USA.*



The board

During the year we welcomed two new executives from our US subsidiary, Burroughs Wellcome Co., to the main board. Theodore Haigler Jnr. became President and Chief Executive Officer at Burroughs Wellcome in January 1986 and subsequently joined the board of Wellcome plc. He previously held the position of vice-president finance having joined Burroughs Wellcome Co. in 1970. Towards the end of the year, we added further scientific strength to our board by the appointment of Dr Howard Schaeffer. Dr Schaeffer has had a distinguished career in both academic life and with Burroughs Wellcome Co. where he is vice-president for research, development and medical. It was Dr Schaeffer who, in 1974, synthesised the molecule which became the active ingredient of ZOVIRAX.

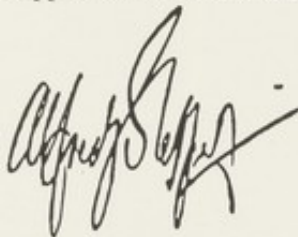
We also welcomed to the board Sir Michael Butler. He joined us as a non-executive director, following a distinguished career in the British Diplomatic Service, most recently as ambassador and permanent UK representative to the European Communities in Brussels. In September, we made a further addition to the skills and wisdom of our non-executive directors by the appointment of Mr A. W. (Tom) Clausen, who has had a distinguished career in banking. He was until recently President of the World Bank and has recently been appointed President and Chief Executive Officer of Bank of America Corporation for the second time.

These new appointments significantly strengthen the parent board.

Conclusion

It has been an eventful year, not least because of the flotation and the resulting public awareness of the group, and one in which the group has made considerable progress. We are well set to face the year ahead which I view with continued optimism in the knowledge that the group will draw on the great strength of its 19,000 employees throughout the world. I thank them for their efforts during the last year. We have all been encouraged by the support shown to us by our new shareholders following the flotation.

Finally, I note that the Wellcome Trust, which continues to hold just under 75% of the company's ordinary shares, is celebrating its fiftieth anniversary this year. I thank the trustees for the continued support and wish them every success for their future endeavours.



A. J. Shepperd
Chairman

OPPOSITE:
*Clinical trials on a volunteer
patient at the Wellcome
Research Laboratories,
Beckenham, Kent.*



Directors' report

The directors of Wellcome plc present their annual report for the financial year ended 30 August 1986.

Public listing

The company was registered as a private limited company on 6 November 1985 under the name Wellcome Pharmaceuticals Limited with the principal object of acquiring the Wellcome Group of Companies.

On 23 December 1985 the Trustees of the Will of Sir Henry Wellcome (The Wellcome Trust) became the beneficial owners of all the issued ordinary shares of the company in exchange for the transfer to the company of the whole of the issued share capital of The Wellcome Foundation Limited.

The company was re-registered as a public limited company under the name Wellcome plc on 2 January 1986.

The authorised and issued share capital immediately prior to the flotation was 1,040 million and 800 million ordinary shares of 25p each respectively.

On 29 January 1986, 210.8 million ordinary shares of 25p each were offered for sale to the public at 120p per share payable in full on application.

Of these shares, 168 million were offered for sale by The Wellcome Trust and 42.8 million were new shares offered by the company. All shares were allotted, the ordinary shares were admitted to The Stock Exchange Official List and dealings began on 14 February 1986.

Additional information relating to the corporate reorganisation and the company's share capital and reserves is shown in notes 1 & 18 to the financial statements.

Directors

The present directors are listed on page 4. The first directors appointed by the shareholders at the time of formation of the company on 6 November 1985 were the Chairman and Chief Executive Mr A J Shepperd, Messrs Brookman, Copestick, Devereux and Hobbs and Dr Cresswell. The following directors were subsequently appointed to the board on the dates shown:

14 November 1985	Mr D Godfrey, Dr A T James, Mr J F Lever, Mr C Matons, Sir Alastair Pilkington, Mr W M Sullivan
12 January 1986	Sir Michael Butler
30 April 1986	Mr T E Haigler Jnr
31 July 1986	Dr H J Schaeffer
19 September 1986	Mr A W Clausen

Mr W M Sullivan resigned from the board on 13 January 1986.

In accordance with the company's articles of association, Mr Brookman, Mr Copestick and Dr Cresswell retire by rotation and offer themselves for re-election. Mr Haigler, Dr Schaeffer, Sir Michael Butler and Mr Clausen having been appointed by the board after 23 December 1985, retire at the annual general meeting and offer themselves for re-election.

Of the directors offering themselves for re-election, Mr Brookman, Mr Copestick and Dr Cresswell each have contracts of service with Wellcome plc and The Wellcome Foundation Limited subject to two years' notice of termination by the company and one year's notice by the director. Mr Haigler has a contract of service with Burroughs Wellcome Co., the group's US subsidiary, with similar notice provisions.

Directors' interests

Interests, as defined by the Companies Act 1985, of the directors in the shares of the company as at 30 August 1986 were as follows:

	Number of ordinary shares of 25p beneficially held	Number of ordinary shares of 25p in respect of which the director holds an option
Mr A J Shepperd	8,499	125,174
Mr M R Brookman	8,499	67,204
Sir Michael Butler	—	—
Mr A W Clausen	—	—
Mr H Copestick	6,933	60,424
Dr R M Cresswell	8,499	73,063
Mr R C Devereux	5,166	79,884
Mr D Godfrey	4,166	78,799
Mr T E Haigler Jnr	8,416	118,264
Mr P T G Hobbs	4,166	58,236
Dr A T James	3,000	—
Mr J F Lever	8,333	—
Mr C Matons	8,499	73,899
Sir Alastair Pilkington	7,000	—
Dr H J Schaeffer	1,083	62,543

No director was interested in the company's shares at the date of incorporation. Mr Haigler and Dr Schaeffer had at their respective times of appointment the same interests as are shown above. No other director had an interest in the company's shares at the time of his appointment. There have been no changes since 30 August 1986 in directors' interests.

No director had any interest during the year in any significant contract with the company or any subsidiary.

Substantial share holdings

The Wellcome Trust holds 74.99% of the company's ordinary shares. The board is not aware of any other person who has a beneficial interest amounting to 5% or more of the issued ordinary shares.

Activities of the group

The principal activities of the group are the discovery, development, manufacture and sale of human and animal healthcare products. Human healthcare products include ethical and over-the-counter human medicines, diagnostic reagents, pesticides and hygiene products.

Chairman's statement

The Chairman's statement on pages 6 to 22 forms an integral part of the directors' report. In particular it contains the fair review of the development of the group required by the Companies Act 1985. It also contains an indication of likely future developments and of activities in research and development, both of which are also required by the Companies Act 1985.

Results and distributions

The group results and distributions for the financial year ended 30 August 1986 were as follows:

	£m	£m
Profit on ordinary activities attributable to shareholders		63.9
Distributions to The Wellcome Trust prior to the public listing:		
Under deed of covenant	(0.2)	
Interim dividend	(6.1)	(6.3)
Proposed final dividend		(11.1)
Profit retained for the financial year		46.5

The directors recommend a final dividend in respect of the financial year of 1.32p net per ordinary share. This is equivalent to the dividend of 1.86p per ordinary share inclusive of tax credit forecast in the prospectus.

Subject to the approval of the annual general meeting which will be held on 14 January 1987, the final dividend will be paid on 27 January 1987 to shareholders on the register on 4 December 1986.

Charitable and political donations

The Wellcome Foundation Limited was wholly owned by The Wellcome Trust, which is a registered charity, until its shares were acquired by the company on 23 December 1985. It made a distribution to The Wellcome Trust under a deed of covenant of £210,000 (after deducting taxation of £90,000) during the year. All deeds of covenant in favour of The Wellcome Trust automatically lapsed on 23 December 1985. Apart from this payment the group in Great Britain contributed £253,100 for charitable purposes. No political donations were made during the year.

Employment of disabled persons

It is the policy of group companies in the UK that disabled people, whether registered disabled or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. Employees who become disabled during their working life will be retained in employment wherever possible and will be given help with any necessary rehabilitation and retraining. The companies concerned are prepared to modify procedures or equipment, wherever this is practicable, so that full use can be made of an individual's ability.

Employee involvement

Group companies in the UK provide employees with information about the group's business performance on a regular basis. In the case of The Wellcome Foundation Limited, the principal employing company in the UK, the annual report is supplemented with a booklet and a video programme. These are discussed by all employees in their work groups. Senior functional managers then discuss the results for the year with all employee representatives. A half-year report is also circulated to employees.

During the year the group had to cope with the additional demands imposed by the need to keep its employees fully informed about the process of public listing and its impact on the group. This was done mainly through house journals. The company has for many years published an international house journal, now called *Wellcome Journal*, which has been redesigned and improved in quality. Local news-sheets for employees are published by group companies in a number of countries. *Tabloid*, the newspaper for UK employees has increased its frequency of publication from monthly to twice monthly. These publications continue to be developed in order to improve the effectiveness of the communication process.

Consultation with UK employees through representative bodies has been a feature of industrial relations within the group for many years. Work Improvement Groups have been established in appropriate areas as a forum for consultation and discussion on proposed changes in working practices.

Employee share schemes

As part of the arrangements for the offer for sale, employees throughout the group (so far as permitted by exchange control and other restrictions in some countries) were able to apply for preferential allotments of shares up to a maximum value of £10,000 each. 5,687 employees in the UK, USA and elsewhere representing 38% of those eligible to apply took advantage of this and were allotted 16.5 million shares. In the group generally, apart from the USA, there was also a Matching Offer Scheme whereby employees who applied for shares under it to the value of £100 were allotted shares to the value of £200 to be held initially in trust for them. In the USA for tax reasons there was simply a gift to employees of shares to the value of £100. Under these schemes 1.6 million shares were allotted to 9,754 employees.

Additionally the company adopted various permanent employee share option schemes for group employees in the UK, USA and in other countries where local exchange control and other legislation permitted their participation. Particulars of outstanding options under these schemes are set out in note 19 to the financial statements.

The company has by resolution in general meeting accepted certain limits on employee share option schemes, notably that the total number of shares which is made available under them in any ten-year period may not exceed 10% of the ordinary share capital of the company in issue at the time.

The notice of annual general meeting includes as an item of special business, a resolution authorising the directors to amend the rules of the Wellcome UK Sharesave Scheme and the Wellcome International Sharesave Scheme.

Allotment of securities

The notice of annual general meeting includes as an item of special business a special resolution authorising the directors to allot equity securities.

Close company status

The company is a close company under the provisions of the Income and Corporation Taxes Act 1970.

Auditors

The auditors, Touche Ross & Co, were appointed as auditors by the board as permitted by section 384(2) of the Companies Act 1985, on 14 November 1985 and have expressed their willingness to continue in office. A resolution for their re-appointment will be proposed at the annual general meeting.

By order of the board,

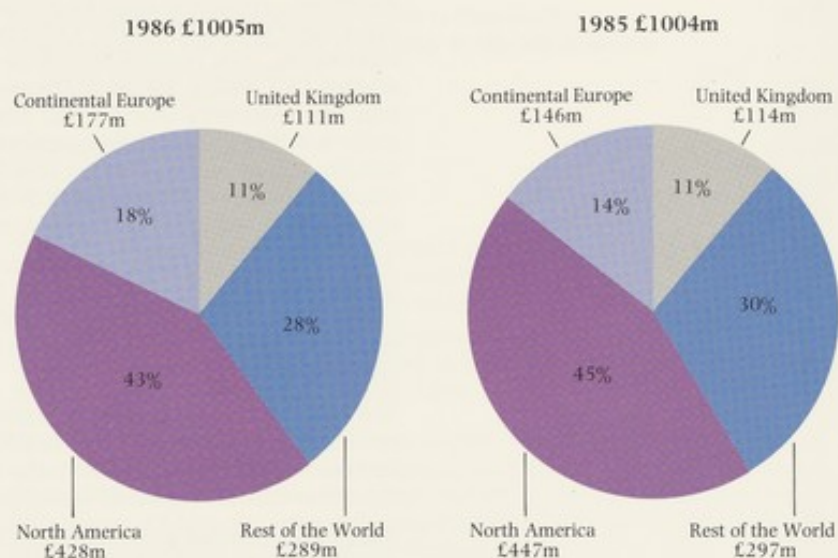
H Mitchell

Secretary

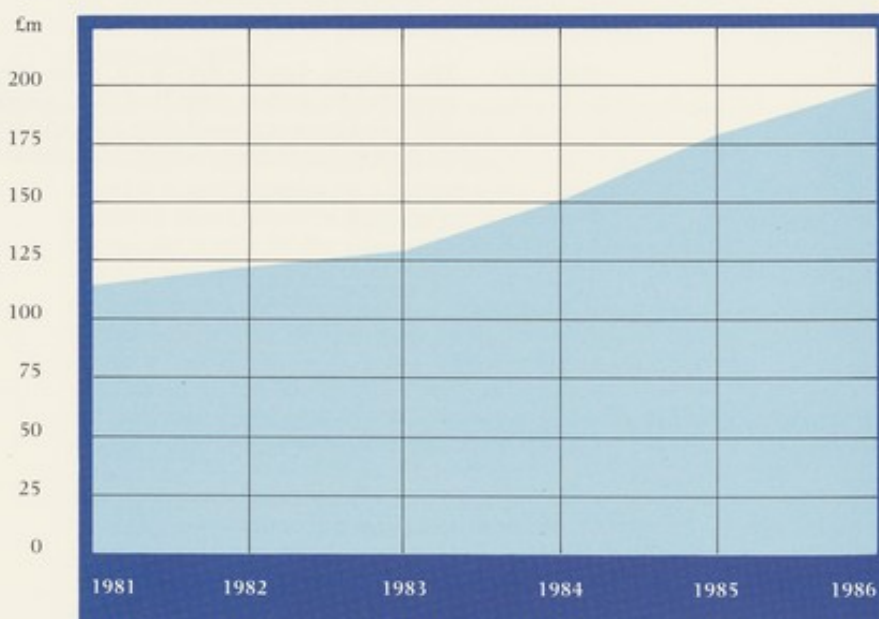
13 November 1986

Group turnover and UK exports

Analysis of turnover by location of customer



UK exports



Group profit and loss account

for the financial year ended 30 August 1986

	Note	1986 £m	1985 £m
Turnover	3	1,005.4	1,003.6
Operating costs	4	(872.2)	(872.5)
Trading profit	3	133.2	131.1
Net interest payable and similar items	5	(7.9)	(9.4)
Profit on ordinary activities before taxation		125.3	121.7
Tax on profit on ordinary activities	6	(64.0)	(66.0)
Profit on ordinary activities after taxation		61.3	55.7
Minority interests in losses		2.6	3.9
Profit on ordinary activities attributable to shareholders		63.9	59.6
Distributions to shareholders			
To The Wellcome Trust prior to the public listing:			
Under deed of covenant		(0.2)	(16.3)
Interim dividend		(6.1)	(0.5)
Proposed final dividend		(11.1)	—
		(17.4)	(16.8)
Profit retained for the financial year	18	46.5	42.8
Earnings per ordinary share (net basis)	7	7.8p	7.5p

Note 18 contains a statement of movement on reserves.

Group and parent company balance sheets

as at 30 August 1986

	Note	GROUP		PARENT COMPANY
		1986	1985	1986
		£m	£m	£m
Fixed assets				
Tangible assets	10	387.9	352.7	—
Investments	11	4.1	4.1	200.0
		<u>392.0</u>	<u>356.8</u>	<u>200.0</u>
Net current assets				
Stocks	12	175.6	181.9	—
Debtors	13	244.2	198.9	67.1
Investments	14	159.4	134.1	—
Cash at bank and in hand		15.4	19.7	—
		<u>594.6</u>	<u>534.6</u>	<u>67.1</u>
Creditors – amounts falling due one year or less:				
Loans and overdrafts	15	(56.8)	(61.0)	—
Other creditors	15	(175.8)	(148.4)	(11.5)
		<u>362.0</u>	<u>325.2</u>	<u>55.6</u>
Total assets less current liabilities		<u>754.0</u>	<u>682.0</u>	<u>255.6</u>
Creditors – amounts falling due after one year:				
Loans	16	(164.1)	(164.6)	(10.0)
Other creditors		(5.6)	(4.6)	—
Provisions for liabilities and charges	17	(36.2)	(36.5)	—
Minority interests		(34.5)	(37.7)	—
Total net assets		<u>513.6</u>	<u>438.6</u>	<u>245.6</u>
Capital and reserves	1 & 18			
Called up share capital		210.7	200.0	210.7
Share premium account		34.3	—	34.3
Other reserves		1.5	0.3	—
Profit and loss account		267.1	238.3	0.6
Shareholders' funds		<u>513.6</u>	<u>438.6</u>	<u>245.6</u>

A 1985 parent company balance sheet is not shown above as Wellcome plc was incorporated after the beginning of the current financial year.

The financial statements were approved by the board of directors on 13 November 1986

A J Shepperd *Chairman*

M R Brookman *Director*

Group source and application of funds

for the financial year ended 30 August 1986

	1986 £m	1985 £m
Operating items*		
Profit on ordinary activities before taxation	125.3	121.7
Depreciation	33.8	32.1
Purchase of tangible fixed assets	(88.3)	(74.4)
Disposal of tangible fixed assets	9.6	2.2
(Increase)/decrease in working capital	(16.9)	10.8
Taxation	(58.0)	(62.4)
Distributions to shareholders	(17.4)	(16.8)
Miscellaneous items including currency adjustments and minority interests	(10.6)	(12.5)
Funds (required)/generated by operations	(22.5)	0.7
Non-operating items*		
Sale of new ordinary shares	51.4	—
Flotation and Eurosterling bond issue costs	(6.9)	—
Assets contributed by minority shareholders	3.7	41.9
Acquisition of subsidiaries/businesses:		
Tangible fixed assets	—	(5.6)
Working capital	—	(10.6)
Goodwill	—	(3.8)
Decrease in net indebtedness	25.7	22.6
Represented by:		
Increase in investments and cash		
(Decrease)/increase in listed securities and certificates of deposit	(18.0)	38.1
Increase/(decrease) in short-term deposits and money at call	43.3	(12.7)
(Decrease)/increase in cash at bank and in hand	(4.3)	4.3
	21.0	29.7
Decrease/(increase) in loans and overdrafts		
Decrease in loans falling due after one year	0.5	2.4
Decrease/(increase) in loans and overdrafts falling due one year or less	4.2	(9.5)
	4.7	(7.1)
	25.7	22.6

*Items in brackets denote application of funds.

1 Corporate reorganisation

The company was registered as a private limited company on 6 November 1985 under the name Wellcome Pharmaceuticals Limited with the principal object of acquiring the whole of the issued share capital of The Wellcome Foundation Limited, hitherto the ultimate holding company of the Wellcome Group of Companies.

The initial authorised share capital was £100 million divided into ordinary shares of £1 each. On 23 December 1985 The Wellcome Trust became by allotment and otherwise the beneficial owner of all 100 million issued ordinary shares in exchange for the transfer to the company of the whole of the issued share capital of The Wellcome Foundation Limited.

The company was re-registered as a public limited company under the name Wellcome plc on 2 January 1986. Pursuant to a special resolution passed on 27 January 1986:

- (i) Each ordinary share of £1 was subdivided into four ordinary shares of 25p each
- (ii) The authorised share capital of the company was increased to £260 million by the creation of 640 million additional ordinary shares of 25p each
- (iii) The sum of £100 million standing to the credit of the company's revaluation reserve was applied in paying up in full, at par, 400 million ordinary shares of 25p each, such shares being allotted to shareholders *pro rata* to their then existing holdings of ordinary shares.

On 29 January 1986, 210.8 million ordinary shares of 25p each were offered for sale to the public at 120p per share payable in full on application.

Of these shares, 168 million were offered for sale by The Wellcome Trust and 42.8 million were new shares offered by the company.

The net proceeds of £45.6 million received by the company from the issue of these new shares will be used principally to fund the group's future capital expenditure in its human healthcare activities, and generally to take advantage of opportunities to expand its business base.

The purchase of The Wellcome Foundation Limited by Wellcome plc has been accounted for on a merger basis. The financial statements for the year ended 30 August 1986 have been prepared on the basis that the new Wellcome group structure existed from 1 September 1985. Accounting policies followed are consistent with those applied in the 1985 financial statements of The Wellcome Foundation Limited.

Comparative figures shown in these financial statements have been taken from the financial statements of The Wellcome Foundation Limited for the year ended 31 August 1985, except that:

- (i) Shareholders' funds have been restated to give effect retrospectively to the corporate reorganisation
- (ii) All distributions to shareholders made under deed of covenant have been shown after deducting taxation of 30%
- (iii) The taxation charge has been shown as though dividends rather than covenants had been paid.

2 Accounting policies

(a) Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets. Comparative figures have been amended to reflect changes in presentation.

(b) Basis of consolidation

- (i) The group financial statements consolidate the financial statements of the company and all subsidiaries for the financial year covering the fifty-two weeks to 30 August 1986.

2 Accounting policies

continued

(ii) The group profit and loss account includes the group's share of the profits and tax of related companies and the group balance sheet includes the investment in related companies at the group's share of their underlying net tangible assets.

A related company is a company (other than a subsidiary) in which the group's interest is between 20% and 50% and where the group has a significant influence over its commercial and financial policy decisions.

(iii) Provisions have been made against the net assets of certain overseas subsidiaries where there are restrictions on remittance of funds or the political or economic position is uncertain.

(iv) Goodwill, being the excess of cost of shares in subsidiaries over the fair value of their net tangible assets at the date of acquisition, is, on consolidation, written off to reserves in the year in which the results of the subsidiary are consolidated for the first time.

(c) Foreign currencies

(i) All balance sheet items in foreign currencies are translated to sterling at the rates ruling at 30 August 1986. Profit and loss account items in foreign currencies are translated to sterling at the average rates ruling during the financial year. In certain countries where there is hyper-inflation, appropriate adjustments are made in order to present the financial results fairly.

(ii) No account is taken of the effect of fluctuations in exchange rates occurring after the year end.

(iii) Exchange differences arising on translation of overseas subsidiaries' financial statements for consolidation purposes and of investments in related companies are passed directly through reserves. All other exchange differences are reflected in the profit and loss account for the year.

(d) Research and development expenditure

Revenue expenditure on research and development is charged against profits in the year in which it is incurred. Capital expenditure on laboratories and equipment is included in tangible fixed assets and depreciation thereon is included in the annual charge for research and development. Expenditure on patents and trade marks is also charged against profits in the year in which it is incurred.

(e) Tangible fixed assets and depreciation

(i) Tangible fixed assets are stated at cost to the group company which originally purchased them, after deducting government grants, or at the amount of a subsequent professional valuation. In certain countries where there is hyper-inflation, appropriate adjustments are made to reflect current price levels.

(ii) The charge for depreciation is the amount required to amortise the cost (or amount of valuation) of tangible fixed assets, other than land, over their estimated useful lives by equal annual instalments. The rates of depreciation charged vary from country to country in the light of local circumstances within the following ranges:

Freehold and long leasehold buildings (long leases being those having an unexpired term of more than 50 years)	2% to 10% per annum
Plant and machinery	10% to 33% per annum
Fixtures, fittings, tools and equipment	10% to 20% per annum

(f) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises direct materials and labour, together with appropriate production overheads.

(g) Deferred taxation

Deferred taxation is provided at anticipated rates on differences arising from the recognition of income and expenditure in different periods for taxation purposes to those for accounting purposes. No account is taken of taxation which is not expected to be payable in the foreseeable future.

(h) Pension costs

Retirement benefits to employees of most companies in the group are funded by contributions from group companies and employees. Payments are made either to pension trusts which are financially separate from the group or to insurance companies, in accordance with calculations made periodically by consulting actuaries. The cost of providing pensions in respect of current and prior service, in accordance with recommendations made by the actuaries, is charged against the profits of the year.

3 Segment information

(a) By business sector

	TURNOVER		TRADING PROFIT/(LOSS)	
	1986 £m	1985 £m	1986 £m	1985 £m
Human healthcare	843.3	825.4	140.9	139.0
Animal healthcare	162.1	178.2	(3.5)	(1.5)
Animal healthcare – start up costs	—	—	(0.5)	(6.4)
Animal healthcare – restructuring costs	—	—	(3.7)	—
	<u>1,005.4</u>	<u>1,003.6</u>	<u>133.2</u>	<u>131.1</u>

(b) By location of company

United Kingdom				
Home sales	109.3	112.3		
Export sales	198.5	178.0		
Total	<u>307.8</u>	<u>290.3</u>	65.3	53.0
Continental Europe	149.8	116.2	10.1	5.7
North America	427.7	449.0	163.7	168.4
Rest of the World	232.7	249.2	30.8	32.4
Group research and development expenditure	—	—	(132.5)	(122.0)
Animal healthcare – start up/restructuring costs	—	—	(4.2)	(6.4)
Less: inter-area eliminations	(112.6)	(101.1)	—	—
	<u>1,005.4</u>	<u>1,003.6</u>	<u>133.2</u>	<u>131.1</u>

Turnover represents sales to third parties and inter-area company sales. Trading profit represents trading profit before charging research and development expenditure. Both are as reported by companies located in the geographic area.

Animal healthcare start up/restructuring costs includes United Kingdom £3.4m (1985: £3.4m) and North America £0.6m (1985: £1.7m).

Group research and development expenditure includes United Kingdom £54.6m (1985: £46.1m) and North America £73.2m (1985: £72.1m).

(c) By location of customer

	TURNOVER	
	1986 £m	1985 £m
United Kingdom	110.8	113.9
Continental Europe	176.8	145.9
North America	428.0	446.9
Rest of the World	289.8	296.9
	<u>1,005.4</u>	<u>1,003.6</u>

4 Operating costs

	1986 £m	1985 £m
Raw materials and consumables	(219.0)	(269.0)
Other external charges	(331.9)	(318.3)
Staff costs (see note 9)	(283.1)	(275.3)
Depreciation	(33.8)	(32.1)
Other operating charges	(23.8)	(16.9)
Change in stocks of finished goods and work in progress	(2.8)	21.3
Other operating income	22.2	16.8
Share of profits of related companies	—	1.0
	<u>(872.2)</u>	<u>(872.5)</u>
<i>The following items have been included above:</i>		
Research and development expenditure	132.5	122.0
Operating lease rentals		
Plant and machinery	2.8	2.5
Other assets	9.8	10.3
Auditors' remuneration	1.0	1.0

5 Net interest payable and similar items

	1986 £m	1985 £m
<i>Interest payable on:</i>		
Bank loans and overdrafts	(9.7)	(10.1)
Other loans wholly repayable within five years	(4.1)	(4.0)
Other loans not wholly repayable within five years	(13.6)	(16.3)
	<u>(27.4)</u>	<u>(30.4)</u>
<i>Interest receivable from:</i>		
Listed investments	3.4	2.3
Other investments	16.5	19.0
	<u>19.9</u>	<u>21.3</u>
Net exchange loss on foreign currency borrowings and deposits	(0.4)	(0.3)
Net interest payable and similar items	<u>(7.9)</u>	<u>(9.4)</u>

6 Tax on profit on ordinary activities

	1986 £m	1985 £m
United Kingdom corporation tax	22.2	59.5
Less: Relief for double taxation	(15.7)	(51.5)
	<u>6.5</u>	<u>8.0</u>
Overseas taxation	55.7	55.0
Deferred taxation	0.4	1.1
Advance corporation tax	1.2	1.3
Related companies	0.2	0.6
	<u>64.0</u>	<u>66.0</u>

The corporation tax charge has been calculated at the rate of 38%.

The taxation charge for the year has been reduced by £0.3m (1985: £0.5m) in respect of deferred taxation which is not expected to be payable in the foreseeable future.

Certain group companies have approximately £26.3m (1985: £19.8m) of losses available (subject to certain restrictions of local legislation) for offset against their future profits.

Additional taxation would arise if certain overseas subsidiaries and related companies distributed part or all of their reserves.

7 Earnings per ordinary share

Earnings per ordinary share are based on profit on ordinary activities attributable to shareholders of £63.9m (1985: £59.6m) and 824 million (1985: 800 million) ordinary shares being the weighted average number of shares in issue during the year.

8 Emoluments of directors and senior employees

(a) Directors

	1986 £000	1985 £000
Emoluments	1,085	1,177
Payment to former director	413	123
Emoluments (excluding pension contributions) of the Chairman	153	132

The emoluments (excluding pension contributions) of the other directors whose duties were wholly or mainly discharged in the United Kingdom fell within the following ranges:

Emoluments £	1986 Number	1985 Number
0-5,000	1	1
5,001-10,000	2	1
10,001-15,000	-	1
15,001-20,000	1	1
20,001-25,000	2	-
25,001-30,000	-	1
30,001-35,000	-	1
35,001-40,000	2	1
40,001-45,000	-	1
45,001-50,000	1	2
50,001-55,000	1	1
55,001-60,000	1	1
60,001-65,000	2	-

(b) Senior employees

The emoluments (excluding pension contributions) of senior employees of The Wellcome Foundation Limited whose duties were wholly or mainly discharged in the United Kingdom fell within the following ranges:

Emoluments £	1986 Number	1985 Number
30,001-35,000	64	54
35,001-40,000	53	29
40,001-45,000	15	15
45,001-50,000	9	8
50,001-55,000	5	3
55,001-60,000	3	-
60,001-65,000	1	-

9 Employee information

(a) Employees by geographic area

Average number during year:

	1986 Number	1985 Number
United Kingdom	6,543	6,514
Continental Europe	2,134	2,144
North America	4,212	4,076
Rest of the World	5,875	5,608
	18,764	18,342

(b) Staff costs

	£m	£m
Wages and salaries	242.0	234.4
Social security costs	20.6	18.4
Other pension costs	20.5	22.5
	283.1	275.3

10 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
GROUP				
<i>Cost or valuation</i>				
At 31 August 1985	280.4	161.9	62.6	504.9
Currency adjustments	(8.7)	(6.8)	(1.2)	(16.7)
Additions	39.2	30.7	18.4	88.3
Disposals	(9.1)	(6.3)	(2.3)	(17.7)
Effect of revaluations	0.4	0.5	—	0.9
At 30 August 1986	302.2	180.0	77.5	559.7
<i>Depreciation</i>				
At 31 August 1985	46.5	75.4	30.3	152.2
Currency adjustments	(1.7)	(4.0)	(0.6)	(6.3)
Charge for the year	8.7	16.0	9.1	33.8
Disposals	(1.7)	(4.5)	(1.9)	(8.1)
Effect of revaluations	0.1	0.1	—	0.2
At 30 August 1986	51.9	83.0	36.9	171.8
Net book value at 30 August 1986	250.3	97.0	40.6	387.9

Included above are assets in course of construction of £45.5m (1985: £22.4m) on which no depreciation has been charged.

Analysis of net book value of land and buildings	1986 £m	1985 £m
Freehold	234.3	214.9
Long leasehold	9.5	12.5
Short leasehold	6.5	6.5
	250.3	233.9

Net book value of total tangible fixed assets under the historical cost convention	321.5	278.7
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Analysis of cost or valuation	
At cost	400.2
As valued since 1979	159.5
	559.7

11 Investments held as fixed assets

	GROUP		PARENT COMPANY
	1986 £m	1985 £m	1986 £m
Shares in group companies	—	—	200.0
Shares in related companies	3.4	4.1	—
Other investments	0.7	—	—
	4.1	4.1	200.0

The parent company investment in shares in group companies represents the shareholding in The Wellcome Foundation Limited stated at directors' valuation.

The principal subsidiaries and related companies are set out on page 44.

12 Stocks

	GROUP	
	1986 £m	1985 £m
Raw materials and consumables	50.9	53.9
Work in progress	43.7	46.7
Finished goods and goods for resale	81.0	81.3
	<u>175.6</u>	<u>181.9</u>

13 Debtors

	GROUP		PARENT COMPANY
	1986 £m	1985 £m	1986 £m
<i>Amounts falling due one year or less:</i>			
Trade debtors	196.4	155.3	—
Amounts owed by group companies	—	—	58.2
Other debtors	27.1	21.3	0.2
Prepayments and accrued income	12.0	13.2	—
<i>Amounts falling due after one year:</i>			
Amounts owed by group companies	—	—	8.7
Other debtors	8.7	9.1	—
	<u>244.2</u>	<u>198.9</u>	<u>67.1</u>

14 Investments held as current assets

	GROUP	
	1986 £m	1985 £m
Listed securities and certificates of deposit	44.1	62.1
Short-term deposits and money at call	115.3	72.0
	<u>159.4</u>	<u>134.1</u>
Market value of listed securities and certificates of deposit.	45.1	63.8
No equity investments are included in listed securities.		

15 Creditors – amounts falling due one year or less

(a) Loans and overdrafts

	GROUP		PARENT COMPANY
	1986 £m	1985 £m	1986 £m
Bank loans and overdrafts	50.2	55.6	—
Other loans	6.6	5.4	—
	<u>56.8</u>	<u>61.0</u>	
Secured bank loans and overdrafts included above	3.2	5.9	—
<i>(b) Other creditors</i>			
Trade creditors	54.7	51.7	—
Taxation	23.4	17.4	—
Social security	4.6	3.7	—
Accruals and deferred income	48.8	42.3	0.4
Covenants to The Wellcome Trust	—	3.0	—
Dividends	11.1	0.5	11.1
Other	33.2	29.8	—
	<u>175.8</u>	<u>148.4</u>	<u>11.5</u>

16 Loans – amounts falling due after one year

	GROUP		PARENT COMPANY
	1986 £m	1985 £m	1986 £m
<i>Unsecured loans:</i>			
Sterling 1985–94	14.5	16.5	—
Sterling 1986–88	—	1.0	—
Sterling 1987	11.0	11.0	—
Sterling 1987–89	—	5.0	—
Sterling 1992–95	10.0	10.0	—
Sterling 1993–2000	25.0	25.0	—
Sterling 2006 9½% bonds	10.0	—	10.0
US\$ 1984–94 9½% notes	23.2	26.2	—
US\$ 1986–2000 11¼% notes	17.5	20.1	—
US\$ 1989	6.7	7.2	—
US\$ 1987–90	11.5	14.4	—
US\$ 2001–05	6.7	7.2	—
Other foreign currency loans	25.5	17.7	—
	161.6	161.3	10.0
<i>Secured loans:</i>			
Foreign currency loans	2.5	3.3	—
	164.1	164.6	10.0
<i>Repayable:</i>			
Between one and two years	25.1	13.9	—
Between two and five years	51.3	65.4	—
After more than five years	87.7	85.3	10.0
	164.1	164.6	10.0

The Sterling 2006 9½% bonds represents a £50.0m Eurosterling bond issue of which £10.0m was received on 19 May 1986. The balance of £40.0m is due to be received on 19 November 1986.

The US\$ 1984–94 9½% notes are repayable at the rate of \$2m per annum from 1984 to 1988, \$5.5m per annum from 1989 to 1993 and \$5m in 1994. The Sterling 1993–2000 loan is repayable at the rate of £2m per annum from 1993 to 1995, £4.5m per annum from 1996 to 1997, £5.0m in 1998 and £2.5m in 1999 and 2000. Most of the other loans shown above are repayable on the dates indicated or in equal periodic instalments between the dates indicated.

Except where rates are stated, interest on the above loans fluctuates in line with market conditions.

	GROUP		PARENT COMPANY
	1986 £m	1985 £m	1986 £m
Bank loans	105.4	107.6	—
Other loans	58.7	57.0	10.0
	164.1	164.6	10.0

17 Provisions for liabilities and charges

GROUP	Pensions and similar obligations £m	Taxation including deferred taxation £m	Other provisions £m	Total £m
At 31 August 1985	4.5	7.2	24.8	36.5
Currency adjustments	0.2	(0.3)	0.3	0.2
Utilised during the year	(0.4)	(0.1)	(6.3)	(6.8)
Charged to profit and loss account	1.2	0.4	4.7	6.3
At 30 August 1986	5.5	7.2	23.5	36.2

Deferred taxation

	GROUP	
	1986 £m	1985 £m
Full potential amount of deferred taxation on all timing differences		
<i>Provided for in the financial statements:</i>		
Accelerated capital allowances	12.9	10.0
Other timing differences	(7.2)	(4.5)
	5.7	5.5
<i>Not provided for in the financial statements:</i>		
Accelerated capital allowances	23.9	21.3
Other timing differences	(10.3)	(6.1)
	19.3	20.7

If all the revalued properties were to be sold at their net book values and the proceeds were not reinvested in fixed assets, it is estimated that tax on capital gains would amount to £13.7m. In the opinion of the directors such a proposition is unrealistic and accordingly no provision has been made.

18 Capital and reserves

(a) Called up share capital

	AUTHORISED		ISSUED	
	Number of ordinary shares million	£m	Number of ordinary shares fully paid million	£m
6 November 1985				
Initial authorised share capital on registration of company	100.0	100.0	—	—
23 December 1985				
Shares issued to purchase The Wellcome Foundation Limited	—	—	100.0	100.0
27 January 1986				
Shares subdivided from £1 to 25p	300.0	—	300.0	—
Authorised share capital increased	640.0	160.0	—	—
Revaluation reserve capitalised	—	—	400.0	100.0
29 January 1986				
Sale of new shares at 120p	—	—	42.8	10.7
At 30 August 1986	1,040.0	260.0	842.8	210.7

(b) Reserves

	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
GROUP				
At 31 August 1985	—	0.3	238.3	238.6
Currency adjustments	—	(0.1)	(16.6)	(16.7)
Sale of new shares	40.7	—	—	40.7
Flotation and Eurosterling bond issue costs	(6.4)	—	(0.5)	(6.9)
Profit retained for the financial year	—	(0.4)	46.9	46.5
Effect of revaluations	—	0.7	—	0.7
Transfers between reserve categories	—	1.0	(1.0)	—
At 30 August 1986	34.3	1.5	267.1	302.9
PARENT COMPANY				
At 31 August 1985	—	—	—	—
Sale of new shares	40.7	—	—	40.7
Flotation and Eurosterling bond issue costs	(6.4)	—	—	(6.4)
Profit retained for the financial year	—	—	0.6	0.6
At 30 August 1986	34.3	—	0.6	34.9

Other group reserves comprise revaluation reserve £0.7m (1985: £nil), related companies' reserves £(0.2)m (1985: £0.3m) and other reserves £1.0m (1985: £nil).

£72.9m of the group profit and loss account is not currently available for distribution because of restrictions under loan agreements in the USA.

During the year the company revalued its investment in The Wellcome Foundation Ltd. The resultant surplus of £100m was applied in paying up new share capital.

As permitted by section 228(7) of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The group's profit on ordinary activities after taxation includes £11.7m which is dealt with in the financial statements of the parent company.

19 Employee share option schemes

The company operates three share option schemes for employees, including executive directors: the Executive Scheme, the UK Sharesave Scheme and the International Sharesave Scheme. Burroughs Wellcome Co, the group's principal subsidiary in the USA, operates two share option schemes for the benefit of employees in the USA, the BW Management Stock Option Plan and the BW Employee Stock Purchase Rights Plan. All these schemes relate to the ordinary shares of Wellcome plc and were adopted immediately before the offer for sale in January 1986.

At 30 August 1986 options outstanding under the above schemes were as follows:

Scheme	Options	Period during which exercisable	Price
Executive	3,516,283	1986/96	£1.20
UK Sharesave	5,786,058	1986/93	£1.29
International Sharesave	1,297,313	1986/93	£1.29
BW Management Stock Option Plan	1,960,954	1986/96	£1.20
BW Employee Stock Purchase Rights Plan	12,586,097	1986/96	£1.29
	<u>25,146,705</u>		

20 Commitments

		GROUP	
		1986 £m	1985 £m
(a) Capital	Contracted for but not provided in the financial statements	32.7	30.7
	Authorised but not yet contracted for	63.6	59.6
(b) Leasing	Minimum lease payments:		
	Year ending August 1987	9.3	
	1988	7.1	
	1989	5.0	
	1990	2.5	
	1991	0.9	
	Total after August 1991	1.6	

21 Contingent liabilities

	GROUP	
	1986 £m	1985 £m
Contingent liabilities	7.0	11.8

The principal USA subsidiary and certain other drug companies in the USA are defendants in a number of actions for substantial damages in respect of alleged injuries attributable to the taking of Diethylstilbestrol (a prescription drug) by women during pregnancy. Although the outcome of these actions cannot be forecast with certainty, it is the opinion of the directors that the ultimate disposition of these actions will not have a material adverse effect on the group financial statements.

Auditors' report

To the Members of Wellcome plc

We have audited the financial statements on pages 29 to 42 in accordance with approved Auditing Standards.

In our opinion, the financial statements give a true and fair view of the state of the affairs of the company and of the group at 30 August 1986 and of the profit and source and application of funds of the group for the financial year then ended and comply with the Companies Act 1985.

Touche Ross & Co
Chartered Accountants

Hill House, 1 Little New Street, London EC4A 3TR
13 November 1986

Five year summary

	1986 £m	1985 £m	1984 £m	1983 £m	1982 £m
Profit and loss account					
Turnover	1,005.4	1,003.6	806.4	674.4	592.5
Profit before research and development and taxation	257.8	243.7	185.6	142.6	121.4
Research and development expenditure	132.5	122.0	96.6	80.9	66.3
Profit on ordinary activities before taxation	125.3	121.7	89.0	61.7	55.1
Profit on ordinary activities after taxation	61.3	55.7	44.5	33.9	32.2
Profit on ordinary activities attributable to shareholders	63.9	59.6	42.1	33.6	31.7
Distributions to shareholders	17.4	16.8	11.9	9.8	9.1
Profit retained for the financial year	46.5	42.8	30.2	23.8	22.6
Earnings per ordinary share (net basis)	7.8p	7.5p	5.3p	4.2p	4.0p
Balance sheet					
Fixed assets	392.0	356.8	326.0	281.4	253.1
Current assets	594.6	534.6	474.3	408.3	362.0
Creditors, provisions and minority interests	(473.0)	(452.8)	(379.7)	(321.6)	(288.3)
Total net assets/shareholders' funds	<u>513.6</u>	<u>438.6</u>	<u>420.6</u>	<u>368.1</u>	<u>326.8</u>
Statistics					
Capital expenditure	88.3	73.7	57.7	38.5	41.4
Net indebtedness	46.1	71.8	94.4	82.5	82.1
UK exports	198.5	178.0	150.0	127.6	123.4
Average number of employees	18,764	18,342	18,608	18,645	18,561
Research and development as % of profit before research and development and taxation	51.4	50.1	52.0	56.7	54.6
Profit on ordinary activities before taxation as % of turnover	12.5	12.1	11.0	9.1	9.3
Profit on ordinary activities attributable to shareholders as % of shareholders' funds	12.4	13.6	10.0	9.1	9.7
Average exchange rate					
US dollar	1.46	1.23	1.42	1.56	1.81

The above information has been prepared in accordance with Note 1 to the financial statements.

Principal companies in the group

as at 30 August 1986

The Wellcome Foundation Ltd is a wholly owned subsidiary of Wellcome plc. All other subsidiaries are wholly owned by The Wellcome Foundation Ltd (either directly or indirectly) except where the percentage of group ownership is stated.

Country names listed below are countries of incorporation (companies operate principally in their country of incorporation except where otherwise stated).

Parent company

ENGLAND
Wellcome plc

Subsidiaries

United Kingdom

ENGLAND
Burroughs Wellcome International Ltd
Calmic Ltd
Cooper, McDougall & Robertson Ltd
Coopers Animal Health
(Holdings) Ltd (51%)
Coopers Animal Health Ltd (51%)
The Wellcome Foundation Ltd
Wellcome Biotechnology Ltd
Wellcome Diagnostics Ltd
Wellcome International Trading Ltd

Continental Europe

AUSTRIA
Wellcome Austria Pharma GmbH
BELGIUM
NV Benelupharm-Curia SA
NV Cooper, McDougall & Robertson
(Belgium) SA
NV Coopers Agrovet SA (51%)
NV Wellcome SA
FRANCE
Coopers Veterinaire SA (51%)
Laboratoires Wellcome SA
Société Chimique Wellcome SA
GERMANY
Calmic GmbH
Coopers Tierarzneimittel GmbH (51%)
Deutsche Wellcome GmbH
Impfstoffwerk Wellcome GmbH (51%)
HOLLAND
Coopers Agrovet BV (51%)
Wellcome Nederland BV
ITALY
Wellcome Italia SpA
MONACO
Kemia SAM
Société de Chimie Appliquée SAM
Société Civile Immobilière Industria

PORTUGAL
Laboratorios Wellcome de Portugal Lda
REPUBLIC OF IRELAND
Coopers Animal Health
Ireland Ltd (51%)
Wellcome Ireland Ltd
SPAIN
Gayoso Wellcome SA
SWITZERLAND
Calmic AG
Wellcome AG

North America

CANADA
Burroughs Wellcome Inc
Coopers Agropharm Inc (51%)
USA
Agribusiness Marketers Inc (51%)
Burroughs Wellcome Co
Coopers Animal Health Inc (51%)

Rest of the World

ARGENTINA
Coopers Argentina SACI (51%)
AUSTRALIA
Coopers Animal Health
Australia Ltd (49%)
Wellcome Australia Ltd
BANGLADESH
Burroughs Wellcome & Co
(Bangladesh) Ltd
BRAZIL
Coopers Brasil SA (51%)
COLOMBIA
Coopers Colombia SA (51%)
ENGLAND
Wellcome Argentina Ltd (51%)
(operating exclusively in Argentina)
Wellcome Iran Ltd
(operating exclusively in Iran)
HONG KONG
Burroughs Wellcome & Co
(Hong Kong) Ltd
Burroughs Wellcome (Far East) Ltd
(operating principally in Taiwan)
INDONESIA
PT Burroughs Wellcome
Indonesia (80%)
JAPAN
Nippon Wellcome KK (55%)
Wellcome Diagnostics Japan Co., Ltd
KENYA
Wellcome Kenya Ltd
MALAYSIA
Coopers Animal Health
(M) SB (51%)
Wellcome Malaysia SB
MEXICO
Burroughs Wellcome de Mexico
SA de CV

NEW ZEALAND
Coopers Animal Health NZ Ltd (49%)
Wellcome New Zealand Ltd
NIGERIA
Wellcome Nigeria Ltd (60%)
PAKISTAN
Wellcome Pakistan Ltd (70%)
PARAGUAY
Coopers Paraguay SA (51%)
PHILIPPINES
Coopers Animal Health
(Philippines) Inc (51%)
Wellcome (Philippines) Inc
SINGAPORE
Coopers Animal Health
(Singapore) Private Ltd (51%)
Wellcome (Singapore) Private Ltd
SOUTH AFRICA
Calmic (Proprietary) Ltd
Coopers Animal Health
(Proprietary) Ltd (51%)
Coopers (South Africa) (Proprietary) Ltd
Wellcome (Proprietary) Ltd
Wellcome Southern Africa Ltd
TANZANIA
Wellcome Tanzania Ltd
THAILAND
Coopers Animal Health
(Thailand) Ltd (51%)
Wellcome Thailand Ltd
UGANDA
Wellcome Uganda Ltd
UNITED ARAB EMIRATES
Wellcome Arabian Gulf Ltd
URUGUAY
Cooper Uruguay SA (51%)
Wellcome Uruguay SA (51%)
VENEZUELA
Coopers Venezolana SA (39.5%)
ZAMBIA
Cooper Zambia Ltd
ZIMBABWE
Cooper (Zimbabwe) Ltd
Wellcome (Private) Ltd

Related companies

Shares are held by the group in the following companies to the extent indicated below.

		% of share capital held
Biocontrol Ltd	Australia	49%
Burroughs Wellcome (India) Ltd	India	40%
Cooper-Zeltia, SA	Spain	50%
Nippon Calmic KK	Japan	50%

Financial calendar and shareholder information

Financial calendar

Results

Results will normally be announced/circulated at the following times:

Half-year results	announced end April
Half-year report	circulated early May
Preliminary results for the year	announced mid November
Annual report	circulated early December

Dividends

Dividends will normally be paid at the following times:

Interim	June
Final	January

Annual general meeting

The annual general meeting will normally be held mid January.

Shareholder information

Analysis of ordinary shareholdings at 30 August 1986:

Size of holdings	Number of holders	%	Ordinary shares of 25p held million	%
1 to 1,000	43,591	83.4	16.6	2.0
1,001 to 5,000	6,837	13.1	15.5	1.8
5,001 to 10,000	800	1.5	6.0	0.7
10,001 to 50,000	618	1.2	14.5	1.7
50,001 to 250,000	298	0.6	34.1	4.0
250,001 and above	117	0.2	124.1	14.8
The Wellcome Trust	1	—	632.0	75.0
	<u>52,262</u>	<u>100.0</u>	<u>842.8</u>	<u>100.0</u>

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the First ANNUAL GENERAL MEETING of Wellcome plc will be held at the GROSVENOR HOUSE HOTEL (GREAT ROOM), PARK LANE, LONDON W1A 3AA on Wednesday 14 January 1987 at 11.00 a.m. to transact the following business:

Resolutions

Ordinary Business

- 1 To consider and adopt the Directors' Report and the Financial Statements for the year ended 30 August 1986 together with the Auditors' Report.
- 2 To declare a final dividend.
To re-elect the following as directors of the company:
 - 3 Mr M R Brookman
 - 4 Mr H Copestick
 - 5 Dr R M Cresswell
 - 6 Mr T E Haigler Jnr
 - 7 Dr H J Schaeffer
 - 8 Sir Michael Butler
 - 9 Mr A W Clausen
- 10 To re-appoint Touche Ross & Co as auditors of the company and to authorise the directors to fix their remuneration.

Special Business

To consider and if thought fit to pass the resolution set out below as an ordinary resolution:

- 11 That the directors be and they are hereby authorised to amend the rules of the Wellcome UK Sharesave Scheme and the Wellcome International Sharesave Scheme in the manner described in the explanatory note below and to do all such acts and things as may be necessary to carry the same into effect.

To consider and if thought fit to pass the resolution set out below as a special resolution:

- 12 That the authority given by paragraph (e) of the special resolution passed at an extraordinary general meeting of the company held on 27 January 1986 ("the special resolution") is hereby revoked and 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 that Act) for cash pursuant to the authority given by paragraph (c) of the special resolution as if sub-section (1) of section 89 did not apply to any such allotment provided that this power shall be limited to:

- (i) the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £13,000,000; and
- (ii) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares where the equity securities attributable to the interests of all the holders of ordinary shares are proportionate (as nearly as may be) to the respective number of ordinary shares held by them

and shall expire on the date of the annual general meeting of the company to be held in 1988 or, if sooner, on 14 April 1988 save that the directors 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 powers and authorities hereby granted had not expired.

By order of the board,
H Mitchell
Secretary

The Wellcome Building
183 Euston Road
London NW1 2BP

4 December 1986

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 instead of him or her. A proxy need not also be a Member of the company. Signing and returning a form of proxy does not preclude a Member from attending and voting at the annual general meeting in person if that Member so wishes. The form of proxy and any power of attorney or other authority under which it is executed must be deposited at the Company's Registrars, Ravensbourne Registration Services Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time of the meeting. A proxy form is enclosed.
- (ii) Copies of service contracts of the directors with the company and its subsidiaries not expiring or determinable without payment of compensation within one year and the register of directors' interests will be available for inspection at the company's Registered Office, The Wellcome Building, 183 Euston Road, London NW1 2BP, during usual business hours on any weekday (excluding Saturday, public holidays and the period from 24 December 1986 to 4 January 1987, both dates inclusive) from the date of this notice until the date of the annual general meeting and at the Grosvenor House Hotel (Great Room), Park Lane, London W1A 3AA from 10.30 a.m. until the conclusion of the meeting. During the period from 24 December 1986 to 4 January 1987 inclusive, the above service contracts and register of directors' interests will be available for inspection at the Company's Registrars, Ravensbourne Registration Services Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU during usual business hours on any weekday (excluding Saturday and public holidays).

Explanatory note regarding amendments to the Wellcome UK Sharesave Scheme and the Wellcome International Sharesave Scheme

Under the rules of the Wellcome UK Sharesave Scheme and the Wellcome International Sharesave Scheme options are not normally exercisable until after five or seven years. Options may, however, be exercised early in certain circumstances such as, for example, the optionholder ceasing to be employed as a result of redundancy, illness or disability. Optionholders may also exercise their options early in the event that the company by which they are employed or the business or part of the business in which they are employed is transferred outside the group provided that the options have been held for three years.

The Finance Act 1986 amended the Finance Act 1980, under which the UK Scheme is approved, so as to remove this three-year requirement. The directors believe that it is appropriate to amend the rules of the UK Scheme (and, consequently, the rules of the International Scheme) both as to existing and future options to reflect the change to the Finance Act 1980 and shareholders' approval for the amendments is being sought, as Special Business at the annual general meeting, in Resolution Number 11.

Explanatory note regarding authorisation to the directors to allot equity securities

The Stock Exchange has recently relaxed its rules on issues of equity for cash other than *pro rata* to existing shareholders so as no longer to require prior approval from shareholders for actual issues when they arise or for the terms on which such issues are to be made, provided that the requisite general authority from shareholders under the Companies Act 1985 has been obtained. The directors were so generally authorised by shareholders at an extraordinary general meeting held in January 1986 and the period of the authority then granted extended to 1991. The relaxation of The Stock Exchange rules will, however, only apply if any such authority was given after the announcement of that relaxation and if the authority was taken for a period ending not later than 15 months from its date or, if earlier, on the date of the next annual general meeting. Your directors are accordingly proposing at the annual general meeting a special resolution (Resolution 12) terminating the authority given in January 1986 and seeking a new authority in line with the above requirements but for the same amount of share capital as in the original authority.

The following names of products mentioned in this annual report are trade marks of Wellcome group companies:

ACTIFED	PYRENONE	TRACRIUM	WELLFERON
ALCOPAR	SEPTRIN	WELLBUTRIN	ZOVIRAX
NEOSPORIN	STAPHAUREX	WELLCOGEN	ZYLORIC
NIX	SUDAFED	WELLCOZYME	



Wellcome