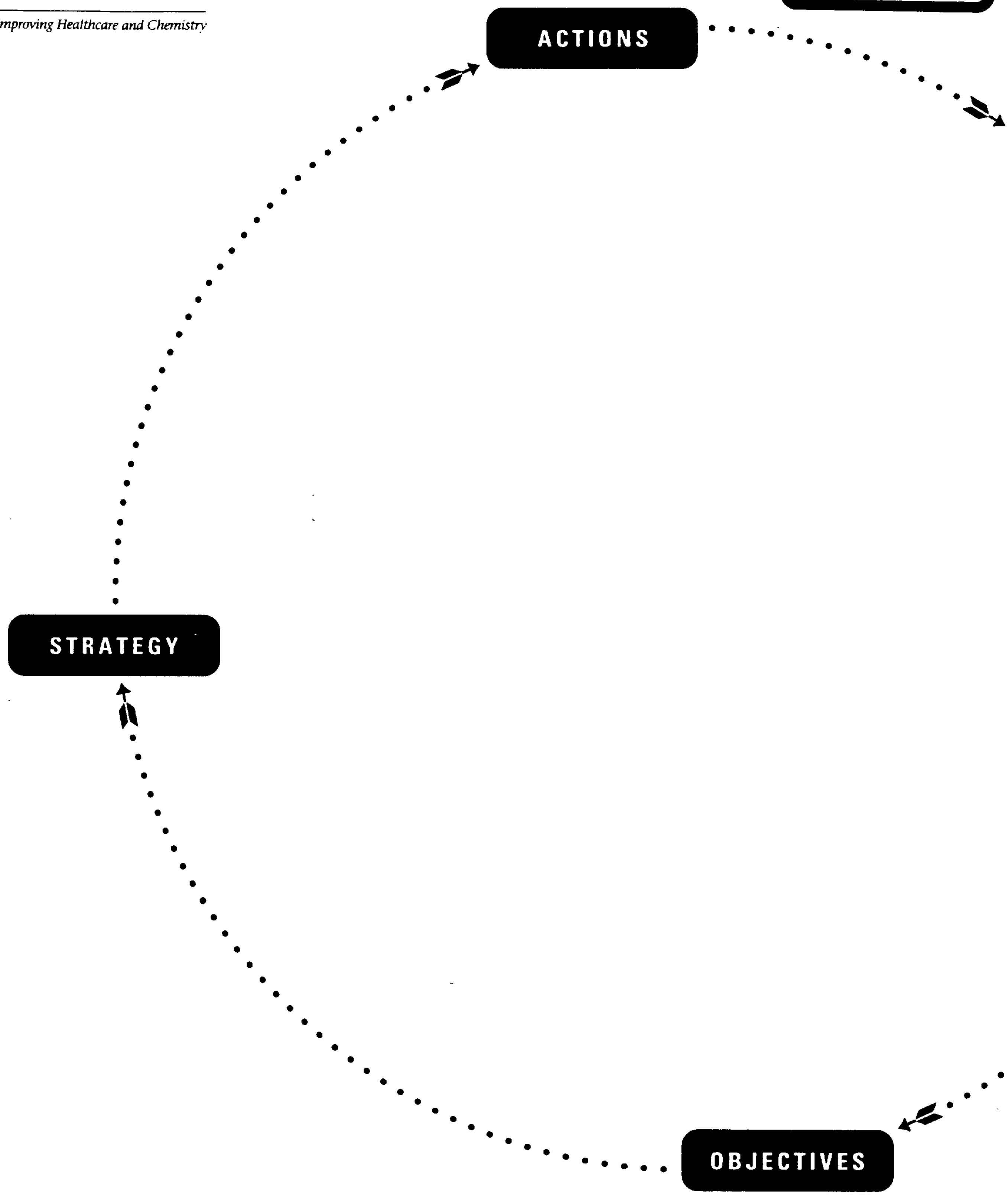
MALLINCKRODT

Improving Healthcare and Chemistry



1996 Annual Report

Company Profile: Mallinckrodt is a dynamic international growth company serving specialty markets in human healthcare, chemicals and animal health. The company is a major producer of pain relief pharmaceuticals, diagnostic imaging agents, medical devices, animal pharmaceuticals and vaccines, catalysts, and laboratory and microelectronic chemicals. Headquartered in St. Louis, Missouri, the company has 10,400 employees worldwide. Mallinckrodt stock is traded on the New York Stock Exchange under the ticker symbol MKG.

RESULTS

Financial Highlights

(In millions, except per share amounts)	[illegible]	1995	% Change
Net sales	$ 2,[illegible].2	$ 2,043.2	[illegible]
Operating earnings	[illegible]	296.7	[illegible]
Earnings from continuing operations	[illegible]	163.9	17
Net earnings	[illegible]	190.3	18
Earnings per common share			
Continuing operations	[illegible]	2.11	13
Net earnings	[illegible]	2.32	19
Common stock prices			
High	[illegible]	$ 36.88	14
Low	[illegible]	28.38	15
Close	[illegible]	35.50	10

Contents:

Results matter. We achieved our financial goals, and our operating results are on track with our long-range objectives.

Dear fellow investors Last year, we told you about our ambitious goals and the integrated growth plan in place to achieve them. We met our financial goals in fiscal 1996 and continued to build value in the company by focusing on strategies that support our growth initiatives. We also took major steps to position Mallinckrodt for future growth by continuing to expand our base businesses, discover and market new technology, and enhance our business portfolio.

Our long-term objectives remain ambitious and are set to create exceptional performance, growing sales at average annual rates of at least 10 percent and earnings at 12 to 15 percent annually. Our goals are to achieve a 10 percent return on sales, a 15 percent return on invested capital, and an 18 percent return on equity by the end of fiscal 1998. We continue to be sharply focused on the future.

Our progress in 1996 resulted from outstanding work by our capable and committed employees. They produced these favorable operating results while undergoing significant organizational and operating changes designed to ensure Mallinckrodt's bright future. Moreover, they did so in a period of challenging market conditions that resulted from healthcare cost-control measures and intensified global competition.

Financial review Earnings from continuing operations for fiscal 1996 were $191 million, or $2.50 per share, versus 1995 earnings from continuing operations of $164 million, or $2.11 per share. These 1996 earnings per share were 18 percent higher than a year ago. Comparable operating earnings were $330 million, up 11 percent. Net sales increased 8 percent to $2.2 billion.

Mallinckrodt's human healthcare segment reported an operating earnings increase of 12 percent to $309 million on a sales increase of 6 percent. Specialty chemicals reported an operating earnings increase of 35 percent to $28 million on a sales increase of 32 percent. Animal health increased its operating earnings 22 percent to $35 million on sales comparable to the prior year. Consolidated earnings included a pre-tax equity-investment share of $32 million from the Tastemaker flavors joint venture, up 26 percent.

Actions speak louder than words Positioning the company for the future requires a steady hand on the present. Decisions made today will have a significant impact tomorrow. For example, we won a contract to supply X-ray contrast media to the largest healthcare alliance in the United States, an added payoff from the 1994 reengineering of our medical sales organization. We entered into several key initiatives during the year to acquire businesses that will add to our strategic focus and allow us to build additional synergies. We expanded a distribution and investment agreement for ultrasound contrast media. We sold our animal feed ingredients business because it no longer fit the company's strategic profile. These and other achievements are highlighted elsewhere in this annual report.

In December, we announced a Strategic Change Initiative that included major organizational and operating changes designed to enhance global growth, coordinate the development and introduction of leading-edge technologies, improve operational effectiveness, reduce expenses, and support our mission to create extraordinary value for you, our shareholders. Mack Nichols was appointed president, chief operating officer and a director. Mack has worked hard to ensure the success of our organizational changes, which included eliminating the management structures of our former three operating companies, while leading our divisions to excellent current operating results.

[RAY HOLMAN]
Chairman and
Chief Executive Officer

Building for the future With this new management structure in place, we are now focusing on strategies designed to realign our business portfolio. Accordingly, we have decided to sell the company's interest in Tastemaker, in cooperation with our joint venture partner, Hercules, Inc. We have also decided to explore all strategic options related to Mallinckrodt's animal health business. Resources generated by these strategic actions will be reinvested in growth opportunities, particularly concentrated in the human healthcare sector. Other ongoing growth initiatives and possible additional share repurchases will also be considered.

The Tastemaker joint venture was established in 1992 and has enjoyed tremendous success through growth of the business and profitability. Now, we are ready to realize the value that has been gained with this investment, while ensuring Tastemaker's continued success through alignment with a suitable parent company. Likewise, we have concluded that the veterinary business will be more successful through alignment with a company that possesses core technology more directly related to the development of animal health products. Significant gains have been made in our animal health business in the last three years. It has been restructured to lower costs and improve profitability. It has enhanced its capabilities in biologicals development and has assembled a top management team to lead the employees and manage the division's exceptional global distribution capacity.

As we proceed with our strategic transformation, we will continue to manage our business to make our company an exceptional investment. With our outstanding family of employees, we will continue in our efforts to produce extraordinary shareholder value for you, our investors. Many thanks for your continued support.

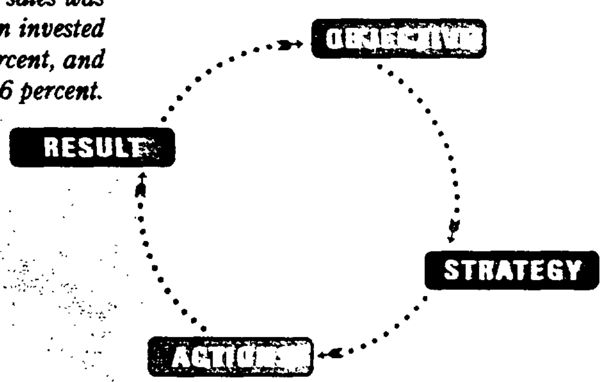
Ray Holman

C. Ray Holman
Chairman and Chief Executive Officer
August 30, 1996

During 1996, Mallinckrodt undertook significant strategic actions to produce shareholder value.

with long-range plans for average annual growth in sales of at least 10 percent and 12 to 15 percent in earnings. We are targeted to achieve profitability goals of 10 percent return on sales, 15 percent return on invested capital, and 18 percent return on equity by the end of fiscal 1998.

We are moving steadily toward our targets. This year, our sales grew 8 percent, and earnings per share grew 18 percent. Our return on sales was 9 percent, return on invested capital was 11 percent, and return on equity 16 percent.



Our plan lays out strategic initiatives in specific target areas that will allow us to achieve expansion through a managed process. Those growth initiatives include enhancing management systems and processes, managing our base business, discovering and marketing new technologies, and enhancing our business portfolio.

We streamlined the company's organizational structure. We landed a major contract for X-ray contrast media. We acquired product lines for our specialty analgesics business and extended a product agreement that gives us a major stake in a promising new product. We acquired businesses that strategically fit our portfolio and give us significant advantage in our target markets. We also divested one business because it no longer fit our strategic focus.

We streamlined the company's organizational structure and business processes to enhance growth and improve productivity.

ACTION An organizational change program was announced in December that was designed to enhance Mallinckrodt's global growth, coordinate the development and introduction of leading-edge technologies, improve operational effectiveness, and reduce expense. This Strategic Change Initiative eliminated the management and administrative structures of Mallinckrodt's three former operating companies, resulting in the removal of one management level from Mallinckrodt's organizational structure. Those businesses are now managed through eight existing divisions under a chief operating officer. Operating and administrative staff support at the former operating companies is being consolidated.

RESULT Now, Mallinckrodt is a leaner organization. Staff can make decisions and act quickly. There is less duplication of services at all levels of the company. The company expects to realize substantial productivity enhancements and lower costs. In addition, the change initiative allows us to devote leadership and additional resources to international growth and new product development.

[MACK NICHOLS]
President and
Chief Operating Officer

Appointment of Chief Operating Officer Mack G. Nichols was appointed president and chief operating officer in December. Nichols had been president of Mallinckrodt Chemical since 1989 and a senior vice president of Mallinckrodt Group since 1993. Each of the company's eight division presidents now reports directly to Nichols. As president and COO, he also is responsible for all international activities and operations support services. Nichols joined Mallinckrodt in 1979 as general manager of the Specialty Chemicals Division after a 15-year career with Monsanto in various sales management and marketing positions. Consolidation of operations under him has resulted in an organization capable of greater speed in making and implementing decisions.

Expanding our global focus Robert G. Moussa was named president, international. He will lead Mallinckrodt's ambitious globalization program and is responsible for global growth initiatives. He will focus on plans, processes and activities to expand Mallinckrodt outside the United States, and to increase international sales from 40 percent of total in 1995 to 50 percent by 2002. An 18-year Mallinckrodt veteran, Moussa had been president of Mallinckrodt Medical since 1992.

[BOB MOUSSA]
President,
International

[GENE FOX, PH.D.]
Vice President,
Science & Technology

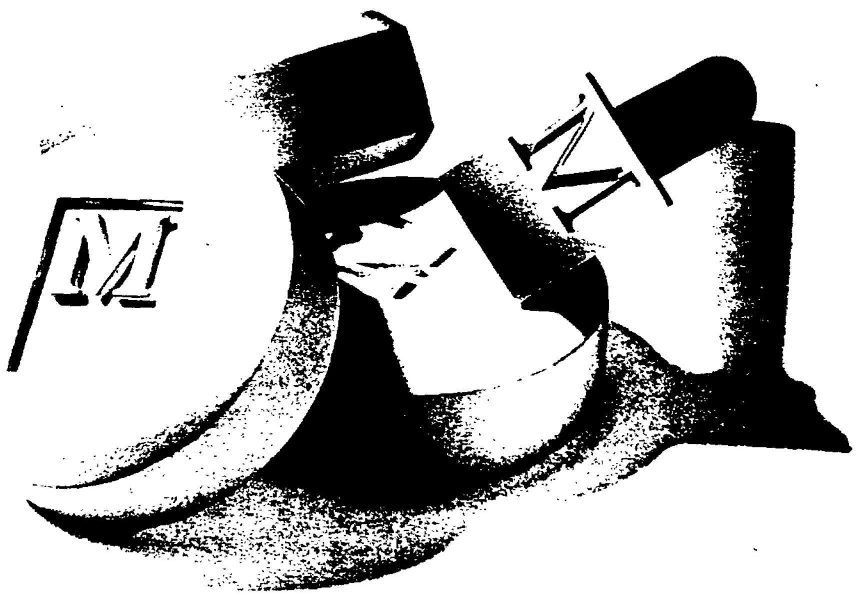
Focusing on new technology and products J. Eugene Fox, Ph.D., was appointed vice president, science and technology. He will be responsible for developing an integrated technology program to ensure that investments made in research will support growth objectives. He will also assess technological opportunities and explore intercompany technology synergies. Fox had been vice president of science and technology at Mallinckrodt Medical since 1989.

ACTION Mallinckrodt senior management realized several years ago that dynamics in the healthcare industry would radically change the way hospitals purchased goods and services. In 1994, a new sales force structure was created to accommodate the industry's evolution to consolidated purchasing. Mallinckrodt integrated its five medical sales divisions into one unified sales team, organized along regional lines, with specialists for each business area. In addition to increasing responsiveness and creating a single point of contact with customers, the new sales force structure allows the company to address individual and group hospital sales opportunities rapidly and effectively.

RESULT On July 1, 1996, Mallinckrodt began supplying the 1,700 facilities that are members of Premier, Inc., the largest healthcare alliance in the United States, with X-ray contrast media. This five-year agreement is believed to be the largest contract ever written for contrast media products. Mallinckrodt's new sales force structure played a central role in securing the business. The regional alignment was useful in working with Premier's member hospitals — the people who ultimately chose the alliance's new contrast media supplier — before the agreement was presented to Premier management. In addition to the obvious benefits from additional sales, the agreement has given Mallinckrodt increased brand equity in the marketplace and made the company a more substantial factor in the medical products market.

We won the Premier contract by meeting the challenge of the evolving healthcare market.

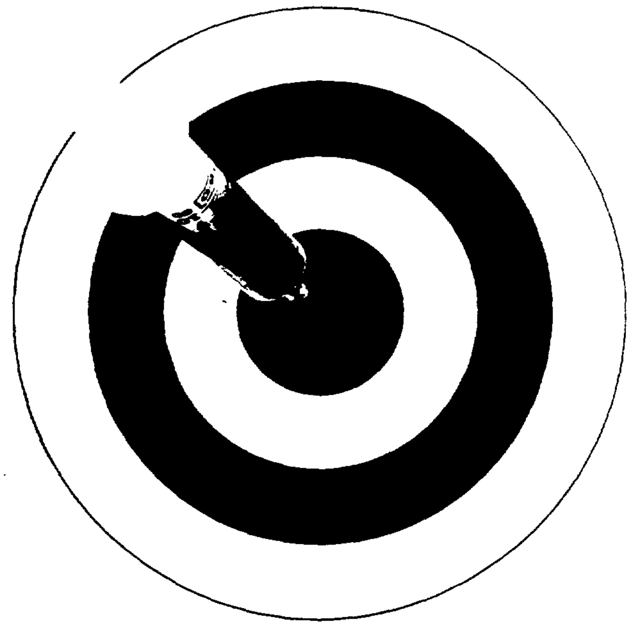
We acquired a product line of specialty analgesics as an extension of our dosage pharmaceutical business.



ACTION One element of the company's integrated growth plan is expansion into new markets and new geographic territories by adding businesses and products through the right acquisition. Strategically matched acquisitions provide synergies that contribute to growth, add value to existing core businesses, and make good business sense. In fiscal 1996, Mallinckrodt acquired a product line of specialty analgesic pharmaceuticals from King Pharmaceuticals. More acquisition activity is anticipated in fiscal 1997 and beyond.

RESULT The new product line, acquired from King Pharmaceuticals, encompasses three dosage strengths of a medication that combines two pain relievers: hydrocodone, an opiate-based narcotic, and acetaminophen. Both ingredients are produced in bulk by Mallinckrodt. The acquisition significantly expands Mallinckrodt's dosage pharmaceutical business. It is an example of the company's strategy of growing through product development and acquisitions. The transaction is expected to provide annual product sales potential in excess of $50 million by the year 2000.

We acquired Syntro to target the focus on vaccines to promote healthier animals.



ACTION Acquiring the technology necessary to expand in the animal vaccine market was a key component of Mallinckrodt's strategic plan for its animal health business. The company's animal health division has identified animal vaccines as a key strategic growth area. Advanced technologies that are innovative and cost-effective provide vehicles for growth into new product lines and let the company expand market share with existing and new customers.

RESULT A tender offer for the stock of Syntro Corporation, a biotechnology company based in Kansas City and San Diego, was successfully completed in October 1995. Syntro develops innovative recombinant vaccines for the animal health products market. The acquisition provides important technology for a number of innovative vaccines for swine and a stronger position in the growing companion animal segment. Integration of Syntro's platform of advanced technologies and global commercialization capabilities and resources will enable this business to continue expanding its global position in animal vaccines. It also will make exciting new applications possible.

ACTION As a participant in the emerging market for contrast-enhanced ultrasound imaging, Mallinckrodt sees great market potential for these noninvasive procedures. By entering into a new distribution and investment agreement with Molecular Biosystems, Inc., for Albunex®* the first commercially available contrast agent for ultrasound imaging, and FS069, the next-generation ultrasound contrast product in development, the company has raised its stake in the future of ultrasound technology.

RESULT The new fiscal 1996 agreement with Molecular Biosystems, Inc., extends a 1988 alliance that provides for cooperative development and marketing of contrast agents designed to improve the clinical utility of ultrasound imaging. The distribution agreement extends Mallinckrodt's exclusive U.S. rights to market and sell products from October 1999 until either July 2003 or three years after Food and Drug Administration approval of FS069, whichever occurs later.

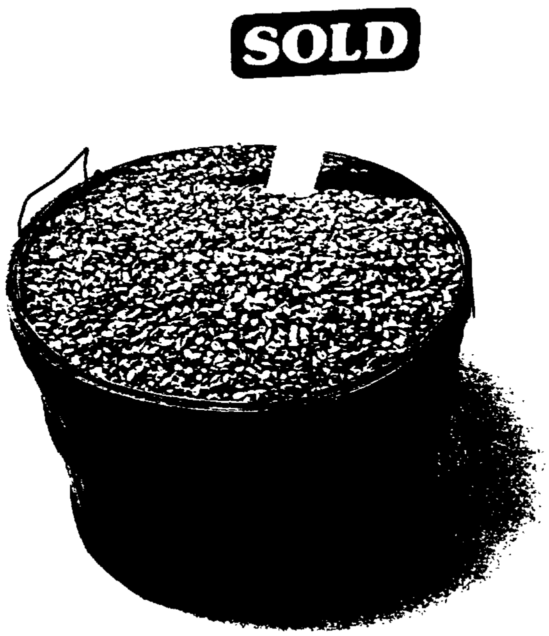
We expanded our agreement with Molecular Biosystems to continue pioneering in the ultrasound imaging market.

ACTION Changing dynamics in the healthcare industry have created a demand for total system solutions through single-source purchasing. Mallinckrodt is developing opportunities to meet the expectations of healthcare purchasing organizations. The company will offer a variety of products as it enhances its global leadership in contrast imaging agents.

RESULT In January, Mallinckrodt completed the purchase of Cincinnati-based Liebel-Flarsheim Company, a world leader in the development, manufacture and marketing of contrast media power injection systems for diagnostic imaging procedures. Liebel-Flarsheim is an important addition to Mallinckrodt. The two companies had participated in an agreement since 1992 under which Liebel-Flarsheim made its injection systems compatible with Mallinckrodt's Ultraject® prefilled syringes. Today, those compatible injection systems are used around the world. The acquisition enables Mallinckrodt to continue meeting the market's increasing demand for total system solutions.

We purchased Liebel-Flarsheim to enhance our global leadership in contrast imaging agents.

We sold our feed ingredients business because it no longer fit our strategic focus.



ACTION Mallinckrodt continuously reviews its portfolio of businesses for strategic fit, long-term sales growth, and profitability potential. Business units with insufficient potential to meet long-term goals and businesses no longer fitting our strategic focus are divested so businesses that better meet the company's objectives may be added.

RESULT The sale of Mallinckrodt's animal feed ingredients business to the IMC-Agrico joint venture of IMC Global Inc. and Freeport McMoRan was completed in October. Although feed ingredients is a good business, with solid cash flow and profitability, its business characteristics and long-term growth prospects were no longer in line with Mallinckrodt's interests. Despite the short-term negative impact of the divestiture, long-term sales growth and profitability should be enhanced by the addition of businesses that better fit the company's strategic profile.

These initiatives are adding value to our core businesses while enhancing performance and shareholder value.

The achievements highlighted on the previous pages are proof that our integrated growth plan is working. The initiatives included in the plan are solid strategies that are designed to produce extraordinary value.

- *Enhancing Management Systems and Processes*
- *Managing Our Base Business for Growth*
- *Discovering and Marketing New Technologies*
- *Enhancing Our Business Portfolio*

We can already see the results, and they underscore our commitment to build value through managed growth. In addition to these major accomplishments, a number of other significant actions, explained on the following pages, were taken during the year.

Managing Our Base Business for Growth

- A new supply agreement signed in April with Syncor International Corporation will broaden the distribution of radiopharmaceutical products. Syncor will be given access to a full range of Mallinckrodt radiopharmaceuticals, including OctreoScan®, a proprietary product that uses peptides for the early detection of certain types of cancerous tumors. Syncor will in turn provide Mallinckrodt access to DuPont Merck's products, including Cardiolite®, Neurolite® and Persantine®.
- An alliance was formed in August 1995 to allow Medtronic, Inc., to distribute a line of diagnostic cardiac catheters manufactured by Mallinckrodt. Under terms of the agreement, Mallinckrodt will produce 5-, 6- and 7-French angiographic catheters for marketing by the Medtronic Interventional Vascular business worldwide. The catheters are used for introduction of contrast media into veins or arteries during diagnostic X-ray examinations.

Ultraject® syringes pre-filled with Optiray® contrast imaging agent have been approved for marketing in Japan. The approval means that the world's second-largest medical imaging market is now open to one of Mallinckrodt's most successful, innovative product offerings. The syringes are being distributed by Yamanouchi Pharmaceutical Co., Ltd., which holds exclusive rights to distribute Optiray in Japan.

Enhancing Our Animal Health Business for Growth

- Acquisition of CBM Laboratories, one of the top three companies in the Brazilian poultry biologicals market, was announced in September. The purchase includes all manufacturing, marketing, scientific and distribution activities. CBM has developed a full range of poultry vaccines. It recently added several vaccines for companion animals.

Enhancing Management Systems and Processes for Growth

- A concept for shared financial services is being implemented companywide to eliminate duplication and reduce costs. Processes to be centralized include payroll, property, accounts receivable and credit, accounts payable, financial services and general ledger. Data processing systems for financial and human resources functions will also be standardized.
- Operational support functions, combining the resources located in the former operating companies, are being consolidated to support Mallinckrodt's operating divisions. These support services include engineering, health and safety, productivity, quality assurance and environmental affairs.

Both of these actions will not only reduce expenses, but also permit development of a center of excellence to significantly enhance core competencies.

Discovering and Marketing New Technology for Growth

A collaborative agreement with Microbix Biosystems Inc. of Toronto, Ontario, will provide initial funding for the research, development and registration of novel nonreplicative recombinant rabies vaccines. The agreement, announced in December, provides for sharing worldwide licensing rights for the vaccines, which can lead to more efficient rabies prevention and may be used in multiple species.

Mallinckrodt and Immunomedics, Inc., have entered into a U.S. distribution agreement for CEA-Scan,® Immunomedics' in vivo diagnostic imaging product for the diagnosis of colorectal cancer. Mallinckrodt will distribute the product on a consignment basis.

Immunomedics will retain manufacturing rights. Both companies will commit financial resources for marketing the product. Mallinckrodt already holds the European marketing rights for CEA-Scan through a licensing agreement signed last year.

Other Highlights

Mallinckrodt CEO Ray Holman completed a one-year term as chairman of the Health Industry Manufacturers' Association in March 1996. Reform of the U.S. Food and Drug Administration was addressed extensively as a key issue during his year as chairman. Paul Cottone, president of Mallinckrodt's Veterinary Division, was elected chairman-elect of the Animal Health Institute in May 1996. The organization represents manufacturers of animal health products.

Swedish health authorities approved in March TechneScan® Q12, a technetium-based imaging agent, for marketing to Swedish health professionals. Sweden is the first country in the European Union to approve the product, which is intended for use in assessing a variety of heart conditions, ranging from chest pain to damage from coronary artery disease.

Phase 3 clinical trials for FS069, the next-generation ultrasound contrast agent, were completed in April by Molecular Biosystems, Inc. The trial, performed at 14 prominent institutions in the United States, enrolled a total of 200 patients, who received diagnostic ultrasound examinations of the heart.

Oyé Olukotun, M.D., was appointed vice president, medical & regulatory affairs for Mallinckrodt. Olukotun joins Mallinckrodt from Bristol-Myers Squibb Company where he was

vice president of medical affairs, chronic care. He has held academic appointments at Mayo Foundation, Hershey Medical School and Yale University School of Medicine. Olukotun earned his B.A. in chemistry from the University of North Carolina, his M.D. from the Albert Einstein College of Medicine and his M.P.H. from the Harvard University School of Public Health.

A new state-of-the-art facility for the manufacture of the Shiley tracheostomy tube product line, as well as flow-control devices used in critical care, was dedicated in Irvine, California, in October. The plant employs about 400 people. It combines what were formerly four separate operations in one efficient facility using a participative team management concept called the "focus factory."

The addition of Gareth C.C. Chang as a member of the Board of Directors in April added extensive international business experience. Chang is corporate senior vice president of marketing at Hughes Electronics and president of Hughes International. He joined Hughes in 1993 after a 20-year career with McDonnell Douglas Corporation where he was head of the company's Asia/Pacific operations.

The Wharton School of the University of Pennsylvania and Spencer Stuart, an international executive search firm, jointly presented the first Board of the Year Award to the directors of Mallinckrodt. The award, the only one of its kind, recognizes the outstanding

performance of Mallinckrodt's board of directors and its pivotal role in improving corporate performance and governance. Mallinckrodt was selected from among 16 finalists by a jury of nine leaders from business, academia and government.

In January, Tastemaker, the company's 50-50 flavors joint venture established with Hercules, Inc., in 1992, acquired Consolidated Flavor Corporation of St. Louis, Missouri. Consolidated is the largest domestic supplier of powders and syrups for milk.

A line of credit totaling $600 million was established in June to be used for debt retirement and other general corporate purposes. The new credit line is in addition to the company's $550 million commercial paper backup credit, which remains in effect. The credit facility allowed Mallinckrodt to borrow against a portion of its share of the value of Tastemaker.

Production capacity was increased at two Mallinckrodt facilities where X-ray contrast agents are packaged. A new multipurpose production line to manufacture Ultraject® syringes pre-filled with Optiray® contrast imaging agent was built at the company's Montreal, Quebec, facility. The Canadian plant produces products for Europe, Japan and other international locations. Installation of a new production line for Ultraject® power injector syringes and modernization of a glass vial line at Raleigh, North Carolina, more than doubled that plant's capacity. The projects are examples of the company's expansion of infrastructure to prepare for market opportunities.

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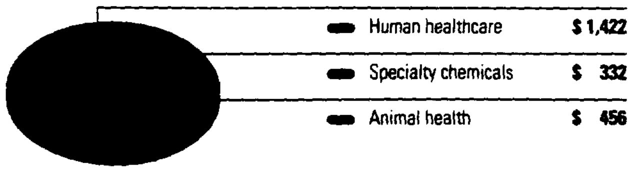
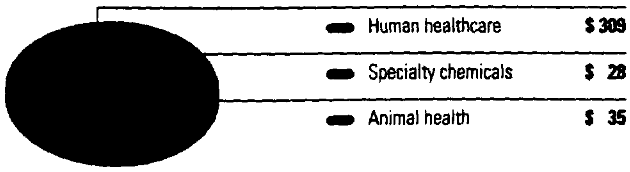
All references to years are to fiscal years ended June 30 unless otherwise stated.

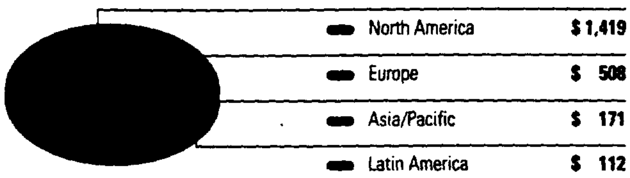
Net Sales by Business Unit
(In millions)



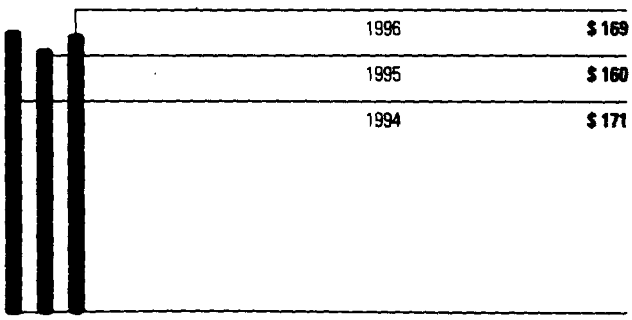
Operating Earnings by Business Unit
(In millions)



Geographic Net Sales
(In millions)



Capital Expenditures
(In millions)



Overview

1996 vs. 1995

Mallinckrodt's earnings from continuing operations for the year ended June 30, 1996, were $191 million, or $2.50 per share. This represents an 18 percent increase in per share earnings from continuing operations compared to $164 million or $2.11 per share in the prior year. Operating results for 1996 reflect a noncash pre-tax charge of $4 million associated with the acquisition of Syntro Corporation during the second quarter.

Net earnings for 1996 were $212 million, or $2.77 per share, compared with $180 million, or $2.32 per share in 1995. Fiscal 1996 net earnings include the gain resulting from the sale of the feed ingredients business in the second quarter, partially offset by a second quarter adjustment of provisions for environmental costs related to discontinued operations. Net earnings for 1996 and 1995 include $4 million and $20 million of earnings net of taxes, respectively, from the divested feed ingredients business.

Net sales increased 8 percent to $2.2 billion, compared to $2.0 billion a year ago. Operating earnings were $330 million for 1996, up 11 percent compared to $297 million in 1995.

During 1996, a Strategic Change Initiative was announced which included major organizational and operating changes designed to enhance global growth and improve operational effectiveness. This initiative eliminated the management and administrative structures of three former operating companies. Those businesses are now managed through divisions with global responsibility under a chief operating officer. Mallinckrodt realigned its operating segments to reflect the customer focus of its divisions. Prior periods for segments have been reclassified to conform with the 1996 presentation.

Discontinued operations are discussed in Note 1 of the Notes to Consolidated Financial Statements (Notes).

1995 vs. 1994

Mallinckrodt's 1995 earnings from continuing operations were $164 million, or $2.11 per share. These results, compared with 1994 earnings from continuing operations, excluding a restructuring charge and minor nonrecurring adjustments, were up 14 percent.

Net earnings for 1995 were $180 million, or $2.32 per share, compared with $104 million, or $1.33 per share, in 1994. Included in the 1994 results was an after-tax restructuring charge totaling $59 million, or $.76 per share.

Net sales for 1995 increased 15 percent to $2.0 billion, compared to $1.8 billion in 1994. Operating earnings for 1995 were $297 million, up 16 percent over comparable 1994 results excluding the restructuring charge. Each of Mallinckrodt's three segments contributed to sales and earnings growth in 1995.

Restructuring charges are discussed in the business sections which follow, and in Note 1 of the Notes.

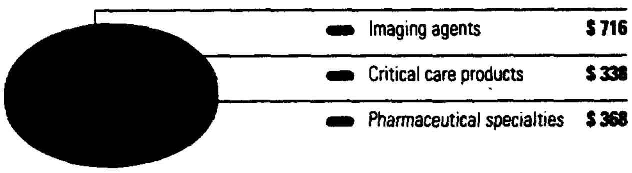
Human Healthcare

(In millions)

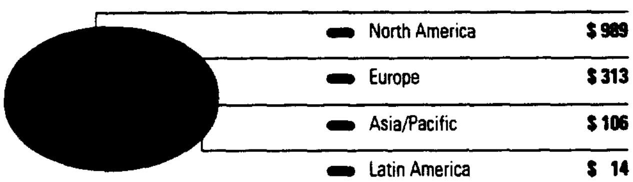
Years ended June 30,	1996	1995	1994
Net sales	$ 1,422	$ 1,337	$ 1,193
Operating earnings:			
Ongoing operations	$ 309	$ 276	$ 252
Restructuring charge			(74)
	$ 309	$ 276	$ 178
Ongoing operating earnings as a percent of sales	21.7%	20.6%	21.1%*

*Excluding restructuring charge

Human Healthcare Net Sales by Product Group
(In millions)



Human Healthcare Geographic Net Sales
(In millions)



1996 vs. 1995

Human healthcare's operating earnings for 1996 were $309 million, up 12 percent compared to $276 million in 1995. Net sales increased 6 percent to $1.4 billion. Productivity programs initiated during the last several years helped earnings improve at a faster rate than sales.

Sales for imaging agents were up 4 percent, primarily from the acquisition of Liebel-Flarsheim in January 1996, and improved nuclear medicine sales in Europe. Volume gains for contrast media were offset by competitive pricing.

Sales of critical care products increased 5 percent primarily from higher volume of respiratory therapy products in Japan and Europe.

Pharmaceutical specialties sales improved 13 percent. Sales volume and pricing for medicinal narcotics were the main contributors to the increase. Sales also benefited from the acquisition of King Pharmaceuticals' specialty analgesic pharmaceuticals product line in December 1995.

In January 1996, Liebel-Flarsheim Company, a leading manufacturer of contrast media power injector systems for diagnostic imaging procedures and equipment for urology procedures, was acquired. The acquisition enhanced sales performance but modestly impaired operating earnings. Management believes this operation will be a positive contributor to 1997 operating results. In December 1995, King Pharmaceuticals' product line of specialty analgesic pharmaceuticals was acquired. The business is important to our specialty pharmaceutical strategy and is expected to have a positive impact on future periods' results.

Contributing to operating earnings were restructuring actions begun in 1994 which are generating annualized pre-tax savings at a level approximating $40 million. Management expects incremental benefits in 1997 and beyond as the program is ultimately completed.

1995 vs. 1994

Human healthcare's 1995 operating earnings were $276 million, up 10 percent, excluding the 1994 restructuring charge. Net sales reached $1.3 billion, an increase of 12 percent from $1.2 billion in 1994.

Contributing to the improved operating earnings were results of actions related to the restructuring program begun in 1994. Such actions included reorganization of the U.S. sales structure and non-sales related functions and management processes, relocation costs for manufacturing operations and a workforce reduction of approximately 600 positions, 500 of which were contemplated in the 1994 restructure plan. Pre-tax savings from the restructuring program approximated $11 million in 1995.

Sales of imaging agents increased 11 percent, benefiting principally from higher worldwide sales volume of the X-ray contrast medium Optiray®, partially offset by pricing pressures in the U.S. Increased U.S. sales volume of TechneScan MAG3®, the introduction of OctreoScan® and higher sales of nuclear medicine products in Europe due to growth in existing markets, contributed to the improved results.

Critical care products sales were up 11 percent for 1995, boosted by the September 1994 acquisition of DAR S.p.A., higher anesthesia product sales in Europe and Japan and increased sales volume of hemoglobin testing products in the U.S. and Europe.

Pharmaceutical specialties sales improved 16 percent in 1995. Continued strength in sales volume for medicinal narcotics was the main contributor to the increase. Higher worldwide acetaminophen (APAP) sales volume, improved plant performance in Raleigh, North Carolina, and higher sales of peptides also provided benefits in 1995.

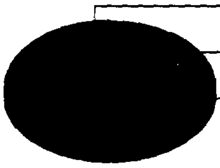
Specialty Chemicals

(In millions)

Years ended June 30,	**1996**	1995	1994
Net Sales	**$ 332**	$ 252	$ 156
Operating earnings	**$ 28**	$ 21	$ 13
Operating earnings as a percent of sales	**8.4%**	8.2%	8.0%

Specialty Chemicals Geographic Net Sales

(In millions)



North America	**$ 298**
Europe	**$ 30**
Latin America	**$ 4**

1996 vs. 1995

Specialty chemicals' operating earnings increased 35 percent in 1996, to $28 million. Net sales were $332 million, an improvement of 32 percent compared to 1995. The 1995 acquisition and subsequent successful integration of J.T. Baker and existing specialty chemical operations were principal contributors to year to year growth.

1995 vs. 1994

Specialty chemicals achieved earnings of $21 million in 1995. This represented a 65 percent earnings improvement over 1994. Net sales increased 62 percent to $252 million. Results benefited from the acquisition of Catalyst Resources, Inc., in March 1994 and the reclassification of a small specialty chemical business to continuing operations. The acquisition of J.T. Baker in February 1995 enhanced sales performance, but modestly impaired operating earnings through normal acquisition accounting adjustments. Worldwide strength in the existing catalysts business also contributed to sales and earnings improvements in 1995. The 1993 restructuring program was substantially completed during 1995, with the exit of the photochemicals business.

Animal Health

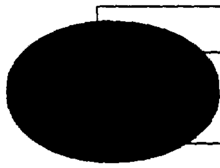
(In millions)

Years ended June 30,	**1996**	1995	1994
Net sales	**$ 456**	$ 455	$ 429
Operating earnings:			
Ongoing operations	**$ 35**	$ 29	$ 21
Restructuring charge			(20)
	$ 35	$ 29	$ 1
Ongoing operating earnings as a percent of sales	**7.7%**	6.3%	4.9%*

*Excluding restructuring charge

Animal Health Geographic Net Sales

(In millions)



North America	**$ 132**
Europe	**$ 165**
Asia/Pacific	**$ 65**
Latin America	**$ 94**

1996 vs. 1995

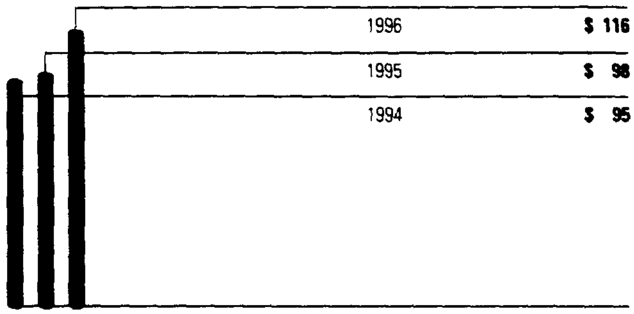
Animal health's operating earnings were $35 million, up 22 percent. These results reflect a noncash pre-tax charge of $4 million for write-off of purchased research and development associated with the acquisition of Syntro Corporation. Excluding this charge, operating earnings improved 34 percent. Net sales were $456 million, up $1 million compared to the prior year, despite the exit from certain product lines in Latin America. Higher sales volume due to a new distribution agreement and favorable pricing in Asia partially offset lower volumes in North America and Latin America. European operations also contributed to improved operating results. An improved sales mix toward higher margin animal productivity and biological products, improved plant performance and lower expenses as a percentage of sales augmented the improved earnings performance.

Although the results in 1996 and 1995 have substantially improved, the Company has concluded that the animal health business will have greater potential and be more successful through alignment with a company that possesses core technology more directly related to the development of animal health products. Therefore, the Company has decided to explore all strategic options related to this business.

1995 vs. 1994

Animal health's 1995 operating earnings were $29 million, up 37 percent, excluding the 1994 restructuring charge. Net sales were $455 million, up 6 percent compared to $429 million in 1994. Sales volume growth was highest in Europe due to increases across all major product lines. Sales in Asia improved primarily from higher volumes of biological products. Contributing to the improved operating earnings were favorable currency effects, principally in Europe and Latin America, and the favorable impact of actions related to the restructuring program begun in 1993, which included various cost control measures, plant closures and a workforce reduction of approximately 1,000 employees.

Research and Development
(In millions)



Corporate Matters

A Strategic Change Initiative, announced in December 1995, involves the consolidation of operations and administrative staff support at the operating companies with respective corporate staff functions. Several actions have been taken, but the bulk of the effort will be implemented during 1997 and beyond. The increase in corporate expense in the fourth quarter and full year 1996 is primarily attributable to these efforts. The Strategic Change Initiative is expected to have generally negative effects for the first quarter and first half of 1997 and accelerating savings for the duration of the year, resulting in a program which is planned to be earnings neutral for all of 1997.

Earnings for Tastemaker, the Company's flavors joint venture, were $32 million in 1996, and $25 million in 1995, due to strong worldwide sales growth and manufacturing cost improvements. These results represented annual growth of 26 percent and 37 percent for 1996 and 1995, respectively.

Since its inception in 1992, Tastemaker has enjoyed significant success in its growth and profitability. Now, the Company is ready to realize the value that has been gained with its investment in Tastemaker. Accordingly, the Company is prepared to sell its interest in Tastemaker, in cooperation with our joint venture partner, Hercules, Inc., if an acceptable offer is received.

Net interest income and other nonoperating expense decreased $4 million in 1996 from 1995. This decrease related primarily to higher interest income in 1996 and the effect of a write-down of an investment and hedging losses in 1995.

Mallinckrodt's effective tax rate for continuing operations was 36.9 percent in 1996, compared with 37.5 percent in 1995. See Note 9 of the Notes for further discussion of income taxes.

Financial Condition

Financial resources currently available to the Company are expected to continue to be adequate to support existing businesses, fund the remaining cash expenditures of approximately $95 million for the restructuring programs and fund new opportunities. Any resources generated by the potential strategic actions associated with animal health and Tastemaker previously discussed, will be reinvested in new and ongoing growth opportunities, especially in human healthcare. Growth initiatives in specialty chemicals and possible additional share repurchases of the company stock will also be considered.

Since June 30, 1995, cash and cash equivalents increased $485 million. Operations provided $200 million of cash, while acquisition and capital spending totaled $323 million, $70 million of which related to the acquisition of Liebel-Flarsheim Company, $38 million to the acquisition of Syntro Corporation and $32 million to the acquisition of a product line from King Pharmaceuticals. In May 1996, the Company established a $600 million renewable credit agreement available until May 1997. Borrowings under the credit agreement were $600 million at June 30, 1996. A portion of the cash was used to retire existing debt, and, at June 30, 1996, $411 million remains in cash and cash equivalents for additional debt retirement and other general corporate purposes.

The Company's debt as a percentage of invested capital was 49 percent at June 30, 1996; however, if adjusted for the $411 million of cash and cash equivalents noted above, this percentage would have been 39 percent. The Company's current ratio at June 30, 1996, was 1.3:1.

In April 1992, a shelf registration statement was filed with the Securities and Exchange Commission (SEC) for $250 million of debt securities. As of June 30, 1996, $50 million of securities under the shelf remain unissued. In February 1995, a shelf registration statement was filed with the SEC for $250 million of debt securities. In September 1995 and November 1995, the Company issued $100 million of 6.75% notes due September 15, 2005, and $100 million of

6.5% notes due November 15, 2007, respectively. As of June 30, 1996, $50 million of securities under the February 1995 shelf remain unissued. Net proceeds from the sale of any debt securities would be used for general corporate purposes, except as noted in any prospectus supplement.

The Company also has a $550 million private-placement commercial paper program. This program is backed by a $550 million credit agreement available until May 2001. There were no amounts outstanding under the commercial paper program or the credit agreement at June 30, 1996. Non-U.S. lines of credit totaling $214 million were also available and borrowings under these lines were $17 million at June 30, 1996. These non-U.S. lines are cancelable at any time.

The Company's Board of Directors previously authorized repurchase of a total of 42 million shares of its common stock. Thirty-three million shares have been purchased under the previous authorization, 3.5 million during the year ended June 30, 1996.

Estimated capital spending for the fiscal year ending June 30, 1997, is approximately $190 million.

Environmental Matters

The Company is subject to various environmental protection and occupational safety and health laws and regulations in the United States and foreign countries in which it operates. In addition, in its current operations and over the years, the Company has handled, and will continue to deal in or otherwise handle, materials and wastes classified as hazardous or toxic by one or more regulatory agencies.

Significant capital expenditures, as well as operating costs, have been incurred to comply with the laws and regulations governing the protection of the environment, occupational safety and health, and the handling of hazardous materials. There are inherent and unquantifiable risks in handling hazardous or toxic materials and wastes. On the basis of its best information, the Company does not believe the expenditures and risks occasioned by these circumstances have as yet become materially adverse to its financial condition or results of operations; however, no assurance can be given that this will continue to be true. In particular, the Company is unable to predict the extent to which it may be adversely affected by future regulatory developments such as new or changed laws or regulations.

Most of the Company's environmental related capital expenditures are in response to provisions of the Federal Clean Air Act, Water Pollution Control Act, Resource Conservation and Recovery Act, Comprehensive Environmental Response, Compensation, and Liability Act, land use, air and water protection regulations of the various localities and states, and their foreign counterparts. Capital expenditures worldwide relating to air emission control, wastewater purification, land reclamation and solid waste disposal totaled approximately $14 million in 1996 and $14 million in 1995. The Company currently estimates that environmental capital expenditures over the next two years will average about $13 million per year.

During 1996, the Company assumed and was compensated for certain costs to remediate various sites in the future. In addition, the Company established additional environmental reserves for discontinued operations. The Company has accruals of $97 million at June 30, 1996, for costs associated with the study and remediation of Superfund sites and for the Company's current and former operating sites. Claims for recovery have not been netted against the accrued environmental liabilities. While ongoing litigation may eventually result in recovery of costs expended at certain of the environmental sites, any gain is contingent upon a successful outcome and has not been accrued.

Based on information presently available, the Company believes any amounts paid in excess of the accrued liabilities will not have a material adverse effect on its financial position or results of operations.

Other Matters

The Company operates globally, with manufacturing and distribution facilities in various countries throughout the world and as such is subject to certain opportunities and risks, including currency fluctuations and government actions. Mallinckrodt generates a significant portion of its operating earnings and cash flows outside the United States and is positioned to benefit from its use of approximately 26 functional currencies as currency fluctuations are often offsetting.

Operations in each country are monitored to respond to changing economic and political environments quickly and take advantage of changing foreign currencies and interest rates. The Company uses certain derivative financial instruments, principally purchased options, forward contracts and currency swaps, to manage its exposure to fluctuations in foreign exchange and interest rate risk. Additionally, various operational initiatives are employed to help manage business risks. The net impact of foreign exchange activities was immaterial for 1996, 1995 and 1994, including the conversion of certain currencies into functional currencies and the costs of hedging certain transactions and balance sheet exposures.

The Company does not consider the present rate of inflation to have a significant impact on the businesses in which it operates.

While future economic events cannot be predicted, the Company believes its current operations and future expansion plans will not result in a significantly different risk profile.

Report of Independent Auditors

To the Shareholders and Board of Directors of Mallinckrodt Group Inc.

We have audited the accompanying consolidated balance sheet of Mallinckrodt Group Inc. as of June 30, 1996 and 1995, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended June 30, 1996, appearing on pages 23 through 37. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mallinckrodt Group Inc. at June 30, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 1996, in conformity with generally accepted accounting principles.

Ernst + Young LLP

Ernst & Young LLP
St. Louis, Missouri
August 7, 1996

Responsibility for Financial Reporting

The financial statements included in this report are the responsibility of management. The statements have been prepared in conformity with generally accepted accounting principles and include amounts based on our best estimates and judgments. Financial information appearing elsewhere in this report is consistent with that in the financial statements.

Management is also responsible for maintaining systems of internal accounting control with the objectives of providing reasonable assurance at reasonable cost that the Company's assets are safeguarded against material loss from unauthorized use or disposition and that transactions are properly authorized and recorded to permit reliance on the Company's financial data and records. In addition, the Company maintains a program for communicating corporate policy throughout the organization and, as a further safeguard, an internal audit staff monitors compliance with policies and systems of internal accounting control.

Mallinckrodt's financial statements have been audited by Ernst & Young LLP. To express their opinion as to the fairness of the statements in conformity with generally accepted accounting principles, they review and evaluate Mallinckrodt's accounting controls and conduct such tests and other procedures as they deem necessary. The Audit Committee of the Board of Directors regularly meets with the independent auditors — both jointly and separately — to review financial reporting matters and audit and control functions.

William B. Stone
Vice President and Controller
August 7, 1996

Michael A. Rocca
Senior Vice President and
Chief Financial Officer
August 7, 1996

Information by Business Segment

(In millions)

	Net Sales 1996	1995	1994
Human healthcare	**$ 1,422.7**	$ 1,336.8	$ 1,193.2
Specialty chemicals	**332.0**	251.8	155.9
Animal health	**455.8**	454.9	429.5
Intersegment sales	**(.3)**	(.3)	(.7)
Consolidated	**$ 2,210.2**	$ 2,043.2	$ 1,777.9

	Earnings from Continuing Operations Before Income Taxes			Identifiable Assets		
	1996	1995	1994	**1996**	1995	1994
Human healthcare	**$ 309.0**	$ 276.0	$ 178.1	**$ 1,797.8**	$ 1,591.1	$ 1,443.0
Specialty chemicals	**27.9**	20.6	12.5	**339.3**	299.8	177.6
Animal health	**34.9**	28.7	1.0	**773.0**	735.5	697.1
Corporate	**(41.4)**	(28.8)	(30.2)	**623.7**	205.9	200.2
Eliminations	**(.3)**	.2	.1	**(127.9)**	(154.9)	(116.9)
Operating earnings	**330.1**	296.7	161.5			
Equity in pre-tax earnings of joint venture	**31.9**	25.3	18.5			
Interest and other nonoperating expense, net	**(.3)**	(4.3)	(.4)			
Interest expense	**(58.7)**	(55.5)	(40.0)			
Consolidated	**$ 303.0**	$ 262.2	$ 139.6	**$ 3,405.9**	$ 2,677.4	$ 2,401.0

	Capital Expenditures			Depreciation and Amortization		
	1996	1995	1994	**1996**	1995	1994
Human healthcare	**$ 100.2**	$117.4	$135.0	**$ 94.9**	$ 82.0	$ 66.7
Specialty chemicals	**24.6**	9.6	6.0	**18.2**	13.5	7.5
Animal health	**40.2**	30.0	27.0	**31.8**	25.9	26.3
Corporate	**4.2**	2.6	3.2	**4.2**	1.6	2.5
Consolidated	**$ 169.2**	$159.6	$171.2	**$ 149.1**	$ 123.0	$103.0

(See Note 18 of the Notes to Consolidated Financial Statements.)

Consolidated Statement of Operations

(In millions, except per share amounts)

Years ended June 30,	**1996**	1995	1994
Net sales	**$ 2,210.2**	$ 2,043.2	$ 1,777.9
Operating costs and expenses:			
Cost of goods sold	**1,192.8**	1,102.8	931.9
Selling, administrative and general expenses	**584.9**	552.8	496.7
Research and development expenses	**116.2**	97.8	95.3
Restructuring charge			93.9
Other operating income, net	**(13.8)**	(6.9)	(1.4)
Total operating costs and expenses	**1,880.1**	1,746.5	1,616.4
Operating earnings	**330.1**	296.7	161.5
Equity in pre-tax earnings of joint venture	**31.9**	25.3	18.5
Interest and other nonoperating expense, net	**(.3)**	(4.3)	(.4)
Interest expense	**(58.7)**	(55.5)	(40.0)
Earnings from continuing operations before income taxes	**303.0**	262.2	139.6
Income tax provision	**111.8**	98.3	51.7
Earnings from continuing operations	**191.2**	163.9	87.9
Discontinued operations	**20.7**	16.4	15.9
Net earnings	**211.9**	180.3	103.8
Preferred stock dividends	**(.4)**	(.4)	(.4)
Available for common shareholders	**$ 211.5**	$ 179.9	$ 103.4
Earnings per common share			
Continuing operations	**$ 2.50**	$ 2.11	$ 1.13
Discontinued operations	**.27**	.21	.20
Net earnings	**$ 2.77**	$ 2.32	$ 1.33

(The accompanying Notes are an integral part of the Consolidated Financial Statements.)

Consolidated Balance Sheet

(In millions, except share and per share amounts)

At June 30,	1996	1995
Assets		
Current assets:		
Cash and cash equivalents	**$ 546.2**	$ 60.9
Trade receivables, less allowances of $12.8 in 1996 and 1995	**453.9**	392.5
Inventories	**470.2**	415.5
Deferred income taxes	**42.9**	53.2
Other current assets	**57.7**	56.9
Total current assets	**1,570.9**	979.0
Investments and long-term receivables, less allowances of $8.1 in 1996 and $17.0 in 1995	**150.0**	165.5
Property, plant and equipment, net	**1,036.4**	978.0
Intangible assets	**647.5**	527.6
Net noncurrent assets of discontinued operations		26.6
Deferred income taxes	**1.1**	.7
Total assets	**$ 3,405.9**	$ 2,677.4
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	**$ 622.2**	$ 107.5
Accounts payable	**194.6**	182.8
Accrued liabilities	**314.8**	332.1
Income taxes payable	**38.5**	7.7
Net current liabilities of discontinued operations	**38.4**	74.3
Deferred income taxes	**3.3**	2.7
Total current liabilities	**1,211.8**	707.1
Long-term debt, less current maturities	**575.8**	501.5
Deferred income taxes	**97.9**	76.9
Postretirement benefits	**156.0**	142.7
Other noncurrent liabilities and deferred credits	**132.2**	77.7
Total liabilities	**2,173.7**	1,505.9
Shareholders' equity:		
4 Percent cumulative preferred stock	**11.0**	11.0
Common stock, par value $1, authorized 300,000,000 shares; issued 87,116,289 shares	**87.1**	87.1
Capital in excess of par value	**283.5**	274.1
Reinvested earnings	**1,150.7**	984.5
Foreign currency translation	**(15.3)**	(9.3)
Treasury stock, at cost	**(284.8)**	(175.9)
Total shareholders' equity	**1,232.2**	1,171.5
Total liabilities and shareholders' equity	**$ 3,405.9**	$ 2,677.4

(The accompanying Notes are an integral part of the Consolidated Financial Statements.)

Consolidated Statement of Cash Flows

(In millions)

Years ended June 30,	1996	1995	1994
Cash Flows – Operating Activities			
Net earnings	**$ 211.9**	$ 180.3	$ 103.8
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**149.1**	125.0	104.6
Restructuring charge			93.0
Postretirement benefits	**10.9**	12.1	8.3
Increase in other noncurrent liabilities and deferred credits	**49.7**	2.4	.7
Undistributed equity in earnings of joint venture	**(25.0)**	(19.1)	(14.4)
(Gains) losses on asset disposals	**(55.1)**	.5	(.6)
Deferred income taxes	**30.5**	66.6	(5.2)
Other, net	**(10.2)**	(7.7)	(7.7)
	361.8	360.1	282.5
Changes in noncash operating working capital:			
Accounts receivable	**(62.5)**	(44.1)	(12.6)
Inventories	**(49.5)**	(16.3)	(11.4)
Accounts payable, accrued liabilities and income taxes, net	**(47.6)**	(12.8)	(32.1)
Other, net	**(2.7)**	(3.2)	.9
Net cash provided by operating activities	**199.5**	283.7	227.3
Cash Flows – Investing Activities			
Capital expenditures	**(169.2)**	(160.8)	(172.3)
Acquisition spending	**(153.9)**	(111.5)	(95.5)
IFL dividend receivable			51.9
Proceeds from asset disposals	**120.5**	21.2	8.6
Other, net	**26.1**	(22.8)	7.2
Net cash used by investing activities	**(176.5)**	(273.9)	(200.1)
Cash Flows – Financing Activities			
Increase (decrease) in short-term debt	**511.7**	19.9	(58.6)
Proceeds from long-term debt	**199.5**	3.2	196.4
Payments on long-term debt	**(103.7)**	(10.3)	(101.6)
Issuance of Mallinckrodt common stock	**31.0**	8.0	10.9
Acquisition of treasury stock	**(130.5)**	(15.4)	
Dividends paid	**(45.7)**	(42.2)	(37.7)
Net cash provided (used) by financing activities	**462.3**	(36.8)	9.4
Increase (decrease) in cash and cash equivalents	**485.3**	(27.0)	36.6
Cash and cash equivalents at beginning of period	**60.9**	87.9	51.3
Cash and cash equivalents at end of period	**$ 546.2**	$ 60.9	$ 87.9

(The accompanying Notes are an integral part of the Consolidated Financial Statements.)

Consolidated Statement of Changes in Shareholders' Equity

(In millions, except per share amounts)

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Reinvested Earnings	Other	Treasury Stock
Balance, June 30, 1993	$ 11.0	$ 87.1	$ 262.4	$ 780.3	$ (58.6)	$ (171.7)
Net earnings				103.8		
Dividends:						
4 Percent cumulative preferred stock ($4.00 a share)				(.4)		
Common stock ($.485 a share)				(37.3)		
Stock option exercises			4.0			6.9
Translation adjustment					24.4	
Other			1.8			2.2
Balance, June 30, 1994	11.0	87.1	268.2	846.4	(34.2)	(162.6)
Net earnings				180.3		
Dividends:						
4 Percent cumulative preferred stock ($4.00 a share)				(.4)		
Common stock ($.545 a share)				(41.8)		
Stock option exercises			2.0			6.2
Acquisition of treasury stock						(15.4)
Translation adjustment					24.9	
Other			3.9			(4.1)
Balance, June 30, 1995	11.0	87.1	274.1	984.5	(9.3)	(175.9)
Net earnings				211.9		
Dividends:						
4 Percent cumulative preferred stock ($4.00 a share)				(.4)		
Common stock ($.605 a share)				(45.3)		
Stock option exercises			8.1			21.6
Acquisition of treasury stock						(130.5)
Translation adjustment					(6.0)	
Other			1.3			
Balance, June 30, 1996	**$ 11.0**	**$ 87.1**	**$ 283.5**	**$ 1,150.7**	**$ (15.3)**	**$ (284.8)**

(The accompanying Notes are an integral part of the Consolidated Financial Statements.)

(In millions, except per share amounts)

Significant Accounting Policies

Principles of Consolidation

Financial statements of all majority owned subsidiaries are consolidated. Investments in 20 to 50 percent owned affiliates are reported on the equity method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period, as well as amounts included in the Notes. While the Company uses its best estimates and judgments, actual results could differ from these estimates.

Foreign Currency Translation

The financial statements of most of the Company's international affiliates are translated into U.S. dollars using current exchange rates for balance sheets and weighted average rates for income statements. Unrealized translation adjustments are included in shareholders' equity in the Consolidated Balance Sheet.

The financial statements of international affiliates that operate in hyperinflationary economies in certain Latin American countries are translated at either current or historical exchange rates, as appropriate. Unrealized translation adjustments are included in operating results for these affiliates.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of certificates of deposit, time deposits and other short-term securities with maturities of three months or less from the date of purchase.

Inventories

Inventories are valued at the lower of cost or market. Cost for inventories is determined on either an average or first-in, first-out basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is based upon estimated useful lives of 15 to 45 years for buildings and 3 to 15 years for machinery and equipment, using principally the straight-line method.

Derivative Financial Instruments

The Company hedges a significant portion of its foreign exchange exposure using certain derivative financial instruments, primarily purchased options, forward contracts, and currency swaps. Premiums on purchased options are recorded as assets and amortized to match the anticipated cash flows being hedged. Forward contracts and currency swaps are carried off-balance-sheet with gains and losses included in the measurement and recording of the hedged transactions. See also Note 8.

Stock-Based Compensation

The Company currently accounts for its stock-based compensation plans using the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25).

Advertising Costs

All advertising costs are expensed as incurred and included in selling, administrative and general expenses. Advertising expense was \$36.9 million, \$41.0 million and \$34.9 million in 1996, 1995 and 1994, respectively.

Recent Accounting Pronouncements

In March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS No. 121), which is effective for fiscal years beginning after December 15, 1995. This standard requires that long-lived assets and certain intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the assets are determined to be impaired based upon their undiscounted future cash flows, such assets are to be reported at the lower of their carrying amount or fair value. SFAS No. 121 also addresses the accounting for long-lived assets that are expected to be disposed. The Company has adopted the provisions of the statement effective July 1, 1996. The Company regularly assesses all of its long-lived assets for impairment and does not anticipate a material adverse effect on its results of operations or financial position upon adoption.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). Under the provisions of SFAS 123, companies can elect to account for stock-based compensation plans using a fair-value-based method or continue measuring compensation expense for those plans using the intrinsic value method prescribed in APB 25. SFAS 123 requires that companies electing to continue using the intrinsic value method make pro forma disclosures of net income and earnings per share as if the fair-value-based method of accounting had been applied. The adoption of the disclosure requirements of SFAS 123 will be reflected in the Company's fiscal 1997 consolidated financial statements.

As the Company anticipates continuing to account for stock-based compensation using the intrinsic value method, SFAS 123 will not have an impact on the Company's results of operations or financial position.

Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year presentation.

[NOTE 1]

Changes in Business

Restructuring Programs

In the fourth quarter of 1994, the Company recorded a restructuring charge of $93.9 million, $58.8 million after taxes, or $.76 per share, relating to its human healthcare and animal health operations. Restructuring actions related to the program are substantially complete at June 30, 1996. The human healthcare pre-tax restructuring charge of $73.9 million included the reorganization of the medical specialty oriented U.S. sales structure into a unified organization divided into geographical districts; reorganization to reduce, centralize and standardize certain non-sales related functions and management processes; rationalization of manufacturing operations for substantial worldwide cost and sourcing improvements; and severance costs related to an associated workforce reduction. Pre-tax cash expenditures for this restructuring are expected to approximate the original estimate of $65 million, consisting of $28 million for severance costs for about 500 people at various locations around the world, $15 million for consulting, $13 million for manufacturing rationalization and $9 million for other items. The $9 million noncash pre-tax portion of the charge primarily related to manufacturing rationalization. Approximately $48 million of cash expenditures were incurred through June 30, 1996, the majority of which related to severance associated with the workforce reduction and consulting costs. The majority of the remaining cash expenditures of approximately $17 million will be paid in 1997 and relate to severance for terminated employees. Based on the expenditures to date and those anticipated by the original plan, no material adjustment to the reserve balance is expected at this time. Also included in the restructuring was a $20 million pre-tax charge to adjust a prior year provision associated with the animal health business' decision to discontinue development of porcine somatotropin (PST) in May 1993.

With respect to the fourth quarter of 1993 pre-tax restructuring charge of $334.1 million, cash expenditures are expected to approximate the original estimate of $173 million primarily related to severance costs of $54 million, lease costs related to a closed facility of $55 million, consulting costs of $15 million, and manufacturing rationalization and other costs of $49 million. The $161 million noncash portion of the charge primarily related to the write-off of plant facilities. Restructuring actions related to the program are complete at June 30, 1996, and no material adjustments to the original reserve balance have been required. The Company has incurred cash expenditures through June 30, 1996, of approximately $125 million. The majority of the remaining cash expenditures associated with the 1993 restructuring together with the additional $20 million pre-tax charge taken as part of the 1994 restructuring represents the present value of long-term lease payments to be paid through 2010 related to the closed PST facility.

Acquisitions

In January 1996, the Company acquired Liebel-Flarsheim Company, a leading manufacturer of contrast media power injector systems for diagnostic imaging procedures, X-ray components and specialized equipment for diagnostic urology procedures for $70.3 million and in December 1995, King Pharmaceuticals' product line of specialty analgesic pharmaceuticals was acquired for $32.4 million. In October 1995, Syntro Corporation, a manufacturer of recombinant vaccines for the animal health market was acquired for $38.2 million and in September 1995, CBM Laboratories, a manufacturer of poultry vaccines was acquired for $7.5 million.

Alton Dean, Inc., a manufacturer of products that warm sterile intravenous and irrigation solutions used during and after surgery, was acquired in June 1995 for $8.5 million. In February 1995, the Company acquired J.T. Baker Inc., a manufacturer of laboratory, process and microelectronic chemicals for $95.0 million.

Catalyst Resources, Inc., a manufacturer of polymerization and chemical catalysts was acquired for $61.2 million in March 1994. DAR S.p.A., a manufacturer of anesthesiology and respiratory care products was acquired in September 1993 for $28.0 million.

The above acquisitions were accounted for as purchases and results of operations were included in the consolidated financial statements from their respective acquisition dates. Results of operations for the periods prior to acquisition were not material to Mallinckrodt.

Discontinued Operations

In October 1995, the Company sold its feed ingredients business to the IMC-Agrico joint venture of IMC Global Inc. and Freeport-McMoRan Resource Partners, Limited Partnership. Feed ingredients operations and the gain on the disposal of this business have been accounted for as discontinued operations and prior years' Consolidated Statement of Operations and Consolidated Balance Sheet have been reclassified to reflect this presentation. The gain on sale, net of taxes, was $35.4 million and earnings, net of taxes, from the divested business for 1996, 1995 and 1994 were $4.4 million, $20.2 million and $19.5 million, respectively.

Discontinued operations for 1996, 1995, and 1994 also included other charges, primarily for environmental and litigation costs related to operations previously disposed, of $19.1 million, $3.8 million and $3.6 million, respectively.

[NOTE 2]

Earnings Per Common Share

Earnings per common share amounts were computed on the basis of the weighted average number of common and common equivalent shares outstanding. Such weighted average shares used in the computations were 76,343,392 for 1996; 77,458,114 for 1995; and 77,607,416 for 1994.

[NOTE 3]

Supplemental Cash Flow Information

	1996	1995	1994
Interest paid	**$48.6**	$ 47.9	$ 33.0
Income taxes paid	**65.0**	42.5	37.8
Noncash investing and financing activities:			
Assumption of liabilities related to acquisitions	**21.5**	42.4	27.9
Issuance of common stock for restricted stock awards			4.0

[NOTE 4]

Inventories

At June 30,	1996	1995
Raw materials and supplies	**$ 159.9**	$ 127.4
Work in process	**102.1**	101.8
Finished goods	**208.2**	186.3
	$ 470.2	$ 415.5

[NOTE 5]

Investments and Long-Term Receivables

At June 30,	1996	1995
Tastemaker joint venture	**$ 110.7**	$ 92.3
Other investments, net	**35.6**	21.6
Other long-term receivables, net	**3.7**	51.6
	$ 150.0	$ 165.5

[NOTE 6]

Property, Plant and Equipment

At June 30,	1996	1995
Land	**$ 71.7**	$ 71.8
Buildings and leasehold improvements	**405.3**	381.3
Machinery and equipment	**983.4**	942.1
Construction in progress	**120.6**	67.9
	1,581.0	1,463.1
Accumulated depreciation	**(544.6)**	(485.1)
	$ 1,036.4	$ 978.0

Capitalized interest costs were $3.2 million in 1996, $1.6 million in 1995 and $3.7 million in 1994.

[NOTE 7]

Intangible Assets

At June 30,	1996	1995
Goodwill and other intangibles	**$ 716.3**	$ 573.9
Patents and technology	**70.3**	67.0
	786.6	640.9
Accumulated amortization	**(164.4)**	(131.6)
	622.2	509.3
Deferred charges, net	**25.3**	18.3
	$ 647.5	$ 527.6

Goodwill and other intangibles are amortized primarily on a straight-line basis over 10 to 40 years (weighted average life of 26 years). Patents and technology are amortized over estimated useful lives of 8 to 25 years (weighted average life of 11 years).

The carrying amount of goodwill is reviewed if facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the estimated undiscounted cash flows of the entity acquired over the remaining amortization period, the carrying amount of the goodwill is reduced by the estimated shortfall of cash flows.

[NOTE 8]

Financial Instruments

Derivative Financial Instruments

In the ordinary course of business, Mallinckrodt purchases materials and sells finished products denominated in various currencies. The Company uses certain derivative financial instruments to manage its exposure to foreign currency exchange risk, principally purchased options, forward contracts and currency swaps. These contracts reduce the Company's overall exposure to exchange rate fluctuations by effectively fixing the transaction cost to the Company.

Carrying and fair values for derivative financial instruments are summarized below.

	At June 30, 1996		At June 30, 1995	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Forward foreign currency contracts and swaps hedging short-term intercompany and third-party financing by international operations, notional value $169.1 million and $151.6 for 1996 and 1995, respectively	**$ —**	**$ 1.1**	$ —	$ (.4)
Forward foreign currency contracts and swaps hedging anticipated cross currency sales and purchases, notional value $70.5 million for 1995	**—**	**—**	—	.5
Forward foreign currency options hedging anticipated cross currency sales and purchases, notional value $67.4 million and $97.5 million for 1996 and 1995, respectively	**—**	**(.6)**	—	(2.0)
Interest rate swap related to the long-term lease obligation on a closed facility, pay fixed rate, receive floating rate, notional value $36.9 million and $38.2 million for 1996 and 1995, respectively	**—**	**—**	—	—

Anticipated transactions include purchases of raw materials or other inventory, collection of accounts receivable, settlement of accounts payable, and periodic debt service by international subsidiaries. Purchased options and forward foreign exchange contracts generally have initial terms of less than two years. Deferred gains and losses are recognized in income when the underlying transaction is settled.

Fair Value of Financial Instruments

Non-derivative financial instruments included in the Consolidated Balance Sheet are cash, short-term investment vehicles, short-term debt including commercial paper and long-term debt. In the aggregate, these instruments were carried at amounts approximating fair value at June 30, 1996 and 1995. The fair value of long-term debt was estimated based on future cash flows discounted at current interest rates available to the Company for debt with similar maturities and characteristics. See Note 12 for the disclosure of fair value of long-term debt.

Concentrations of Credit Risk

Financial instruments which expose Mallinckrodt to credit risk are short-term investments (cash equivalents), trade receivables and derivatives. The Company mitigates the risk that counterparties to short-term investments and derivatives will fail to perform by contracting only with major financial institutions having high credit ratings, and considers the likelihood of counterparty failure to be remote.

Trade receivables stem from the Company's worldwide operations and reflect Mallinckrodt's diverse customer base. The Company periodically assesses the financial strength of its customers and obtains proof of credit worthiness, as necessary, prior to extending credit. Consequently, Mallinckrodt does not have a material concentration of credit risk, either by transaction type, product line or geographic region.

[NOTE 9]

Income Taxes

Income taxes included in the Consolidated Statement of Operations were:

	1996	1995	1994
Continuing operations	**$ 111.8**	$ 98.3	$ 51.7
Discontinued operations:			
Feed ingredients operations	**2.2**	12.2	12.3
Sale of feed ingredients	**19.3**		
Other	**(10.3)**	(2.1)	(2.0)
	11.2	10.1	10.3
	$ 123.0	$ 108.4	$ 62.0

The geographical sources of earnings from continuing operations before income taxes were:

	1996	1995	1994
U.S.	**$ 130.4**	$ 125.0	$ 56.3
Outside U.S.	**172.6**	137.2	83.3
	$ 303.0	$ 262.2	$ 139.6

The components of the income tax provision charged (credited) to continuing operations follow:

	1996	1995	1994
Current:			
U.S. Federal	$ 20.7	$ (6.9)	$ 26.9
U.S. State and local	5.6	3.6	6.5
Outside U.S.	48.5	35.0	23.5
	74.8	31.7	56.9
Deferred:			
U.S. Federal	26.2	42.5	(12.7)
U.S. State and local	3.0	5.2	.8
Outside U.S.	7.8	18.9	6.7
	37.0	66.6	(5.2)
	$ 111.8	$ 98.3	$ 51.7

The Company had the following deferred tax balances at June 30, 1996 and 1995:

	1996	1995
Deferred tax assets:		
Restructuring accruals	$ 28.5	$ 51.3
Employee benefits	30.4	71.6
Net operating losses	19.2	21.8
Alternative minimum tax credit	7.7	8.3
Environmental accruals	16.1	9.7
Other, net	10.7	6.6
Gross deferred tax assets	112.6	169.3
Valuation allowance	(21.7)	(24.7)
Total deferred tax assets	90.9	144.6
Deferred tax liabilities:		
Property, plant and equipment	86.6	85.5
Receivables	38.7	58.2
Intangible assets	22.8	26.6
Total deferred tax liabilities	148.1	170.3
Net deferred tax liabilities	$ 57.2	$ 25.7

The alternative minimum tax credit of $7.7 million is available to reduce future Federal taxes payable and has an unlimited carryforward period.

The tax benefit of the Company's net operating loss carryforwards of $19.2 million relates primarily to its non-U.S. operations.

Factors causing the effective tax rate for continuing operations to differ from the U.S. Federal statutory rate were:

	1996	1995	1994
Computed tax at the U.S. Federal statutory rate	$ 106.1	$ 91.8	$ 48.9
Statutory rate changes			(3.0)
State income taxes, net of Federal benefit	5.6	5.7	4.7
Other items	.1	.8	1.1
Income tax provision	$ 111.8	$ 98.3	$ 51.7
Effective tax rate	36.9%	37.5%	37.0%

The effective rate for 1994 before the net tax benefit from the restructuring charge and statutory rate changes was 38.5 percent.

Undistributed earnings of certain subsidiaries outside the U.S. are considered to be permanently invested. Accordingly, no provision for income taxes was made for undistributed earnings of such subsidiaries which aggregated $261.7 million at June 30, 1996.

[NOTE 10]

Accrued Liabilities

At June 30,	1996	1995
Restructuring accruals	$ 113.4	$ 139.0
Other	201.4	193.1
	$ 314.8	$ 332.1

[NOTE 11]

Lines of Credit

The Company has a $600 million renewable credit agreement available until May 1997. Under the terms of this agreement, interest rates are determined at the time of borrowing. The borrowing cost would be based on London Interbank Offered Rates plus .24 percent, or other alternative rates. Borrowings under the credit agreement were $600 million at June 30, 1996.

The Company has a $550 million private-placement commercial paper program. This program is backed by a $550 million credit agreement available until May 2001. Under the terms of this agreement, interest rates are determined at the time of borrowing and are dependent on the Company's senior debt ratings and usage level of the facility. At current usage level and senior debt ratings, the borrowing cost would be based on London Interbank Offered Rates plus

.165 percent, or other alternative rates. There were no amounts outstanding under either the commercial paper program or the credit agreement at June 30, 1996.

Non-U.S. lines of credit totaling $213.7 million were also available and borrowings under these lines were $16.9 million at June 30, 1996. These non-U.S. lines are cancelable at any time.

[NOTE 12]

Debt

The components of short-term debt were:

At June 30,	1996	1995
Notes payable	**$ 616.9**	$ 35.7
Commercial paper		53.3
Current maturities of long-term debt	**5.3**	18.5
	$ 622.2	$ 107.5

The components of long-term debt were (market value shown parenthetically):

At June 30,	1996	1995
9.875% debentures due in annual installments of $15.0 million, beginning in 2002, with final payment of $12.8 million in 2011 ($153.2)	**$ 134.9**	$ 134.8
8.75% promissory note; paid January 1996		10.8
7% debentures due 2013 ($89.9)	**98.6**	98.5
6.75% notes due 2005 ($95.7)	**99.4**	
6.5% notes due 2007 ($90.7)	**98.5**	
6% notes due 2003 ($93.1)	**99.4**	99.3
Commercial paper		100.0
Other ($50.3)	**50.3**	76.6
	581.1	520.0
Less current maturities	**5.3**	18.5
	$ 575.8	$ 501.5

The 9.875% debentures are redeemable at the option of Mallinckrodt at 100 percent in 2001 and thereafter.

At June 30, 1995, commercial paper totaling $100.0 million, was classified as long-term debt as it was backed by irrevocable long-term lines of credit.

Maturities of long-term debt for the next five years are: 1997–$5.3 million; 1998–$2.5 million; 1999–$33.4 million; 2000–$1.3 million; and 2001–$.8 million.

The weighted average interest rate on short-term borrowings at June 30, 1996 and 1995 was 5.8% and 6.3%, respectively.

[NOTE 13]

Pension and Investment Plans

The Company has pension plans covering substantially all of its employees that provide for retirement benefits based on years of service and the level of compensation for the highest three to five years occurring generally within a period of up to 10 years prior to retirement. Contributions to the U.S. plans meet ERISA minimum funding requirements.

The components of net periodic pension costs are as follows:

	1996	1995	1994
Service cost	**$ 20.4**	$ 18.9	$ 18.1
Interest cost on projected benefit obligation	**35.3**	31.7	30.8
Earnings on plan assets	**(64.3)**	(24.0)	(21.2)
Net amortization of initial unrecognized asset and deferral of subsequent unrecognized net gains and losses	**37.6**	(5.7)	(7.5)
	$ 29.0	$ 20.9	$ 20.2

U.S. pension expense in 1996, 1995 and 1994 was $25.8 million, $17.9 million and $16.2 million, respectively.

Assumptions used in determining the actuarial present value of benefit obligations follow:

	1996	1995	1994
Discount rate	**7.75%**	8.5%	8.0%
Long-term rate of return on plan assets	**9.0%**	9.5%	10.0%
Compensation increase rate	**5.0%**	5.5%	5.5%

The plans' assets mostly relate to U.S. plans and consist primarily of corporate equities, U.S. government debt securities and units of participation in a collective short-term investment fund.

The Company also sponsors three defined contribution investment plans. Participation in these plans is voluntary, with substantially all employees eligible to participate. Expenses related to the plans consist primarily of Company contributions which are based on percentages of certain employee contributions, plus discretionary amounts determined on an annual basis. Defined contribution expense for 1996, 1995 and 1994 was $14.0 million, $12.4 million and $10.6 million, respectively.

The funded status of U.S. and non-U.S. pension plans and amounts recognized in the balance sheet follow:

	1996		1995	
	Plans With Assets In Excess of Accumulated Benefits	**Plans With Accumulated Benefits In Excess of Assets**	Plans With Assets In Excess of Accumulated Benefits	Plans With Accumulated Benefits In Excess of Assets
Assets at fair value	**$ 377.3**	**$ 30.4**	$ 307.2	$ 48.8
Actuarial present value of benefit obligation:				
Vested benefits	**303.3**	**59.7**	254.6	61.0
Nonvested benefits	**9.0**	**3.1**	4.8	6.7
Accumulated benefit obligation	**312.3**	**62.8**	259.4	67.7
Projected future salary increases	**88.1**	**17.1**	69.8	19.4
Projected benefit obligation	**400.4**	**79.9**	329.2	87.1
Projected benefit obligation in excess of plan assets	**(23.1)**	**(49.5)**	(22.0)	(38.3)
Items not yet recognized in earnings:				
Unrecognized net (gain) loss	**13.0**	**2.8**	23.1	(2.3)
Unamortized transition (asset) liability	**(1.4)**	**8.3**	(2.6)	10.8
Accrued pension liability	**$ (11.5)**	**$ (38.4)**	$ (1.5)	$ (29.8)

[NOTE 14]

Postretirement Benefits

Mallinckrodt provides certain healthcare benefits for U.S. salaried and hourly retired employees. Employees may become eligible for healthcare benefits if they retire after attaining specified age and service requirements while they worked for the Company. Healthcare benefits are paid directly by Mallinckrodt.

The components of net periodic postretirement benefits costs are as follows:

	1996	1995	1994
Service cost for benefits earned during the year	**$ 4.8**	$ 4.9	$ 3.6
Interest cost on benefit obligation	**13.0**	13.0	10.4
Amortization of unrecognized net loss		.6	
	$ 17.8	$ 18.5	$ 14.0

The following table presents the plan's funded status reconciled with amounts recognized in the Company's statement of financial position:

	1996	1995
Accumulated postretirement benefit obligation (APBO):		
Retirees	**$ 88.1**	$ 90.3
Active employees	**66.0**	62.8
Accumulated postretirement benefit obligation in excess of plan assets	**154.1**	153.1
Unrecognized net gain (loss)	**7.7**	(10.4)
Unrecognized prior service cost	**(5.8)**	
Accrued postretirement benefit cost	**$ 156.0**	$ 142.7

The discount rate used in determining the APBO for 1996 and 1995 was 7.75 percent and 8.5 percent, respectively.

The assumed medical plan cost trend rate used in measuring the APBO for 1996 was 9.0 percent, gradually declining to 4.75 percent in 2006 and thereafter. The rate for 1995 was 10.0 percent, gradually declining to 5.0 percent in 2006 and thereafter. A one percentage point increase in the healthcare cost trend rate would increase the APBO for 1996, by $19.3 million and the aggregate service and interest cost by $2.7 million.

[NOTE 15]
Stock Plans

Three non-qualified stock option plans provide for granting options to purchase shares of common stock at prices not less than 100 percent of market price (as defined) at the date of grant. Options under these plans are exercisable over nine years beginning one year after the date of grant and are limited to 50 percent during the first year of eligibility.

Information on stock option activity follows:

Number of Options	Price Range	**1996**	1995
Outstanding, beginning of year	$10-40	**6,126,649**	5,351,732
Granted	35-39	**1,449,622**	1,419,656
Canceled	14-40	**(242,145)**	(272,826)
Exercised	10-39	**(1,071,373)**	(371,913)
Outstanding, end of year	10-40	**6,262,753**	6,126,649
At June 30,			
Exercisable		**4,300,204**	4,214,583
Reserved for future option grants		**2,642,164**	3,833,618

The average exercise price of outstanding stock options at June 30, 1996, was $31.54 a share, based on an aggregate exercise price of about $198 million. Outstanding stock options will expire over a period ending no later than June 17, 2006.

The 1973 non-qualified stock option and award plan also provides for the award of restricted shares of Mallinckrodt's common stock to executive officers. Under provisions of the plan, the grantee makes no cash payment for the award and the shares are held in escrow until vested, with the grantee being unable to dispose of the restricted shares until vested. Upon forfeiture of any share of restricted stock in accordance with the stock option and award plan, or the terms and conditions of the award, the shares would automatically be transferred to and reacquired by the Company at no cost. In 1995, the Company issued from its treasury stock 109 restricted shares. In 1996, the Company reacquired 1,873 shares of unrestricted stock in lieu of payment of withholding taxes on 5,000 shares of restricted stock which expired and vested on April 3, 1996.

[NOTE 16]
Capital Stock

The Company has authorized and issued 100,000 shares, 98,330 outstanding at June 30, 1996, par value $100, 4 Percent cumulative preferred stock. This stock, with voting rights, is redeemable at the Company's option at $110 a share. During the three years ended June 30, 1996, the number of issued and outstanding shares did not change.

At June 30, 1996, the Company has authorized 1,400,000 shares, par value $1, of series preferred stock, none of which is outstanding.

Each outstanding common share includes a non-voting common stock purchase right. If a person or group acquires or has the right to acquire 20 percent or more of the common stock or commences a tender offer for 30 percent or more of the common stock, the rights become exercisable by the holder who may then purchase $320 worth of common stock for $160 unless, in lieu thereof, the Board of Directors causes the exchange of each outstanding right for one share of common stock (in either case exclusive of the rights held by the acquiring person or group which are voided). In the event of a merger or sale of 50 percent or more of the Company's assets, the rights may in certain circumstances entitle the holder to purchase $320 worth of stock in the surviving entity for $160. The rights may be redeemed by the Board at a price of $.05 per right at any time before they become exercisable, and unless they become exercisable, they will expire February 28, 2006.

The Company has a three year incentive award program for executive officers which expires June 30, 1997. There are 1,000,000 common shares reserved for issuance under this plan.

Common shares reserved at June 30, 1996, consisted of the following:

Exercise of common stock purchase rights	**84,185,485**
Exercise of stock options and granting of stock awards	**9,904,917**
	94,090,402

Changes in the number of shares of common stock issued and in treasury were as follows:

	1996	1995	1994
Common stock issued	**87,116,289**	87,116,289	87,116,289
Treasury common stock:			
Balance, beginning of year	**10,365,203**	10,110,056	10,671,514
Stock options exercised	**(1,071,373)**	(371,913)	(429,645)
Purchased	**3,540,018**	499,854	19
(Awards) cancellations of restricted shares	**1,873**	127,206	(131,832)
Balance, end of year	**12,835,721**	10,365,203	10,110,056
Common stock outstanding, end of year	**74,280,568**	76,751,086	77,006,233

[NOTE 17]

International Operations

Export sales to unaffiliated customers included in U.S. sales were:

	1996	1995	1994
Europe	**$ 57.5**	$ 23.5	$ 14.0
Asia/Pacific	**63.1**	42.6	27.7
Latin America	**29.4**	22.1	14.7
Canada	**6.3**	6.3	5.1
Total	**$ 156.3**	$ 94.5	$ 61.5

Net sales, earnings from continuing operations before income taxes, and identifiable assets by geographic areas follow:

1996	United States	Europe	Asia/Pacific	Latin America	Canada	Total
Gross Sales	**$ 1,481.3**	**$ 637.8**	**$ 179.3**	**$ 115.8**	**$ 94.6**	**$ 2,508.8**
Intercompany	**100.3**	**129.6**	**8.9**	**3.5**	**56.3**	**298.6**
Net Sales	**$ 1,381.0**	**$ 508.2**	**$ 170.4**	**$ 112.3**	**$ 38.3**	**$ 2,210.2**
1995						
Gross Sales	$ 1,357.1	$ 588.1	$ 175.8	$ 117.3	$ 85.1	$ 2,323.4
Intercompany	113.4	111.6	5.2	4.0	46.0	280.2
Net Sales	$ 1,243.7	$ 476.5	$ 170.6	$ 113.3	$ 39.1	$ 2,043.2
1994						
Gross Sales	$ 1,196.8	$ 453.7	$ 153.2	$ 118.6	$ 68.4	$ 1,990.7
Intercompany	108.9	68.9	3.2	2.1	29.7	212.8
Net Sales	$ 1,087.9	$ 384.8	$ 150.0	$ 116.5	$ 38.7	$ 1,777.9

Earnings	1996	1995	1994
United States	**$ 203.9**	$ 180.0	$ 192.0
Europe	**132.8**	114.2	65.4
Asia/Pacific	**13.5**	11.4	13.7
Latin America	**19.5**	22.9	17.5
Canada	**6.5**	4.4	3.6
Restructuring charge			(93.9)
Corporate	**(41.4)**	(28.8)	(30.2)
Eliminations	**(4.7)**	(7.4)	(6.6)
Operating earnings	**330.1**	296.7	161.5
Equity in pre-tax earnings of joint venture	**31.9**	25.3	18.5
Interest and other nonoperating expense, net	**(.3)**	(4.3)	(.4)
Interest expense	**(58.7)**	(55.5)	(40.0)
Consolidated	**$ 303.0**	$ 262.2	$ 139.6

Assets	1996	1995	1994
United States	**$ 1,596.5**	$ 1,474.3	$ 1,303.5
Europe	**903.0**	799.9	736.3
Asia/Pacific	**250.0**	225.4	168.1
Latin America	**103.6**	82.4	80.5
Canada	**57.0**	44.4	29.3
Corporate	**623.7**	205.9	200.2
Eliminations	**(127.9)**	(154.9)	(116.9)
Consolidated	**$ 3,405.9**	$ 2,677.4	$ 2,401.0

Transfers of product between geographic areas are at prices approximating those charged to unaffiliated customers. All such transfers are fully eliminated.

Net foreign exchange translation gains (losses) from businesses in hyperinflationary economies aggregated $(1.4) million, $.7 million, and $(4.2) million in 1996, 1995 and 1994, respectively, and have been included in "Other operating income, net" in the Consolidated Statement of Operations. These translation effects were primarily from animal health operations in Latin America. Translation effects for all of Mallinckrodt's businesses were not material.

[NOTE 18]
Business Segments

In December 1995, the Company announced a Strategic Change Initiative which included major organizational and operating changes designed to enhance growth and effectiveness. The management and administrative structures of the three operating companies were eliminated. In conjunction with these changes, operating company designations as segments were replaced with three segments that are more closely aligned with customers served and with our new management structure. Prior periods for segments have been reclassified to conform with the 1996 presentation. The three industry segments are as follows.

Human Healthcare

Production and sale of products used primarily in hospitals, including X-ray contrast media, interventional products, diagnostic and therapeutic radiopharmaceuticals, airway management products, temperature monitoring products, blood gas and vital sign monitoring systems, analgesics and medicinal narcotics.

Specialty Chemicals

Production and sale of catalysts, specialty inorganics, stearates and laboratory and microelectronic chemicals used by industry and research organizations.

Animal Health

Production and sale of pharmaceuticals, biologicals, veterinary specialties and other health-related products for livestock and companion animals.

Nonrecurring Charges

Restructuring charges of $93.9 million recorded in the United States in 1994 are discussed in Note 1.

[NOTE 19]
Commitments

The Company leases office space, data processing equipment, buildings, and machinery and equipment. Rent expense for continuing operations in 1996, 1995 and 1994 related to operating leases was $26.6 million, $27.3 million and $31.7 million, respectively.

Minimum rent commitments for continuing operations at June 30, 1996, under operating leases with a remaining noncancelable period exceeding one year follow:

Years ending June 30,	
1997	$ 31.3
1998	24.2
1999	18.8
2000	15.4
2001	14.0
Later years	51.6
	$ 155.3

[NOTE 20]
Contingencies

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. In addition, in connection with laws and regulations pertaining to the protection of the environment, the Company is a party to several environmental remediation investigations and clean-ups and, along with other companies, has been named a "potentially responsible party" for certain waste disposal sites. Each of these matters is subject to various uncertainties, and it is possible that some of these matters will be decided unfavorably against the Company. The Company had accruals of $97.3 million and $27.1 million at June 30, 1996, and June 30, 1995, respectively, for costs associated with the study and remediation of Superfund sites and for the Company's current and former operating sites for matters that are in its view probable and reasonably estimable. The significant increase resulted from the assumption of certain costs to remediate various sites in the future for which the Company was compensated and the establishment of additional environmental reserves for discontinued operations. Based on information presently available, management believes any amounts paid in excess of the accrued liabilities will not have a material effect on its financial position or results of operations.

Six-Year Comparison

Summary of Operations

(In millions, except per share amounts)

Years ended June 30,	1996	1995	1994[1]	1993[1,2]	1992[1,3]	1991
Net sales	**$ 2,210.2**	$ 2,043.2	$ 1,777.9	$ 1,626.8	$ 1,530.8	$ 1,456.4
Earnings (loss) from continuing operations	**$ 191.2**	$ 163.9	$ 87.9	$ (135.4)	$ 103.7	$ 66.2
Discontinued operations [4]	**20.7**	16.4	15.9	15.6	23.8	22.0
Cumulative effects of accounting changes				(80.6)		
Net earnings (loss)	**211.9**	180.3	103.8	(200.4)	127.5	88.2
Preferred stock dividends	**(.4)**	(.4)	(.4)	(.4)	(.4)	(.4)
Available for common shareholders	**$ 211.5**	$ 179.9	$ 103.4	$ (200.8)	$ 127.1	$ 87.8
Per Common Share Data [5]						
Earnings (loss) from continuing operations	**$ 2.50**	$ 2.11	$ 1.13	$ (1.76)	$ 1.33	$ .93
Net earnings (loss)	**2.77**	2.32	1.33	(2.60)	1.63	1.24
Dividends declared	**.61**	.55	.49	.43	.38	.33
Book value	**16.44**	15.12	13.05	11.77	16.02	14.28
Weighted average common shares (in millions)	**76.3**	77.5	77.6	77.4	77.8	70.6

Other Data

(Dollars in millions)

Total assets	**$ 3,405.9**	$ 2,677.4	$ 2,401.0	$ 2,141.9	$ 1,992.3	$ 2,179.8
Working capital	**359.1**	271.9	261.3	203.7	351.6	409.0
Current ratio	**1.3:1**	1.4:1	1.4:1	1.3:1	1.8:1	1.6:1
Total debt	**$ 1,198.0**	$ 609.0	$ 669.8	$ 617.1	$ 373.7	$ 643.4
Shareholders' equity	**1,232.2**	1,171.5	1,015.9	910.5	1,224.2	1,084.2
Return on shareholders' equity	**16%**	15%	9%	(13%)	9%	7%
Capital expenditures	**$ 169.2**	$ 159.6	$ 171.2	$ 187.5	$ 148.7	$ 121.5
Total dividends declared	**45.7**	42.2	37.7	33.2	29.5	23.7
Common shares outstanding (in millions)	**74.3**	76.8	77.0	76.4	75.7	75.2
Number of employees	**10,400**	10,200	10,200	9,900	9,500	9,700

(1) See "Management's Discussion and Analysis" for a description of nonrecurring items.

(2) Results for 1993 included an after-tax charge of $242.2 million, or $3.13 per share, related to restructuring.

(3) Results for 1992 included an after-tax charge of $2.4 million, or $.03 per share related to the formation of Tastemaker, the flavors joint venture and an after-tax charge of $3.0 million, or $.04 per share related to technical manufacturing control problems at an animal health Kansas City, Kansas, manufacturing facility. These charges were offset by an after-tax gain of $6.7 million, or $.08 per share from sales of investments.

(4) See Note 1 of Notes to Consolidated Financial Statements for information on discontinued operations in 1996, 1995 and 1994. Results for 1993, 1992 and 1991 represent earnings from the feed ingredients business, partially offset by environmental and related litigation charges.

(5) Presented on a primary per common share basis adjusted for the 3-for-1 stock split in November 1991.

Quarterly Results

(In millions, except per share amounts)

Fiscal 1996 (Unaudited)

	Quarter				
	First	**Second**	**Third**	**Fourth**	**Year**
Net sales	**$ 492.1**	**$ 528.2**	**$ 572.6**	**$ 617.3**	**$ 2,210.2**
Gross margins	**223.8**	**239.1**	**261.6**	**292.9**	**1,017.4**
Earnings from continuing operations	**35.7**	**38.3**	**50.7**	**66.5**	**191.2**
Discontinued operations	**3.5**	**19.0**	**(2.3)**	**.5**	**20.7**
Net earnings	**39.2**	**57.3**	**48.4**	**67.0**	**211.9**
Preferred stock dividends	**(.1)**	**(.1)**	**(.1)**	**(.1)**	**(.4)**
Available for common shareholders	**$ 39.1**	**$ 57.2**	**$ 48.3**	**$ 66.9**	**$ 211.5**
Earnings per common share:					
Continuing operations	**$ .46**	**$ .50**	**$ .67**	**$ .88**	**$ 2.50**
Discontinued operations	**.04**	**.25**	**(.03)**	**.01**	**.27**
Net earnings	**$ .50**	**$ .75**	**$ .64**	**$ .89**	**$ 2.77**

Results for the second quarter included a noncash charge for write-off of purchased research and development of $3.7 million, $2.3 million after taxes, or $.03 per share, relating to the acquisition of Syntro Corporation.

During the second quarter the animal feed ingredients business was sold. Results for the feed ingredients business have been accounted for as a discontinued operation, and accordingly, prior year results have been restated. Other principal factors affecting discontinued operations were an after tax gain of $35 4 million on the sale of the feed ingredients business and an after tax provision for additional environmental costs of $15.6 million.

Earnings per share for the four quarters of 1996 are more than full year per share results by $.01 from a decrease in common shares outstanding.

Fiscal 1995 (Unaudited)

	Quarter				
	First	Second	Third	Fourth	Year
Net sales	$ 448.6	$ 471.5	$ 529.2	$ 593.9	$ 2,043.2
Gross margins	200.3	221.5	242.3	276.3	940.4
Earnings from continuing operations	30.5	35.3	43.1	55.0	163.9
Discontinued operations	3.4	4.5	3.9	4.6	16.4
Net earnings	33.9	39.8	47.0	59.6	180.3
Preferred stock dividends	(.1)	(.1)	(.1)	(.1)	(.4)
Available for common shareholders	$ 33.8	$ 39.7	$ 46.9	$ 59.5	$ 179.9
Earnings per common share:					
Continuing operations	$ .40	$ .45	$ .56	$ .70	$ 2.11
Discontinued operations	.04	.06	.05	.06	.21
Net earnings	$ .44	$ .51	$ .61	$ .76	$ 2.32

Board of Directors

C. Ray Holman, 53[3]	*Director since 1992*	➛ Joined Mallinckrodt, Inc., in 1976 as Assistant Controller. Named Chairman in 1994, President and Chief Executive Officer in 1992. Director, Laclede Gas Co., Boatmen's Bancshares, Inc., and Barnes-Jewish Hospital.
Raymond F. Bentele, 59[1*,5]	*Director since 1990*	➛ Former President and Chief Executive Officer, Mallinckrodt, Inc. Retired from Mallinckrodt in 1992. Director, Kellwood Company, IMC Global Inc. and Leggett & Platt, Inc.
Gareth C.C. Chang, 53[5]	*Director since 1996*	➛ Corporate Senior Vice President, Marketing, Hughes Electronics; President, Hughes International. Corporate Vice President, head of Asia/Pacific operations, McDonnell Douglas Corporation, 1973-93.
William L. Davis, 52[1,2]	*Director since 1995*	➛ Senior Executive Vice President, Emerson Electric Co. Responsible for Emerson's process control businesses. Former President, Emerson's Skil and Appleton operating divisions.
Ronald G. Evens, M.D., 56[4,5]	*Director since 1990*	➛ Director, Mallinckrodt Institute of Radiology, Washington University School of Medicine. Professor of Medical Economics, Olin School of Business. Director, Boatmen's National Bank of St. Louis and Right Choice of Missouri.
Alec Flamm, 69[2,3*]	*Director since 1986*	➛ Former Vice Chairman, President and Chief Operating Officer, Union Carbide Corporation. Retired in 1986.
Roberta S. Karmel, 59[2*,4]	*Director since 1980*	➛ Professor of Law, Brooklyn Law School. Of counsel with the law firm of Kelley Drye & Warren. Commissioner, SEC, 1977-80. Director, NYSE, 1983-89. Director, Kemper National Insurance Companies.

Claudine B. Malone, 60[2,5*]	*Director since 1994*	➵ President, Financial & Management Consulting. Director. Dell Computer Corp., Hannaford Bros. Co., Hasbro, Inc., Houghton Mifflin Co., Lafarge Corp., The Limited Inc., Lowe's Companies, Inc., Science Applications International Corp. and the Union Pacific Corp.
Morton Moskin, 69[1,3,4*]	*Director since 1973*	➵ Consultant. Partner in the law firm of White & Case, New York, New York, from 1962-94. Retired in 1994.
Mack G. Nichols, 58	*Director since 1995*	➵ Joined Mallinckrodt in 1979 as General Manager, Specialty Chemicals. Named President, Mallinckrodt Chemical in 1989. Named President and Chief Operating Officer in 1995. Director, Boatmen's National Bank of St. Louis.
Hervé M. Pinet, 70[3,4,5]	*Director since 1973*	➵ International Consultant. Senior Advisor, Merrill Lynch & Co., 1984-91. President, Compagnie Financiere de Paribas, Chairman and Chief Executive Officer, Becker Paribas, Inc., 1982-84.
Brian M. Rushton, Ph.D., 62[1,5]	*Director since 1994*	➵ Former Senior Vice President, R&D, Air Products and Chemicals, 1992-93; Vice President, 1981-92. President, Celanese Research Corp., 1975-81. Immediate Past President, American Chemical Society (ACS). Director, Petrolite Corp.
Daniel R. Toll, 68[2,4]	*Director since 1985*	➵ Corporate and Civic Director. Former President, Walter E. Heller International Corp. Director, Brown Group, Inc., A.P. Green Industries, Kemper National Insurance Companies, Lincoln National Income Fund and NICOR, Inc.
Anthony Viscusi, 63[1,4]	*Director since 1995*	➵ President and Chief Executive Officer, Vasomedical, Inc. Former Senior Vice President, Worldwide Marketing, AgVet Division of Merck & Co.

(1) Audit Committee

(2) Organization and Compensation Committee

(3) Executive Committee

(4) Corporate Governance Committee

(5) Social Responsibility Committee

* Indicates Committee Chairman

Corporate Officers

Barbara A. Abbett	*Vice President, Communications*
Ashok Chawla	*Vice President, Strategic Management*
Charles R. Clark III	*Vice President, Strategic Services*
Bruce K. Crockett, Ph.D.	*Vice President, Human Resources*
J. Eugene Fox, Ph.D.	*Vice President, Science and Technology*
C. Ray Holman	*Chairman and Chief Executive Officer*
Roger A. Keller	*Vice President, Secretary and General Counsel*
Douglas A. McKinney	*Treasurer*
Terry D. Meier[1]	*Vice President and Controller*
Robert G. Moussa	*President, International*
Mack G. Nichols	*President and Chief Operating Officer*
Oyé Olukotun, M.D.	*Vice President, Medical and Regulatory Affairs*
Michael A. Rocca	*Senior Vice President and Chief Financial Officer*
William B. Stone[1]	*Vice President, Information Services*

(1) Appointment to current position approved August 20, 1996.
(2) Appointment effective August 1996.
(3) Mallinckrodt Baker, Inc., is a wholly owned subsidiary of Mallinckrodt Group Inc

Division Presidents

James C. Carlile	*President, Medical Imaging Division*
Michael J. Collins	*President, Pharmaceutical Specialties Division*
Paul D. Cottone	*President, Veterinary Division*
Michael K. Milosovich	*President, Pharmaceutical Chemicals Division*
David Morra	*President, Nuclear Medicine Division*
Daniel B. Mulholland[2]	*President, Mallinckrodt Baker, Inc.*[3]
Thomas R. Trotter	*President, Critical Care Division*
Daniel E. Woods, Jr.	*President, Catalysts & Chemical Additives Division*

Corporate Staff

Ronald L. Greenspan	*Vice President, Accounting and Reporting*
Richard T. Higgons	*Vice President, Corporate Development*
David R. Kupferer	*Vice President, Organizational Development*
Ferril M. Sorenson II	*Principal Internal Auditor*
Wesley A. Tomaszek	*Assistant Controller, Financial Planning and Analysis*
Frank A. Voltolina	*Vice President, Corporate Tax*
Joseph A. Wuestner	*Associate General Counsel, Assistant Secretary*
Janice A. Zarro	*Vice President, Government Affairs – Worldwide*

Shareholder Information

Shareholder Inquiries

For inquiries about lost certificates, dividends, changes of name or address on certificates, direct deposit of dividends, and elimination of multiple mailings, contact the company's registrar and transfer agent:

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500
U.S.A.

Phone: (201) 324-0498
Toll Free: (800) 446-2617
TDD, for hearing impaired: (201) 222-4955
E-mail: fctc@delphi.com

Automatic Dividend Reinvestment

A convenient automatic dividend reinvestment plan is available for Mallinckrodt shareholders of record. The company pays all brokerage fees and service charges for common stock purchases made in the program. A brochure describing the plan and an authorization card are available from the company's transfer agent, at the toll-free number listed above. If you have any questions, call Mallinckrodt Shareholder Services at (800) 323-5039.

Direct Deposit of Dividends

Mallinckrodt offers direct deposit of dividends as a service for its shareholders. Contact First Chicago Trust Company at the number above for information and enrollment.

Annual Meeting

Shareholders are cordially invited to attend the 87th Annual Meeting at 10:00 a.m., Wednesday, October 16, 1996, at the company's offices at 675 McDonnell Boulevard, St. Louis, Missouri. A formal notice of the meeting, a proxy statement, and a proxy card are being mailed to shareholders.

Mallinckrodt Web Site

Beginning October 1, 1996, earnings, financial results, corporate news and other company information will be available on Mallinckrodt's web site:

http://www.mallinckrodt.com

Common Stock Prices and Dividends

Quarter	First	Second	Third	Fourth
Fiscal 1996				
Dividends per common share	**$ .14**	**$ .155**	**$ .155**	**$ .155**
Common stock prices				
High	**41.88**	**39.88**	**42.00**	**40.88**
Low	**35.13**	**32.50**	**35.13**	**36.75**
Fiscal 1995				
Dividends per common share	$ 125	$ .14	$ 14	$ .14
Common stock prices				
High	34.00	34 13	34 63	36 88
Low	28.38	29.00	29.13	33 50

The principal market on which Mallinckrodt's common stock is traded is the New York Stock Exchange. Common stock prices are from the composite tape for New York Stock Exchange issues, as reported in *The Wall Street Journal*. As of July 31, 1996, the number of registered holders of common stock as reported by the company's registrar was 8,734.

Form 10-K Annual Report

Mallinckrodt's Form 10-K Annual Report will be filed with the SEC in late September 1996. It is available without charge. Send your request to:

Mallinckrodt Group Inc.
Communications
7733 Forsyth Boulevard
St. Louis, Missouri 63105-1820
U.S.A.

Investor Contact

Securities analysts and investment professionals with business-related inquiries should contact:
Coleman N. Lannum, C.F.A.
(314) 854-5370
E-mail: mkg.ir@mymail.com

Media Contact

Barbara A. Abbett
(314) 854-5230

Corporate Data

Corporate Headquarters

7733 Forsyth Boulevard
St. Louis, Missouri 63105-1820
U.S.A.
(314) 854-5200

Independent Auditors

Ernst & Young LLP
Gateway One, Suite 1400
701 Market Street
St. Louis, Missouri 63101
U.S.A.

Stock Exchange

New York, Chicago and Pacific
U.S. Ticker Symbol: MKG. The company's daily trading activity and common stock price can be found in the financial sections of most major newspapers under Mallinckrodt or "Malinckr."

Transfer Agent, Dividend Disbursing Agent and Registrar

(Mallinckrodt Common Stock and
4 Percent Cumulative Preferred Stock)
First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500
U.S.A.
(800) 446-2617
(201) 324-0498

Trustee and Paying Agent

9.875 Percent Debentures (under the name of International Minerals & Chemical Corporation)
7.00 Percent Debentures (under the name of IMCERA Group Inc.)
6.75 Percent Notes (under the name of Mallinckrodt Group Inc.)
6.50 Percent Notes (under the name of Mallinckrodt Group Inc.)
6.00 Percent Notes (under the name of IMCERA Group Inc.)

First Trust New York
100 Wall Street
Suite 1600
New York, New York 10005
U.S.A.

Trademarks

Trademark terms that belong to Mallinckrodt and its businesses, along with those belonging to other companies, but used for products licensed by Mallinckrodt, are marked by ® or TM at their first use in this report. The ® symbol indicates that the trademark is registered in the U.S. Patent and Trademark Office. The TM symbol indicates that such registration has been applied for. Trademarks that belong to other companies are marked with a "†" at their first use in this report (foldout on pages 45-48). The trademarks that belong to others are:

Albunex® (cardiac diagnostic agent, Molecular Biosystems, Inc.)
Clinacox™ (anticoccidial agent, Janssen Pharmaceutica N.V.)
Clinafarm® (antifungal agent, Janssen Pharmaceutica N.V.)
Hexabrix® (ioxaglic acid, Guerbet, S.A.)
Nilverm™ (anthelmintic, Janssen Pharmaceutica N.V.)
Systamex® (anthelmintic agent, Syntex (USA) Inc.)
Totalon® (anthelmintic agent, Janssen Pharmaceutica N.V.)

Today about two-thirds of our revenues come from the human healthcare markets.

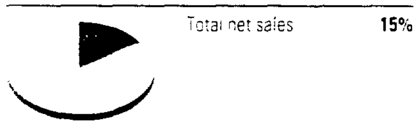
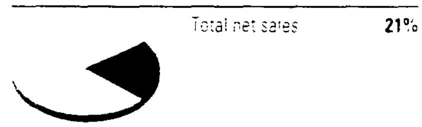
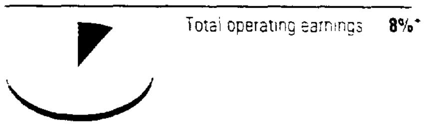
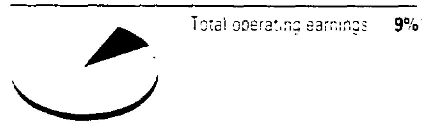
Mallinckrodt has always been a key provider of products for human healthcare and this is more true now than at anytime in the company's recent past. Today, 64 percent of our revenues come from the human healthcare market. Another 21 percent came from animal health products. This annual report presents the Company as a unified corporate entity with three business segments:

- ***Human Healthcare***
- ***Specialty Chemicals***
- ***Animal Health***

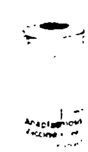
We hope this presentation of Mallinckrodt will help you better understand the company and the markets in which it competes.

Mallinckrodt at a Glance

Business Segments	**Human healthcare**	
	 Total net sales **64%**  Total operating earnings **83%***	
Product groups	**Critical care products**	**Imaging agents**
Major markets	Anesthesia systems/airway management products, tracheostomy products, temperature systems, patient and fluid warming systems, point-of-care blood analysis, and blood chemistry.	X-ray and ultrasound contrast media, interventional products, diagnostic and therapeutic radiopharmaceuticals, power injectors, and urology products.
Major products	RAE,® Broncho-Cath,® Hi-Lo® & Lo-Pro,® Laser-Flex,® DAR Breathing Systems, Shiley, Mon-A-Therm® and Hi-Lo-Temp,® WarmTouch,® Warmflo™ Fluid Warming System, GEM® Premier, GEM® Stat, GEM® 6 Plus, HemoCue® 	Albunex,®* Conray,® Hexabrix,®* Optiray,® Ultraject® prefilled syringe; Performa® and Softouch® catheters; diagnostic and interventional catheters, guidewires and devices; OctreoScan,® CEA-Scan,®* Technescan® MAA, MAG3,® UltraTag® RBC, Thallium-201, Technetium generators; Liebel-Flarsheim contrast media injector systems, CT9000, Angiomat 6000, urology systems and X-ray components.
Industry position	Shiley products are the recognized market leader, used in 8 out of 10 tracheostomy procedures performed in the United States. Hi-Lo® Tracheal Tubes are recognized as the standard of care in anesthesia, used in 7 out of 10 general surgeries. Mon-A-Therm® and WarmTouch® Temperature Management Systems maintain a leadership position in the temperature market.	Among the top four suppliers of X-ray contrast media. One of the two top suppliers of injector and urology systems. A leading provider of radiopharmaceutical products and services worldwide. 
Scope of operation	The Critical Care Division operates three business units: Anesthesiology, with plants in the United States, Mexico and Ireland; Respiratory Care, with sites in the United States, Mexico and Italy; and Near Patient Testing, with manufacturing facilities in the United States and Sweden.	The Medical Imaging and Nuclear Medicine divisions supply imaging agents and radiopharmaceutical products for worldwide distribution. Medical Imaging facilities are located in the United States, Canada, Mexico and Ireland. Nuclear Medicine products are produced in the United States and the Netherlands.

	Specialty chemicals	Animal health
		
		

*Before corporate expenses

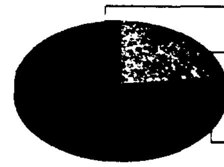
Pharmaceutical specialties	Specialty chemicals	**Animal health**
Analgesics, medicinal narcotics, addiction therapy products, and peptides.	Catalysts, inorganics, stearates, laboratory chemicals, and microelectronic materials.	Anti-microbials; productivity enhancers; anthelmintics; ectoparasiticides; anesthetics; vaccines for pets, poultry and livestock; prostaglandins; and surgicals.
Acetaminophen (APAP); opium derivatives such as morphine sulfate, codeine phosphate and oxycodone hydrochloride; synthetic narcotics such as meperidine, methylphenidate and propoxyphene napsylate; Anexsia*; Methadose* liquid and tablets, Methadone* powder; Calcitonin; Desmopressin.	Base metal catalysts, Lynx 1000,* polymerization catalysts, inorganic high-purity salts, solvents, acids and excipients, BAKER ANALYZED* and Mallinckrodt AR* laboratory reagents, chromatography media, CMOS and Finyte* grade microelectronic chemicals, and photoresist strippers (PRS). 	Clinacox,* Ralgro,* Cepravin,* Tribrissen,* Zaquilan,* Butalex,* Imizol,* Systamex,* Nilverm,* Tramisol,* Totalon,* Autoworm,* EXspot,* Defend,* Warbex,* Saber,* Grenade,* Spot-on,* Rabdomun,* Footvax,* Leptavoid* H, Covexin* Rotavec K-99, Coopervax, Porculin,* Gletvax,* Coccivac,* Paracox,* Rapinovet,* Estrumate,* PRV Marker Gold; Ralgro,* Maxiflu; Ethicon/Johnson product line. *See page 44 for trademark information
World leader in acetaminophen sales, production volume and capacity. One of the top three suppliers of medicinal narcotics. Largest opium processor and market leader in manufacture of bulk controlled substances. With recently issued patents and an investment in proprietary process technology, Mallinckrodt is positioned to assume a leadership role in peptide pharmaceuticals.	Market leader in laboratory reagent chemicals. Largest supplier of pharmaceutical and biotech production chemicals. A leading producer of microelectronic chemicals and photoresist strippers.	Mallinckrodt Veterinary is a top 10 global animal health company, with leading positions in productivity enhancers, surgicals, prostaglandins, poultry coccidiosis vaccines, and anesthesia. Mallinckrodt also holds a top five position in total vaccines and parasiticides.
The Pharmaceutical Chemicals Division manufactures bulk narcotics and acetaminophen in the United States. A key acetaminophen intermediate, para-aminophenol (PAP), is made in the United Kingdom. The Pharmaceutical Specialties Division facilities are located in the United States.	Mallinckrodt Baker manufactures chemicals in the United States, the Netherlands and Mexico. The Catalysts & Chemical Additives Division manufacturing sites are in the United States and Germany.	Mallinckrodt Veterinary products are produced in the United States, Paraguay, Brazil, Colombia, the Philippines, Malaysia, New Zealand, Ireland, Germany, and the United Kingdom for marketing throughout the world. 

Business Statistics

Net Sales by Business Segment
(In millions)

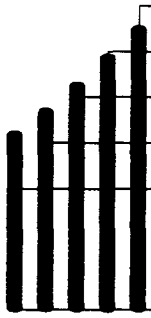
Human healthcare	$ 1,422	64%
Specialty chemicals	$ 332	15%
Animal health	$ 456	21%

Sales by Geographic Area
(In millions)



North America	$ 1,419	64%
Europe	$ 508	23%
Asia/Pacific	$ 171	8%
Latin America	$ 112	5%

Dividends Per Common Share



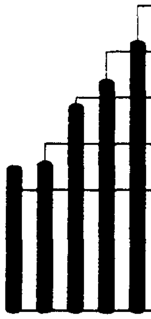
1996	$ .605
1995	$ .545
1994	$ .485
1993	$ .430
1992	$ .383

Net Sales
(In millions)

		CAGR
1996	$ 2,210	11%
1995	$ 2,043	
1994	$ 1,778	
1993	$ 1,627	
1992*	$ 1,458	

*Ongoing operations

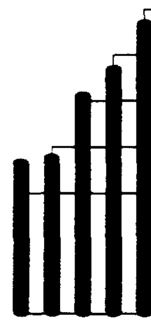
Earnings from Continuing Operations
(In millions)



		CAGR
1996	$ 191	17%
1995	$ 164	
1994*	$ 147	
1993*	$ 107	
1992	$ 104	

*Excludes restructuring charges of $59 million for 1994 and $242 million for 1993

Continuing Earnings Per Common Share



		CAGR
1996	$ 2.50	17%
1995	$ 2.11	
1994*	$ 1.89	
1993*	$ 1.37	
1992	$ 1.33	

*Excludes restructuring charges of $.76 per share for 1994 and $3.13 per share for 1993

Safe Harbor

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995. With the exception of historical information, the matters discussed in this annual report to stockholders are forward-looking statements that involve risks and uncertainties and actual results could differ materially from those discussed. Among the factors that could cause actual results to differ materially are the following: the effect of business and economic conditions; constraints on supplies of raw materials used in manufacturing certain of the Company's products; capacity constraints limiting the production of certain products; difficulties or delays in the development, production, testing and marketing of products; difficulties or delays in receiving required governmental or regulatory approvals; market acceptance issues, including the failure of products to generate anticipated sales levels; the effects of, and changes in, trade, monetary and fiscal policies, laws and regulations; foreign exchange rates and fluctuations in those rates; the costs and effects of legal and administrative proceedings, including the environmental proceedings involving the Company; and the risk factors reported from time to time in the Company's SEC reports.

TAB: G

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Key words