

CARDIOVASCULAR (CV) MEDICINES

MARKETED PRODUCTS

Crestor¹ (rosuvastatin calcium) is a member of the class of products known as statins and is used for the treatment of high cholesterol levels and, in the US, to slow the progression of atherosclerosis in patients with high cholesterol as an adjunct to diet.

Seloken/Toprol-XL (metoprolol succinate) is a once daily tablet for 24-hour control of blood pressure and for use in heart failure and angina.

Atacand² (candesartan cilexetil) is an angiotensin II antagonist for the first-line treatment of hypertension and symptomatic heart failure.

Tenormin (atenolol) is a cardioselective beta-blocker for hypertension, angina pectoris and other CV disorders.

Zestril³ (lisinopril dihydrate), an ACE inhibitor, is used for the treatment of a wide range of CV diseases, including hypertension.

Plendil (felodipine) is a calcium antagonist for the treatment of hypertension and angina.

2007 IN BRIEF

- > **Crestor sales up 33% to \$2.8 billion. Over 12 million patients treated and more than 114 million prescriptions written since launch.**
- > **New atherosclerosis indication for Crestor approved in the US. EU prescribing information updated with positive atherosclerosis data.**
- > **Atacand sales up 9% to \$1.3 billion.**
- > **Worldwide (except Japan) collaboration with Bristol-Myers Squibb to develop and commercialise two investigational compounds for the treatment of Type 2 diabetes – saxagliptin and dapagliflozin.**
- > **Generic versions of Toprol-XL now being marketed in the US at all dosage strengths.**
- > **Sales of Toprol-XL in the US down 30%.**
- > **Patent infringement actions filed against seven generic drug manufacturers in the US following abbreviated new drug applications relating to Crestor.**

PERFORMANCE

	2007			2006			2005	2007 compared to 2006		2006 compared to 2005	
	Sales \$m	Growth underlying \$m	exchange effects \$m	Sales \$m	Growth underlying \$m	exchange effects \$m		Growth underlying %	Growth reported %	Growth underlying %	Growth reported %
Crestor	2,796	673	95	2,028	745	15	1,268	33	38	59	60
Seloken/Toprol-XL	1,438	(393)	36	1,795	62	(2)	1,735	(22)	(20)	3	3
Atacand	1,287	99	78	1,110	133	3	974	9	16	14	14
Tenormin	308	(24)	12	320	(24)	(8)	352	(8)	(4)	(7)	(9)
Zestril	295	(30)	18	307	(23)	(2)	332	(10)	(4)	(7)	(8)
Plendil	271	(20)	16	275	(86)	1	360	(7)	(1)	(24)	(24)
Other	291	(14)	22	283	(27)	(1)	311	(5)	2	(9)	(9)
Total	6,686	291	277	6,118	780	6	5,332	5	9	15	15

PIPELINE

Compound	Mechanism	Areas under investigation	Phase			Estimated filing date		
			I	II	III	Europe	US	
NCEs								
AZD6140	ADP receptor antagonist	arterial thrombosis	■	■	■	2H 2009	2H 2009	
Saxagliptin	dipeptidyl peptidase-4 (DPP-4) inhibitor	diabetes	■	■	■	2H 2009	2Q 2008	
Dapagliflozin	sodium-glucose cotransporter-2 (SGLT2) inhibitor	diabetes	■	■	■	2010	2010	
Crestor/ABT-335	statin + fibrate fixed combination	dyslipidaemia	■	■	■		2H 2009	
AZD0837	thrombin inhibitor	thrombosis	■	■		2012	2012	
AZD4121	cholesterol absorption inhibitor	dyslipidaemia	■	■				
AZD2207	CB1 antagonist	diabetes/obesity	■	■				
AZD1175	CB1 antagonist	diabetes/obesity	■					
AZD1305	anti-arrhythmic	arrhythmias	■					
AZD6370	GLK activator	diabetes	■					
Line extensions								
Atacand	angiotensin II antagonist	diabetic retinopathy	■	■	■	1H 2009	1H 2009	
Atacand Plus	angiotensin II antagonist/thiazide diuretic	32/12.5 mg, 32/25 mg for hypertension	■	■	■	2Q 2008		
Crestor	statin	atherosclerosis	■	■	■	Launched	Launched	
Crestor	statin	outcomes end stage renal disease	■	■	■	1H 2009	1H 2009	
Crestor	statin	outcomes in subjects with elevated CRP	■	■	■	2010	2010	
Saxagliptin/metformin FDC	DPP-4 + biguanide FDC	diabetes	■	■	■			
Dapagliflozin/metformin FDC	SGLT2 + biguanide FDC	diabetes	■	■	■			

For discontinued projects see page 30.

¹ Licensed from Shionogi & Co., Ltd.

² Licensed from Takeda Chemical Industries Ltd.

³ Licensed from Merck & Co., Inc..

WE ARE A WORLD LEADER IN CV MEDICINES, BACKED BY OVER 40 YEARS' EXPERIENCE. WE AIM TO BUILD ON OUR STRONG POSITION, FOCUSING ON THE GROWTH AREAS OF DYSLIPIDAEMIA, THROMBOSIS, TYPE 2 DIABETES/OBESITY, ATHEROSCLEROSIS AND ATRIAL FIBRILLATION.

PRODUCTS

Crestor has now been approved in 91 countries and launched in 76, including the US, Canada, Japan and the majority of EU countries. *Crestor* was launched in China in April 2007.

Dyslipidaemia is increasingly recognised as a major health issue. Of those people currently being treated for high cholesterol, only about half reach their cholesterol goal on existing treatments. In multiple clinical studies, *Crestor* has been shown to be highly effective in lowering low-density lipoprotein cholesterol or 'bad cholesterol' (LDL-C), allowing the majority of patients to reach their LDL-C goals with the 10mg usual starting dose. Additionally, *Crestor* produces an increase in high-density lipoprotein cholesterol or 'good cholesterol' (HDL-C), an effect that is observed across the 5, 10, 20 and 40mg doses. At its usual 10mg starting dose, *Crestor* has been shown to reduce LDL-C by up to 52% and raise HDL-C by up to 14%.

Our extensive, long-term global clinical research programme (GALAXY), which began in 2002, includes studies that investigate the effect of *Crestor* on CV risk reduction and patient outcomes. The programme involves over 63,000 patients in over 55 countries.

The GALAXY programme was designed to address important unanswered questions in statin research by investigating links between optimal lipid control, atherosclerosis and CV morbidity and mortality. So far, a number of the studies have been completed and we have seen data from three atherosclerosis studies, ORION, ASTEROID and METEOR. The ORION study examined the potential for *Crestor* to shrink the lipid-rich necrotic core of plaques and so improve their stability, while the ASTEROID study examined the effect of *Crestor* on coronary atherosclerosis. The METEOR data, reported in March 2007, showed that *Crestor* significantly slowed progression of atherosclerosis compared with placebo in people with early signs of carotid artery disease and at low risk of coronary heart disease. In November 2007, the US Food and Drug Administration approved *Crestor* as an adjunct to diet for slowing the progression of atherosclerosis in patients with elevated cholesterol. *Crestor* is the only statin with a broad atherosclerosis indication in the US (irrespective of disease severity

or location and not restricted to patients with coronary heart disease), an important differentiation from other cholesterol-lowering products. In addition, the *Crestor* prescribing information in Europe was updated in July 2007 to incorporate positive atherosclerosis data from the METEOR study. In January 2008, we announced the launch of a new clinical trial for *Crestor*, called SATURN, designed to measure the impact of *Crestor* 40mg and atorvastatin (Lipitor™) 80mg on the progression of atherosclerosis in high-risk patients. The study is expected to enrol more than 1,000 patients across the world and should be completed in 2011.

Data from the CORONA multi-national study in patients with advanced heart failure were presented at the American Heart Association 2007 Scientific Sessions in November 2007. CORONA was a novel study that examined the effect of adding *Crestor* 10mg to optimised treatment on CV mortality and morbidity and overall survival in elderly patients with advanced heart failure who were not candidates for statin therapy. CORONA showed an 8% reduction in the combined primary endpoint of CV death, myocardial infarction or stroke in patients with heart failure taking *Crestor* 10mg, which did not reach statistical significance. This reduction was primarily driven by a decrease in atherosclerotic events, such as stroke and myocardial infarctions. In addition, significantly fewer hospitalisations occurred in patients on *Crestor* compared to placebo, whether due to any cause, cardiovascular causes, or worsening heart failure. *Crestor* 10mg was well-tolerated, with a safety profile similar to placebo in a very high-risk study population. Further clinical trials of *Crestor* as part of the GALAXY programme are continuing and are due to report over the next few years.

Data from two pharmacoepidemiological observational studies investigating the incidence of CV events in over 470,000 patients taking statins (including *Crestor*) in routine clinical practice were presented in October 2007. The results from one study, conducted in The Netherlands, with a median duration of therapy of 11 months suggest that patients taking *Crestor* had significantly fewer CV events compared to patients taking simvastatin and pravastatin. The results from the other study, conducted in the US, showed

that *Crestor* users had a similar incidence of CV events to users of other statins at a median duration of therapy of 100 days. However, amongst patients who were on statin therapy for nine months or longer, the incidence of events was significantly lower in *Crestor* users. These studies have limitations typical of observational research. The large *Crestor* post-marketing surveillance programme in Japan was successfully completed in April 2007, when it was confirmed that the safety of *Crestor* for Japanese patients was in line with other statins.

In December 2007, we filed patent infringement actions against seven generic drug manufacturers in response to receiving notices stating that they had filed abbreviated new drug applications (ANDAs) in the US certifying their intent to market generic copies of *Crestor* before the 2016 expiry of our patent covering the active ingredient in *Crestor*. We did not file patent infringement actions against two other generic drug manufacturers that similarly filed ANDAs seeking approval to market generic copies of *Crestor*. Those ANDAs seek approval to market products only after expiration of the patent covering the active ingredient in 2016. Further information about the ANDAs in respect of *Crestor* is set out in Note 27 to the Financial Statements on page 158. We continue to have full confidence in our intellectual property protecting *Crestor* and will vigorously defend and enforce it.

Atacand continues to be well accepted and competes in the fastest growing sector by value (angiotensin II antagonists – plain and combinations with diuretic) of the global hypertension market. A 32mg dose is available to support the use of *Atacand* in hypertension and congestive heart failure. Launches of the 32mg dosage strength outside the US continued during the year, and this strength is now available in most major markets. The clinical programme (DIRECT) investigating the effect of *Atacand* (up to 32mg dosage) on retinopathy in hypertensive and normotensive diabetic patients continued during 2007.

PIPELINE

Diabetes/obesity

In January 2007, we announced a worldwide (except Japan) collaboration with Bristol-Myers Squibb Company (BMS) to develop and commercialise two investigational compounds discovered by BMS being studied for the treatment of Type 2 diabetes – saxagliptin and dapagliflozin. We will set the development and commercial strategy for the two compounds jointly with BMS.

Saxagliptin is being studied as a once-daily oral anti-diabetic to determine its efficacy and safety profile. Saxagliptin was specifically

CARDIOVASCULAR (CV) MEDICINES CONTINUED

designed to be a selective and durable inhibitor of the DPP-4 enzyme, which regulates hormones that control plasma glucose levels. Phase III clinical trials to evaluate the efficacy and safety of saxagliptin are fully recruited. We plan to file a regulatory application for saxagliptin in the US in the second quarter of 2008. Results from a phase III trial were announced at the American Diabetes Association meeting in June 2007 and demonstrated that saxagliptin, when used as an add-on therapy to metformin, improved glycaemic control in adult patients with Type 2 diabetes, compared with the use of metformin alone, during 24 weeks of treatment.

Dapagliflozin is being studied as a once-daily oral anti-diabetic in the class of sodium-glucose cotransporter 2 (SGLT2) inhibitors. Dapagliflozin is a selective SGLT2 inhibitor, and has the potential to be first in this novel class of anti-diabetics. It is designed to be used both as monotherapy and in combination with other therapies for Type 2 diabetes.

Phase IIa data presented at the 2007 American Diabetes Association meeting demonstrated that administration of dapagliflozin reduced fasting serum glucose in patients with Type 2 diabetes when administered for 14 days alone or concomitantly with metformin.

In addition to saxagliptin and dapagliflozin, we have compounds in the area of diabetes and obesity in the cannabinoid receptor inhibitor class, as well as glucose kinase activating compounds in early patient testing.

Atherosclerosis/dyslipidaemia

In August 2007, we confirmed that the fixed-dose combination treatment of Abbott's next generation fenofibrate (ABT-335) and *Crestor* will progress into phase III development. The single pill would target all three major blood lipids: LDL-C 'bad cholesterol', HDL-C 'good cholesterol' and triglycerides.

In April 2007, we terminated our licensing and collaboration agreement with AtheroGenics, Inc. for AGI-1067. AGI-1067, an investigational anti-atherosclerotic agent, was studied in the ARISE phase III clinical outcomes trial involving more than 6,000 patients with coronary artery disease, but the trial failed to meet its primary endpoint.

Thrombosis

AZD6140 is the first reversible, oral, adenosine diphosphate (ADP) receptor antagonist. AZD6140 selectively and reversibly binds to the platelet receptor, in contrast to the irreversible binding seen with thienopyridines. The selective and reversible binding of AZD6140 means that platelet function recovers

as drug plasma levels decline. AZD6140 is being developed to reduce the risk of thrombotic events in patients diagnosed with acute coronary syndromes (ACS). AZD6140 is currently being studied in the phase III PLATO clinical trial. This is a head-to-head outcomes study to determine if AZD6140 is superior to clopidogrel for reducing the risk of thrombotic events in patients with ACS. It is being conducted in over 40 countries at up to 1,000 investigational centres and will include approximately 18,000 ACS patients.

In anti-coagulation, our principal project is AZD0837, an oral, direct thrombin inhibitor in late phase II testing. An extended release formulation is being developed, giving the possibility to use once-daily dosing without significant peak-trough variability, in other words reduced variability in anti-coagulation effect throughout the dosing interval.

Atrial fibrillation

Our lead compound is AZD1305, an atrial repolarisation-delaying agent, which has progressed into phase I testing in man.

PERFORMANCE 2007

Reported performance

Reported CV sales rose by 9% from \$6,118 million in 2006 to \$6,686 million in 2007. Continued strong growth from *Crestor* more than offset the significant declines in *Seloken/Toprol-XL*.

Underlying performance

Excluding exchange effects, CV sales grew by 5%. *Crestor* sales increased by 33% to \$2,796 million. In the US, *Crestor* sales for the full year were \$1,424 million, a 24% increase over 2006. Total prescriptions in the US statin market increased 8% for the year; *Crestor* prescriptions were up 22%. *Crestor* share of total prescriptions in the US was 8.6% in December 2007, marginally down from the 8.7% recorded in December 2006. Sales outside the US for the full year increased 45% to \$1,372 million, nearly half the total worldwide sales for the product. Sales were up 26% in Western Europe with good growth in France and Italy. Sales in Canada increased 43%. The launch in Japan continues to progress well, with *Crestor* achieving an 8.8% volume share in November 2007.

Global sales of *Seloken/Toprol-XL* fell by 22% to \$1,438 million. US sales of the *Toprol-XL* product range, which includes sales of the authorised generic were down 30% for the full year, as the full range of dosage strengths were subject to generic competition from August 2007. Generic products accounted for 85% of dispensed prescriptions in the fourth quarter and the *Toprol-XL* product

range declined by 69% in that period compared with 2006. Sales of *Seloken* in other markets were up 5% for the full year as a result of growth in Emerging Markets.

Atacand sales in the US were unchanged for the full year whilst sales in other markets increased 12%.

Continued small declines were seen in *Zestril* (down 10% to \$295 million) and *Plendil* (down 7% to \$271 million), with general global falls compensated by increases in discrete markets.

PERFORMANCE 2006

Reported performance

CV sales were up by 15% on a reported basis, rising from \$5,332 million in 2005 to \$6,118 million in 2006. The strong performance of *Crestor* was the principal driver of growth.

Underlying performance

Excluding exchange effects, CV sales grew by 15%. Annual sales for *Crestor* exceeded \$2 billion for the first time in 2006 and, since launch in early 2003, more than 70 million prescriptions have been written. *Crestor* sales in the US were up 57% to \$1,148 million for the year. New prescriptions for statins in the US were up 18%; *Crestor* new prescriptions were up 58%. *Crestor* new prescription market share in December 2006 was 9.6%. In other markets *Crestor* sales increased by 61% on good growth in Europe (up 56%) and in Asia Pacific following launch in Australia and Japan in the second half of 2006.

Sales of *Toprol-XL* in the US were up 7% for the full year to \$1,382 million. Total prescriptions in the US increased by 10% versus 2005. The November 2006 launch of Sandoz's generic 25mg metoprolol succinate product in the US was followed by an announcement that we had entered into a supply and distribution agreement with Par Pharmaceutical Companies, Inc. to distribute an authorised generic version of the same 25mg dosage strength in the US market. As a consequence, adjustments were taken in respect of pipeline inventory in the marketplace with the effect that sales are now being recognised as prescriptions are written. Sales of *Seloken* in other markets were down 7% for the full year to \$413 million.

Atacand sales in the US were up 12% to \$260 million with new prescriptions up 7%. In other markets, *Atacand* sales were up 14% to \$850 million.

Plendil sales were down 24% as a result of generic competition in the US market, where *Plendil* sales declined by 71% to \$24 million.

GASTROINTESTINAL (GI) MEDICINES

MARKETED PRODUCTS

Nexium (esomeprazole) is the first proton pump inhibitor (PPI) for the treatment of acid-related diseases to offer clinical improvements over other PPIs and other treatments.

Losec/Prilosec (omeprazole) was the first PPI, and is used for the short-term and long-term treatment of acid-related diseases.

Entocort (budesonide) is a locally acting corticosteroid for the treatment of inflammatory bowel disease (IBD) with better tolerability than other corticosteroids and greater efficacy than aminosalicyclic acid medicines.

2007 IN BRIEF

- > Sales of **Nexium** down 2% to \$5.2 billion.
- > **Losec/Prilosec** sales of over \$1 billion with sales growth in Japan and China. Overall sales down 20%.
- > European Patent Office rulings that the European process patent for **Nexium** and the European patent for the Multiple Unit Pellet (MUPS) formulations of **Losec** and **Nexium**, which expire in 2015, are valid in amended form.
- > Patent litigation continuing in the US against generic manufacturers following abbreviated new drug applications relating to **Nexium**.

PERFORMANCE

	2007			2006			2005	2007 compared to 2006		2006 compared to 2005	
	Sales \$m	Growth underlying \$m	exchange effects \$m	Sales \$m	Growth underlying \$m	exchange effects \$m		Growth underlying %	Growth reported %	Growth underlying %	Growth reported %
Nexium	5,216	(104)	138	5,182	555	(6)	4,633	(2)	1	12	12
Losec/Prilosec	1,143	(277)	49	1,371	(266)	(15)	1,652	(20)	(17)	(16)	(17)
Other	84	2	4	78	8	-	70	3	8	11	11
Total	6,443	(379)	191	6,631	297	(21)	6,355	(6)	(3)	4	4

PIPELINE

Compound	Mechanism	Areas under investigation	Phase			Estimated filing date		
			I	II	III	Europe	US	
NCEs								
AZD3355	inhibitor of transient lower oesophageal sphincter relaxations (TLESR)	GERD	■	■			2011	2011
AZD2066	metabotropic glutamate receptors subtype 5	GERD		■				
AZD1386	vanilloid receptor 1 antagonist	GERD		■				
Line extensions								
Nexium	proton pump inhibitor	peptic ulcer bleeding	■	■	■		2Q 2008	2Q 2008
Nexium sachet formulation	proton pump inhibitor	GERD	■	■	■		Approved ¹	Launched
Nexium low dose aspirin combination	proton pump inhibitor	low dose aspirin associated peptic ulcer	■	■	■			1H 2009
Nexium	proton pump inhibitor	extra-oesophageal reflux disease	■	■			2H 2009 ²	2H 2009 ²

¹ Approved by EU reference member state, mutual recognition procedure ongoing.

² Project Extraesophageal reflux disease (reflux asthma) will be completed but will not result in a regulatory filing.

For discontinued projects see page 30.

WE AIM TO DEVELOP OUR LEADING POSITION IN GI TREATMENTS BY FOCUSING ON LIFE CYCLE INITIATIVES FOR NEXIUM TO GAIN FURTHER MARKET PENETRATION BY BROADENING ITS USE, COUPLED WITH INNOVATIVE RESEARCH AND DEVELOPMENT OF NEW THERAPIES FOR GASTRO-OESOPHAGEAL REFLUX DISEASE (GERD).

PRODUCTS

Nexium, for the treatment of acid-related diseases such as gastro-oesophageal reflux disease (GERD), was first launched in Sweden in August 2000 and is now available in approximately 100 markets, including the US, Canada and all EU countries. It has been generally well received by patients and physicians alike and close to 746 million patient treatments were administered by the end of 2007. *Nexium* has been evaluated in clinical studies involving around 85,000 patients in over 62 countries and offers very effective acid inhibition.

GERD is a common disease that affects patients' daily lives. In the treatment of reflux oesophagitis, *Nexium* provides healing in more patients than *Losec/Prilosec*, lansoprazole or pantoprazole. It is an effective, long-term therapy for patients with GERD, with or without oesophagitis (in the US, the long-term indication is only for patients with GERD with oesophagitis). For the treatment of active peptic ulcer disease, seven-day *Nexium* triple therapy (in combination with two antibiotics for the eradication of *H.pylori*) heals most patients without the need for follow-up anti-secretory therapy.

Nexium is approved for the treatment of children aged 12 to 17 years with GERD in both the US and the EU. During 2007, *Nexium* was also approved for the age group one to 11 years in Canada and Sweden, and an approvable letter for this group was received in the US. *Nexium* is approved in the US, the EU, Canada and Australia for the treatment of patients with the rare gastric disorder, Zollinger-Ellison syndrome.

Nexium is approved in Europe for the healing and prevention of ulcers associated with non-steroidal anti-inflammatory drug (NSAID) therapy. In the US, *Nexium* is approved for the reduction in the risk of gastric ulcers associated with continuous NSAID therapy in patients at risk of developing gastric ulcers. Trials are continuing to further evaluate a combination of *Nexium* and low-dose acetylsalicylic acid (ASA, for example Aspirin™) in patients at risk from low-dose ASA-associated peptic ulcers. These patients need to stay on low-dose ASA for CV protection but also need protection from the risk of developing peptic ulcer (due to the ulcerative properties of ASA).

The parenteral form of *Nexium*, which is used when oral administration is not applicable for the treatment of GERD and upper GI side effects induced by NSAIDs, is approved in 86 countries including the US and all EU countries. A continuing study of *Nexium* for the treatment of patients with peptic ulcer bleed will be finalised during 2008.

The US Food and Drug Administration (FDA) made a public announcement in August 2007 about differences in cardiac event rates reported from two small, non-blinded, long-term, clinical studies in patients with GERD, comparing anti-reflux surgery with either omeprazole or *Nexium* treatment. The announcement was in response to a communication sent to all health authorities by us in May 2007. After further assessment, the FDA issued its final assessment of the two studies in December 2007, which stated that the "FDA continues to believe that long-term use of omeprazole or esomeprazole is not likely to be associated with an increased risk of heart problems and recommends that healthcare providers continue to prescribe and patients continue to use these products in the manner described in the labelling for the two products".

In December 2006, the European Patent Office (EPO) ruled that one of the European substance patents for *Nexium* would be rejected following an appeal from the German generic manufacturer, ratiopharm GmbH. The original expiry date for this patent was 2014. Although disappointed with the EPO decision, we continue to have full confidence in the intellectual property portfolio protecting *Nexium*. This portfolio includes process, formulation, method of use and additional substance patents with expiration dates ranging from 2009 to 2018. In October 2007, the EPO Opposition Division ruled that the European process patent for *Nexium* is valid in amended form, in response to opposition proceedings commenced by ratiopharm. In January 2008, ratiopharm filed a notice of appeal against this decision. In November 2007, the EPO Opposition Division ruled that a European patent for the multiple unit pellet (MUPS) formulations of *Losec* and *Nexium* is valid in amended form, in response to opposition proceedings from generic manufacturers. Both the process patent and the MUPS patent expire in 2015. In addition to these patents, *Nexium* has data exclusivity valid until 2010 in most major European markets.

In the US, we are continuing to pursue patent litigation against various generic manufacturers who have filed abbreviated new drug applications (ANDAs) and are seeking to market esomeprazole magnesium products before the expiration of certain of our patents relating to *Nexium*.

During 2007, we received additional notices that ANDAs had been filed by generic drug manufacturers in respect of 20 and 40mg delayed-release esomeprazole magnesium capsules. Details of these ANDA filings and of continuing litigation are set out in Note 27 to the Financial Statements on page 158.

The rejection of our European substance patent relating to *Nexium* should not have any substantive impact on our ability to uphold and enforce our *Nexium* patents in the US. We have several US patents covering *Nexium*, all of which can be differentiated from the rejected European patent. As a result of the expiration of 30-month stays during which the FDA may not approve ANDAs, an 'at risk' launch by a generic drug manufacturer of 20 and/or 40mg delayed-release esomeprazole magnesium capsules may occur in the US in 2008.

We continue to have full confidence in our intellectual property protecting *Nexium* and will vigorously defend and enforce it.

Patients have benefited from over 889 million treatments with *Losec/Prilosec* (up to the end of October 2007) since its launch in 1988. Continued sales growth of *Losec/Omepral* was seen in Japan in 2007. Patent protection for omeprazole, the active ingredient in *Losec/Prilosec*, has expired (the first patent expiration was in Germany in 1999). We continue to maintain formulation patent property in respect of *Losec/Prilosec*. Further information about the status of omeprazole patents and patent litigation, including details of generic omeprazole launches, is set out in Note 27 to the Financial Statements on page 158.

Our appeal to the European Court of First Instance regarding the European Commission's Decision in 2005 to impose fines on us totalling €60 million (\$75 million) for alleged infringements of European competition law relating to certain omeprazole intellectual property and regulatory rights is still pending. Further information about this case is set out in Note 27 to the Financial Statements on page 158.

Entocort is increasingly accepted as first-line therapy for mild to moderate, active Crohn's disease and is approved in 44 countries.

PIPELINE

Our pipeline includes life cycle management initiatives for approved products mentioned above, as well as development compounds. Our focus is on developing novel approaches to treating GERD by inhibition of reflux with or without concomitant treatment of gastro-oesophageal hypersensitivity. During 2007, AZD3355, which inhibits transient lower oesophageal sphincter relaxations, was tested in patients with GERD and showed positive effects in a phase IIa study. The development of AZD3355 in phase II is progressing.

PERFORMANCE 2007

Reported performance

Gastrointestinal sales fell by 3% to \$6,443 million in 2007 from \$6,631 million in the previous year.

Underlying performance

After excluding the effects of exchange, gastrointestinal sales fell by 6%. Worldwide, *Nexium* sales fell by 2% to \$5,216 million. In the US, *Nexium* sales for the full year were \$3,383 million, down 4%. Estimated volume growth was 2% for the year. *Nexium* market share in the branded segment of the PPI market increased by 1.5 percentage points in 2007; however, generic omeprazole's share of the prescription PPI market increased to 27.4% by December 2007, an increase of nearly 7 percentage points since December 2006. Realised prices declined by around 8% for the year. *Nexium* sales in other markets were up 2% for the full year to \$1,833 million, as growth in Emerging Markets more than offset the declines in Western Europe. We expect *Nexium* sales to be lower in 2008.

For the full year, *Losec* sales declined by 20% to \$1,143 million. *Prilosec* sales in the US were down 3% to \$226 million. *Losec* sales in other markets were down 24%, although sales increased in Japan and China; sales in these two markets now account for almost 30% of the brand's performance.

PERFORMANCE 2006

Reported performance

Gastrointestinal sales grew by 4% to \$6,631 million, up from \$6,355 million in 2005. The performance of *Nexium* (particularly in the US) more than compensated for the continued decline in *Losec/Prilosec* sales.

Underlying performance

After excluding the effects of exchange, GI sales grew by 4%.

In the US, *Nexium* sales increased by 13% to \$3,527 million. Dispensed tablet volume for *Nexium* increased by 17%; all other PPI class brands in aggregate declined by 4%. *Nexium* volume growth more than offset lower realised prices from contracted sales.

Sales of *Nexium* in other markets reached \$1,655 million for the full year (up 10%) as good volume growth in France and Italy helped mitigate the significant price erosion in Germany. As a result, Europe sales improved by 6% to \$1,166 million, whilst Asia Pacific revenues increased by 14% to \$195 million, driven by Japan and China.

Losec/Prilosec sales were down 16% to \$1,371 million. *Prilosec* sales were down 12% in the US and *Losec* sales in other markets were down 17%. Sales in Japan were up 7% at \$227 million, whilst sales in China were flat.

NEUROSCIENCE MEDICINES

MARKETED PRODUCTS¹

Seroquel (quetiapine fumarate) is an atypical anti-psychotic drug. It is approved for the treatment of schizophrenia, bipolar mania and bipolar depression. Its overall clinical efficacy and tolerability profile helped make it the leading atypical anti-psychotic in the US.

Zomig (zolmitriptan) is for the treatment of migraine with or without aura.

Diprivan (propofol), an intravenous general anaesthetic, is used in the induction and maintenance of anaesthesia, light sedation for diagnostic procedures and for intensive care sedation.

Naropin (ropivacaine), with its safety and mobility profile, is the world's best-selling, long-acting local anaesthetic, replacing the previous standard treatment of bupivacaine.

Xylocaine (lidocaine) continues to be the world's most widely used short-acting local anaesthetic after more than 50 years on the market.

2007 IN BRIEF

- > **Seroquel sales up 15% to over \$4 billion.**
- > **Seroquel XR major depressive disorder and generalised anxiety disorder clinical study data presented for the first time. US and EU regulatory submissions planned in 2008.**
- > **Seroquel XR approved in nine countries, including the US, and progressed through the mutual recognition procedure in the EU, for acute and maintenance treatment of schizophrenia.**
- > **US regulatory submissions for Seroquel XR for the treatment of bipolar depression and bipolar mania.**
- > **AZD3480 entered Phase IIb testing in Alzheimer's disease and cognitive disorders in schizophrenia.**
- > **Patent infringement actions commenced against two generic drug manufacturers in the US following abbreviated new drug applications relating to Seroquel.**
- > **Numerous personal injury actions in the US and Canada involving Seroquel being defended vigorously.**

PERFORMANCE

	2007			2006			2005	2007 compared to 2006		2006 compared to 2005	
	Sales \$m	Growth underlying \$m	Growth due to exchange effects \$m	Sales \$m	Growth underlying \$m	Growth due to exchange effects \$m		Growth underlying %	Growth reported %	Growth underlying %	Growth reported %
Seroquel	4,027	526	85	3,416	655	-	2,761	15	18	24	24
Zomig	434	18	18	398	47	(1)	352	5	9	13	13
Diprivan	263	(53)	12	304	(62)	(3)	369	(17)	(13)	(17)	(18)
Local anaesthetics	557	(6)	34	529	24	(6)	511	(1)	5	5	4
Other	59	(1)	3	57	(8)	(1)	66	(2)	4	(12)	(14)
Total	5,340	484	152	4,704	656	(11)	4,059	10	14	16	16

PIPELINE

Compound	Mechanism	Areas under investigation	Phase			Estimated filing date	
			I	II	III	Europe	US
NCEs							
PN400	naproxen + esomeprazole	signs and symptoms of OA, RA, and AS	■	■	■	1H 2009	1H 2009
AZD3480	neuronal nicotinic receptor agonist	cognitive disorders in schizophrenia	■	■		2011	2011
AZD3480	neuronal nicotinic receptor agonist	Alzheimer's disease	■	■		2011	2011
AZD6765	NMDA receptor antagonist	depression	■	■			
AZD2327	enkephalinergic receptor modulator	anxiety and depression	■				
AZD5904	inhibitor of myeloperoxidase (MPO)	multiple sclerosis	■				
AZD3241	inhibitor of myeloperoxidase (MPO)	Parkinson's disease	■				
AZD0328	selective neuronal nicotinic receptor agonist	Alzheimer's disease	■				
AZD1940	CB receptor agonist	nociceptive and neuropathic pain	■				
AZD2624	NK receptor antagonist	schizophrenia	■				
AZD1386	vanilloid receptor antagonist	chronic nociceptive pain	■				
AZD2066	metabotropic glutamate receptors	chronic nociceptive pain	■				
AZD7325	GABA receptor subtype partial agonist	anxiety	■				
AZD6280	GABA receptor subtype partial agonist	anxiety	■				
TC-5619 (Targacept)	neuronal nicotinic receptor agonist	cognitive disorders in schizophrenia	■				
Line extensions							
Seroquel XR	D ₂ /5HT ₂ antagonist	schizophrenia	■	■	■	Approved	Launched
Seroquel	D ₂ /5HT ₂ antagonist	bipolar maintenance	■	■	■	2Q 2008	Filed
Seroquel	D ₂ /5HT ₂ antagonist	bipolar depression	■	■	■	1Q 2008	Launched
Seroquel XR	D ₂ /5HT ₂ antagonist	generalised anxiety disorder	■	■	■	4Q 2008	2Q 2008
Seroquel XR	D ₂ /5HT ₂ antagonist	major depressive disorder	■	■	■	3Q 2008	1Q 2008
Seroquel XR	D ₂ /5HT ₂ antagonist	bipolar mania	■	■	■	1Q 2008	Filed
Seroquel XR	D ₂ /5HT ₂ antagonist	bipolar depression	■	■	■	1Q 2008	Filed

For discontinued projects see page 30.

¹ In 2006, we sold our range of US branded anaesthetics and analgesic products to Abraxis BioScience, Inc.. These included Xylocaine™, Polocaine™, Naropin™, Nesacaine™, Sensorcaine™, Astramorph™, EMLA Cream™ and Diprivan™.

WE AIM TO STRENGTHEN OUR NEUROSCIENCE POSITION THROUGH FURTHER GROWTH OF THE *SEROQUEL* FRANCHISE, BRINGING NEW VALUE TO PATIENTS AND DOCTORS WITH *SEROQUEL XR* AND BY THE SUCCESSFUL INTRODUCTION OF A RANGE OF LIFE-CHANGING MEDICINES AIMING TO MEET SIGNIFICANT MEDICAL NEED IN PAIN CONTROL, NEUROLOGY AND PSYCHIATRY.

PRODUCTS

Seroquel is a leading atypical anti-psychotic for the treatment of schizophrenia and bipolar disorder. During their lives, about one person in every 100 will suffer from schizophrenia and about one in 20 will suffer from bipolar disorder. Launched in 1997, we estimate that *Seroquel* has been prescribed to more than 25 million patients worldwide. *Seroquel XR* was launched for the treatment of schizophrenia in the US in 2007. It is an extended release formulation that offers patients and doctors a once-daily schizophrenia treatment that can be given at the effective dose range by the second day of treatment. Its clinical development programme and planned regulatory filings extend through bipolar disorder to major depressive disorder (MDD) and generalised anxiety disorder (GAD).

Seroquel remains the most commonly prescribed atypical anti-psychotic in the US, where it is the only anti-psychotic approved as monotherapy treatment for both bipolar depression and bipolar mania. Its benefit/risk profile includes proven efficacy across a range of symptoms in schizophrenia and bipolar disorder as well as a tolerability profile that is differentiated from competitors.

In November 2007, the US Food and Drug Administration (FDA) approved *Seroquel XR* for the prevention of relapse in schizophrenic patients already benefiting from *Seroquel XR* treatment. Regulatory submissions for *Seroquel XR* in the US for the treatment of bipolar mania and bipolar depression were made in December 2007. Data from the studies on which the filings were based will be presented at major scientific congresses in 2008. Regulatory submissions in the EU are planned in these areas in the first quarter of 2008.

Seroquel bipolar maintenance clinical study data were presented for the first time in 2007 at the European Congress of Psychiatry, in Vienna. They showed that patients receiving *Seroquel* plus baseline treatment (lithium or divalproex) experienced a 72% reduction in the risk of relapse when compared with those receiving baseline treatment alone and this reduction in risk was similar for both manic and depressed events. In July 2007, AstraZeneca submitted a supplementary new drug application to the FDA for a new indication for the use of *Seroquel* as an adjunct to a mood stabiliser for the maintenance of effect in patients with bipolar disorder, based on data from two similar clinical trials. Pooled data from the bipolar maintenance studies showed a greater incidence of blood glucose increases to hyperglycaemic levels in patients randomised to *Seroquel* and mood stabiliser than in patients randomised to placebo and mood stabiliser. Appropriate *Seroquel* labelling revisions have been submitted to regulatory authorities, with implementation subject to local regulatory requirements.

The large *Seroquel XR* clinical trial programmes for MDD and GAD are planned to enrol more than 7,000 patients in total. They progressed during the year, with completion of the majority of the studies and first presentation of both MDD and GAD data in December 2007 at major international congresses. We expect to make US regulatory submissions in these areas in the first and second quarters of 2008 and EU regulatory submissions in the third and fourth quarters of 2008.

AstraZeneca Pharmaceuticals LP, either alone or in conjunction with one or more affiliates, is defending more than 8,100 served or answered lawsuits involving approximately 12,350 plaintiff groups who have filed *Seroquel*-related product liability claims in the US and Canada. Although the nature of the alleged injuries is not clear from the face of most of the complaints and discovery of the cases is continuing, plaintiffs generally contend that they developed diabetes and/or other related injuries as a result of taking

Seroquel and/or other atypical anti-psychotic medications. Further information can be found in Note 27 to the Financial Statements on page 158.

In April 2007, we filed a patent infringement action in the US District Court for the District of New Jersey, seeking an injunction and other remedies against Sandoz, Inc, following receipt of a notice from Sandoz informing us that it had submitted an abbreviated new drug application (ANDA) to the FDA for approval to market a generic version of *Seroquel* 25mg quetiapine fumarate tablets. In June 2007, we filed a third patent infringement action against Teva Pharmaceuticals USA Inc. in the US District Court for the District of New Jersey following receipt of a notice from Teva that it had supplemented its ANDA for generic *Seroquel* tablets a second time, adding 50, 150, and 400mg tablets to the application.

As a result of the expiration of 30-month stays during which the FDA may not approve ANDAs, an 'at risk' launch by Teva of 25, 100, 200 and/or 300mg quetiapine fumarate tablets may occur in the US in 2008. We continue to have full confidence in our intellectual property protecting *Seroquel* and will vigorously defend and enforce it. Details of the litigation against generic drug manufacturers in respect of *Seroquel* are set out in Note 27 to the Financial Statements on page 158.

Zomig is available in a unique range of formulations, offering physicians a choice of ways to provide rapid relief for migraine patients. *Zomig* remains the prescription market leader in Europe. *Zomig* Nasal Spray delivers fast pain relief, offering migraine patients with nausea and vomiting an alternative route of administration and now accounts for 7% of *Zomig* global sales. *Zomig* Rapimelt is a melt-in-the-mouth formulation offering patients a convenient, orange-flavoured tablet that can be taken without liquid whenever a migraine attack strikes. *Zomig* Rapimelt now accounts for more than 37% of *Zomig* global sales.

Diprivan is the world's best-selling intravenous general anaesthetic. More than 90% of total *Diprivan* sales consist of *Diprivan* EDTA, a microbial-resistant formulation, which is approved in the majority of markets. The EDTA formulation was approved in France in September 2007.

Naropin was approved during the year in the Czech Republic, Mexico, Australia and Finland for extended use in paediatric patients to include neonates and infants aged below one year old.

NEUROSCIENCE MEDICINES CONTINUED

PIPELINE

Our product pipeline and life cycle management work is focused on the important areas of pain control, psychiatry, analgesia, neurology and anaesthesia. In 2007, we have significantly strengthened the early development pipeline by progressing 10 additional compounds into clinical testing. Although it was decided in 2006 not to start new discovery work in Parkinson's disease (PD), multiple sclerosis (MS) and neuroprotection in stroke, current projects in development for PD and MS continue as planned.

Pain control

PN400 is a fixed-dose combination tablet of naproxen and esomeprazole which uses proprietary technology licensed from POZEN Inc. through a partnership established in August 2006. It is being developed for the relief of signs and symptoms of osteoarthritis, rheumatoid arthritis and ankylosing spondylitis in patients at risk for developing non-steroidal anti-inflammatory drug (NSAID)-associated gastric ulcers. At least 50% of the 60 million osteoarthritis patients in the US and the five largest European countries are at risk of developing NSAID-associated ulcers.

A phase III trial programme, which was initiated in the third quarter of 2007, is evaluating the incidence of gastric ulcers in at-risk patients with chronic pain taking PN400 versus the ulcer incidence in those taking naproxen alone. A regulatory submission for PN400 in the US is currently planned for the first half of 2009.

Psychiatry

We progressed four compounds, AZD6765, AZD2624, AZD6280 and AZD7325, into clinical development for the treatment of anxiety, schizophrenia and/or depression. We also entered into a collaboration with the University of Texas Southwestern Medical Center at Dallas, US to accelerate scientific discovery and therapeutic advancement for depression.

Analgesia

We have progressed three compounds, AZD2066, AZD1940 and AZD1386 into phase I clinical development for the treatment of nociceptive (caused by tissue damage) and/or neuropathic (caused by nerve damage) pain.

In October 2007, by mutual agreement with NPS Pharmaceuticals, Inc. we decided to end our collaborative efforts to discover and develop drugs targeting metabotropic glutamate receptors (mGluRs). As part of this agreement, we have acquired certain know-how, intellectual property and technology rights from NPS Pharmaceuticals for our exclusive use.

We have established a partnership with the University of Texas M. D. Anderson Cancer Center to develop platforms and clinical targets for new drugs in chronic pain.

Neurology

We continue to expand our research capabilities in positron emission tomography (PET) through our collaboration with the Karolinska Institute in Sweden, providing early signalling of potential efficacy for our Alzheimer's compounds. In addition, we have established two Alzheimer's alliances with key US centres, the Banner Alzheimer's Institute in Phoenix, Arizona and Washington University in St. Louis. Both approaches are focused on the identification and progression of Alzheimer's disease. We currently have eight development programmes, of which six are in clinical evaluation, in Alzheimer's disease, cognitive disorders in schizophrenia (CDS) and specific segments of other neuro-degenerative diseases, multiple sclerosis and Parkinson's disease.

AZD3480, the neuronal nicotinic receptor agent that we licensed from Targacept, Inc. in 2005, has successfully progressed into phase IIb clinical testing in both Alzheimer's disease and cognitive disorders in schizophrenia (CDS). We have exercised a right to acquire an option from Targacept to take a licence of TC-5619, which Targacept is developing in CDS.

PERFORMANCE 2007**Reported performance**

Sales in the Neuroscience therapy area rose by 14% in 2007, up to \$5,340 million from \$4,704 million in 2006. *Seroquel* was the principal driver of performance, recording an 18% increase in sales.

Underlying performance

On a constant exchange rate basis, Neuroscience sales grew by 10%. Annual *Seroquel* sales exceeded \$4 billion for the first time in 2007, with full year sales of \$4,027 million, up 15% over last year. In the US, *Seroquel* sales increased by 15% to \$2,863 million. Total prescriptions increased by 10% for the year, more than twice the market rate. Market share of total prescriptions in the US antipsychotic market increased to 31.8% in December 2007, up 1.3 percentage points in the last 12 months, with a third of the increase attributable to *Seroquel XR* in the five months since launch in August. *Seroquel* sales in other markets were up 16% for the full year as a result of market share gain in most markets.

Zomig sales for the full year increased by 5% in the US (to \$177 million) and 4% in other markets, totalling \$434 million.

PERFORMANCE 2006**Reported performance**

Neuroscience sales grew by 16% to \$4,704 million in 2006 from \$4,059 million in 2005 with growth in all geographic areas, driven chiefly by *Seroquel*.

Underlying performance

After excluding exchange effects of \$11 million, underlying growth was 16%.

Seroquel sales reached \$3,416 million (up 24%). In the US, *Seroquel* sales were up 24% to \$2,486 million. Total prescriptions increased by 12%, well ahead of the market. The *Seroquel* share of total prescriptions in the US anti-psychotic market increased to 30.2% in December, up 1.7 percentage points over last year. In other markets, sales were up 23%, on good growth in Europe (up 25% to \$619 million) and in Asia Pacific (up 15% to \$149 million).

Zomig sales increased by 13% to \$398 million. *Zomig* sales comparisons in the US for the full year as compared with 2005 are affected by the resumption of full responsibility from MedPointe, Inc. for US commercialisation in April 2005. Sales for *Zomig* in the US were up 39%, although total prescriptions declined by 6%. Sales of *Zomig* in other markets were unchanged.

ONCOLOGY MEDICINES

MARKETED PRODUCTS

Arimidex (anastrozole) is the world's leading aromatase inhibitor for the treatment of breast cancer.

Casodex (bicalutamide) is the world's leading anti-androgen therapy for the treatment of prostate cancer.

Zoladex (goserelin acetate implant), in one- and three-month depots, is the world's second largest LHRH agonist for the treatment of prostate cancer, breast cancer and certain benign gynaecological disorders.

Iressa (gefitinib) is an epidermal growth factor receptor-tyrosine kinase inhibitor (EGFR-TKI) that acts to block signals for cancer cell growth and survival in non-small cell lung cancer.

Faslodex (fulvestrant) is an injectable oestrogen receptor antagonist for the treatment of breast cancer, with no known agonist effects, that down-regulates the oestrogen receptor.

Nolvadex (tamoxifen citrate) remains a widely prescribed breast cancer treatment outside the US.

Ethylol (amifostine) is used to help prevent certain side effects of specific types of chemotherapy and radiotherapy that are used to treat cancer.

Abraxane[®] (paclitaxel protein-bound particles for injectable suspension) (albumin-bound), discovered, developed and owned by Abraxis BioScience, Inc., uses a novel technology to deliver paclitaxel for the treatment of breast cancer. We co-promote Abraxane[®] in the US under an agreement with Abraxis.

2007 IN BRIEF

- > **Arimidex sales up 10% to \$1.7 billion.** It remains the leading hormonal breast cancer therapy in the US, Japan and France.
- > **Casodex sales growth continued with total sales of over \$1 billion, up 6%.**
- > **Zoladex sales of over \$1 billion, up 4%.**
- > **ZD4054 progressed into phase III development for hormone-resistant prostate cancer.**
- > **Phase III trials of Zactima in non-small cell lung cancer (NSCLC) and in medullary thyroid cancer continued.**
- > **Pivotal trials of Recentin in colorectal cancer (CLC) and NSCLC continued to recruit patients.**

PERFORMANCE

	2007			2006			2005	2007 compared to 2006		2006 compared to 2005	
	Sales \$m	Growth underlying \$m	exchange effects \$m	Sales \$m	Growth underlying \$m	exchange effects \$m		Growth underlying %	Growth reported %	Growth underlying %	Growth reported %
Arimidex	1,730	151	71	1,508	338	(11)	1,181	10	15	29	28
Casodex	1,335	74	55	1,206	104	(21)	1,123	6	11	9	7
Zoladex	1,104	39	57	1,008	17	(13)	1,004	4	10	1	-
Iressa	238	(1)	2	237	(30)	(6)	273	-	-	(11)	(13)
Faslodex	214	18	10	186	45	1	140	10	15	32	33
Nolvadex	83	(8)	2	89	(22)	(3)	114	(9)	(7)	(19)	(22)
Abraxane [®]	62	44	-	18	18	-	-	244	244	-	-
Ethylol ¹	43	43	-	-	-	-	-	n/m	n/m	n/m	n/m
Other	10	(1)	1	10	-	-	10	(10)	-	-	-
Total	4,819	359	198	4,262	470	(53)	3,845	8	13	12	11

¹ Sales of this MedImmune product are consolidated in AstraZeneca accounts from 1 June 2007. As a result, there are no prior period sales included.

PIPELINE

Compound	Mechanism	Areas under investigation	Phase			Estimated filing date	
			I	II	III	Europe	US
NCEs							
Zactima	VEGF/EGF TK inhibitor with RET kinase activity	NSCLC	■	■	■	4Q 2008	4Q 2008
Recentin ²	VEGF signalling inhibitor (VEGFR-TKI)	NSCLC and CRC	■	■	■	2010	2010
Recentin	VEGF signalling inhibitor (VEGFR-TKI)	recurrent glioblastoma	■	■	■	2010	2010
ZD4054	endothelin A receptor antagonist	hormone-resistant prostate cancer	■	■	■	2011	2011
Zactima	VEGF/EGF TK inhibitor with RET kinase activity	medullary thyroid cancer	■	■		4Q 2008	4Q 2008
AZD6244 (ARRY-142886)	MEK inhibitor	solid tumours	■	■			
AZD2281	PARP inhibitor	breast cancer	■	■			
AZD0530	SRC kinase inhibitor	solid tumours and haematological malignancies	■	■			
MEDI-561	Hsp 90 inhibitor	solid tumours	■	■			2010
AZD1152	aurora kinase inhibitor	solid tumours and haematological malignancies	■				
AZD4769	EGFR tyrosine kinase inhibitor	solid tumours	■				
AZD4877	cell cycle agent	solid tumours and haematological malignancies	■				
AZD8931	erbB kinase inhibitor	solid tumours	■				
AZD7762	CHK1 kinase inhibitor	solid tumours	■				
AZD8330 (ARRY-424704)	MEK inhibitor	solid tumours	■				
CAT-8015	recombinant immunotoxin	haematological malignancies	■				
MEDI-538	CD19 B cells	leukaemia/lymphoma	■				
Line extensions							
Faslodex	oestrogen receptor antagonist	first-line advanced breast cancer	■	■	■		
Faslodex	oestrogen receptor antagonist	adjuvant	■	■	■		
Iressa	EGFR-TK inhibitor	NSCLC	■	■	■	2Q 2008	

² This compound is in phase II/III development. For discontinued projects see page 30.

WE AIM TO BUILD ON OUR POSITION AS A WORLD LEADER IN CANCER TREATMENT THROUGH CONTINUED GROWTH OF ARIMIDEX, FURTHER LAUNCHES AND LINE EXTENSIONS OF NEWER PRODUCTS SUCH AS FASLODEX, AND THE SUCCESSFUL INTRODUCTION OF NOVEL THERAPEUTIC APPROACHES CURRENTLY IN DEVELOPMENT, INCLUDING BOTH SMALL MOLECULE AND BIOLOGICAL DRUGS.

PRODUCTS

Arimidex continued its strong sales and prescription growth on the basis of the large-scale ATAC study, which first reported in 2001. Data presented at the San Antonio Breast Cancer Symposium in December 2007 showed that, in post-menopausal patients, *Arimidex* continues to be more effective than tamoxifen, with the difference increasing over time, even after a five-year treatment course. As initial adjuvant therapy, *Arimidex* is the only aromatase inhibitor shown to be significantly superior to tamoxifen at preventing all breast cancer events beyond the five-year treatment course. (Breast cancer events are defined as locoregional recurrence, distant recurrence or contra-lateral breast cancer).

In several large markets, *Arimidex* has already replaced tamoxifen as the preferred primary adjuvant treatment for post-menopausal women with hormone-receptor positive, invasive, early breast cancer. In 2007, *Arimidex* exceeded three million patient years of clinical experience and remains the leading hormonal therapy for new patients in the US, Japan and France. *Arimidex* is also approved in Europe for a switch indication for patients who have already received two to three years of tamoxifen.

Faslodex offers an additional hormonal therapy for patients with hormone-sensitive, advanced breast cancer, delaying the need for cytotoxic chemotherapy. *Faslodex* offers an effective, well-tolerated additional treatment with the compliance and convenience benefits of a once-monthly injection. *Faslodex* is now launched in more than 50 markets. It is approved for the second-line treatment of hormone-receptor positive, advanced breast cancer in post-menopausal women.

Casodex sales growth continued to be driven by the use of *Casodex* 50mg in advanced prostate cancer; the growth of *Casodex* 150mg, which is approved for use in locally advanced prostate cancer in over 60 countries; and the growth of *Casodex* 80mg, which is only available in Japan, where it is approved for all stages of prostate cancer.

The European Medicines Agency's Committee for Medicinal Products for Human Use reviewed the safety and efficacy of *Casodex* 150mg during 2007 and concluded in May that its benefits outweigh its risks for the treatment of locally advanced prostate cancer in patients who are at high risk of their disease getting worse.

Zoladex is used for the treatment of prostate cancer (for which it is approved in 105 countries), breast cancer and gynaecological disorders. In non-metastatic prostate cancer, *Zoladex* is the only luteinising hormone-releasing hormone (LHRH) agonist shown to improve overall survival both when used in addition to radical prostatectomy and when used in addition to radiotherapy. This was further reinforced with the publication of research in September 2007 in the journal 'Prostate Cancer and Prostatic Diseases' highlighting the value of *Zoladex* in helping prostate cancer patients outlive their disease and calling for *Zoladex* to be considered as a treatment of curative intent.

In breast cancer, *Zoladex* is widely approved for use in advanced breast cancer in pre-menopausal women. In a number of countries, *Zoladex* is also approved for the adjuvant treatment of early stage pre-menopausal breast cancer as an alternative to and/or in addition to chemotherapy. *Zoladex* offers proven survival benefits for breast cancer patients with a favourable tolerability profile.

Iressa is used for the treatment of advanced non-small cell lung cancer (NSCLC) in patients who have failed chemotherapy. Following disappointing clinical trial data in 2004 from the ISEL study, in 2005 we voluntarily withdrew the European submission for *Iressa* and the regulatory authorities in the US and Canada restricted its use to those patients already benefiting from the drug.

In the third quarter of 2007, data from the phase III international INTEREST study comparing *Iressa* with docetaxel were reported. The study met its primary objective, demonstrating equivalent overall survival for *Iressa* and docetaxel in patients with pre-treated advanced NSCLC. This is the first time that a drug in this class has shown non-inferior survival to chemotherapy in a head-to-head study in this setting. In addition, *Iressa* demonstrated a more favourable tolerability profile and superior quality of life for patients compared with docetaxel. Based on these data, we are reviewing options for possible regulatory submissions.

Iressa continues to be marketed in the Asia Pacific region for pre-treated advanced NSCLC. It is currently being investigated in the first-line advanced setting in a large, phase III, pan-Asian trial known as the IPASS study. Further phase II trials are continuing to evaluate the potential benefits of *Iressa* in NSCLC and other EGF receptor-driven tumours.

Ethyol is used to help prevent certain unwanted side effects of specific types of chemotherapies and radiotherapies that are used to treat cancer. *Ethyol* was initially approved by the US Food and Drug Administration (FDA) in 1995 to reduce cumulative (kidney) toxicity associated with repeated administration of cisplatin to patients with advanced ovarian cancer. In 1999, the FDA approved the use of *Ethyol* for the reduction of the incidence of moderate-to-severe dry mouth (xerostomia) in patients undergoing post-operative radiation treatment for head and neck cancer, where the radiation port includes a significant portion of the parotid glands. Xerostomia, both acute and chronic, is a debilitating condition in which saliva production is reduced due to damage caused to the salivary glands by therapeutic radiation. We are the sole marketer of *Ethyol* in the US. Outside the US we have various distribution and marketing arrangements for the drug. *Ethyol* has been approved for marketing in 63 countries worldwide, including the US.

Abraxane® was approved by the FDA in January 2005. It is indicated for the treatment of breast cancer after failure of combination chemotherapy for metastatic disease or relapse within six months of adjuvant chemotherapy. Our co-promotion of Abraxane® in the US under an agreement with Abraxis BioScience, Inc. commenced in July 2006. The agreement gives us access to the key US chemotherapy market and Abraxane® complements and extends our US oncology product portfolio.

PIPELINE

Zactima (vandetanib) is a potential new oral anti-cancer therapy, which has a unique profile that fights cancer through two clinically proven mechanisms. It blocks the development of a tumour's blood supply (anti-VEGFR) and blocks the growth and survival of the tumour itself (anti-EGFR). *Zactima* also inhibits RET-kinase activity, an important growth driver in certain types of thyroid cancer.

Zactima is being investigated in a number of phase III clinical trials across the world to assess its impact on survival and on the lives of patients with NSCLC and medullary thyroid cancer.

In 2005, promising early data in hereditary medullary thyroid cancer led to orphan drug designation for *Zactima* by the FDA and the European Medicines Agency, as well as fast-track status for regulatory review by the FDA. Orphan drug designation encourages the development of new products that demonstrate promise for life-threatening or very serious conditions that are rare and affect relatively few people. Fast-track designation potentially facilitates and expedites the process for the review by the FDA of new drugs intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. A randomised phase III study of *Zactima* versus placebo in medullary thyroid cancer has completed enrolment.

In addition, the anti-cancer activity of *Zactima* continues to be evaluated in other tumour types, including colorectal, glioma, head and neck, breast and prostate cancers.

Recentin (cediranib) is a highly potent, selective, orally active inhibitor of vascular endothelial cell growth factor (VEGF) receptor signalling in solid tumours. *Recentin* inhibits all three VEGF receptors irrespective of activating ligand. Following the decision in 2005 to accelerate the development of *Recentin*, and the subsequent commencement of the pivotal phase II/III NSCLC study that year, the pivotal colorectal cancer (CRC) programme started in 2006. The CRC programme includes a head-to-head study comparing *Recentin* plus FOLFOX (a combination chemotherapy treatment made up of a number of drugs) with bevacizumab (Avastin™) plus FOLFOX in first-line treatment of CRC. It also includes two other studies in CRC, namely a second-line head-to-head study with bevacizumab and a first-line study involving *Recentin* with and without standard chemotherapy. Phase II studies of *Recentin* in gastrointestinal stromal tumours, and renal and breast cancer, are continuing. As well as these programmes, the US National Cancer Institute (NCI) is now recruiting patients for more than 15 studies in a number of different tumour settings. Encouraging data for *Recentin* from two completed NCI studies to treat renal cancer and glioblastoma were presented in 2007. The data in recurrent glioblastoma were published in the journal 'Cancer Cell' in January 2007 and presented at the American Society of Clinical Oncology meeting in June 2007. These data have led to the commencement of a development programme for *Recentin* in recurrent glioblastoma.

ZD4054 is a potent and specific endothelin A-receptor antagonist that reduces tumour growth and survival, lessening the potential for invasion and metastasis. ZD4054 entered phase III development in 2007 for patients with hormone-resistant prostate cancer (HRPC), an area of great unmet need with few treatment options.

This move into phase III development is based on promising early data from the EPOC phase II study presented at the European Congress of Clinical Oncology in September 2007. The trial suggests that ZD4054 10mg once-daily has the potential to increase the median overall survival time by approximately seven months in men with asymptomatic or mildly symptomatic metastatic HRPC, with the benefit of a generally well-tolerated side effect profile and the convenience of a once-daily tablet.

The phase III ENTHUSE global trial programme, which consists of three studies, is in the early stage of start-up and began enrolling the first patients in the fourth quarter of 2007. These trials will investigate the efficacy of ZD4054 in metastatic HRPC, both as monotherapy and in combination with docetaxel, and in non-metastatic HRPC.

Our early oncology pipeline includes novel compounds that target signalling pathways believed to be pivotal in cancer cell growth, invasion and survival, with two products in phase II and nine others in phase I development. Phase II data from AZD6244, a potent MEK inhibitor licensed from Array BioPharma, Inc., was reported in December 2007. AZD6244 showed biological activity in lung cancer and melanoma and studies will now focus on its use in combination with standard and other novel therapies, rather than its development as monotherapy. Phase II studies with the poly (ADP-ribose) polymerase (PARP) inhibitor AZD2281 have started and will initially focus on BRCA-mutated breast and ovarian cancer as well as other cancers where DNA repair could be defective.

The dual-specific Src/Abl kinase inhibitor, AZD0530, has shown a dramatic effect on biomarkers of cell motility and bone resorption and is starting phase II studies in a range of malignancies. Among the compounds from the early portfolio continuing in development are AZD4877, a novel inhibitor of cell cycle; AZD7762, a tumour-selective chemo sensitiser; and AZD8931.

MedImmune

MedImmune is developing potential new cancer treatments using biological approaches with highly defined molecular targets for patient populations with unmet medical needs.

In 2007, oncology trials underway included those for IPI-504 (also known as MEDI-561), a drug candidate designed to inhibit heat shock protein 90 (Hsp90). Hsp90 is an emerging cancer target, which is currently being evaluated as a potential treatment for three solid tumour cancers.

Development of MEDI-538, a recombinant single-chain bi-specific T-cell engager (BiTE™) molecule targeting the CD19 antigen is progressing. This candidate drug is the first and only BiTE™-inspired molecule in clinical trials, and is currently in phase I and phase II clinical development for the treatment of various B-cell malignancies. In 2007, preliminary data was released from a continuing phase I study of MEDI-538 in patients with late-stage non-Hodgkin's lymphoma.

ONCOLOGY MEDICINES CONTINUED

MedImmune is continuing the development of CAT-8015 with four phase I dose escalation studies in progress in chronic lymphocytic leukaemia, hairy cell leukaemia, CD22-positive non-Hodgkin's lymphoma and paediatric acute lymphoblastic leukaemia. CAT-8015 is an immunotoxin that targets CD22, which is expressed on adult cells, B-cell leukaemia and lymphomas.

PERFORMANCE 2007**Reported performance**

Oncology sales increased by 13% to reach \$4,819 million in 2007, compared with \$4,262 million in 2006.

Underlying performance

Excluding the effects of exchange, Oncology sales grew by 8%. *Arimidex* sales reached \$1,730 million, up 10%. In the US, sales of *Arimidex* rose by 13% to \$694 million. Total prescriptions for *Arimidex* increased nearly 5.3% compared with 1.3% growth in the market for hormonal treatments for breast cancer. *Arimidex* sales in other markets increased by 8% to \$1,036 million. Sales for the full year were up 6% in Western Europe and increased 9% in Japan.

Casodex sales increased by 6% to \$1,335 million. Sales in the US for the full year were up 1% to \$298 million. Sales in other markets, which account for more than 75% of product sales, were up 8%, on 6% growth in Western Europe and 13% sales growth in Japan.

Iressa sales were unchanged for the full year. Sales in Japan increased 4% for the year; sales in China were up 24%.

Faslodex sales increased 10% to \$214 million for the full year, on growth of 3% in the US and 18% sales growth in other markets.

PERFORMANCE 2006**Reported performance**

Oncology sales increased by 11% to \$4,262 million in 2006 principally due to the continued strong *Arimidex* performance.

Underlying performance

Excluding the effects of exchange, Oncology sales grew by 12%.

In the US, sales of *Arimidex* were up 29% to \$614 million. Total prescriptions increased by 21%. *Arimidex* share of total prescriptions for hormonal treatments for breast cancer was 37.5% in December, up 2.7 percentage points during the year. In other markets, *Arimidex* sales grew by 29% due to an increase in sales in Europe (up 30%) and Asia Pacific (up 27%) on strong volumes.

Casodex sales increased by 9% to \$1,206 million. In the US, sales were up 23% to \$295 million. Sales in other markets were up 5%, with sales in Japan up 10% to \$286 million.

Iressa sales in markets outside the US increased by 10%. Sales in the Asia Pacific region were up 15% to \$207 million.

Worldwide sales of *Faslodex* were up 32% to \$186 million, largely due to the 74% increase in Europe. Sales in the US were up 12%.

Zoladex sales exceeded \$1 billion for the second year in a row with declines in the US offset by growth elsewhere.

We have recorded alliance revenue of \$18 million from our co-promotion arrangements with regard to Abraxane®.

RESPIRATORY AND INFLAMMATION (R&I) MEDICINES

MARKETED PRODUCTS

Symbicort Turbuhaler (budesonide/formoterol in a dry powder inhaler) is a combination of an inhaled corticosteroid and a fast onset, long-acting bronchodilator for the treatment of asthma and COPD. *Symbicort Turbuhaler* is also available as *Symbicort SMART*.

Symbicort pMDI (budesonide/formoterol in a pressurised metered-dose inhaler) for the treatment of asthma.

Pulmicort (budesonide) is a corticosteroid anti-inflammatory inhalation drug that helps prevent symptoms and improves the control of asthma.

Pulmicort Respules (budesonide inhalation suspension) is the first and only nebulised corticosteroid in the US for the treatment of asthma in children as young as 12 months.

Rhinocort (budesonide) is a nasal steroid treatment for allergic rhinitis (hay fever), perennial rhinitis and nasal polyps.

Oxis (formoterol) is a fast onset, long-acting beta-agonist therapy for treating asthma and COPD.

Accolate (zafirlukast) is an oral leukotriene receptor antagonist for the treatment of asthma.

2007 IN BRIEF

- > **Symbicort sales of \$1.6 billion, up 22%.**
- > **Symbicort pMDI for long-term maintenance treatment of asthma launched in the US to specialists and primary care physicians.**
- > **Outside the US, Symbicort SMART now launched in over 40 countries.**
- > **Pulmicort continued to grow with sales of over \$1 billion, up 10%.**
- > **Acquisition of MedImmune strengthened the R&I portfolio.**
- > **Acquisition of Verus Pharmaceuticals' paediatric asthma business in North America.**
- > **European Patent Office revoked the European combination patent for Symbicort for use in asthma. Other patent property and data exclusivity for Symbicort not affected by the decision.**

PERFORMANCE

	2007			2006			2005	2007 compared to 2006		2006 compared to 2005	
	Sales \$m	Growth underlying \$m	exchange effects \$m	Sales \$m	Growth underlying \$m	exchange effects \$m		Growth underlying %	Growth reported %	Growth underlying %	Growth reported %
<i>Symbicort</i>	1,575	265	126	1,184	182	(4)	1,006	22	33	18	18
<i>Pulmicort</i>	1,454	128	34	1,292	132	(2)	1,162	10	13	11	11
<i>Rhinocort</i>	354	(16)	10	360	(27)	-	387	(4)	(2)	(7)	(7)
<i>Oxis</i>	86	(9)	7	88	(3)	-	91	(10)	(2)	(3)	(3)
<i>Accolate</i>	76	(6)	1	81	9	-	72	(7)	(6)	13	13
Other	166	7	13	146	(9)	-	155	5	14	(6)	(6)
Total	3,711	369	191	3,151	284	(6)	2,873	12	18	10	10

PIPELINE

Compound	Mechanism	Areas under investigation	Phase			Estimated filing date		
			I	II	III	Europe	US	
NCEs								
AZD9056	ion channel blocker (P2X7)	rheumatoid arthritis	■	■			2012	2012
AZD1981	prostaglandin receptor antagonist	asthma	■	■				
AZD5672	chemokine antagonist (CCR5)	rheumatoid arthritis	■	■			2012	2012
MEDI-528	anti-IL-9 antibody	asthma	■	■				
AZD4818	CCR1 antagonist	COPD	■					
CAT-354	anti-IL-13 antibody	asthma	■					
AZD5904	MPO inhibitor	COPD	■					
AZD1744	dual CCR3/H1 receptor antagonist	COPD	■					
AZD1236	matrix metalloproteinase inhibition	COPD	■					
AZD9668	neutrophil elastase inhibitor	COPD	■					
MEDI-563	anti-IL-5R antibody	asthma	■					
MEDI-545	anti-IFN α antibody	SLE, myositis	■					
Pneumococcal vaccine ¹	pneumococcal vaccine	streptococcus pneumoniae	■					
AZD3199	iLABA	asthma/COPD	■					
CAM-3001	anti-GM-CSFR antibody	rheumatoid arthritis	■					
Line extensions								
<i>Symbicort pMDI</i>	inhaled steroid/fast onset, long-acting β_2 agonist	asthma	■	■	■		Filed ²	Launched ³
<i>Symbicort pMDI</i>	inhaled steroid/fast onset, long-acting β_2 agonist	COPD	■	■	■		Filed ²	2Q 2008

¹ Partnered product.

² To be supplemented in 2008 with data supporting two additional strengths.

³ US approval based on 12 years and above.

For discontinued projects see page 30.

WE AIM TO BUILD ON OUR STRONG POSITION IN ASTHMA TREATMENT THROUGH THE GROWTH OF KEY PRODUCTS, PARTICULARLY *SYMBICORT*, NEW INDICATIONS AND MARKET LAUNCHES AND THE SUCCESSFUL INTRODUCTION OF NOVEL APPROACHES TO OTHER AREAS OF INFLAMMATORY DISEASE SUCH AS SEVERE CHRONIC OBSTRUCTIVE PULMONARY DISEASE (COPD) AND RHEUMATOLOGY.

PRODUCTS

Symbicort Turbuhaler provides rapid, effective control of asthma and effective reduction of exacerbations, improving symptoms and providing a clinically important improvement in the health of patients with severe COPD.

Symbicort pMDI, approved for the long-term maintenance treatment of asthma in patients 12 years of age and older, was launched in the US in June 2007 to specialists and in July 2007 to primary care physicians. There has been a good uptake of *Symbicort* in the US, most notably with specialist asthma physicians. Further information about the progress of *Symbicort* since its launch in the US is set out on page 69 (Geographical Review).

In October 2007, the US Food and Drug Administration (FDA) approved the actuation counter for the *pMDI* and plans are in place for launch in the US in the second half of 2008. The paediatric and COPD trials for *Symbicort pMDI* are on track to support the US supplementary new drug applications planned in the second quarter of 2008.

Outside the US, *Symbicort* for the treatment of asthma is marketed in the *Turbuhaler* dry powder inhaler and is approved in over 100 countries and launched in more than 70. *Symbicort Turbuhaler* is also approved in many countries for use in patients with severe COPD, where trial data in two pivotal studies have shown that it reduces exacerbation rates compared to a long-acting bronchodilator alone, and rapidly improves symptoms compared to its mono-components and placebo, providing clinically important improvement in health status.

Following its approval in October 2006, *Symbicort SMART*, a new approach to managing adult asthma, has been launched in over 40 countries. This treatment concept represents a change from current medical practice. *Symbicort* contains formoterol, a bronchodilator which is both rapid-acting and long-lasting, coupled with the corticosteroid budesonide, to provide an important anti-inflammatory effect. This approach

provides increased asthma control and simplifies asthma management because patients only need one inhaler for both maintenance and relief of asthma symptoms. The *Symbicort SMART* approach is also a cost-effective treatment option for many healthcare payers. At the end of 2006, *Symbicort SMART* was endorsed by the Global Initiative for Asthma.

The COMPASS and AHEAD studies, the results of which were published in 2007 and involved over 3,000 and 2,000 patients respectively, along with the COMPASS health economic analysis paper, confirmed that the *Symbicort SMART* treatment concept is more clinically effective, and more cost-effective compared with the best treatment approach provided by salmeterol/fluticasone (Seretide™) at any dose plus 'as needed' short-acting reliever therapy.

In October 2007, following an appeal by a group of generic manufacturers, the European Patent Office (EPO) Technical Board of Appeal revoked the European combination patent for *Symbicort* for use in asthma. The EPO decision is not expected to have an immediate impact in the EU or any impact on the US and Japanese patents. *Symbicort* has data exclusivity until at least August 2010 in most major European markets, which means that generics are unlikely to enter the market until some time after this date. In addition, the *Turbuhaler* device, preferred by many prescribers and patients, has multi-component patent protection until 2019. In the EU, *Symbicort Turbuhaler* is also protected by two COPD use patents (under appeal and opposition, respectively), which expire in 2018 and an 'as needed' (*Symbicort SMART*) use patent, which expires in 2019.

Pulmicort remains one of the world's leading asthma medicines and is available in several forms, including the *Turbuhaler* dry powder inhaler, a pressurised metered dose inhaler and *Pulmicort Respules* suspension for the treatment of children and infants 12 months and older. In the US, the *Pulmicort Turbuhaler* has been technically modified to improve

dosing properties (especially dose uniformity) and to introduce an enhanced dose indicator. The enhanced version was launched as *Pulmicort Flexhaler* in April 2007. European approvals for the more environmentally friendly HFA-based *Pulmicort pMDI* were extended in 2007 to cover additional countries, including Spain. *Pulmicort Respules* is the first and only nebulised corticosteroid in the US for children as young as 12 months. Sales have grown strongly as a result of high medical need in the age group combined with the product's beneficial profile, which together have strengthened the product's position as the inhaled corticosteroid of choice for the treatment of children under five with asthma.

Information about our continuing patent infringement action against IVAX in the US, which began in October 2005, in relation to IVAX's abbreviated new drug application (ANDA) for a budesonide inhalation suspension is set out in Note 27 to the Financial Statements on page 158.

Oxis is a formoterol beta-agonist therapy with a fast onset and long-acting clinical effect for the relief of asthma symptoms. *Oxis* is added to the treatment regime when corticosteroid treatment alone is not adequate. *Oxis* is also indicated for symptom relief in COPD.

Rhinocort is a treatment for allergic rhinitis (hay fever). It combines powerful efficacy with rapid onset of action and minimal side effects and is available as a once-daily treatment in the *Rhinocort Aqua* (nasal spray) and the *Turbuhaler* dry powder inhaler forms.

In September 2007, we received a letter from Apotex Inc. stating that Apotex had submitted an ANDA for a budesonide nasal spray (32 mcg spray) and that it intended to engage in the commercial manufacture, use and sale of a generic version of *Rhinocort Aqua* budesonide nasal spray before the expiration of our US FDA Orange Book patents covering *Rhinocort Aqua*. After investigating the allegations in Apotex's letter, we decided not to file a patent infringement suit against Apotex. We will not maintain or enforce the patents referred to in the letter and have requested their de-listing from the US FDA Orange Book.

PIPELINE

Our pipeline includes life cycle management initiatives for the approved products mentioned above, as well as development compounds across the whole discovery and development spectrum. We focus on developing new therapies for currently unmet medical needs in COPD, asthma and rheumatology.

The development of *Symbicort pMDI* for COPD and paediatric asthma in the US is on track, with regulatory submissions for both indications scheduled for the second quarter of 2008. Our existing regulatory filings for *Symbicort pMDI* in the EU for asthma and COPD are scheduled to be supplemented with data supporting two additional strengths in the second half of 2008.

A regulatory submission in Japan for *Symbicort* for the treatment of asthma in adults and adolescents (from 16 years and above) was filed in May 2007.

Our three-year partnership with Dynavax Technologies Corporation, which began in 2006, continues to pursue opportunities in the field of toll-like receptor 9 (TLR 9) for use in asthma and COPD. Dynavax has unique competence in generating immunostimulatory DNA sequences that activate TLR 9. The alliance should enable us to expand our portfolio of small molecule and biological drugs to treat asthma and COPD.

In February 2007, we announced a major discovery alliance with Argenta Discovery Limited aimed at identifying improved bronchodilators to treat COPD. A team of scientists from each company will collaborate in order to identify long-acting muscarinic antagonist (LAMA) and dual-acting muscarinic antagonist- β_2 agonist (MABA) candidate drugs.

In May 2007, we agreed to acquire the paediatric asthma business of Verus Pharmaceuticals, Inc., which includes the North American rights to CyDex Captisol™ enabled budesonide solution and a proprietary albuterol formulation. This deal also includes the North American rights to the agreement Verus Pharmaceuticals has with PARI, the German medical device company that makes eFlow™, a novel nebuliser. The transaction will potentially allow us to provide patients and carers with new products that may be administered with a smaller, more portable nebuliser that could administer the medicine in less time than the current therapy, thereby improving treatment adherence in paediatric asthma patients.

In July 2007, we established an R&D collaboration with Silence Therapeutics plc, primarily in the respiratory field. The three-year collaboration is intended to discover and develop proprietary siRNA molecules against up to five specific targets provided by AstraZeneca. Silence Therapeutics and AstraZeneca will jointly collaborate in the early phase of identification and optimisation of novel siRNA molecules. We will retain full responsibility for clinical development and commercialisation.

Our early R&I small molecule pipeline includes novel compounds that target high unmet medical needs with a focus on COPD, but also asthma and musculoskeletal diseases. Compounds are in development for both oral administration and inhalation.

MedImmune

Multiple programmes are being pursued by MedImmune to develop targeted treatments for a variety of R&I diseases. An important area of focus is the potential control of asthma symptoms. MedImmune programmes targeting asthma include a phase II trial studying CAT-354, a fully human monoclonal antibody (MAb) targeting interleukin-13 (IL-13) in patients with severe asthma, continuing trials studying MAbs targeting the interleukin-5 receptor (IL-5R) (MEDI-563) and interleukin-9 (IL-9) (MEDI-528), in phase I and II respectively; and an early-stage clinical trial being led by researchers at Yale University studying the role of a chitinase-like protein (YKL-40) as a potential new biomarker for determining asthma severity, and its role in the pathobiology of the disease.

MedImmune is also carrying out a phase I study assessing the safety and efficacy of an anti-interferon-alpha treatment (MEDI-545), which has shown consistent evidence of clinical activity across multiple measures of disease in patients with mild-to-moderate systemic lupus erythematosus.

The first phase I study of CAM-3001 has been initiated to evaluate the safety and tolerability of single doses in patients with rheumatoid arthritis. CAM-3001 is a MAb targeting the alpha sub-unit of the granulocyte-macrophage colony stimulating factor receptor (GM-CSFR). The phase I study is the first clinical trial in which a MAb targeting GM-CSFR is being investigated in this population. During 2007, MedImmune acquired exclusive development rights to the CAM-3001 programme from CSL Limited.

PERFORMANCE 2007

Reported performance

Continued growth from *Symbicort* drove the increase in reported sales for Respiratory and Inflammation, which grew by 18% from \$3,151 million in 2006 to \$3,711 million in 2007.

Underlying performance

On a constant exchange rate basis, sales in Respiratory and Inflammation increased by 12%.

Symbicort sales for the full year were up 22% to \$1,575 million. Sales in Western Europe were up 16%, with market share up another point in the last 12 months, aided by the

rollout of the *Symbicort SMART* regime and growth from use in COPD. Good growth for the year was achieved in Canada (up 25%) and in Emerging Markets (up 26%). Sales in the US were \$50 million since launch at the end of June 2007. Specialist physicians have rapidly adopted the product; nearly 75% of allergists and more than 60% of pulmonary specialists in our target audience have prescribed *Symbicort*. Share of new prescriptions for fixed combination products was 5.8% in the week ending 18 January 2008; market share of patients newly starting combination therapy is over 11.5%.

Pulmicort sales increased by 10% to \$1,454 million. US sales increased 15% for the full year to \$964 million. *Pulmicort Respules* sales in the US were up by more than 20% for the full year, on estimated volume growth of 15%. Of the approximately six million children under the age of eight who are treated for asthma, more than one million benefit from treatment with *Pulmicort Respules*. Sales in other markets were unchanged for the year.

Rhinocort sales fell by 4% to \$354 million, with a 9% decline in the US being compensated by small gains elsewhere.

PERFORMANCE 2006

Reported performance

Sales in the R&I therapeutic area grew by 10% from \$2,873 million in 2005 to \$3,151 million in 2006. *Pulmicort* and *Symbicort* were the major contributors to this growth.

Underlying performance

On a constant exchange rate basis, sales in R&I increased by 10%.

Sales of *Symbicort* increased by 18% to \$1,184 million on continued market growth and share gains in Europe, where sales were \$1,018 million. Sales in other markets reached \$166 million.

Worldwide sales of *Pulmicort* were up 11% to \$1,292 million. Once again, the primary driver for growth was *Pulmicort Respules* in the US, where sales were up 24%. Volume growth in the US was approximately 10%, with price changes, managed care rebate adjustments and inventory movements also contributing to the sales growth. *Pulmicort* sales in the rest of the world were \$457 million.

Rhinocort sales were down 7% to \$360 million, chiefly on sales of *Rhinocort Aqua* in the US market (down 9%).

INFECTION MEDICINES

MARKETED PRODUCTS

Synagis (palivizumab) is a humanised monoclonal antibody (MAb) for the prevention of serious lower respiratory tract disease caused by respiratory syncytial virus (RSV) in paediatric patients at high risk of acquiring RSV disease (pneumonia and bronchiolitis).

Merrem/Meronem¹ (meropenem) is an intravenous carbapenem anti-bacterial for the treatment of serious, hospital-acquired infections.

FluMist (influenza virus vaccine live, intranasal) is a live, attenuated vaccine for the prevention of disease caused by influenza A and B viruses in healthy children and adolescents, two to 17 years of age, and healthy adults, 18 to 49 years of age.

2007 IN BRIEF

- > **Merrem sales of \$773 million, up 20%.**
- > **Steady underlying growth for Merrem in the US (32%) and in Western Europe (20%).**
- > **Since the acquisition of MedImmune in June, Synagis sales of \$618 million and FluMist sales of \$53 million.**
- > **Acquisition of Arrow Therapeutics has added anti-viral capability.**
- > **Acquisition of MedImmune has added infection-focused monoclonal antibody and vaccine technology.**
- > **Work dedicated to finding a new treatment for tuberculosis continues at our R&D facility in Bangalore, India.**

¹ Licensed from Dainippon Sumitomo Pharma Co., Ltd.

PERFORMANCE

	2007			2006			2005	2007 compared to 2006		2006 compared to 2005	
	Sales \$m	Growth underlying \$m	Growth due to exchange effects \$m	Sales \$m	Growth underlying \$m	Growth due to exchange effects \$m		Growth underlying %	Growth reported %	Growth underlying %	Growth reported %
Merrem/Meronem	773	121	48	604	96	3	505	20	28	19	20
Synagis ²	618	618	–	–	–	–	–	n/m	n/m	n/m	n/m
FluMist ²	53	53	–	–	–	–	–	n/m	n/m	n/m	n/m
Other	270	(12)	11	271	(59)	(4)	334	(4)	–	(18)	(19)
Total	1,714	780	59	875	37	(1)	839	89	96	4	4

² Sales of these MedImmune products are consolidated in AstraZeneca accounts from 1 June 2007. As a result, there are no prior period sales included.

PIPELINE

Compound	Mechanism	Areas under investigation	Phase			Estimated filing date	
			I	II	III	Europe	US
NCEs							
Motavizumab (MedImmune)	humanised monoclonal antibody	RSV prevention	■	■	■	1H 2009	Filed
CytoFab™	anti-TNF-alpha polyclonal antibody	severe sepsis	■	■			
EBV vaccine ³	Epstein-Barr virus vaccine	post-transplant proliferative disease	■	■			
AZD2836	5a replicon	hepatitis C	■	■			
MEDI-524 (motavizumab)	MAb targets F-protein	early and late treatment of disease in infants >1 yr	■	■			
MEDI-534	RSV/PIV-3 vaccine	intranasal immunisation	■				
MEDI-560	PIV-3 vaccine	intranasal immunisation	■				
H5N1	H5N1 influenza virus vaccine	pandemic influenza vaccine	■				
MEDI-564	F-protein inhibitor	RSV treatment	■				
CMV vaccine	CMV vaccine	cytomegalovirus	■				
MEDI-557	YTE – extended half-life RSV MAb	RSV prophylaxis	■				
Line extensions							
FluMist (MedImmune)	live, attenuated, intranasal influenza virus vaccine	influenza	■	■	■	2Q 2008	Launched

³ Partnered product.

For discontinued projects see page 30.

WE AIM TO BUILD A LEADING FRANCHISE IN THE TREATMENT OF INFECTIOUS DISEASES BY INCREASING THE SALES OF THE MARKETED BRANDS *SYNAGIS*, *MERREM* AND *FLUMIST* AND BRINGING NEW PRODUCTS TO MARKET BY EXPLOITING OUR STRUCTURAL AND GENOMIC-BASED DISCOVERY TECHNOLOGIES AND OUR ANTIBODY PLATFORMS.

PRODUCTS

Merrem/Meronem (meropenem) is a carbapenem antibiotic which is active against most bacteria which cause hospital-acquired infections such as pneumonia. *Merrem* is one of the leading products in the carbapenem market and has a growing share of the intravenous antibiotic market because of its ultra-broad spectrum and the continued low incidence of resistance.

Synagis is used for the prevention of serious lower respiratory tract disease caused by respiratory syncytial virus (RSV) in children at high risk of RSV disease. It is the first monoclonal antibody (MAb) approved in the US for an infectious disease and, since its launch in 1998, it has become the standard of care for RSV prevention, having replaced MedImmune's first anti-RSV product, RespiGam, a polyclonal antibody that required a four-hour infusion on a monthly basis. A substantial product improvement, *Synagis* is administered by intra-muscular injection.

FluMist is a live, attenuated nasally delivered vaccine approved for the prevention of disease caused by influenza A and B viruses in healthy children and adults, two to 49 years of age. In January 2007, the US Food and Drug Administration (FDA) approved a refrigerated formulation of the vaccine (previously, only a frozen formulation had been available). In September 2007, the FDA approved the expansion of the label for *FluMist* to include children two to five years of age, for which the drug had not previously been indicated. The basis for this was a phase III study involving nearly 8,500 children that showed children immunised with *FluMist* reported 55% fewer cases of influenza compared with children who received the injectable vaccine.

PIPELINE

Discovery work at our R&D facility in Boston, US continues to focus on anti-bacterial agents with a novel mechanism of action. The programme is now delivering candidates into the exploratory phase of development.

In January 2007, we announced the acquisition of Arrow Therapeutics Ltd, a biotechnology company focused on the discovery and development of small molecule, anti-viral therapies with a particular focus on hepatitis C. In June 2007, the acquisition of MedImmune, Inc. expanded our infection R&D capability further by providing access to MAb and vaccine technologies. These two transactions have been important strategic steps in strengthening our portfolio of anti-infective treatments and complementing our existing capabilities in anti-bacterials. They also fit with our decision to re-focus our disease area research, with infection now one of our key therapy areas. The acquisitions augment our portfolio with clinical and pre-clinical compounds and programmes. From Arrow Therapeutics, these include a novel anti-hepatitis C virus compound that targets the NS5a protein, AZD2836 (formerly A-831) in phase II.

In line with our announcement in November 2006, the development programme for CytoFab™, our treatment for severe sepsis licensed from Protherics Inc., has been expanded and delayed with the addition of a phase II study programme based on the recently completed new manufacturing methodology. Sepsis is a life-threatening condition resulting from uncontrolled severe infections, which affects an estimated three million people a year worldwide.

MedImmune

MedImmune's industry-leading development of products to prevent paediatric respiratory infectious diseases is continuing. Various positive trial data have been presented during 2007 for its next-generation drug candidate, motavizumab (MEDI-524), a MAb targeting RSV disease. Data from a phase III study comparing motavizumab to *Synagis* were presented in May 2007 at the Pediatric Academic Societies' meeting in Toronto, Canada. In August 2007, a placebo-controlled phase III study with motavizumab in full-term native American infants was unblinded due to encouraging preliminary efficacy data. MedImmune submitted a biologics license application (BLA) to the FDA for motavizumab early in 2008. MedImmune is also developing a vaccine against RSV, which is in phase I clinical trials.

Dedicated tuberculosis (TB) research

We are committed to making a contribution to improving health in the developing world. Backed by our skills and experience in infection research, we are working to find a new treatment for TB. We have a dedicated scientific resource in Bangalore, India that is focused on finding a new, improved treatment for TB that will act on drug-resistant strains, simplify the treatment regime (current regimes are complex and lengthy, meaning many patients give up before the infection is fully treated) and be compatible with HIV/AIDS therapies (TB and HIV/AIDS form a lethal combination, each speeding the other's progress). Over 80 scientists in Bangalore work closely with our infection research centre in Boston, US as well as with academic leaders in the field, and they have full access to all AstraZeneca's platform technologies, such as high throughput screening and compound libraries. Finding a new treatment is a complex process, but we hope to have identified a candidate drug for testing in man within the next three to four years.

INFECTION MEDICINES CONTINUED

PERFORMANCE 2007**Reported performance**

Infection sales grew by 96% to \$1,715 million from \$875 million in 2006, driven by the inclusion of seven months of *Synagis* and *FluMist* sales and *Merrem* sales increases of 28%.

Underlying performance

After excluding the effects of exchange, infection sales grew by 89%. Underlying growth of 20% from *Merrem*, with sales of \$773 million, and the inclusion of *Synagis* and *FluMist* were the principal drivers of this growth. Sales of *Synagis* totalled \$618 million for the period since the acquisition of MedImmune, with \$480 million arising in the fourth quarter. *Synagis* sales are highly seasonal, with the majority of sales recorded in the fourth and first quarters. US sales were \$391 million; sales outside the US were \$89 million. There are no corresponding sales recorded in the prior year period; on a pro-forma basis *Synagis* sales are 5% ahead of the fourth quarter last year.

Sales of *FluMist* were \$53 million for the full year, all of which were recorded in the fourth quarter. As with *Synagis*, there are no corresponding sales in the prior year period; on a pro-forma basis *FluMist* sales for the 2007/2008 influenza season to date are 56% ahead of the equivalent point in respect of the 2006/2007 season.

Sales of *Merrem* increased by 20% to \$773 million, with strong growth in the US (sales up 32% to \$149 million) and Western Europe (sales up 20% to \$307 million).

PERFORMANCE 2006**Reported performance**

Infection and other sales rose by 4% from \$839 million in 2005 to \$875 million in 2006, as sales of *Merrem* grew by 20%.

Underlying performance

Excluding effects of exchange, underlying sales in Infection increased by 4%. *Merrem* sales grew by 19% to reach \$604 million, primarily driven by increased performance in the US and Europe.

OTHER BUSINESSES**APTIUM ONCOLOGY**

For more than 20 years, Aptium Oncology has been developing and managing hospital-based outpatient cancer centres in the US. It has developed a unique, comprehensive approach to cancer care that incorporates all outpatient oncology and ancillary services in a single facility for maximum patient comfort and convenience.

Ownership of Aptium Oncology gives us a unique window to the provider sector of the US oncology market and, through Aptium Oncology's network of over 160 physicians, access to many opinion leaders in the field of oncology who can help shape early phase drug development decisions. It is also involved in clinical trial delivery for a number of our pipeline products and provides scientific advice and staff training for oncology teams.

In 2007, Aptium Oncology continued to perform well in its cancer centre management business with positive profit and cash flow contributions. Focused on growth, Aptium Oncology continued to invest in sales and marketing. The resulting expansion of its consultancy business is creating new opportunities for management relationships in new markets in the US, with growing interest from international sources.

Clinical research is an integral part of care delivery at Aptium Oncology's affiliated cancer centres and the company has established the Aptium Oncology Research Network, which is conducting a growing number of centrally co-ordinated trials.

ASTRA TECH

Astra Tech is engaged in the research, development, manufacture and marketing of medical devices and implants for use in healthcare, primarily in urology, surgery and odontology. It has a leading position in several countries in Europe and is expanding its operations in key markets, particularly in the US and Japan.

All product lines showed continued good sales growth in 2007. In pursuit of its growth strategy for Astra Tech Dental, the sales and marketing organisation for dental implants was expanded during the year. Strong sales growth was achieved in major European markets, North America and Japan, and Astra Tech increased market shares in all of these major markets.

In October 2007, the American dental company Atlantis Components, Inc. based in Cambridge, Massachusetts, US, was acquired for \$71 million. Atlantis specialises in the production of individually adapted abutments for dental implants using a patented CAD/CAM method. CAD/CAM technology is expected to change both production and treatment methods within dentistry in the future. The acquisition of Atlantis provides Astra Tech with a new platform for development within digital dentistry, with the aim of ensuring continued growth for the dental implants product line.

An extension of Astra Tech's headquarters in Mölndal, Sweden, was completed during the year. This included new laboratories and offices for R&D and quality assurance as well as the Astra Tech Centre for Training and Education, used for advanced international education programmes and congresses. Further investments have been made in R&D, clinical research and new production facilities to strengthen the product portfolio.

GEOGRAPHICAL REVIEW

2007 IN BRIEF

- > The US delivered strong financial performance in 2007 despite a continually challenging market environment. Our brands demonstrated growth and outpaced our competition in nearly all market segments in which we compete.
- > AstraZeneca maintained its market position as the second largest brand name pharmaceutical company in Canada.
- > The rest of the world delivered a strong year, driven by *Crestor*, *Symbicort*, *Seroquel* and *Arimidex* and high growth in China, Brazil and Mexico.
- > Strong brand performance in Europe continued to offset increasingly effective measures by national governments to contain drug expenditure.
- > In Asia Pacific, our growth was the second highest among the top 10 pharmaceutical companies. In China we continue to rank as the number one multinational pharmaceutical company in the prescription market (HKAPI-Q3 YTD data) and in Australia we climbed to become the second-largest pharmaceutical company.
- > In Japan, AstraZeneca was the second fastest-growing pharmaceutical company amongst the top 15 pharmaceutical companies. This was driven by *Casodex*, *Losec*, *Arimidex*, and strong full-scale launch of *Crestor*.
- > Sales in the Latin America region increased by 23%, driven by Mexico, Brazil, Venezuela, Central America and the Caribbean.

Statements of competitive position, growth rates and sales

As in the rest of this Annual Report and Form 20-F Information, except as otherwise stated, market information in this Geographic Review regarding the position of our business or products relative to its or their competition is based upon published statistical sales data for the 12 months ended 30 September 2007 obtained from IMS Health, a leading supplier of statistical data to the pharmaceutical industry. For the US, dispensed new or total prescription data are taken from the IMS Health National Prescription Audit for the 12 months ended 31 December 2007. Except as otherwise stated, these market share and industry data from IMS Health have been derived by comparing our sales revenue to competitors' and total market sales revenues for that period. Except as otherwise stated, growth rates and sales are given at constant exchange rates.

PERFORMANCE

	2007			2006			2005	2007 compared to 2006		2006 compared to 2005	
	Sales \$m	Growth underlying \$m	exchange effects \$m	Sales \$m	Growth underlying \$m	exchange effects \$m		Growth underlying %	Growth reported %	Growth underlying %	Growth reported %
US	13,366	917	–	12,449	1,678	–	10,771	7	7	16	16
Canada	1,145	54	60	1,031	(11)	66	976	5	11	(1)	6
North America	14,511	971	60	13,480	1,667	66	11,747	7	8	14	15
Western Europe	9,115	282	760	8,073	348	(70)	7,795	3	13	4	4
Japan	1,661	170	(12)	1,503	73	(97)	1,527	11	11	5	(2)
Other Established ROW	715	83	77	555	(3)	(17)	575	15	29	(1)	(3)
Established ROW	11,491	535	825	10,131	418	(184)	9,897	5	13	4	2
Emerging Europe	1,028	102	95	831	170	(9)	670	12	24	25	24
China	437	91	18	328	50	6	272	28	33	18	21
Emerging Asia Pacific	749	62	41	646	87	20	539	10	16	16	20
Other Emerging ROW	1,343	223	61	1,059	221	13	825	21	27	27	28
Emerging ROW	3,557	478	215	2,864	528	30	2,306	17	24	23	24
Total Sales	29,559	1,984	1,100	26,475	2,613	(88)	23,950	7	12	11	11

NORTH AMERICA

US

Product performance, clinical trial data, regulatory submissions and product regulation

Notwithstanding the presence of full generic competition to *Toprol-XL* and the growth in generic omeprazole, sales in the US rose by 7% from \$12,449 million in 2006 to \$13,366 million in 2007. The combined sales of *Nexium*, *Seroquel*, *Crestor* and *Arimidex* were \$8,364 million in 2007, which represented almost 63% of our total US sales. *Symbicort* was launched in the year, with sales of \$50 million. AstraZeneca is currently the fifth largest pharmaceutical company in the US, with our sales representing a 5% share of US prescription pharmaceutical sales. Sales for Aptium Oncology and Astra Tech rose by 7% and 46% to \$402 million and \$60 million, respectively.

Nexium continues to lead the branded proton pump inhibitor (PPI) market for new prescriptions, total prescriptions and total capsules dispensed. Generic omeprazole posted strong growth rates in 2007, capturing most of the market growth and causing price and share erosion across the entire branded PPI market. In the face of generic pressure, *Nexium* continued to fare better than its branded competitors. In the second half of 2007, *Nexium* achieved a significant formulary placement with the Department of Defense and enters 2008 with stronger payer coverage than in 2007. In August 2007, the US Food and Drug Administration (FDA) issued an "Early Communication" regarding the results of two small studies. However, in its final assessment, the FDA concluded that *Nexium*

is not likely to be associated with an increased risk of heart problems and recommended that healthcare providers continue to prescribe and patients continue to use omeprazole or esomeprazole in the manner described in the labelling for the two products.

In 2007, *Seroquel* further strengthened its leading position as the number one prescribed atypical anti-psychotic on the market, with sales of \$2,863 million (up 15%, +15% reported). *Seroquel* posted total prescription growth of 10% with an increase of 1.5 million prescriptions, nearly twice the rate of market growth for antipsychotics. The robust clinical development programme for *Seroquel* continues to deliver positive results leading to further differentiation in the market and an enhanced product profile. In May 2007, the FDA granted marketing approval for a sustained-release formulation, *Seroquel XR*, for the treatment of schizophrenia and this product was successfully introduced to the market in August. In November 2007, the FDA approved *Seroquel XR* for the maintenance treatment in schizophrenic patients already benefiting from *Seroquel XR* treatment. In addition to these critical approvals, a supplemental new drug application (sNDA) was submitted to the FDA in July 2007 seeking approval for use of *Seroquel* as adjunct to mood stabilisers for the maintenance of effect in patients with bipolar disorder and two sNDAs were submitted in December 2007 seeking approval for *Seroquel XR* in bipolar depression and *Seroquel XR* in bipolar mania. Submissions are planned for the first half of 2008 supporting indications for *Seroquel XR* in both major depressive disorder and general anxiety disorder.

GEOGRAPHICAL REVIEW CONTINUED

Crestor continued its volume growth in 2007 despite generic pressure, with sales of \$1,424 million. In November 2007, the FDA approved *Crestor* to slow the progression of atherosclerosis in patients with elevated cholesterol. This new indication is an important differentiator from other products in the cholesterol-lowering market. During 2007, *Crestor* prescription share continued to grow with cardiologists, whose patient population comprises a high proportion of patients with two or more risk factors, indicating that cardiologists understand and recognise the clinical benefits of *Crestor*. The entrance of generic simvastatin has had a major impact on the branded statin market, significantly greater than that seen in other therapeutic categories in similar situations in the past. We recognise that there is a place for generics since they play an important role in health care economics, but we believe generics are not the best choice for all patients. As the market continues to evolve, we believe *Crestor* will continue to perform well in the changing environment and we remain committed to ensuring that appropriate patients have access to *Crestor*.

Atacand sales totalled \$259 million on an underlying and reported basis.

In 2007, generic versions of the remaining three strengths of *Toprol-XL* were launched. At the same time as the generic entries, we announced that we had expanded our previously announced supply and distribution agreement with Par Pharmaceutical Companies, Inc.. Par began distribution of an authorised generic version of the 50, 100 and 200mg dosage strengths of metoprolol succinate extended-release tablets in the US. Par had begun distributing a 25mg authorised generic of metoprolol succinate in November 2006. In an appeal to a previously reported patent decision, the Federal Court of Appeals for the Federal Circuit upheld the lower court decision regarding double patenting but reversed the decision relating to unenforceability. We requested reconsideration of this decision, but this was denied.

Arimidex continued to perform well with sales up 13% (+13% reported) to \$694 million for the full year. *Arimidex* continues to be the market leader in total and new prescriptions for hormonal treatments for breast cancer in the US market.

Pulmicort Respules, the only inhaled corticosteroid for the treatment of asthma approved in the US for children as young as 12 months, has experienced strong sales growth of 22% over the previous year. In October 2007, a new 1mg strength was launched to provide physicians with an additional option to control paediatric asthma.

Symbicort pMDI was launched in the US in June 2007 to specialists, and in July 2007 to primary care physicians. For the week ending 18 January 2008, *Symbicort* achieved an overall new prescription (NRx) share of the inhaled corticosteroid/long-acting beta-agonist market of 5.8%. Among allergists, the NRx share was 12.1% of that market. Aided awareness amongst all targeted physicians is high and a broad base of prescribers is being built with more than 30,000 physicians now having used *Symbicort*. More than 10% of patients who are new to combination therapy have been prescribed *Symbicort*.

In October 2007, the FDA approved the actuation counter for the *Symbicort pMDI* and we plan to launch this in the US in the second half of 2008. The paediatric and COPD trials for *Symbicort pMDI* are on track to support the sNDA submissions planned in the first half of 2008.

In the US, the passage of the FDA Amendments Act (FDAAA) in September 2007 has a potentially wide-ranging impact on the industry. In addition to re-authorising the Prescription Drug User Fee Act, the Best Pharmaceuticals for Children Act and the Pediatric Research Equity Act, the FDAAA contains a number of provisions that substantially increase the authority and enforcement options of the FDA, including but not limited to expanded authority regarding pharmacovigilance, post-marketing safety surveillance, clinical trial registration and results posting and review of direct-to-consumer advertising.

Medicare Part D prescription drug benefit

The implementation in 2006 of Part D of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 increased the overall volume of pharmaceuticals dispensed in the US in 2006. The increase in prescription volume experienced in 2006 was attributed to the start-up of a new programme. In 2007, the Medicare Part D programme maintained high levels of enrolment and beneficiary satisfaction, and achieved prescription volume growth similar to other mature markets. Through our broad

patient access approach to Medicare Part D contracting, our inclusion on Medicare Part D formularies continues to be strong, allowing a large segment of the patient population access to our medicines.

Although Medicare Part D to date has had a limited effect on pricing in the broader US market, it is difficult to predict fully the longer-term effects of this initiative on our business. Pressure on pricing and access is, however, generally increasing in the US, driven, for example, by an increased focus on generic alternatives. Primary drivers of increased generic use are budgetary policies within healthcare systems and providers and changes in pharmaceutical benefit design.

We continue to support My Medicare Matters, the community based outreach and education programme, in partnership with the National Council on Aging (NCOA). In 2007, My Medicare Matters and AstraZeneca received several awards. These included the NCOA Arthur Fleming Award for Public-Private Partnership, given for the first time to a pharmaceutical company, and the Silver Anvil Award, sponsored by the Public Relations Society of America, for a public relations campaign supporting public service partnerships. Activities in 2007 included demonstration grants to nine community-based organisations piloting innovative and effective outreach strategies to low-income-subsidy beneficiaries and enhancements to the award winning MyMedicareMatters.org website, as well as launch of an online community for professionals.

Canada

During 2007, four products contributed combined sales of over \$713 million (*Crestor* \$281 million, *Nexium* \$181 million, *Seroquel* \$149 million, and *Atacand* \$102 million), with *Crestor*, *Seroquel* and *Nexium* among the top 20 prescription products in Canada by sales. Total sales for 2007 were \$1,145 million, which is up an underlying 5% (+11% reported) from the same period last year.

We maintained our market position as the second largest brand name pharmaceutical company in Canada. *Crestor* maintained its number two ranking in the statin market and was the fastest-growing product in both new and total prescription segments (39% and 44% growth respectively). Sales growth was supported by the *Crestor* 'Healthy Changes Support Program', which helps patients to understand better and improve the management of their cholesterol and to develop a healthier lifestyle.

Seroquel remains the leader in new and total prescriptions within the atypical anti-psychotics market. *Atacand* continues to outperform the anti-hypertensive market, with new prescription growth of over 15%, compared with market growth of only 5%.

Several key regulatory approvals were achieved in Canada in 2007. *Seroquel XR* was approved for the management of manifestations of schizophrenia. *Nexium* received several key regulatory approvals including two paediatric indications (ages one to 11 years and 12 to 17 years), an on-demand indication and finally an indication for Zollinger-Ellison syndrome. *Symbicort Turbuhaler* and *Oxeze Turbuhaler* received competitive class-labelling updates to incorporate recent long-acting beta-agonist safety information.

REST OF THE WORLD

Sales in the rest of the world performed strongly, up 8% to \$15,048 million (+16% reported). Key products (*Crestor*, *Symbicort*, *Seroquel* and *Arimidex*) delivered strong performance, up 20% against 2006 (+30% reported). Latin America, Middle East and Africa, and Asia Pacific delivered particularly strong sales, up 18% (+24% reported).

Established rest of the world

Sales in the Established rest of the world area grew by 5% (+13% reported), with good growth from *Symbicort*, *Crestor*, *Seroquel* and oncology products (together with the effect of *Synagis*) offsetting declines in proton pump inhibitors (PPI) products in Western Europe, and growth in Japan from *Crestor* and oncology products.

Western Europe

We saw modest growth of 3% (+13% reported) overall in Western Europe, which is the balance of strong growth in Spain (+7%, +17% reported) and the UK (+8%, +18% reported), and government initiatives to contain drug expenditures in an increasing number of countries. The inclusion of *Synagis* sales outside the US in Western Europe benefited underlying growth by 2% (2% reported), as discussed below. We have undertaken a strategic review of the sales and marketing resources required in Europe for the next three years. This review has identified a number of different programmes, which have reduced total headcount by 1,957 positions. The total costs of restructuring is \$210 million, with \$161 million charged in 2007.

Overall our sales in France (\$1,794 million) were maintained at the same level as 2006. We saw good sales growth for our primary care brands *Crestor* (underlying +41%, +54% reported) and *Symbicort* (underlying +6%, +16% reported), each of which gained significant market share from competitors.

In Germany, sales of \$1,233 million were down 3% (+6% reported), mostly due to the roll-over of last year's government interventions. Most affected was *Nexium* (underlying -17%, -9% reported) where price pressure and drive for generic prescription remained high. *Symbicort*, however, for the first time achieved value market leadership (15% underlying growth, +26% reported) with 42% of the market for fixed combination long-acting beta-stimulants and inhaled corticosteroids. *Seroquel* continued to grow well with 13% underlying growth (+24% reported) reaching 20% of the market for atypical anti-psychotics.

In the UK, sales were \$1,004 million (up 8%, +18% reported), driven by *Crestor* (underlying +7%, +18% reported), *Symbicort* (underlying +42%, +55% reported), *Seroquel* (underlying +12%, +22% reported), and *Arimidex* (underlying +15%, +25% reported). Many of our other brands also performed well with *Merrem* (+32%, +46% reported) being of particular note. Competition in the market remained intense but our key brands gained market share in their respective segments. Especially strong were *Seroquel* and *Symbicort* achieving gains of two and one percentage points respectively. The UK Government and pharmaceutical industry have entered into 'terms of reference' discussions concerning potential changes to the pricing and reimbursement scheme. Negotiations are expected to be completed in 2008.

In Italy, *Crestor* and *Symbicort* increased the sales by 16% (+27% reported) and 3% (+13% reported) respectively while speciality care brands also enjoyed healthy rises with *Seroquel* increasing the sales by 6% (+16% reported) with 19% of the market for atypical anti-psychotics and *Arimidex* increasing sales by 8% (+18% reported) with 53% of the market for aromatase inhibitors and tamoxifen. However, overall sales declined by 6% (+2% reported) to \$1,294 million as a result of reference pricing at the regional level on PPIs and measures to control their prescribing by physicians. *Nexium* sales fell by 24% (-17% reported) and *Losec* by 37% (-31% reported).

In Spain, sales of \$868 million were driven by *Nexium* (+46%, +60% reported), *Symbicort* (+17%, +28% reported) and *Seroquel* (+21%, +32% reported), whilst *Arimidex* and *Casodex* maintained a high share of their respective markets.

A summary of government cost-containment measures in Europe and their impact on our business can be found on page 32.

Synagis sales outside of the US are undertaken on our behalf through a subsidiary of Abbott Laboratories based in The Netherlands. Revenue from this arrangement amounted to \$169 million. We estimate that about 40% of the underlying sales arise in Western Europe, about 35% in Japan and over 10% in Canada. Strong growth has been recorded in Latin America in 2007.

Japan

In Japan, our market share ranking has improved from number 13 in 2006 to number 11 in 2007. We were the second fastest-growing pharmaceutical company amongst the top 15 pharmaceutical companies. Strong volume growth from key products offset the biennial government review of drug prices to deliver sales of \$1,661 million, representing underlying growth of 11% (11% reported). The key drivers of this were the oncology portfolio, particularly *Arimidex* (underlying +9%, +9% reported), *Casodex* (underlying +13%, +12% reported) and *Zoladex* (underlying +7%, +6% reported), together with *Losec/Omepral* (underlying +7%, +7% reported) and the successful full-scale launch of *Crestor*.

There has been a positive move towards the acceptance of non-Japanese Asian data as part of the regulatory approval package for Japanese patients. The Ministry of Health, Labour and Welfare (MHLW) has established a study team, with a remit to propose basic policies for the mutual acceptance of clinical data from Korea, China and Japan within the next two to three years. In addition, MHLW guidance issued in September 2007 facilitates earlier participation by Japan in international clinical studies.

GEOGRAPHICAL REVIEW CONTINUED

Other Established rest of the world**Australia**

In Australia, in the second quarter of 2007 we moved from third to second in the market in terms of sales, with the launches of *Crestor* (in December 2006) and *Symbicort SMART* (in January 2007) driving sales to \$638 million for the full year with growth of 17% (+31% reported). On an underlying basis, the four key brands, *Arimidex*, *Seroquel*, *Atacand* and *Nexium*, grew by 14% (+27% reported).

Emerging rest of the world

Sales in emerging markets increased 17% (+24% reported) for the full year, accounting for nearly 45% of total sales growth outside the US market. Sales in Emerging Europe were up 12% (+24% reported). Sales in China increased 28% (+33% reported).

Emerging Europe

Russia and Turkey are the two major countries in Emerging Europe, which delivered the sales growth of 21% (+31% reported) and 14% (25% reported) respectively. The strong growth of Russia was led by the sales of *Merrem*, *Arimidex* and *Symbicort*, whilst in Turkey growth was driven by *Crestor* and *Nexium*.

China

In China, the growth and expansion strategy of the past four years has continued to build our presence and sales (including Hong Kong) exceeded \$400 million for the first time in 2007. We are the largest multinational pharmaceutical company in the prescription market in China, as surveyed by the Hong Kong Association of the Pharmaceutical Industry, with a growth rate for prescription sales of 28% (+33% reported). During 2007, our investments in China increased with further growth in the number of medical representatives, the opening of an innovation discovery research centre in Shanghai and the announcement of several external collaborations, including a new clinical pharmacology unit in Peking University and a translational science laboratory in Guangdong Province People's Hospital.

Emerging Asia Pacific

In the Emerging Asia Pacific region, overall sales were up 10% (+16% reported) to \$749 million in 2007.

Strong growth was seen in India, Indonesia, Malaysia, Singapore and Vietnam, where market dynamics continue to be positive.

In the Philippines and Thailand an uncertain market environment slowed our growth.

Latin America

Our business in Latin America enjoyed strong sales performance of \$947 million, up 23% (29% reported), mainly driven by Mexico, Brazil, Venezuela, Central America and the Caribbean. As a result, our market share grew to 3% in the prescription market, taking us to the number nine position in the rankings of the prescription market.

This is the result of the investment made to develop our key products in fast-growing markets. *Nexium*, *Seroquel*, *Crestor* and *Symbicort* all showed strong performance with overall sales of \$303 million, which is up 48% versus last year (56% reported). *Nexium* is our number one prescription product in Latin America with overall sales of \$144 million (up 49%, 54% reported). *Crestor* is now the number four prescription product with overall sales of \$84 million (up 40%, 47% reported).

Mexico continued to be our largest market in the region, with sales of \$334 million (up 17%, +17% reported). Our share in the prescription market moved up to 4% and we moved up to the number nine position in the rankings.

In Brazil, sales were \$330 million with an underlying growth of 19% (+33% reported). The best-selling brand was *Zoladex* with sales of \$47 million, followed by *Crestor* with sales of \$35 million and *Nexium* with sales of \$31 million. Our share in the prescription market in Brazil maintained 3% and we moved up to the number 10 position in the rankings.

Middle East and Africa

Our business in the region continued to grow strongly with 23% underlying growth (26% on a reported basis), driven primarily by strong sales of the key brands *Nexium*, *Symbicort*, *Crestor* and *Seroquel*. We have continued to make selective investments in infrastructure and people across a number of markets, particularly Algeria and Egypt.

IN THE GLOBAL COMMUNITY

Wherever AstraZeneca is located worldwide, we aim to make a positive contribution to our local communities through charitable donations, sponsorships and other initiatives that help to make a difference. In particular, we aim to ensure that our community activities focus on bringing benefit in ways that are consistent with our business of improving health and quality of life, and on promoting the value of science among young people.

In 2007, we spent a total of \$588 million on community sponsorships and charitable donations worldwide, including \$518 million on product donations, valued at average wholesale prices. In 2006, our product donations totalled \$443 million, down from \$835 million the previous year. This decrease reflected the implementation of Medicare Part D in the US, a change that meant more people now have prescription drug coverage through the federal system. Already a leader in providing patient assistance in the US, AstraZeneca launched a new programme in November 2006 for those enrolled in Medicare Part D, but who still have financial difficulty affording their medicines. We also extended the reach of our US patient assistance programmes by expanding qualifying income levels during 2006. The financial commitment associated with these initiatives is reflected in our 2007 spend.

IN THE DEVELOPING WORLD

As well as the availability of appropriate medicines, access to healthcare depends on having a functional healthcare system, trained healthcare staff and effective supply and distribution mechanisms in place to ensure that medicines are used to their full effect as part of overall healthcare management. In some parts of the developing world, this is a particular challenge.

We believe that sustainable improvement in healthcare in these countries can only be achieved through the commitment of all related stakeholders, including governments, non-governmental organisations (NGOs) and the international community, as well as the private sector. AstraZeneca nevertheless remains committed to making a contribution. The medicines in our range today are not relevant to the treatment of HIV, TB and malaria, the most significant healthcare problems that the developing world is currently facing, but we are applying our skills and resources to helping in other ways. Our approach is two-fold.

We have a dedicated scientific resource in Bangalore, India that focuses on finding a new, improved treatment for TB and further information about this commitment can be found on page 67.

Alongside this ongoing research programme, we partner with NGOs and other organisations working with local communities to strengthen their frameworks for managing healthcare in a sustainable way. In particular, we focus on community-based projects that can be scaled up to improve outcomes for the greatest number of people.

Strengthening healthcare capabilities

TB and HIV form a potentially lethal combination, each speeding the other's progress and TB is the biggest killer of people living with HIV. Over the last five years, we have supported the British Red Cross in their community-based efforts to combat the growing threat of TB and TB/HIV in Central Asia. Work in Kyrgyzstan and Turkmenistan has focused on improving patient compliance, encouraging early diagnosis, raising awareness of TB, fighting the stigma associated with the disease and building local capabilities in prevention and control. To date, over 6,000 patients have successfully completed their TB treatment and community awareness campaigns and health education sessions in schools and public places have reached over 750,000 people. In Kazakhstan, where TB/HIV co-infection is a rising threat, the local Red Crescent Society is working to establish effective, sustainable and replicable models of community based social support for patients with TB and HIV, and their families. The programme brings together people with a range of skills, such as social workers, psychologists and employment lawyers, who work with volunteers – many of them former patients – to offer a range of support to those on treatment and those who have recently completed treatment. To date, this project has helped to reduce the rate of patients giving up on treatment from 33% in 2006 to 13% in 2007. Overall, with our funding, the work of the Red Crescent Societies in Kyrgyzstan, Turkmenistan and Kazakhstan is contributing to the implementation of national TB programmes that are leading to a stabilisation and reduction in the incidence of TB in these countries. In 2007, to help the British Red Cross to broaden its approach to the co-infection challenge, we further expanded our partnership and are supporting the charity over the next three years in their work to help local

communities combat the co-infection threat in South Africa and Lesotho where HIV is the single most important factor determining the increasing incidence of TB.

We also further increased the geographic footprint of our support activity through a new partnership in 2007 with the African Medical and Research Foundation (AMREF) that focuses on helping to strengthen healthcare systems and integrated delivery of TB/HIV/malaria programmes in Uganda, where there is a high burden of all three diseases. During the year, AMREF and AstraZeneca worked together with the Ministry of Health in Uganda to develop a model for managing HIV/AIDS, malaria and TB collectively that will provide a framework for effective and efficient healthcare at both local and national levels. The first programme is now underway. Those initially targeted to benefit are the poor and remote communities in the Luwero and Kiboga districts of central Uganda, particularly women of child-bearing age, people living with HIV/AIDS and children under the age of five.

In the developing world, the incidence of cancer is on the increase. It is predicted that 20 million more people will be diagnosed by 2010, and 70% will live in countries that between them will have fewer than 5% of the resources for cancer control. In 2005 AstraZeneca began a pilot project in Ethiopia, designed to build local capability in managing breast cancer – the second most common cancer among young women in that country. We are partnering with Axios, an organisation experienced in working with the private sector to advance healthcare in developing countries, with a focus on integrating local resources and priorities in chronic disease management and drug delivery.

At the outset of our Ethiopia Breast Cancer Project, the country had only one cancer specialist for the entire population, there was no mammography, no easy access to chemotherapy or hormonal agents, no cancer screening and no national treatment protocols. Our programme has focused on strengthening diagnosis and treatment capabilities at Tikur Anbessa University Hospital in Addis Ababa, where the country's only cancer specialist was based. In the last three years, with our help, the hospital has become a centre of reference for breast cancer treatment across Ethiopia. Activities have included developing treatment guidelines, strengthening the referral system, setting up an institutional-

IN THE GLOBAL COMMUNITY CONTINUED

based cancer registry, raising awareness of the facilities amongst healthcare professionals and providing training for other physicians in Ethiopia. AstraZeneca's breast cancer medicines are also being donated.

The impact of the programme has been much broader than we anticipated for what was originally intended as a small, targeted pilot. By focusing on the creation of treatment protocols and standardised reporting guidelines, by collaborating with the Ministry of Health and other health institutions on the guideline development and national distribution, and by working with the Ethiopian Cancer Association to help strengthen awareness- and fund-raising capabilities, the benefits have been far wider reaching than just the Tikur Anbessa Hospital. We believe that this pilot is delivering a sustainable model that can be successfully replicated in other countries and other disease areas.

We also partner with Voluntary Service Overseas (VSO), an international development charity that works through volunteers to strengthen core capabilities in the developing world. The charity focuses on six strategic goals: education, disability, secure livelihoods, participation/governance, HIV/AIDS and health. Our partnership includes financial support and the engagement of AstraZeneca people in a range of different support activities.

As the VSO's exclusive Health Champion, we have committed funds and a senior manager secondment to the organisation to help them further develop their strategy and framework for delivering their health goal. We are also providing funding for VSO volunteers to work in underserved communities, helping to build local healthcare capabilities, including essential health programme research. During 2006 and 2007, we funded 17 volunteers working mainly on two-year placements across Indonesia, Cambodia and Sri Lanka.

Alongside this, AstraZeneca is also enabling its own people to volunteer for up to 12-month placements, primarily across Africa and Asia, that draw on the broad range of skills they can offer in human resources, finance, IT and communications, as well as health and medicine. The placements seek to build professional capabilities in the government, non-governmental and community-based organisations that play a key role in establishing and improving important infrastructures in developing countries. For our employees, it provides the opportunity to make a personal contribution whilst developing their skills in leadership, collaboration and project management as part of their career development. To date, we have had one employee working as a Human Resources advisor for a food security NGO in India, another working in a capacity advisory role for a democracy and human rights NGO in Sierra Leone and a third working in Nigeria in an organisational development capacity for a youth charity.

Engaging at an international level

As part of our focus on TB, we actively engage in international efforts to help in the fight against this devastating disease.

In 2007, through our involvement with the Stop TB Partnership for Europe, we participated in 'All Against Tuberculosis', a WHO European Ministerial Forum, hosted by the German government. The Forum's purpose was to accelerate progress towards achieving the global targets for TB control in the WHO European Region and Target 8 of the United Nations' Millennium Development Goal 6: "to have halted and begun to reverse the incidence of TB by 2015." Over 300 delegates at the Forum adopted the Berlin Declaration on Tuberculosis, which describes the disease as "an increasing threat to health security in the WHO European Region". The Declaration calls for urgent action to halt and reverse the high levels of TB, including its multidrug-resistant (MDR) and extensively drug-resistant (XDR) strains. In the Declaration, Member States and international partners, including AstraZeneca, commit themselves to providing more support and resources to control and, eventually, eliminate the disease.

More information about our community activities around the world is available on our website, astrazeneca.com/responsibility.

ENVIRONMENTAL REVIEW

Our ongoing challenge is to continue to manage our environmental impact as we grow our business. Our global performance objective is to drive continuous improvement in the sustainability of all our activities by, among other things, economising on the use of natural resources and working to eliminate pollution.

CLIMATE CHANGE

In common with most businesses, our potential impact on climate change arises from the greenhouse gas emissions from energy use at our facilities, from other in-house activities and from the various means of transport we use. However, we also face an additional challenge since some of our asthma therapy products use propellant gases that potentially contribute to ozone depletion and global warming.

Asthma is a common, often debilitating illness that can be alleviated by breathing in medication from a small aerosol called a pressurised metered dose inhaler (pMDI), which uses propellant gases to deliver the medicine. When CFCs, the gases used originally in pMDIs, were identified as ozone-depleting gases, we worked to develop alternatives. Our *Turbuhaler* dry powder inhaler, launched in 1987, does not require a propellant gas, but it is not suitable for all patients. We therefore developed and are introducing alternative propellant gases for our pMDIs, which have no ozone depletion potential and significantly less than half the global warming potential of the CFCs they replace. Although these HFA (hydrofluoroalkanes) propellants still have some impact on climate change, there is an international consensus that there is no safer alternative for patients.

A strong track record

At the formation of AstraZeneca in 1999, we began to take action firstly to reduce the rate of growth and then to stabilise the emissions of CO₂ from our facilities. This was achieved by a combination of energy efficiency measures, investment in combined heat and power plants and purchasing energy from low or zero carbon sources. By 2003 the upward trend in emissions from these sources had been arrested and by 2005 emissions had fallen to their 2001 level. By 2007, our absolute greenhouse gas emissions from all sources (including products) had fallen by 67% compared with 1990. (The Kyoto Protocol target is a 5% reduction by 2012).

The growing challenge

The process of developing, manufacturing and distributing innovative medicines to patients is increasingly complex and uses more and more energy, both in our facilities and in travel and transport. Controlling transport-related emissions remains a significant challenge. Although we have invested in electronic communication systems and expanded their use, this has had limited impact on emissions from these sources. We are now investing heavily in advanced driver training to improve both safety and efficiency associated with road travel and we are increasingly using a range of hybrid and alternative fuel vehicles.

Since 2000, the greenhouse gas emissions associated with our products has declined as we are phasing out CFC-based pMDIs and our market share of these products has changed due to patent expiries. During 2006, however, we received approval to market a new asthma treatment, *Symbicort*, in the US, where over 30 million people suffer from this debilitating disease. Our new therapy provides rapid and effective asthma control in a pMDI containing HFA propellant. The launch during 2007 of this therapy in the US, the world's largest pharmaceutical market, will inevitably lead to an increase in emissions of HFAs as more and more patients benefit from the new medicine. Despite the potential climate change implications, we believe that the expanded treatment choice and potential benefits that *Symbicort pMDI* offers asthma sufferers outweigh the potential impact it will have on the environment.

Next steps and future targets

We have identified areas of our business where further improvements can be made to reduce our emissions of global warming gases. These include, amongst other things:

- > Implementation of further energy conservation programmes, particularly related to fume cupboards in laboratories.
- > Implementation of green technology principles in our process design.
- > Further investment in greener energy supply from external power suppliers.
- > Exploring the potential for further investment in low carbon and renewable energy options at our sites.
- > Investment in 'cleaner' vehicles.

Our fundamental challenge continues to be reducing our emissions at a pace that equals or exceeds our rate of business growth. We will continue to work hard to manage our impact, and our new climate change target aims to ensure that our absolute emissions in 2010 will be no greater than they were at the start of the decade and 40% less than they were in 1990. Although the greenhouse gas emissions from our business operations will continue to fall, as a result of the launch of *Symbicort pMDI* in 2007, we will not be able to continue to achieve the reductions of total greenhouse gases (including emissions from products) that we have delivered each year since 2000. We are committed to achieving our 2010 target without compromising our ability to provide new inhalation therapies that bring benefit for patients. Therefore the climate change objectives approved by the AstraZeneca Board in 2005 require very substantial efforts to be made across our business to produce, by 2010, an absolute reduction of 12% in global warming emissions from all sources other than pMDIs, when compared with 2005.

PHARMACEUTICALS IN THE ENVIRONMENT (PIE)

In recent years, improved analytical techniques have resulted in pharmaceutical residues being detected at low concentrations in the aquatic environment. There is general agreement among scientists in academia, industry and government that, although variable, the levels found are too small to pose any significant risk to human beings or to cause immediate or short-term harm to aquatic life. More information is needed to determine if there are any long-term effects and AstraZeneca is actively involved in this research, as described later in this section.

Our approach

The environmental profile of AstraZeneca's new pharmaceuticals is assessed prior to applying for government approval and, at a minimum, consistent with applicable regulatory regimes. We are committed to conducting our assessments based upon the best available science, which is continuously evolving. For example, the United Kingdom and Sweden have carried out major reviews of the scientific data relevant to the potential impact caused by pharmaceutical residues in the environment. New Environmental Risk Assessment Guidelines have now been introduced in the European Union and are being revised in a number of other regions, particularly in Canada and Japan. We continue to work with the relevant pharmaceutical industry trade associations to provide expert input to the current public consultations.

ENVIRONMENTAL REVIEW CONTINUED

In anticipation of these new guidelines, and as an element of our internal PIE-related initiatives, we have reviewed the environmental risk assessments for our existing products and, where appropriate, carried out further studies to replace previous default values with measured data.

We are committed to making this environmental risk data, together with available information on our existing products, publicly available via the Swedish Doctors Prescribing Guide, FASS.se website, using the voluntary disclosure system introduced by the Swedish Association of the Pharmaceutical Industry (LIF). A total of 27 substances with environmental data are now included in this database. The system was developed by LIF and a number of Swedish stakeholders, in conjunction with expert representatives from international pharmaceutical companies, convened and chaired by AstraZeneca. In association with the Association of British Pharmaceutical Industries we are also helping the Environment Agency for England and Wales to evaluate the risks of the existing medicines on their priority action list.

In addition, we have introduced an Environmental Risk Management Plan that will accompany all new medicines through the development process and will enable all relevant environmental data to be available at all key decision points.

Our research

Scientists at our Brixham Environmental Laboratory in the UK are at the forefront of research in this field, working both independently and in collaboration with other companies, leading academics and regulatory bodies to advance PIE-related research. We recently invested a further \$24 million in new laboratories at the site to improve the facilities for evaluation of the environmental fate and persistence of pharmaceuticals.

As the research moves forward, the understanding of some of the complexities of this issue improves. There was an initial concern that all pharmaceuticals might have long-term environmental effects that were not predictable, by extrapolation, from short-term studies. However, as evidence accumulates it appears that this may only be an issue for a small number of substances that demonstrate 'atypical' effects. For example, AstraZeneca has undertaken a full fish life cycle study on tamoxifen that showed

significantly less toxicity than might have been predicted for a hormonally acting compound. It also appears that even some closely related substances with the same mode of action can show very different environmental profiles.

This has been observed with the beta-blockers, atenolol and propranolol, for example, where atenolol shows significantly lower toxicity to fish compared with propranolol. Our research has also demonstrated that natural photo-degradation, caused by sunlight, can be a powerful factor in the removal of pharmaceutical residues from the environment. For example, there is evidence that around 70% of propranolol can be destroyed this way. It seems, therefore, that all medicines should be evaluated on a case-by-case basis in these respects, rather than being grouped together as a single class or classes.

To eliminate any potential environmental impact, pharmaceuticals ideally would break down rapidly on contact with water. However, to be effective medicines, they must be stable enough to get to the part of the body where they need to be active, without deteriorating along the way. Our increased focus on biological products (which tend to be metabolised by the body or rapidly degraded in the environment) and targeted therapies with shorter treatment regimes will contribute to fewer residues, but balancing the needs of the patient with the potential environmental impact will continue to be a challenge.

Based upon work conducted to date, we have no scientific basis for believing that our manufacturing discharges pose a significant threat to the environment. However, we will continue to conduct internal evaluations for the purposes of identifying future research needs and guiding internal risk management decisions. In the longer term, we will continue to work to ensure that the development and application of our evaluation techniques remains consistent with the evolving science, and that our manufacturing activities remain protective of human health and the environment. One example of our commitment is the commissioning of a \$36 million state-of-the-art biological treatment facility at our Avlon Works in Bristol in the UK as well as improving effluent treatment at other facilities.

More information about commitment to managing our environmental impact, and our performance, is available on our website, astrazeneca.com/responsibility.

FINANCIAL REVIEW



"In 2007, excluding the costs of the restructuring and synergy programmes, earnings per share grew by 7% to \$4.20. The momentum in sales and profit growth established in recent years was maintained despite the introduction of generic competition to *Toprol-XL* in the US. In addition, our strong cash generation allowed us to return almost \$7 billion to our shareholders in dividends and share re-purchases.

At the same time, we took significant steps to secure and widen the platform from which continued strong performance in the future can be launched. We acquired and began integrating the leading biologics company, MedImmune, adding to our launched product portfolio, increasing our development pipeline and extending our research and development capabilities beyond small molecules to include monoclonal antibodies and vaccines. Secure medium- and long-term debt programmes have been established from which a significant portion of the financing for the acquisition of MedImmune was drawn, whilst short-term cash and borrowing facilities for our immediate commitments to our shareholders and third parties have been put in place. Restructuring initiatives, first introduced in manufacturing at the beginning of the year,

have been extended to all areas and include synergy opportunities arising from the acquisition of MedImmune. These initiatives are anticipated to deliver annual benefits of \$1,400 million from 2010.

These steps will allow for further increases in investment in research and development to strengthen and realise the pipeline, selective geographical expansion and focused exploitation of our existing products whilst continuing to generate attractive returns for our shareholders."

SIMON LOWTH
Chief Financial Officer

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The purpose of this section of the Directors' Report is to provide a balanced and comprehensive analysis, including the key business factors and trends, of the financial performance of the business during 2007, the financial position as at the end of the year and the main business factors and trends which could affect the future financial performance of the business.

MEASURING PERFORMANCE

As described on page 10, we use specific measures when assessing our performance in key areas and include them in our discussion throughout the Directors' Report.

Reported performance takes into account all the factors (including those which we cannot influence, principally currency exchange rates) that have affected the results of our business as reflected in our Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as issued by the International Accounting Standards Board.

Some of the financial measures use information derived at constant exchange rates (CER), in particular, growth rates in sales and costs, operating profit and, as a consequence, earnings per share.

> Underlying growth using constant exchange rates is defined as a non-GAAP measure because, unlike actual growth, it cannot be derived directly from the information in the Financial Statements. This measure removes the effects of currency movements (by retranslating the current year performance at previous year's exchange rates and adjusting for other exchange effects, including hedging) which allows us to focus on the changes in sales and expenses driven by volume, prices and cost levels relative to the prior period.

> Sales and cost growth expressed in CER allows management to understand the true local movement in sales and costs, in order to compare recent trends and relative return on investment. CER growth rates can be used to analyse sales in a number of ways but, most often, we consider underlying growth by products and groups of products, and by countries and regions. Underlying sales growth can be further analysed into the impact of sales volumes and selling price. Similarly, CER cost growth helps us to focus on the real local change in costs so that we can manage the cost base effectively.

> Earnings per share growth in CER demonstrates not only the profitability of the business (based on profit after tax) but also the management of our capital structure (particularly through the share re-purchase programme).

> In addition, during 2007, we acquired the biologics company MedImmune and instigated a series of major Senior Executive Team-approved restructuring and synergy programmes. Both of these factors have significantly affected our results and make growth rates, both on a reported and underlying basis, and comparison to 2006 more difficult to analyse. Accordingly, in this review, we show various growth and financial measures (such as sales, operating profit and earnings per share) adjusted for

FINANCIAL REVIEW CONTINUED

the effects of the Senior Executive Team-approved restructuring and synergy costs and the acquisition of MedImmune so as to analyse more transparently the progress of our business.

- > We recognise that these CER growth measures and the measures adjusted for the effects of the Senior Executive Team-approved restructuring and synergy costs and the acquisition of MedImmune should not be used in isolation and, accordingly, we also discuss the comparable GAAP actual growth measures (reported performance), which reflect all the factors that affect our business in the reported performance sections of this report.

Other measures used are not influenced so directly, or indeed at all, by the effects of exchange rates:

- > Gross margin and operating profit margin percentages, which set out the progression of key performance margins and demonstrate the overall quality of the business. We also present these percentages excluding the effects of MedImmune and restructuring and synergy costs to isolate the progression of these percentages driven by the previous recurring business.
- > Prescription volumes and trends for key products, which can represent the real business growth and the progress of individual products better and more immediately than invoiced sales.
- > Net debt, representing our interest bearing loans and borrowings less cash and cash equivalents and current investments.
- > Total shareholder return measures the returns we provide to our shareholders and reflects share price movements assuming reinvestment of dividends and is used in comparison to the performance of peer group companies.

BUSINESS BACKGROUND AND MAJOR EVENTS AFFECTING 2007

The business background is covered in the Business Environment section on page 13 and describes in detail the developments in both our products and geographical regions. The following comments highlight how these and other factors affect our financial performance.

Our operations are focused on prescription pharmaceuticals, and over 97% of our sales are made in that sector. Sales of pharmaceutical products are directly influenced by medical needs and are generally financed by health insurance schemes or national healthcare budgets.

Our operating results in both the short and long term can be affected by a number of factors other than normal competition:

- > The risk of generic competition following loss of patent exclusivity or patent expiry, with the potential adverse effects on sales volumes and prices, for example, the launch of generic competition to *Toprol-XL* 25mg in November 2006 and other strengths in 2007.
- > The timings of new product launches, which can be influenced by national regulators and the risk that such new products do not succeed as anticipated.
- > The rate of sales growth and costs following new product launches.
- > The adverse impact on pharmaceutical prices as a result of the regulatory environment. For instance, although there is no direct governmental control on prices in the US, action from individual state programmes and health insurance bodies are leading to downward pressures on realised prices. In other parts of the world, there are a variety of price and volume control mechanisms and retrospective rebates based on sales levels that are imposed by governments.
- > Currency fluctuations. Our functional and reporting currency is the US dollar, but we have substantial exposures to other currencies, in particular the euro, Japanese yen, sterling and Swedish krona.

Over the longer term, the success of our R&D is crucial, and we devote substantial resources to this area. The benefits of this investment emerge over the long term and inherently there is considerable uncertainty as to whether it will generate future products.

The most significant features of our financial results in 2007 are as follows:

- > Overall sales growth on an underlying basis of 7% (12% reported) to \$29,559 million.
- > Sustained strong sales performances from our five key products (which now account for just under 52% of sales) of

\$15,344 million, an increase of 11% on an underlying basis (15% reported).

- > Operating profit of \$8,094 million, an underlying decrease of 4% (1% reported). After adjusting for the impact of MedImmune and restructuring and synergy costs, operating profit increased by 10% on an underlying basis (12% reported) with an operating margin improvement of 1.0 percentage points to 32.0%.
- > Investment in R&D through the income statement has increased by an underlying 24% (32% reported) to \$5,162 million. This rise reflects further increases in underlying activity as well as the acquisition of MedImmune and the collaboration with Bristol-Myers Squibb.
- > Earnings per share decline on an underlying basis of 5% (3% reported) to \$3.74. After adjusting for the impact of MedImmune and restructuring and synergy costs, earnings per share growth of 15% (17% reported) to \$4.52.
- > Net cash from operating activities of \$7,510 million, compared with \$7,693 million in 2006.
- > Total cash distributions to shareholders of \$6,811 million, up from \$6,367 million in 2006.
- > The move from a net funds position at the beginning of the year of \$6,537 million to a net debt position of \$9,112 million, driven by the acquisition of MedImmune.
- > The acquisition and integration of MedImmune with effect from 1 June 2007.
- > The commencement of a number of restructuring initiatives across all areas of the business.
- > Ten projects in phase III development.
- > The introduction of generic competitors to all strengths of *Toprol-XL* in the US. Excluding US contribution of *Toprol-XL* and authorised generic (sales of \$969 million in 2007 and \$1,382 million in 2006, earnings per share of \$0.39 in 2007 and \$0.50 in 2006), our sales growth was 10% (14% reported) and earnings per share decline was 3% (flat as reported).

SALES BY THERAPY AREA (2007 AND 2006)

	2007		2006		2007 compared to 2006	
	\$m	Growth underlying \$m	Growth due to exchange effects \$m	\$m	Growth underlying %	Growth reported %
Cardiovascular	6,686	292	276	6,118	5	9
Gastrointestinal	6,443	(379)	191	6,631	(6)	(3)
Infection and other	1,714	779	60	875	89	96
Neuroscience	5,340	484	152	4,704	10	14
Oncology	4,819	359	198	4,262	8	13
Respiratory and Inflammation	3,711	369	191	3,151	12	18
Others	846	79	33	734	11	15
Total	29,559	1,983	1,101	26,475	7	12

SALES BY KEY, PATENT EXPIRY AND BASE PRODUCTS (2007 AND 2006)

	2007		2006		2007 compared to 2006	
	\$m	Growth underlying \$m	Growth due to exchange effects \$m	\$m	Growth underlying %	Growth reported %
Key (Arimidex, Crestor, Nexium, Seroquel, Symbicort)	15,344	1,511	515	13,318	11	15
Patent expiry (Losec, Nolvadex, Plendil, Seloken/Toprol-XL, Zestril)	3,230	(728)	121	3,837	(19)	(16)
Base	10,985	1,200	465	9,320	13	18
Total	29,559	1,983	1,101	26,475	7	12

OPERATING PROFIT (2007 AND 2006)

	2007		2006		Percentage of sales		2007 compared to 2006	
	\$m	Growth underlying \$m	Growth due to exchange effects \$m	\$m	2007 %	2006 %	Growth underlying %	Growth reported %
Sales	29,559	1,983	1,101	26,475			7	12
Cost of sales	(6,419)	(703)	(157)	(5,559)	(21.7)	(21.0)	13	15
Gross margin	23,140	1,280	944	20,916	78.3	79.0	6	11
Distribution costs	(248)	(7)	(15)	(226)	(0.8)	(0.9)	3	10
Research and development	(5,162)	(944)	(316)	(3,902)	(17.5)	(14.7)	24	32
Selling, general and administrative	(10,364)	(843)	(425)	(9,096)	(35.1)	(34.4)	9	14
Other operating income and expense	728	188	16	524	2.5	2.0	36	39
Operating profit	8,094	(326)	204	8,216	27.4	31.0	(4)	(1)

RESULTS OF OPERATIONS – SUMMARY
ANALYSIS OF YEAR TO 31 DECEMBER 2007

The tables on this page show our sales analysed both by therapy area and by key, patent expiry and base products and operating profit for 2007 compared to 2006.

Reported performance

Our sales increased by 12% from \$26,475 million to \$29,559 million, an increase reflecting both the acquisition of MedImmune and the entry of generic competition on all strengths of Toprol-XL in the US, as well as general business performance. Operating profit fell by 1%, again reflecting the impacts of MedImmune and Toprol-XL together with

restructuring and synergy costs. Earnings per share for the year were \$3.74, a 3% decline from \$3.86 in 2006.

Underlying performance

Sales

Sales for the full year increased 7%. The contribution to sales growth from MedImmune more than offset the decline from Toprol-XL in the US. Sales in the US were up 7%, and this was broadly similar to sales growth in the market if Toprol-XL and MedImmune were excluded. Sales outside the US were up 8%, comprising growth of 5% in Established markets and 17% in the Emerging markets.

For the second year, our portfolio has 11 brands with annual sales greater than \$1 billion and, with the acquisition of MedImmune, we have acquired another brand, Synagis, which is expected to deliver such performance annually. The combined sales of our key products (Arimidex, Crestor, Nexium, Seroquel and Symbicort) grew by 11% to \$15,344 million, and now account for about 52% of our turnover. Base products increased by 13% whilst patent expiry products declined by 19%.

Gastrointestinal sales have declined by 6%. Nexium sales were slightly down for the full year to \$5,216 million, a 2% decline. Sales in the US were down 4%, as market share gains

FINANCIAL REVIEW CONTINUED

for *Nexium* in the branded segment of the PPI market were offset by the continued strong growth of generic omeprazole and lower realised prices for *Nexium*. *Nexium* sales in other markets were up 2%. *Losec* sales declined by 20%, with significant declines in Canada and Western Europe only partially offset by increases in Japan and China.

Despite the impact of generic competition to *Toprol-XL* in the US, the Cardiovascular portfolio enjoyed a 5% increase, driven by *Crestor* sales which for the full year were up 33% to \$2,796 million. *Crestor* sales in the US were up 24%, whilst sales in other markets increased 45% (and now comprise almost half of the worldwide total for *Crestor*). In November 2007, *Crestor* received US FDA approval for a new indication, as an adjunct to diet to slow the progression of atherosclerosis in patients with elevated cholesterol. *Seloken/Toprol-XL* sales outside of the US increased slightly in the year but, overall, the brand declined by 22%. *Atacand* recorded a 9% rise, whilst the rest of the portfolio saw small falls.

Respiratory and Inflammation sales increased by 12%, with strong performances from *Symbicort* and *Pulmicort*. *Symbicort* sales for the full year were up 22% to \$1,575 million, including \$50 million in the US since launch in June this year. In the US, *Symbicort* share of patients newly starting fixed combination therapy reached 11.5% in the week ending 18 January 2008, with a 5.8% share of all new prescriptions for combination products. Sales outside the US were up 18% for the full year. *Pulmicort* sales increased by 10% to \$1,454 million on the back of a 15% improvement in the US.

The Neuroscience therapy area is dominated by *Seroquel*, where sales increased 15% to

\$4,027 million, with sales in the US up 15% and sales up 16% in other markets. The launch rollout of the schizophrenia indication for *Seroquel XR* is underway, with regulatory submissions for acute bipolar mania and bipolar depression in Europe, and major depressive disorder and generalised anxiety disorder in the US and Europe, planned for 2008.

Sales in the Oncology therapy area increased by 8% with good performances across the portfolio. *Arimidex* sales increased 10% for the full year to \$1,730 million, on a 13% increase in the US and 8% sales growth in other markets. *Casodex* sales benefited from strong performances in Western Europe and Japan, whilst *Zoladex* recorded increases in Japan and Emerging ROW.

The Infection and other therapy area grew strongly through the addition of *Synagis* and *FluMist* following the acquisition of MedImmune, with a resultant 89% increase in sales to \$1,714 million.

Geographical analysis

We discuss the geographical performances on pages 69 to 72.

Operating margin and retained profit

Operating profit for the full year was \$8,094 million, down 4%. Excluding restructuring and synergy costs, operating profit increased to \$9,060 million (up 8%). This operating profit improvement was net of a reported \$1,187 million increase in R&D investment, and was fuelled by revenue growth, improved gross margin and lower expenditures in SG&A on a constant currency basis. Restructuring and synergy benefits of \$300 million were realised during the year.

For the full year, reported operating margin was 27.4%. Excluding MedImmune losses of \$178 million and combined restructuring and synergy costs of \$966 million, operating margin was 32.0%, an increase of 1.0 percentage points on 2006.

Gross margin decreased by 0.7 percentage points. After adjusting for the impact of MedImmune and restructuring and synergy costs, gross margin increased by 1.0 percentage points to 80.0%. Principal drivers included reduced payments to Merck (0.7 percentage points), asset provisions booked during the prior period (0.4 percentage points) and favourable currency movements (0.2 percentage points). An adverse effect arose from increased royalty payments, which led to a 0.4 percentage point reduction.

R&D investment increased by 24% to \$5,162 million, 17.5% of sales, an increase of 2.8 percentage points. After adjusting for the impact of MedImmune and restructuring and synergy costs, R&D expenditure was \$4,834 million in 2007, up 16% (and 2.1 percentage points) over 2006 due principally to increased activity levels and the effect of the externalisation strategy.

Selling, general and administrative costs increased by 9% to \$10,364 million. After adjusting for the impact of MedImmune and restructuring and synergy costs, SG&A costs were 2% lower than the same period in 2006 (an improvement of 2.1 percentage points), primarily as a result of operational efficiencies from our selling and marketing activities.

At \$728 million, other operating income and expense was 36% higher than 2006. After adjusting for the impact of MedImmune (which contributed other income primarily

OPERATING MARGIN (2007 AND 2006)

	Reported 2007 \$m	Restructuring and synergy costs 2007 \$m	MedImmune 2007 \$m	Excluding restructuring and synergy costs and MedImmune 2007 \$m	Reported 2006 \$m	Reported % of sales	Excluding restructuring and synergy costs and MedImmune % of sales	Change in percentage versus comparative period ¹
Sales	29,559	–	(714)	28,845	26,475			
Cost of sales	(6,419)	415	242	(5,762)	(5,559)	(21.7)	(20.0)	+1.0
Gross margin	23,140	415	(472)	23,083	20,916	78.3	80.0	+1.0
Distribution	(248)	–	4	(244)	(226)	(0.8)	(0.8)	+0.1
Research and development	(5,162)	73	255	(4,834)	(3,902)	(17.5)	(16.8)	-2.1
Selling, general and administrative costs	(10,364)	478	560	(9,326)	(9,096)	(35.1)	(32.3)	+2.1
Other operating income	728	–	(169)	559	524	2.5	1.9	-0.1
Operating profit	8,094	966	178	9,238	8,216	27.4	32.0	+1.0

¹ The changes in percentage uses the 'excluding restructuring and synergy costs and MedImmune' figures; a positive number indicates favourable effect on operating margin versus comparative period.

through human papilloma virus vaccine royalty income), other income of \$559 million was \$35 million higher than 2006, as expected reductions in royalty income were more than offset by higher one-time gains and insurance recoveries.

Total charges of \$966 million have been taken in respect of the restructuring and synergy programmes, of which \$723 million represent cash costs. Over the same period, productivity initiative benefits of \$250 million and synergy benefits of \$50 million have been realised.

MedImmune contributed an operating loss of \$178 million (which includes amortisation costs of \$255 million) in 2007.

Net finance expense was \$111 million in the full year (2006 income \$327 million). The decrease versus last year is principally attributable to the interest payable on the borrowings to acquire MedImmune, Inc.. Interest expense on the new debt was \$446 million. The reported amounts include net income of \$34 million (2006 \$43 million) arising from employee benefit fund assets and liabilities reported under IAS 19 'Employee Benefits'.

The effective tax rate for the year was 29.5%, similar to the 29% for 2006. The slight increase for the year compared to 2006 reflects the combined effect of differences in the geographical mix of profits, the reversal of tax deductions relating to share-based payments, the reduction in the UK tax rate as applied to UK net deferred tax liabilities, and an increase in tax provisions principally in relation to global transfer pricing. The full year tax rate for 2008 is anticipated to be similar to 2007.

Reported earnings per share were \$3.74 compared with \$3.86 in 2006, a decrease of 5%. After adjusting for the impact of restructuring and synergy costs, earnings per share rose from \$3.86 to \$4.20, an increase of 7%. Excluding the impact of MedImmune as well, earnings per share increased by 15% to \$4.52. The share re-purchase programme is calculated to have added 8 cents to EPS during the year, after allowing for an estimate of interest income foregone.

In 2007, *Toprol-XL* contributed US sales of \$969 million (2006 \$1,382 million) and earnings per share of 39 cents (2006 50 cents). If *Toprol-XL* were excluded from the full year results for both the current and prior year periods, sales growth would be 10% and earnings per share would be down 3%.

COMPONENTS OF EARNINGS PER SHARE

	2007 \$	2006 \$
Reported earnings per share	3.74	3.86
Restructuring and synergy costs	0.46	–
Reported, excluding restructuring and synergy costs	4.20	3.86
MedImmune	0.32	–
	4.52	3.86
<i>Toprol-XL</i> contribution	(0.39)	(0.50)
Total	4.13	3.36

The effects of MedImmune, restructuring and synergy costs and *Toprol-XL* in the US on earnings per share is summarised in the table above.

FINANCIAL POSITION, INCLUDING CASH FLOW AND LIQUIDITY

All data in this section are on an actual basis (unless noted otherwise).

The book value of our net assets decreased by \$501 million to \$14,915 million. Dividends of \$2,658 million and share re-purchases of \$4,170 million exceeded net profit of \$5,595 million, whilst net movements through other recognised income and expense (principally exchange and actuarial losses) increased net assets. The overall shape of the balance sheet has been changed by the acquisition of MedImmune.

Property, plant and equipment

Property, plant and equipment rose from \$7,453 million to \$8,298 million at the end of the year. The increase was due to continued investment across the business of \$1,169 million, particularly in R&D, the acquisition of MedImmune (\$593 million) and exchange impacts (\$350 million), offset by depreciation and impairment of \$1,182 million and disposals (\$92 million).

Goodwill and intangible assets

Goodwill and intangibles have risen from \$4,204 million at the beginning of the year to \$21,351 million. The increase is due almost entirely to the acquisition of MedImmune. The goodwill arising on the acquisition of MedImmune amounted to \$8,757 million increasing the balance sheet total to \$9,884 million; the other major component of the carrying value of goodwill relates to the restructuring in 1998 of our joint venture arrangements with Merck.

Intangibles have also increased primarily as a result of the MedImmune acquisition, supplemented by other company acquisitions and ongoing in-licensing activities. Intangibles from MedImmune comprised launched products of \$7,478 million (principally the

respiratory syncytial virus (RSV) franchise, other products such as *FluMist* and *Ethylol*, together with contractual and licensing income) and in development projects amounting to \$597 million. In total, intangibles amount to \$11,467 million at the year end and, in addition to MedImmune, include intangibles arising from the restructuring in 1998 of our joint venture arrangements with Merck and the subsequent merger of Astra and Zeneca in 1999 (\$1,026 million), the acquisition of Cambridge Antibody Technology in 2006 (\$605 million), launched and in development product in-licensing activities (\$1,327 million) and software development costs (\$434 million).

Inventories

Inventories have decreased by \$131 million from \$2,250 million at the end of 2006 to \$2,119 million. This decrease represents an underlying improvement of \$442 million, offset by the acquisition of MedImmune and exchange effects.

Receivables, payables and provisions

Receivables have risen from \$5,561 million to \$6,668 million, an increase of \$1,107 million. Higher sales, particularly in the US, Europe, China and from MedImmune (whose sales are concentrated in the first and last quarters of the year), insurance recoveries, acquisition and exchange effects were the principal drivers, offset in part by the receipt of the second instalment in respect of the US anaesthetics business disposal in 2006.

Current payables also rose from \$6,295 million to \$6,968 million at the end of 2007. There was a small net underlying movement in trade creditors, other payables and accruals, with increases in deductions for chargebacks, rebates and returns in the US being offset by decreases in trade payables, particularly to Merck. However, exchange and the acquisition of MedImmune drove the overall balance up.

Provisions increased primarily as a result of the restructuring and synergy programmes undertaken during the year, rising from \$366 million in 2006 to \$1,020 million at the end of 2007.

FINANCIAL REVIEW CONTINUED

Debt

The acquisition of MedImmune was funded initially through drawing on a \$15 billion 364 day loan facility, which was subsequently re-financed with short-term US commercial paper. In the second half of the year, we undertook a programme of issuing debt on the US and European markets, as follows:

SEPTEMBER		
Floating rate	2009	\$650m
Fixed 5.4%	2012	\$1,750m
Fixed 5.9%	2017	\$1,750m
Fixed 6.45%	2037	\$2,750m
Fixed 5.125%	2015	Euro750m
NOVEMBER		
Fixed 4.625%	2010	Euro750m
Fixed 5.75%	2031	£350m

\$750 million each of the 2012 and 2017 US dollar fixed rate debt was swapped into floating rates. At the year end, we also had commercial paper outstanding amounting to \$4,112 million.

Tax payable and receivable

Net income tax payables have increased due to tax audit provisions, less the settlement of tax on the disposal of the Humira™ royalty stream. Net deferred tax liabilities have increased primarily due to the acquisition of MedImmune and the recognition of deferred tax liabilities in respect of intangible assets.

Cash flow

We continue to be a cash-generative business. MedImmune has produced, and is forecast to continue to produce, revenue driven cash inflows, which are offset by interest costs. However, the cost of acquisition means that our funds and debt profile has changed. Although future operating cash flows may be affected by a number of factors as outlined in the Business Background section on page 78, we believe our cash and funding resources will be sufficient for our forecast requirements including launching new products, the restructuring programme, the first stage of the buy out of Merck's interests in 2008, debt servicing and repayment, shareholder returns and the ongoing capital programme.

Cash generated from operating activities was \$7,510 million in 2007, only slightly down on 2006 (\$7,693 million). The small decrease in operating profit was compensated for by an increase in non-cash items (\$638 million principally from unspent restructuring costs) and depreciation, amortisation and impairment (\$511 million). These compensating effects were offset by an increase in working capital

requirements of \$551 million and additional tax and interest payments (\$394 million and \$265 million respectively).

Net cash outflows from investing activities were \$14,887 million in 2007 compared to \$272 million in 2006. Excluding the higher returns from movements in short term investments and fixed deposits and net disposals of non-current asset investments (\$1,280 million in 2007 compared to \$1,171 million in 2006), interest received and dividends paid by subsidiaries, cash outflow from investing activities was \$16,516 million, compared to \$1,791 million in 2006. This increase in outflow was due primarily to the acquisition of MedImmune, Inc.; other acquisitions included Arrow Therapeutics Limited, Atlantis Components Inc. and Denics International Co. Ltd. Investment in intangible assets was at broadly similar levels to 2006, and there were significantly higher payments for property, plant and equipment through increased investment in facilities, particularly in research and development.

Cash returns to shareholders were \$6,811 million (through share re-purchases of \$4,170 million and dividend payments of \$2,641 million), compared to \$6,367 million in 2006. After taking into account proceeds from the issue of share capital of \$218 million (2006 \$985 million), net share re-purchases rose from \$3,162 million to \$3,952 million.

Net funds of \$6,537 million at the beginning of the year have become net debt of \$9,112 million by the end of the year.

Investments, divestments and capital expenditure

The major investment in the year was the acquisition of MedImmune, discussed separately below.

The other major company and product acquisitions in the year reflected our ongoing commitment to strengthening the product pipeline.

We completed the acquisition of Arrow Therapeutics Limited at a net cost of \$143 million, strengthening our portfolio of promising anti-infective treatments and providing a technology platform in an area of research that complements our capabilities in anti-bacterials. We paid \$34 million to acquire the paediatric asthma business of Verus Pharmaceuticals, Inc. which includes the North American rights to CyDex Captisol™-enabled budesonide solution and a proprietary albuterol formulation.

In the area of product acquisitions, we capitalised \$100 million in respect of the collaboration disclosed with Bristol-Myers Squibb (BMS) in respect of saxagliptin and dapagliflozin. A global licensing and research collaboration with Palatin Technologies Inc. to discover, develop and commercialise small molecule compounds that target melanocortin receptors for the treatment of obesity and related indications was entered into, with a \$10 million capitalised upfront payment. We have also entered a three-year research and development collaboration with Silence Therapeutics plc to discover and develop

NET FUNDS/(DEBT)		
	2007 \$m	2006 \$m
Brought forward at 1 January	6,537	5,402
Earnings before interest, tax, depreciation and amortisation	9,950	9,561
Movement in working capital	(443)	108
Tax paid	(2,563)	(2,169)
Interest paid	(335)	(70)
Other non-cash movements	901	263
Net cash available from operating activities	7,510	7,693
Available funds	14,047	13,095
Externalisation and other intangibles	(549)	(545)
Other capital expenditure	(1,076)	(759)
Acquisitions	(14,891)	(487)
Investments	(16,516)	(1,791)
Dividends	(2,641)	(2,220)
Net share re-purchases	(3,952)	(3,162)
Distributions	(6,593)	(5,382)
Other movements	(50)	615
Carried forward at 31 December	(9,112)	6,537

IN-LICENSING PAYMENTS

				Paid to date		Future possible payments	
	Equity purchased \$m	Upfront payments made \$m	Development paid \$m	Subtotal \$m	Additional milestones and other payables \$m	Total \$m	
2007							
Palatin Technologies	–	10	–	10	490	500	
Bristol-Myers Squibb	–	100	–	100	1,250	1,350	
Verus Pharmaceuticals	–	30	–	30	280	310	
2006							
Argenta Discovery	–	21	18	39	447	486	
Protherics	13	29	20	62	301	363	
POZEN	–	40	30	70	315	385	
Targacept	–	10	22	32	502	534	
Cubist	–	10	–	10	24	34	
Total	13	250	90	353	3,609	3,962	

proprietary siRNA molecules primarily in the respiratory field but with the option to extend into other disease areas. The initial access fee of \$5 million was capitalised as an intangible asset and the \$10 million equity investment was capitalised as a non-current asset investment.

In respect of ongoing collaborations, we have made further milestone payments of \$20 million in relation to the agreement with Protherics (upon the successful scale-up of the manufacturing process under the development and commercialisation agreement) and \$30 million under the agreement with POZEN (in relation to the execution of the revised agreement and recognition of successful proof of concept). We have also paid \$48 million for the last in a series of sales-based milestone payments in relation to *Zomig*.

Astra Tech acquired Atlantis Components Inc., with its specialist CAD/CAM technology used to design and manufacture customised dental implant abutments, for \$71 million and Denics International Co. Ltd, its Japanese distributor for \$5 million. Intangible assets of \$121 million have been recognised (with associated deferred tax liabilities of \$48 million).

In October, we decided, by mutual agreement, to end our collaboration with NPS Pharmaceuticals, Inc. to discover and develop drugs targeting metabotropic glutamate receptors (mGluRs). We have agreed to pay \$30 million to acquire NPS's assets relating to the collaboration.

Our recent focus on in-licensing opportunities with third parties has resulted in additional intangible assets on the balance sheet. Should any of these products fail in development, the associated intangibles will need to be written off. Our commitments under the major

collaboration programmes we have entered into over the past two years, should they be successful, can be summarised as above.

ACQUISITION OF MEDIMMUNE

Acquisition accounting

Following the acquisition of MedImmune, an exercise was undertaken to allocate the purchase price between the assets and liabilities acquired (including tangible assets, intangible assets and deferred tax) and goodwill, under IFRS 3 'Business Combinations'. In summary terms, the purchase price for outstanding shares of \$13.9 billion has been allocated between intangible assets of \$8.1 billion (including assets in respect of the *Synagis* and motavizumab RSV franchise, *FluMist*, *Ethylol* and products in development), goodwill of \$8.8 billion and net liabilities of \$3.0 billion. This allocation, based on strict accounting

requirements, does not allow for the separate recognition of valuable elements such as buyer specific synergies, potential additional indications for identified products or the premium attributable to a well established, highly regarded business in the innovative biologics market. Such elements are instead subsumed within goodwill, which is not amortised. This balance between goodwill and intangible assets results in an amortisation charge of approximately \$435 million per annum. The acquisition can be summarised as set out in the table below.

Synergies

At the time of the acquisition announcement, we identified synergy opportunities of towards \$500 million in annual benefits and plans are now in place to deliver annual synergies of around \$450 million in 2009 and over \$500 million in 2010.

ACQUISITION OF MEDIMMUNE

	\$m
Goodwill	8,757
Intangible assets	8,075
Property, plant and equipment	593
Other non-current assets	533
Current assets	1,554
Current liabilities	(287)
Non-current liabilities	(3,618)
Additional obligations related to convertible debt and share options	(1,724)
Total consideration for outstanding shares	13,883
Additional payments related to convertible debt, share options and other acquisition obligations	1,770
Total consideration	15,653
Less: cash acquired	979
Net cash outflow	14,674

FINANCIAL REVIEW CONTINUED

The savings represent the removal of duplication in all functional areas and the consequences of a comprehensive review of the capabilities and portfolios within the two organisations. In addition, certain capital expenditure planned before the acquisition will no longer be required, saving over \$500 million. The cost of implementation of the required programmes is expected to amount to approximately \$375 million and is discussed in more detail in the Restructuring and Synergy Costs section below.

We expect that the ongoing process of consolidating the MedImmune business into our existing business will be complex and time-consuming, and it is difficult to predict how long the process will last. The process may result in business disruptions, the loss of key employees, slower execution of work processes, compliance failures due to a change in applicable regulatory requirements and other issues. In addition, the operating model for MedImmune has potential strategic benefits; however, it may not be the most efficient structure for realising efficiencies. As a result, there can be no assurances that we will not encounter difficulties in consolidating the MedImmune business as contemplated or that the benefits expected, including anticipated synergies, will be realised.

RESTRUCTURING AND SYNERGY COSTS

During the year, we announced our intention to bring forward productivity initiatives to enhance the long-term efficiency of the business along with the synergies arising as a result of the acquisition of MedImmune. These initiatives are in addition to the programme to improve asset utilisation within our global supply chain announced at the end of 2006. Following the integration of MedImmune, we are now managing all these programmes on a combined basis. The restructuring and synergy costs are expected to be \$1,975 million, with estimated annual benefits of \$1,400 million targeted by 2010. As of 31 December 2007, the following have been charged to the income statement.

	\$m
Cost of sales	415
Research and development	73
Selling, general and administrative	478
Total	966

Of the total, \$243 million represents accelerated depreciation and other non-cash costs, and \$723 million represents cash costs. Over the same period, productivity initiative benefits of \$250 million and synergy benefits of \$50 million have been realised. Of the remaining \$1 billion

SUMMARY OF SHAREHOLDER DISTRIBUTIONS

	Shares re-purchased (million)	Cost \$m	Dividend per share \$	Total dividend cost \$m	Total shareholder distributions \$m
1999	4.4	183	0.700	1,242	1,425
2000	9.4	352	0.700	1,236	1,588
2001	23.5	1,080	0.700	1,225	2,305
2002	28.3	1,190	0.700	1,206	2,396
2003	27.2	1,154	0.795	1,350	2,504
2004	50.1	2,212	0.940	1,555	3,767
2005	67.7	3,001	1.300	2,068	5,069
2006	72.2	4,147	1.720	2,649	6,796
2007	79.9	4,170	1.870	2,740*	6,910*
Total	362.7	17,489	9.425	15,271	32,760

*Total dividend cost estimated based upon number of shares in issue at 31 December 2007.

of cost, we expect approximately two thirds to be incurred in 2008, with the balance in 2009 and 2010. Of the anticipated annual benefits of \$1,400 million by 2010, cumulatively two-thirds will be realised in 2008.

CAPITALISATION AND SHAREHOLDER RETURN

All data in this section are on an actual basis (unless noted otherwise).

Capitalisation

At 31 December 2007, the number of shares in issue was 1,457 million. During the year, 4.7 million shares were issued in consideration of share option plans and employee share plans for a total of \$218 million. Reserves increased by \$339 million due to the effect of exchange rate and tax movements offset by actuarial losses, net investment hedging losses of non-US dollar denominated debt, losses on cash flow hedges issued in anticipation of the debt issues and holding losses on available for sale investments.

Shareholders' equity decreased by a net \$526 million to \$14,778 million at the year end. Minority interests increased from \$112 million at 31 December 2006 to \$137 million at 31 December 2007.

Dividend and share re-purchases

During 2007, we returned \$6,811 million to shareholders through a mix of share re-purchases and dividends. We have re-purchased and cancelled 79.9 million shares in 2007 at a cost of \$4,170 million. As a result, the total number of shares re-purchased to date under the share re-purchase programmes begun in 1999 is 362.7 million (over 20% of our initial share capital post merger) at a cumulative cost of \$17,489 million.

The Board's distribution policy and its overall financial strategy is to strike a balance between the interests of the business, our shareholders and our financial creditors, whilst maintaining a strong investment grade credit rating. The Board expects to undertake share re-purchases in the region of \$1 billion in 2008, subject to business needs.

After investing fully in opportunities to strengthen the pipeline, the Board intends to continue its stated policy of growing dividends in line with earnings before restructuring and synergy costs (aiming to maintain at least two times dividend cover) whilst applying the balance of cash flow to debt servicing and repayment and share re-purchases. We paid the second interim dividend of \$1.23 in respect of 2006 on 19 March 2007 and a first interim dividend for 2007 on 17 September 2007 of \$0.52 per Ordinary Share. A second interim dividend for 2007 of \$1.35 per Ordinary Share has been declared, which the Annual General Meeting will be asked to confirm as the final dividend.

FUTURE PROSPECTS

In 2008, we aim to achieve constant currency sales growth in the low to mid-single digits. The uplift from the inclusion of a full year of sales contribution from MedImmune will be broadly offset by the expected sales decline from a full year of generic competition for *Toprol-XL* in the US market. This revenue growth, combined with continued realisation of the benefits of restructuring and synergies and disciplined management of gross margin and SG&A costs will enable continued investment in strengthening the pipeline, with expenditures in R&D expected to increase at a high single digit rate.

RATIOS			
As at and for the year ended 31 December	2007	2006	2005
Return on shareholders' equity (%)	37.2	41.8	33.6
Equity/assets ratio (%)	30.8	51.1	54.7
Average number of employees	67,900	66,600	64,900

SENSITIVITY ANALYSIS – 31 DECEMBER 2007					
	Market value 31 December 2007 \$m	Market value change favourable/(unfavourable)			
		Interest rate movement +1% \$m	-1% \$m	Exchange rate movement +10% \$m	-10% \$m
Cash and short term investments	5,927	–	–	(88)	88
Long term debt, net of interest and currency swaps	(11,119)	666	(779)	290	(290)
Foreign exchange forwards	(31)	–	–	(35)	35
Foreign exchange options	–	–	–	–	–
		666	(779)	167	(167)

SENSITIVITY ANALYSIS – 31 DECEMBER 2006					
	Market value 31 December 2006 \$m	Market value change favourable/(unfavourable)			
		Interest rate movement +1% \$m	-1% \$m	Exchange rate movement +10% \$m	-10% \$m
Cash and short term investments	7,662	–	–	(81)	81
Long term debt, net of interest and currency swaps	(1,060)	–	–	–	–
Foreign exchange forwards	45	–	–	(97)	97
Foreign exchange options	–	–	–	–	–
		–	–	(178)	178

FINANCIAL RISK MANAGEMENT POLICIES

Insurance

Our risk management processes are described in the Governance section under the heading 'Internal controls, risk management and Turnbull Report guidance' on page 42. An outcome of these processes is that they enable us to identify risks that can be partly or entirely mitigated through use of insurance or through self-insurance. We negotiate best available premium rates with insurance providers on the basis of our extensive risk management procedures. In the current insurance market, level of cover is decreasing whilst premium rates are increasing. Rather than simply paying higher premiums for lower cover, we focus our insurance resources on the most critical areas, or where there is a legal requirement, and where we can get best value for money. Risks to which we pay particular attention include business interruption, Directors' and Officers' liability and property damage.

Taxation

Tax risk management forms an integrated part of the Group risk management processes. Our tax strategy is to manage tax risks and tax costs in a manner consistent with shareholders' best long-term interests, taking into account both economic and reputational factors. We draw a distinction between

tax planning using artificial structures and optimising tax treatment of business transactions, and we only engage in the latter.

Treasury

Our financial policies covering the management of cash, borrowings and foreign exchange are intended to support our objective of maintaining shareholder value by managing and controlling our financial risks. Our treasury operations are conducted in accordance with policies and procedures approved by the Board. The treasury activities are managed centrally from London. Significantly all of our cash, short term investments and borrowings are managed directly from London where possible and practicable. With only limited and specifically approved exceptions, all currency and interest rate hedging is conducted from London. Operating units benefit from local currency billing, which has the effect of consolidating their foreign exchange exposures to central treasury.

Liquidity risk

The debt-financed acquisition of MedImmune during the year resulted in a change to the financial risks faced by the Group, including exposure to liquidity risk. The Group initially funded the acquisition through drawing on a \$15 billion 364 day loan facility, which was re-financed with short-term US commercial

paper. The majority of the commercial paper was subsequently re-financed into longer-term debt through capital market issuances. The \$15 billion facility was gradually reduced throughout the year and then finally replaced by a series of new bilateral agreements making up in total \$1.8 billion of 364 day facilities, expiring on 24 October 2008 but with a 12 month term-out option, and \$3.35 billion of five year facilities. The Board approved the financing and risk management policy and parameters in July and delegated the execution, within these approved parameters, to the Chief Executive Officer, supported by a Treasury Committee. The Treasury Committee included the Group Financial Controller, Group Treasurer and Company Secretary.

The management of our liquid assets and debt balances are co-ordinated and controlled centrally by our treasury operations. We have significant positive cash flows and the liquidity of major subsidiaries is co-ordinated in cash pools and concentrated daily in London. The Group manages liquidity risk by maintaining access to a number of sources of funding, which are sufficient to meet anticipated funding requirements. Specifically, the Group uses US commercial paper, bank facilities and cash resources to manage short-term liquidity and manages long-term liquidity by raising funds through the capital markets.

FINANCIAL REVIEW CONTINUED

In addition to cash balances (comprising fixed deposits, cash and cash equivalents less overdrafts) of \$5,787 million, the Group has committed bank facilities of \$5.15 billion, a \$15 billion US commercial paper programme, a \$5 billion euro medium term note (EMTN) programme and an uncapped SEC-registered shelf debt programme available to manage liquidity. As at 31 December 2007, the Group has issued \$2,889 million under the EMTN programme, \$7,764 million under the SEC-registered shelf programme, \$323 million under a previous SEC-registered programme and has \$4,112 million of commercial paper outstanding. The committed facilities were undrawn as at 31 December 2007.

The Board reviews the Group's ongoing liquidity risks annually as part of the planning process. The Board considers short-term requirements against available sources of funding taking into account cash flow. In addition, this year the Board reviewed liquidity requirements as part of its consideration of the acquisition of MedImmune, and, at the January 2008 meeting, assessed the impact of the likely payments under the Merck termination agreement in March 2008.

Foreign exchange

The Group results are reported in US dollars, our most significant currency. In addition, surplus cash generated by the business is converted to and held centrally in US dollars. We therefore manage our currency exposures against the US dollar.

Approximately 54% of our external sales in 2007 were denominated in currencies other than the US dollar, with the euro being the main contributor and a significant proportion of our manufacturing and R&D costs were denominated in sterling or Swedish krona. Accordingly, the impact on reported earnings from a weakening in the US dollar would be to increase both sales and costs, with the net result on earnings dependent on the relative size of the exchange rate movements against the US dollar.

We manage our currency exposures centrally, based on forecast future cash flows of our major currencies. The major currencies to which we are exposed (Swedish krona, euro and sterling) have typically tended to move in a similar direction against the US dollar, mitigating significantly the impact of exchange rate movements. Accordingly, we monitor this relationship closely and we will only consider hedging if we anticipate or experience a significant breakdown in this relationship. Any such hedging activity is subject to strict internal approval procedures. We do not,

as a matter of policy, engage in speculative transactions. The Group will hold debt in non-US dollar currencies where there is an underlying net investment in the same currency. As at 31 December 2007, 4.6% of interest bearing loans and borrowings were denominated in sterling and 14.5% of interest bearing loans and borrowings were denominated in euros.

Transaction exposures arising where local subsidiaries make sales or purchases in non-local currencies are, where practicable, fully hedged using forward foreign exchange contracts.

Interest rate risk

Prior to the debt-financed acquisition of MedImmune, the Group's policy was to match the interest rate exposure on the Group's gross debt balance with that arising on the surplus cash position using interest rate swaps. With the move to a net debt position and the subsequent refinancing of short-term debt, a significant portion of the new debt has been held at fixed rates of interest. The balance remains at floating rates, including \$1.5 billion of the new fixed rate debt that has been swapped to floating, which is achieved through the underlying basis of the funding or through the use of interest rate swaps. The portion of fixed rate debt was approved by the Board and any variation requires Board approval.

The majority of the Group's cash balances are held with third party fund managers who return a target yield referenced to seven day US dollar LIBID. In addition to interest rate swaps, the Group uses forward rate agreements to manage any short term timing difference between the swapped debt interest expense and cash interest income.

Credit exposure

Exposure to financial counterparty credit risk is controlled by the treasury team centrally in establishing and monitoring counterparty limits. Centrally managed funds are invested almost entirely with counterparties whose credit rating is 'A' or better. External fund managers who manage \$4,368 million of the Group's cash are rated AAA by Standard & Poor's. There were no other significant concentrations of credit risk at the balance sheet date. All financial instruments are transacted with commercial banks, in line with standard market practice and are not backed with cash collateral. Trade receivable exposures are managed locally in the operating units where they arise. The Group is exposed to customers ranging from government-backed agencies and large private wholesalers to privately owned pharmacies, and the

underlying local economic and sovereign risks vary throughout the world. Where appropriate, the Group endeavours to minimise risks by the use of trade finance instruments such as letters of credit and insurance.

Sensitivity analysis

The sensitivity analysis, set out in this review on page 85, summarises the sensitivity of the market value of our financial instruments to hypothetical changes in market rates and prices. Changes to the value of the financial instruments are normally offset by our underlying transactions or assets and liabilities. The range of variables chosen for the sensitivity analysis reflects our view of changes that are reasonably possible over a one year period. Market values are the present value of future cash flows based on market rates and prices at the valuation date. Market values for interest rate risk are calculated using third party systems that model the present value of the instruments based on the market conditions at the valuation date. For long term debt, an increase in interest rates results in a decline in the fair value of debt.

The interest rate sensitivity analysis on page 85 assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2007, with all other variables held constant. The exchange rate sensitivity analysis on page 85 assumes an instantaneous 10% change in foreign currency exchange rates from their levels at 31 December 2007, with all other variables held constant. The +10% case assumes a 10% strengthening of the US dollar against all other currencies and the -10% case assumes a 10% weakening of the US dollar.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (adopted IFRS) and as issued by the International Accounting Standards Board and the accounting policies employed are set out under the heading 'Financial Statements – Accounting Policies' on pages 121 to 123. In applying these policies, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. The actual outcome could differ from those estimates. Some of these policies require a high level of judgement, either because the areas are especially subjective or complex. We believe that the most critical accounting policies and significant areas of judgement and estimation are in revenue recognition, research and development,

goodwill and intangible assets, provisions for contingent liabilities, post-retirement benefits, taxation and share-based compensation.

Revenue recognition

Revenue represents sales of products to external third parties and excludes inter-company income and value added taxes. We also receive income from royalties and from disposals of intellectual property, brands and product lines which are included in other operating income.

Sales of products to third parties: Sales revenue is recorded at the invoiced amount (excluding sales and value added taxes) less estimated accruals for product returns and rebates given to managed care and other customers – a particular feature in the US. Cash discounts for prompt payment are also deducted from sales. Revenue is recognised at the point of delivery, which is usually when title passes to the customer either on shipment or on receipt of goods by the customer depending on local trading terms.

At the time of invoicing sales in the US, rebates and deductions that we expect to pay, generally over the following six to nine months, are estimated. These rebates typically arise from sales contracts with third party managed care organisations, hospitals, long-term care facilities, group purchasing organisations and various state programmes (Medicaid 'best price' contracts, supplemental rebates etc) and can be classified as follows:

- > Chargebacks, where we enter into arrangements under which certain parties, typically hospitals, the Department of Veterans Affairs and the Department of Defense, are able to buy products from wholesalers at the lower prices we have contracted with them. The chargeback is the difference between the price we invoice to the wholesaler and the contracted price charged by the wholesaler. Chargebacks are paid directly to the wholesalers.
- > Regulatory, including Medicaid and other federal and state programmes, where we pay rebates based on the specific terms of agreements in individual states which include product usage and information on best prices and average market prices.
- > Contractual, under which entities such as third party managed care organisations, long-term care facilities and group purchasing organisations are entitled to rebates depending on specified performance provisions, which vary from contract to contract.

Accrual assumptions are built up on a product-by-product and customer-by-customer basis taking into account specific contract provisions coupled with expected performance and are then aggregated into a weighted average rebate accrual rate for each of our products. Accrual rates are reviewed and adjusted on a monthly basis. There may be further adjustments when actual rebates are paid after the initial sale based on utilisation information submitted to us (in the case of contractual rebates) and claims/invoices (in the case of regulatory rebates and chargebacks). We believe that we have been reasonable in our estimates for future rebates using a similar methodology to that of previous years. Inevitably, however, such estimates involve judgements on aggregate future sales levels, segment mix and the respective customer contractual performance.

Cash discounts are offered to customers to encourage prompt payment. Accruals are calculated based on historical experience and are adjusted to reflect actual experience.

Industry practice in the US allows wholesalers and pharmacies to return unused stocks within six months of, and up to 12 months after, shelf-life expiry. At point of sale, we estimate the quantity and value of goods which may ultimately be returned. Our returns accruals are based on actual experience over the preceding 12 months for established products together with market related information such as estimated stock levels at wholesalers and competitor activity. For newly launched products, we use rates based on our experience with similar products or a pre-determined percentage. For products facing generic competition (such as *Toprol-XL* in the US) our experience is that we usually lose the ability to estimate the levels of returns from wholesalers with the same degree of precision that we can for products still subject to patent protection. This is because we have limited or no insight into a number of areas – the actual timing of the launch of a generic competitor following regulatory approval of the generic product (for example, a generic manufacturer may or may not have produced adequate pre-launch inventory), the pricing and marketing strategy of the competitor, the take-up of the generic and (in cases where a generic manufacturer has approval to launch just one dose size in a market of several dose sizes) the likely level of switching from one dose to another. Under our accounting policy revenue is only recognised when the amount of the revenue can be measured reliably. Our approach in meeting this condition for products facing generic competition will vary from product to product depending on the

specific circumstances; in the case of *Toprol-XL* (the only product affected in the years under review), which faced competition from several generic manufacturers from the time of launch of the first generic in 2006, we believed that revenue from all doses in the US could only be measured reliably on writing of the ultimate prescription (at which point the right of return is extinguished). Accordingly, the point of delivery is the point at which the prescription has been written. Overall, we believe that our estimates are reasonable.

The effects of these deductions on our US pharmaceuticals turnover, and the movements on accruals, are set out in the tables on page 88.

The adjustments in respect of prior years benefited reported US pharmaceuticals turnover by 1.9% and 0.4% in 2005 and 2006 respectively and decreased turnover by 0.4% in 2007. However, taking account of the following year's reversal the net impact on 2006 and 2007 was a 1.3% and a 0.8% overstatement of US pharmaceuticals turnover, respectively.

The increase in contractual rebates in 2007 was driven by the introduction into the US market of generic omeprazole, with resultant price impacts on *Nexium*.

Regulatory rebates decreased by \$341 million in 2006 compared to 2005, as a result of the automatic switch of those patients in state Medicaid programmes into Medicare Part D, classified as a contractual rebate. Contractual rebates increased by \$1,212 million compared to 2005, partly as a result of this switch, and also due to volume growth.

A further factor that significantly influenced our sales in the US market prior to 2004 was wholesaler buying patterns. Wholesalers could place orders that were significantly larger than their normal levels of demand ahead of anticipated price increases or would seek to build up or run down their stock levels for other reasons. Such speculative purchases made forecasting sales patterns more difficult and could drive variances between reported and underlying demand at quarter end. In December 2003 we entered into Inventory Management Agreements to reduce the opportunity for such speculative purchases. In 2005 we replaced the Inventory Management Agreements with Distribution Service Agreements, which served to reduce even further the speculative purchasing behaviour of the wholesalers. As a result, we believe inventory movements have been neutral across the year. We continue to track

FINANCIAL REVIEW CONTINUED

	2007 \$m	2006 \$m	2005 \$m
Gross sales	18,456	16,577	14,013
Chargebacks	(1,130)	(975)	(905)
Regulatory – US government and state programmes	(732)	(532)	(873)
Contractual – Managed care and group purchasing organisation rebates	(3,179)	(2,413)	(1,201)
Cash and other discounts	(356)	(329)	(405)
Customer returns	(18)	(46)	14
Other	(145)	(256)	(244)
Net sales	12,896	12,026	10,399

	Brought forward 1 January 2005 \$m	Provision for current year \$m	Adjustment in respect of prior years \$m	Returns and payments \$m	Carried forward at 31 December 2005 \$m
Chargebacks	118	927	(22)	(838)	185
Regulatory – US government and state programmes	493	970	(97)	(765)	601
Contractual – Managed care and group purchasing organisation rebates	490	1,284	(83)	(1,271)	420
Cash and other discounts	23	405	–	(401)	27
Customer returns	282	(14)	–	(101)	167
Other	80	244	–	(270)	54
	1,486	3,816	(202)	(3,646)	1,454

	Brought forward 1 January 2006 \$m	Provision for current year \$m	Adjustment in respect of prior years \$m	Returns and payments \$m	Carried forward at 31 December 2006 \$m
Chargebacks	185	1,001	(26)	(1,068)	92
Regulatory – US government and state programmes	601	597	(65)	(819)	314
Contractual – Managed care and group purchasing organisation rebates	420	2,367	46	(2,198)	635
Cash and other discounts	27	329	–	(327)	29
Customer returns	167	46	–	(53)	160
Other	54	256	–	(263)	47
	1,454	4,596	(45)	(4,728)	1,277

	Brought forward 1 January 2007 \$m	Addition in respect of MedImmune \$m	Provision for current year \$m	Adjustment in respect of prior years \$m	Returns and payments \$m	Carried forward at 31 December 2007 \$m
Chargebacks	92	2	1,115	15	(1,038)	186
Regulatory – US government and state programmes	314	69	769	(37)	(687)	428
Contractual – Managed care and group purchasing organisation rebates	635	5	3,100	79	(2,919)	900
Cash and other discounts	29	1	356	–	(348)	38
Customer returns	160	1	19	(1)	(94)	85
Other	47	–	153	–	(147)	53
	1,277	78	5,512	56	(5,233)	1,690

wholesaler stock levels by product, using our own, third party and wholesaler data and, where we believe such distortions occur, we disclose in the Annual Report for each product and in aggregate where shipments may be out of line with underlying prescription trends. We do not offer any incentives to encourage wholesaler speculative buying and attempt, where possible, to restrict shipments to underlying demand when such speculation occurs.

- > Royalty income: Royalty income is recorded under other operating income in the Financial Statements. Royalties tend to be linked to levels of sales or production by a third party. At the time of preparing the Financial Statements, we may have to estimate the third party's sales or production when arriving at the royalty income to be included. These estimates, which may differ from actual sales or production, do not result in a material impact on reported other operating income.
- > Sales of intangible assets (such as intellectual property, brands and product lines): A consequence of charging all internal R&D expenditure to the income statement in the year that it is incurred (which is normal practice in the pharmaceutical industry) is that we own valuable intangible assets which are not recorded on the balance sheet. We also own acquired intangible assets which are included on the balance sheet. As a consequence of regular reviews of product strategy, from time to time we sell such assets and generate income. Sales of product lines are often accompanied by an agreement on our part to continue manufacturing the relevant product for a reasonable period (often about two years) whilst the purchaser constructs its own manufacturing facilities. The contracts typically involve the receipt of an upfront payment, which the contract attributes to the sale of the intangible assets, and ongoing receipts, which the contract attributes to the sale of the product we manufacture. In cases where the transaction has two or more components, we account for the delivered item (for example, the transfer of title to the intangible asset) as a separate unit of accounting and record revenue on delivery of that component provided that we can make a reasonable estimate of the fair value of the undelivered component. Where the fair market value of the undelivered

component (for example, a manufacturing agreement) exceeds the contracted price for that component we defer an appropriate element of the upfront consideration and amortise this over the performance period. However, where the fair market value of the undelivered component is equal to or lower than the contracted price for that component we treat the whole of the upfront amount as being attributable to the delivered intangible assets and recognise that part of the revenue upon delivery. No element of the contracted revenue related to the undelivered component is allocated to the sale of the intangible asset. This is because the contracted revenue relating to the undelivered component is contingent on future events (such as sales) and so cannot be anticipated.

Research and development

Our business is underpinned by our marketed products and development portfolio. The R&D expenditure on internal activities to generate these products is generally charged to the income statement in the year that it is incurred. Purchases of intellectual property and product rights to supplement our R&D portfolio are capitalised as intangible assets. Such intangible assets are amortised from the launch of the underlying products and are tested for impairment both before and after launch. This policy is in line with practice adopted by major pharmaceutical companies.

Goodwill and intangible assets

We have significant investments in goodwill and intangible assets as a result of acquisitions of businesses and purchases of such assets as product development and marketing rights. Under adopted IFRS, goodwill is held at cost and tested annually for impairment, whilst intangibles are amortised over their estimated useful lives. Changes in these lives would result in different effects on the income statement. We estimate that a one year reduction in the estimated useful lives of intangible assets would increase the annual amortisation charge by \$54 million. The majority of our investments in intangible assets and goodwill arose from the restructuring of the Astra-Merck joint venture in 1998 and the acquisition of MedImmune in 2007, and we are satisfied that the carrying values are fully justified by estimated future earnings. Intangible assets are reviewed for impairment where there are indications that their carrying values may not be recoverable, and any impairments are charged to the income statement. Tests for impairment are based on discounted cash

flow projections, which require us to estimate both future cash flows and an appropriate discount rate. Such estimates are inherently subjective. Impairments to intangible assets totalling \$120 million were recognised in 2007 (2006 \$17 million, 2005 nil).

Contingent liabilities and commitments

In the normal course of business, contingent liabilities may arise from product-specific and general legal proceedings, from guarantees or from environmental liabilities connected with our current or former sites. Where we believe that potential liabilities have a low probability of crystallising or are very difficult to quantify reliably, we treat them as contingent liabilities. These are not provided for but are disclosed in the notes. Further details of these contingent liabilities are set out in Note 27 to the Financial Statements. Although there can be no assurance regarding the outcome of legal proceedings, we do not currently expect them to have a materially adverse effect on our financial position. We also have significant commitments that are not currently recognised in the balance sheet arising from our relationship with Merck. These are described more fully in 'Off-balance sheet transactions, contingent liabilities and commitments' below.

Post-employment benefits

We account for the pension costs relating to the retirement plans under IAS19 'Employee Benefits'. In applying IAS19, we have adopted the option of recognising actuarial gains and losses in full through reserves. In all cases, the pension costs are assessed in accordance with the advice of independent qualified actuaries but require the exercise of significant judgement in relation to assumptions for future salary and pension increases, long term price inflation and investment returns.

Taxation

Accruals for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in creditors due within one year. Any recorded exposure to interest on tax liabilities is provided for in the tax charge.

FINANCIAL REVIEW CONTINUED

Share-based compensation

Through the Remuneration Committee we offer share and share option plans to certain employees as part of their compensation and benefits packages, designed to improve alignment of the interests of employees with shareholders. Details of these are given in Note 26 to the Financial Statements. The charges have been calculated principally using the Black-Scholes model as a valuation basis.

OFF-BALANCE SHEET TRANSACTIONS, CONTINGENT LIABILITIES AND COMMITMENTS

Details of our contingent liabilities and commitments are set out in Note 27 to the Financial Statements. We have no off-balance sheet arrangements and our derivative activities are non-speculative. The table on page 92 sets out our minimum contractual obligations at the year end.

Arrangements with Merck**Introduction**

In 1982, Astra AB set up a joint venture with Merck & Co., Inc. for the purposes of selling, marketing and distributing certain Astra products in the US. In 1998, this joint venture was restructured (the "Restructuring"). Under the agreements relating to the Restructuring (the "Agreements"), a US limited partnership was formed, in which Merck is the limited partner and we are the general partner, and we obtained control of the joint venture's business subject to certain limited partner and other rights held by Merck and its affiliates. These rights provide Merck with safeguards over the activities of the partnership and place limitations on our commercial freedom to operate. The Agreements provide for:

- > Annual contingent payments.
- > A payment to Merck in the event of a business combination between Astra and a third party in order for Merck to relinquish certain claims to that third party's products.
- > Termination arrangements which, if and when triggered, cause Merck to relinquish its interests in our products and activities.

These elements are discussed in further detail below together with a summary of their accounting treatments.

Annual contingent payments

We make ongoing payments to Merck based on sales of certain of our products in the US (the "contingent payments" on the "agreement products"). As a result of the merger of Astra and Zeneca in 1999, these contingent payments (excluding those in respect of *Prilosec* and

Nexium) cannot be less than annual minimum sums between 2002 and 2007 ranging from \$125 million to \$225 million. Our payments have exceeded the minimum levels in all years.

Payment in the event of a business combination

On the merger of Astra and Zeneca, a one-time Lump Sum Payment of \$809 million was triggered. As a result of this payment, Merck relinquished any claims it may have had to Zeneca products.

Termination arrangements

The Agreements provided for arrangements and payments under which, subject to the exercise of certain options, the rights and interests in our activities and products held by Merck immediately prior to the merger would be terminated, including details of:

- > The Advance Payment.
- > The Partial Retirement.
- > The First Option and True-Up.
- > The Loan Note Receivable.
- > The Second Option.

Advance Payment

The merger between Astra and Zeneca triggered the first step in the termination arrangements. Merck relinquished all rights, including contingent payments on future sales, to potential Astra products with no existing or pending US patents at the time of the merger. As a result, we now have rights to such products and are relieved of potential obligations to Merck and restrictions in respect of those products (including annual contingent payments), affording us substantial freedom to exploit the products as we see fit.

At the time of the merger, the Advance Payment was paid. It was calculated as the then net present value of \$2.8 billion discounted from 2008 to the date of merger at a rate of 13% per annum and amounted to \$967 million. It is subject to a true-up in 2008, as discussed under 'First Option and True-Up' below.

Partial Retirement

In March 2008, there will be a partial retirement of Merck's limited partnership interest by payment to Merck of an amount calculated as a multiple of the average annual contingent payments from 2005 to 2007 on the relevant products, plus \$750 million. See 'General' below for our current estimate of the amount of this payment.

Upon the Partial Retirement, Merck's rights in respect of certain of the agreement products will end. The products covered by the Partial Retirement include *Toprol-XL*, *Pulmicort*, *Rhinocort* and *Symbicort*.

First Option and True-Up

In 2008, a calculation will be made of the Appraised Value, being the net present value of the future contingent payments in respect of all agreement products not covered by the Partial Retirement, other than *Prilosec* and *Nexium*. Payment of the Appraised Value to Merck in March 2008 will take place only if Merck exercises the First Option. Should Merck not exercise this option in 2008, we may exercise it in 2010 for a sum equal to the 2008 Appraised Value. See 'General' below for our current estimate of the amount of this payment.

Contingent payments will continue from 2008 to 2010 if we exercise in 2010.

Upon exercise of the First Option, Merck will relinquish its rights over the agreement products not covered by the Partial Retirement, other than *Nexium* and *Prilosec*. If neither Merck nor we exercise the option, the contingent payment arrangements in respect of these agreement products will continue (as will our other obligations and restrictions in respect of these products) and the Appraised Value will not be paid. Products covered by the First Option include *Atacand*, *Plendil*, *Entocort* and certain compounds still in development.

In addition, in 2008 there will be a true-up of the Advance Payment. The true-up amount will be based on a multiple of the average annual contingent payments from 2005 to 2007 in respect of all the agreement products with the exception of *Prilosec* and *Nexium* (subject to a minimum of \$6.6 billion), plus other defined amounts (totalling \$912 million). It is then reduced by the Appraised Value (whether paid or not), the Partial Retirement and the Advance Payment (at its undiscounted amount of \$2.8 billion) to determine the true-up amount. The true-up will be settled in 2008 irrespective of whether the First Option is exercised, and this could result in a further payment by us to Merck or a payment by Merck to us. See 'General' below for our current estimate of the amount of this payment.

Should Merck exercise the First Option in 2008, we will make payments in respect of the Partial Retirement, the First Option and the true-up totalling a minimum of \$4.7 billion. If we exercise the First Option in 2010, the combined effect of the amounts paid to Merck in 2008 and 2010 will total the same amount.

Loan Note Receivable

Included in the assets and liabilities covered by the Restructuring is a loan note receivable by us from Merck with a face value of \$1.4 billion. In 2008, at the same time as

the settlement of the Partial Retirement and the true-up, Merck will settle the loan note receivable by paying us \$1.4 billion.

Second Option

A Second Option exists whereby we have the option to re-purchase Merck's interests in *Prilosec* and *Nexium* in the US. This option is exercisable by us two years after the exercise of the First Option, whether the First Option is exercised in either 2008 or 2010. Exercise of the Second Option by us at a later date is also provided for in 2017 or if combined annual sales of the two products fall below a minimum amount provided, in each case, that the First Option has been exercised. The exercise price for the Second Option is the net present value of the future annual contingent payments on *Prilosec* and *Nexium* as determined at the time of exercise.

If the Second Option is exercised, Merck will then have relinquished all its interests in the partnership and the agreement products including rights to contingent payments.

General

The precise timing and amount of settlements with Merck under the Partial Retirement, the First Option and the true-up cannot be determined at the date of this review. For example, the payment of the First Option is contingent upon Merck (or us) exercising the First Option. Similarly, the timing and amount of the Second Option cannot be determined at this time as the amount of the true-up, the Partial Retirement and the Appraised Value have been estimated but are subject to finalisation. However, the total payments in respect of the Partial Retirement, the true-up and the First Option will not exceed the minimum of \$4.7 billion referred to above should the First Option be exercised. We estimate the amount of the Partial Retirement will be approximately \$4.3 billion, the amount of the Appraised Value will be approximately \$0.6 billion and the amount of the true-up (a payment from Merck to us) will be approximately \$0.2 billion.

If Merck were to exercise the First Option in 2008, the net minimum payment to be made to Merck, being the combined payments of \$4.7 billion less the repayment of the loan note of \$1.4 billion, would be \$3.3 billion. In accounting for the Restructuring in 1998, the loan note was included in the determination of the fair values of the assets and liabilities that were acquired. At that time, the loan note was ascribed a fair value of zero on acquisition and on the balance sheet because we estimated that the net minimum payment of \$3.3 billion equated to the fair value of

the rights to be acquired under the Partial Retirement, true-up and First Option.

We anticipate that the benefits that accrue to us under all the termination arrangements arise:

- > Currently, from the substantial freedom over products acquired or discovered post-merger.
- > On occurrence of each stage of such arrangements, from enhanced contributions from, and substantial freedom over, those products that have already been launched (for example, *Pulmicort*, *Symbicort*, *Rhinocort* and *Atacand*) and those that are in development.

Economic benefits include relief from contingent payments, anticipated cost savings from cessation of manufacturing arrangements and other cost efficiencies together with the strategic advantages of increased freedom to operate.

Accounting treatments

Annual contingent payments

The annual contingent payments on agreement products are expensed as incurred.

Payment in the event of a business combination

The Lump Sum Payment was expensed at the point of merger since it caused no incremental benefits over the prior years' aggregate Astra and Zeneca performance to accrue to the merged AstraZeneca entity.

Termination arrangements

We consider that the termination arrangements described above represent the acquisition, in stages, of Merck's interests in the partnership and agreement products (including their rights to contingent payments) and depend, in part, on the exercise of the First and Second Options. The effects will only be reflected in the Financial Statements as these stages are reached. If and when all such payments are made, we will have unencumbered discretion in our operations in the US market.

The Advance Payment has been accounted for as an intangible asset and is being amortised over 20 years. This approach reflects the fact that, under the Agreements, we have acquired rights relieving us of potential obligations and restrictions in respect of Astra products with no existing or pending patents at the time of merger. Although these rights apply in perpetuity, the period of amortisation of 20 years has been chosen to reflect the typical timescale of development and marketing of a product.

The net payments we expect to make in 2008 (\$2.7 billion, or \$3.3 billion if Merck exercises the First Option) will be capitalised as intangible assets representing acquired product rights.

The economic benefits that attach to these acquired product rights range from (a) relief from the obligation to make future contingent payments on agreement products (other than *Nexium* and *Prilosec*) to (b) the ability to pursue value-adding opportunities to fully exploit our resources and products within our Gastrointestinal, Cardiovascular, Neuroscience and Respiratory therapy area portfolios. The intangible assets will therefore be amortised over a variety of lives to reflect the periods over which we expect to receive these economic benefits. For instance, intangible assets relating to relief from contingent payments will be amortised over the expected sales lives of the products concerned whereas assets relating to the ability to fully exploit our product portfolios will be amortised over 20 years, a period which reflects the typical timescale of developing and marketing a product.

The intangible assets will be subject to impairment testing and would be impaired if a product is withdrawn or if activity in any of the affected therapy areas is significantly curtailed. Similarly, because payment for the assets relating to the ability to fully exploit our product portfolios are made through the Partial Retirement and true-up whilst certain benefits arise at the time of settlement of the First and Second Options, some of these payments will be held as non-refundable deposits. Should either the First Option or the Second Option not be exercised, all or some of these latter payments will be expensed immediately.

Our ongoing monitoring of the projected payments to Merck and the value to us of the related rights takes full account of changing business circumstances and the range of possible outcomes to ensure that the payments to be made to Merck are covered by the economic benefits expected to be realised, including those attributable to the strategic benefits of being relieved from some or all of the restrictions of the partnership with Merck. Should our monitoring reveal that these payments exceed the economic benefits expected to be realised, we would recognise a provision for an onerous contract.

Taxation

We face a number of transfer pricing audits in jurisdictions around the world and, in some cases, are in dispute with the tax authorities. The issues under discussion are often complex and can require many years to resolve.

FINANCIAL REVIEW CONTINUED

CONTRACTUAL OBLIGATIONS

Payments due by period	Less than 1 year \$m	1-3 years \$m	3-5 years \$m	Over 5 years \$m	Total \$m
Bank loans and other borrowings	4,892	2,924	2,773	13,228	23,817
Operating leases	103	118	77	184	482
Merck arrangements	4,677	–	–	–	4,677
Other	571	–	–	–	571
Total	10,243	3,042	2,850	13,412	29,547

Accruals for tax contingencies require us to make estimates and judgements with respect to the ultimate outcome of a tax audit, and actual results could vary from these estimates. The international tax environment presents increasingly challenging dynamics for the resolution of transfer pricing disputes. These disputes usually result in taxable profits being increased in one territory and correspondingly decreased in another. Our balance sheet positions for these matters reflect appropriate corresponding relief in the territories affected. We consider that at present such corresponding relief will be available but, given the challenges in the international tax environment, will keep this aspect under careful review. The total net accrual included in the financial statements to cover the worldwide exposure to transfer pricing audits is \$1,322 million, an increase of \$327 million due to a number of new audits, revisions of estimates relating to existing audits, offset by a number of negotiated settlements. For transfer pricing audits where we are in dispute with the tax authorities, we estimate the potential for reasonably possible additional losses above and beyond the amount provided to be up to \$400 million; however, we believe that it is unlikely that these additional losses will arise. Of the remaining tax exposures, we do not expect material additional losses. It is not possible to estimate the timing of tax cash flows in relation to each outcome; however, it is anticipated that a number of significant disputes may be resolved over the next one to two years.

POST-EMPLOYMENT BENEFITS

We offer post-retirement benefit plans which cover many of our employees around the world. In keeping with local terms and conditions, most of these plans are defined contribution in nature where the resulting income statement charge is fixed at a set level or is a set percentage of employees' pay. However, several plans, mainly in the UK (which has by far the largest single scheme), the US and Sweden, are defined benefit plans where benefits are based on employees' length of service and final salary (typically averaged over one, three or five years). The UK and US defined benefit schemes were closed to new entrants

in 2000. All new employees in these countries are offered defined contribution schemes.

In applying IAS 19 'Employee Benefits', we recognise all actuarial gains and losses immediately through reserves. This methodology results in a less volatile income statement charge than under the alternative approach of recognising actuarial gains and losses over time. Investment decisions in respect of defined benefit schemes are based on underlying actuarial and economic circumstances with the intention of ensuring that the schemes have sufficient assets to meet liabilities as they fall due, rather than meeting accounting requirements. The trustees follow a strategy of awarding mandates to specialist, active investment managers which results in a broad diversification of investment styles and asset classes. The investment approach is intended to produce less volatility in the plan asset returns.

The overall recognised deficit in the Group's defined benefit schemes increased from \$1,842 million at 31 December 2006 to \$1,998 million at 31 December 2007. This was principally due to net actuarial losses (gains from changes in obligation assumptions, offset by experience losses on assets and obligations) and exchange. In assessing the discount rate applied to the obligations, we have used rates on AA corporate bonds with durations corresponding to the maturities of those obligations. At the last full actuarial valuation at 31 March 2006, the market value of the UK fund's assets was £3,070 million, representing a solvency ratio of 97% on the fund's liabilities.

INTERNATIONAL ACCOUNTING TRANSITION

On transition to using adopted IFRS in the year ended 31 December 2005, we took advantage of several optional exemptions available in IFRS 1 'First-time Adoption of International Financial Reporting Standards' and we discuss the major effects below.

> Business combinations – IFRS 3 'Business Combinations' has been applied from 1 January 2003, the date of transition, rather than being applied fully retrospectively.

As a result, the combination of Astra and Zeneca is still accounted for as a merger, rather than through purchase accounting. If purchase accounting had been adopted, Zeneca would have been deemed to have acquired Astra. Under this scenario the purchase costs of Astra would have been \$34 billion. Intangible assets amounting to approximately \$12 billion would have been recognised and property, plant and equipment would have been fair valued upwards by about \$288 million offset by deferred tax amounting to \$4 billion. Goodwill of \$15 billion would have arisen. The recognition of intangible assets and higher property, plant and equipment would have resulted in increased amortisation and depreciation charges to income, net of tax, of approximately \$1 billion in 2007.

- > Employee benefits – the provisions of IAS 19 have been applied from the date of transition when the full actuarial deficit was recognised as opposed to being applied retrospectively. Since we have adopted the amendment to IAS 19 allowing actuarial gains and losses to be recognised immediately directly in equity, the adoption of this exemption makes no difference to our reported results or net assets.
- > Cumulative exchange differences – we have chosen to set the cumulative exchange difference reserve at 1 January 2003 to zero.

NEW ACCOUNTING STANDARDS

New International Financial Reporting Standards which have been issued (both adopted and not yet adopted) are discussed on pages 121 and 123 (Accounting Policies).

SARBANES-OXLEY ACT SECTION 404

As a consequence of our listing on the New York Stock Exchange, AstraZeneca is required to comply with those provisions of the US Sarbanes-Oxley Act applicable to foreign issuers. Section 404 of this legislation requires companies annually to assess and make public statements about the quality and effectiveness of their internal control over financial reporting.

Our approach to the assessment has been to select key transaction and financial reporting processes in our largest operating units and a number of specialist areas such as financial consolidation and reporting, treasury operations and taxation so that, in aggregate, we have covered a significant proportion of each of the key line items in our Financial Statements. Each of these operating units and specialist areas has ensured that its relevant processes and controls are documented to appropriate standards, taking into account, in particular, the guidance provided by the Securities and Exchange Commission. We have also reviewed

the structure and operation of our 'entity level' control environment. This refers to the overarching control environment, including structure of reviews, checks and balances that are essential to the management of a well controlled business.

The Directors have concluded that our internal control over financial reporting is effective as at 31 December 2007 and the assessment is set out on page 116. KPMG Audit Plc have audited the effectiveness of internal control over financial reporting and, as noted on page 117, their report is unqualified.

RESULTS OF OPERATIONS – SUMMARY ANALYSIS OF YEAR TO 31 DECEMBER 2006

The tables below show our sales by therapy area and by key, patent expiry and base products and operating profit for 2006 compared to 2005.

Reported performance

Our sales grew by 11% from \$23,950 million to \$26,475 million, an increase of \$2,525 million. Operating profit increased by 26% from \$6,502 million to \$8,216 million. Earnings per share for the year were \$3.86, a rise of 33% from \$2.91 in 2005. We estimate that without

SALES BY THERAPY AREA (2006 AND 2005)

	2006			2005		2006 compared to 2005	
	\$m	Growth underlying \$m	Growth due to exchange effects \$m	\$m	Growth underlying %	Growth reported %	
Cardiovascular	6,118	780	6	5,332	15	15	
Gastrointestinal	6,631	297	(21)	6,355	4	4	
Infection and other	875	37	(1)	839	4	4	
Neuroscience	4,704	656	(11)	4,059	16	16	
Oncology	4,262	470	(53)	3,845	12	11	
Respiratory and Inflammation	3,151	284	(6)	2,873	10	10	
Others	734	89	(2)	647	13	13	
Total	26,475	2,613	(88)	23,950	11	11	

SALES BY KEY, PATENT EXPIRY AND BASE PRODUCTS (2006 AND 2005)

	2006			2005		2006 compared to 2005	
	\$m	Growth underlying \$m	Growth due to exchange effects \$m	\$m	Growth underlying %	Growth reported %	
Key (Arimidex, Crestor, Nexium, Seroquel, Symbicort)	13,318	2,475	(6)	10,849	23	23	
Patent expiry (Losec, Nolvadex, Plendil, Seloken/Toprol-XL, Zestril)	3,837	(335)	(21)	4,193	(8)	(8)	
Base	9,320	473	(61)	8,908	5	5	
Total	26,475	2,613	(88)	23,950	11	11	

OPERATING PROFIT (2006 AND 2005)

	2006			2005		Percentage of sales		2006 compared to 2005	
	\$m	Growth underlying \$m	Growth due to exchange effects \$m	\$m	2006 %	2005 %	Growth underlying %	Growth reported %	
Sales	26,475	2,613	(88)	23,950			11	11	
Cost of sales	(5,559)	(188)	(15)	(5,356)	(21.0)	(22.4)	4	4	
Gross margin	20,916	2,425	(103)	18,594	79.0	77.6	13	13	
Distribution costs	(226)	(15)	-	(211)	(0.9)	(0.8)	7	7	
Research and development	(3,902)	(532)	9	(3,379)	(14.7)	(14.1)	16	16	
Selling, general and administrative	(9,096)	(410)	9	(8,695)	(34.4)	(36.3)	5	5	
Other operating income and expense	524	326	5	193	2.0	0.8	169	172	
Operating profit	8,216	1,794	(80)	6,502	31.0	27.2	28	26	

FINANCIAL REVIEW CONTINUED

the sales and contribution from *Toprol-XL* in the US sales growth would have been 11% and earnings per share would have been \$3.36, up 35% over 2005.

Underlying performance**Sales**

Sales for the full year increased 11% at CER with good sales growth in all regions (US up 16%; Europe up 6%; Japan up 5%; Rest of World up 11%). This growth was driven by volume improvements that were offset by price reductions (particularly in the US and parts of Europe). Excluding *Toprol-XL* sales from both 2006 and 2005, growth was 11%.

The combined sales of five key products (*Arimidex*, *Crestor*, *Nexium*, *Seroquel* and *Symbicort*) grew by 23% to \$13,318 million and now account for just over 50% of our total sales (up from 45% in 2005). Patent expiry products represented around 14% of sales, down from 18% in 2005. Base products saw growth of 5% in 2006 over 2005 although the relative percentage of sales fell.

The Gastrointestinal portfolio grew by 4% as *Nexium* growth more than offset the continuing decline in *Losec/Prilosec*. *Nexium* sales increased by 12% to \$5,182 million. Sales in the US were up 13% to \$3,527 million on continued strong volume growth offset by lower price realisation. *Nexium* sales in other markets increased 10%, as good volume growth in France and Italy helped mitigate the significant price erosion in Germany. *Losec/Prilosec* sales were down 16% to \$1,371 million.

In Cardiovascular, sales grew by 15% to \$6,118 million. *Crestor* sales exceeded \$2 billion, reaching \$2,028 million, up 59%. Sales in the US were up 57% to \$1,148 million. Sales in other markets increased by 61% on good growth in Europe and the second half launch in Japan. *Seloken/Toprol-XL* sales increased by 3% to \$1,795 million. US sales growth was restricted to 7% by the launch in November of generic *Toprol-XL* 25mg by Sandoz (formerly Eon Labs). The performances of *Crestor* and *Seloken/Toprol-XL* more than offset declines in *Zestril* and *Plendil*, down by 7% and 24%, respectively.

Respiratory and Inflammation sales increased by 10% to \$3,151 million. *Symbicort* sales were the main driver of this growth and increased 18% to \$1,184 million. Elsewhere in the therapy area, *Pulmicort* sales rose by 11% with annual sales of \$1,292 million, whilst *Rhinocort* sales declined to \$360 million, down by 7%.

Sales in the Oncology portfolio grew by 12% to \$4,262 million. *Arimidex* sales increased 29% to \$1,508 million. *Casodex* sales grew by 9% to \$1,206 million, and *Zoladex* sales exceeded \$1 billion for the second year in a row. *Iressa* sales fell by 11% to \$237 million, as growth in Asia Pacific went some way to offset declines in the US.

Neuroscience sales grew by 16% to \$4,704 million. *Seroquel* sales exceeded \$3 billion to reach \$3,416 million (up 24%).

Geographic analysis

In the US, sales were up 16%. Sales growth for *Nexium*, *Seroquel*, *Arimidex* and *Crestor* amounted to \$1,441 million, whilst there were declines in products such as *Prilosec*. *Toprol-XL* grew in the year although it faced generic competition from November. Adjusting sales to exclude *Toprol-XL* sales from both 2006 and 2005, growth was 11%.

Revenue from outside the US now accounts for 53% of our sales. In Europe, sales increased by 6% for the full year, with good volume growth partially offset by lower realised prices. Sales for the five key products combined grew by 21%. However, performance was hindered by declines in Germany, where doctors have been encouraged to prescribe generics.

Sales in Japan increased by 5% as a result of good growth for *Casodex* and *Arimidex* together with the launch of *Crestor*. Sales in China were up 19% to \$328 million on the back of strong growth in all the major therapy areas, particularly Oncology.

Operating margin and retained profit

Operating margin increased by 3.8 percentage points from 27.2% to 31.0%. Excluding the effects of currency and other income, underlying margin increased 2.9 percentage points for the full year.

Gross margin increased by 1.4 percentage points to 79.0% of sales. Slightly lower payments to Merck (4.7% of sales) benefited gross margin by 0.1 percentage points whilst currency and royalties reduced gross margin by 0.1 percentage points and 0.2 percentage points, respectively. Excluding the prior year costs for the early termination of the MedPointe *Zomig* US distribution agreement and manufacturing provisions (in total \$134 million) and the 2006 provisions made in respect of *Toprol-XL*, NXY-059 and manufacturing efficiencies (in total \$215 million), underlying margin improved by 1.5 percentage points.

R&D expenditure was up 16% to \$3,902 million (14% excluding the Cambridge Antibody Technology investment) and increased by 0.6 percentage points to 14.7% of sales. Selling, general and administrative cost increases were restricted to 5% over the last year, reaching \$9,096 million and adding 2.0 percentage points to operating margin.

Higher net other income and expense increased operating margin by 1.1 percentage points due principally to higher royalties, plus the \$109 million gain recognised in the first half of the year from the divestment of the US anaesthetics and analgesic products to Abraxis BioScience Inc., and the disposal of non-core products in Scandinavia (\$32 million) in the final quarter.

Included within cost of sales is the movement in fair value of financial instruments used to manage our transactional currency exposures; the loss for the year, net of an exchange gain on the underlying exposures, was \$11 million. Other fair value movements of \$5 million are charged elsewhere in operating profit.

Net interest and dividend income for the year was \$327 million (2005 \$165 million). The increase over 2005 is primarily attributable to higher average investment balances and yields. The reported amounts include \$43 million (2005 \$15 million) arising from employee benefit fund assets and liabilities reported under IAS 19, 'Employee Benefits'.

The effective tax rate for the twelve months was 29.0% (2005 29.1%). The decrease compared to 2005 is the net effect of tax benefits arising from a different geographical mix of profits, tax deductions relating to share-based payments and the recognition of deferred tax assets in respect of tax credit carry forwards, offset by an increase in tax provisions principally in relation to global transfer pricing issues.

Earnings per share increased by 34% from \$2.91 in 2005 to \$3.86 for the current year. We estimate that the share re-purchase scheme has added 6 cents to earnings per share (after taking account of interest income foregone).

In 2006, *Toprol-XL* contributed US sales of \$1,382 million and earnings per share of 50 cents. Since the timing of approval and launch of other proposed generic products (in addition to the 25mg launched by Sandoz) is difficult to predict, we believe that future performance can be best judged by excluding

Toprol-XL from current performance. Consequently, if *Toprol-XL* were excluded from the current and prior years, sales growth would be 11% and earnings per share growth would be 36%.

FINANCIAL POSITION, INCLUDING CASH FLOW AND LIQUIDITY – 2006

All data in this section are on an actual basis (unless otherwise stated).

The net book value of our assets increased from \$13,691 million to \$15,416 million. Net profit was distributed by dividends of \$2,217 million and share buy-backs of \$4,147 million.

Property, plant and equipment

The increase in the value of property, plant and equipment was due primarily to additions of \$822 million and exchange of \$689 million offset by depreciation and impairments of \$1,003 million. Additions were mainly driven by investment in building upgrades in the UK, Sweden and the US as well as a vehicle programme in the US.

Goodwill and intangible assets

The significant increase in the value of goodwill and intangibles was primarily due to the expansion of our externalisation programme (as described in more detail below).

The additions of \$1,360 million arising from the acquisition of Cambridge Antibody Technology were partly offset by the disposal of the Humira™ royalty stream intangible acquired with the company (\$661 million). The other major additions were from the acquisition of KuDOS Pharmaceuticals (\$297 million), the co-promotion agreement in respect of Abraxane® (\$200 million) and software (\$121 million).

Inventories

After excluding the effects of exchange of \$203 million, the value of inventories fell by \$159 million to \$2,250 million, a reduction of just over 7%. This reflected a continuation of the work to reduce our inventory levels, with reductions seen primarily in the US (including declines in the levels of Merck-related inventory) and in the UK.

Receivables and payables

Receivables grew from \$4,778 million at the end of 2005 to \$5,561 million at the close of 2006. \$270 million of this increase was due to exchange. The underlying rise of \$513 million was driven by increases in trade debtors in the US (through higher sales in the last months of the year), the UK (primarily from higher export sales) and across several European markets. The second instalment of

income due from the disposal of the anaesthetics business in the US (as described in more detail below) also contributed to the increase, which was offset by reductions in insurance balances.

There was an underlying increase in payables and provisions of \$499 million arising principally from higher payables in the US (due to increased volumes of purchases from Merck) and the deferred income from the disposal of the anaesthetics business. There were also increases from insurance payables and *Toprol-XL* related severance provisions, which were reduced by the settlement of the defined benefit pension scheme in Japan. In addition, exchange effects accounted for just over \$400 million.

Cash flow

Cash generated from operating activities in the year was \$7,693 million, \$950 million higher than in 2005. The improvement was due principally to an increase in profit before tax of \$1,876 million offset by a \$224 million increase in working capital requirements and a \$563 million increase in tax paid. Tax paid for the year was \$2,169 million compared to \$1,606 million in 2005. This increase in 2006 compared to 2005 was due to increased profits in 2006.

Net cash outflows from investing activities were \$272 million compared to \$1,182 million in 2005. Net cash from investing activities was affected by the management of Group funds, with funds being transferred between long-term deposits and liquid cash. After excluding these inflows of \$1,120 million (outflows of \$491 million in 2005), underlying cash flows associated with investing activities were an outflow of \$1,392 million in 2006 compared with \$691 million in 2005. During the year, cash of \$1,148 million was paid for the acquisition of Cambridge Antibody Technology and KuDOS Pharmaceuticals. There was a \$388 million increase in expenditure on intangible assets as a result of the new collaboration deals (as described in the section immediately below). Proceeds of \$661 million were received on disposal of the Humira™ royalty stream, an asset acquired as part of the acquisition of Cambridge Antibody Technology.

After shareholder returns of \$5,382 million (comprising net share re-purchases of \$3,162 million and \$2,220 million dividend payments), and a net \$1,148 million cash outflow from acquisitions (net of cash acquired), there was an overall increase in net funds of \$1,135 million.

Investments, divestments and capital expenditure

The commitment to strengthening our product pipeline through pursuing external opportunities (in addition to the sustained investment in internal discovery and development) bore fruit in 2006 with two major acquisitions and several other significant licensing agreements and collaborations. In January 2006, we acquired the entire share capital of KuDOS Pharmaceuticals for \$206 million to access DNA repair technology as well as several products, including the poly-ARP-ribose polymerase inhibitor in Oncology. We followed this by acquiring the total share capital of Cambridge Antibody Technology (adding to the 19.9% we have held since December 2004) to provide a foundation for establishing a significant biopharmaceuticals capability. The total cost of this acquisition of \$1,116 million was reduced by disposing of the non-core intangible asset arising from the Humira™ royalty stream for \$661 million in October 2006.

These acquisitions were complemented by significant licensing and collaboration agreements. These were led by four significant agreements with AtheroGenics, Inc., Protherics PLC, Targacept Inc., and POZEN, Inc., with combined payments (capitalised as intangible assets) in 2006 of \$151 million. With AtheroGenics we entered into a development and commercialisation agreement for AGI-1067, a novel anti-atherosclerotic agent being studied for the treatment of patients with coronary disease, paying an upfront fee of \$50 million in January 2006. Our agreement with Protherics is in respect of the anti-sepsis product CytoFab™ and involved both a 4.3% equity investment in Protherics of \$13 million and an intangible asset of \$31 million. In the case of Targacept, we have capitalised as an intangible asset payments totalling \$30 million in respect of a neuronal nicotinic partial agonist focused on cognitive disorders. The payments comprised a \$10 million upfront fee on signing and a \$20 million milestone payment when proof of concept studies commenced. The agreement with POZEN is for the co-development of a combination product comprising esomeprazole and naproxen with an upfront fee of \$40 million. In addition to these, we have entered into agreements with Schering AG, Array, Kinacia, Dynavax, Cubist and Argenta, capitalising around \$70 million in intangible assets. All of these agreements include provisions for further payments over and above the initial signing or upfront fees, depending on certain development and sales milestones. The second payment to Targacept is an example of such milestones.

FINANCIAL REVIEW CONTINUED

Complementing these agreements, in June 2006 we entered into a co-promotion agreement with Abraxis BioScience, Inc. in respect of Abraxane® in the US. An upfront signing fee of \$200 million was paid and to date we have earned \$18 million in alliance revenue from the arrangement. We have also entered into an agreement with Abbott Laboratories to co-develop and co-promote a single pill, fixed dose combination of *Crestor* and an Abbott fenofibrate. Abbott has paid \$50 million upfront, recognition of which has been deferred and will be credited to income should we elect to launch the product. Lastly, we disposed of our *Diprivan* and local anaesthetics business in the US to Abraxis for a total price of \$340 million, comprising an upfront payment of \$265 million and \$75 million to be paid in 2007. A gain of \$109 million was recognised immediately with the balance to be recognised over the accompanying five year manufacturing arrangement.

On behalf of the Board

G H R MUSKER
Group Secretary and Solicitor

31 January 2008