

PREPARATION OF THE FINANCIAL STATEMENTS AND DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Form 20-F Information and the Group and Company Financial Statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with IFRS as adopted by the European Union (EU) and applicable law and have elected to prepare the Company Financial Statements in accordance with UK Accounting Standards and applicable law.

The Group Financial Statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company Financial Statements, the Directors are required to:

- > Select suitable accounting policies and then apply them consistently.
- > Make judgements and estimates that are reasonable and prudent.
- > For the Group Financial Statements, state whether they have been prepared in accordance with IFRS as adopted by the EU.
- > For the Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company Financial Statements.
- > Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

DIRECTORS' RESPONSIBILITIES FOR, AND REPORT ON, INTERNAL CONTROL OVER FINANCIAL REPORTING

The Directors are responsible for establishing and maintaining adequate internal control over financial reporting. AstraZeneca's internal control over financial reporting is designed to provide reasonable assurance over the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods

are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Directors assessed the effectiveness of AstraZeneca's internal control over financial reporting as at 31 December 2007 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on this assessment, the Directors believe that, as at 31 December

2007, the internal control over financial reporting is effective based on those criteria.

KPMG Audit Plc, an independent registered public accounting firm, has audited the effectiveness of internal control over financial reporting as at 31 December 2007 and, as explained on page 117, has issued an unqualified report thereon.

AUDITORS' REPORTS ON THE FINANCIAL STATEMENTS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING (SARBANES-OXLEY ACT SECTION 404)

The report set out below is provided in compliance with International Standards on Auditing (UK and Ireland). KPMG Audit Plc has also issued reports in accordance with auditing standards of the Public Company Accounting Oversight Board in the US, which will be included in the Annual Report on Form 20-F to be filed with the US Securities

and Exchange Commission. Those reports are unqualified and include opinions on the financial statements and on the effectiveness of internal control over financial reporting as at 31 December 2007 (Sarbanes-Oxley Act Section 404). The Directors' statement on internal control over financial reporting is set out on page 116.

KPMG Audit Plc has also reported separately on the Company Financial Statements of AstraZeneca PLC and on the information in the Directors' Remuneration Report that is described as having been audited. This report is set out on pages 98 to 114.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ASTRAZENECA PLC

We have audited the Group Financial Statements of AstraZeneca PLC for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes on pages 118 to 177. These Group Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the Company Financial Statements of AstraZeneca PLC for the year ended 31 December 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 and, in respect of the separate opinion in relation to International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), on terms that have been agreed with the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and, in respect of the separate opinion in relation to IFRSs as issued by the IASB, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and Form 20-F Information and the Group Financial Statements in accordance with applicable law and IFRSs as adopted by the European Union (EU) are set out in the Statement of Directors' Responsibilities on page 116.

Our responsibility is to audit the Group Financial Statements in accordance with relevant legal and regulatory requirements

and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group Financial Statements give a true and fair view and whether the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group Financial Statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and Form 20-F Information and consider whether it is consistent with the audited Group Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial Statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group Financial Statements, and of whether

the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- > The Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended.
- > The Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.
- > The information given in the Directors' Report is consistent with the Group Financial Statements.

SEPARATE OPINION IN RELATION TO IFRSs

As explained in the accounting policies set out in the Group Financial Statements, in addition to complying with its legal obligation to comply with IFRSs as adopted by the EU, the Group has also complied with IFRSs as issued by the IASB.

In our opinion the Group Financial Statements give a true and fair view, in accordance with IFRSs as issued by the IASB, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

31 January 2008

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Notes	2007 \$m	2006 \$m	2005 \$m
Sales		29,559	26,475	23,950
Cost of sales		(6,419)	(5,559)	(5,356)
Distribution costs		(248)	(226)	(211)
Research and development		(5,162)	(3,902)	(3,379)
Selling, general and administrative costs		(10,364)	(9,096)	(8,695)
Other operating income and expense	1	728	524	193
Operating profit	1	8,094	8,216	6,502
Finance income	3	959	888	665
Finance expense	3	(1,070)	(561)	(500)
Profit before tax		7,983	8,543	6,667
Taxation	4	(2,356)	(2,480)	(1,943)
Profit for the period		5,627	6,063	4,724
Attributable to:				
Equity holders of the Company		5,595	6,043	4,706
Minority interests	22	32	20	18
Basic earnings per \$0.25 Ordinary Share	5	\$3.74	\$3.86	\$2.91
Diluted earnings per \$0.25 Ordinary Share	5	\$3.73	\$3.85	\$2.91
Weighted average number of Ordinary Shares in issue (millions)	5	1,495	1,564	1,617
Diluted weighted average number of Ordinary Shares in issue (millions)	5	1,498	1,570	1,618
Dividends declared and paid in the period	23	2,658	2,217	1,676

All activities were in respect of continuing operations.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER

	Notes	2007 \$m	2006 \$m	2005 \$m
Profit for the period		5,627	6,063	4,724
Foreign exchange and other adjustments on consolidation	20	492	922	(1,052)
Foreign exchange differences on borrowings	20	(40)	–	–
Cash flow hedge in anticipation of debt issue	20	(21)	–	–
Available for sale losses taken to equity	20	(9)	(20)	(10)
Actuarial loss for the period	20	(113)	(108)	(35)
Tax on items taken directly to reserves	4, 20	33	137	(25)
		342	931	(1,122)
Total recognised income and expense for the period		5,969	6,994	3,602
Attributable to:				
Equity holders of the Company		5,934	6,970	3,595
Minority interests		35	24	7

\$m means millions of US dollars.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

	Notes	2007 \$m	2006 \$m	2005 \$m
Assets				
Non-current assets				
Property, plant and equipment	8	8,298	7,453	6,985
Goodwill	9	9,884	1,097	953
Intangible assets	10	11,467	3,107	1,759
Other investments	11	182	119	256
Deferred tax assets	4	1,044	1,220	1,117
		30,875	12,996	11,070
Current assets				
Inventories	12	2,119	2,250	2,206
Trade and other receivables	13	6,668	5,561	4,778
Other investments	11	177	657	1,624
Income tax receivable		2,251	1,365	183
Cash and cash equivalents	14	5,867	7,103	4,979
		17,082	16,936	13,770
Total assets		47,957	29,932	24,840
Liabilities				
Current liabilities				
Interest bearing loans and borrowings	15	(4,280)	(136)	(90)
Trade and other payables	18	(6,968)	(6,295)	(5,421)
Provisions	19	(387)	(39)	(45)
Income tax payable		(3,552)	(2,977)	(1,283)
		(15,187)	(9,447)	(6,839)
Non-current liabilities				
Interest bearing loans and borrowings	15	(10,876)	(1,087)	(1,111)
Deferred tax liabilities	4	(4,119)	(1,559)	(1,112)
Retirement benefit obligations	25	(1,998)	(1,842)	(1,706)
Provisions	19	(633)	(327)	(309)
Other payables	18	(229)	(254)	(72)
		(17,855)	(5,069)	(4,310)
Total liabilities		(33,042)	(14,516)	(11,149)
Net assets		14,915	15,416	13,691
Equity				
Capital and reserves attributable to equity holders of the Company				
Share capital	30	364	383	395
Share premium account	21	1,888	1,671	692
Capital redemption reserve	21	91	71	53
Merger reserve	21	433	433	433
Other reserves	21	1,378	1,398	1,345
Retained earnings	21	10,624	11,348	10,679
		14,778	15,304	13,597
Minority equity interests	22	137	112	94
Total equity	20	14,915	15,416	13,691

The Financial Statements on pages 118 to 177 were approved by the Board of Directors on 31 January 2008 and were signed on its behalf by:

DAVID R BRENNAN
Director

SIMON LOWTH
Director

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Notes	2007 \$m	2006 \$m	2005 \$m
Cash flows from operating activities				
Profit before tax		7,983	8,543	6,667
Finance income and expense	3	111	(327)	(165)
Depreciation, amortisation and impairment	1	1,856	1,345	1,327
Increase in trade and other receivables		(717)	(470)	(502)
Decrease in inventories		442	158	596
(Decrease)/increase in trade and other payables		(168)	420	238
Other non-cash movements		901	263	220
Cash generated from operations		10,408	9,932	8,381
Interest paid		(335)	(70)	(32)
Tax paid		(2,563)	(2,169)	(1,606)
Net cash inflow from operating activities		7,510	7,693	6,743
Cash flows from investing activities				
Acquisitions of business operations	24	(14,891)	(1,148)	–
Movement in short term investments and fixed deposits		894	1,120	(491)
Purchase of property, plant and equipment		(1,130)	(794)	(810)
Disposal of property, plant and equipment		54	35	87
Purchase of intangible assets		(549)	(545)	(157)
Disposal of intangible assets		–	661	–
Purchase of non-current asset investments		(35)	(17)	(12)
Disposal of non-current asset investments		421	68	–
Interest received		358	352	206
Payments made by subsidiaries to minority interests		(9)	(4)	(5)
Net cash outflow from investing activities		(14,887)	(272)	(1,182)
Net cash (outflow)/inflow before financing activities		(7,377)	7,421	5,561
Cash flows from financing activities				
Proceeds from issue of share capital		218	985	143
Re-purchase of shares		(4,170)	(4,147)	(3,001)
Issue of loans		9,692	–	–
Repayment of loans		(1,165)	–	–
Dividends paid		(2,641)	(2,220)	(1,717)
Movement in short term borrowings		4,117	16	3
Net cash inflow/(outflow) from financing activities		6,051	(5,366)	(4,572)
Net (decrease)/increase in cash and cash equivalents in the period		(1,326)	2,055	989
Cash and cash equivalents at beginning of the period		6,989	4,895	3,927
Exchange rate effects		64	39	(21)
Cash and cash equivalents at the end of the period	14	5,727	6,989	4,895

ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PREPARATION OF FINANCIAL INFORMATION

The Consolidated Financial Statements have been prepared under the historical cost convention, modified to include revaluation to fair value of certain financial instruments as described below, in accordance with the Companies Act 1985 and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("adopted IFRS") in response to the IAS regulation (EC 1606/2002). The Consolidated Financial Statements also comply fully with IFRSs as issued by the International Accounting Standards Board. IFRS 7 'Financial Instruments: Disclosures', the Amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures' and IFRIC 11 'IFRS 2: Group and Treasury Share Transactions' have been adopted in the year.

The Company has elected to prepare the Company Financial Statements in accordance with UK Accounting Standards. These are presented on pages 179 to 183 and the accounting policies in respect of Company information are set out on page 180.

In preparing their individual financial statements, the accounting policies of some overseas subsidiaries do not conform with adopted IFRSs. Therefore, where appropriate, adjustments are made in order to present the Group Financial Statements on a consistent basis.

The preparation of the Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Judgements include classification of transactions between the income statement and balance sheet, whilst estimations focus on areas such as carrying values and estimated lives.

AstraZeneca's management considers the following to be the most important accounting policies in the context of the Group's operations.

The accounting policy descriptions set out the areas where judgement needs exercising, the most significant of which are revenue recognition, research and development, goodwill and intangible assets, provisions for contingent liabilities, post-retirement benefits, taxation and share-based compensation.

Revenue

Sales exclude inter-company sales and value-added taxes and represent net invoice value less estimated rebates, returns and settlement discounts. Sales are recognised when the significant risks and rewards of ownership have been transferred to a third party. In general this is upon delivery of the products to wholesalers. However, when a product faces generic competition particular attention is given to the possible levels of returns and, in cases where the circumstances are such that the level of returns (and, hence, revenue) cannot be measured reliably, sales are only recognised when the right of return expires which is generally on ultimate prescription of the product to patients.

Research and development

Research expenditure is recognised in the income statement in the year in which it is incurred.

Internal development expenditure is capitalised only if it meets the recognition criteria of IAS 38 'Intangible Assets'. Where regulatory and other uncertainties are such that the criteria are not met the expenditure is recognised in the income statement. This is almost invariably the case prior to approval of the drug by the relevant regulatory authority. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised on a straight-line basis over their useful economic lives from product launch. As at 31 December 2007, no amounts have met the recognition criteria. Payments to in-licence products and compounds from external third parties for new research and development projects (in-process research and development), generally taking the form of up-front payments and milestones, are capitalised and amortised, generally on a straight-line basis, over their useful economic lives from product launch. Under this policy, it is not possible to determine precise economic lives for individual classes of intangible assets. However, lives range from three years to twenty years.

Intangible assets relating to products in development (both internally generated and externally acquired) are subject to impairment testing at each balance sheet date. All intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognised immediately in the income statement.

Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be measured reliably in which case the value is subsumed into goodwill. Where fair values of acquired contingent liabilities cannot be measured reliably, the assumed contingent liability is not recognised but is disclosed in the same manner as other contingent liabilities.

Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there is an indication that the carrying value may not be recoverable. Prior to 1 January 2003, goodwill was amortised over its estimated useful life; such amortisation ceased on 31 December 2002.

The Group's policy up to and including 1997 was to eliminate goodwill arising upon acquisitions against reserves. Under IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IFRS 3 'Business Combinations', such goodwill will remain eliminated against reserves.

Employee benefits

The Group accounts for pensions and other employee benefits (principally healthcare) under IAS 19 'Employee Benefits'. In respect of defined benefit plans, obligations are measured at discounted present value whilst plan assets are measured at fair value. The operating and financing costs of such plans are recognised separately in the income statement; current service costs are spread systematically over the lives of employees and financing costs are recognised in full in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan.

Payments to defined contribution plans are recognised in the income statement as they fall due.

Taxation

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items that are never taxable or deductible. The Group's current tax assets and liabilities are calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

ACCOUNTING POLICIES CONTINUED

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. This requires judgements to be made in respect of the availability of future taxable income.

No deferred tax asset or liability is recognised in respect of temporary differences associated with investments in subsidiaries, branches and joint ventures where the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The Group's deferred tax assets and liabilities are calculated using tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Accruals for tax contingencies require management to make judgements and estimates of ultimate exposures in relation to tax audit issues. Tax benefits are not recognised unless the tax positions will probably be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of that benefit on the basis of potential settlement through negotiation and/or litigation. All provisions are included in current liabilities. Any recorded exposure to interest on tax liabilities is provided for in the tax charge.

Share-based payments

All plans are assessed and have been classified as equity settled. The grant date fair value of employee share option plans is generally calculated using the Black-Scholes model. In accordance with IFRS 2 'Share-based Payments', the resulting cost is recognised in the income statement over the vesting period of the options, being the period in which the services are received. The value of the charge is adjusted to reflect expected and actual levels of awards vesting, except where the failure to vest is as a result of not meeting a market condition.

Property, plant and equipment

The Group's policy is to write off the difference between the cost of each item of property, plant and equipment and its residual value systematically over its estimated useful life. Assets under construction are not depreciated.

Reviews are made annually of the estimated remaining lives and residual values of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Under this policy it becomes impractical to calculate average asset lives exactly. However, the total lives range from approximately thirteen to fifty years for buildings, and three to fifteen years for plant and equipment. All items of property, plant and equipment are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognised immediately in the income statement.

Borrowing costs

Borrowing costs are recognised in the income statement as incurred.

Leases

Rentals under operating leases are charged to the income statement on a straight-line basis.

Subsidiaries

A subsidiary is an entity controlled, directly or indirectly, by AstraZeneca. Control is regarded as the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The financial results of subsidiaries are consolidated from the date control is obtained until the date that control ceases.

Inventories

Inventories are stated at the lower of cost or net realisable value. The first in, first out or an average method of valuation is used. For finished goods and work in progress, cost includes directly attributable costs and certain overhead expenses (including depreciation). Selling expenses and certain other overhead expenses (principally central administration costs) are excluded. Net realisable value is determined as estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

Write downs of inventory occur in the general course of business and are included in cost of sales in the income statement.

Financial instruments

The Group's financial instruments include interests in associates, leases, and rights and obligations under employee benefit plans which are dealt with in specific accounting policies.

The Group's other financial instruments comprise:

- > Cash and cash equivalents
- > Fixed deposits
- > Other investments
- > Bank and other borrowings
- > Derivatives

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and highly liquid investments with maturities of three months or less when acquired. They are readily convertible into known amounts of cash and are held at amortised cost.

Fixed deposits

Fixed deposits, comprising principally funds held with banks and other financial institutions, are initially measured at fair value (including direct transaction costs) and are subsequently remeasured to amortised cost using the effective interest rate method at each balance sheet date. Changes in carrying value are recognised in the income statement.

Other investments

Where the change in the fair value of an investment is substantially offset by the change in fair value of a derivative which has been entered into to manage the risk of changes in fair value of the investment, the investment and related derivative are initially measured at fair value (with direct transaction costs being included in the income statement as an expense) and are remeasured to fair value at each balance sheet date with changes in carrying value being recognised in the income statement.

Where investments have been classified as held for trading, they are measured initially at fair value and subsequently at fair value. Changes in fair value are recognised in the income statement.

In all other circumstances, the investments are initially measured at fair value (including direct transaction costs) and are subsequently remeasured to fair value at each balance sheet date. Changes in carrying value due to changes in exchange rates or impairments are recognised in the income statement. All other changes in fair value are recognised as income or expense directly in reserves. Impairments are recorded in the income statement when there is a decline in the value of an investment that is deemed to be other than temporary. On disposal of the investment, the cumulative income or expense recognised in reserves is recognised as the gain or loss on disposal in the income statement.

Bank and other borrowings

The Group uses derivatives, principally interest rate swaps, to hedge the interest rate exposure inherent in a portion of its fixed interest rate debt. In such cases the Group will either designate the debt as fair value through the profit and loss when certain criteria are met or as the hedged item under a fair value hedge.

If the debt instrument is designated as fair value through the profit and loss, the debt is initially measured at fair value (with direct transaction costs being included in the income statement as an expense) and is remeasured to fair value at each balance sheet date with changes in carrying value being recognised in the income statement (along with changes in the fair value of the related derivative). Such a designation has been made where this significantly reduces an accounting mismatch which would result from recognising gains and losses on different bases.

If the debt is designated as the hedged item under a fair value hedge, the debt is initially measured at fair value (with direct transaction costs being amortised over the life of the bonds), and is remeasured for fair value changes in respect of the hedged risk at each balance sheet date with changes in carrying value being recognised in the income statement (along with changes in the fair value of the related derivative).

If certain criteria are met, non-US dollar denominated loans are designated as net investment hedges of foreign operations and exchange differences arising from the retranslation are recognised directly in reserves. All other exchange differences giving rise to changes in the carrying value of foreign currency loans and overdrafts are recognised in the income statement.

Other interest bearing loans are initially measured at fair value (including direct transaction costs) and are subsequently remeasured to amortised cost using the effective interest rate method at each balance sheet date. Changes in carrying value are recognised in the income statement.

Derivatives

Derivatives are initially measured at fair value (with direct transaction costs being included in the income statement as an expense) and are subsequently remeasured to fair value at each balance sheet date. Changes in carrying value are recognised in the income statement.

Foreign currencies

Income statement items in foreign currencies are translated into US dollars at average exchange rates, which approximate to actual rates, for the relevant accounting periods. Assets and liabilities are translated at exchange rates prevailing at the date of the Group balance sheet.

Exchange gains and losses on short term foreign currency borrowings and deposits are included within finance income and finance expense. Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating profit.

In the Consolidated Financial Statements, exchange differences arising on consolidation of the net investments in subsidiaries, joint ventures and associates, together with those on foreign currency loans which hedge these net investments, are taken directly to equity via the statement of recognised income and expense. Gains and losses accumulated in the translation reserve will be recycled to the income statement when the foreign operation is sold.

Contingent liabilities

Through the normal course of business, AstraZeneca is involved in legal disputes, the settlement of which may involve cost to the Group. Provision is made where an adverse outcome is probable and associated costs, including related legal costs, can be estimated reliably. In other cases, appropriate disclosures are included.

Where it is considered that the Group is more likely than not to prevail, legal costs involved in defending the claim are charged to the income statement as they are incurred.

Where it is considered that the Group has a valid contract which provides the right to reimbursement (from insurance or otherwise) of legal costs and/or all or part of any loss incurred or for which a provision has been established, the best estimate of the amount expected to be received is recognised as an asset.

AstraZeneca is exposed to environmental liabilities relating to its past operations, principally in respect of soil and groundwater remediation costs. Provisions for these costs are made when there is a present obligation and where it is probable that expenditure on remedial work will be required and a reliable estimate can be made of the cost. Provisions are discounted where the effect is material.

Accounting standards issued but not adopted

IFRS 8 'Operating Segments' was issued in November 2006. It requires the identification of operating segments based on internal reporting to the chief operating decision maker and extends the scope and disclosure requirements of IAS 14 'Segmental Reporting'. It is effective for annual periods beginning on or after 1 January 2009. The adoption of IFRS 8 will not have a significant impact upon the net results, net assets or disclosures of AstraZeneca.

A revised IAS 23 'Borrowing costs' was issued in March 2007. It removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to prepare for use and therefore requires an entity to capitalise borrowing costs as part of the cost of such assets. The revised Standard is effective for annual periods beginning on or after 1 January 2009 and will be applied prospectively from that date. The adoption of these amendments to IAS 23 is not expected to have a material effect upon the net results or net assets of AstraZeneca.

A revised IAS 1 'Presentation of Financial Statements' was issued in September 2007. It revises the presentation of non-owner changes in equity and introduces a statement of comprehensive income. It is effective for annual periods beginning on or after 1 January 2009. The adoption of these amendments to IAS 1 will not have a significant impact upon the net results, net assets or disclosures of AstraZeneca.

IFRS 8 'Operating Segments' has been endorsed by the EU during 2007. The revised IAS 23 'Borrowing Costs' and IAS 1 'Presentation of Financial Statements' have not yet been endorsed by the EU.

The following IFRIC interpretations have been issued but are not yet adopted by AstraZeneca: IFRIC 12 'Service Concession Arrangements', IFRIC 13 'Customer Loyalty Programmes', and IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding requirements and their interaction', none of which have yet been endorsed by the EU. None are expected to have a significant impact upon adoption.

NOTES TO THE FINANCIAL STATEMENTS

1 OPERATING PROFIT

	2007 \$m	2006 \$m	2005 \$m
Group operating profit	8,094	8,216	6,502
Charges included above			
– for depreciation	(1,076)	(950)	(965)
– for amortisation	(554)	(325)	(272)
– for impairment	(226)	(70)	(90)
Gross profit	23,140	20,916	18,594

Impairment charges in 2007 relate to productivity initiatives in the Global Supply Chain in Germany, the write-down of business support assets, the termination of a product in development acquired with MedImmune and four collaboration agreements.

Impairment charges in 2006 relate to the write-down of assets in respect of *Toprol-XL*, *NXY-059* and a collaboration agreement.

Impairment charges in 2005 relate to the write-down of assets associated with capacity reviews at manufacturing sites, primarily in the UK and France.

	2007 \$m	2006 \$m	2005 \$m
Other operating income and expense			
Royalties	236	327	165
Other income and expense	492	197	28
	728	524	193

Other income and expense includes gains and losses arising from disposals under ongoing product and investment rationalisation programmes.

2 RESTRUCTURING AND SYNERGY COSTS

During 2007, Senior Executive Team-approved restructuring and synergy programmes were announced. The tables below show the costs that have been charged in respect of these programmes to the income statement by cost categorisation and type. Severance provisions are detailed in Note 19.

	2007 \$m
Cost of sales	415
Research and development	73
Selling, general and administrative expenses	478
Total charge	966
	2007 \$m
Severance costs	678
Accelerated depreciation and impairment	203
Other	85
Total charge	966

The total charge in respect of the Global Supply Chain productivity initiative is anticipated to be around \$750m.

In aggregate, research and development restructuring costs of around \$100m are expected.

A strategic review of the sales and marketing resources required in Europe for the next three years has been undertaken. The total costs of restructuring have been estimated at approximately \$300m. Total costs of the programmes to improve IS and Business Support productivity and strategic sourcing are expected to amount to around \$450m.

In addition, synergy programmes with respect to the integration of MedImmune have been initiated. Total costs of \$375m are anticipated.

The Company expects the majority of the programmes to be substantially completed by the end of 2009. The Company will continue to look for further initiatives to improve the long-term efficiency of the business.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 FINANCE INCOME AND EXPENSE

	2007 \$m	2006 \$m	2005 \$m
Finance income			
Returns on fixed deposits and equity securities	52	29	15
Returns on short-term deposits	298	330	197
Expected return on post-employment defined benefit plan assets	573	518	448
Fair value gains on debt, interest rate swaps and investments	36	11	–
Net exchange gains	–	–	5
	959	888	665
Finance expense			
Interest on debt and commercial paper	(513)	(59)	(42)
Interest on overdrafts and other financing costs	(9)	(13)	(19)
Interest on post-employment defined benefit plan liabilities	(539)	(475)	(433)
Fair value charges on debt, interest rate swaps and investments	(6)	–	(6)
Net exchange losses	(3)	(14)	–
	(1,070)	(561)	(500)
Net finance (expense)/income	(111)	327	165

The amount of exchange gains and losses recognised in income, other than those arising on financial instruments measured at fair value through profit or loss in accordance with IAS 39 (see Note 17), is losses of \$3m (2006 \$14m losses, 2005 \$5m gains).

4 TAXATION

Taxation recognised in the income statement is as follows:

	2007 \$m	2006 \$m	2005 \$m
Current tax expense			
Current year	1,890	2,431	1,747
Adjustment for prior years	261	270	112
	2,151	2,701	1,859
Deferred tax expense			
Origination and reversal of temporary differences	379	(81)	165
Adjustment to prior years	(174)	(140)	(81)
Total taxation expense in the income statement	2,356	2,480	1,943

Taxation has been provided at current rates on the profits earned for the periods covered by the Group Financial Statements. The 2007, 2006 and 2005 prior period current tax adjustments relate mainly to provision to return adjustments, an increase in provisions in respect of a number of transfer pricing audits and double tax relief. The 2007, 2006 and 2005 prior year deferred tax credits relate to provision to return adjustments and the recognition of previously unrecognised deferred tax assets. To the extent that dividends remitted from overseas subsidiaries, joint ventures and associates are expected to result in additional taxes, appropriate amounts have been provided for. No deferred tax has been provided for unremitted earnings of Group companies overseas as these are considered permanently employed in the businesses of these companies. Unremitted earnings may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends. The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures for which deferred tax liabilities have not been recognised totalled approximately \$12,639m at 31 December 2007 (2006 \$13,291m, 2005 \$13,649m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 TAXATION CONTINUED

Consolidated statement of recognised income and expense

The current tax credit on consolidation exchange adjustments taken to reserves amounted to \$32m in 2007 (2006 credit of \$62m, 2005 charge of \$46m). The current tax credit on share-based payments amounted to \$1m (2006 \$36m, 2005 \$nil). The deferred tax credit taken to reserves amounted to \$nil in 2007 (2006 \$39m, 2005 \$21m).

Factors affecting future tax charges

As a group involved in worldwide operations, AstraZeneca is subject to several factors that may affect future tax charges, principally the levels and mix of profitability in different jurisdictions, transfer pricing regulations and tax rates imposed. A number of material items currently under audit and negotiation are set out in detail in Note 27.

Tax reconciliation to UK statutory rate

The table shown below reconciles the UK statutory tax charge to the Group's total tax charge.

	2007 \$m	2006 \$m	2005 \$m
Profit before tax	7,983	8,543	6,667
Notional taxation charge at UK corporation tax rate of 30% (30% for 2006, 30% for 2005)	2,395	2,563	2,000
Differences in effective overseas tax rates	(105)	(156)	(128)
Deferred tax income relating to reduction in UK and other tax rates ¹	(57)	–	–
Unrecognised deferred tax asset	(1)	(6)	25
Items not deductible for tax purposes	70	58	117
Items not chargeable for tax purposes	(33)	(109)	(102)
Adjustments in respect of prior periods	87	130	31
Total tax charge for the year	2,356	2,480	1,943

¹ The majority of this item relates to the reduction in the UK statutory corporation tax rate from 30% to 28% effective from 1 April 2008.

Deferred tax

Deferred tax assets and liabilities and the movements during the year, before offset of balances within countries, are as follows:

	Property, plant and equipment \$m	Intangible assets \$m	Pension and post- retirement benefits \$m	Inter company inventory transfers \$m	Untaxed reserves ¹ \$m	Accrued expenses \$m	Share schemes \$m	Deferred capital gains \$m	Losses and tax credits carried forward \$m	Other \$m	Total \$m
Deferred tax assets at 1 January 2006	119	–	461	821	–	200	82	–	–	12	1,695
Deferred tax liabilities at 1 January 2006	(842)	(200)	–	–	(492)	–	–	(94)	–	(62)	(1,690)
Net deferred tax balance at 1 January 2006	(723)	(200)	461	821	(492)	200	82	(94)	–	(50)	5
At 1 January 2006	(723)	(200)	461	821	(492)	200	82	(94)	–	(50)	5
Income statement	63	175	54	18	(315)	112	26	8	57	23	221
Statement of recognised income and expense	–	–	35	–	–	–	4	–	–	–	39
Acquisition of subsidiary undertaking ²	–	(454)	–	–	–	–	–	–	–	–	(454)
Exchange	(133)	(10)	54	14	(74)	11	1	(13)	–	–	(150)
Net deferred tax balance at 31 December 2006	(793)	(489)	604	853	(881)	323	113	(99)	57	(27)	(339)
Deferred tax assets at 31 December 2006	37	2	604	853	–	323	113	–	57	28	2,017
Deferred tax liabilities at 31 December 2006	(830)	(491)	–	–	(881)	–	–	(99)	–	(55)	(2,356)
Net deferred tax balance at 31 December 2006	(793)	(489)	604	853	(881)	323	113	(99)	57	(27)	(339)

¹ Untaxed reserves relate to taxable profits where the tax liability is deferred to later periods.

² The deferred tax liability of \$454m relates to the acquisitions of KuDOS Pharmaceuticals Limited and Cambridge Antibody Technology Group plc (Note 24). During the course of 2006 the Humira™ royalty stream was sold resulting in a release of the deferred tax liability of \$198m recognised on acquisition.

4 TAXATION CONTINUED

	Property, plant and equipment \$m	Intangible assets \$m	Pension and post- retirement benefits \$m	Inter company inventory transfers \$m	Untaxed reserves ¹ \$m	Accrued expenses \$m	Share schemes \$m	Deferred capital gains \$m	Losses and tax credits carried forward \$m	Other \$m	Total \$m
Deferred tax assets at 1 January 2007	37	2	604	853	–	323	113	–	57	28	2,017
Deferred tax liabilities at 1 January 2007	(830)	(491)	–	–	(881)	–	–	(99)	–	(55)	(2,356)
Net deferred tax balance at 1 January 2007	(793)	(489)	604	853	(881)	323	113	(99)	57	(27)	(339)
At 1 January 2007	(793)	(489)	604	853	(881)	323	113	(99)	57	(27)	(339)
Income statement	(86)	157	(99)	(71)	(225)	190	(45)	12	(96)	58	(205)
Statement of recognised income and expense	–	–	8	–	–	–	(8)	–	–	–	–
Acquisition of subsidiary undertaking ³	3	(2,973)	–	58	–	74	–	–	369	(29)	(2,498)
Exchange	(35)	(5)	15	46	(65)	11	2	(1)	–	(1)	(33)
Net deferred tax balance at 31 December 2007	(911)	(3,310)	528	886	(1,171)	598	62	(88)	330	1	(3,075)
Deferred tax assets at 31 December 2007	66	59	531	907	–	611	62	–	330	71	2,637
Deferred tax liabilities at 31 December 2007	(977)	(3,369)	(3)	(21)	(1,171)	(13)	–	(88)	–	(70)	(5,712)
Net deferred tax balance at 31 December 2007	(911)	(3,310)	528	886	(1,171)	598	62	(88)	330	1	(3,075)

Analysed in the balance sheet, after offset of balances within countries, as:

	2007 \$m	2006 \$m	2005 \$m
Deferred tax assets	1,044	1,220	1,117
Deferred tax liabilities	(4,119)	(1,559)	(1,112)
Net deferred tax balance	(3,075)	(339)	5

¹ Untaxed reserves relate to taxable profits where the tax liability is deferred to later periods.

³ The deferred tax liability of \$2,498m relates to MedImmune, Inc. and other acquisitions made during the course of the year (Note 24).

Unrecognised deferred tax assets

Deferred tax assets of \$106m have not been recognised in respect of deductible temporary differences (2006 \$103m, 2005 \$87m) because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

5 EARNINGS PER \$0.25 ORDINARY SHARE

	2007	2006	2005
Profit for the financial year (\$m)	5,595	6,043	4,706
Basic earnings per Ordinary Share	\$3.74	\$3.86	\$2.91
Diluted earnings per Ordinary Share	\$3.73	\$3.85	\$2.91
Weighted average number of Ordinary Shares in issue for basic earnings (millions)	1,495	1,564	1,617
Dilutive impact of share options outstanding (millions)	3	6	1
Diluted weighted average number of Ordinary Shares in issue (millions)	1,498	1,570	1,618

There are no options, warrants or rights outstanding in respect of unissued shares except for employee share option schemes. The number of options outstanding and the weighted average exercise price of these options is shown in Note 26. The earnings figures used in the calculations above are post-tax and are unchanged for diluted earnings per Ordinary Share.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 SEGMENT INFORMATION

The Group's activities are in one business segment, pharmaceuticals. There are no other significant classes of business, either singularly or in aggregate.

Geographic areas

The tables below show information by geographic area and, for sales and property, plant and equipment, material countries. The figures show the sales, operating profit and profit before tax made by companies located in that area/country, together with segment assets, segment assets acquired, net operating assets and property, plant and equipment owned by the same companies; export sales and the related profit are included in the area/country from which those sales were made.

	2007 \$m	2006 \$m	Sales 2005 \$m
UK			
External	1,981	1,686	1,388
Intra-Group	6,506	6,123	5,037
	8,487	7,809	6,425
Continental Europe			
Belgium	387	344	360
France	1,806	1,641	1,630
Germany	1,164	1,113	1,180
Italy	1,111	1,075	986
Spain	840	723	713
Sweden	985	843	767
Others	2,291	1,929	1,779
Intra-Group	4,123	4,314	3,852
	12,707	11,982	11,267
The Americas			
Canada	1,145	1,031	976
US	13,404	12,381	10,735
Others	872	673	523
Intra-Group	786	351	413
	16,207	14,436	12,647
Asia, Africa & Australasia			
Australia	631	481	502
Japan	1,585	1,433	1,453
China	403	224	198
Others	954	898	760
Intra-Group	56	49	41
	3,629	3,085	2,954
Continuing operations	41,030	37,312	33,293
Intra-Group eliminations	(11,471)	(10,837)	(9,343)
	29,559	26,475	23,950

Export sales from the UK totalled \$7,546m for the year ended 31 December 2007 (2006 \$7,012m, 2005 \$5,716m). In the US, sales to three wholesalers accounted for approximately 82% of US sales (2006 three wholesalers accounted for approximately 80%, 2005 three wholesalers accounted for approximately 80%).

Intra-Group pricing is determined on an arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 SEGMENT INFORMATION CONTINUED

Profit from	Operating profit			Profit before tax		
	2007 \$m	2006 \$m	2005 \$m	2007 \$m	2006 \$m	2005 \$m
UK	2,060	1,852	1,526	1,828	1,936	1,560
Continental Europe	2,894	3,648	3,073	2,964	3,700	3,095
The Americas	2,734	2,437	1,628	2,781	2,627	1,743
Asia, Africa & Australasia	406	279	275	410	280	269
Continuing operations	8,094	8,216	6,502	7,983	8,543	6,667

	Total assets		
	2007 \$m	2006 \$m	2005 \$m
UK	12,003	13,346	10,694
Continental Europe	7,311	6,937	6,525
The Americas	24,175	6,334	5,686
Asia, Africa & Australasia	2,217	1,950	1,752
Income tax receivable	2,251	1,365	183
Continuing operations	47,957	29,932	24,840

	Assets acquired ¹			Net operating assets ²		
	2007 \$m	2006 \$m	2005 \$m	2007 \$m	2006 \$m	2005 \$m
UK	929	2,282	366	5,043	4,977	3,761
Continental Europe	624	440	380	4,972	4,820	4,703
The Americas	17,858	292	224	19,742	2,081	1,930
Asia, Africa & Australasia	48	50	38	1,510	1,270	1,228
Continuing operations	19,459	3,064	1,008	31,267	13,148	11,622

¹ Included in 'assets acquired' are those assets that are expected to be used during more than one period (property, plant and equipment, goodwill and intangible assets).

² Net operating assets exclude short term investments, cash, short term borrowings, loans, retirement benefit obligations and non-operating receivables and payables.

	Property, plant and equipment		
	2007 \$m	2006 \$m	2005 \$m
UK	2,490	2,508	2,276
Sweden	2,204	2,104	1,897
US	1,915	1,172	1,176
Rest of the world	1,689	1,669	1,636
Continuing operations	8,298	7,453	6,985

Geographic markets

The table below shows turnover in each geographic market in which customers are located.

	2007 \$m	2006 \$m	2005 \$m
UK	1,003	850	757
Continental Europe	9,138	8,053	7,706
The Americas	15,459	14,213	12,327
Asia, Africa & Australasia	3,959	3,359	3,160
Continuing operations	29,559	26,475	23,950

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 PRODUCT SALES INFORMATION

	2007 \$m	2006 \$m	2005 \$m
Gastrointestinal:			
<i>Nexium</i>	5,216	5,182	4,633
<i> Losec/Prilosec</i>	1,143	1,371	1,652
Others	84	78	70
Total Gastrointestinal	6,443	6,631	6,355
Cardiovascular:			
<i>Crestor</i>	2,796	2,028	1,268
<i>Seloken/Toprol-XL</i>	1,438	1,795	1,735
<i>Atacand</i>	1,287	1,110	974
<i>Zestril</i>	295	307	332
<i>Plendil</i>	271	275	360
Others	599	603	663
Total Cardiovascular	6,686	6,118	5,332
Respiratory:			
<i>Symbicort</i>	1,575	1,184	1,006
<i>Pulmicort</i>	1,454	1,292	1,162
<i>Rhinocort</i>	354	360	387
<i>Oxis</i>	86	88	91
Others	242	227	227
Total Respiratory	3,711	3,151	2,873
Oncology:			
<i>Arimidex</i>	1,730	1,508	1,181
<i>Casodex</i>	1,335	1,206	1,123
<i>Zoladex</i>	1,104	1,008	1,004
<i>Iressa</i>	238	237	273
<i>Faslodex</i>	214	186	140
<i>Nolvadex</i>	83	89	114
<i>Abraxane®</i>	62	18	–
<i>Ethyol</i>	43	–	–
Others	10	10	10
Total Oncology	4,819	4,262	3,845
Neuroscience:			
<i>Seroquel</i>	4,027	3,416	2,761
Local anaesthetics	557	529	511
<i>Zomig</i>	434	398	352
<i>Diprivan</i>	263	304	369
Others	59	57	66
Total Neuroscience	5,340	4,704	4,059
Infection and Other:			
<i>Merrem</i>	773	604	505
<i>Synagis</i>	618	–	–
<i>FluMist</i>	53	–	–
Other Products	270	271	334
Total Infection and Other	1,714	875	839
Aptium Oncology	402	374	335
Astra Tech	444	360	312
Total	29,559	26,475	23,950

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$m	Plant and equipment \$m	Assets in course of construction \$m	Total property, plant and equipment \$m
Cost				
At 1 January 2005	4,801	9,082	767	14,650
Capital expenditure	13	150	669	832
Transfer of assets into use	257	594	(851)	–
Disposals and other movements	(99)	(820)	(14)	(933)
Exchange adjustments	(482)	(971)	(91)	(1,544)
At 31 December 2005	4,490	8,035	480	13,005
Capital expenditure	23	196	577	796
Additions through business combinations	–	26	–	26
Transfer of assets into use	154	494	(648)	–
Disposals and other movements	(35)	(300)	(3)	(338)
Exchange adjustments	450	912	57	1,419
At 31 December 2006	5,082	9,363	463	14,908
Capital expenditure	53	304	812	1,169
Additions through business combinations	302	122	176	600
Transfer of assets into use	151	470	(621)	–
Disposals and other movements	(23)	(555)	(16)	(594)
Exchange adjustments	254	470	28	752
At 31 December 2007	5,819	10,174	842	16,835
Depreciation				
At 1 January 2005	1,360	5,193	–	6,553
Charge for year	166	799	–	965
Impairment	–	90	–	90
Disposals and other movements	(53)	(794)	–	(847)
Exchange adjustments	(153)	(588)	–	(741)
At 31 December 2005	1,320	4,700	–	6,020
Charge for year	203	747	–	950
Impairment	6	47	–	53
Disposals and other movements	(21)	(277)	–	(298)
Exchange adjustments	148	582	–	730
At 31 December 2006	1,656	5,799	–	7,455
Charge for year	227	849	–	1,076
Impairment	39	65	2	106
Disposals and other movements	(3)	(498)	(1)	(502)
Exchange adjustments	96	306	–	402
At 31 December 2007	2,015	6,521	1	8,537
Net book value				
At 31 December 2005	3,170	3,335	480	6,985
At 31 December 2006	3,426	3,564	463	7,453
At 31 December 2007	3,804	3,653	841	8,298

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairment charges in 2007 are attributable to the productivity initiatives in the global supply chain in Germany and the write-down of business support assets. These costs were recognised in cost of sales and general and administrative expenses in the income statement.

Impairment charges in 2006 are attributable to the write-down of assets in relation to the termination of NXY-059 and the write-down of assets in association with *Toprol-XL*, resulting from the introduction of generic competition in the US. The charges were recognised in cost of sales in the income statement.

Impairment charges in 2005 relate to the write-down of assets associated with capacity reviews at manufacturing sites, primarily in the UK and France. These were recognised in cost of sales in the income statement.

	2007 \$m	2006 \$m	2005 \$m
The net book value of land and buildings comprised:			
Freeholds	3,804	3,421	3,164
Short leases	–	5	6
	3,804	3,426	3,170

9 GOODWILL

	2007 \$m	2006 \$m	2005 \$m
Cost			
At 1 January	1,430	1,280	1,325
Additions through business combinations	8,757	116	–
Exchange adjustments	38	34	(45)
At 31 December	10,225	1,430	1,280
Amortisation and impairment losses			
At 1 January	333	327	336
Exchange adjustments	8	6	(9)
At 31 December	341	333	327
Net book value at 31 December	9,884	1,097	953

Significant assets

	Description	Carrying value \$m	Remaining amortisation period
Goodwill in the US	Goodwill	707	Not amortised
Goodwill arising from the acquisition of MedImmune	Goodwill	8,757	Not amortised

For the purposes of impairment testing of goodwill, the Group is regarded as a single cash-generating unit. The cash-generating unit's recoverable amount is based on value in use using projections of the Group's performance over 10 years, a period reflecting the patent-protected lives of our current products. The projections include assumptions about product launches, competition from rival products, pricing policy as well as the possibility of generics entering the market. The 10 year period is covered by internal budgets and forecasts. A risk-adjusted discount rate of 12% has been applied to the projections. Tests on a similar basis are also conducted at geographic-specific levels using proportionate allocations of cross-functional assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 INTANGIBLE ASSETS

	Product, marketing and distribution rights \$m	Other intangibles \$m	Software development costs \$m	Total \$m
Cost				
At 1 January 2005	3,202	477	596	4,275
Additions – separately acquired	43	57	76	176
Exchange adjustments	(442)	(31)	(23)	(496)
At 31 December 2005	2,803	503	649	3,955
Additions – through business combinations	1,260	281	–	1,541
Additions – separately acquired	413	51	121	585
Disposals	(675)	(4)	–	(679)
Exchange adjustments	372	79	16	467
At 31 December 2006	4,173	910	786	5,869
Additions – through business combinations	6,946	1,477	–	8,423
Additions – separately acquired	299	33	178	510
Disposals	(52)	(82)	–	(134)
Exchange adjustments	183	47	12	242
At 31 December 2007	11,549	2,385	976	14,910
Amortisation and impairment losses				
At 1 January 2005	1,507	335	372	2,214
Amortisation for year	214	19	39	272
Exchange adjustments	(288)	3	(5)	(290)
At 31 December 2005	1,433	357	406	2,196
Amortisation for year	250	25	50	325
Disposals	(14)	(4)	–	(18)
Impairment	–	17	–	17
Exchange adjustments	190	48	4	242
At 31 December 2006	1,859	443	460	2,762
Amortisation for year	364	112	78	554
Disposals	(52)	(81)	–	(133)
Impairment	98	22	–	120
Exchange adjustments	104	32	4	140
At 31 December 2007	2,373	528	542	3,443
Net book value				
At 31 December 2005	1,370	146	243	1,759
At 31 December 2006	2,314	467	326	3,107
At 31 December 2007	9,176	1,857	434	11,467

Amortisation and impairment charges

Amortisation charges are recorded in selling, general and administrative costs and research and development costs in the income statement.

The impairment in 2007 was in relation to the termination of a product in development acquired with MedImmune and four collaboration agreements.

The impairment in 2006 was in relation to the termination of NXY-059 and a collaboration agreement.

These costs were included in research and development in the income statement in both years.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 INTANGIBLE ASSETS CONTINUED

Significant assets

	Description	Carrying value \$m	Remaining amortisation period
Intangible assets arising from joint venture with Merck ¹	Product, marketing and distribution rights	298	6 and 10 years
Advance payment ¹	Product, marketing and distribution rights	704	11 years
Intangible assets arising from the acquisition of CAT	Product, marketing and distribution rights	585	8 and 13 years ²
Intangible assets arising from the acquisition of KuDOS	Product, marketing and distribution rights	285	Not amortised ²
Intangible assets arising from the acquisition of MedImmune	Product, marketing and distribution rights	5,916	18-24 years
Intangible assets arising from the acquisition of MedImmune	Licensing and contractual income	1,314	2-13 years
Intangible assets arising from the acquisition of MedImmune	Product, marketing and distribution rights	576	Not amortised ²

¹ These assets are associated with the restructuring of the joint venture with Merck & Co., Inc. Further information can be found in Note 27.

² Assets in development are not amortised but are tested annually for impairment.

11 OTHER INVESTMENTS

	2007 \$m	2006 \$m	2005 \$m
Non-current investments			
Loans and receivables at fair value through profit or loss	–	37	100
Equity securities available for sale	182	82	156
	182	119	256
Current investments			
Equity securities held for trading	31	26	16
Fixed deposits	60	559	1,549
Derivative financial instruments	86	72	59
	177	657	1,624

Impairment charges of \$18m in respect of available for sale securities are included in other operating income and expense in the income statement (2006 \$nil, 2005 \$16m included in research and development).

In 2006, the Group completed the acquisition of Cambridge Antibody Technology Group plc, which was previously held as an available for sale investment.

12 INVENTORIES

	2007 \$m	2006 \$m	2005 \$m
Raw materials and consumables	579	541	491
Inventories in process	806	778	957
Finished goods and goods for re-sale	734	931	758
	2,119	2,250	2,206

Inventory write-offs in the year amounted to \$95m (2006 \$137m, 2005 \$147m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 TRADE AND OTHER RECEIVABLES

	2007 \$m	2006 \$m	2005 \$m
Amounts due within one year			
Trade receivables	5,415	4,340	3,809
Less: Amounts provided for doubtful debts	(89)	(52)	(45)
	5,326	4,288	3,764
Other receivables	593	462	312
Prepayments and accrued income	510	578	417
	6,429	5,328	4,493
Amounts due after more than one year			
Other receivables	54	44	58
Prepayments and accrued income	185	189	227
	239	233	285
	6,668	5,561	4,778
	2007 \$m	2006 \$m	2005 \$m
Provisions for doubtful debts			
Balance at beginning of year	52	45	46
Income statement charge	34	4	3
Amounts utilised, exchange and other movements	3	3	(4)
Balance at end of year	89	52	45

14 CASH AND CASH EQUIVALENTS

	2007 \$m	2006 \$m	2005 \$m
Cash at bank and in hand	1,403	684	545
Short term deposits	4,464	6,419	4,434
Cash and cash equivalents	5,867	7,103	4,979
Unsecured bank overdrafts	(140)	(114)	(84)
Cash and cash equivalents in the cash flow statement	5,727	6,989	4,895

The Group's insurance subsidiaries hold cash and short term investments totalling \$347m (2006 \$320m, 2005 \$300m), of which \$257m (2006 \$220m, 2005 \$176m) is required to meet insurance solvency requirements and which, as a result, is not readily available for the general purposes of the Group.

15 INTEREST BEARING LOANS AND BORROWINGS

	Repayment dates	2007 \$m	2006 \$m	2005 \$m
Current liabilities				
Bank overdrafts	On demand	140	114	84
Other loans	Within one year	4,140	22	6
		4,280	136	90
Non-current liabilities				
Floating Rate Note	US dollars	2009	649	–
4.625% Non-callable bond	Euros	2010	1,099	–
5.4% Callable bond	US dollars	2012	1,765	–
5.4% Callable bond	US dollars	2014	767	770
5.125% Non-callable bond	Euros	2015	1,099	–
5.9% Callable bond	US dollars	2017	1,768	–
7% Guaranteed debentures	US dollars	2023	323	341
5.75% Non-callable bond	Pounds sterling	2031	691	–
6.45% Callable bond	US dollars	2037	2,715	–
		10,876	1,087	1,111

All loans and borrowings above are unsecured.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank overdrafts, loans, current and non-current investments, cash and short term deposits. The main purpose of these financial instruments is to manage the Group's funding and liquidity requirements. The Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The principal financial risks to which the Group is exposed are those of interest rate, liquidity, foreign currency and credit. Each of these are managed in accordance with Board-approved policies. These policies are set out below.

The Group uses foreign currency borrowings, foreign currency forwards and options, interest rate swaps and forward rate agreements for the purpose of hedging its foreign currency and interest rate risks. The Group may designate certain financial instruments as either fair value hedges or net investment hedges in accordance with IAS 39. Key controls, applied to transactions in derivative financial instruments, are to use only instruments where good market liquidity exists, to revalue all financial instruments regularly using current market rates and to sell options only to offset previously purchased options. The Group does not use derivative financial instruments for speculative purposes.

The debt-financed acquisition of MedImmune during the year resulted in a change to the financial risks faced by the Group, specifically exposure to liquidity risk. The Group initially funded the acquisition through drawing on a \$15bn 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 initial \$15bn 364 day loan facility was gradually reduced throughout the year and then finally replaced by a series of new bilateral agreements making up in total \$1.8bn of 364 day facilities, expiring on 24 October 2008 but with a 12 month term-out option, and \$3.35bn 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.

Liquidity risk

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.

In addition to cash balances (comprising fixed deposits, cash and cash equivalents less overdrafts) of \$5,787m, the Group has committed bank facilities of \$5.15bn, a \$15bn US Commercial Paper Programme, a \$5bn 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 \$2,889m under the EMTN programme, \$7,664m under the SEC-registered shelf, \$323m under a previous SEC-registered programme and has \$4,112m 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.

Market risk**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 re-financing of short-term debt, a significant portion of the new debt has been held at fixed rates of interest. The balance remains in floating rates, including \$1.5bn of the new fixed rate debt 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.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

Foreign currency risk

Translational exposure

The US dollar is the Group's most significant currency. As a consequence, the Group results are presented in US dollars and exposures are managed against US dollars accordingly. Approximately 54% of Group external sales in 2007 were denominated in currencies other than the US dollar, while a significant proportion of manufacturing and R&D costs were denominated in sterling and Swedish krona. Surplus cash generated by business units is substantially converted to, and held centrally in US dollars. As a result, operating profit and total cash flow in US dollars will be affected by movements in exchange rates.

This currency exposure is managed centrally based on forecast cash flows for the currencies of Swedish krona, sterling, euro, Australian dollar, Canadian dollar and Japanese yen. The impact of movements in exchange rates is mitigated significantly by the correlations which exist between the major currencies to which the Group is exposed and the US dollar, and, accordingly, we will hedge only if there is a significant change or anticipated change in our risk position. Monitoring of currency exposures and correlations is undertaken on a regular basis and hedging is subject to pre-execution approval.

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.

Transactional exposure

The transaction exposures that arise from non-local currency sales and purchases by subsidiaries are, where practicable, fully hedged economically using forward foreign exchange contracts.

Credit risk

The Group is exposed to credit risk on financial assets, such as cash balances (including fixed deposits and cash and cash equivalents), derivative instruments, trade and other receivables. The Group is also exposed in its net asset position to its own credit risk in respect of the 2023 debentures and 2014 bonds which are accounted for as fair value through profit and loss.

Trade and other receivables

Trade receivable exposures are managed locally in the operating units where they arise and credit limits set as deemed appropriate for the customer. 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.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of specific trade and other receivables where it is deemed that a receivable may not be recoverable. When the debt is deemed irrecoverable, the allowance account is written off against the underlying receivable.

Other financial assets

Exposure to financial counterparty credit risk is controlled by the treasury team centrally in establishing and monitoring counterparty limits. Centrally managed funds are invested entirely with counterparties whose credit rating is 'A' or better. External fund managers, who manage \$4,368m 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 derivatives are transacted with commercial banks, in line with standard market practice and are not backed with cash collateral. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments recorded, in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 FINANCIAL INSTRUMENTS

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying values and fair values of all the Group's financial assets and financial liabilities as at 31 December 2007, 31 December 2006 and 31 December 2005. None of the financial assets or financial liabilities have been reclassified during the year.

	Designated at fair value \$m	Derivatives and other items at fair value \$m	Available for sale \$m	Held for trading \$m	Amortised cost \$m	Total carrying value \$m	Fair value \$m
2007							
Cash and cash equivalents	–	–	–	–	5,867	5,867	5,867
Overdrafts	–	–	–	–	(140)	(140)	(140)
Loans due within one year	–	–	–	–	(4,140)	(4,140)	(4,140)
Loans due after more than one year	(1,090)	(1,544)	–	–	(8,242)	(10,876)	(11,235)
Derivative assets	67	19	–	–	–	86	86
Other investments	–	–	182	31	60	273	273
Other financial assets	–	–	–	–	5,973	5,973	5,973
Other financial liabilities	–	–	–	–	(8,070)	(8,070)	(8,070)
2006							
Cash and cash equivalents	–	–	–	–	7,103	7,103	7,103
Overdrafts	–	–	–	–	(114)	(114)	(114)
Loans due within one year	–	–	–	–	(22)	(22)	(22)
Loans due after more than one year	(1,087)	–	–	–	–	(1,087)	(1,087)
Derivative assets	27	45	–	–	–	72	72
Other investments	37	–	82	26	559	704	704
Other financial assets	–	–	–	–	4,794	4,794	4,794
Other financial liabilities	–	–	–	–	(6,729)	(6,729)	(6,729)
2005							
Cash and cash equivalents	–	–	–	–	4,979	4,979	4,979
Overdrafts	–	–	–	–	(84)	(84)	(84)
Loans due within one year	–	–	–	–	(6)	(6)	(6)
Loans due after more than one year	(1,111)	–	–	–	–	(1,111)	(1,111)
Derivative assets	49	10	–	–	–	59	59
Other investments	100	–	156	16	1,549	1,821	1,821
Other financial assets	–	–	–	–	4,134	4,134	4,134
Other financial liabilities	–	–	–	–	(5,847)	(5,847)	(5,847)

Credit risk increased the fair value of the bonds designated as fair value through profit and loss by \$23m for the year and by \$21m since designation. Changes in credit risk had no material effect on any other financial assets and liabilities recognised at fair value in the financial statements. The change in fair value attributable to changes in credit risk is calculated as the change in fair value not attributable to market risk.

The methods and assumptions used to estimate the fair values of financial instruments are as follows:

- > Current investments – the fair value of listed investments is based on year end quoted market prices. For unlisted investments, carrying values approximate fair value.
- > Non-current investments (excluding equity investments in joint ventures and associates) – the fair value of listed investments is based on year end quoted market prices. For unlisted investments, carrying values approximate fair value.
- > Loans – the fair value of fixed rate publicly traded debt is based on year end quoted market prices; the fair value of floating rate debt is nominal value, as mark to market differences would be minimal given frequency of resets.
- > Forward foreign exchange contracts – the Group has forward foreign exchange contracts to sell currency for the purpose of hedging non-dollar commercial transaction exposures which existed at the date of the balance sheet. The majority of the contracts for existing transactions had a maturity of six months or less from year end. The fair value of forward foreign exchange contracts is based on market forward foreign exchange rates at year end.
- > Foreign currency option contracts – the Group may use foreign currency option contracts to hedge anticipated, but not firmly committed, non-dollar commercial transactions. The fair value of option contracts is estimated using Black-Scholes valuation techniques.
- > Interest rate swaps – the Group uses interest rate swaps to hedge the Group's exposure to fluctuations in interest rates, in accordance with a formal risk management strategy. The fair value is estimated using appropriate zero coupon curve valuation techniques based on rates current at year end.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 FINANCIAL INSTRUMENTS CONTINUED**Net gains and losses on financial assets and financial liabilities**

	2007 \$m	2006 \$m	2005 \$m
Included in operating profit			
(Losses)/gains on forward foreign exchange contracts	(59)	168	(61)
Gains/(losses) on receivables and payables	108	(179)	85
(Losses)/gains on investments designated at fair value through profit and loss	(1)	(13)	34
(Losses)/gains on available for sale financial assets	(21)	5	(15)
	27	(19)	43
Included in finance income and expense			
Interest and fair value adjustments in respect of debt designated at fair value through profit and loss, net of derivatives	(22)	(59)	(48)
Interest and changes in carrying values of debt designated as hedged items, net of derivatives	(28)	–	–
Interest and fair value changes on fixed and short-term deposits and equity securities	344	368	212
Interest on debt, overdrafts and commercial paper held at amortised cost	(436)	(11)	(19)
Exchange (losses)/gains on financial assets and liabilities	(3)	(14)	5
	(145)	284	150

\$49m fair value gains on hedging instruments and \$52m fair value losses on the hedged items have been included within interest and changes in carrying values of debt designated as hedged items, net of derivatives.

\$70m of losses on financial assets and liabilities have been taken directly to equity (2006 \$20m, 2005 \$10m).

Liquidity risk

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities, on an undiscounted basis and which, therefore, differs from both the carrying value and fair value, is as follows:

	Bank overdrafts and other loans \$m	Bonds \$m	Trade, other payables and provisions \$m	Total \$m
Within one year	4,305	619	7,355	12,279
In one to two years	–	1,259	715	1,974
In two to three years	–	1,679	–	1,679
In three to four years	–	532	–	532
In four to five years	–	2,255	–	2,255
In more than five years	–	13,356	–	13,356
	4,305	19,700	8,070	32,075
Effect of interest	(25)	(8,857)	–	(8,882)
Effect of discounting, fair values and issue costs	–	33	–	33
31 December 2007	4,280	10,876	8,070	23,226

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 FINANCIAL INSTRUMENTS CONTINUED

Market risk

Interest rate risk

The interest rate profile of the Group's interest bearing financial instruments, as at 31 December 2007 and at 31 December 2006 are set out below. In the case of non-current financial liabilities, the classification includes the impact of interest rate swaps which convert the debt to floating rate.

	2007			2006		
	Total \$m	Fixed rate \$m	Floating rate \$m	Total \$m	Fixed rate \$m	Floating rate \$m
Financial liabilities						
Interest bearing loans and borrowings						
Current	4,280	–	4,280	136	–	136
Non-current	10,876	7,594	3,282	1,087	–	1,087
	15,156	7,594	7,562	1,223	–	1,223
Financial assets						
Fixed deposits	60	–	60	559	–	559
Cash and cash equivalents	5,867	–	5,867	7,103	–	7,103
	5,927	–	5,927	7,662	–	7,662

In addition to the financial assets above, there are \$6,272m (2006 \$5,011m) of other current and non-current asset investments and other financial assets on which no interest is received.

Foreign currency risk

Transactional exposure

100% of the Group's major transactional currency exposures on working capital balances, which typically extend for up to three months, are hedged, where practicable, using forward foreign exchange contracts. As a result, as at 31 December 2007 and 31 December 2006, there were no material monetary assets or liabilities in currencies other than the functional currencies of the Group companies concerned, having taken into account the effect of forward exchange currency contracts that have been used to match foreign currency exposures.

Translational exposure

During the year there was no significant change in our risk position in relation to the cash flows of the Group's principal six currency exposures (sterling, Swedish krona, euro, Australian dollar, Japanese yen and Canadian dollar). During the year, foreign currency loans have been designated as hedges on retranslation of net investments in foreign operations.

Sensitivity analysis

The sensitivity analysis set out below summarises the sensitivity of the market value of our financial instruments to hypothetical changes in market rates and prices. The range of variables chosen for the sensitivity analysis reflects our view of changes which 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. For long term debt, an increase in interest rates results in a decline in the fair value of debt.

The sensitivity analysis 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. Based on the composition of our long term debt portfolio as at 31 December 2007, a 1% increase in interest rates would result in an additional \$75m in interest expense being incurred per year. The exchange rate sensitivity analysis 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 FINANCIAL INSTRUMENTS CONTINUED

31 December 2007

	+1%	Interest rates -1%	+10%	Exchange rates -10%
Increase/(decrease) in fair value of financial instruments	666	(779)	165	(165)
Impact on income statement: gain/(loss)	–	–	(37)	37
Impact on equity: gain/(loss)	–	–	202	(202)

31 December 2006

	+1%	Interest rates -1%	+10%	Exchange rates -10%
Increase/(decrease) in fair value of financial instruments	–	–	(185)	185
Impact on income statement: gain/(loss)	–	–	(104)	104
Impact on equity: gain/(loss)	–	–	(81)	81

31 December 2005

	+1%	Interest rates -1%	+10%	Exchange rates -10%
Increase/(decrease) in fair value of financial instruments	–	–	(113)	113
Impact on income statement: gain/(loss)	–	–	(67)	67
Impact on equity: gain/(loss)	–	–	(46)	46

Credit risk

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2007 \$m	2006 \$m	2005 \$m
US	1,961	1,491	1,305
United Kingdom	425	397	320
Sweden	260	242	176
Euro-zone countries	901	771	633
Other European countries	247	171	143
Japan	771	647	621
Other countries	761	569	566
	5,326	4,288	3,764

The aging of trade receivables at the reporting date was:

	2007 \$m	2006 \$m	2005 \$m
Not past due	4,930	3,966	3,481
Overdue but renegotiated	120	86	58
Past due 0-90 days	79	83	50
Past due 90-180 days	99	62	37
Past due > 180 days	98	91	138
	5,326	4,288	3,764

The allowance for doubtful debts has been calculated based on past experience and is in relation to specific customers. Given the profile of our customers, including large wholesalers and government backed agencies, no further credit risk has been identified with the trade receivables not past due other than those balances for which an allowance has been made.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 TRADE AND OTHER PAYABLES

	2007 \$m	2006 \$m	2005 \$m
Current liabilities			
Trade payables	3,497	3,482	3,161
Value added and payroll taxes and social security	434	280	263
Other payables	865	1,166	854
Accruals	2,172	1,367	1,143
	6,968	6,295	5,421
Non-current liabilities			
Other payables	229	254	72

Included in other payables are amounts totalling \$209m (2006 \$241m, 2005 \$180m) to meet insurance obligations of the Group's insurance subsidiaries.

19 PROVISIONS FOR LIABILITIES AND CHARGES

	Severance \$m	Environmental \$m	Employee benefits \$m	Other provisions \$m	Total \$m
At 1 January 2005	34	67	121	83	305
Charge for the year	33	17	32	20	102
Cash paid	(1)	(16)	(20)	–	(37)
Exchange and other movements	(4)	–	(11)	(1)	(16)
At 31 December 2005	62	68	122	102	354
Charge/(credit) for the year	(1)	56	36	(4)	87
On acquisition of subsidiary	–	–	–	20	20
Cash paid	(36)	(29)	(36)	(5)	(106)
Exchange and other movements	6	–	(13)	18	11
At 31 December 2006	31	95	109	131	366
Charge for the year	620	48	4	58	730
Cash paid	(25)	(32)	(23)	(25)	(105)
Exchange and other movements	17	–	10	2	29
At 31 December 2007	643	111	100	166	1,020
			2007 \$m	2006 \$m	2005 \$m
Due within one year			387	39	45
Due after more than one year			633	327	309
			1,020	366	354

AstraZeneca is undergoing a worldwide restructuring initiative which involves rationalisation of the Global Supply Chain, European Sales and Marketing, Information Services and Business Support infrastructure and Research and Development. Employee costs in connection with the initiatives are recognised in severance provisions. This is a three-year programme expected to be substantially completed by the end of 2009.

Employee benefit provisions include the executive deferred bonus plan and other employee benefit provisions. Further details are included in Note 26.

Details of environmental and litigation provisions are provided in Note 27.

No provision has been released or applied for any purpose other than that for which it was established.

20 STATEMENT OF CHANGES IN EQUITY

	2007 \$m	2006 \$m	2005 \$m
Total equity at 1 January	15,416	13,691	14,497
Net profit for the period	5,627	6,063	4,724
Dividends (Note 23)	(2,658)	(2,217)	(1,676)
Transfers from minority interests to payables	(10)	(6)	(6)
Issues of AstraZeneca PLC Ordinary Shares	218	985	143
Re-purchase of AstraZeneca PLC Ordinary Shares	(4,170)	(4,147)	(3,001)
Share-based payments	150	129	143
Treasury shares	–	(13)	(11)
Foreign exchange and other adjustments on consolidation	492	922	(1,052)
Foreign exchange on borrowings	(40)	–	–
Cash flow hedge in anticipation of debt issue	(21)	–	–
Available for sale losses	(9)	(20)	(10)
Actuarial loss	(113)	(108)	(35)
Tax on items taken directly to reserves	33	137	(25)
Net movement in equity	(501)	1,725	(806)
Total equity at 31 December	14,915	15,416	13,691

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 RESERVES

	Share premium account \$m	Capital redemption reserve \$m	Merger reserve \$m	Other reserves \$m	Retained earnings \$m	Total \$m
At 1 January 2005	550	36	433	1,384	11,590	13,993
Profit retained for the year					4,706	4,706
Dividends					(1,676)	(1,676)
Share premiums	142					142
Re-purchase of shares		17			(3,001)	(2,984)
Share-based payments					143	143
Treasury shares					(11)	(11)
Actuarial loss					(40)	(40)
Available for sale losses					(10)	(10)
Exchange adjustments:						
Goodwill				(39)	39	-
Foreign exchange and other adjustments on consolidation					(1,038)	(1,038)
Tax on items taken directly to reserves					(23)	(23)
Net movements	142	17	-	(39)	(911)	(791)
At 31 December 2005	692	53	433	1,345	10,679	13,202
Profit retained for the year					6,043	6,043
Dividends					(2,217)	(2,217)
Share premiums	979					979
Re-purchase of shares		18			(4,147)	(4,129)
Share-based payments					129	129
Treasury shares					(13)	(13)
Actuarial loss					(108)	(108)
Available for sale losses					(20)	(20)
Exchange adjustments:						
Goodwill				53	(53)	-
Foreign exchange and other adjustments on consolidation					918	918
Tax on items taken directly to reserves					137	137
Net movements	979	18	-	53	669	1,719
At 31 December 2006	1,671	71	433	1,398	11,348	14,921
Profit retained for the year					5,595	5,595
Dividends					(2,658)	(2,658)
Share premiums	217					217
Re-purchase of shares		20			(4,170)	(4,150)
Share-based payments					150	150
Actuarial loss					(113)	(113)
Available for sale losses					(9)	(9)
Foreign exchange on borrowings					(40)	(40)
Cash flow hedge in anticipation of debt issue					(21)	(21)
Exchange adjustments:						
Goodwill				(20)	20	-
Foreign exchange and other adjustments on consolidation					489	489
Tax on items taken directly to reserves					33	33
Net movements	217	20	-	(20)	(724)	(507)
At 31 December 2007	1,888	91	433	1,378	10,624	14,414

The cumulative translation differences at 31 December 2007 were \$2,433m (2006 \$1,945m, 2005 \$1,080m).

21 RESERVES CONTINUED**Nature and purpose of other reserves**

The other reserves arose from the cancellation of £1,255m of share premium account by the parent company in 1993 and the redenomination of share capital (\$157m) in 1999. The reserves are available for writing off goodwill arising on consolidation and, subject to guarantees given to preserve the rights of creditors as at the date of the court order, are available for distribution.

The cumulative amount of goodwill written off directly to reserves resulting from acquisitions, net of disposals, amounted to \$681m (2006 \$661m, 2005 \$714m) using year end rates of exchange. At 31 December 2007, nil shares, at a cost of \$nil, have been deducted from retained earnings (2006 1,112,223 shares, at a cost of \$40m, 2005 1,132,144 shares, at a cost of \$42m).

There are no significant statutory or contractual restrictions on the distribution of current profits of subsidiaries, joint ventures or associates; undistributed profits of prior years are, in the main, permanently employed in the businesses of these companies. The undistributed income of AstraZeneca companies overseas may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends (see Note 4).

22 MINORITY INTERESTS

	2007 \$m	2006 \$m	2005 \$m
At beginning of year	112	94	93
Minority interest share of profit	32	20	18
Actuarial gain, net of tax	–	–	3
Transfers from minority interests to payables	(10)	(6)	(6)
Other movements including exchange	3	4	(14)
At end of year	137	112	94

23 DIVIDENDS TO SHAREHOLDERS

	2007 Per share	2006 Per share	2005 Per share	2007 \$m	2006 \$m	2005 \$m
Final, paid March 2007	\$1.230	\$0.920	\$0.645	1,885	1,453	1,061
Interim, paid September 2007	\$0.520	\$0.490	\$0.380	773	764	615
	\$1.750	\$1.410	\$1.025	2,658	2,217	1,676

The second interim dividend, to be confirmed as final, is \$1.35 per share and \$1,967m in total. This will be payable on 17 March 2008.

On payment of the dividends, exchange gains of \$17m (2006 losses of \$3m, 2005 losses of \$41m) arose. These exchange gains and losses are included in finance income and expense.

24 ACQUISITIONS OF BUSINESS OPERATIONS

Details with regard to acquisitions made during the year ended 31 December 2007 are set out below:

MedImmune, Inc.

On 1 June 2007, AstraZeneca announced the successful tender offer for all the outstanding shares of common stock of MedImmune, Inc., a world-leading biotechnology company with proven biologics discovery and development strength, pipeline and leading biomanufacturing capability. At that date, approximately 96.0% of the outstanding shares were successfully tendered; the remaining shares were acquired by 18 June 2007. The financial results of MedImmune, Inc. have been consolidated into the Group's results from 1 June 2007.

Cash consideration of \$13.9bn was paid for the outstanding shares. After taking account of the cash and investments acquired, together with the settlement of MedImmune's convertible debt and outstanding share options, the total cash paid to acquire MedImmune was \$15.6bn.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of MedImmune, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant amongst these is the premium attributable to a pre-existing, well positioned business in the innovation intensive, high growth biologics market with a highly skilled workforce and established reputation. Other important elements include buyer specific synergies, potential additional indications for identified products and the core technological capabilities and knowledge base of the company.

MedImmune, Inc. contributed \$714m of turnover in the period since acquisition. After amortisation, net investments/interest costs (including interest costs of external financing of \$446m) and tax, the loss attributable to MedImmune since acquisition is \$410m. If the acquisition had taken effect at the beginning of the reporting period (1 January 2007), on a proforma basis the revenue, profit before tax and profit after tax of the combined Group for the year would have been \$30,127m, \$7,576m and \$5,351m, respectively. Basic and diluted Earnings per Share for the combined Group would have been \$3.56 and \$3.55, respectively. This proforma information has been prepared taking into account amortisation, interest costs and related tax effects but does not purport to represent the results of the combined Group that actually would have occurred had the acquisition taken place on 1 January 2007 and should not be taken to be representative of future results.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 ACQUISITIONS OF BUSINESS OPERATIONS CONTINUED

	Book value \$m	Fair value adjustment \$m	Fair value \$m
Non-current assets			
Intangible assets	193	7,882	8,075
Property, plant and equipment	523	70	593
Other	550	(17)	533
	1,266	7,935	9,201
Current assets	1,439	115	1,554
Current liabilities	(326)	39	(287)
Additional obligations related to convertible debt and share options	–	(1,724)	(1,724)
Non-current liabilities			
Interest bearing loans and borrowings	(1,165)	–	(1,165)
Other payables	(73)	–	(73)
Deferred tax assets/(liabilities)	314	(2,694)	(2,380)
	(924)	(2,694)	(3,618)
Total assets acquired	1,455	3,671	5,126
Goodwill			8,757
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

The total consideration for outstanding shares includes \$29m of directly attributable costs.

Other acquisitions

	Book value \$m	Fair value adjustment \$m	Fair value \$m
Non-current assets			
Intangible assets	–	347	347
Property, plant and equipment	7	–	7
	7	347	354
Current assets	12	–	12
Current liabilities	(19)	–	(19)
Non-current liabilities			
Other payables	(9)	–	(9)
Deferred tax liabilities	–	(118)	(118)
	(9)	(118)	(127)
Total assets acquired	(9)	229	220
Goodwill			–
Total consideration			220

The total consideration includes \$3m of directly attributable costs.

Arrow Therapeutics Limited

On 28 February 2007, the Company acquired 100% of the issued share capital of Arrow Therapeutics Limited for cash consideration of \$147m. Arrow Therapeutics Limited is a UK biotechnology company, focused on the discovery and development of anti-viral therapies. The acquisition provides a widely recognised expert group and technology platform in an area of research that complements internal capabilities in the therapy area of infection and anti-bacterials.

Arrow Therapeutics Limited had a turnover of \$nil and a loss of \$26m for the year, of which \$nil of turnover and \$17m of loss related to the period since acquisition.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 ACQUISITIONS OF BUSINESS OPERATIONS CONTINUED**Atlantis Components Inc.**

On 10 October 2007, a Company subsidiary, Astra Tech, acquired 100% of the issued share capital of Atlantis Components Inc. for cash consideration of \$71m.

Atlantis Components Inc, is a US dental business whose principal activity is the design and manufacture of bespoke dental implant abutments. The intangible asset acquired is the specialist CAD/CAM technology used to design and manufacture customised dental implant abutments. The acquisition further strengthens Astra Tech's product portfolio in the field of dental implants.

The turnover and loss for both the period since acquisition and full year are immaterial.

Cash flows

	MedImmune, Inc. \$m	Other \$m	Total \$m
Total consideration	15,653	220	15,873
Cash and cash equivalents included in undertaking acquired	(979)	(3)	(982)
Net cash consideration	14,674	217	14,891

Details with regard to acquisitions made during the year ended 31 December 2006 are set out below:

Cambridge Antibody Technology Group plc

On 22 August 2006, AstraZeneca completed the acquisition of 100% of the issued share capital of Cambridge Antibody Technology Group plc, a biopharmaceutical company with a leading position in the discovery and development of human therapeutic antibodies. On 22 June 2006, the offer to acquire the entire share capital of Cambridge Antibody Technology Group plc was declared unconditional and the financial results of Cambridge Antibody Technology Group plc were consolidated into the Company's results from this date. Cash consideration of \$1,074m was paid during the year. Prior to the acquisition, AstraZeneca had been engaged in a collaboration and licensing agreement with Cambridge Antibody Technology Group plc. At 31 December 2005, AstraZeneca held a 19.2% interest in the issued share capital of Cambridge Antibody Technology Group plc, which was recorded on the balance sheet within non-current asset investments as 'Equity securities available for sale'.

The goodwill arising on the acquisition results from assets which cannot be recognised separately and measured reliably including early stage pipeline products and a highly skilled workforce.

Cambridge Antibody Technology Group plc had a turnover of \$nil and a loss of \$58m for the year, of which \$nil of turnover and \$38m of loss related to the period since acquisition. Subsequent to the acquisition of Cambridge Antibody Technology Group plc, the Humira™ royalty stream acquired with the company was sold for \$661m (see Note 4).

	Book value \$m	Fair value adjustment \$m	Fair value \$m
Non-current assets			
Intangible assets – Humira™ royalty stream	–	675	675
Intangible assets – other	21	560	581
Property, plant and equipment	24	–	24
Other	20	–	20
	65	1,235	1,300
Current assets	336	–	336
Current liabilities	(72)	–	(72)
Non-current liabilities			
Deferred taxation	(5)	(364)	(369)
Other	–	(20)	(20)
	(5)	(384)	(389)
Total assets acquired	324	851	1,175
Goodwill	–	104	104
Less:			
Existing non-current asset investment	–	(163)	(163)
Total consideration	324	792	1,116
Exchange	–	(24)	(24)
Settled in loan notes	–	(18)	(18)
Cash paid	324	750	1,074

The total consideration includes \$15m of directly attributable costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 ACQUISITIONS OF BUSINESS OPERATIONS CONTINUED

KuDOS Pharmaceuticals Limited

On 31 January 2006, the Company acquired 100% of the issued share capital of KuDOS Pharmaceuticals Limited for a cash consideration of \$206m. KuDOS Pharmaceuticals Limited is a UK biotechnology company focused on the discovery and development of oncology therapies based on inhibition of DNA repair. The acquisition provides the Company with a widely recognised expert group and technology platform that complements the existing capabilities of the oncology franchise, one of the Company's key therapy areas. The goodwill arising on the acquisition results from assets which cannot be recognised separately and measured reliably and includes early stage pipeline products.

KuDOS Pharmaceuticals Limited had a turnover of \$nil and a loss of \$15m for the year, of which \$nil of turnover and \$14m of loss related to the period since acquisition.

	Book value \$m	Fair value adjustment \$m	Fair value \$m
Non-current assets			
Intangible assets – other	–	285	285
Property, plant and equipment	2	–	2
	2	285	287
Current assets	3	–	3
Current liabilities	(11)	–	(11)
Non-current liabilities			
Deferred taxation	–	(85)	(85)
Total assets acquired	(6)	200	194
Goodwill	–	12	12
Total consideration	(6)	212	206

The total consideration includes \$2m of directly attributable costs.

Cash flows

	Cambridge Antibody Technology Group plc \$m	KuDOS Pharmaceuticals Limited \$m	Total \$m
Total consideration	1,074	206	1,280
Cash and cash equivalents included in undertaking acquired	(129)	(3)	(132)
Net cash consideration	945	203	1,148

25 POST-RETIREMENT BENEFITS

Pensions

Background

The Company and most of its subsidiaries offer retirement plans which cover the majority of employees in the Group. Many of these plans are “defined contribution”, where the company contribution and 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, the US and Sweden, are “defined benefit”, where benefits are based on employees' length of service and average final salary (typically averaged over 1, 3 or 5 years). The major defined benefit plans, apart from the collectively bargained Swedish plan (which is still open to employees born before 1979), have been closed to new entrants since 2000.

The UK plan, which is the single largest plan, has specific restrictions imposed on one section of the membership preventing amendments that will prejudice the rights or interest of that section of the membership.

The major defined benefit plans are funded through legally separate fiduciary administered funds. The cash funding of the plans, which may from time to time involve special payments, is designed, in consultation with independent qualified actuaries, to ensure that the assets together with future contributions should be sufficient to meet future obligations. The funding is monitored rigorously by the Company and appropriate fiduciaries specifically with reference to the Company's credit rating, market capitalisation and cash flows.

25 POST-RETIREMENT BENEFITS CONTINUED**Post-retirement scheme deficit**

The assets and obligations of the defined benefit schemes operated by the Group at 31 December 2007 as calculated in accordance with IAS 19 are shown below. The fair values of the schemes' assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present value of the schemes' obligations is derived from cash flow projections over long periods and is thus inherently uncertain.

	Value at 31 December 2007			Value at 31 December 2006		
	UK \$m	Rest of Group \$m	Total \$m	UK \$m	Rest of Group \$m	Total \$m
Scheme assets						
Equities	2,581	1,453	4,034	2,669	1,497	4,166
Bonds	2,517	888	3,405	2,154	735	2,889
Others	1,212	303	1,515	1,255	261	1,516
Total fair value of assets	6,310	2,644	8,954	6,078	2,493	8,571
Present value of scheme obligations	(7,644)	(3,348)	(10,992)	(7,352)	(3,109)	(10,461)
Past service cost not yet recognised	–	40	40	–	48	48
Deficit in the scheme as recognised in the balance sheet	(1,334)	(664)	(1,998)	(1,274)	(568)	(1,842)

96.9% of the Group's defined benefit obligations at 31 December 2007 are in schemes within the UK, the US, Sweden or Germany. In these countries the pension obligations are funded with reference to the following financing principles:

Financing Principles

- > The Group has a fundamental belief in funding the benefits it promises to employees.
- > The Group considers its pension arrangements in the context of its broader capital structure. In general it does not believe in committing excessive capital for funding whilst it has better uses of capital within the business nor does it wish to generate surpluses.
- > The pension funds are not part of the Group's core business. Pension funds may take rewarded risks with the investments underlying the funding, subject to adequate controls and the expected rewards outweighing the risks.
- > The Group recognises that deciding to hold certain investments may cause volatility in the funding position. The Group would not wish to amend its contribution level for relatively small deviations from its preferred funding level, because it is expected that there will be short term volatility, but it is prepared to react appropriately to more significant deviations.
- > In the event that local regulations require an additional level of financing, the Group would consider the use of alternative methods of providing this that do not require immediate cash funding but help mitigate exposure of the pension arrangement to the credit risk of the Group.

These principles are appropriate to AstraZeneca's business at the present date; should circumstances change they may require review.

The Company has developed a funding framework to implement these principles. This determines the cash contributions payable to the pension funds, but does not affect the IAS 19 liabilities. To reduce the risk of committing excess capital to pension funds, liabilities are based on the expected return on the actual pension assets, rather than a corporate bond yield. At present this puts a lower value on the liabilities than IAS 19 and so the Company's expectation is to continue to run an IAS 19 pension deficit for the foreseeable future.

UK

With regard to the Group's UK defined benefit fund, the above principles are modified in light of the UK regulatory requirements and resulting discussions with the pension fund Trustee. The most recent full actuarial valuation was carried out at 31 March 2006.

Under the agreed funding principles for the UK, cash contributions will be paid to the fund to target a level of assets in excess of the current expected cost of providing benefits. The Company will make additional contributions to an escrow account which will be held outside of the pension fund. The escrow account assets will be payable to the fund in agreed circumstances, for example in the event of the Company and Trustee agreeing a change to the current long term investment strategy.

The market value of the fund's assets at the valuation date was £3,070m (\$5,363m equivalent), representing 97% of the fund's actuarially assessed liabilities as valued in accordance with the fund's technical provisions. The shortfall will be funded over nine years through payments of about £62m per annum which include the regular contributions required to meet the benefits accruing of about £53m per annum. In addition to this, contributions of around £27m per annum will be payable to the escrow account which is outside of the pension fund.

Under the agreed funding principles, the key assumptions as at 31 March 2006 for contributions to both the fund and escrow account are as follows: Long-term UK price inflation set at 2.8% pa, salary increases at 4.1% pa, pension increases at 2.8% pa and investment returns at 6.8% pa (pre-retirement) and 5.1% pa (post-retirement).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 POST-RETIREMENT BENEFITS CONTINUED**Rest of Group**

The IAS 19 positions as at 31 December 2007 are shown below for each of the other countries with large defined benefit plans. These plans account for 90% of the Group's defined benefit obligations outside of the UK. In principle, these plans are funded in line with the financing principles and contributions paid as prescribed by the funding framework.

- > The US defined benefits programme was actuarially revalued at 31 December 2007, when plan obligations were \$1,693m and plan assets were \$1,591m. This includes obligations in respect of the non-qualified plan which is largely unfunded.
- > The Swedish defined benefits programme was actuarially revalued at 31 December 2007, when plan obligations were estimated to amount to \$1,087m and plan assets were \$752m.
- > The German defined benefits programme was actuarially revalued at 31 December 2007, when plan obligations amounted to \$226m and plan assets were \$35m. The plan is largely unfunded but work is currently underway to put in place a funding strategy during 2008.

Post-retirement benefits other than pensions

In the US, and to a lesser extent in certain other countries, AstraZeneca's employment practices include the provision of healthcare and life assurance benefits for retired employees. As at 31 December 2007, some 3,511 retired employees and covered dependants currently benefit from those provisions and some 13,860 current employees will be eligible on their retirement. AstraZeneca accrues for the present value of such retiree obligations over the working life of the employee. In practice these benefits will be funded with reference to the Financing Principles.

The cost of post-retirement benefits other than pensions for the Group in 2007 was \$26m (2006 \$12m, 2005 \$12m). Plan assets were \$274m and plan obligations were \$355m at 31 December 2007. These benefit plans have been included in the disclosure of post-retirement benefits under IAS 19.

Financial assumptions

Qualified independent actuaries have updated the actuarial valuations of the major defined benefit schemes operated by the Group to 31 December 2007. The assumptions used by the actuaries are chosen from a range of possible actuarial assumptions which, due to the long-term nature of the scheme, may not necessarily be borne out in practice. These assumptions were as follows:

	2007		2006	
	UK	Rest of Group	UK	Rest of Group
Inflation assumption	3.3%	2.3%	3.0%	2.2%
Rate of increase in salaries	4.5%	3.7%	4.3%	3.8%
Rate of increase in pensions in payment	3.3%	0.9%	3.0%	0.7%
Discount rate	5.8%	5.4%	5.1%	5.2%
Long term rate of return expected at 31 December				
Equities	8.0%	8.9%	8.2%	8.3%
Bonds	5.6%	5.0%	5.1%	6.1%
Others	6.5%	4.8%	6.2%	4.6%
Rate of increase in medical costs	10.0%	9.0%	10.0%	10.0%

The expected return on assets is determined with reference to the expected long term level of dividends, interest and other returns derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan, less any tax payable by the plan. The expected returns are based on long term market expectations and analysed on a regular basis to ensure any sustained movements in underlying markets are reflected.

Demographic assumptions

The mortality assumptions are based on country specific mortality tables. These are compared to actual AstraZeneca experience and adjusted where sufficient data is available. Additional allowance for future improvements in life expectancy is included for all major schemes where there is credible data to support this continuing trend.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 POST-RETIREMENT BENEFITS CONTINUED

The table below illustrates life expectancy assumptions at age 65 for male members retiring in 2007 and members expected to retire in 2027.

Country	Life expectancy assumption for a male member retiring at age 65			
	2007	2027	2006	2026
UK	23.7	25.7	20.6	22.0
US	19.6	21.1	19.6	21.0
Sweden	20.4	22.4	19.2	20.0
Germany	17.7	20.5	17.7	20.5

Sensitivity of medical cost assumptions

	Effect of change in medical cost assumption increase/(decrease)			
	+1%	2007 -1%	+1%	2006 -1%
Current service and interest cost of net periodic post-employment medical costs (\$m)	4	(4)	3	(2)
Accumulated post-employment benefit obligation for medical costs (\$m)	30	(19)	26	(24)

Actuarial gains and losses

	2007	2006	2005
UK			
Present value of obligations (\$m)	(7,644)	(7,352)	(6,309)
Fair value of plan assets (\$m)	6,310	6,078	5,314
Deficit in the scheme (\$m)	(1,334)	(1,274)	(995)
Experience adjustments on: Scheme assets			
Amount (\$m)	(185)	(259)	636
Percentage of scheme assets	2.9%	4.3%	12.0%
Scheme obligations			
Amount (\$m)	114	71	(539)
Percentage of scheme obligations	1.5%	1.0%	8.5%
Rest of Group			
Present value of obligations (\$m)	(3,348)	(3,109)	(2,995)
Fair value of plan assets (\$m)	2,644	2,493	2,284
Deficit in the scheme (\$m)	(704)	(616)	(711)
Experience adjustments on: Scheme assets			
Amount (\$m)	(24)	55	63
Percentage of scheme assets	0.9%	2.2%	2.8%
Scheme obligations			
Amount (\$m)	(18)	25	(195)
Percentage of scheme obligations	0.5%	0.8%	6.5%
Total			
Present value of obligations (\$m)	(10,992)	(10,461)	(9,304)
Fair value of plan assets (\$m)	8,954	8,571	7,598
Deficit in the scheme (\$m)	(2,038)	(1,890)	(1,706)
Experience adjustments on: Scheme assets			
Amount (\$m)	(209)	(204)	699
Percentage of scheme assets	2.3%	2.4%	9.2%
Scheme obligations			
Amount (\$m)	96	96	(734)
Percentage of scheme obligations	0.9%	0.9%	7.9%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 POST-RETIREMENT BENEFITS CONTINUED

The obligation arises from the following plans:

	2007		2006	
	UK \$m	Rest of Group \$m	UK \$m	Rest of Group \$m
Funded	(7,616)	(2,911)	(7,321)	(2,650)
Unfunded	(28)	(437)	(31)	(459)
Total	(7,644)	(3,348)	(7,352)	(3,109)

Income statement disclosures

The amounts that have been charged to the consolidated income statement and consolidated statement of recognised income and expense, in respect of defined benefit schemes for the year ended 31 December 2007 are set out below:

	2007			2006		
	UK \$m	Rest of Group \$m	Total \$m	UK \$m	Rest of Group \$m	Total \$m
Operating profit						
Current service cost	(187)	(113)	(300)	(153)	(139)	(292)
Past service cost	(38)	(6)	(44)	(18)	(10)	(28)
Finance expense						
Expected return on post-retirement scheme assets	402	171	573	364	154	518
Interest on post-retirement scheme obligations	(379)	(160)	(539)	(330)	(145)	(475)
Net return	23	11	34	34	9	43
Charge before taxation	(202)	(108)	(310)	(137)	(140)	(277)
Consolidated statement of recognised income and expense						
Difference between the actual return and the expected return on the post-retirement schemes' assets	(185)	(24)	(209)	(259)	55	(204)
Experience (losses)/gains arising on the post-retirement schemes' obligations	(359)	(62)	(421)	55	(9)	46
Changes in assumptions underlying the present value of the post-retirement schemes' obligations	473	44	517	16	34	50
Actuarial (losses)/gains recognised	(71)	(42)	(113)	(188)	80	(108)

Movement in post-retirement scheme obligations

	2007			2006		
	UK \$m	Rest of Group \$m	Total \$m	UK \$m	Rest of Group \$m	Total \$m
Present value of obligation in schemes at beginning of year	(7,352)	(3,109)	(10,461)	(6,309)	(2,995)	(9,304)
Current service cost	(187)	(113)	(300)	(153)	(139)	(292)
Past service cost	(38)	(6)	(44)	(18)	(10)	(28)
Participant contributions	(29)	(2)	(31)	(27)	(6)	(33)
Benefits paid	311	99	410	296	97	393
Other finance expense	(379)	(160)	(539)	(330)	(145)	(475)
Expenses	9	–	9	9	–	9
Actuarial gain/(loss)	114	(18)	96	71	25	96
Amendments	–	–	–	–	(48)	(48)
Settlements	–	–	–	–	290	290
Exchange	(93)	(39)	(132)	(891)	(178)	(1,069)
Present value of obligations in schemes at end of year	(7,644)	(3,348)	(10,992)	(7,352)	(3,109)	(10,461)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 POST-RETIREMENT BENEFITS CONTINUED**Fair value of scheme assets**

	2007			2006		
	UK \$m	Rest of Group \$m	Total \$m	UK \$m	Rest of Group \$m	Total \$m
At beginning of year	6,078	2,493	8,571	5,314	2,284	7,598
Expected return on plan assets	402	171	573	364	154	518
Expenses	(9)	–	(9)	(9)	–	(9)
Actuarial (loss)/gain	(185)	(24)	(209)	(259)	55	(204)
Exchange	90	2	92	760	126	886
Contributions	245	101	346	204	157	361
Benefits paid	(311)	(99)	(410)	(296)	(97)	(393)
Settlements	–	–	–	–	(186)	(186)
At end of year	6,310	2,644	8,954	6,078	2,493	8,571

It is expected that the contributions to the scheme during the year ended 31 December 2008 will be \$236m.

Included in total assets and obligations for the UK scheme is £166m in respect of members defined contribution sections. Costs in respect of defined contribution schemes during the year were \$105m (2006 \$62m, 2005 \$71m).

Reserves

Included within the retained earnings reserve is the actuarial reserve. Movements on this reserve are as follows:

	2007 \$m	2006 \$m	2005 \$m
At 1 January	(401)	(328)	(303)
Actuarial losses	(113)	(108)	(35)
Deferred tax	35	35	10
At 31 December	(479)	(401)	(328)

The cumulative amount of actuarial losses before deferred tax recognised in the statement of recognised income and expense is \$635m (2006 \$522m).

26 EMPLOYEE COSTS AND SHARE OPTION PLANS FOR EMPLOYEES**Employee costs**

The average number of people employed by the Group is set out in the table below. In accordance with the Companies Act 1985, this includes part-time employees:

Employees	2007	2006	2005
Average number of people employed by the Group in:			
UK	11,800	11,800	11,600
Continental Europe	25,600	26,600	26,200
The Americas	20,200	18,200	17,900
Asia, Africa & Australasia	10,300	10,000	9,200
Continuing operations	67,900	66,600	64,900

The number of people employed by the Group at the end of 2007 was 67,400 (2006 66,800, 2004 65,300).

The costs incurred during the year in respect of these employees were:

	2007 \$m	2006 \$m	2005 \$m
Salaries	5,217	4,580	4,270
Social security costs	858	832	670
Pension costs	449	390	339
Other employment costs	584	553	482
	7,108	6,355	5,761

Severance costs of \$724m are not included above (2006 \$66m, 2005 \$29m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 EMPLOYEE COSTS AND SHARE OPTION PLANS FOR EMPLOYEES CONTINUED

The Directors believe that, together with the basic salary system, the Group's employee incentive schemes provide competitive and market-related packages to motivate employees. They should also align the interests of employees with those of shareholders, as a whole, through long-term share ownership in the Company. The Group's current UK, Swedish and US schemes are described below; other arrangements apply elsewhere.

Bonus plans**The AstraZeneca UK Performance Bonus Plan**

Employees of participating AstraZeneca UK companies are invited to participate in this bonus plan, which rewards strong individual performance. Bonuses are paid partly in the form of Ordinary Shares in the Company (under the Inland Revenue-approved AstraZeneca All-Employee Share Plan and up to a maximum annual value of £3,000) and partly in cash. A tax-efficient share retention scheme, under which employees leave their bonus shares in trust for three to five years, forms part of the All-Employee Share Plan. The Company also offers UK employees the opportunity to buy Partnership Shares (Ordinary Shares) under the All-Employee Share Plan. Employees may invest up to £1,500 over a 12 month accumulation period and purchase Partnership Shares in the Company with the total proceeds at the end of the period. The purchase price for the shares is the lower of the price at the beginning or the end of the 12 month period. A tax-efficient share retention scheme is also available in respect of Partnership Shares. At the Company's AGM in 2002, shareholders approved the issue of new shares for the purposes of the All-Employee Share Plan.

The AstraZeneca Executive Annual Bonus Scheme

This scheme is a performance bonus scheme for Directors and senior employees who do not participate in the AstraZeneca UK Performance Bonus Plan. Annual bonuses are paid in cash and reflect both corporate and individual performance measures. The Remuneration Committee has discretion to reduce or withhold bonuses if business performance falls sufficiently short of expectations in any year such as to make the payment of bonuses inappropriate.

The AstraZeneca Deferred Bonus Plan

This plan was introduced in 2006 and is used to defer a portion of the bonus earned under the AstraZeneca Executive Annual Bonus Scheme into Ordinary Shares in the Company for a period of three years. The plan currently operates only in respect of Executive Directors and members of the Senior Executive Team (SET). Awards of shares under this plan are typically made in February each year, the first award having been made in February 2006.

The AstraZeneca Performance Share Plan

This plan was approved by shareholders in 2005 for a period of 10 years. Generally, awards can be granted at any time, but not during a close period of the Company. The first grant of awards was made in June 2005. The main grant of awards in 2007 under the plan was in March, at the same time as options were granted under the AstraZeneca Share Option Plan, with further smaller grants in August and November. Awards granted under the plan vest after three years depending on the performance of the Company compared to that of a selected peer group of other pharmaceutical companies. The Remuneration Committee has responsibility for agreeing any awards under the plan and for setting the policy for the way in which the plan should be operated, including agreeing performance targets and which employees should be invited to participate. A fuller description of this plan can be found on page 103 in the Directors' Remuneration Report.

The AstraZeneca Pharmaceuticals LP Restricted Stock Unit Award Plan

This plan was introduced in 2007 and provides for the grant of restricted stock unit (RSU) awards (Awards) to selected employees (predominantly in the US). The RSU Plan is used in conjunction with the AstraZeneca Share Option Plan to provide a mix of restricted stock units and share options. Awards typically vest on the third anniversary of the date of grant and are contingent on continued employment with the Company. The RSU Plan has also been used in 2007 to make Awards to certain employees within the MedImmune part of the Group.

Sweden

In Sweden an all-employee performance bonus plan is in operation, which rewards strong individual performance. Bonuses are paid partly into a fund investing 50% in AstraZeneca equities and partly in cash. The AstraZeneca Executive Annual Bonus Scheme, the AstraZeneca Share Option Plan and the AstraZeneca Performance Share Plan all operate in respect of relevant AstraZeneca employees in Sweden.

US

In the US, there are two all-employee performance bonus plans in operation, which reward strong individual performance. Annual bonuses are paid in cash. There are also two senior staff incentive schemes, under which approximately 450 participants may be eligible for awards granted as either AstraZeneca ADSs or stock appreciation rights related to AstraZeneca ADSs. AstraZeneca ADSs necessary to satisfy the awards are purchased in the market. The AstraZeneca Share Option Plan and the AstraZeneca Pharmaceuticals LP Restricted Stock Unit Award Plan both operate in respect of relevant AstraZeneca employees in the US.

26 EMPLOYEE COSTS AND SHARE OPTION PLANS FOR EMPLOYEES CONTINUED**AstraZeneca Performance Share Plan**

	Shares '000	WAFV* pence
Shares awarded in June 2005	312	1121
Shares awarded in March 2006	280	1486
Shares awarded in May 2006	19	1424
Shares awarded in March 2007	1,611	1372
Shares awarded in August 2007	68	1217
Shares awarded in November 2007	16	1105

US incentive share schemes

	Shares '000	WAFV* \$
	1,028	50.86

Restricted Stock Unit Award Plan

	Units '000	WAFV* \$
Units awarded in March 2007	755	26.90
Units awarded in November 2007	270	21.56

* Weighted average fair value.

The fair values were determined using a modified version of the binomial model. This method incorporated expected dividends but no other features into the measurements of fair value.

The charge for share-based payments in respect of the AstraZeneca Performance Share Plan, the US incentive share schemes and restricted stock unit award plan is \$31m (2006 \$14m, 2005 \$15m). The plans are equity-settled.

Share option plans

At 31 December 2007, there were options outstanding under the Zeneca 1994 Executive Share Option Scheme, the AstraZeneca Savings-Related Share Option Scheme, the AstraZeneca Savings-Related Share Option Plan and the AstraZeneca Share Option Plan.

(1) Summary of the AstraZeneca Share Option Plan

This is a share option plan for employees of participating AstraZeneca Group companies which was approved by shareholders at the Company's AGM in 2000. The first grant of options occurred in August 2000. The main grant of options in 2007 under the plan was in March, with further smaller grants in August and November. The Remuneration Committee sets the policy for the Company's operation of the plan and, in accordance with the rules of the plan, conducted a review of the plan in 2004.

Eligibility

Any AstraZeneca employee may be recommended from time to time for the grant of an option. The Remuneration Committee sets the policy for the Company's operation of the plan including as regards which employees will be eligible to participate.

Grant of options

Options may be granted at any time other than during a close period. The grant of options is supervised by the Remuneration Committee, which is comprised wholly of Non-Executive Directors. No payment is required for the grant of an option. Options are not transferable. Options may be granted over AstraZeneca Ordinary Shares or ADSs.

Acquisition price

The price per Ordinary Share payable upon the exercise of an option will not be less than an amount equal to the average of the middle-market closing price for an Ordinary Share or ADS of the Company on the London or New York Stock Exchange on the three consecutive dealing days immediately before the date of grant (or as otherwise agreed with HM Revenue & Customs). Where the option is an option to subscribe, the price payable upon exercise cannot be less than the nominal value of an Ordinary Share of the Company.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 EMPLOYEE COSTS AND SHARE OPTION PLANS FOR EMPLOYEES CONTINUED**Exercise of options**

An option will normally be exercisable between three and 10 years following its grant provided any relevant performance condition has been satisfied. Options may be satisfied by the issue of new Ordinary Shares or by existing Ordinary Shares purchased in the market. The Remuneration Committee sets the policy for the Company's operation of the plan including as regards whether any performance target(s) will apply to the grant and/or exercise of each eligible employee's option. Options normally lapse on cessation of employment. Exercise is, however, permitted for a limited period following cessation of employment either for reasons of injury or disability, redundancy or retirement, or at the discretion of the Remuneration Committee, and on an amalgamation, take-over or winding-up of the Company.

(2) Summary of the AstraZeneca Savings-Related Share Option Scheme and the AstraZeneca Savings-Related Share Option Plan

The AstraZeneca Savings-Related Share Option Scheme was approved by shareholders in 1994 for a period of 10 years. The last grant of options under this scheme was made in September 2002. In 2003, shareholders approved the AstraZeneca Savings-Related Share Option Plan for a period of 10 years. The first grant of options under this plan was made in September 2003. The following sections apply to both the AstraZeneca Savings-Related Share Option Scheme and the AstraZeneca Savings-Related Share Option Plan, which have broadly similar rules.

Eligibility

UK-resident employees of participating AstraZeneca companies are automatically eligible to participate.

Grant of options

Invitations to apply for options may be issued within six weeks after the announcement by the Company of its results for any period and at other times in circumstances considered to be exceptional by the Directors. No invitations may be issued later than 10 years after the approval of the scheme by shareholders. Options may only be granted to employees who enter into HM Revenue & Customs-approved savings contracts with the savings body nominated by the Company, under which monthly savings of a fixed amount (currently not less than £5 nor more than £250) are made over a period of three or five years. The number of Ordinary Shares over which an option is granted will be such that the total amount payable on its exercise will be the proceeds on maturity of the related savings contract. No payment will be required for the grant of an option. Options are not transferable.

Individual participation

Monthly savings by an employee under all savings contracts linked to options granted under any Save As You Earn scheme may not exceed £250 or such lower amounts as may be determined by the Directors.

Acquisition price

The price per Ordinary Share payable upon the exercise of an option will not normally be less than the higher of:

- (a) 90% of the arithmetical average of the middle-market quotations for an Ordinary Share on the London Stock Exchange on three consecutive dealing days shortly before the date on which invitations to apply for options are issued (provided that no such day may fall before the Company last announced its results for any period) or such other dealing day or days falling within the six week period for the issue of invitations, as the Directors may decide; and
- (b) the nominal value of an Ordinary Share (unless the option is expressed to relate only to existing Ordinary Shares).

Exercise of options

An option will normally be exercisable only for six months commencing on the third or fifth anniversary of the commencement of the related savings contract. Options are satisfied by the issue of new Ordinary Shares. Options normally lapse on cessation of employment. Exercise is, however, permitted for a limited period (irrespective of the period during which the option has been held) following cessation of employment in certain compassionate circumstances or where an option has been held for more than three years (except on dismissal for misconduct) and on an amalgamation, take-over or winding-up of the Company.

(3) Summary of the Zeneca 1994 Executive Share Option Scheme

The Zeneca 1994 Executive Share Option Scheme was introduced in 1994. The last date for the grant of options was 16 March 2000 and the scheme has been replaced by the AstraZeneca Share Option Plan. Options granted under the 1994 scheme are normally exercisable between three and 10 years following grant, provided the relevant performance condition has been satisfied. Options are satisfied by the issue of new Ordinary Shares. The performance condition applicable to the 1994 scheme was that earnings per share must have grown by at least the increase in the UK Retail Price Index over three years plus 3% per annum. Satisfaction of this condition was tested annually by reference to the audited financial statements. All options granted under the 1994 scheme have become exercisable, the performance conditions having been satisfied.

26 EMPLOYEE COSTS AND SHARE OPTION PLANS FOR EMPLOYEES CONTINUED

	AstraZeneca Share Option Plan		1994 Scheme		SAYE Schemes		Shares under option '000	ASVIP WAEP* SEK
	Options '000	WAEP* pence	Options '000	WAEP* pence	Options '000	WAEP* pence		
At 1 January 2005								
Options outstanding	44,136	2790	7,489	2650	4,113	2005	483	431
Movements during 2005								
Options granted	9,621	2133	–	–	606	2257	–	–
Options exercised	(1,053)	2486	(1,259)	2601	(689)	1782	(6)	442
Options forfeited	(2,625)	2800	(272)	2688	(592)	2248	(168)	411
Options lapsed	–	–	–	–	–	–	–	–
Weighted average fair value of options granted during the year		619				700		
At 31 December 2005								
Options outstanding	50,079	2670	5,958	2658	3,438	2053	309	442
Movements during 2006								
Options granted	9,266	2977	–	–	280	3001	–	–
Options exercised	(18,543)	2708	(4,038)	2665	(289)	2278	–	–
Options forfeited	(1,078)	2669	(14)	2862	(218)	2473	(309)	442
Options lapsed	–	–	–	–	–	–	–	–
Weighted average fair value of options granted during the year		857				943		
At 31 December 2006								
Options outstanding	39,724	2428	1,906	2371	3,211	2087	–	–
Movements during 2007								
Options granted	7,312	2737	–	–	1,074	2164	–	–
Options exercised	(2,770)	2648	(321)	2426	(1,327)	1785	–	–
Options forfeited	(1,706)	2745	(95)	2603	(238)	2528	–	–
Options lapsed	–	–	–	–	–	–	–	–
Weighted average fair value of options granted during the year		682				616		
At 31 December 2007								
Options outstanding	42,560	2451	1,490	2364	2,720	2226	–	–
Range of exercise prices		1477p to 3487p		2208p to 2749p		1756p to 3001p		n/a
Weighted average remaining contractual life		2,473 days		751 days		1,109 days		n/a
Options exercisable	19,637	2860	1,490	2689	350	1879	–	n/a

*Weighted average exercise price.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 EMPLOYEE COSTS AND SHARE OPTION PLANS FOR EMPLOYEES CONTINUED

	2007	2006	2005
Average share price (pence)	2599	3020	2384
Weighted average exercise price (pence)			
AstraZeneca Share Option Plan	2737	2977	2133
SAYE schemes	2164	3001	2257
Weighted average fair value of options granted in the period (pence)			
AstraZeneca Share Option Plan	682	857	619
SAYE schemes	616	943	700
Expected volatility (%)	25.0	30.0	30.0
Dividend yield (%)	2.6	2.3	2.3
Risk-free interest rate (%)	4.8	4.3	4.3
Expected lives: AstraZeneca Share Option Plan (years)	6.0	6.0	6.0
Expected lives: SAYE schemes (years)	4.3	4.1	3.9

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options) adjusted for any expected changes to future volatility due to publicly available information.

No other features of options granted were incorporated into the measurement of fair value.

The charge for share-based payments in respect of share options is \$124m (2006 \$125m, 2005 \$128m) which is comprised entirely of equity-settled transactions.

27 COMMITMENTS AND CONTINGENT LIABILITIES

	2007 \$m	2006 \$m	2005 \$m
Commitments			
Contracts placed for future capital expenditure not provided for in these accounts	571	383	220

Included in the above total are contracts related to certain product purchase and licence agreements with deferred consideration obligations, the amounts of which are variable depending upon particular 'milestone' achievements. Sales of the products to which these milestones relate could give rise to additional payments, contingent upon the sales levels achieved. Guarantees and contingencies arising in the ordinary course of business, for which no security has been given, are not expected to result in any material financial loss.

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 AstraZeneca is the general partner, and AstraZeneca 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 AstraZeneca's 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 AstraZeneca's products and activities.

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

Annual contingent payments

AstraZeneca makes ongoing payments to Merck based on sales of certain of its 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 \$125m to \$225m. AstraZeneca's payments have exceeded the minimum level 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 \$809m was triggered. As a result of this payment, Merck relinquished any claims it may have had to Zeneca products.

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

Termination arrangements

The Agreements provided for arrangements and payments under which, subject to the exercise of certain options, the rights and interests in AstraZeneca's 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, AstraZeneca now has rights to such products and is relieved of potential obligations to Merck and restrictions in respect of those products (including annual contingent payments), affording AstraZeneca substantial freedom to exploit the products as it sees fit.

At the time of the merger, the Advance Payment was paid. It was calculated as the then net present value of \$2.8bn discounted from 2008 to the date of merger at a rate of 13% per annum and amounted to \$967m. 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 \$750m. See "General" below for the 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, AstraZeneca may exercise it in 2010 for a sum equal to the 2008 Appraised Value. See "General" below for the current estimate of the amount of this payment. Contingent payments will continue from 2008 to 2010 if AstraZeneca exercises 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 AstraZeneca exercises the option, the contingent payment arrangements in respect of these agreement products will continue (as will AstraZeneca's 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 \$6.6bn), plus other defined amounts (totalling \$912m). It is then reduced by the Appraised Value (whether paid or not), the Partial Retirement and the Advance Payment (at its undiscounted amount of \$2.8bn) 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 AstraZeneca to Merck or, more likely, a payment by Merck to AstraZeneca. See "General" below for the current estimate of the amount of this payment.

Should Merck exercise the First Option in 2008, AstraZeneca will make payments in respect of the Partial Retirement, the First Option and the true-up totalling a minimum of \$4.7bn. If AstraZeneca exercises 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 AstraZeneca from Merck with a face value of \$1.4bn. 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 AstraZeneca \$1.4bn.

Second Option

A Second Option exists whereby AstraZeneca has the option to repurchase Merck's interests in *Prilosec* and *Nexium* in the US. This option is exercisable by AstraZeneca 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 AstraZeneca 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED**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 this time. For example, the payment of the First Option is contingent upon Merck (or AstraZeneca) exercising the First Option. Similarly, the timing and amount of the Second Option cannot be determined at this time. The amount of the true-up, the Partial Retirement and the Appraised Value, have been estimated, and 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 \$4.7bn referred to above should the First Option be exercised. We estimate the amount of the Partial Retirement will be approximately \$4.3bn, the amount of the Appraised Value will be approximately \$0.6bn and the amount of the true-up (a payment from Merck to AstraZeneca) will be approximately \$0.2bn.

If Merck exercises the First Option in 2008, the net minimum payment to be made to Merck, being the combined payments of \$4.7bn less the repayment of the loan note of \$1.4bn, will be \$3.3bn. In accounting for the Restructuring in 1998, the loan note was included in the determination of the fair values of the assets and liabilities to be acquired. At that time, the loan note was ascribed a fair value of zero on acquisition and on the balance sheet because it was estimated that the net minimum payment of \$3.3bn equated to the fair value of the rights to be acquired under the Partial Retirement, true-up and First Option.

AstraZeneca anticipates that the benefits that accrue 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

AstraZeneca considers that the termination arrangements described above represent the acquisition, in stages, of Merck's interests in the partnership and agreement products (including Merck's 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, AstraZeneca will have unencumbered discretion in its 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, AstraZeneca has acquired rights relieving it 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 payment expected to be made (\$2.6bn, or \$3.3bn if Merck exercises the First Option) will be capitalised as intangible assets representing acquired product rights.

Ongoing monitoring of the projected payments to Merck and the value to AstraZeneca 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 the monitoring reveal that these payments exceed the economic benefits expected to be realised, a provision for an onerous contract would be recognised.

Environmental costs and liabilities

The Group's expenditure on environmental protection, including both capital and revenue items, relates to costs which are necessary for implementing internal systems and programmes and meeting legal and regulatory requirements for processes and products.

They are an integral part of normal ongoing expenditure for carrying out the Group's research, manufacturing and commercial operations and are not separated from overall operating and development costs. There are no known changes in legal, regulatory or other requirements resulting in material changes to the levels of expenditure for 2005, 2006 or 2007.

In addition to expenditure for meeting current and foreseen environmental protection requirements, the Group incurs costs in investigating and cleaning up land and groundwater contamination. In particular, AstraZeneca and/or its affiliates have environmental liabilities at some currently or formerly owned, leased and third party sites.

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

In the US, the AstraZeneca affiliate, Zeneca Inc., and/or its indemnitees, have been named as potentially responsible parties (PRPs) or defendants at approximately 19 sites where Zeneca Inc. is likely to incur future investigation, remediation or operation and maintenance costs under federal or state, statutory or common law environmental liability allocations schemes. Similarly, the AstraZeneca affiliate, Stauffer Management Company LLC (SMC), which was established in 1987 to own and manage certain assets of Stauffer Chemical Company acquired that year, and/or its indemnitees, have been named as PRPs or defendants at approximately 28 sites where SMC is likely to incur future investigation, remediation or operation and maintenance costs under federal or state, statutory or common law environmental liability allocations schemes. In Europe and other parts of the world outside the US, AstraZeneca is likely to incur costs at one currently owned site and has given indemnities to third parties in respect of approximately 45 other sites. These environmental liabilities arise from legacy operations that are not part of the Group's current pharmaceuticals business and, at most of these sites, remediation, where required, is either completed or nearing completion.

AstraZeneca has made provisions for the estimated costs of future environmental investigation, remediation and operation and maintenance activity beyond normal ongoing expenditure for maintaining the Group's R&D and manufacturing capacity and product ranges where a present obligation exists, it is probable that such costs will be incurred, and they can be estimated reliably. With respect to such estimated future costs, there were provisions at 31 December 2007 in the aggregate of \$111m, which mainly relate to the US. These provisions do not include possible additional costs that are not currently probable. Where we are jointly liable or otherwise have cost sharing agreements with third parties we reflect only our share of the obligation. Where the liability is insured in part or in whole by insurance or other arrangements for reimbursement, an asset is recognised to the extent that this recovery is virtually certain.

It is possible that the Company, or its affiliates, could incur future environmental costs beyond the extent of our current provisions. The extent of such possible, additional costs is inherently difficult to estimate due to a number of factors, including, but not limited to: (1) the nature and extent of claims that may be asserted in the future; (2) whether the Company or any of its affiliates has or will have any legal obligation with respect to asserted or unasserted claims; (3) the type of remedial action, if any, that may be selected at sites where the remedy is presently not known; (4) the potential for recoveries from or allocation of liability to third parties; and (5) the length of time that the environmental investigation, remediation and liability allocation process can take. Notwithstanding and subject to the foregoing, it is estimated that potential additional loss for future environmental investigation, remediation and remedial operation and maintenance activity above and beyond our provisions could be, in the aggregate, in the order of \$25-40m of which \$15-30m relates to the US.

Legal proceedings

AstraZeneca is involved in various legal proceedings considered typical to its businesses, including litigation relating to employment, product liability, commercial disputes, infringement of intellectual property rights, the validity of certain patents, anti-trust, securities laws and governmental investigations. The more significant matters are discussed below.

Most of the claims involve highly complex issues. Often, these issues are subject to substantial uncertainties and therefore the probability of a loss, if any, being sustained and an estimate of the amount of any loss are difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. In these cases, AstraZeneca discloses information with respect to the nature and facts of the case.

With respect to each of the legal proceedings described below, other than those which have been disposed of, we are unable to make estimates of the possible loss or range of possible losses at this stage, other than where noted in the case of the European Commission fine and the proposed settlement with class 1 plaintiffs in the Average Wholesale Price litigation. We also do not believe that disclosure of the amount sought by plaintiffs, if that is known, would be meaningful with respect to those legal proceedings. This is due to a number of factors including: the stage of the proceedings (in many cases trial dates have not been set) and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any. However, although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Note 27 to the Financial Statements, we do not expect them to have a materially adverse effect on our financial position.

In cases that have been settled or adjudicated, or where quantifiable fines and penalties have been assessed or where a loss is probable and we are able to make a reasonable estimate of the loss, we indicate the loss absorbed or the amount of the provision accrued (which includes all related legal costs). No provisions have been made for any such claims and legal costs incurred discussed below other than the European Commission fine which has been paid and the settlement with certain parties under the Average Wholesale Price litigation.

Where it is considered that the Group is more likely than not to prevail, legal costs involved in defending the claim are charged to the income statement as they are incurred.

Where it is considered that the Group has a valid contract which provides the right to reimbursement (from insurance or otherwise) of legal costs and/or all or part of any loss incurred or for which a provision has been established, the best estimate of the amount expected to be received is recognised as an asset.

Assessments as to whether or not to recognise provisions or assets and of the amounts concerned usually involve a series of complex judgements about future events and can rely heavily on estimates and assumptions. AstraZeneca believes that the provisions recorded are adequate based on currently available information and that the insurance recoveries recorded will be received. However, given the inherent uncertainties involved in assessing the outcomes of these cases and in estimating the amount of the potential losses and the associated insurance recoveries, we could in future periods incur judgments or insurance settlements that could have a material adverse effect on our results in any particular period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

Intellectual property claims include challenges to the Group's patents on various products or processes and assertions of non-infringement of patents. A loss in any of these cases could result in loss of patent protection on the related product. The consequences of any such loss could be a significant decrease in sales of the product which could materially affect the future results of the Group. The lawsuits pending against companies that have filed abbreviated new drug applications (ANDAs) in the US, seeking to market generic forms of products sold by the Group prior to the expiry of the applicable patents covering these products typically include allegations of non-infringement, invalidity and unenforceability of these patents. In the event that the Group is not successful in these actions or the statutory 30-month stay expires before a ruling is obtained, the companies involved will also have the ability, subject to US Food and Drug Administration (FDA) approval, to introduce generic versions of the product concerned. 30-month stays will not prevent the FDA from approving ANDAs for *Nexium*, *Pulmicort Respules* and *Seroquel* in the year ending 31 December 2008.

Abraxane® (paclitaxel protein-bound particles for injectable suspension) (albumin-bound)

In July 2006, Elan Pharma International Limited (Elan) filed a lawsuit in the US District Court for the District of Delaware against Abraxis BioScience, Inc. (Abraxis). Elan essentially alleges that Abraxis infringes two US patents in connection with the marketing, use and sale of Abraxane®. During 2007, the Court held a Markman hearing and issued an opinion on claims construction. Expert and fact discovery are ongoing. No trial date has been set. AstraZeneca is not named as a party in the lawsuit. AstraZeneca is party to an agreement with Abraxis to co-promote Abraxane® in the US.

Atacand (candesartan cilexetil)

In April 2007, AstraZeneca (new drug application (NDA) holder) and Takeda (patent holder) received notice from Sandoz Inc. (Sandoz) that Sandoz had filed an ANDA with the FDA, seeking approval to market a generic version of *Atacand* (candesartan cilexetil) in the 4, 8, 16 and 32mg doses, prior to the expiration of US Patent No. 5534534 (the '534 patent), which expires in July 2013. The notification claims that the Sandoz product does not infringe the '534 patent. Sandoz did not challenge the compound patents listed in the FDA Orange Book with reference to *Atacand*, the later of which expires in June 2012. As a result, Sandoz cannot market candesartan cilexetil until the end of the exclusivity period afforded by these patents. AstraZeneca and Takeda have decided not to bring an action for patent infringement at this time.

Crestor (rosuvastatin)

From 2004 to present, AstraZeneca Pharmaceuticals LP and/or AstraZeneca LP in the US were served with 15 individual lawsuits in various US jurisdictions, alleging injury in association with the use of *Crestor*. 11 of the cases were dismissed in early stages, and another was dismissed after the court granted AstraZeneca's motion for summary judgment in June 2007. These decisions were not appealed by the plaintiffs. AstraZeneca intends to vigorously defend the remaining cases, all of which are still in preliminary stages. In addition, a motion to institute a class action was filed in Quebec, Canada against AstraZeneca PLC and AstraZeneca Canada Inc. in which the petitioners alleged injury as a result of the use of *Crestor*. In March 2007, the Court granted the named plaintiff's request to discontinue this action.

AstraZeneca lists three patents in the FDA Orange Book: No. RE37,314 covering the active ingredient (the '314 patent); No. 6,316,460 covering formulations (the '460 patent); and No. 6,858,618 covering medical use (the '618 patent). The '314 patent expires in January 2016, the '460 patent expires in August 2020 and the '618 patent expires in December 2021. Between 30 October 2007 and 6 December 2007, AstraZeneca received Paragraph IV certification notice-letters from Apotex, Inc. (Apotex); Aurobindo Pharma Limited (Aurobindo); Cobalt Pharmaceuticals Inc. and Cobalt Laboratories Inc. (together Cobalt); Glenmark Pharmaceuticals Inc. USA (Glenmark); Mylan Pharmaceuticals, Inc. (Mylan); Par Pharmaceutical, Inc. (Par); Sandoz, Inc. (Sandoz); Sun Pharmaceuticals Industries Limited (Sun); and Teva Pharmaceuticals USA, Inc (Teva). Each entity notified AstraZeneca that it had submitted an ANDA to the FDA for approval to market *Crestor* 5, 10, 20 and 40mg rosuvastatin calcium tablets prior to the expiration of one or more of AstraZeneca's three FDA Orange Book-listed patents. The notice-letters notified AstraZeneca that each respective ANDA contained a Paragraph IV certification alleging non-infringement, invalidity or unenforceability of one or more of AstraZeneca's three patents. In December 2007, in response to notice-letters from seven of the nine manufacturers, AstraZeneca Pharmaceuticals LP, AstraZeneca UK Limited, IPR Pharmaceuticals, Inc., and AstraZeneca's licensor, Shionogi Seiyaku Kabushiki Kaisha (Shionogi), filed separate lawsuits in the US District Court for the District of Delaware, against Apotex, Aurobindo, Cobalt, Mylan, Par, Sandoz and Sun for infringement of the patent covering rosuvastatin calcium, the active ingredient in *Crestor* tablets. AstraZeneca did not file patent infringement actions against Teva and Glenmark because they did not seek approval to market products before the 2016 expiration date of the patent covering the active ingredient. In addition to filing actions in the US District Court for the District of Delaware, for procedural reasons, AstraZeneca Pharmaceuticals LP, AstraZeneca UK Limited, IPR Pharmaceuticals, Inc. and Shionogi filed three duplicate patent infringement actions against Mylan, Aurobindo and Cobalt respectively in US District Courts in West Virginia, New Jersey and Florida. These cases proceed.

AstraZeneca continues to have full confidence in and will vigorously defend and enforce its intellectual property protecting *Crestor*.

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

Exanta (ximelagatran)

Four putative and essentially similar securities class actions were filed in the US against AstraZeneca PLC, Håkan Mogren (who currently serves as a Director of AstraZeneca PLC), Sir Tom McKillop, Jonathan Symonds and Percy Barnevik (who are former Directors of AstraZeneca PLC) between January and March 2005. These actions were subsequently consolidated into a single action pending in the US District Court for the Southern District of New York. The Consolidated Amended Complaint alleges that the defendants made materially false and misleading statements regarding *Exanta* clinical trials and the status of the *Exanta* new drug application in the US. The plaintiffs purport to assert claims on behalf of purchasers of AstraZeneca publicly traded securities during the period April 2003 to September 2004 under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5.

The defendants deny the allegations made in the lawsuit and will vigorously defend the action. In 2006 they filed a motion to dismiss the action, and that motion is pending before the Court.

Iressa (gefitinib)

During 2004, 2005 and 2006, six claims were filed against AstraZeneca KK in Japan, in the Osaka and Tokyo District Courts. In five of the claims, it is alleged that *Iressa* caused a fatal incidence of interstitial lung disease (ILD) in a Japanese patient. In the sixth claim, it is alleged that *Iressa* caused a non-fatal incidence of ILD. AstraZeneca KK, following consultation with external legal advisers, believes the claims are without merit and is defending all the cases. ILD is a known complication of lung disease, including advanced lung cancer, regardless of treatment.

Losec/Prilosec (omeprazole)

In 2001, AstraZeneca filed a suit in the US against Andrx Pharmaceuticals, Inc. (Andrx) for infringement of a patent number 6,013,281 directed to a process for making an omeprazole formulation (the '281 patent). Andrx filed counterclaims of non-infringement, invalidity and unenforceability for inequitable conduct during prosecution of the '281 patent. Andrx also asserted that in addition to the '281 patent, two other formulation patents, numbered 4,786,505 and 4,853,230 (the '505 and '230 patents) were unenforceable for alleged litigation misconduct by AstraZeneca. Both parties sought attorneys' fees. In May 2004, the US District Court for the Southern District of New York ruled that the '281 patent was infringed, but also ruled that the '281 patent was invalid.

The US District Court for the Southern District of New York dismissed Andrx's litigation misconduct and other counterclaims and affirmative defences, leaving intact the Court's October 2002 decision finding the '230 and '505 patents not invalid and infringed by Andrx. The Court's October 2002 decision was affirmed in all respects on appeal in December 2003. The Court entered final judgment regarding the '281 patent in July 2004, after determining to stay the attorneys' fees claims pending any appeals. Andrx appealed the judgment and AstraZeneca cross-appealed. The appeal was argued to the US Court of Appeals for the Federal Circuit in August 2006. In April 2007, the Federal Circuit affirmed the lower court decision that the asserted claims of the '281 patent are invalid. The Federal Circuit also concluded that AstraZeneca's '505 and '230 formulation patents remained enforceable. As a result of Andrx's infringement of the '505 and '230 patents, AstraZeneca was the prevailing party against Andrx in the lower court. AstraZeneca is pursuing appropriate relief, including damages.

During 2000 and 2001, AstraZeneca had filed suits against Lek Pharmaceutical and Chemical Company d.d. and Lek Services USA, Inc. (together Lek), Impax Laboratories Inc. (Impax), Eon Labs Manufacturing Inc. (Eon), Mylan Pharmaceuticals Inc. (Mylan), Apotex Corp, Apotex, Inc. (together Apotex), Torpharm, Inc. (Torpharm) and Zenith Goldline Pharmaceuticals, Inc. (now known as IVAX Pharmaceuticals, Inc.) (IVAX). These suits followed the filing of ANDAs by these companies with the FDA concerning the companies' intention to market generic omeprazole products in the US. The basis for the proceedings is that the actions of all the companies infringe the '505 and '230 formulation patents relating to omeprazole. The cases are proceeding under the US Hatch-Waxman legislation. The case against IVAX was dismissed without prejudice shortly after it was filed, after IVAX withdrew its application to market generic omeprazole. During 2003, after Mylan commenced commercial sale of its product, AstraZeneca filed suit against Laboratorios Esteve, SA and Esteve Quimica, SA (together Esteve), manufacturers of the omeprazole product to be distributed in the US by Mylan. In 2003 and 2004, Lek, Apotex and Impax all began commercial sales of their generic omeprazole products. In July 2004, Lek filed a motion for summary judgment of non-infringement. In January 2005, AstraZeneca filed suit against Teva Pharmaceutical Industries Ltd and Teva Pharmaceuticals USA, Inc., which are marketing and selling Impax's omeprazole products. The Teva case was stayed in June 2005 until liability issues in the Impax action are resolved. AstraZeneca made claims for damages against each of the selling defendants. Anti-trust and non-infringement counterclaims were filed by Andrx, Apotex/Torpharm, Impax, Eon and Lek. All defendants except Lek have also raised invalidity and unenforceability counterclaims. The anti-trust counterclaims, as well as AstraZeneca's claims for damages, have been stayed pending resolution of the patent liability issues.

The cases were consolidated for discovery before, or are directly assigned to, Judge Jones in the US District Court for the Southern District of New York. All discovery in these cases was completed in February 2005. Briefing on the summary judgment motion filed by Lek and 14 additional motions for summary judgment were completed in July 2005. All of the defendants' motions for summary judgment were denied in January 2006. In February 2006, the Eon suit was dismissed after it announced it would not commence sales until after the '505 and '230 patents expired. In July 2005, AstraZeneca filed suit against Ranbaxy Laboratories Limited, Ranbaxy, Inc. and Ranbaxy Pharmaceuticals, Inc. (together Ranbaxy) for infringement of the '505 and '230 formulation patents. The Ranbaxy case was consolidated with the other omeprazole patent cases for pre-trial purposes. In March 2006, the Ranbaxy case was dismissed when it announced it would not commence sales until after the '505 and '230 patents expired.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

In January 2006, AstraZeneca withdrew its claims for damages against Impax, and as a result the Court struck Impax's jury demand. Impax appealed this decision on an interlocutory basis to the US Court of Appeals for the Federal Circuit, which denied the appeal, and then to the US Supreme Court, which also denied the appeal. From April to June 2006, Judge Jones conducted a consolidated bench trial on patent liability issues involving the remaining defendants, Mylan/Esteve, Lek, Apotex and Impax. Post-trial briefing was completed in July 2006.

In May 2007, the US District Court for the Southern District of New York upheld both formulation patents covering *Prilosec* (omeprazole), a ruling consistent with the previously disclosed decision in the first wave case in October 2002. The Court found that the generic omeprazole formulations of Impax and Apotex infringed both patents in suit. AstraZeneca is seeking appropriate relief, including damages. The Court also found that the generic omeprazole products sold by Lek and Mylan/Esteve did not infringe. Lek and Mylan/Esteve are pursuing costs, attorney's fees and anti-trust counterclaims. AstraZeneca has appealed the Mylan/Esteve decision to the US Court of Appeals for the Federal Circuit.

In April 2006, AstraZeneca received a notice from Dexcel Pharma Technologies, Ltd (Dexcel) that Dexcel had submitted a new drug application seeking FDA approval to market a 20mg omeprazole tablet for the over-the-counter (OTC) market. Dexcel seeks approval to market a generic omeprazole OTC product before the expiration of the patents listed in the FDA Orange Book in reference to AstraZeneca's *Prilosec* product and the *Prilosec* OTC that is marketed by The Procter & Gamble Co. (Procter & Gamble). In May 2006, AstraZeneca filed suit in the US District Courts for the District of Delaware and the Eastern District of Virginia charging Dexcel with infringement of the '505 and '230 patents and US Patent No. 6,150,380. In September 2007, the parties entered into a settlement agreement, and the cases have been dismissed in their entirety. The terms of the settlement are confidential and are not material to AstraZeneca.

In June 2007, AstraZeneca received a notice from Dr. Reddy's Laboratories, Ltd and from Dr. Reddy's Laboratories, Inc. (together, Dr Reddy's) that Dr. Reddy's had submitted an ANDA seeking FDA approval to market a 20mg delayed release omeprazole magnesium capsule for the OTC market. Dr. Reddy's seeks approval to market a generic omeprazole OTC product before the expiration of the patents listed in the FDA Orange Book in reference to the *Prilosec* OTC product that is marketed by Procter & Gamble. In July 2007, AstraZeneca commenced patent infringement litigation in the US District Court for the Southern District of New York against Dr. Reddy's in response to Dr. Reddy's Paragraph IV certifications regarding *Prilosec* OTC. No trial date has been set.

In June and July 2004, AstraZeneca applied in France for injunctions based on its omeprazole formulation patent against six companies for marketing generic omeprazole. In August 2004, the applications were rejected at first instance. AstraZeneca appealed this decision and in March 2005 the applications were rejected on appeal. In May 2004, AstraZeneca also started legal proceedings against the same companies for infringement of its omeprazole formulation patent in France. These proceedings have been consolidated with a case challenging the validity of the patent, brought by one of the companies against AstraZeneca. No date has yet been set for a hearing.

In 2001, AstraZeneca was granted an interlocutory injunction based on AstraZeneca's omeprazole formulation patents against the generic company A/S Gea Farmaceutiske Fabrik (now Hexal A/S). The parties have now settled this case. The terms of the settlement are confidential and are not material to AstraZeneca.

An interlocutory injunction against Biochemie Novartis Healthcare A/S was granted in Denmark during 2003, based on AstraZeneca's omeprazole formulation patent. The parties have now settled this case. The terms of the settlement are confidential and are not material to AstraZeneca.

In December 2004, an interlocutory injunction against Norneco A/S, a Danish distributor of a generic omeprazole product from ratiopharm, was granted in Denmark based on AstraZeneca's omeprazole formulation patent. The case was heard on appeal in November and December 2005 and, in February 2006, the High Court repealed the interlocutory injunction. The parties have now settled this case. The terms of the settlement are confidential and are not material to AstraZeneca.

During 2003 and 2004, AstraZeneca was denied interlocutory injunctions based on certain of its omeprazole patents against Novartis Sverige AB and ratiopharm AB in Sweden and Novartis Finland Oy and ratiopharm Oy in Finland. In 2002 and 2003, Novartis Sverige AB, ratiopharm AB and Arrow Läkemedel AB initiated cases to invalidate AstraZeneca's omeprazole formulation patent. AstraZeneca initiated infringement cases against Novartis Sverige AB and ratiopharm AB in Sweden, in 2003. The parties have now settled all of these cases. The terms of the settlement are confidential and are not material to AstraZeneca.

In Finland, the separate infringement proceedings against ratiopharm Oy and Novartis Finland Oy based on infringement of AstraZeneca's omeprazole formulation patent had been stayed in 2005, as Novartis Finland Oy had initiated an invalidation action against the formulation patent. In May 2006, AstraZeneca and Novartis Finland Oy settled their disputes, as a result of which the invalidation action against the formulation patent and the infringement action against Novartis Finland Oy were withdrawn. During the autumn of 2006, the infringement action against ratiopharm Oy, which had been stayed pending the outcome of the invalidation action by Novartis Finland Oy, was resumed. The parties have now settled this case. The terms of the settlement are confidential and are not material to AstraZeneca.

Also during 2003, the District Court in Norway found that the generic omeprazole product marketed by ratiopharm AB did not infringe AstraZeneca's omeprazole formulation patent. This judgment was confirmed by the Norwegian Appeal Court in October 2005. In January 2006, the Supreme Court in Norway denied AstraZeneca leave to appeal.

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

AstraZeneca continues to be involved in proceedings in Canada involving various generics and patents, including under the Patented Medicines (Notice of Compliance) Regulations, relating to omeprazole capsules or omeprazole magnesium tablets. Apotex launched a generic omeprazole capsule product in Canada in January 2004. Following this launch, AstraZeneca commenced judicial review proceedings seeking to quash Apotex's Notice of Compliance (marketing approval) and AstraZeneca sued Apotex in July 2004 alleging infringement of its formulation patents by Apotex's omeprazole capsules. In May 2005, the Canadian Federal Court of Appeal quashed Apotex's Notice of Compliance, overruling the first instance decision in September 2004, which went against AstraZeneca. In June 2005, the Canadian Federal Court of Appeal granted Apotex's motion for a stay of the Court's decision to quash the Notice of Compliance, pending an application by Apotex for leave to appeal to the Supreme Court of Canada. The Supreme Court of Canada granted Apotex leave to appeal and also continued the stay granted by the Federal Court of Appeal, thereby allowing Apotex to continue selling its omeprazole capsules pending a decision by the Supreme Court on Apotex's appeal. The appeal was heard in May 2006 and allowed in November 2006, with the result that Apotex can continue to sell omeprazole capsules pending the outcome of the patent infringement action.

In February 2006, the Federal Court of Appeal upheld a lower court decision that prohibited Apotex from obtaining a Notice of Compliance for omeprazole magnesium tablets until the expiry of a relevant formulation patent in December 2008.

In January 2006, AstraZeneca Canada Inc. was served with a claim in the Federal Court of Canada for payment of an undetermined sum based on damages allegedly suffered by Apotex due to the delay from January 2002 to January 2004 in the issuance to Apotex of a Notice of Compliance in Canada for its 20mg omeprazole capsule product. AstraZeneca believes the claim is without merit and intends to defend it and to pursue its already pending patent infringement action against Apotex vigorously.

AstraZeneca initiated proceedings in the Federal Court of Canada against Novopharm Limited in connection with certain patents related to omeprazole magnesium tablets, on the basis that Novopharm was seeking a Notice of Compliance in Canada based on a comparison with AstraZeneca's *Losec* tablets. Two of these proceedings remain pending.

AstraZeneca initiated proceedings in the Federal Court of Canada against Sandoz Canada Inc. ("Sandoz") in connection with certain patents related to omeprazole capsules, on the basis that Sandoz was seeking a Notice of Compliance in Canada based on a comparison with AstraZeneca's *Losec* capsules. The proceedings were discontinued in September 2007 and Sandoz has subsequently started marketing and selling its omeprazole capsule product in Canada.

In January 2007, AstraZeneca discontinued long pending proceedings against Reddy-Chemisor Inc. in respect of patents relating to omeprazole capsules, following Reddy-Chemisor's withdrawal of its allegations.

European Commission investigation

In February 2000, the European Commission commenced an investigation relating to certain omeprazole intellectual property rights, and associated regulatory and patent infringement litigation. The investigation is pursuant to Article 82 of the EC Treaty, which prohibits an abuse of a dominant position. The investigation was precipitated by a complaint by a party to a number of patent and other proceedings involving AstraZeneca. AstraZeneca has, in accordance with its corporate policy, co-operated with the Commission. In July 2003, the Commission served a Statement of Objections on AstraZeneca, referring to alleged infringements regarding the obtaining of supplementary protection certificates for omeprazole in certain European countries; and regarding AstraZeneca's replacement of omeprazole capsules by omeprazole MUPS (tablets) and withdrawal of capsule marketing authorisations in three European countries. AstraZeneca replied fully to the Commission, explaining why its actions were, in AstraZeneca's view, lawful. An oral hearing took place in February 2004. In June 2005, the Commission notified AstraZeneca PLC and AstraZeneca AB of its Decision to impose fines totalling €60m on the companies for infringement of European competition law (Article 82 of the EC Treaty and Article 54 of the EEA Agreement). The Commission alleges that the companies abused their dominant positions in the periods between 1993 and 2000 by making a pattern of misleading representations before the patent offices and/or courts in Belgium, Denmark, Germany, The Netherlands, Norway and the UK in regard to obtaining supplementary protection certificates for omeprazole; and by requesting the surrender of market authorisations for omeprazole capsules in Denmark, Norway and Sweden, combined with withdrawal from these countries of omeprazole capsules and the launch of omeprazole MUPS (tablets). AstraZeneca does not accept the Commission's Decision and has appealed it to the Court of First Instance. AstraZeneca denies that it had a dominant position or that it was engaged in the behaviours as characterised by the Commission. In the meantime, the fine was fully provided for in the half year results in 2005 through a charge to operating profit of \$75m. Because it is further alleged by the Commission that these activities had the effect of hindering the entry of the generic version of *Losec* and parallel trade, it is possible that third parties could seek damages for alleged losses arising from this matter. Any such claims would be vigorously resisted.

Nexium (esomeprazole magnesium)

Sales and marketing practices

AstraZeneca entities have been sued in various state and federal courts in the US in purported representative class actions involving the marketing of *Nexium* (esomeprazole magnesium). These actions generally allege that AstraZeneca's promotion and advertising of *Nexium* to physicians and consumers is unfair, unlawful and deceptive conduct, particularly as the promotion relates to comparisons of *Nexium* with *Prilosec*. They also allege that AstraZeneca's conduct relating to the pricing of *Nexium* was unfair, unlawful and deceptive. The plaintiffs allege claims under various state consumer protection, unfair practices and false advertising laws. The plaintiffs in these cases seek remedies that include restitution, disgorgement of profits, damages, punitive damages, injunctive relief, attorneys' fees and costs of suit.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

The first action was brought in 2004 in the Superior Court of the State of California for the County of Los Angeles by the AFL-CIO, two unincorporated associations, and an individual on behalf of themselves, the general public and a class of California consumers, third party payers, cash payers and those making a co-payment. A second action was filed in the same court on behalf of a similar putative class of consumers. Actions making substantially similar allegations were filed in 2004 and 2005 on behalf of putative classes of consumers, third party payers, purchasers and labour management trust funds in the Circuit Court of Searcy County, Arkansas; in the Superior Court of the State of Delaware in and for New Castle County; in the Superior Court of Massachusetts in Boston; in the US District Court for the District of Delaware (three consolidated cases); and in the Circuit Court of the 11th Judicial Court in and for Miami-Dade County, Florida.

In September 2005, the Court in California issued a ruling on AstraZeneca's demurrer and motion to strike in the two California actions. The Court granted AstraZeneca's motion with respect to the associational plaintiffs and denied the motion with respect to the individual plaintiffs, allowing the cases of the individuals to proceed. In October 2005, the Court in Massachusetts denied AstraZeneca's motion to dismiss. Discovery in the California and Massachusetts cases is proceeding, and plaintiffs' motions for class certification were filed in October 2007. The California plaintiffs filed an amended class certification motion in January 2008.

In November 2005, the US District Court for the District of Delaware granted AstraZeneca's motion to dismiss the consolidated class action complaint. In September 2007, the US Court of Appeals for the Third Circuit affirmed the dismissal and denied plaintiffs' petition for rehearing *en banc*. On 18 December 2007, plaintiffs filed a petition for *writ of certiorari* with the US Supreme Court. AstraZeneca's response to the petition is due in February 2008. The Delaware state case has been stayed pending the outcome of the Delaware federal cases.

In May 2006, the Arkansas State Court granted AstraZeneca's motion to dismiss the plaintiffs' complaint. The plaintiffs filed additional motions and pleadings, including an amended complaint. AstraZeneca filed a motion to dismiss the amended complaint.

In October 2006, the Florida Court dismissed the plaintiffs' complaint with prejudice and without leave to amend. In June 2007, the Florida Court of Appeal affirmed the dismissal and the Florida Supreme Court denied further review.

Anti-trust

In December 2006 and January 2007, several lawsuits against AstraZeneca entities, including putative class actions, were filed in the US District Court for the District of Columbia alleging anti-trust claims of unlawful monopolisation relating to *Prilosec* and *Nexium*. Individual actions were filed in December 2006 by Walgreen Co., Eckerd Corporation, Maxi Drug, Inc. d/b/a Brooks Pharmacy, The Kroger Co., New Albertson's Inc., Safeway, Inc., Hy-Vee, Inc., American Sales Company, Inc., Rite Aid Corporation, and Rite Aid Headquarters Corp. Also, putative class actions brought on behalf of direct purchasers were filed on 18 December 2006 by Meijer, Inc., Meijer Distribution, Inc., Louisiana Wholesale Drug Co., Inc., and in January 2007 by Burlington Drug Co., Inc., Dik Drug Co., Inc. and King Drug Co. of Florence, Inc. The plaintiffs seek treble damages, injunctive relief and attorney fees. All plaintiffs filed amended complaints in February 2007. In April 2007, AstraZeneca filed a motion to dismiss the amended complaints in each of the cases.

Patent proceedings

In October 2007, the European Patent Office (EPO) Opposition Division ruled that the European process patent EP 0773940 for *Nexium* is valid in amended form, despite an opposition by the German generic manufacturer, ratiopharm. The patent has been upheld as granted except, with respect to certain claims, minor amendments were made. On 23 January 2008, ratiopharm filed a notice of appeal against this decision.

The EP 0773940 patent for *Nexium* covers a process for the manufacturing of esomeprazole and its salts in Austria, Belgium, Switzerland, Germany, Denmark, Spain, France, UK, Greece, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Monaco, The Netherlands, Portugal, Slovenia and Sweden. This positive decision by the EPO means that this patent, in its amended form, still covers the manufacturing process for *Nexium*. This patent expires in 2015.

This portfolio includes additional patents with expiration dates ranging from 2009 to 2018. In addition to these patents, *Nexium* has data exclusivity valid until March 2010 in most major European markets. AstraZeneca will vigorously defend and enforce its intellectual property rights protecting *Nexium*.

Patent litigation

In October 2005, AstraZeneca received a notice from Ranbaxy Pharmaceuticals, Inc. that Ranbaxy Laboratories Limited (together Ranbaxy) had submitted an ANDA to the FDA for esomeprazole magnesium delayed-release capsules, 20mg and 40mg. The ANDA contained Paragraph IV certifications of invalidity and/or non-infringement in respect of certain AstraZeneca US patents listed in the FDA Orange Book with reference to *Nexium*. In November 2005, AstraZeneca commenced wilful infringement patent litigation in the US District Court for the District of New Jersey against Ranbaxy and its affiliates in response to Ranbaxy's Paragraph IV certifications regarding *Nexium*.

In January 2006, AstraZeneca received a notice from IVAX Pharmaceuticals Inc. that IVAX Corporation had submitted an ANDA to the FDA for esomeprazole magnesium delayed-release capsules, 20mg and 40mg. The ANDA contained Paragraph IV certifications of invalidity and/or non-infringement in respect of certain AstraZeneca US patents listed in the FDA Orange Book with reference to *Nexium*. IVAX also certified in respect of certain other AstraZeneca US patents listed in the FDA Orange Book with reference to *Nexium* that IVAX will not launch its product prior to the expiry of those patents, the latter of which expired in October 2007. In March 2006, AstraZeneca commenced wilful patent infringement litigation in the US District Court for the District of New Jersey against IVAX, its parent Teva Pharmaceuticals, and their affiliates. The Ranbaxy and Teva/IVAX matters have been consolidated. No trial date has been set.

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

In August 2006, AstraZeneca received a notice from Dr Reddy's Laboratories Inc. and Dr Reddy's Laboratories Limited (together, Dr Reddy's) that Dr Reddy's had submitted an ANDA to the FDA for esomeprazole magnesium delayed-release capsules, 20mg and 40mg. Dr Reddy's August 2006 notice did not challenge three FDA Orange Book-listed patents claiming esomeprazole magnesium (US Patent Nos. 5,714,504, 5,877,192 and 6,875,872). In December 2007, AstraZeneca received another notice from Dr. Reddy's that Dr. Reddy's had submitted an ANDA to the FDA for esomeprazole magnesium delayed-release capsules, 20mg and 40mg. Dissimilar from the August 2006 notice, Dr. Reddy's December 2007 notice did challenge three FDA Orange Book-listed patents claiming esomeprazole magnesium (US Patent Nos. 5,714,504, 5,877,192 and 6,875,872). AstraZeneca's exclusivity relating to these three patents expires on 3 August 2015, 27 November 2014 and 27 November 2014, respectively. In January 2008, AstraZeneca commenced patent infringement litigation in the US District Court for the District of New Jersey against Dr. Reddy's in response to Dr. Reddy's Paragraph IV certifications regarding *Nexium*. No trial date has been set.

In July and September 2007, AstraZeneca received notice from Matrix Laboratories, Inc. (Matrix) that Matrix had submitted an ANDA to the FDA for esomeprazole magnesium delayed-release capsules, 20mg and 40mg. Matrix was seeking FDA approval to market a generic esomeprazole magnesium product prior to the expiration of some but not all of the patents listed in the FDA Orange Book with reference to *Nexium*. Matrix's notice did not challenge three FDA Orange Book-listed patents claiming esomeprazole magnesium (US Patent Nos. 5,714,504, 5,877,192 and 6,875,872). Because AstraZeneca has not received notice from Matrix as to these three US patents, Matrix cannot market generic esomeprazole magnesium until the end of the exclusivity afforded by these patents. As a result, AstraZeneca did not bring a lawsuit at this time. AstraZeneca reserves the right to enforce all patents related to *Nexium*, including those listed in the FDA Orange Book.

After its expiry, a 30-month stay will not prevent the FDA from approving an ANDA, and an 'at risk' launch by a generic drug manufacturer may occur, of delayed-release esomeprazole magnesium capsules, in the year ending 31 December 2008.

In Canada, AstraZeneca Canada, Inc. received several notices of allegation from Apotex Inc. (Apotex) in late 2007 in respect of patents listed on the Patent Register in Canada for *Nexium*. Apotex has asserted in its notices that it has filed an Abbreviated New Drug Submission in March 2007, for 20mg and 40mg esomeprazole magnesium trihydrate tablets and alleges non-infringement and/or invalidity of numerous patents. AstraZeneca has responded by commencing seven court applications in January 2008 under the Patented Medicines (Notice of Compliance) Regulations. On 17 January 2008, Apotex advised that its product was erroneously described as being a trihydrate in its recent allegations, which allegations Apotex asserted it was withdrawing. Apotex mailed replacement allegations on 17 January 2008, which AstraZeneca is entitled to challenge. Apotex cannot obtain a Notice of Compliance (marketing approval) for its esomeprazole tablets until the earlier of the disposition of all of the court applications in Apotex's favour or 24 months from the date on which the latest court application has been commenced.

AstraZeneca has full confidence in and will vigorously defend and enforce its intellectual property protecting *Nexium*.

Nolvadex (tamoxifen)

AstraZeneca was a co-defendant with Barr Laboratories, Inc. (Barr) in numerous purported class actions filed in federal and state courts throughout the US. All of the state court actions were removed to federal court and were consolidated, along with all of the cases originally filed in the federal courts, in a federal multi-district litigation proceeding pending in the US District Court for the Eastern District of New York. Some of the cases were filed by plaintiffs representing a putative class of consumers who purchased tamoxifen. The other cases were filed on behalf of a putative class of 'third party payers' (including health maintenance organisations, insurers and other managed care providers and health plans) that have reimbursed or otherwise paid for prescriptions of tamoxifen. The plaintiffs alleged that they paid 'supra-competitive and monopolistic prices' for tamoxifen as a result of the settlement of patent litigation between Zeneca and Barr in 1993. The plaintiffs sought injunctive relief, treble damages under the anti-trust laws, disgorgement and restitution. In April 2002, AstraZeneca filed a motion to dismiss the cases for failure to state a cause of action. In May 2003, the US District Court for the Eastern District of New York granted AstraZeneca's motion to dismiss. The plaintiffs appealed the decision.

In November 2005, the US Court of Appeals for the Second Circuit affirmed the District Court's decision. The plaintiffs thereafter moved for re-hearing by the original panel of judges in the case and re-hearing by a panel of all of the judges on the US Court of Appeals for the Second Circuit. The plaintiffs' requests for re-hearing were denied in September 2006. In December 2006, the plaintiffs filed a petition for a *writ of certiorari* to the US Supreme Court seeking to have the Court hear an appeal of the Second Circuit's decision. In June 2007, the US Supreme Court denied the plaintiffs' writ, thus ending the litigation.

Pulmicort Respules (budesonide inhalation suspension)

In September 2005, AstraZeneca received a notice from IVAX Pharmaceuticals Inc. (IVAX) that IVAX had submitted an ANDA to the FDA for a budesonide inhalation suspension containing a Paragraph IV certification and alleging invalidity and non-infringement in respect of certain of AstraZeneca's patents relating to budesonide inhalation suspension. In October 2005, AstraZeneca filed a patent infringement action against IVAX in the US District Court for the District of New Jersey. In December 2005, IVAX responded and filed counterclaims alleging non-infringement and invalidity. In January 2006, AstraZeneca filed an amended complaint, withdrawing averments as to the infringement of one of the patents-in-suit. Discovery in the litigation is ongoing. After its expiry, a 30-month stay will not prevent the FDA from approving an ANDA, and an 'at risk' launch by a generic drug manufacturer may occur, of a budesonide inhalation suspension in the year ending 31 December 2008.

AstraZeneca continues to have full confidence in and will vigorously defend and enforce its intellectual property protecting *Pulmicort Respules*.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED**Rhinocort Aqua (budesonide nasal spray)**

In September 2007, AstraZeneca AB received a letter from Apotex Inc. (Apotex) stating that Apotex had submitted an ANDA for a budesonide nasal spray (32mcg 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 US Patent Nos. 6,291,445, 6,686,346 and 6,986,904 (the '445, '346 and '904 patents). The Apotex notice contained a Paragraph IV certification alleging that the claims of the '445, '346 and '904 patents are 'not infringed and invalid'. The '346 and '904 patents will expire in April 2017. The '445 patent has an additional six months of paediatric exclusivity which ends in October 2017.

After investigating the allegations in Apotex's Paragraph IV letter, AstraZeneca has decided not to file a patent infringement suit against Apotex. AstraZeneca will not maintain or enforce the '445, '346 and '904 patents and has requested their de-listing from the FDA Orange Book.

Seroquel (quetiapine fumarate)**Product liability**

In August 2003, Susan Zehel-Miller filed a putative class action against AstraZeneca PLC and AstraZeneca Pharmaceuticals LP on behalf of 'all persons in the US who purchased and/or used *Seroquel*'. Among other things, the class action alleged that AstraZeneca failed to provide adequate warnings in connection with an alleged association between *Seroquel* and the onset of diabetes. In 2004, the US District Court for the Middle District of Florida denied class certification and the case was ultimately dismissed. Two additional putative class actions raising similar allegations have likewise been dismissed. There are no other US class actions relating to *Seroquel*; however, four putative class actions raising substantially similar allegations have been filed in Canada.

Additionally, AstraZeneca Pharmaceuticals LP, either alone or in conjunction with one or more affiliates, has been sued in numerous individual personal injury actions involving *Seroquel*. In most of these cases, the nature of the plaintiffs' alleged injuries is not clear from the complaint and in most cases, little or no factual information regarding the alleged injury has been provided in the complaint. However, the 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. As of 16 January 2008 AstraZeneca was defending 8,121 served or answered lawsuits involving approximately 12,347 plaintiff groups (24 January 2007: 604 served or answered lawsuits involving approximately 7,450 plaintiff groups). To date, approximately 1,900 additional cases have been dismissed by order or agreement and approximately 1,400 of those cases have been dismissed with prejudice. Approximately 22% of the cases that were or are pending in the federal court multi-district litigation (MDL) have been dismissed. Approximately half of the currently pending *Seroquel* cases are in federal court with clusters of state court activity in Delaware, New Jersey, New York and Missouri. Single cases are pending in a few additional jurisdictions, including one case in Canada. Plaintiffs' discovery of AstraZeneca, as well as AstraZeneca's discovery of specific plaintiffs' cases, is ongoing in most jurisdictions and AstraZeneca intends to vigorously test the merits of those individual cases on factual and legal grounds. Bellwether case systems have been implemented by the courts in Delaware, New Jersey and the federal court MDL due to the larger volume of consolidated cases in those jurisdictions. No trials are expected to begin in any of the *Seroquel* cases until the autumn of 2008. One trial that was scheduled in Minnesota for March 2008 has been dismissed. AstraZeneca is also aware of approximately 70 additional cases that have been filed but not yet served and has not determined how many additional cases, if any, may have been filed. Some of the cases also include claims against other pharmaceutical manufacturers such as Eli Lilly & Co., Janssen Pharmaceutica, Inc. and/or Bristol-Myers Squibb Company. AstraZeneca intends to litigate these cases on the merits and will defend the cases vigorously. As of 31 January 2008, legal defence costs of approximately \$200m have been incurred (of which approximately \$160m was incurred during 2007). AstraZeneca has product liability insurance that is considered to respond to the vast majority of claims brought in these *Seroquel* cases, subject to a retention. This insurance provides coverage for legal defence costs and potential damages that may be incurred up to a specified limit. AstraZeneca currently expects the legal defence costs to be less than the upper limit of the insurance coverage and has recorded an insurance receivable of \$139m (2006 \$nil). However, these cases are at an early stage and there can be no guarantee that the ultimate cost incurred will not exceed any insurance recoveries received.

Patent litigation

In September 2005, AstraZeneca received a notice from Teva Pharmaceuticals USA Inc. (Teva) that Teva had submitted an ANDA for quetiapine fumarate 25mg tablets containing a Paragraph IV certification alleging invalidity, unenforceability or non-infringement respecting AstraZeneca's US patent listed in the FDA Orange Book with reference to *Seroquel*. In November 2005, AstraZeneca filed a lawsuit directed to Teva's 25mg tablets ANDA in the US District Court for the District of New Jersey for wilful patent infringement.

In February 2006, AstraZeneca received another notice from Teva that it had amended its previously submitted ANDA for quetiapine fumarate 25mg tablets and added 100, 200 and 300mg tablets to its application to the FDA. The amended ANDA submission contained a similar Paragraph IV certification alleging invalidity, unenforceability or non-infringement in respect of AstraZeneca's US patent listed in the FDA Orange Book with reference to *Seroquel*. In March 2006, in response to Teva's amended ANDA and Teva's intent to market additional strengths of a generic version of *Seroquel* in the US prior to the expiration of AstraZeneca's patent, AstraZeneca filed an additional lawsuit against Teva in the US District Court for the District of New Jersey for patent infringement.

The two Teva lawsuits were consolidated in April 2006. However, in March 2006, the US District Court had granted Teva's motion to strike AstraZeneca's added allegation of wilfulness in its patent infringement claim in the first complaint directed to Teva's 25mg tablets. Therefore, in the consolidated action, in response to AstraZeneca's now combined allegations of patent infringement directed to Teva's 25, 100, 200 and 300mg tablets ANDA, Teva alleges non-infringement and patent invalidity. In January 2007, Teva filed a motion seeking leave to amend its pleadings in the consolidated action to add allegations, defences and counter-claims directed to alleged inequitable conduct in the procurement of AstraZeneca's patent.

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

In March 2007, AstraZeneca received a Paragraph IV certification notice-letter from another generic drug manufacturer, Sandoz Inc. (Sandoz), notifying AstraZeneca that it had submitted an ANDA to the FDA for approval to market a generic version of AstraZeneca's 25mg quetiapine fumarate tablets prior to the expiration of AstraZeneca's listed patent. Sandoz's notice-letter alleged non-infringement and patent invalidity. In April 2007, AstraZeneca filed a lawsuit in the US District Court for the District of New Jersey against Sandoz alleging patent infringement.

In June 2007, AstraZeneca received a third notice from Teva notifying AstraZeneca that it had supplemented its ANDA for quetiapine fumarate tablets again, adding 50, 150 and 400mg tablets to the application. The third notice-letter similarly advised that Teva's supplementation contained a Paragraph IV certification respecting AstraZeneca's listed patent covering *Seroquel*. In June 2007, AstraZeneca filed a third lawsuit in the US District Court for the District of New Jersey against Teva for its supplementation adding the 50, 150 and 400mg dosage strengths.

In October 2007, the Court granted AstraZeneca's partial summary judgment motion based on collateral estoppel, which precludes Teva from re-litigating issues previously resolved against it in another previous patent litigation involving Eli Lilly's anti-psychotic drug, Zyprexa™.

The four pending patent infringement cases against Teva and Sandoz have been consolidated for purposes of discovery, which proceeds. After its expiry, a 30-month stay will not prevent the FDA from approving an ANDA, and an 'at risk' launch by a generic drug manufacturer may occur, of quetiapine fumarate tablets in the year ending 31 December 2008.

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

Sales and marketing practices

In February 2007, the Commonwealth of Pennsylvania filed suit against AstraZeneca, Eli Lilly & Co. (Lilly), and Janssen Pharmaceutica Inc. (Janssen) claiming damages incurred by the Commonwealth as a result of alleged off-label promotion of atypical anti-psychotics by the three manufacturers. The lawsuit is filed in state court in Philadelphia and seeks to recover the cost to the Pennsylvania Medicaid programme and other state-funded health insurance programmes for prescriptions written as a result of the alleged off-label promotion. In December 2007, the Court granted defendants' motion to sever the claims against AstraZeneca and Janssen from those against Lilly and directed the Commonwealth to file separate complaints against the two severed defendants, which the Commonwealth did in January 2008. Although no similar lawsuits have been brought by states other than Pennsylvania, AstraZeneca has been informed that the Attorney Generals' Offices of multiple other states have investigations into similar *Seroquel* off-label issues. AstraZeneca has signed agreements with 20 states tolling the statutes of limitations on potential claims, and has been approached by additional states for similar tolling agreements. AstraZeneca believes these claims to be without merit and intends to vigorously defend the Pennsylvania lawsuit.

In May 2007, the New Jersey Ironworkers Local Union No. 68 filed a class action suit against AstraZeneca on behalf of all individuals and non-governmental entities that paid for *Seroquel* from January 2000 to date. The lawsuit is filed in the federal District Court in New Jersey and alleges that AstraZeneca promoted *Seroquel* for off-label uses and misled class members into believing that *Seroquel* was superior to other, lower-cost alternative medicines. Two similar class action lawsuits were filed in June 2007 in the New Jersey and Pennsylvania federal courts. In December 2007, the three lawsuits were transferred to the Middle District of Florida by the US Judicial Panel on Multidistrict Litigation. AstraZeneca believes these suits to be without merit and intends to vigorously defend the claims.

Symbicort (budesonide/formoterol)

In October 2007, following an appeal by a group of generic manufacturers, Norton Healthcare Limited, Miat SpA, Generics (UK) Limited and Licons SA, the European Patent Office (EPO) Technical Board of Appeal revoked the European combination patent for *Symbicort* for use in asthma. Two European patents (EPB1014993 and EPB1210943) claiming *Symbicort* for use in COPD are under appeal and opposition respectively. The hearing date for the COPD appeal at the EPO is now set for 6 May 2008. The proceedings instituted by IVAX Pharmaceuticals (UK) Limited in the UK and Ireland with respect to the *Symbicort* patents will remain stayed until the EPO Technical Board of Appeal decision on the COPD patent.

AstraZeneca will vigorously defend and enforce its remaining intellectual property portfolio protecting *Symbicort*, which has patent expiry dates up to 2019 in Europe.

Toprol-XL (metoprolol succinate)

In May 2003, AstraZeneca filed a patent infringement action against KV Pharmaceutical Company (KV) in the US District Court for the Eastern District of Missouri in response to KV's notification of its intention to market a generic version of *Toprol-XL* tablets in the 200mg dose prior to the expiration of AstraZeneca's patents covering the substance and its formulation. In response to later similar notices from KV related to the 25, 50 and 100mg doses, AstraZeneca filed further actions. KV responded in each instance and filed counterclaims alleging non-infringement, invalidity and unenforceability of the listed patents.

In February 2004, AstraZeneca filed a patent infringement action against Andrx Pharmaceuticals LLC (Andrx) in the US District Court for the District of Delaware in response to Andrx's notification of its intention to market a generic version of *Toprol-XL* tablets in the 50mg dose prior to the expiration of AstraZeneca's patents. In response to two later similar notices from Andrx related to the 25, 100 and 200mg doses, AstraZeneca filed two additional patent infringement actions in the same court. In each instance, Andrx claimed that each of the listed patents is invalid, not infringed and unenforceable.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

In April 2004, AstraZeneca filed a patent infringement action against Eon Labs Manufacturing Inc. (Eon) in the US District Court for the District of Delaware in response to Eon's notification of its intention to market generic versions of *Toprol-XL* tablets in the 25, 50, 100 and 200mg doses prior to the expiration of AstraZeneca's patents. In its response, Eon alleged that each of the listed patents is invalid, not infringed and unenforceable. Eon also alleged that the filing of the infringement complaints, as well as other actions by AstraZeneca, constitutes anti-competitive conduct in violation of US anti-trust laws. Pursuant to a joint motion of AstraZeneca and Eon these anti-trust counts were severed from the case and stayed, for possible consideration depending on the outcome of the trial of the patent claims.

All of the patent litigation relating to *Toprol-XL* against KV, Andrx and Eon was consolidated for pre-trial discovery purposes and motion practice in the US District Court for the Eastern District of Missouri. The defendants filed a motion for summary judgment in December 2004 alleging that the *Toprol-XL* patents are invalid due to double patenting. A summary judgment motion of unenforceability was filed by the defendants in 2005 and AstraZeneca filed summary judgment motions on infringement and validity in 2005. In January 2006, the US District Court for the Eastern District of Missouri issued a ruling finding that the two patents-in-suit are unenforceable (based on AstraZeneca's inequitable conduct in the prosecution of these patents in the US Patent and Trademark Office) and invalid. AstraZeneca appealed the District Court decision to the US Court of Appeals for the Federal Circuit. In July 2007, a three-judge panel of the Federal Circuit unanimously ruled that the inequitable conduct determination by the District Court was improper on summary judgment because there were material facts in dispute and therefore the issue of inequitable conduct was remanded to the District Court. The panel upheld, however, in a divided (2-1) decision, the finding that the *Toprol-XL* patents were invalid due to double patenting. In August 2007, AstraZeneca petitioned the Federal Circuit for reconsideration of the invalidity determination. Reconsideration was denied in October 2007.

In August 2006, Sandoz (formerly Eon) received final approval from the FDA on the 25mg dose of metoprolol succinate and tentative approval on the 50, 100 and 200mg doses. On 21 November 2006, Sandoz launched its 25mg metoprolol succinate product, which was followed by Par Pharmaceuticals' (Par) launch of a 25mg generic metoprolol succinate product under a distribution agreement with AstraZeneca. In May 2007, the FDA issued final approval to KV for the 100 and 200mg doses of generic metoprolol succinate. KV launched these products in July 2007, followed by a launch of an authorised generic by Par under its distribution agreement with AstraZeneca. In May 2007, the FDA issued final approval to Sandoz for a 50mg generic metoprolol succinate product after Andrx waived its right to 180 days exclusivity on the 50mg product. In August 2007, Sandoz launched its 50mg product, followed immediately by the launch of a 50mg authorised generic by Par, pursuant to its distribution agreement with AstraZeneca.

In the first quarter of 2006, AstraZeneca was served with 14 complaints filed in the US District Courts in Delaware, Massachusetts and Florida against AstraZeneca Pharmaceuticals LP, AstraZeneca LP, AstraZeneca AB and Aktiebolaget Hässle. The complaints were putative class actions filed on behalf of both direct purchasers and indirect purchasers that allege that the AstraZeneca defendants attempted to illegally maintain monopoly power in the US over *Toprol-XL* in violation of the Sherman Act through the listing of invalid and unenforceable patents in the FDA Orange Book and the enforcement of such patents through litigation against generic manufacturers seeking to market metoprolol succinate. The complaints seek treble damages based on alleged overcharges to the putative classes of plaintiffs. These 14 complaints were consolidated into two amended complaints in the US District Court in Delaware, one on behalf of direct purchasers, and one on behalf of indirect purchasers. The lawsuits are based upon the 2006 ruling described above by the US District Court for the Eastern District of Missouri in the consolidated patent litigation against KV, Andrx and Eon, that the AstraZeneca patents relating to *Toprol-XL* are invalid and unenforceable. In 2006 AstraZeneca filed a motion seeking to dismiss or in the alternative stay the consolidated complaint in both anti-trust cases. As noted above, AstraZeneca appealed the District Court decision, which resulted in a reversal and remand on the issue of inequitable conduct and an affirmation that the *Toprol-XL* patents were invalid. AstraZeneca's motion to dismiss the complaints is still pending. AstraZeneca denies the allegations of the anti-trust complaints and will vigorously defend the lawsuits.

In June 2007, AstraZeneca received notification from Dr. Reddy's Laboratories Inc that it had filed an ANDA for the 100 and 200mg doses of metoprolol succinate and that sale of its generic products would not infringe AstraZeneca's US Patent Nos. 4,957,745 and 5,246,714. AstraZeneca did not file suit in response to this notification.

Zestril (lisinopril)

In 1996, two of AstraZeneca's predecessor companies, Zeneca Limited and Zeneca Pharma Inc. (as licensees), Merck & Co., Inc. and Merck Frosst Canada Inc. commenced a patent infringement action in the Federal Court of Canada against Apotex, Inc. (Apotex), alleging infringement of Merck's lisinopril patent. Apotex sold a generic version of AstraZeneca's *Zestril* and Merck's Prinivil™ tablets. Apotex admitted infringement but raised positive defences to infringement, including that it acquired certain quantities of lisinopril prior to issuance of the patent and that certain quantities were licensed under a compulsory licence. Apotex also alleged invalidity of the patent. Following a trial in early 2006, in April 2006 the Federal Court of Canada ruled in favour of AstraZeneca and Merck on the key issues and Apotex stopped selling lisinopril in May 2006. In October 2006, the Federal Court of Appeal in Canada upheld the lower court's decision and dismissed Apotex's appeal. In December 2006, Apotex sought leave to appeal to the Supreme Court of Canada. The Supreme Court of Canada dismissed Apotex's leave to appeal in May 2007. AstraZeneca intends to pursue a reference proceeding in the Federal Court to quantify the damages related to the infringement by Apotex. Apotex commenced the sale of lisinopril in October 2007 after expiry of the relevant patent.

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

Average wholesale price class action litigation

In January 2002, AstraZeneca was named as a defendant along with 24 other pharmaceutical manufacturers in a class action suit in Massachusetts, brought on behalf of a putative class of plaintiffs alleged to have overpaid for prescription drugs as a result of inflated wholesale list prices. Following the Massachusetts complaint, nearly identical class action suits were filed against AstraZeneca and various other pharmaceutical manufacturers in four other states. AstraZeneca and other manufacturers have since been sued in similar lawsuits filed by the state Attorneys General of Pennsylvania, Nevada, Montana, Wisconsin, Illinois, Alabama, Kentucky, Arizona, Mississippi, Hawaii, Alaska, Idaho and Utah as well as by multiple individual counties in the state of New York. The Attorney General lawsuits seek to recover alleged overpayments under Medicaid and other state-funded healthcare programmes. In several cases, the states are also suing to recover alleged overpayments by state residents. Several of these suits have been consolidated with the Massachusetts action for pre-trial purposes, pursuant to federal multi-district litigation procedures.

In January 2006, the District Court in Boston certified three classes of plaintiffs against the 'Track 1' manufacturer defendants, AstraZeneca, GlaxoSmithKline, Bristol-Myers Squibb, Schering-Plough and Johnson & Johnson. The three certified classes are: (Class 1) a nationwide class of consumers who made co-payments for certain physician-administered drugs reimbursed under the Medicare Part B programme (Part B drugs); (Class 2) a Massachusetts-only class of third-party payers, including insurance companies, union health and welfare benefit plans, and self-insured employers, who covered consumer co-payments for Part B drugs; and (Class 3) a Massachusetts-only class of third-party payers and consumers who paid for Part B drugs outside of the Medicare programme. For all classes, the only AstraZeneca drug at issue is *Zoladex* (goserelin acetate implant).

A bench trial against four of the Track 1 defendants, including AstraZeneca, by Classes 2 and 3 began in November 2006 and concluded in January 2007. A separate jury trial against AstraZeneca only, involving the Class 1 claims, was scheduled to begin in June 2007.

In May 2007, the parties reached a proposed settlement agreement resolving the Class 1 claims. The settlement, if ultimately approved by the Court, will involve payments of up to \$24m, not including attorneys' fees, to reimburse individual class members submitting claims. AstraZeneca has agreed that \$10m of any unclaimed amounts will be donated to charitable organisations funding cancer patient care and research. Notice of the proposed settlement was mailed to potential class members in December 2007, and the Court has scheduled a hearing for final approval of the settlement in May 2008. A provision of \$27m was established in 2007.

In June 2007 and November 2007, the Court issued decisions on liability and damages on Classes 2 and 3. The Court found AstraZeneca liable under the Massachusetts consumer protection statute for engaging in unfair and deceptive conduct in connection with the pricing of *Zoladex* during the period 1998 to 2003. The Court awarded double damages (with pre-judgment interest) of \$5.5m for Class 2, and single damages (with pre-judgment interest) of \$7.4m for Class 3. AstraZeneca believes the decision to be in error and has filed an appeal in which it is confident that it will prevail and so no provision has been made for these awards.

The Court's award on Classes 2 and 3, if it survives appeal, relates to damages incurred by payers within the Commonwealth of Massachusetts only. Plaintiffs have filed a motion seeking certification of multi-state classes of third-party payers in an effort to pursue similar claims for damages under the consumer protection statutes of other states. The Court has scheduled a hearing on plaintiffs' motion in May 2008.

The decision on Classes 2 and 3 and the settlement of Class 1 relate to *Zoladex* only. The multiple Attorney General lawsuits pending against AstraZeneca and other manufacturers nationwide, which involve numerous drugs in addition to *Zoladex*, remain pending against AstraZeneca. The first of these cases scheduled for trial is the case filed by the Alabama Attorney General in state court in Montgomery, Alabama. That case is scheduled for a jury trial against AstraZeneca beginning February 2008.

Separately, MedImmune is involved in various lawsuits brought by various states and counties in the US alleging manipulation of average wholesale prices by several defendants, including MedImmune. The lawsuits were filed between 2003 and 2007 by Alabama, Mississippi, Iowa, New York City, and by various New York counties. The status of the various lawsuits by various states and counties alleging manipulation of average wholesale price by several defendants, including MedImmune, did not change materially during the financial year ended 31 December 2007, except that in April 2007, Orange County, New York filed suit in the Southern District of New York against a number of defendants, including MedImmune and in October 2007, the State of Iowa filed a lawsuit against a number of defendants, including MedImmune, in the US District Court for the Southern District of Iowa.

The allegations made in respect of the average wholesale price lawsuits described in this section are denied and will be vigorously defended.

340B class action litigation

In August 2004, AstraZeneca was named as a defendant, along with multiple other pharmaceutical manufacturers, in a class action suit filed by the County of Santa Clara in California state court on behalf of similarly situated California counties and cities that allegedly overpaid for drugs covered by the federal '340B' programme. The 340B programme entitles hospitals and clinics that treat a substantial portion of uninsured patients to preferential drug pricing for outpatient drugs. According to the complaint, the genesis of the suit was an audit report by the US Department of Health and Human Services Office of Inspector General (OIG) in June 2004. The OIG later withdrew the audit report and in 2006, re-issued a revised audit report that substantially modified the previous audit findings.

The case was removed to federal court, the US District Court for the Northern District of California. In 2006, the US District Court dismissed each of the allegations in the County's complaint. The County appealed the dismissal to the US Court of Appeals for the Ninth Circuit, and the parties briefed the matter. A date for oral argument has not yet been set. AstraZeneca denies the allegations in the County's complaint and intends to continue to defend them vigorously.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED**Drug importation anti-trust litigation**

In May 2004, plaintiffs in a purported class action filed complaints in the US District Court for Minnesota and for New Jersey, alleging that AstraZeneca Pharmaceuticals LP and eight other pharmaceutical manufacturer defendants conspired to prevent American consumers from purchasing prescription drugs from Canada, 'depriving consumers of the ability to purchase' drugs at competitive prices. The New Jersey case was voluntarily dismissed in July 2004. In August 2005, the Minnesota District Court dismissed with prejudice the plaintiffs' federal anti-trust claims and declined to exercise supplemental jurisdiction in relation to the state statutory and common law claims, which claims were dismissed without prejudice. The plaintiffs appealed the District Court's decision to the US Court of Appeals for the Eighth Circuit. In November 2006, the US Court of Appeals for the Eighth Circuit affirmed the District Court's decision. This matter is now concluded.

In August 2004, Californian retail pharmacy plaintiffs filed an action in the Superior Court of California making similar allegations to the Minnesota action and also alleging a conspiracy by approximately 15 pharmaceutical manufacturer defendants to set the price of drugs sold in California at or above the Canadian sales price for those same drugs. In July 2005, the Court overruled in part and sustained in part, without leave to amend, the defendants' motion to dismiss the plaintiffs' third amended complaint in these proceedings. The Court overruled the defendants' motion in respect of conspiracy claims but sustained the motion in respect of the California Unfair Competition Law claims. In December 2006, the Court granted the defendants' motion for summary judgment and the case was subsequently dismissed. In January 2007, plaintiffs filed a Notice of Appeal with the Court of Appeal of the State of California. Briefing on the appeal is now complete.

AstraZeneca denies the material allegations in the California action and is vigorously defending this matter.

Anti-trust

In July 2006, AstraZeneca Pharmaceuticals LP was named as a defendant, along with a number of other pharmaceutical manufacturers and wholesalers, in a complaint filed by RxUSA Wholesale, Inc. (RxUSA) in the US District Court for the Eastern District of New York. The complaint alleges that the defendants violated federal and state anti-trust laws by, amongst other things, allegedly refusing to deal with RxUSA and other 'secondary wholesalers' in the wholesale pharmaceutical industry. The plaintiff alleges a conspiracy among the manufacturers and seeks an injunction and treble damages. AstraZeneca vigorously denies the allegations and in November 2006 filed a motion to dismiss the complaint.

For a description of other anti-trust-related litigation involving AstraZeneca, see the subsections entitled *Nexium* (esomeprazole), *Losec/Prilosec* (omeprazole), *Nolvadex* (tamoxifen) and *Toprol-XL* (metoprolol succinate) in this Note 27 to the Financial Statements.

AstraZeneca is part of a sectoral inquiry by the European Commission into the pharmaceutical industry and was the subject of an unannounced inspection in January 2008. The inquiry relates to the introduction of innovative and generic medicines and it will cover commercial practices, including the use of patents and generics. We understand that several companies have been similarly approached.

The Commission has stated that this inquiry is not aimed at investigating practices where there have been any indications of wrongdoing although it could address any competition law breaches found by means of separate proceedings. The Commission has also stated that it plans to issue an interim report in autumn 2008 and envisages that the final results of its inquiry will be available in spring 2009.

AstraZeneca is cooperating fully with the Commission in relation to its inquiry.

Employment-wage/hour litigation

In September 2006, Marc Brody filed a putative class action lawsuit against AstraZeneca LP on behalf of himself and a class of approximately 844 pharmaceutical sales specialists employed by the Group in California during the period 19 September 2002 to the present. The plaintiff alleges he and the proposed class members were unlawfully classified as exempt employees and denied overtime compensation and meal breaks in violation of the California Labour Code. AstraZeneca removed this action to the US District Court for the Central District of California in October 2006. The Plaintiff filed a first amended complaint on or about 20 March 2007, for failure to provide meal and rest periods, failure to pay all wages earned each pay period, failure to provide accurate wage statements, failure to pay wages timely upon termination, unfair competition and civil penalties. AstraZeneca denies the allegations made by the plaintiff, asserting that the sales specialists are properly classified under various exemptions to the wage laws. Discovery is ongoing. (The plaintiff's lawyers are also pursuing similar claims in lawsuits against most of the major pharmaceutical companies.)

In separate lawsuits against AstraZeneca, the firms representing Brody filed additional state wage-and-hour class actions, the first under Pennsylvania Minimum Wage Act and Wage Payment Collection Law in the US District Court for the Western District of Pennsylvania on behalf of two plaintiffs and a putative class of approximately 473 sales specialists working in Pennsylvania during the period March 2004 to the present; and the second in the US District Court for the Southern District of New York on behalf of one plaintiff and a putative class of approximately 890 sales specialists working in the state of New York during the period June 2001 to the present, claiming the sales specialists were misclassified as exempt from overtime pay under New York labour law.

Additionally, in June 2007, the firms representing Brody filed a nationwide collective action based on federal wage-and-hour law (FLSA) in the US District Court for the District of Delaware, seeking unpaid overtime compensation and liquidated damages. The lawsuit has a potential class size of 8,300 current and former sales specialists employed by the Group in the US during the period June 2004 to the present. The parties have negotiated a stipulation of dismissal of this lawsuit, and the action has been dismissed with prejudice. Plaintiff's counsel is expected to file a new FLSA action with a different named plaintiff in the near future.

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED

Additional government investigations into drug marketing practices

As is true for most, if not all, major prescription pharmaceutical companies operating in the US, AstraZeneca is currently involved in multiple US federal and state investigations into drug marketing and pricing practices. The US Attorney's Office in Philadelphia is directing four active investigations involving AstraZeneca. The first two involve requests for documents and information relating to contracting and disease management programmes with two of the leading national Pharmacy Benefits Managers. The third involves a review of sales and marketing practices relating to *Seroquel*, including allegations that AstraZeneca promoted *Seroquel* for non-indicated (off-label) uses. The fourth investigation relates to selected physicians who participated in clinical trials involving *Seroquel*. The US Attorney's Office in Boston is conducting an additional investigation into sales and marketing interactions with a leading provider of pharmacy services to long-term care facilities. AstraZeneca understands that all of these investigations may be the subjects of sealed *qui tam* lawsuits filed under the False Claims Act.

There are also a number of additional active investigations led by state Attorneys General. These include multiple investigations relating to *Seroquel* off-label issues, discussed above, along with an investigation by the Delaware Attorney General's Office into marketing and sale activities within the state of Delaware.

It is not possible to predict the outcome of any of these investigations, which could include the payment of damages and the imposition of fines, penalties and administrative remedies.

Congressional investigations

AstraZeneca, along with several other manufacturers, has received a letter from the Committee on Oversight and Government Reform of the US House of Representatives as part of the Committee's ongoing oversight of the pharmaceutical industry's research and marketing practices. The Committee has requested that AstraZeneca provide clinical and marketing information relating to *Seroquel*.

AstraZeneca also received letters from the Finance Committee of the US Senate requesting information regarding AstraZeneca's payments to certain identified physicians and their prescribing information related to *Seroquel*. In addition, the Finance Committee has requested sales and marketing information regarding the use of *Seroquel* in nursing homes.

AstraZeneca is co-operating with both Committees.

Federal Trade Commission (FTC) study on authorised generics

In October 2007, AstraZeneca received a Special Order from the FTC, requesting certain information in connection with the FTC's industry-wide study of the short- and long-term competitive effects of authorised generics in the prescription drug marketplace. AstraZeneca has begun to collect the requested information and plans to respond to the Special Order.

Informal US Securities and Exchange Commission (SEC) inquiry

In October 2006, AstraZeneca received from the SEC a letter requesting documents related to its business activities in Italy, Croatia, Russia and Slovakia for the period '1 October 2003 to the present'. The SEC's request generally seeks documents concerning any payments to doctors or government officials and related internal accounting controls. The request also seeks policies, correspondence, audits and other documents concerning compliance with the Foreign Corrupt Practices Act, as well as any allegations or communications with prosecutors' offices relating to corruption or bribery of doctors or government officials. AstraZeneca has produced documents in response to this request. It is not currently possible to predict the outcome of this inquiry.

Serious Fraud Office (SFO) inquiry

In 2007, AstraZeneca received from the SFO in the UK a request for documentation about its involvement in the UN Oil for Food programme in Iraq. AstraZeneca denies any allegation of illegal or unethical behaviour in its trading relationships with Iraq. AstraZeneca will comply with the SFO's request for documentation.

Other government investigations

From time to time, AstraZeneca receives enquiries and requests for information from a number of governmental and/or other regulatory bodies relating to a range of issues (some, but not all, of which relate directly to the business of AstraZeneca) and some of which are confidential in nature. AstraZeneca seeks to comply with these requests in an appropriate and timely manner and generally on the basis of legal advice received. The nature and scope of the investigation in relation to which such enquiries and requests for information have been received is not always known to AstraZeneca. Consequently, it is not always possible to determine whether such enquiries and investigations relate specifically to AstraZeneca or are merely a means of gathering factual information in the context of an unrelated third-party issue.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 COMMITMENTS AND CONTINGENT LIABILITIES CONTINUED**Taxation**

Where tax exposures can be quantified, an accrual is made based on best estimates and management's judgement. Details of the movements in relation to material tax exposures are discussed below.

AstraZeneca faces a number of transfer pricing audits in jurisdictions around the world and, in some cases, is in dispute with the tax authorities. The issues under discussion are often complex and can require many years to resolve. Accruals for tax contingencies require management 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. Management considers 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 \$1,322m, an increase of \$327m 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 AstraZeneca and the tax authorities are in dispute, AstraZeneca estimates the potential for reasonably possible additional losses above and beyond the amount provided to be up to \$400m; however, management believes that it is unlikely that these additional losses will arise. Of the remaining tax exposures, AstraZeneca does 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. Included in the provision is an amount of interest of \$234m. Interest is accrued as a tax expense.

28 LEASES

Total rentals under operating leases charged to the income statement were as follows:

	2007 \$m	2006 \$m	2005 \$m
	210	197	155

The future minimum lease payments under operating leases that have initial or remaining terms in excess of one year at 31 December 2007 were as follows:

	2007 \$m	2006 \$m	2005 \$m
Obligations under leases comprise			
Rentals due within one year	103	108	83
Rentals due after more than one year:			
After five years	184	161	90
From four to five years	34	30	18
From three to four years	43	38	26
From two to three years	51	51	41
From one to two years	67	63	52
	379	343	227
	482	451	310

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 STATUTORY AND OTHER INFORMATION

	2007 \$m	2006 \$m	2005 \$m
Fees payable to KPMG Audit Plc and its associates:			
Group audit fee	3.6	3.1	2.5
Fees payable to KPMG Audit Plc and its associates for other services:			
The audit of subsidiaries pursuant to legislation	6.1	5.4	5.0
Other services pursuant to legislation	3.6	4.1	0.8
Taxation	1.1	1.2	1.0
All other services	0.7	1.0	2.2
Fees payable to KPMG Audit Plc in respect of the Group's pension schemes:			
The audit of subsidiaries' pension schemes	0.6	0.5	0.5
	15.7	15.3	12.0

Other services pursuant to legislation includes fees of \$2.7m (2006 \$3.2m, 2005 \$nil) in respect of section 404 of the Sarbanes-Oxley Act. All other services includes \$nil (2006 \$nil, 2005 \$1.8m) in respect of section 404 of the Sarbanes-Oxley Act.

Included within the Group audit fee is an amount of \$0.1m (2006 \$0.1m) in respect of the audit of the Company.

Taxation services consist of tax compliance services and tax advice.

Related party transactions

The Group had no material related party transactions which might reasonably be expected to influence decisions made by the users of these Financial Statements.

Key management personnel compensation

	2007 \$'000	2006 \$'000	2005 \$'000
Short-term employee benefits	31,525	21,321	19,334
Post-employment benefits	2,072	3,191	1,731
Share-based payments	11,515	8,417	5,663
	45,112	32,929	26,728

Short-term employee benefits in 2007 include one-off employee costs of \$11m in relation to the acquisition of MedImmune.

Total remuneration is included within employee costs (Note 26).

Subsequent events

There were no material subsequent events.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30 SHARE CAPITAL OF PARENT COMPANY

	Authorised	Allotted, called-up and fully paid		
	2007 \$m	2007 \$m	2006 \$m	2005 \$m
Issued Ordinary Shares (\$0.25 each)	364	364	383	395
Unissued Ordinary Shares (\$0.25 each)	236	–	–	–
Redeemable Preference Shares (£1 each – £50,000)	–	–	–	–
	600	364	383	395

The total authorised number of Ordinary Shares at 31 December 2007 was 2,400,000,000, of which 1,457,000,853 Ordinary Shares were in issue.

The Redeemable Preference Shares carry limited class voting rights and no dividend rights. This class of shares is capable of redemption at par at the option of the Company on the giving of seven days' written notice to the registered holder of the shares.

The movements in share capital during the year can be summarised as follows:

	No. of shares (million)	\$m
At 1 January 2007	1,532	383
Issues of shares	5	1
Re-purchase of shares	(80)	(20)
At 31 December 2007	1,457	364

Share re-purchases

During the year the Company re-purchased, and subsequently cancelled, 79,927,377 Ordinary Shares at an average price of 2593 pence per share. The total consideration, including expenses, was \$4,170m. The consideration has been charged against retained earnings.

Share schemes

A total of 4,682,622 Ordinary Shares were issued during the year in respect of share schemes. Details of movements in the number of Ordinary Shares under option are shown in Note 26; details of options granted to Directors are shown in the Directors' Remuneration Report.

Shares held by subsidiaries

No shares in the Company were held by subsidiaries in any year.

PRINCIPAL SUBSIDIARIES

At 31 December 2007	Country	Percentage of voting share capital held	Principal activity
UK			
AstraZeneca UK Limited	England	100 ¹	Research and development, manufacturing, marketing
AstraZeneca Reinsurance Limited	England	100	Insurance and reinsurance underwriting
AstraZeneca Treasury Limited	England	100	Treasury
Continental Europe			
NV AstraZeneca SA	Belgium	100	Manufacturing, marketing
AstraZeneca Dunkerque Production SCS	France	100	Manufacturing
AstraZeneca SAS	France	100	Research, manufacturing, marketing
AstraZeneca GmbH	Germany	100	Development, manufacturing, marketing
AstraZeneca Holding GmbH	Germany	100	Manufacturing, marketing
AstraZeneca SpA	Italy	100	Manufacturing, marketing
AstraZeneca Farmaceutica Spain SA	Spain	100	Manufacturing, marketing
AstraZeneca AB	Sweden	100	Research and development, manufacturing, marketing
AstraZeneca BV	The Netherlands	100	Marketing
The Americas			
AstraZeneca Canada Inc.	Canada	100	Research, manufacturing, marketing
IPR Pharmaceuticals Inc.	Puerto Rico	100	Development, manufacturing, marketing
AstraZeneca LP	US	99	Research and development, manufacturing, marketing
AstraZeneca Pharmaceuticals LP	US	100	Research and development, manufacturing, marketing
Zeneca Holdings Inc.	US	100	Manufacturing, marketing
MedImmune, Inc.	US	100	Research and development, manufacturing, marketing
Asia, Africa & Australasia			
AstraZeneca Pty Limited	Australia	100	Development, manufacturing, marketing
AstraZeneca KK	Japan	80	Manufacturing, marketing

¹ Shares held directly.

The companies and other entities listed above are those whose results or financial position principally affected the figures shown in the Group Financial Statements. A full list of subsidiaries, joint ventures and associates will be annexed to the Company's next annual return filed with the Registrar of Companies. The country of registration or incorporation is stated alongside each company. The accounting year ends of subsidiaries and associates are 31 December, except for Aptium Oncology, Inc. which, owing to local conditions and to avoid undue delay in the preparation of the Financial Statements, is 30 November. AstraZeneca operates through 290 subsidiaries worldwide. The Group Financial Statements consolidate the Financial Statements of the Company and its subsidiaries at 31 December 2007. Products are manufactured in 20 countries worldwide and are sold in over 100 countries.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ASTRAZENECA PLC

We have audited the Company Financial Statements of AstraZeneca PLC for the year ended 31 December 2007 which comprise the Balance Sheet and the related notes on pages 179 to 183. These Company Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group Financial Statements of AstraZeneca PLC for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and Form 20-F Information, the Directors' Remuneration Report and the Company Financial Statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 116.

Our responsibility is to audit the Company Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Company Financial Statements give a true and fair view and whether the Company Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Company Financial Statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and Form 20-F Information and consider whether it is consistent with the audited Company Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company Financial Statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Company Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Company Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- > The Company Financial Statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007.
- > The Company Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.
- > The information given in the Directors' Report is consistent with the Company Financial Statements.

KPMG Audit Plc
Chartered Accountants
 Registered Auditor
 8 Salisbury Square
 London EC4Y 8BB

31 January 2008

ASTRAZENECA PLC

BALANCE SHEET

At 31 December	Notes	2007 \$m	2006 \$m
Fixed assets			
Fixed asset investments	1	30,355	19,118
Current assets			
Debtors – other	2	1	9
Debtors – amounts owed by subsidiaries		6,984	1,382
		6,985	1,391
Total assets		37,340	20,509
Creditors: Amounts falling due in less than one year			
Non-trade creditors	3	(4,353)	(33)
Net current assets		2,632	1,358
Total assets less current liabilities		32,987	20,476
Creditors: Amounts falling due after more than one year			
Amounts owed to subsidiaries	4	(283)	(283)
Interest bearing loans and borrowings	4	(10,482)	(747)
		(10,765)	(1,030)
Net assets		22,222	19,446
Capital and reserves			
Called-up share capital	7	364	383
Share premium account	5	1,888	1,671
Capital redemption reserve	5	91	71
Other reserves	5	1,841	1,841
Profit and loss account	5	18,038	15,480
Shareholders' funds		22,222	19,446

\$m means millions of US dollars.

The Financial Statements on pages 179 to 183 were approved by the Board of Directors on 31 January 2008 and were signed on its behalf by:

DAVID R BRENNAN **SIMON LOWTH**
Director Director

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Company Financial Statements are prepared under the historical cost convention, modified to include revaluation to fair value of certain financial instruments as described below, in accordance with the Companies Act 1985 and UK Generally Accepted Accounting Principles (UK GAAP). The Group Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and are presented on pages 121 to 123.

The following paragraphs describe the main accounting policies under UK GAAP, which have been applied consistently.

NEW ACCOUNTING STANDARDS

The Company has adopted the following accounting standard in the year:

Financial Reporting Standard No. 29 'Financial Instruments: Disclosures' (FRS 29). FRS 29 sets out the requirements for the presentation of, and disclosures relating to, financial instruments, and replaces the disclosure requirements of FRS 25 'Financial Instruments: Disclosure and Presentation'. The Company is exempt from the requirements of FRS 29 because the Company is included in AstraZeneca PLC's publicly available Consolidated Financial Statements for 2007, which include disclosures that comply with IFRS 7, the equivalent International Financial Reporting Standard.

The Company has also adopted Amendment to FRS 26 'Financial Instruments: Measurement', UITF Abstract 42 'Reassessment of Embedded Derivatives' and UITF Abstract 45 'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'. The adoption of these standards and abstracts did not have a significant impact on net results, net assets or disclosures of the Company.

UITF Abstract 44 (IFRIC 11): 'FRS 20 (IFRS 2) Group and Treasury Transactions' has been issued but has not yet been adopted by the Company.

FOREIGN CURRENCIES

Profit and loss account items in foreign currencies are translated into US dollars at average rates for the relevant accounting periods. Assets and liabilities are translated at exchange rates prevailing at the date of the Company balance sheet. Exchange gains and losses on loans and on short term foreign currency borrowings and deposits are included within net interest payable. Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating profit.

TAXATION

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes. Full provision is made for the effects of these differences. Deferred tax asset valuation allowances are made where it is more likely than not that the asset will not be realised in the future. These valuations require judgements to be made including the forecast of future taxable income. Deferred tax balances are not discounted.

Accruals for tax contingencies require management to make judgements and estimates in relation to tax audit issues. Tax benefits are not recognised unless the tax positions will probably be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of that benefit on the basis of potential settlement through negotiation and/or litigation.

Any recorded exposure to interest on tax liabilities is provided for in the tax charge. All provisions are included in creditors due within one year.

INVESTMENTS

Fixed asset investments, including investments in subsidiaries, are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

FINANCIAL INSTRUMENTS

Loans and other receivables are held at amortised cost. Long term loans payable are held at amortised cost.

CONTINGENT LIABILITIES

Through the normal course of business, AstraZeneca is involved in legal disputes, the settlement of which may involve cost to the Company. Provision is made where an adverse outcome is probable and associated costs can be estimated reliably. In other cases, appropriate descriptions are included.

NOTES TO THE COMPANY FINANCIAL STATEMENTS**1 FIXED ASSET INVESTMENTS**

	Investments in subsidiaries		
	Shares \$m	Loans \$m	Total \$m
Cost and net book value at 1 January 2007	6,715	12,403	19,118
Additions	8,571	9,692	18,263
Repayment of loan	–	(7,069)	(7,069)
Exchange	–	40	40
Amortisation	–	3	3
Cost and net book value at 31 December 2007	15,286	15,069	30,355

2 OTHER DEBTORS

	2007 \$m	2006 \$m
Other debtors	1	1
Deferred tax asset	–	8
	1	9

3 NON-TRADE CREDITORS

	2007 \$m	2006 \$m
Amounts due within one year		
Short term borrowings (unsecured)	4,123	7
Other creditors	206	12
Amounts owed to subsidiaries	24	14
	4,353	33

4 LOANS

	Repayment dates	2007 \$m	2006 \$m
Amounts owed to subsidiaries (unsecured)			
US dollars			
7.2% Loan	2023	283	283
Interest bearing loans and borrowings (unsecured)			
US dollars			
Floating Rate Note	2009	649	–
5.4% Callable bond	2012	1,741	–
5.4% Callable bond	2014	747	747
5.9% Callable bond	2017	1,741	–
6.45% Callable bond	2037	2,715	–
Euros			
4.625% Non-callable bond	2010	1,099	–
5.125% Non-callable bond	2015	1,099	–
Pounds sterling			
5.75% Non-callable bond	2031	691	–
		10,765	1,030
Loans or instalments thereof are repayable:			
After five years from balance sheet date		7,276	1,030
From two to five years		2,840	–
From one to two years		649	–
Total unsecured		10,765	1,030
Total due within one year		–	–
		10,765	1,030

With the exception of the floating rate note, all loans are at fixed interest rates. Accordingly the fair values of the loans will change as market rates change. However, since the loans are held at amortised cost, changes in interest rates and the credit rating of the Company do not have any effect on the Company's net assets.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

5 RESERVES

	Share premium account \$m	Capital redemption reserve \$m	Other reserves \$m	Profit and loss account \$m	2007 Total \$m	2006 Total \$m
At beginning of year	1,671	71	1,841	15,480	19,063	23,778
Profit for the year	–	–	–	9,407	9,407	652
Dividends	–	–	–	(2,658)	(2,658)	(2,217)
Cash flow hedge in anticipation of debt issue	–	–	–	(21)	(21)	–
Share re-purchases	–	20	–	(4,170)	(4,150)	(4,129)
Share premiums	217	–	–	–	217	979
At end of year	1,888	91	1,841	18,038	21,858	19,063
Distributable reserves at end of year	–	–	1,841	13,978	15,819	6,063

As permitted by section 230 of the Companies Act 1985, the Company has not presented its profit and loss account.

At 31 December 2007 \$4,060m (31 December 2006 \$11,129m) of the profit and loss account reserve was not available for distribution. The majority of this non-distributable amount relates to profit arising on the sale of Astra AB to a subsidiary in 1999, which becomes distributable as the underlying receivable is settled. During 2007, \$7,069m (2006: \$5,738m) of the profit was realised by repayment. Subsequent to the year end, a further \$377m was repaid on 18 January 2008, resulting in additional distributable reserves not included in the figures above. Included in other reserves is a special reserve of \$157m, arising on the redenomination of share capital in 1999.

6 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2007 \$m	2006 \$m
Shareholders' funds at beginning of year	19,446	24,173
Net profit for the financial year	9,407	652
Dividends	(2,658)	(2,217)
Cash flow hedge in anticipation of debt issue	(21)	–
Issues of AstraZeneca PLC Ordinary Shares	218	985
Re-purchase of AstraZeneca PLC Ordinary Shares	(4,170)	(4,147)
Net increase/(reduction) in shareholders' funds	2,776	(4,727)
Shareholders' funds at end of year	22,222	19,446

7 SHARE CAPITAL

	Authorised 2007 \$m	Allotted, called-up and fully paid 2007 \$m	2006 \$m
Issued Ordinary Shares (\$0.25 each)	364	364	383
Unissued Ordinary Shares (\$0.25 each)	236	–	–
Redeemable Preference Shares (£1 each – £50,000)	–	–	–
	600	364	383

The total authorised number of Ordinary Shares at 31 December 2007 was 2,400,000,000, of which 1,457,000,853 Ordinary Shares were in issue.

The Redeemable Preference Shares carry limited class voting rights and no dividend rights. This class of shares is capable of redemption at par at the option of the Company on the giving of seven days' written notice to the registered holder of the shares.

The movements in share capital during the year can be summarised as follows:

	No. of shares (million)	\$m
At 1 January 2007	1,532	383
Issues of shares	5	1
Re-purchase of shares	(80)	(20)
At 31 December 2007	1,457	364

7 SHARE CAPITAL CONTINUED

Share re-purchases

During the year the Company re-purchased, and subsequently cancelled, 79,927,377 Ordinary Shares at an average price of 2593 pence per share. The total consideration, including expenses, was \$4,170m. The consideration has been charged against the profit and loss account reserve.

Share schemes

A total of 4,682,622 Ordinary Shares were issued during the year in respect of share schemes. Details of movements in the number of Ordinary Shares under option are shown in Note 26 to the Group Financial Statements; details of options granted to Directors are shown in the Directors' Remuneration Report.

Shares held by subsidiaries

No shares in the Company are held by subsidiaries.

8 COMMITMENTS AND CONTINGENT LIABILITIES

Crestor (rosuvastatin)

From 2004 to present, AstraZeneca Pharmaceuticals LP and/or AstraZeneca LP in the US were served with 15 individual lawsuits in various US jurisdictions, alleging injury in association with the use of *Crestor*. 11 of the cases were dismissed in early stages, and another was dismissed after the Court granted AstraZeneca's motion for summary judgment in June 2007. These decisions were not appealed by the plaintiffs. AstraZeneca intends to vigorously defend the remaining cases, all of which are still in preliminary stages. In addition, a motion to institute a class action was filed in Quebec, Canada against AstraZeneca PLC and AstraZeneca Canada Inc. in which the petitioners alleged injury as a result of the use of *Crestor*. In March 2007, the Court granted the named plaintiff's request to discontinue this action.

AstraZeneca continues to have full confidence in and will vigorously defend and enforce its intellectual property protecting *Crestor*.

Exanta (ximelagatran)

Four putative and essentially similar securities class actions were filed in the US against AstraZeneca PLC, Håkan Mogren (who currently serves as a Director of AstraZeneca PLC), Sir Tom McKillop, Jonathan Symonds and Percy Barnevik (who are former Directors of AstraZeneca PLC) between January and March 2005. These actions were subsequently consolidated into a single action pending in the US District Court for the Southern District of New York. The Consolidated Amended Complaint alleges that the defendants made materially false and misleading statements regarding *Exanta* clinical trials and the status of the *Exanta* New Drug Application in the US. The plaintiffs purport to assert claims on behalf of purchasers of AstraZeneca publicly traded securities during the period April 2003 to September 2004 under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5.

The defendants deny the allegations made in the lawsuit and will vigorously defend the action. In 2006 they filed a motion to dismiss the action, and that motion is pending before the Court.

Anti-trust

AstraZeneca is part of a sectoral inquiry by the European Commission into the pharmaceutical industry and was the subject of an unannounced inspection in January 2008. The inquiry relates to the introduction of innovative and generic medicines and it will cover commercial practices, including the use of patents and generics. We understand that several companies have been similarly approached.

The Commission has stated that this inquiry is not aimed at investigating practices where there have been any indications of wrong-doing although it could address any competition law breaches found by means of separate proceedings. The Commission has also stated that it plans to issue an interim report in autumn 2008 and envisages that the final results of its inquiry will be available in spring 2009.

AstraZeneca is cooperating fully with the Commission in relation to its inquiry.

Other

The Company has guaranteed the external borrowing of a subsidiary, in the amount of \$288m.

9 STATUTORY AND OTHER INFORMATION

There are no employees of the Company (2006 nil). The Directors of the Company were paid by another Group company in 2007 and 2006.

GROUP FINANCIAL RECORD

	2003 \$m	2004 \$m	2005 \$m	2006 \$m	2007 \$m
For the year ended 31 December					
Turnover and profits					
Sales	18,849	21,426	23,950	26,475	29,559
Cost of sales	(4,463)	(5,193)	(5,356)	(5,559)	(6,419)
Distribution costs	(162)	(177)	(211)	(226)	(248)
Research and development	(3,012)	(3,467)	(3,379)	(3,902)	(5,162)
Selling, general and administrative costs	(7,393)	(8,268)	(8,695)	(9,096)	(10,364)
Other operating income and expense	188	226	193	524	728
Operating profit	4,007	4,547	6,502	8,216	8,094
Profit on sale of interest in joint venture	–	219	–	–	–
Finance income	381	532	665	888	959
Finance expense	(311)	(454)	(500)	(561)	(1,070)
Profit before tax	4,077	4,844	6,667	8,543	7,983
Taxation	(1,033)	(1,161)	(1,943)	(2,480)	(2,356)
Profit for the period	3,044	3,683	4,724	6,063	5,627
Attributable to:					
Equity holders of the Company	3,022	3,664	4,706	6,043	5,595
Minority interests	22	19	18	20	32
Earnings per share					
Earnings per \$0.25 Ordinary Share (basic)	\$1.77	\$2.18	\$2.91	\$3.86	\$3.74
Earnings per \$0.25 Ordinary Share (diluted)	\$1.77	\$2.18	\$2.91	\$3.85	\$3.73
Dividends	\$0.725	\$0.835	\$1.025	\$1.410	\$1.750
Return on sales					
Operating profit as a percentage of sales	21.3%	21.2%	27.2%	31.0%	27.4%
Ratio of earnings to fixed charges					
	100.4	93.6	85.6	92.7	15.6
At 31 December					
Balance sheet					
Property, plant and equipment, goodwill and intangible assets	10,574	11,147	9,697	11,657	29,649
Other investments	133	262	256	119	182
Deferred tax assets	1,261	1,218	1,117	1,220	1,044
Current assets	11,593	13,025	13,770	16,936	17,082
Total assets	23,561	25,652	24,840	29,932	47,957
Current liabilities	(6,558)	(6,587)	(6,839)	(9,447)	(15,187)
Non-current liabilities	(3,828)	(4,568)	(4,310)	(5,069)	(17,855)
Net assets	13,175	14,497	13,691	15,416	14,915
Capital and reserves attributable to equity holders	13,086	14,404	13,597	15,304	14,778
Minority equity interests	89	93	94	112	137
Total equity and reserves	13,175	14,497	13,691	15,416	14,915
For the year ended 31 December					
Cash flows					
Net cash inflow/(outflow) from:					
Operating activities	3,368	4,817	6,743	7,693	7,510
Investing activities	(852)	970	(1,182)	(272)	(14,887)
Financing activities	(2,674)	(2,761)	(4,572)	(5,366)	6,051
	(158)	3,026	989	2,055	(1,326)

Ratio of earnings to fixed charges

For the purpose of computing these ratios, earnings consist of the income from continuing ordinary activities before taxation of Group companies and income received from companies owned 50% or less, plus fixed charges (excluding capitalised interest). Fixed charges consist of interest (including capitalised interest) on all indebtedness, amortisation of debt discount and expense and that portion of rental expense representative of the interest factor.