

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.