

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.