

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