

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.

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)

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).