

We believe this decrease reflects our continuing commitment in this area, and arises primarily from our strengthened internal procedures where our strict code of practice requires that medically qualified individuals authenticate all promotional or scientific material in advance. The decrease should also be seen in the context of the continuing rise in strict standards from national and international codes. Our 2007 figure includes cases where our promotional materials were challenged by competitor companies. In addition there were some cases where, while not confirmed breaches, regulatory authorities raised concerns with us.

We take all breaches very seriously and take appropriate action to prevent repeat occurrences. This may include re-training, discipline, or other corrective action up to and including dismissal, depending on the circumstances.

Accusations of inappropriate sales and marketing activities sometimes reach the press and this is a part of the appropriate scrutiny that the pharmaceutical industry undergoes. When these incidents are examined by external code of practice or regulatory bodies, they may or may not conclude that the criticism was well founded and constituted a breach. Only confirmed breaches are included in our KPI. Internally, all such incidents are fully investigated and appropriate action taken, irrespective of whether a breach has been confirmed.

We can also gain useful information by examining the number of breaches relative to other companies' performance where such data are made public by the authorities. AstraZeneca accounted for approximately 1% of all international breaches (3% in 2006), and while our number of breaches has fallen, the number of breaches for the industry as a whole has increased.

INTELLECTUAL PROPERTY

Patents are important incentives for the continued innovation that drives society's progress. As described elsewhere in this report, the discovery and development of a new medicine demands a huge investment of time, resource and money by research-based pharmaceutical companies over a period of 10 or more years. For this investment to be a viable commitment for a company to make, the results of the investment – new medicines – must be safeguarded from copying for a reasonable period of time with a reasonable amount of certainty. The principal safeguard in our industry is a well-functioning patent system that recognises our effort

and rewards our innovation with appropriate protection that allows the time for generating the revenue needed for continued pharmaceutical innovation.

The first level of protection in our industry is typically the patent to the new molecular entity (NME), either a new chemical entity (NCE) or a biological drug. However, because we continue to explore all the ways in which our medicines can bring benefit, further innovations are often made during the R&D process and beyond; for example, new formulations to provide different ways of taking the treatment, new medical uses and combination products. Each of these developments also requires significant resource investment to obtain marketing approval from regulatory authorities around the world. Our policy is to protect all the innovations that result from the investment we make in leading-edge science to deliver new and improved medicines.

We apply for patent protection relatively early in the R&D process to safeguard our increasing investment. We pursue these patents through patent offices around the world, responding to questions and challenges from patent office examiners. In some countries, our competitors can challenge our patents in the patent offices, and in all countries competitors can challenge our patents in the courts. We can face challenges early in the patent process and throughout the life of the patent, until the patent expires some 20 to 25 years later (patent expiry is typically 10 to 15 years after the first marketing approval is granted). These challenges can be to the validity of a patent and/or to the effective scope of a patent and are based on ever-evolving legal precedents. There can be no guarantee of success for either party in patent proceedings taking place in patent offices or the courts.

Worldwide experience of biotechnology patent procurement and enforcement is, like the technology itself, relatively young and still developing. As a result, there can be significant uncertainty about the validity and effective scope of patent claims in the biotechnology arena, compared with the small molecule pharmaceutical industry. The investment in bringing biotechnology innovations to the market is huge and a well-functioning, predictable patent system is vital.

The generic industry is increasingly challenging innovators' patents and almost all leading pharmaceutical products in the US have faced or are facing patent challenges from generic

manufacturers. The research-based industry is also experiencing increased challenges elsewhere in the world, for example in Europe, Canada, Asia and Latin America. We are confident of the value of our innovations and, through close collaboration between our intellectual property experts and R&D scientists, we will continue to seek to obtain effective patent protection for our intellectual property, and vigorously defend our patents if they are challenged. Further information about the risk of the early loss and expiry of patents is contained on pages 193 to 194.

Compulsory licensing (the substantial elimination of patent rights to allow patented medicines to be manufactured by other parties) is increasingly being included in the access to medicines debate. We support the appropriate use of compulsory licensing as implemented by the World Trade Organization (WTO) in December 2005 following the agreement reached in August 2003. This enables developing countries with no domestic manufacturing capability to import copies of patented medicines to treat diseases such as HIV/AIDS, malaria and tuberculosis in a public health emergency. We believe that this should apply only when other ways of meeting the emergency needs have been considered and where healthcare frameworks and safeguards to prevent diversion are in place to ensure that the medicines reach those that need them.

SUPPLY AND MANUFACTURING

We have some 12,200 people at 25 manufacturing sites in 19 countries, dedicated to delivering a secure, high quality, cost-effective supply of our small molecule product range worldwide. Of these 12,200 people, around 1,100 are employed in active pharmaceutical ingredient supply and 10,500 in formulation and packaging. We operate a small number of sites for the manufacture of active ingredients in the UK, Sweden and France, complemented by efficient use of outsourcing. Our principal tablet and capsule formulation sites are in the UK, Sweden, Puerto Rico, France and the US, and we also have major formulation sites for the global supply of parenteral and/or inhalation products in Sweden, France, Italy and the UK. Packaging is undertaken at a large number of locations, both at our sites and at contractors' facilities, which are located close to our marketing companies to ensure rapid and responsive product supply. Our biologics and vaccines business has some 600 people working at four principal commercial manufacturing and distribution facilities in the US and Europe.

OUR RESOURCES, SKILLS AND CAPABILITIES CONTINUED

Customer service

Providing first class customer service is core to supporting the continued growth of our business. Our supply chains are structured to be flexible and responsive to the changing needs in our local markets, and in 2007 we announced the establishment of regional offices to further optimise supply chains and support sales growth.

Supply capability

Process improvements, continual asset review and the effective use of external partners ensure the secure and effective supply of our products. As part of our overall risk management, we carefully consider the timing of investment to ensure that secure supply chains are in place for our products. We have a programme in place to provide appropriate supply capabilities for our new products, including an assessment of needs for new technologies.

In 2007, with the acquisition of MedImmune, Inc., we gained immediate capabilities in process development, manufacturing and distribution of biological products, including worldwide supply capabilities for monoclonal antibodies and influenza vaccines. MedImmune's production capabilities are scalable and should enable us to manage the development of the much larger, combined, biologics and vaccines pipeline created as a result of the acquisition.

Capital expenditure on supply and manufacturing facilities totalled approximately \$191 million in 2007 (2006 \$201 million, 2005 \$206 million) across a range of projects. Our global purchasing policies and processes, together with our integrated risk management process, are aimed at ensuring uninterrupted supply of raw materials and other key supplies, all of which are purchased from a range of suppliers. Our process systematically examines a range of risks to global supply, such as disasters that remove supply capability or the unavailability of key raw materials. It ensures that these risks are mitigated by the implementation of contingency plans, including the appropriate use of dual or multiple suppliers and maintenance of appropriate stock levels. Although the price of raw materials may fluctuate from time to time, our global purchasing policies seek to avoid such fluctuations becoming material to our business.

Cost efficiency

In 2007, we continued to focus on improvements to our supply system, which have demonstrated progressive benefits. These include reduced manufacturing lead

times and lower stock levels, which have been achieved without compromise to high levels of customer service and quality. We are driving further improvements using principles that focus on what adds value for our customers and patients, whilst simultaneously eliminating waste. MedImmune also follows similar principles and continues to seek improvements in the production of both clinical drug supply and commercial products. The approach to process development affords cost efficiencies throughout the development cycle of a product candidate starting in discovery with support of the selection of molecules and cell lines, and continuing throughout a product's commercial life cycle.

The improvements made to our supply system during the year are part of a wide-ranging cost and efficiency programme. This delivered significant benefits in 2007, and we are expecting further progress in 2008 and beyond. During 2007, as part of the continuous review of our manufacturing assets to make sure that they are being used in the most effective way, whilst preserving the flexibility we need to respond to fluctuations in demand, we announced the sale of facilities in Monts, France; Plankstadt, Germany; and in Indonesia and South Africa. We also announced our intention to close our packaging site in Canada. We will continue to make further adjustments to our manufacturing base to ensure optimum use of our production facilities. For example, in February 2007, we announced our intention to reduce our Operations workforce by 3,000 jobs over the next three years to address over-capacity in the supply chain. These reductions are the subject of a full consultation process with staff representatives to ensure that the process is fair and transparent.

Licence to operate

We are committed to delivering assured product quality that underpins both the safety and efficacy of our medicines. As part of this, the outcomes of routine internal inspections, as well as those by regulatory authorities, are rigorously reviewed and, if required, actions are taken to improve compliance consistently across the organisation. The results of all external inspections carried out during 2007 were generally satisfactory and played a key part in the successful approval of a number of new medicines. All regulatory compliance observations that were raised during inspections at our sites and at our partners' sites were resolved satisfactorily. Where appropriate, the experience and knowledge obtained as a result of these inspections is shared with other sites across the Group.

During 2007, we satisfactorily responded to the regulatory compliance issues raised by the US Food and Drug Administration (FDA) at MedImmune's *FluMist* bulk supply manufacturing facility in Speke, UK. Since resolving the compliance issues that were listed as a part of a warning letter received from the FDA in May 2007, we have continued to take further quality improvement steps to ensure product supply is available for future influenza seasons.

Throughout the year, we have been actively involved through our membership in industry associations in influencing new product manufacturing regulations, both at national and international levels, primarily in Europe, the US and Japan.

Safety, health and environment (SHE) management

The Board is responsible for setting the direction for SHE management within the Company and for ensuring that a SHE policy is established and integral to our business activities. The Chief Executive Officer is responsible to the Board for the management and performance of the Company's businesses within the framework of the SHE policy. On at least an annual basis, the Board and Senior Executive Team formally review, and provide direction on, the Company's SHE performance and compliance status.

SHE operating standards are increasingly stringent, with regulators placing particular emphasis on environmental issues and the safety of chemicals. Our manufacturing sites – whether they are traditional chemical production facilities or biologics manufacturing sites – operate under various regulatory and licensing regimes and internal management systems, and we are focused on meeting all applicable requirements. There are currently no SHE issues that constrain us from fully utilising any facilities.

We continue to track, actively participate in, and pursue internal initiatives relating to international research and policy developments associated with emerging SHE policy and legislative matters. Examples include pharmaceuticals in the environment, chemical control regulations and climate change. It is possible that we could incur capital or operational costs in connection with future voluntary activities or regulatory developments relating to these issues including, for example, process or equipment changes associated with wastewater quality, raw material substitutions, 'green chemistry' initiatives or energy efficiency. We are addressing these matters proactively.

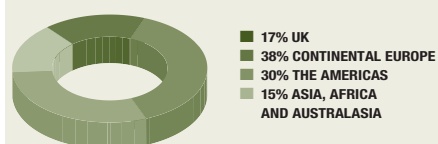
More about our commitment to safety and health and the environment is set out on pages 36 and 75 respectively. In addition, further information about our approach to and detailed statistics about our SHE performance can be found on our website, astrazeneca.com.

Planning for the future

Benchmarking our supply chain performance against our industry peers shows that, in terms of supply chain efficiency, we perform very strongly. We are committed to building upon the significant progress already achieved through the changes to our supply system, the embedding of lean and efficient processes and the improved focus on the customer. In 2008, we plan to focus on four areas of activity that will drive further improvement: continuing to review asset utilisation and potential outsourcing opportunities; driving programmes to support operational excellence; integrating assets and services in distribution; and further integrating all elements of the supply chain to drive competitive advantage. These activities will be underpinned by the development and implementation of an information strategy that best enables the delivery of supply chain excellence, coupled with the development of a culture that will deliver sustainable long-term growth.

PEOPLE

EMPLOYEES BY GEOGRAPHICAL LOCATION



We employ over 67,000 people worldwide, with the majority of our employees, in broad terms, located in the UK (11,800 employees), Continental Europe (25,600 employees) and the Americas (20,200 employees). Of these, approximately 3,000 employees are part of MedImmune.

We value the diversity of skills and abilities that a global workforce brings to our business, and within our performance-led culture we focus on linking the strategic and operational needs of the business with the skills and talent of all our people worldwide. This means giving our employees the support they need to develop their full potential and providing a working environment in which they thrive and are clear about their individual objectives and how these align to the Company strategy. Optimising individual and team performance,

effectively managing and developing all our talent, communicating and fostering our core values and improving our leadership capability are core priorities, alongside a commitment to ensuring the safety, health and wellbeing of all our employees worldwide.

Setting clear targets and accountabilities

We have always recognised the importance of good leadership and its critical role in stimulating the high-level of performance and engagement that is essential to our continued success in a changing and increasingly challenging environment.

We know that simply setting high-level performance targets is not enough. Actions must be identified and accountability assigned at the right levels to ensure these actions are implemented. The roles and responsibilities of the AstraZeneca Board and Senior Executive Team (SET) in setting and managing performance against these targets, and also more generally, are described on page 10.

Optimising performance is a priority, and managers are responsible for working with their teams to develop performance targets against which individual and team contributions are measured and rewarded. All of our employees have clear performance targets, developed with their manager, which are appropriate to the individual's job and which support the overall objectives of the business. In line with our commitment to integrating corporate responsibility considerations into everyday business thinking across AstraZeneca, appropriate corporate responsibility objectives are also included in performance objectives at all levels.

This focus on ensuring clarity of business targets is reinforced by performance-related bonus and incentive plans. AstraZeneca also encourages employee share ownership by offering employees the opportunity to participate in various employee share plans, which are described in the Directors' Remuneration Report on page 98 and also in Note 26 to the Financial Statements on page 153.

Learning and development

To help them deliver their best, we encourage and support all our people in developing their capabilities to the full with a range of high quality learning and development (L&D) opportunities. For example, we have a learning management system designed to facilitate the L&D processes, where our people can search and find necessary development opportunities online.

We have global guidelines for our L&D professionals and business leaders that describe a common set of principles for the design and delivery of L&D services and resources across the organisation. These guidelines aim to ensure high standards of best practice are consistently applied in the most efficient way.

Strengthening leadership capabilities

We recently reviewed our leadership development frameworks to see where improvements could be made to further strengthen our ability to manage the challenges of our business environment, now and in the future. We have identified six core capabilities, in relation to which we believe an increased focus will significantly enhance leadership abilities at all levels: passion for customers; strategic thinking; acting decisively; driving performance; working collaboratively; and developing people and the organisation.

Now agreed by the SET, these capabilities are being rolled out through a series of face-to-face workshops across the organisation. They apply to all employees and will be used in performance management, leadership development, talent management, staffing and selection.

We have a range of global training programmes designed to strengthen these leadership capabilities, enhance core management skills and help our leaders develop good working relationships across the organisation. These programmes are complemented by local initiatives, which include functional or country specific aspects of leadership development.

Monitoring and measurement

We continue to work to improve our global reporting processes, building on our long-standing systems for local monitoring of compliance with our Human Resources policy and standards. We have made a major investment in this area and are in the process of implementing a global Human Resources information system that will drive consistent people management practices and information standards worldwide. The system was launched in the UK, Sweden and China during 2006 and during 2007 another 12 countries went live, including the US, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam. This major initiative means we now have consistent, detailed and integrated people information available at a global level covering over 40,000 employees.