

FINANCIAL REVIEW



"In 2007, excluding the costs of the restructuring and synergy programmes, earnings per share grew by 7% to \$4.20. The momentum in sales and profit growth established in recent years was maintained despite the introduction of generic competition to *Toprol-XL* in the US. In addition, our strong cash generation allowed us to return almost \$7 billion to our shareholders in dividends and share re-purchases.

At the same time, we took significant steps to secure and widen the platform from which continued strong performance in the future can be launched. We acquired and began integrating the leading biologics company, MedImmune, adding to our launched product portfolio, increasing our development pipeline and extending our research and development capabilities beyond small molecules to include monoclonal antibodies and vaccines. Secure medium- and long-term debt programmes have been established from which a significant portion of the financing for the acquisition of MedImmune was drawn, whilst short-term cash and borrowing facilities for our immediate commitments to our shareholders and third parties have been put in place. Restructuring initiatives, first introduced in manufacturing at the beginning of the year,

have been extended to all areas and include synergy opportunities arising from the acquisition of MedImmune. These initiatives are anticipated to deliver annual benefits of \$1,400 million from 2010.

These steps will allow for further increases in investment in research and development to strengthen and realise the pipeline, selective geographical expansion and focused exploitation of our existing products whilst continuing to generate attractive returns for our shareholders."

SIMON LOWTH
Chief Financial Officer

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The purpose of this section of the Directors' Report is to provide a balanced and comprehensive analysis, including the key business factors and trends, of the financial performance of the business during 2007, the financial position as at the end of the year and the main business factors and trends which could affect the future financial performance of the business.

MEASURING PERFORMANCE

As described on page 10, we use specific measures when assessing our performance in key areas and include them in our discussion throughout the Directors' Report.

Reported performance takes into account all the factors (including those which we cannot influence, principally currency exchange rates) that have affected the results of our business as reflected in our Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as issued by the International Accounting Standards Board.

Some of the financial measures use information derived at constant exchange rates (CER), in particular, growth rates in sales and costs, operating profit and, as a consequence, earnings per share.

> Underlying growth using constant exchange rates is defined as a non-GAAP measure because, unlike actual growth, it cannot be derived directly from the information in the Financial Statements. This measure removes the effects of currency movements (by retranslating the current year performance at previous year's exchange rates and adjusting for other exchange effects, including hedging) which allows us to focus on the changes in sales and expenses driven by volume, prices and cost levels relative to the prior period.

> Sales and cost growth expressed in CER allows management to understand the true local movement in sales and costs, in order to compare recent trends and relative return on investment. CER growth rates can be used to analyse sales in a number of ways but, most often, we consider underlying growth by products and groups of products, and by countries and regions. Underlying sales growth can be further analysed into the impact of sales volumes and selling price. Similarly, CER cost growth helps us to focus on the real local change in costs so that we can manage the cost base effectively.

> Earnings per share growth in CER demonstrates not only the profitability of the business (based on profit after tax) but also the management of our capital structure (particularly through the share re-purchase programme).

> In addition, during 2007, we acquired the biologics company MedImmune and instigated a series of major Senior Executive Team-approved restructuring and synergy programmes. Both of these factors have significantly affected our results and make growth rates, both on a reported and underlying basis, and comparison to 2006 more difficult to analyse. Accordingly, in this review, we show various growth and financial measures (such as sales, operating profit and earnings per share) adjusted for