

through human papilloma virus vaccine royalty income), other income of \$559 million was \$35 million higher than 2006, as expected reductions in royalty income were more than offset by higher one-time gains and insurance recoveries.

Total charges of \$966 million have been taken in respect of the restructuring and synergy programmes, of which \$723 million represent cash costs. Over the same period, productivity initiative benefits of \$250 million and synergy benefits of \$50 million have been realised.

MedImmune contributed an operating loss of \$178 million (which includes amortisation costs of \$255 million) in 2007.

Net finance expense was \$111 million in the full year (2006 income \$327 million). The decrease versus last year is principally attributable to the interest payable on the borrowings to acquire MedImmune, Inc.. Interest expense on the new debt was \$446 million. The reported amounts include net income of \$34 million (2006 \$43 million) arising from employee benefit fund assets and liabilities reported under IAS 19 'Employee Benefits'.

The effective tax rate for the year was 29.5%, similar to the 29% for 2006. The slight increase for the year compared to 2006 reflects the combined effect of differences in the geographical mix of profits, the reversal of tax deductions relating to share-based payments, the reduction in the UK tax rate as applied to UK net deferred tax liabilities, and an increase in tax provisions principally in relation to global transfer pricing. The full year tax rate for 2008 is anticipated to be similar to 2007.

Reported earnings per share were \$3.74 compared with \$3.86 in 2006, a decrease of 5%. After adjusting for the impact of restructuring and synergy costs, earnings per share rose from \$3.86 to \$4.20, an increase of 7%. Excluding the impact of MedImmune as well, earnings per share increased by 15% to \$4.52. The share re-purchase programme is calculated to have added 8 cents to EPS during the year, after allowing for an estimate of interest income foregone.

In 2007, *Toprol-XL* contributed US sales of \$969 million (2006 \$1,382 million) and earnings per share of 39 cents (2006 50 cents). If *Toprol-XL* were excluded from the full year results for both the current and prior year periods, sales growth would be 10% and earnings per share would be down 3%.

COMPONENTS OF EARNINGS PER SHARE

	2007 \$	2006 \$
Reported earnings per share	3.74	3.86
Restructuring and synergy costs	0.46	–
Reported, excluding restructuring and synergy costs	4.20	3.86
MedImmune	0.32	–
	4.52	3.86
<i>Toprol-XL</i> contribution	(0.39)	(0.50)
Total	4.13	3.36

The effects of MedImmune, restructuring and synergy costs and *Toprol-XL* in the US on earnings per share is summarised in the table above.

FINANCIAL POSITION, INCLUDING CASH FLOW AND LIQUIDITY

All data in this section are on an actual basis (unless noted otherwise).

The book value of our net assets decreased by \$501 million to \$14,915 million. Dividends of \$2,658 million and share re-purchases of \$4,170 million exceeded net profit of \$5,595 million, whilst net movements through other recognised income and expense (principally exchange and actuarial losses) increased net assets. The overall shape of the balance sheet has been changed by the acquisition of MedImmune.

Property, plant and equipment

Property, plant and equipment rose from \$7,453 million to \$8,298 million at the end of the year. The increase was due to continued investment across the business of \$1,169 million, particularly in R&D, the acquisition of MedImmune (\$593 million) and exchange impacts (\$350 million), offset by depreciation and impairment of \$1,182 million and disposals (\$92 million).

Goodwill and intangible assets

Goodwill and intangibles have risen from \$4,204 million at the beginning of the year to \$21,351 million. The increase is due almost entirely to the acquisition of MedImmune. The goodwill arising on the acquisition of MedImmune amounted to \$8,757 million increasing the balance sheet total to \$9,884 million; the other major component of the carrying value of goodwill relates to the restructuring in 1998 of our joint venture arrangements with Merck.

Intangibles have also increased primarily as a result of the MedImmune acquisition, supplemented by other company acquisitions and ongoing in-licensing activities. Intangibles from MedImmune comprised launched products of \$7,478 million (principally the

respiratory syncytial virus (RSV) franchise, other products such as *FluMist* and *Ethylol*, together with contractual and licensing income) and in development projects amounting to \$597 million. In total, intangibles amount to \$11,467 million at the year end and, in addition to MedImmune, include intangibles arising from the restructuring in 1998 of our joint venture arrangements with Merck and the subsequent merger of Astra and Zeneca in 1999 (\$1,026 million), the acquisition of Cambridge Antibody Technology in 2006 (\$605 million), launched and in development product in-licensing activities (\$1,327 million) and software development costs (\$434 million).

Inventories

Inventories have decreased by \$131 million from \$2,250 million at the end of 2006 to \$2,119 million. This decrease represents an underlying improvement of \$442 million, offset by the acquisition of MedImmune and exchange effects.

Receivables, payables and provisions

Receivables have risen from \$5,561 million to \$6,668 million, an increase of \$1,107 million. Higher sales, particularly in the US, Europe, China and from MedImmune (whose sales are concentrated in the first and last quarters of the year), insurance recoveries, acquisition and exchange effects were the principal drivers, offset in part by the receipt of the second instalment in respect of the US anaesthetics business disposal in 2006.

Current payables also rose from \$6,295 million to \$6,968 million at the end of 2007. There was a small net underlying movement in trade creditors, other payables and accruals, with increases in deductions for chargebacks, rebates and returns in the US being offset by decreases in trade payables, particularly to Merck. However, exchange and the acquisition of MedImmune drove the overall balance up.

Provisions increased primarily as a result of the restructuring and synergy programmes undertaken during the year, rising from \$366 million in 2006 to \$1,020 million at the end of 2007.

FINANCIAL REVIEW CONTINUED

Debt

The acquisition of MedImmune was funded initially through drawing on a \$15 billion 364 day loan facility, which was subsequently re-financed with short-term US commercial paper. In the second half of the year, we undertook a programme of issuing debt on the US and European markets, as follows:

SEPTEMBER		
Floating rate	2009	\$650m
Fixed 5.4%	2012	\$1,750m
Fixed 5.9%	2017	\$1,750m
Fixed 6.45%	2037	\$2,750m
Fixed 5.125%	2015	Euro750m
NOVEMBER		
Fixed 4.625%	2010	Euro750m
Fixed 5.75%	2031	£350m

\$750 million each of the 2012 and 2017 US dollar fixed rate debt was swapped into floating rates. At the year end, we also had commercial paper outstanding amounting to \$4,112 million.

Tax payable and receivable

Net income tax payables have increased due to tax audit provisions, less the settlement of tax on the disposal of the Humira™ royalty stream. Net deferred tax liabilities have increased primarily due to the acquisition of MedImmune and the recognition of deferred tax liabilities in respect of intangible assets.

Cash flow

We continue to be a cash-generative business. MedImmune has produced, and is forecast to continue to produce, revenue driven cash inflows, which are offset by interest costs. However, the cost of acquisition means that our funds and debt profile has changed. Although future operating cash flows may be affected by a number of factors as outlined in the Business Background section on page 78, we believe our cash and funding resources will be sufficient for our forecast requirements including launching new products, the restructuring programme, the first stage of the buy out of Merck's interests in 2008, debt servicing and repayment, shareholder returns and the ongoing capital programme.

Cash generated from operating activities was \$7,510 million in 2007, only slightly down on 2006 (\$7,693 million). The small decrease in operating profit was compensated for by an increase in non-cash items (\$638 million principally from unspent restructuring costs) and depreciation, amortisation and impairment (\$511 million). These compensating effects were offset by an increase in working capital

requirements of \$551 million and additional tax and interest payments (\$394 million and \$265 million respectively).

Net cash outflows from investing activities were \$14,887 million in 2007 compared to \$272 million in 2006. Excluding the higher returns from movements in short term investments and fixed deposits and net disposals of non-current asset investments (\$1,280 million in 2007 compared to \$1,171 million in 2006), interest received and dividends paid by subsidiaries, cash outflow from investing activities was \$16,516 million, compared to \$1,791 million in 2006. This increase in outflow was due primarily to the acquisition of MedImmune, Inc.; other acquisitions included Arrow Therapeutics Limited, Atlantis Components Inc. and Denics International Co. Ltd. Investment in intangible assets was at broadly similar levels to 2006, and there were significantly higher payments for property, plant and equipment through increased investment in facilities, particularly in research and development.

Cash returns to shareholders were \$6,811 million (through share re-purchases of \$4,170 million and dividend payments of \$2,641 million), compared to \$6,367 million in 2006. After taking into account proceeds from the issue of share capital of \$218 million (2006 \$985 million), net share re-purchases rose from \$3,162 million to \$3,952 million.

Net funds of \$6,537 million at the beginning of the year have become net debt of \$9,112 million by the end of the year.

Investments, divestments and capital expenditure

The major investment in the year was the acquisition of MedImmune, discussed separately below.

The other major company and product acquisitions in the year reflected our ongoing commitment to strengthening the product pipeline.

We completed the acquisition of Arrow Therapeutics Limited at a net cost of \$143 million, strengthening our portfolio of promising anti-infective treatments and providing a technology platform in an area of research that complements our capabilities in anti-bacterials. We paid \$34 million to acquire the paediatric asthma business of Verus Pharmaceuticals, Inc. which includes the North American rights to CyDex Captisol™-enabled budesonide solution and a proprietary albuterol formulation.

In the area of product acquisitions, we capitalised \$100 million in respect of the collaboration disclosed with Bristol-Myers Squibb (BMS) in respect of saxagliptin and dapagliflozin. A global licensing and research collaboration with Palatin Technologies Inc. to discover, develop and commercialise small molecule compounds that target melanocortin receptors for the treatment of obesity and related indications was entered into, with a \$10 million capitalised upfront payment. We have also entered a three-year research and development collaboration with Silence Therapeutics plc to discover and develop

NET FUNDS/(DEBT)		
	2007 \$m	2006 \$m
Brought forward at 1 January	6,537	5,402
Earnings before interest, tax, depreciation and amortisation	9,950	9,561
Movement in working capital	(443)	108
Tax paid	(2,563)	(2,169)
Interest paid	(335)	(70)
Other non-cash movements	901	263
Net cash available from operating activities	7,510	7,693
Available funds	14,047	13,095
Externalisation and other intangibles	(549)	(545)
Other capital expenditure	(1,076)	(759)
Acquisitions	(14,891)	(487)
Investments	(16,516)	(1,791)
Dividends	(2,641)	(2,220)
Net share re-purchases	(3,952)	(3,162)
Distributions	(6,593)	(5,382)
Other movements	(50)	615
Carried forward at 31 December	(9,112)	6,537

IN-LICENSING PAYMENTS

				Paid to date		Future possible payments	
	Equity purchased \$m	Upfront payments made \$m	Development paid \$m	Subtotal \$m	Additional milestones and other payables \$m	Total \$m	
2007							
Palatin Technologies	–	10	–	10	490	500	
Bristol-Myers Squibb	–	100	–	100	1,250	1,350	
Verus Pharmaceuticals	–	30	–	30	280	310	
2006							
Argenta Discovery	–	21	18	39	447	486	
Protherics	13	29	20	62	301	363	
POZEN	–	40	30	70	315	385	
Targacept	–	10	22	32	502	534	
Cubist	–	10	–	10	24	34	
Total	13	250	90	353	3,609	3,962	

proprietary siRNA molecules primarily in the respiratory field but with the option to extend into other disease areas. The initial access fee of \$5 million was capitalised as an intangible asset and the \$10 million equity investment was capitalised as a non-current asset investment.

In respect of ongoing collaborations, we have made further milestone payments of \$20 million in relation to the agreement with Protherics (upon the successful scale-up of the manufacturing process under the development and commercialisation agreement) and \$30 million under the agreement with POZEN (in relation to the execution of the revised agreement and recognition of successful proof of concept). We have also paid \$48 million for the last in a series of sales-based milestone payments in relation to *Zomig*.

Astra Tech acquired Atlantis Components Inc., with its specialist CAD/CAM technology used to design and manufacture customised dental implant abutments, for \$71 million and Denics International Co. Ltd, its Japanese distributor for \$5 million. Intangible assets of \$121 million have been recognised (with associated deferred tax liabilities of \$48 million).

In October, we decided, by mutual agreement, to end our collaboration with NPS Pharmaceuticals, Inc. to discover and develop drugs targeting metabotropic glutamate receptors (mGluRs). We have agreed to pay \$30 million to acquire NPS's assets relating to the collaboration.

Our recent focus on in-licensing opportunities with third parties has resulted in additional intangible assets on the balance sheet. Should any of these products fail in development, the associated intangibles will need to be written off. Our commitments under the major

collaboration programmes we have entered into over the past two years, should they be successful, can be summarised as above.

ACQUISITION OF MEDIMMUNE

Acquisition accounting

Following the acquisition of MedImmune, an exercise was undertaken to allocate the purchase price between the assets and liabilities acquired (including tangible assets, intangible assets and deferred tax) and goodwill, under IFRS 3 'Business Combinations'. In summary terms, the purchase price for outstanding shares of \$13.9 billion has been allocated between intangible assets of \$8.1 billion (including assets in respect of the *Synagis* and motavizumab RSV franchise, *FluMist*, *Ethylol* and products in development), goodwill of \$8.8 billion and net liabilities of \$3.0 billion. This allocation, based on strict accounting

requirements, does not allow for the separate recognition of valuable elements such as buyer specific synergies, potential additional indications for identified products or the premium attributable to a well established, highly regarded business in the innovative biologics market. Such elements are instead subsumed within goodwill, which is not amortised. This balance between goodwill and intangible assets results in an amortisation charge of approximately \$435 million per annum. The acquisition can be summarised as set out in the table below.

Synergies

At the time of the acquisition announcement, we identified synergy opportunities of towards \$500 million in annual benefits and plans are now in place to deliver annual synergies of around \$450 million in 2009 and over \$500 million in 2010.

ACQUISITION OF MEDIMMUNE

	\$m
Goodwill	8,757
Intangible assets	8,075
Property, plant and equipment	593
Other non-current assets	533
Current assets	1,554
Current liabilities	(287)
Non-current liabilities	(3,618)
Additional obligations related to convertible debt and share options	(1,724)
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
Less: cash acquired	979
Net cash outflow	14,674