

## FINANCIAL REVIEW CONTINUED

The savings represent the removal of duplication in all functional areas and the consequences of a comprehensive review of the capabilities and portfolios within the two organisations. In addition, certain capital expenditure planned before the acquisition will no longer be required, saving over \$500 million. The cost of implementation of the required programmes is expected to amount to approximately \$375 million and is discussed in more detail in the Restructuring and Synergy Costs section below.

We expect that the ongoing process of consolidating the MedImmune business into our existing business will be complex and time-consuming, and it is difficult to predict how long the process will last. The process may result in business disruptions, the loss of key employees, slower execution of work processes, compliance failures due to a change in applicable regulatory requirements and other issues. In addition, the operating model for MedImmune has potential strategic benefits; however, it may not be the most efficient structure for realising efficiencies. As a result, there can be no assurances that we will not encounter difficulties in consolidating the MedImmune business as contemplated or that the benefits expected, including anticipated synergies, will be realised.

**RESTRUCTURING AND SYNERGY COSTS**

During the year, we announced our intention to bring forward productivity initiatives to enhance the long-term efficiency of the business along with the synergies arising as a result of the acquisition of MedImmune. These initiatives are in addition to the programme to improve asset utilisation within our global supply chain announced at the end of 2006. Following the integration of MedImmune, we are now managing all these programmes on a combined basis. The restructuring and synergy costs are expected to be \$1,975 million, with estimated annual benefits of \$1,400 million targeted by 2010. As of 31 December 2007, the following have been charged to the income statement.

	\$m
Cost of sales	415
Research and development	73
Selling, general and administrative	478
<b>Total</b>	<b>966</b>

Of the total, \$243 million represents accelerated depreciation and other non-cash costs, and \$723 million represents cash costs. Over the same period, productivity initiative benefits of \$250 million and synergy benefits of \$50 million have been realised. Of the remaining \$1 billion

**SUMMARY OF SHAREHOLDER DISTRIBUTIONS**

	Shares re-purchased (million)	Cost \$m	Dividend per share \$	Total dividend cost \$m	Total shareholder distributions \$m
1999	4.4	183	0.700	1,242	1,425
2000	9.4	352	0.700	1,236	1,588
2001	23.5	1,080	0.700	1,225	2,305
2002	28.3	1,190	0.700	1,206	2,396
2003	27.2	1,154	0.795	1,350	2,504
2004	50.1	2,212	0.940	1,555	3,767
2005	67.7	3,001	1.300	2,068	5,069
2006	72.2	4,147	1.720	2,649	6,796
2007	79.9	4,170	1.870	2,740*	6,910*
<b>Total</b>	<b>362.7</b>	<b>17,489</b>	<b>9.425</b>	<b>15,271</b>	<b>32,760</b>

\*Total dividend cost estimated based upon number of shares in issue at 31 December 2007.

of cost, we expect approximately two thirds to be incurred in 2008, with the balance in 2009 and 2010. Of the anticipated annual benefits of \$1,400 million by 2010, cumulatively two-thirds will be realised in 2008.

**CAPITALISATION AND SHAREHOLDER RETURN**

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

**Capitalisation**

At 31 December 2007, the number of shares in issue was 1,457 million. During the year, 4.7 million shares were issued in consideration of share option plans and employee share plans for a total of \$218 million. Reserves increased by \$339 million due to the effect of exchange rate and tax movements offset by actuarial losses, net investment hedging losses of non-US dollar denominated debt, losses on cash flow hedges issued in anticipation of the debt issues and holding losses on available for sale investments.

Shareholders' equity decreased by a net \$526 million to \$14,778 million at the year end. Minority interests increased from \$112 million at 31 December 2006 to \$137 million at 31 December 2007.

**Dividend and share re-purchases**

During 2007, we returned \$6,811 million to shareholders through a mix of share re-purchases and dividends. We have re-purchased and cancelled 79.9 million shares in 2007 at a cost of \$4,170 million. As a result, the total number of shares re-purchased to date under the share re-purchase programmes begun in 1999 is 362.7 million (over 20% of our initial share capital post merger) at a cumulative cost of \$17,489 million.

The Board's distribution policy and its overall financial strategy is to strike a balance between the interests of the business, our shareholders and our financial creditors, whilst maintaining a strong investment grade credit rating. The Board expects to undertake share re-purchases in the region of \$1 billion in 2008, subject to business needs.

After investing fully in opportunities to strengthen the pipeline, the Board intends to continue its stated policy of growing dividends in line with earnings before restructuring and synergy costs (aiming to maintain at least two times dividend cover) whilst applying the balance of cash flow to debt servicing and repayment and share re-purchases. We paid the second interim dividend of \$1.23 in respect of 2006 on 19 March 2007 and a first interim dividend for 2007 on 17 September 2007 of \$0.52 per Ordinary Share. A second interim dividend for 2007 of \$1.35 per Ordinary Share has been declared, which the Annual General Meeting will be asked to confirm as the final dividend.

**FUTURE PROSPECTS**

In 2008, we aim to achieve constant currency sales growth in the low to mid-single digits. The uplift from the inclusion of a full year of sales contribution from MedImmune will be broadly offset by the expected sales decline from a full year of generic competition for *Toprol-XL* in the US market. This revenue growth, combined with continued realisation of the benefits of restructuring and synergies and disciplined management of gross margin and SG&A costs will enable continued investment in strengthening the pipeline, with expenditures in R&D expected to increase at a high single digit rate.