

RATIOS			
As at and for the year ended 31 December	2007	2006	2005
Return on shareholders' equity (%)	37.2	41.8	33.6
Equity/assets ratio (%)	30.8	51.1	54.7
Average number of employees	67,900	66,600	64,900

SENSITIVITY ANALYSIS – 31 DECEMBER 2007					
	Market value 31 December 2007 \$m	Market value change favourable/(unfavourable)			
		Interest rate movement +1% \$m	-1% \$m	Exchange rate movement +10% \$m	-10% \$m
Cash and short term investments	5,927	–	–	(88)	88
Long term debt, net of interest and currency swaps	(11,119)	666	(779)	290	(290)
Foreign exchange forwards	(31)	–	–	(35)	35
Foreign exchange options	–	–	–	–	–
		666	(779)	167	(167)

SENSITIVITY ANALYSIS – 31 DECEMBER 2006					
	Market value 31 December 2006 \$m	Market value change favourable/(unfavourable)			
		Interest rate movement +1% \$m	-1% \$m	Exchange rate movement +10% \$m	-10% \$m
Cash and short term investments	7,662	–	–	(81)	81
Long term debt, net of interest and currency swaps	(1,060)	–	–	–	–
Foreign exchange forwards	45	–	–	(97)	97
Foreign exchange options	–	–	–	–	–
		–	–	(178)	178

FINANCIAL RISK MANAGEMENT POLICIES

Insurance

Our risk management processes are described in the Governance section under the heading 'Internal controls, risk management and Turnbull Report guidance' on page 42. An outcome of these processes is that they enable us to identify risks that can be partly or entirely mitigated through use of insurance or through self-insurance. We negotiate best available premium rates with insurance providers on the basis of our extensive risk management procedures. In the current insurance market, level of cover is decreasing whilst premium rates are increasing. Rather than simply paying higher premiums for lower cover, we focus our insurance resources on the most critical areas, or where there is a legal requirement, and where we can get best value for money. Risks to which we pay particular attention include business interruption, Directors' and Officers' liability and property damage.

Taxation

Tax risk management forms an integrated part of the Group risk management processes. Our tax strategy is to manage tax risks and tax costs in a manner consistent with shareholders' best long-term interests, taking into account both economic and reputational factors. We draw a distinction between

tax planning using artificial structures and optimising tax treatment of business transactions, and we only engage in the latter.

Treasury

Our financial policies covering the management of cash, borrowings and foreign exchange are intended to support our objective of maintaining shareholder value by managing and controlling our financial risks. Our treasury operations are conducted in accordance with policies and procedures approved by the Board. The treasury activities are managed centrally from London. Significantly all of our cash, short term investments and borrowings are managed directly from London where possible and practicable. With only limited and specifically approved exceptions, all currency and interest rate hedging is conducted from London. Operating units benefit from local currency billing, which has the effect of consolidating their foreign exchange exposures to central treasury.

Liquidity risk

The debt-financed acquisition of MedImmune during the year resulted in a change to the financial risks faced by the Group, including exposure to liquidity risk. The Group initially funded the acquisition through drawing on a \$15 billion 364 day loan facility, which was re-financed with short-term US commercial

paper. The majority of the commercial paper was subsequently re-financed into longer-term debt through capital market issuances. The \$15 billion facility was gradually reduced throughout the year and then finally replaced by a series of new bilateral agreements making up in total \$1.8 billion of 364 day facilities, expiring on 24 October 2008 but with a 12 month term-out option, and \$3.35 billion of five year facilities. The Board approved the financing and risk management policy and parameters in July and delegated the execution, within these approved parameters, to the Chief Executive Officer, supported by a Treasury Committee. The Treasury Committee included the Group Financial Controller, Group Treasurer and Company Secretary.

The management of our liquid assets and debt balances are co-ordinated and controlled centrally by our treasury operations. We have significant positive cash flows and the liquidity of major subsidiaries is co-ordinated in cash pools and concentrated daily in London. The Group manages liquidity risk by maintaining access to a number of sources of funding, which are sufficient to meet anticipated funding requirements. Specifically, the Group uses US commercial paper, bank facilities and cash resources to manage short-term liquidity and manages long-term liquidity by raising funds through the capital markets.

FINANCIAL REVIEW CONTINUED

In addition to cash balances (comprising fixed deposits, cash and cash equivalents less overdrafts) of \$5,787 million, the Group has committed bank facilities of \$5.15 billion, a \$15 billion US commercial paper programme, a \$5 billion euro medium term note (EMTN) programme and an uncapped SEC-registered shelf debt programme available to manage liquidity. As at 31 December 2007, the Group has issued \$2,889 million under the EMTN programme, \$7,764 million under the SEC-registered shelf programme, \$323 million under a previous SEC-registered programme and has \$4,112 million of commercial paper outstanding. The committed facilities were undrawn as at 31 December 2007.

The Board reviews the Group's ongoing liquidity risks annually as part of the planning process. The Board considers short-term requirements against available sources of funding taking into account cash flow. In addition, this year the Board reviewed liquidity requirements as part of its consideration of the acquisition of MedImmune, and, at the January 2008 meeting, assessed the impact of the likely payments under the Merck termination agreement in March 2008.

Foreign exchange

The Group results are reported in US dollars, our most significant currency. In addition, surplus cash generated by the business is converted to and held centrally in US dollars. We therefore manage our currency exposures against the US dollar.

Approximately 54% of our external sales in 2007 were denominated in currencies other than the US dollar, with the euro being the main contributor and a significant proportion of our manufacturing and R&D costs were denominated in sterling or Swedish krona. Accordingly, the impact on reported earnings from a weakening in the US dollar would be to increase both sales and costs, with the net result on earnings dependent on the relative size of the exchange rate movements against the US dollar.

We manage our currency exposures centrally, based on forecast future cash flows of our major currencies. The major currencies to which we are exposed (Swedish krona, euro and sterling) have typically tended to move in a similar direction against the US dollar, mitigating significantly the impact of exchange rate movements. Accordingly, we monitor this relationship closely and we will only consider hedging if we anticipate or experience a significant breakdown in this relationship. Any such hedging activity is subject to strict internal approval procedures. We do not,

as a matter of policy, engage in speculative transactions. The Group will hold debt in non-US dollar currencies where there is an underlying net investment in the same currency. As at 31 December 2007, 4.6% of interest bearing loans and borrowings were denominated in sterling and 14.5% of interest bearing loans and borrowings were denominated in euros.

Transaction exposures arising where local subsidiaries make sales or purchases in non-local currencies are, where practicable, fully hedged using forward foreign exchange contracts.

Interest rate risk

Prior to the debt-financed acquisition of MedImmune, the Group's policy was to match the interest rate exposure on the Group's gross debt balance with that arising on the surplus cash position using interest rate swaps. With the move to a net debt position and the subsequent refinancing of short-term debt, a significant portion of the new debt has been held at fixed rates of interest. The balance remains at floating rates, including \$1.5 billion of the new fixed rate debt that has been swapped to floating, which is achieved through the underlying basis of the funding or through the use of interest rate swaps. The portion of fixed rate debt was approved by the Board and any variation requires Board approval.

The majority of the Group's cash balances are held with third party fund managers who return a target yield referenced to seven day US dollar LIBID. In addition to interest rate swaps, the Group uses forward rate agreements to manage any short term timing difference between the swapped debt interest expense and cash interest income.

Credit exposure

Exposure to financial counterparty credit risk is controlled by the treasury team centrally in establishing and monitoring counterparty limits. Centrally managed funds are invested almost entirely with counterparties whose credit rating is 'A' or better. External fund managers who manage \$4,368 million of the Group's cash are rated AAA by Standard & Poor's. There were no other significant concentrations of credit risk at the balance sheet date. All financial instruments are transacted with commercial banks, in line with standard market practice and are not backed with cash collateral. Trade receivable exposures are managed locally in the operating units where they arise. The Group is exposed to customers ranging from government-backed agencies and large private wholesalers to privately owned pharmacies, and the

underlying local economic and sovereign risks vary throughout the world. Where appropriate, the Group endeavours to minimise risks by the use of trade finance instruments such as letters of credit and insurance.

Sensitivity analysis

The sensitivity analysis, set out in this review on page 85, summarises the sensitivity of the market value of our financial instruments to hypothetical changes in market rates and prices. Changes to the value of the financial instruments are normally offset by our underlying transactions or assets and liabilities. The range of variables chosen for the sensitivity analysis reflects our view of changes that are reasonably possible over a one year period. Market values are the present value of future cash flows based on market rates and prices at the valuation date. Market values for interest rate risk are calculated using third party systems that model the present value of the instruments based on the market conditions at the valuation date. For long term debt, an increase in interest rates results in a decline in the fair value of debt.

The interest rate sensitivity analysis on page 85 assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2007, with all other variables held constant. The exchange rate sensitivity analysis on page 85 assumes an instantaneous 10% change in foreign currency exchange rates from their levels at 31 December 2007, with all other variables held constant. The +10% case assumes a 10% strengthening of the US dollar against all other currencies and the -10% case assumes a 10% weakening of the US dollar.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (adopted IFRS) and as issued by the International Accounting Standards Board and the accounting policies employed are set out under the heading 'Financial Statements – Accounting Policies' on pages 121 to 123. In applying these policies, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. The actual outcome could differ from those estimates. Some of these policies require a high level of judgement, either because the areas are especially subjective or complex. We believe that the most critical accounting policies and significant areas of judgement and estimation are in revenue recognition, research and development,