

FINANCIAL REVIEW CONTINUED

CONTRACTUAL OBLIGATIONS

Payments due by period	Less than 1 year \$m	1-3 years \$m	3-5 years \$m	Over 5 years \$m	Total \$m
Bank loans and other borrowings	4,892	2,924	2,773	13,228	23,817
Operating leases	103	118	77	184	482
Merck arrangements	4,677	–	–	–	4,677
Other	571	–	–	–	571
Total	10,243	3,042	2,850	13,412	29,547

Accruals for tax contingencies require us to make estimates and judgements with respect to the ultimate outcome of a tax audit, and actual results could vary from these estimates. The international tax environment presents increasingly challenging dynamics for the resolution of transfer pricing disputes. These disputes usually result in taxable profits being increased in one territory and correspondingly decreased in another. Our balance sheet positions for these matters reflect appropriate corresponding relief in the territories affected. We consider that at present such corresponding relief will be available but, given the challenges in the international tax environment, will keep this aspect under careful review. The total net accrual included in the financial statements to cover the worldwide exposure to transfer pricing audits is \$1,322 million, an increase of \$327 million due to a number of new audits, revisions of estimates relating to existing audits, offset by a number of negotiated settlements. For transfer pricing audits where we are in dispute with the tax authorities, we estimate the potential for reasonably possible additional losses above and beyond the amount provided to be up to \$400 million; however, we believe that it is unlikely that these additional losses will arise. Of the remaining tax exposures, we do not expect material additional losses. It is not possible to estimate the timing of tax cash flows in relation to each outcome; however, it is anticipated that a number of significant disputes may be resolved over the next one to two years.

POST-EMPLOYMENT BENEFITS

We offer post-retirement benefit plans which cover many of our employees around the world. In keeping with local terms and conditions, most of these plans are defined contribution in nature where the resulting income statement charge is fixed at a set level or is a set percentage of employees' pay. However, several plans, mainly in the UK (which has by far the largest single scheme), the US and Sweden, are defined benefit plans where benefits are based on employees' length of service and final salary (typically averaged over one, three or five years). The UK and US defined benefit schemes were closed to new entrants

in 2000. All new employees in these countries are offered defined contribution schemes.

In applying IAS 19 'Employee Benefits', we recognise all actuarial gains and losses immediately through reserves. This methodology results in a less volatile income statement charge than under the alternative approach of recognising actuarial gains and losses over time. Investment decisions in respect of defined benefit schemes are based on underlying actuarial and economic circumstances with the intention of ensuring that the schemes have sufficient assets to meet liabilities as they fall due, rather than meeting accounting requirements. The trustees follow a strategy of awarding mandates to specialist, active investment managers which results in a broad diversification of investment styles and asset classes. The investment approach is intended to produce less volatility in the plan asset returns.

The overall recognised deficit in the Group's defined benefit schemes increased from \$1,842 million at 31 December 2006 to \$1,998 million at 31 December 2007. This was principally due to net actuarial losses (gains from changes in obligation assumptions, offset by experience losses on assets and obligations) and exchange. In assessing the discount rate applied to the obligations, we have used rates on AA corporate bonds with durations corresponding to the maturities of those obligations. At the last full actuarial valuation at 31 March 2006, the market value of the UK fund's assets was £3,070 million, representing a solvency ratio of 97% on the fund's liabilities.

INTERNATIONAL ACCOUNTING TRANSITION

On transition to using adopted IFRS in the year ended 31 December 2005, we took advantage of several optional exemptions available in IFRS 1 'First-time Adoption of International Financial Reporting Standards' and we discuss the major effects below.

> Business combinations – IFRS 3 'Business Combinations' has been applied from 1 January 2003, the date of transition, rather than being applied fully retrospectively.

As a result, the combination of Astra and Zeneca is still accounted for as a merger, rather than through purchase accounting. If purchase accounting had been adopted, Zeneca would have been deemed to have acquired Astra. Under this scenario the purchase costs of Astra would have been \$34 billion. Intangible assets amounting to approximately \$12 billion would have been recognised and property, plant and equipment would have been fair valued upwards by about \$288 million offset by deferred tax amounting to \$4 billion. Goodwill of \$15 billion would have arisen. The recognition of intangible assets and higher property, plant and equipment would have resulted in increased amortisation and depreciation charges to income, net of tax, of approximately \$1 billion in 2007.

- > Employee benefits – the provisions of IAS 19 have been applied from the date of transition when the full actuarial deficit was recognised as opposed to being applied retrospectively. Since we have adopted the amendment to IAS 19 allowing actuarial gains and losses to be recognised immediately directly in equity, the adoption of this exemption makes no difference to our reported results or net assets.
- > Cumulative exchange differences – we have chosen to set the cumulative exchange difference reserve at 1 January 2003 to zero.

NEW ACCOUNTING STANDARDS

New International Financial Reporting Standards which have been issued (both adopted and not yet adopted) are discussed on pages 121 and 123 (Accounting Policies).

SARBANES-OXLEY ACT SECTION 404

As a consequence of our listing on the New York Stock Exchange, AstraZeneca is required to comply with those provisions of the US Sarbanes-Oxley Act applicable to foreign issuers. Section 404 of this legislation requires companies annually to assess and make public statements about the quality and effectiveness of their internal control over financial reporting.

Our approach to the assessment has been to select key transaction and financial reporting processes in our largest operating units and a number of specialist areas such as financial consolidation and reporting, treasury operations and taxation so that, in aggregate, we have covered a significant proportion of each of the key line items in our Financial Statements. Each of these operating units and specialist areas has ensured that its relevant processes and controls are documented to appropriate standards, taking into account, in particular, the guidance provided by the Securities and Exchange Commission. We have also reviewed

the structure and operation of our 'entity level' control environment. This refers to the overarching control environment, including structure of reviews, checks and balances that are essential to the management of a well controlled business.

The Directors have concluded that our internal control over financial reporting is effective as at 31 December 2007 and the assessment is set out on page 116. KPMG Audit Plc have audited the effectiveness of internal control over financial reporting and, as noted on page 117, their report is unqualified.

RESULTS OF OPERATIONS – SUMMARY ANALYSIS OF YEAR TO 31 DECEMBER 2006

The tables below show our sales by therapy area and by key, patent expiry and base products and operating profit for 2006 compared to 2005.

Reported performance

Our sales grew by 11% from \$23,950 million to \$26,475 million, an increase of \$2,525 million. Operating profit increased by 26% from \$6,502 million to \$8,216 million. Earnings per share for the year were \$3.86, a rise of 33% from \$2.91 in 2005. We estimate that without

SALES BY THERAPY AREA (2006 AND 2005)

	2006			2005		2006 compared to 2005	
	\$m	Growth underlying \$m	Growth due to exchange effects \$m	\$m	Growth underlying %	Growth reported %	
Cardiovascular	6,118	780	6	5,332	15	15	
Gastrointestinal	6,631	297	(21)	6,355	4	4	
Infection and other	875	37	(1)	839	4	4	
Neuroscience	4,704	656	(11)	4,059	16	16	
Oncology	4,262	470	(53)	3,845	12	11	
Respiratory and Inflammation	3,151	284	(6)	2,873	10	10	
Others	734	89	(2)	647	13	13	
Total	26,475	2,613	(88)	23,950	11	11	

SALES BY KEY, PATENT EXPIRY AND BASE PRODUCTS (2006 AND 2005)

	2006			2005		2006 compared to 2005	
	\$m	Growth underlying \$m	Growth due to exchange effects \$m	\$m	Growth underlying %	Growth reported %	
Key (Arimidex, Crestor, Nexium, Seroquel, Symbicort)	13,318	2,475	(6)	10,849	23	23	
Patent expiry (Losec, Nolvadex, Plendil, Seloken/Toprol-XL, Zestril)	3,837	(335)	(21)	4,193	(8)	(8)	
Base	9,320	473	(61)	8,908	5	5	
Total	26,475	2,613	(88)	23,950	11	11	

OPERATING PROFIT (2006 AND 2005)

	2006			2005		Percentage of sales		2006 compared to 2005	
	\$m	Growth underlying \$m	Growth due to exchange effects \$m	\$m	2006 %	2005 %	Growth underlying %	Growth reported %	
Sales	26,475	2,613	(88)	23,950			11	11	
Cost of sales	(5,559)	(188)	(15)	(5,356)	(21.0)	(22.4)	4	4	
Gross margin	20,916	2,425	(103)	18,594	79.0	77.6	13	13	
Distribution costs	(226)	(15)	-	(211)	(0.9)	(0.8)	7	7	
Research and development	(3,902)	(532)	9	(3,379)	(14.7)	(14.1)	16	16	
Selling, general and administrative	(9,096)	(410)	9	(8,695)	(34.4)	(36.3)	5	5	
Other operating income and expense	524	326	5	193	2.0	0.8	169	172	
Operating profit	8,216	1,794	(80)	6,502	31.0	27.2	28	26	