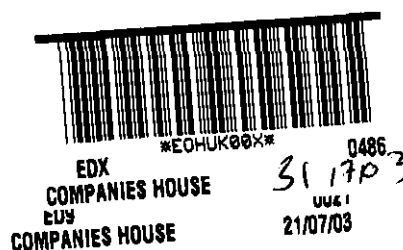


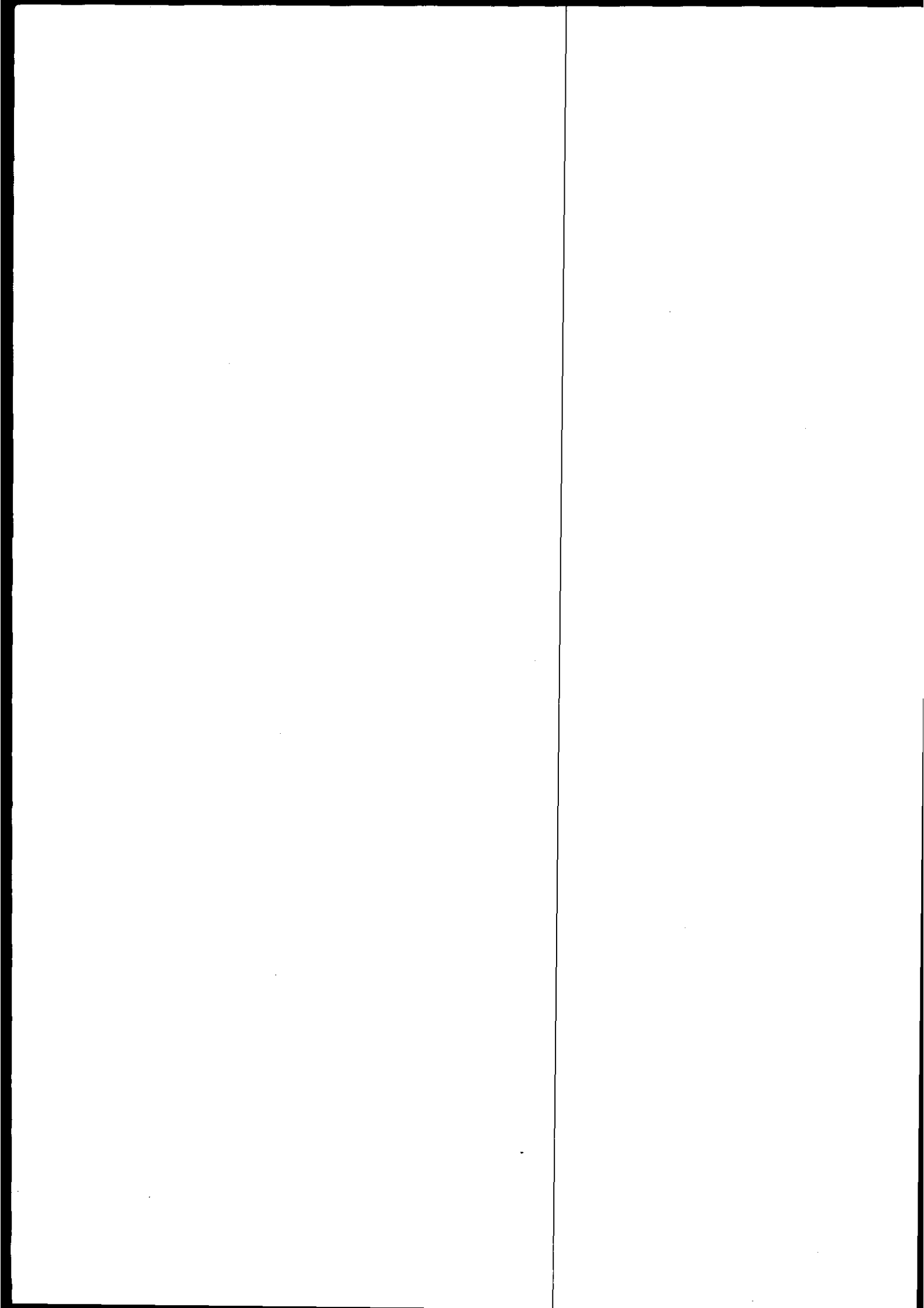
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**ASTRAZENECA PLC**

**DIRECTORS' REPORT  
DIRECTORS' REMUNERATION REPORT  
AND  
FINANCIAL STATEMENTS**

**For the year ended 31 December 2002**





## Directors' Report

AstraZeneca PLC is the holding company for a group of subsidiaries whose principal activities are described in the Operational and Financial Reviews on pages 8 to 29 and 30 to 43, which are incorporated in this report by reference. Principal subsidiaries, joint ventures and associates and their locations are given on page 112.

The Company's dividend for 2002 of \$0.70 (43.2 pence, SEK6.20) per Ordinary Share amounts to a total dividend payment to shareholders of \$1,206 million.

The Directors believe that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the Financial Statements.

Changes in the Company's Ordinary Share capital during 2002, including details of the allotment of new shares under the Company's share plans, are given in Note 38 to the Financial Statements.

### Board of Directors

Details of members of the Board at 31 December 2002 are set out on pages 6 and 7.

### Board Changes

Claes Wilhelmsson, Executive Director, retired from the Board in June 2002. The Company announced in November 2002 that Åke Ståvling, also an Executive Director, would be leaving the Company at the end of January 2003.

Lars Ramqvist, Non-Executive Director, retired from the Board in April 2002 with effect from the end of the Annual General Meeting. Also at the Annual General Meeting, shareholders elected Jane Henney and John Buchanan as Non-Executive Directors. Dr Henney was first appointed to the Board in September 2001. Dr Buchanan's appointment was effective from the end of the Annual General Meeting in April 2002.

### Re-election of Directors

Other than Åke Ståvling, who will have left the Company, all of the Directors will retire under Article 65 of the Company's Articles of Association at the Annual General Meeting in April 2003 and are presenting themselves for re-election. All are recommended by the Board for re-election.

### Mandatory Shareholding for Directors

The Company's Articles of Association require

each Director to be the beneficial owner of Ordinary Shares in the Company with an aggregate nominal value of \$125 (500 shares). Such holding must be obtained within two months of the date of the Director's appointment. All of the Directors comply with this requirement and full details of each Director's interests in shares of the Company are set out in the Directors' Remuneration Report on pages 49 to 54.

### Annual General Meeting

The Company's Annual General Meeting will be held on 30 April 2003. The principal meeting place will be in London. There will be one satellite meeting place in Stockholm.

### Corporate Governance Combined Code

Throughout 2002, the Company has applied all of the principles of good governance in Part 1, Section 1 of the Combined Code published by the Hampel Committee on Corporate Governance and appended to the Listing Rules of the UK Listing Authority. The way in which these principles have been applied is described below.

Throughout 2002, the Company has complied with all of the provisions of the code of best practice in Part 2, Section 1 of the Combined Code with two exceptions. These are provision A.2.1 concerning the appointment of a senior Non-Executive Director, with which the Company has complied since March 2002, and provision B.1.7 relating to the notice period of Executive Directors' service contracts. In March 2002, the Board appointed Sir Peter Bonfield as the senior Non-Executive Director.

During 2002 the service contracts of the Executive Directors provided for a notice period of two years. However, in January 2003, all of the Executive Directors agreed to reduce the notice periods of their service contracts to one year. For new Executive Directors, the Board would aim to negotiate a one year notice period. In exceptional circumstances, the initial notice period may be for longer than one year. In those circumstances, the Board would explain to shareholders the reasons why it believed a longer notice period was necessary and it would be the Board's intention that the notice period should be reduced to one year subsequently.

Full details of the service contracts and remuneration of the Company's Executive Directors are set out in the Directors' Remuneration Report on pages 49 to 54.

### The US Sarbanes-Oxley Act of 2002

AstraZeneca PLC American Depositary Shares are traded on the New York Stock Exchange and the Company is subject to the reporting and other requirements of the US Securities and Exchange Commission applicable to foreign issuers. The US Sarbanes-Oxley Act came into force at the end of July 2002. As a result of its New York listing, the Company is subject to those provisions of the Act applicable to foreign issuers.

Many of the rules implementing the Act are currently being written and proposed by the Securities and Exchange Commission. As a result, the detailed provisions of the Act are likely to become effective during 2003.

The Company will comply with those provisions of the Act applicable to foreign issuers as and when they become effective. The Board takes the view that the Company already has a sound corporate governance framework, good processes for the accurate and timely reporting of its financial position and results of operations and an effective and robust system of internal controls. Consequently, the Company's approach to compliance with the Act principally involves the development and adjustment of the existing corporate governance framework and associated processes concerning reporting, internal controls and other relevant matters. In particular, some additional work has been undertaken to ensure that the Chief Executive and the Chief Financial Officer are in a position to provide the certifications required by the Act in respect of the Company's Annual Report on Form 20-F for the year ended 31 December 2002.

### The New York Stock Exchange

In August 2002, the Corporate Accountability and Listing Standards Committee of the New York Stock Exchange filed new, draft corporate governance rules with the US Securities and Exchange Commission. The draft rules are currently under review by the Securities and Exchange Commission. The Company, as a foreign issuer with American Depositary Shares listed on the New York Stock Exchange, is obliged to disclose any significant ways in which its corporate governance practices differ from the rules.

The Company has reviewed the draft rules and believes that, in most areas, its corporate governance practices are consistent with the draft rules and/or the principles behind the draft rules, with two significant exceptions.

The draft rules state that non-executive directors must have regular scheduled meetings without the directors involved in the management of the company present. Currently, other than meetings of those Board committees comprised only of Non-Executive Directors, the Company's Non-Executive Directors do not hold formal meetings without the Executive Directors of the Company present.

Under the draft rules, listed companies' audit committees are given increased authority and responsibility. The Company's current corporate governance practices regarding the Audit Committee are not consistent in all respects with the draft rules. However, as described below, it is anticipated that changes to certain of those practices will be introduced during 2003 in the context of the US Sarbanes-Oxley Act of 2002. The Company anticipates that any such changes made would bring the Company's corporate governance practices in this area more closely in line with the proposed New York Stock Exchange rules.

#### **Disclosure Policy**

The Company's Disclosure Policy, approved by the Board in October 2002, provides a framework for the handling and disclosure of price sensitive information. A Disclosure Committee comprising the Chief Financial Officer, the Group Secretary and Solicitor and the Vice-President, Corporate Affairs, meets regularly. The role of the Disclosure Committee is to assist and inform the decisions of the Chief Executive concerning price sensitive information and its disclosure.

#### **Recent Developments**

During the first half of 2003, the Company will review two significant new proposals in the UK concerning corporate governance: the report of Derek Higgs, 'Review of the Role and Effectiveness of Non-Executive Directors', and that of Sir Robert Smith, 'Audit Committees: Combined Code Guidance', both published in January 2003. The reports both propose changes to the Combined Code appended to the Listing Rules of the UK Listing Authority. Subject to completing its review of the proposals, the Company expects to comply with any changes to the Combined Code resulting from the reports' proposals.

#### **Board Structure and Processes**

##### **Board Composition, Responsibilities and Appointments**

The Board includes a balance of Executive and Non-Executive Directors. The majority of

Board members are Non-Executive Directors. The differing roles of Executive Directors and Non-Executive Directors are clearly delineated, both having fiduciary duties towards shareholders. However, Executive Directors have direct responsibility for business operations whereas the Non-Executive Directors have a responsibility to bring independent, objective judgement to bear on Board decisions.

The Board considers that all of the Non-Executive Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. However, the Board acknowledges that independence, as it applies to non-executive directors, is not defined in a way which is uniformly accepted by all regulatory bodies, codes of governance or best practice, stock exchanges or organisations representing institutional investors. Two of the Company's Directors (Håkan Mogren, Executive Deputy Chairman and Marcus Wallenberg, Non-Executive Director) are also members of the Board of Directors of Investor AB, a company which, at 31 December 2002, had a 5.04% holding in the Ordinary Shares of the Company. This holding represents a significant proportion of Investor AB's overall investment portfolio. Marcus Wallenberg is the Chief Executive Officer of Investor AB. Additionally, Dr Mogren and Erna Möller, Non-Executive Director, are Directors of the Marcus and Marianne Wallenberg Foundation and the Knut and Alice Wallenberg Foundation respectively.

The Board sets the Company's strategy and policies and monitors progress towards meeting its objectives. This includes regular reviews of the Company's financial performance and critical business issues. The Board normally meets six times a year.

There is an established and transparent procedure for appointments of new directors to the Board which is operated by the Nomination Committee. All of the Directors retire at each Annual General Meeting and may offer themselves for re-election by shareholders.

##### **Chief Executive and the Senior Executive Team**

The Chief Executive, Sir Tom McKillop, has delegated authority from, and is responsible to, the Board for directing and promoting the profitable operation and development of the Company, consistent with the primary aim of enhancing long term shareholder value.

The Chief Executive is responsible to the Board for the management and performance of the Company's businesses within the framework of Company policies, reserved powers and routine reporting requirements. He is obliged to refer certain major matters (defined in the formal delegation of the Board's authority) back to the Board. The roles of the Board, the Board's committees, the Chairman, the Executive Deputy Chairman, the Chief Executive and the Senior Executive Team are documented, as are the Company's delegated authorities and reserved powers, the means of operation of the business and the roles of corporate functions.

The Chief Executive has established and chairs the Senior Executive Team. While the Chief Executive retains full responsibility for the authority delegated to him by the Board, the Senior Executive Team is the vehicle through which he exercises that authority in respect of the Company's business (including Salick Health Care, Astra Tech and Marlow Foods).

The other members of the Senior Executive Team are Åke Ståvling, Executive Director (until 31 January 2003); Jonathan Symonds, Chief Financial Officer; Bruno Angelici, Executive Vice-President, Europe, Japan, Asia Pacific and ROW; David Brennan, Executive Vice-President, North America and President and CEO, AstraZeneca LP; Jan Lundberg, Executive Vice-President, Discovery Research; John Patterson, Executive Vice-President, Product Strategy & Licensing and Business Development; Martin Nicklasson, Executive Vice-President, Development; Barrie Thorpe, Executive Vice-President, Operations; and Tony Bloxham, Executive Vice-President, Human Resources. Dr Lundberg and Dr Nicklasson succeeded Dr Wilhelmsson who retired in June 2002.

The Senior Executive Team normally meets once a month to consider and decide all major business issues. It also usually reviews those matters which are of a size or importance to require the attention of, or which are reserved to, the Board before such matters are submitted to the Board for review and decision.

Each business function is subject to an annual budget and target-setting process including forecasts for the following two years together with a sensitivity and risk analysis, quarterly updates of the forecast for the current year and regular reporting. Performance reviews are undertaken in each part of the business regularly. The Company's

## Directors' Report continued

quarterly business performance management system uses a broad range of measures that link directly to the achievement of key business priorities. Treasury operations are centralised, operate within defined limits and are subject to regular reporting requirements and Audit Committee reviews.

### Audit Committee, Internal Controls and Management of Risk

#### Audit Committee

The members of the Audit Committee are Karl von der Heyden (Chairman of the Committee), John Buchanan, Jane Henney, Dame Bridget Ogilvie and Marcus Wallenberg. They are all Non-Executive Directors.

The core remit of the Audit Committee is to review and report to the Board on the annual and other published financial reporting carried out by the Company, its accounting policies, the scope and audit programmes of its internal and external auditors and any material issues arising from these audits, the effectiveness of its systems of financial reporting and internal financial controls and the framework for risk management, with particular emphasis on financial risks.

The Audit Committee met four times in 2002 and is currently scheduled to meet at least four times in 2003. All of the members of the Audit Committee attended each meeting in 2002. The Chairman of the Board, a Non-Executive Director, attended two of the meetings held in 2002.

During 2002, the business considered and discussed by the Audit Committee included the financial disclosures contained in the Company's annual and quarterly reports to shareholders and other interested parties; various accounting matters raised in the context of the financial disclosures, including reports from management and the external auditor concerning those accounting matters; reports from management and the internal audit function on the Company's risk profile and the assessment and management of risk; reports from management, the internal audit function and the external auditor on the effectiveness of the Company's system of internal controls and, in particular, internal financial controls; proposals from the internal audit function and the external auditor about their audit programmes for 2002; a report from the Company's treasury function about its operations and approach to risk management; the amount of audit and non-audit fees of the external auditor; the appointment of a new Chief Internal Auditor; and the impact of the US Sarbanes-Oxley Act

of 2002 on the Company and, in particular, on the operation of the Audit Committee and its relationship with the external auditor. More information about the work of the internal audit function and the Company's external auditor is given below.

At the scheduled meeting of the Audit Committee held at the end of January 2003, the Chief Executive and the Chief Financial Officer presented to Audit Committee members their conclusions following the evaluation of the effectiveness of the Company's disclosure controls and procedures required by Item 15(a) of Form 20-F. Based on their evaluation, the Chief Executive and the Chief Financial Officer concluded that the Company maintains an effective system of disclosure controls and procedures.

There have been no significant changes in the Company's internal controls or other factors that could significantly affect internal controls subsequent to the date of their evaluation.

During the year, in line with its normal practice, the Audit Committee also held a number of private meetings, without management present, with both the Company's Chief Internal Auditor and the lead partner from the Company's external audit firm. The purpose of these meetings was to facilitate free and open discussions between the Audit Committee members and the Chief Internal Auditor and the external lead audit partner, independent of the main sessions of the Audit Committee attended by the Chief Financial Officer and the Group Financial Controller.

#### Internal Controls and Management of Risk

The Board has overall responsibility for the Company's system of internal controls which aims to safeguard shareholders' investments and the Company's assets, ensure that proper accounting records are maintained and that the financial information used within the business and for publication is accurate, reliable and fairly presents the financial position of the Company and the results of its business operations. The Board is also responsible for reviewing the effectiveness of the system of internal controls. The system is designed to provide reasonable assurance of effective operations and compliance with laws and regulations, although any system of internal controls can only provide reasonable, not absolute, assurance against material misstatement or loss.

Since the publication in September 1999 by the Institute of Chartered Accountants in

England and Wales of the Turnbull Report, 'Internal Control: Guidance for Directors on the Combined Code', the Directors have continued to review the effectiveness of the Group's system of non-financial controls, including operational and compliance controls, risk management and the Company's high level internal control arrangements. These reviews have included an assessment of internal controls, and in particular internal financial controls, by the internal audit function, management assurance of the maintenance of control and reports from the external auditor on matters identified in the course of its statutory audit work. A key part of these reviews is an annual 'letter of assurance' process by which responsible managers confirm the adequacy of their systems of internal financial and non-financial controls, their compliance with Company policies (including those relating to safety, health and the environment), local laws and regulations (including the industry's regulatory requirements) and report any control weaknesses identified in the past year. The Directors believe that the Company maintains an effective embedded system of internal controls and complies with the Turnbull Report guidance.

The Company views the careful management of risk as a key management activity. A significant part of all of its activities is to deliver opportunities by managing business risks in a simple, flexible and sustained way which is consistent with the Company's values. These risks, which may be strategic, operational, reputational, financial or environmental, should be understood and visible and the business context should determine the level of acceptable risk and control.

Much of the Company's work in the area of risk management is facilitated by the Risk Advisory Group consisting of representatives from each business function. Its role is advisory and is to assist senior management to identify and assess the main risks faced by the Company's business in a co-ordinated manner, to assess, identify and document the Company's risk profile and to ensure that the business focuses on critical business issues. It is chaired by the Chief Financial Officer and reports twice a year to the Senior Executive Team. The Risk Advisory Group's reports on the Company's risk profile are reviewed by both the Audit Committee and the Board.

Under the auspices of the Risk Advisory Group, the Company has developed and is establishing an integrated risk management framework with the aim of ensuring that the

business understands the key risks it faces, especially cross-functional risks, has an embedded risk management approach to all of its activities, links risk management to business performance reporting and seeks continuous improvement in the management of risk by sharing best practice throughout the organisation.

#### Code of Conduct

The policy of the Company is that all of its subsidiaries and their employees observe high standards of integrity and act with due skill, care, diligence and fairness in the conduct of business. The Company's management recognises that such standards make a significant contribution to the overall control environment and seeks, by its words and actions, to reinforce them throughout the business. In particular, all employees are required to comply with the letter and spirit of the AstraZeneca Code of Conduct and with the detailed standards issued in support of it. The AstraZeneca Code of Conduct is set out on page 137. The current version of the Code of Conduct was first published in June 2000 and will be reviewed during 2003. The review will include consideration of the relevant requirements of the US Sarbanes-Oxley Act of 2002, such as those concerning a code of ethics for senior financial officers.

#### Group Internal Audit

Group Internal Audit (GIA) is an independent appraisal function which derives its authority from the Board through the Audit Committee. Its primary role is to provide reasonable and objective assurance about the adequacy and effectiveness of the Company's financial control framework and risk management. It also assists senior management with its responsibility to improve the processes by which business risks are identified and managed and to report and advise on the proper and effective use of resources.

GIA seeks to discharge the responsibilities set down in its charter by reviewing the processes which ensure that business risks are effectively managed; reviewing the financial and operational controls which help to ensure that the Company's assets are properly safeguarded from losses, including fraud; reviewing the controls which help to ensure the reliability and integrity of management information systems; reviewing the processes which ensure compliance with corporate objectives, policies and procedures and external legislation and regulation (other than those relating to safety, health and the environment and regulatory compliance which are the responsibility of other audit

functions); and on an ad hoc basis, reviewing that value for money is obtained. GIA also acts as a source of constructive advice and best practice.

#### External Auditor

A resolution will be proposed at the Annual General Meeting on 30 April 2003 for the re-appointment of KPMG Audit Plc, London as auditor of the Company.

The external auditor has undertaken various non-audit work for the Company during 2002. More information about this work and the fees paid by the Company for it are set out in Note 36 to the Financial Statements on page 107. The external auditor is not engaged by the Company to carry out any non-audit work on which it might, in the future, be required to express an audit opinion. The Audit Committee has determined policies as to what non-audit work can be undertaken by the Company's external auditor. Any item of non-audit work proposed to be undertaken for which its fees may exceed \$500,000 must be approved in advance by the Audit Committee. The Audit Committee also monitors the level of audit and non-audit fees on a quarterly basis.

The US Sarbanes-Oxley Act of 2002 is likely to lead to changes in the Company's relationship with the external auditor, such as greater involvement of the Audit Committee in managing the relationship and the pre-approval by the Audit Committee of all non-audit work. Certain provisions of the Act are also likely to lead to changes in how the external auditor conducts its business, such as the mandatory rotation of the principal audit partners.

#### Other Board Committees Remuneration Committee

The members of the Remuneration Committee are Sir Peter Bonfield (Chairman of the Committee), John Buchanan and Erna Möller. They are all Non-Executive Directors.

The remit of the Remuneration Committee is, primarily, to recommend for decision by the Board the fundamental remuneration policy for the Company and to ensure the proper operation of all plans for employees involving the Company's shares. More particularly, it makes specific proposals in respect of the remuneration packages of individual Executive Directors and the Company's most senior executives.

Further information about the membership and work of the Remuneration Committee

and the Company's remuneration policy and practice is set out in the Directors' Remuneration Report on pages 49 to 54.

#### Nomination Committee

The members of the Nomination Committee are Percy Barnevik (Chairman of the Committee), Håkan Mogren, Sir Peter Bonfield and Jane Henney. With the exception of Dr Mogren, they are all Non-Executive Directors.

The remit of the Nomination Committee is, primarily, to make proposals to the Board for any new appointments as Directors of the Company.

#### Shareholders

In its financial reporting to shareholders and other interested parties by means of annual and quarterly reports, the Board aims to present a balanced and understandable assessment of the Company's financial position and prospects.

The Company maintains a corporate website containing a wide range of information of interest to institutional and private investors: [www.astrazeneca.com](http://www.astrazeneca.com).

The Company has frequent discussions with institutional shareholders on a range of issues affecting its performance. These include meetings following the announcement of the annual results with the Company's largest institutional shareholders on an individual basis. In addition, the Company responds to individual ad hoc requests for discussions from institutional shareholders.

All shareholders, including private investors, have an opportunity to put questions to members of the Board on matters relating to the Company's operation and performance at the Annual General Meeting.

#### Employees

The Company maintains an open management style and involves its employees both in daily decisions which affect them and longer term matters. The Company is fully committed to keeping all of its employees informed about their work unit and the wider business, as well as discussing the implications of major business changes and other relevant matters. Key business priorities are communicated throughout the organisation and form part of the basis for the Company's employee incentive plans. Details of employees' share plans appear in Note 33 to the Financial Statements.

## Directors' Report continued

In line with legal requirements and cultural standards, more formal national and business level employee consultation arrangements exist in some countries, including the UK. There is a forum for employee consultation at European level, chaired by the Chief Executive, in which employee representatives from 19 countries participate. The Company also has a variety of constructive relationships with trade unions across its worldwide operations including formal recognition and active dialogue where appropriate.

The Company believes that every employee should be treated with the same respect and dignity. It values the rich diversity and creative potential of people with differing backgrounds and abilities and encourages a culture of equal opportunities in which personal success depends on personal merit and performance. It is Company policy that there should be no discrimination against any person for any reason. All judgements about people for the purposes of recruitment, development and promotion are made solely on the basis of their ability and potential in relation to the needs of the job. Every manager is responsible for implementing this policy.

It is Company policy that people with disabilities should have the same consideration as others with respect to recruitment, retention and personal development. Depending on their skills and abilities, people with disabilities enjoy the same career prospects as other employees and the same scope for realising potential. The Company also takes all reasonable steps to ensure that its working environments can accommodate special needs.

### Other Stakeholders

The Company aims to set, promote and maintain high standards of corporate responsibility wherever it operates. Dame Bridget Ogilvie, a Non-Executive Director, is the Board member responsible for this area and oversees the work of a cross-functional committee. The Company has established systems to monitor its performance. Policies and standards relating to corporate responsibility are maintained and widely communicated within the organisation. In 2002, the Company was again included in the FTSE4Good and the Dow Jones Sustainability Indices. The Company publishes and sends to shareholders a separate Corporate Responsibility Summary Report. More detailed information about the Company's approach to this area of its business can be found on its website: [www.astrazeneca.com](http://www.astrazeneca.com).

It is not Company policy formally to comply with the Confederation of British Industry's code of practice on the prompt payment of suppliers. It is, however, Company policy to agree appropriate payment terms with all suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment and, subject to their compliance, abide by the terms of payment. The total amount of money owed by the Company's subsidiaries to trade creditors at the balance sheet date was equivalent to 83 days' average purchases. No equivalent disclosure is provided in respect of the Company as it has no external creditors.

### Purchase of Own Shares

The Company's stated distribution policy contains both a regular dividend cash flow and a share re-purchase component to give the Company more flexibility in managing its capital structure over time. In August 1999, the Company announced a \$2 billion share re-purchase programme to be completed by the end of 2002. This programme was completed ahead of schedule in the second quarter of 2002. In January 2002, the Company announced an additional \$2 billion re-purchase programme to be completed by the end of 2003.

During 2002, the Company purchased 28.4 million of its own Ordinary Shares with a nominal value of \$0.25 each for an aggregate cost of \$1,190 million. Following the purchase of these shares, they were all cancelled as required by applicable English law. This number of shares represents 1.65% of the Company's total issued share capital at 31 December 2002.

Since the beginning of the re-purchase programme in 1999, the Company has purchased for cancellation in total 65.6 million of its own Ordinary Shares with a nominal value of \$0.25 each for an aggregate cost of \$2,805 million. This number of shares represents 3.82% of the Company's total issued share capital at 31 December 2002.

The Company continues to maintain robust controls in respect of all aspects of the share re-purchase programme to ensure compliance with English law and the Listing Rules of the UK Listing Authority. In particular, the Company's Disclosure Committee meets to ensure that the Company does not purchase its own shares during prohibited periods.

At the Annual General Meeting on 30 April 2003, the Company will seek a renewal of its

current permission from shareholders to purchase its own shares.

### Political Donations

Under the UK's Political Parties, Elections and Referendums Act 2000, shareholder authority is required for political donations to be made or political expenditure to be incurred by the Company or its subsidiaries in the European Union. Neither the Company nor its subsidiaries made any donations or incurred any expenditure in 2002 in the European Union in respect of which shareholder authority or disclosure in this Directors' Report is required under the Act. Neither the Company nor its subsidiaries intend to make any such donations or incur any such expenditure in the European Union in the foreseeable future. However, the Act defines 'political organisation' widely and, for example, interest groups or lobbying organisations concerned with the review of government policy or law reform may be caught by the definition.

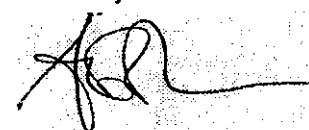
To enable the Company to continue to support such organisations without inadvertently breaching the Act, a resolution will, in the same way as last year, be proposed at the Annual General Meeting on 30 April 2003 authorising the Company to make donations or incur expenditure in the European Union up to an aggregate limit of \$150,000.

In 2002, AstraZeneca's US legal entities made contributions amounting in aggregate to \$275,000 to state and national political party committees and to campaign committees of various state candidates affiliated with the major parties. This total includes \$54,500 in national political party committee donations made prior to the implementation of the US Bipartisan Campaign Reform Act. All contributions were made only where allowed by state and federal law. American nationals exercised decision-making over the contributions and the funds were not provided or reimbursed by any non-US corporation.

### On behalf of the Board

G H R Musker

Group Secretary and Solicitor  
30 January 2003



# Directors' Remuneration Report

At the Annual General Meeting on 30 April 2003, a resolution will be proposed to approve the Directors' Remuneration Report.

## Remuneration Committee

The members of the Remuneration Committee are Sir Peter Bonfield (Chairman of the Committee), John Buchanan and Erna Möller. They are all Non-Executive Directors. Sir Peter became Chairman of the Remuneration Committee in April 2002 in succession to Lars Ramqvist following Dr Ramqvist's retirement from the Board. Dr Buchanan became a member of the Remuneration Committee following his election as a Non-Executive Director at the Annual General Meeting in April 2002.

The remit of the Remuneration Committee is, primarily, to recommend for decision by the Board the fundamental remuneration policy for the Company and to ensure the proper operation of all plans for employees involving the Company's shares. More particularly, it makes specific proposals in respect of the remuneration packages of individual Executive Directors and the Company's most senior executives.

The Remuneration Committee met six times during 2002. At its request, Peter Brown, Vice-President, Global Compensation and Benefits, attended a number of the meetings and provided advice and services which materially assisted the Remuneration Committee during 2002. In doing so, Mr Brown drew on various sources of data concerning directors' and executives' salaries, bonus levels and other incentives including general pharmaceutical industry reports and surveys, as well as surveys specifically carried out for the Company. These included certain surveys prepared for the Company by Towers Perrin. During 2002, Towers Perrin also provided consultancy and share plan administration services to the Company.

## Overall Remuneration Policy and Purpose

The Company is committed to maintaining a dynamic performance culture in which every employee champions the growth of shareholder value, is clear about the Company's objectives, knows how their work impacts on those objectives and that they will benefit from achieving high levels of performance.

The Board has confirmed that the Company's overall remuneration policy and purpose is:

- > to attract and retain people of the quality necessary to sustain the Company as

one of the best pharmaceutical companies in the world; and

- > to motivate them to achieve the level of performance necessary to create sustained growth in shareholder value.

In order to achieve this, remuneration policy and practice is designed:

- > to closely align individual and team reward with business performance at each level;
- > to encourage employees to perform to their fullest capacity;
- > to encourage employees to align their interests with those of shareholders;
- > to support managers' responsibility to achieve business performance through people and for them to recognise superior performance, in the short and longer term;
- > to be as locally focused and flexible as is practicable and beneficial;
- > to be competitive and cost-effective in each of the relevant employment markets; and
- > to be as internally consistent as is practicable and beneficial taking due account of market need.

The cost and value of the components of the remuneration package are considered as a whole and are designed:

- > to ensure a proper balance of fixed and variable performance related components, linked to short and longer term objectives; and
- > to reflect market competitiveness taking account of the total value of all of the benefit components.

The benefit components contained in the total remuneration package are:

- > annual salary – based on conditions in the relevant geographic market, with the provision to recognise, in addition, the value of individuals' sustained personal performance, resulting from their ability and experience;
- > ad hoc rewards – special payments and other measures available to reward individuals (other than Executive Directors) and teams following a particular and outstanding business contribution;
- > short term bonus – a lump sum payment related to the targeted achievement of identified business drivers and, where appropriate, personal performance goals, measured over a year within a specific plan;

- > share participation – various plans provide the opportunity for employees to take a personal stake in the Company's wealth as shareholders; and
- > other benefits such as holidays, sickness benefit and pensions which are cost-effective and compatible with the relevant national welfare arrangements.

The way in which these elements are combined and applied varies depending, for example, on market need and practice in various countries.

For Executive Directors, the individual components are:

- > annual salary – the actual salary for each of the Executive Directors is determined on behalf of the Board by the Remuneration Committee; these salaries reflect the experience and sustained performance of the individuals to whom they apply, as judged annually by the Remuneration Committee, taking account also of market competitiveness;
- > short term bonus – the Deputy Chairman and the Chief Executive are entitled to bonuses related solely to the achievement of the targeted performance of earnings per share; other Executive Directors are entitled to annual bonuses related to the achievement of both the targeted performance of earnings per share and the achievement of functional measures relevant to their particular area of responsibility; the bonus payable for Executive Directors is on a scale of 0-100% of salary and 50% of salary is payable for the achievement of target business performance; 80% of the bonus relates to the achievement of the earnings per share target and 20% to the individual measures;
- > longer term bonus – Executive Directors are also rewarded for improvement in the share price performance of the Company over a period of years by the grant of share options; the grant of options under the AstraZeneca Share Option Plan is supervised by the Remuneration Committee which also determines whether any performance targets will apply to the grant and/or exercise of options; the exercise of options previously granted under the Zeneca 1994 Executive Share Option Scheme is currently subject to the performance condition that before any exercise, earnings per share must grow by at least

## Directors' Remuneration Report continued

the increase in the UK retail prices index plus 3% per annum over a continuous three year period following grant; and

- > pension arrangements – these are described in more detail below.

Other customary benefits (such as a car and health benefits) are also made available. In the UK, this happens by way of the Executive Directors' participation in the Company's flexible benefits arrangements which apply to the vast majority of the Company's UK employees. A similar programme was introduced in Sweden in January 2003.

### Executive Directors' Service Contracts

As stated in the Directors' Report, during 2002 the Company did not comply with provision B.1.7 of the code of best practice in Part 2, Section 1 of the Combined Code published by the Hampel Committee on Corporate Governance and appended to the Listing Rules of the UK Listing Authority, relating to the notice period of Executive Directors' service contracts.

During 2002, the service contracts provided for a notice period of two years. However, in January 2003, all the Executive Directors agreed to reduce the notice periods of their service contracts to one year. For new Executive Directors, the Board would aim to negotiate a one year notice period. In exceptional circumstances, the initial notice period may be for longer than one year. In those circumstances, the Board would explain to shareholders the reasons why it believed a longer notice period was necessary and it would be the Board's intention that it should be reduced to one year subsequently.

At the time of the Annual General Meeting on 30 April 2003, the unexpired term of Executive Directors' service contracts will be a maximum of one year. The details of the Executive Directors' individual service contracts are set out in the table below. In

the event of the termination of an Executive Director's service contract, depending upon the circumstances the Company may be liable to provide compensation to the Executive Director equivalent to the benefits which he or she would have received during the contractual notice period. The Company's policy in the event of the termination of an Executive Director's service contract is to avoid any liability to the Executive Director in excess of his or her contractual entitlement and aim to ensure that any liability is mitigated to the fullest extent possible.

The Company announced in November 2002 that Åke Ståvling, Executive Director, would be leaving the Company at the end of January 2003. Mr Ståvling will receive compensation from the Company, to be paid on a monthly basis, equivalent to two years base annual salary.

### Position of the Non-Executive Directors

None of the Non-Executive Directors has a service contract. They are not eligible for performance-related bonuses or the grant of share options. No pension contributions are made on their behalf.

### AstraZeneca Share Option Plan

As stated above, the Remuneration Committee determines the grant of options under the AstraZeneca Share Option Plan and ensures that, on every occasion before the grant of any option, the performance of the Company and the performance and contribution of each participant is fully taken into account when determining the number of shares to be put under option and the number of options to be granted. In respect of the grants of options under the Plan in March and August 2002, the Remuneration Committee considered the fact that business targets had been met in 2001, *Nexium* sales continued to grow strongly, the Respiratory, Central Nervous System and Oncology product portfolios continued to grow strongly, key products were progressing well through late stage development and the R&D pipeline

remained strong and concluded a grant of options was justified. The Remuneration Committee also received assurances from each member of the Senior Executive Team that the participants for whom they were recommending a grant of options had achieved the appropriate level of performance.

In respect of the grants of options under the Plan in March 2002 to each individual Executive Director, the Remuneration Committee considered the performance factors described above and also received an appraisal from the Chief Executive in respect of the performance of each Executive Director. In each case, the Remuneration Committee concluded a grant of options was justified.

Although the Company does not use total shareholder return (TSR) as a measure of performance for its share plans, a graph is set out on page 53 illustrating the Company's TSR performance over the last five years against the FTSE 100 Index.

### External Appointments

With the specific approval of the Board in each case, Executive Directors may accept external appointments as non-executive directors of other companies and retain any related fees paid to them.

### Directors' Emoluments in 2002

The Directors' emoluments in 2002 are disclosed on pages 51 and 52.

### Directors' Interests in Shares

Details of the Directors' interests in the Company's Ordinary Shares are disclosed on pages 53 and 54.

### Audit

The Directors' emoluments in 2002 and the details of the Directors' interests in the Company's Ordinary Shares disclosed on pages 51 to 54 have been audited by the Company's external auditor.

### Details of Executive Directors' Service Contracts

Executive Director	Date of service contract	Unexpired term at 31 December 2002	Notice period
Håkan Mogren	14.12.98	Two years*	One year
Sir Tom McKillop	11.01.96	Two years*	One year
Jonathan Symonds	20.05.98	Two years*	One year
Åke Ståvling	28.06.93	Leaving the Company on 31.01.03	

\* Reduced to one year subsequently

**Directors' Emoluments in 2002**

The aggregate remuneration, excluding pension contributions, paid to or accrued for all Directors and officers of the Company for services in all capacities during the year ended 31 December 2002 was \$16 million (including \$373,000 to the Chairman). Remuneration of individual Directors was as follows:

	Salary and fees \$'000	Bonuses \$'000	Taxable benefits \$'000	Other \$'000	Total 2002 \$'000	Total 2001 \$'000	Total 2000 \$'000
Percy Barnevik	373	–	–	–	373	368	385
Håkan Mogren	1,032	660	146†	172 <sup>g</sup>	2,010	1,623	1,564
Sir Tom McKillop	1,277	816	3	112*	2,208	1,918	1,917
Åke Staving	674	405	101†	66 <sup>g</sup>	1,246	1,047	934
Jonathan Symonds	774	450	9	124†	1,357	1,199	1,245
Sir Peter Bonfield	68	–	–	–	68	56	59
John Buchanan	49**	–	–	–	49	–	–
Jane Henney	60	–	–	30 <sup>#</sup>	90	13	–
Karl von der Heyden	70	–	–	–	70	60	63
Erna Möller	63	–	–	30 <sup>#</sup>	93	81	69
Dame Bridget Ogilvie	63	–	–	30 <sup>#</sup>	93	81	69
Marcus Wallenberg	63	–	–	–	63	56	59
<b>Former Directors</b>							
Claes Wilhelmsson	683†	211	10	–	904	938	1,074
Lars Ramqvist	23	–	–	–	23	60	63
Others	–	–	–	–	–	34	1,466
<b>Total</b>	<b>5,272</b>	<b>2,542</b>	<b>269</b>	<b>564</b>	<b>8,647</b>	<b>7,534</b>	<b>8,967</b>

Relates to relocation allowances

† Payment for pension related tax liabilities

<sup>#</sup> Fees for AstraZeneca Scientific Advisory Board

† Includes settlement on retirement of accrued holiday entitlement

† Includes provision for accommodation in the UK

<sup>g</sup> Payment for accommodation related tax liabilities

\*\* Part year only

The remuneration of Directors is or was in the case of former Directors (with minor exceptions) established and paid in either Swedish kronor (Claes Wilhelmsson) or pounds sterling (other Directors) and has been converted into US dollars in the table above at the average exchange rate for the year in question. These rates were:

	GBP/USD	SEK/USD
2000	0.65	8.91
2001	0.68	10.79
2002	0.67	9.86

The movement of exchange rates affects the year on year comparison of the dollar amounts.

Some Directors and officers were also granted options to subscribe for Ordinary Shares under the Company's share option plans. Details of share options granted to, and exercised by, Directors and the aggregate of gains realised on exercised options in the year are given on page 54.

No Director or officer has a family relationship with any other Director or officer.

**Transactions with Directors**

During the year there were no material recorded transactions between the Company and the Directors.

**Transactions with Former Directors**

Following his retirement as a Director in June 2002 and pursuant to the terms of an agreement dated 31 March 1999, Claes Wilhelmsson purchased an apartment in Stockholm from the Company. The price paid for the apartment, the Swedish kronor equivalent of \$963,000 at the average exchange rate for 2002 set out above, was an arm's length market value, as determined by independent third party valuations of the property carried out in 2002.

## Directors' Remuneration Report continued

## Directors' Emoluments in 2002 (continued)

Executive Directors' Pension Arrangements (per annum)	Sir Tom McKillop \$'000	Jonathan Symonds \$'000	Håkan Mogren \$'000	Åke Stålvig \$'000	Claes Wilhelmsson \$'000
<b>Defined Benefit Arrangements</b>					
1. Accrued pension at 1 January 2002	745	267	873	356	583
2. Increase in accrued pension during year as a result of inflation	12	5	19	8	7
3. Adjustment to accrued pension as a result of salary increase relative to inflation	23	6	—	49	65
4. Increase in accrued pension as a result of additional service	28	16	—	44	—
5. Accrued pension at 31 December 2002	808	294	892†	457†	655†
6. Employee contributions during year	—	29	—	—	—
7. Transfer value of accrued pension at 31 December 2001	12,364	2,343	7,784	3,042	5,482
8. Transfer value of accrued pension at 31 December 2002	14,480	2,300	8,465	4,188	6,031*
9. Change in transfer value during the period less employee contributions	2,116	(72)	681	1,146	549
10. Age at 31 December 2002	59 <sup>9/12</sup>	43 <sup>10/12</sup>	58 <sup>3/12</sup>	57 <sup>11/12</sup>	63 <sup>3/12</sup> *
11. Pensionable service (years)	33 <sup>3/12</sup>	22 <sup>4/12</sup>	30 <sup>3/12</sup>	29 <sup>11/12</sup>	35 <sup>3/12</sup> *

† Accrued pension payable between the age of 60 and 65. Once 65 the pension payable is reduced by 2/7ths (or 28.6%) from the figures shown.

\* At retirement on 30 June 2002

Pensions are payable to Directors in either Swedish kronor or pounds sterling. For ease of understanding, the above table has been presented using the exchange rates for 2002 set out on page 51.

**UK Executive Directors' Pension Arrangements**

Sir Tom McKillop is a member of the Company's main UK defined benefit pension plan. The normal pension age under this plan is 62. However, a member's accrued pension is available from age 60 without any actuarial reduction. In addition the accrued pension is available, unreduced, from age 57 if the Company consents to a request for early retirement and from age 50 if the retirement is at the Company's request.

On death in retirement, the accrued pension shown is guaranteed payable for the first five years of retirement and then reduces to two-thirds of this amount should there be a surviving spouse or other dependant. Any member may choose higher or lower levels of survivor's pensions at retirement, subject to Inland Revenue limits, in return for an adjustment to their own pension of equivalent actuarial value. Pensions are also payable to dependent children. In the event of a senior employee becoming incapacitated from performing his work then a pension is payable immediately as if such person had reached normal retirement age (subject to a maximum of 10 years additional service), based on current pensionable salary. In the event of death prior to retirement, dependants are entitled to a pension of two-thirds of the pension that would have been earned had such person remained in service to age 62 plus a capital sum of four times pensionable pay. Pensions in payment are increased annually in line with inflation, as measured by the retail prices index, up to a maximum of 5%.

In respect of UK Executive Directors whose pensionable earnings are capped by the earnings limit imposed by the Finance Act 1989, unapproved defined contribution schemes are made available. Currently, only Jonathan Symonds is affected by this limit. The Company has agreed to pay annually 50% of base salary in excess of the statutory earnings cap for the pension and associated tax liability, with the intention of providing equivalence of benefits with non-capped UK Directors. If this does not provide equivalence, the Company has agreed to make up the difference. The benefits derived from equivalence are shown above as if the scheme was a defined benefit arrangement. The Company contribution in 2002 in respect of the pension element was \$171,000.

**Swedish Executive Directors' Pension Arrangements**

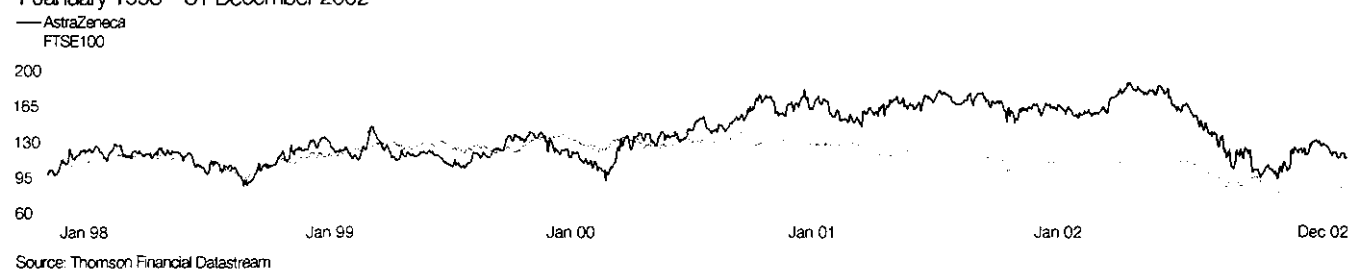
Normally, Swedish Executive Directors participate in the collectively bargained ITP pension plan, which provides pensions, dependants' pensions and lump sums on death in service. In respect of those Swedish Directors or former Directors, namely Håkan Mogren, Åke Stålvig and Claes Wilhelmsson, whose pensionable earnings are or were in excess of the earnings limit imposed by the Swedish Communal Tax Law (Kommunalskattelagen), supplementary pension commitments are made. The Company has agreed to pay 70% of pensionable salary from age 60 to age 65 and 50% of such earnings from age 65. The ITP provisions are included in this additional commitment. Paid in pension capital may also be used in the event of retirement or termination before the age of 60. In the event of long term illness then a pension is payable immediately as if such person had reached the normal retirement age, of 70% of current pensionable salary. On death in retirement the accrued pension shown is payable to a surviving spouse or other dependant. In the event of death prior to retirement the accrued pension shown is payable to a surviving spouse or other dependant plus a capital sum of three times pensionable salary less \$100,000 if married or two times pensionable salary less \$100,000 if not.

**Graph Showing Total Shareholder Return**

The UK Directors' Remuneration Report Regulations 2002 require the inclusion in the Directors' Remuneration Report of a graph showing total shareholder return (TSR) over a five year period in respect of a holding of the Company's shares, plotted against TSR in respect of a hypothetical holding of shares of a similar kind and number by reference to which a broad equity market index is calculated. This illustrates the Company's TSR performance against the broad equity market index selected and is required even though the Company does not use TSR as a measure of performance for its share plans. For the purposes of this graph, set out below, we have selected the FTSE 100 Index as the appropriate index.

**Graph showing total shareholder return**

1 January 1998 – 31 December 2002

**Directors' Interests in Shares**

The interests at 31 December 2002 or on date of retirement of the persons who on that date were Directors (including the interests of their families) in shares and debentures of AstraZeneca PLC are shown below, all of which were beneficial except as otherwise stated. None of the Directors has a beneficial interest in the shares of any of the Company's subsidiaries.

	Interest in Ordinary Shares, including shares held in trust, at 1 Jan 2002 or appointment date	Net shares acquired/ (disposed)	Interest in Ordinary Shares, including shares held in trust, at 31 Dec 2002 or resignation date	Shares held in trust at 1 Jan 2002 or appointment date	Shares held in trust at 31 Dec 2002 or resignation date
Percy Barnevik	100,000	–	100,000	–	–
Håkan Mogren	65,706	268	65,974	9,966	10,234
Sir Tom McKillop	74,443	–	74,443	16,824	13,424
Arne Stavling	8,929	210	9,139	8,041	8,157
Jonathan Symonds	14,314	(486)	13,828	10,774	7,788
Sir Peter Bonfield	500	–	500	–	–
John Buchanan	–	500	500	–	–
John Henney	500	–	500	–	–
Carl von der Heyden	20,000	–	20,000	–	–
Ulla Möller	2,718	–	2,718	–	–
Baroness Bridget Ogilvie	500	–	500	–	–
Anders Wallenberg	74,504	–	74,504	–	–
<b>Former Directors</b>					
Anders Wilhelmsson	27,462	1,059	28,521	8,774	8,897
Anders Ramqvist	500	–	500	–	–

No Director or senior executive beneficially owns, or has options over, 1% or more of the outstanding shares of the Company, nor do they have different voting rights to other shareholders.

Shares held in trust above include both long term incentive bonus shares appropriated under the Zeneca Executive Performance Bonus scheme and also shares allocated on the demerger of Zeneca Agrochemicals, in respect of executive share options held on 20 November 2000, and which have not yet been released. In respect of the latter, the shares generally will not become beneficially owned by Directors until 13 November 2003.

## Directors' Remuneration Report continued

### Directors' Interests in Shares (continued)

The interests of Directors and former Directors in options to subscribe for Ordinary Shares of the Company, which include options granted under the AstraZeneca Savings-Related Share Option Scheme, together with options granted and exercised during the year are included in the following table:

		No. of shares under option	Exercise price per share†	Market price at date of exercise	First date exercisable*	Last date exercisable*
Håkan Mogren	At 1 Jan 2002	137,417	2947p		13.12.02	28.03.11
	Granted	41,928	3487p		28.03.05	27.03.12
	At 31 Dec 2002	179,345	3073p		13.12.02	27.03.12
Sir Tom McKillop	At 1 Jan 2002	259,256	2332p		05.04.97	28.03.11
	Granted	79,812	3487p		28.03.05	27.03.12
	At 31 Dec 2002	339,068	2604p		05.04.97	27.03.12
Åke Stavling	At 1 Jan 2002	84,197	2862p		26.05.02	28.03.11
	Granted	27,020	3487p		28.03.05	27.03.12
	At 31 Dec 2002	111,217	3014p		26.05.02	27.03.12
Jonathan Symonds	At 1 Jan 2002	130,561	2678p		01.10.00	28.03.11
	Granted	29,815	3487p		28.03.05	27.03.12
	At 31 Dec 2002	160,376	2828p		01.10.00	27.03.12
Claes Wilhelmsson	At 1 Jan 2002	92,593	2855p		26.05.02	28.03.11
	Granted	27,824*	3487p		28.03.05	27.03.12
	At 30 Jun 2002	120,417	3001p		26.05.02	29.06.04

† Exercise prices at 1 January and 31 December are weighted averages.

\* First and last exercise dates of groups of options, within which periods there are shorter exercise periods.

# Amends the Company's announcement dated 2 April 2002 stating option granted over 27,983 shares which resulted from an exchange rate discrepancy.

In addition to the above the following Directors or former Directors held options under the Astra Shareholder Value Incentive Plan which were converted into options over AstraZeneca shares on completion of the merger based on an exchange ratio of 0.5045 AstraZeneca options for each Astra option held. No further options have been or will be granted under the scheme:

Håkan Mogren	At 1 Jan 2002	37,480	359SEK		06.04.99	23.01.06
	Sold	12,400	298.28SEK	345SEK	06.04.99	03.01.03
	At 31 Dec 2002	25,080	389.68SEK		06.04.99	23.01.06
Åke Stavling	At 1 Jan 2002	16,193	369SEK		06.04.99	23.01.06
	Sold	3,655	298.28SEK	533SEK	06.04.99	03.01.03
	Sold	4,395	316.13SEK	533SEK	06.04.99	09.01.04
	At 31 Dec 2002	8,143	429.38SEK		06.04.99	23.01.06
Claes Wilhelmsson	At 1 Jan 2002	17,168	365SEK		06.04.99	23.01.06
	Sold	4,630	298.28SEK	518SEK	06.04.99	03.01.03
	Sold	4,395	316.13SEK	518SEK	06.04.99	09.01.04
	At 30 Jun 2002	8,143	429.38SEK		06.04.99	23.01.06

The aggregate amount of gains made by Directors on the exercise of share options during the year amounted to \$0.4 million (2001 \$0.02 million, 2000 \$0.8 million) and the gains made by the highest paid Director were \$nil (2001 \$13,000, 2000 \$nil). The market price of shares trading on the London Stock Exchange at 31 December 2002 was 2220 pence and the range during 2002 was 1799 pence to 3625 pence. The market price of shares trading on the Stockholm Stock Exchange at 31 December 2002 was 306SEK and the range during 2002 was 255SEK to 541SEK. The Register of Directors' Interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe for Ordinary Shares.



On behalf of the Board  
GHR Musker  
Group Secretary and Solicitor  
30 January 2003

# AstraZeneca Financial Statements

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## Preparation of the Financial Statements and Directors' Responsibilities

The Directors are required by UK company law to prepare for each accounting period financial statements which give a true and fair view of the state of affairs of the Group and the Company as at the end of the accounting period and of the profit or loss for that period. In preparing the financial statements, the Directors are required to select and apply consistently suitable accounting policies and make reasonable and prudent judgements and estimates. Applicable accounting standards also have to be followed and a statement made to that effect in the financial statements, subject to any material departures being disclosed and explained in the notes to the financial statements. The Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business. The Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and prevent and detect fraud and other irregularities.

## Independent Auditor's Report to the Members of AstraZeneca PLC

We have audited the Financial Statements on pages 58 to 122. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditor

The Directors are responsible for preparing the Annual Report and Form 20-F and the Directors' Remuneration Report. As described on page 56 this includes responsibility for preparing the Financial Statements in accordance with applicable UK law and accounting standards; the Directors have also presented additional information under US requirements. Our responsibilities, as independent auditor, are established in the UK by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 46 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and Form 20-F, including the corporate governance statement and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

### Opinion

In our opinion

- > the Financial Statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- > the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

30 January 2003

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
8 Salisbury Square  
London EC4Y 8BB

*The above opinion is provided in compliance with UK requirements. An opinion complying with auditing standards generally accepted in the US will be included in the Annual Report on Form 20-F filed with the US Securities and Exchange Commission.*

*Generally accepted accounting principles in the UK vary in certain significant respects from generally accepted accounting principles in the US. Application of generally accepted accounting principles in the US would have affected results of operations for each of the years in the three-year period ended 31 December 2002 and consolidated shareholders' equity at 31 December 2002 and 2001, to the extent summarised on pages 113 to 122.*

## Group Profit and Loss Account for the year ended 31 December

	Notes	Continuing operations \$m	Exceptional items \$m	2002 Total \$m
Turnover: Group and share of joint ventures		18,032	–	18,032
Less: Share of joint venture turnover		(191)	–	(191)
Group turnover	3	17,841	–	17,841
Operating costs	3	(13,728)	(350)	(14,078)
Other operating income	3	243	–	243
<b>Group operating profit</b>	3	4,356	(350)	4,006
Share of operating (loss) of joint ventures and associates	4	–	–	–
Profits less losses on sale, closure, or demerger of operations	5	–	–	–
Profits on sale of fixed assets	5	–	–	–
Dividend income		1	–	1
<b>Profit on ordinary activities before interest</b>		4,357	(350)	4,007
Net interest	6	30	–	30
<b>Profit on ordinary activities before taxation</b>		4,387	(350)	4,037
Taxation	7	(1,177)	–	(1,177)
<b>Profit on ordinary activities after taxation</b>		3,210	(350)	2,860
Attributable to minorities		(24)	–	(24)
<b>Net profit for the financial year</b>		3,186	(350)	2,836
Dividends to shareholders				
Cash	8			(1,206)
Dividend in specie – demerger of Zeneca Agrochemicals	8			–
<b>Profit/(loss) retained for the financial year</b>				1,630
Earnings per \$0.25 Ordinary Share before exceptional items	9	\$1.84	–	\$1.84
Earnings per \$0.25 Ordinary Share (basic)	9	\$1.84	(\$0.20)	\$1.64
Earnings per \$0.25 Ordinary Share (diluted)	9	\$1.84	(\$0.20)	\$1.64
Weighted average number of Ordinary Shares in issue (millions)	9			1,733

## Group Statement of Total Recognised Gains and Losses for the year ended 31 December

	Notes	2002 \$m
<b>Net profit for the financial year</b>		2,836
Exchange adjustments on net assets	22	1,106
Translation differences on foreign currency borrowings	22	6
Tax on translation differences on foreign currency borrowings	22	(2)
<b>Total recognised gains and losses relating to the financial year</b>		3,946
Prior year adjustment (page 62)		(200)
<b>Total recognised gains and losses since the last annual report</b>		3,746

\$m means millions of US dollars

Continuing operations (restated) \$m	Exceptional items (restated) \$m	2001 Total (restated) \$m	Continuing operations (restated) \$m	Discontinued operations (restated) \$m	Exceptional items (restated) \$m	2000 Total (restated) \$m
16,405	-	16,405	15,778	2,299	-	18,077
(183)	-	(183)	(195)	-	-	(195)
16,222	-	16,222	15,583	2,299	-	17,882
(12,434)	(202)	(12,636)	(11,822)	(1,996)	(322)	(14,140)
368	-	368	223	43	-	266
4,156	(202)	3,954	3,984	346	(322)	4,008
-	-	-	(12)	-	(137)	(149)
-	-	-	-	-	(150)	(150)
-	10	10	-	-	-	-
8	-	8	3	-	-	3
4,164	(192)	3,972	3,975	346	(609)	3,712
105	-	105	135	-	-	135
4,269	(192)	4,077	4,110	346	(609)	3,847
(1,214)	54	(1,160)	(1,453)	(135)	28	(1,560)
3,055	(138)	2,917	2,657	211	(581)	2,287
(11)	-	(11)	(9)	(1)	-	(10)
3,044	(138)	2,906	2,648	210	(581)	2,277
		(1,225)				(1,236)
		-				(1,669)
		1,681				(628)
\$1.73	-	\$1.73	\$1.50	\$0.12	-	\$1.62
\$1.73	(\$0.08)	\$1.65	\$1.50	\$0.12	(\$0.32)	\$1.30
\$1.73	(\$0.08)	\$1.65	\$1.50	\$0.12	(\$0.32)	\$1.30
		1,758				1,768
		2001 (restated) \$m				2000 (restated) \$m
		2,906				2,277
		(502)				(870)
		18				154
		(6)				(42)
		2,416				1,519

# Group Balance Sheet at 31 December

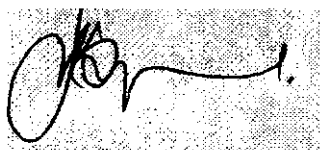
	Notes	2002 \$m	2001 (restated) \$m
<b>Fixed assets</b>			
Tangible fixed assets	11	6,597	5,409
Goodwill and intangible assets	12	2,807	2,700
Fixed asset investments	13	46	23
		9,450	8,132
<b>Current assets</b>			
Stocks	14	2,593	2,402
Debtors	15	4,845	4,139
Short term investments	16	3,962	3,118
Cash	30	726	705
		12,126	10,364
<b>Total assets</b>		<b>21,576</b>	<b>18,496</b>
<b>Creditors due within one year</b>			
Short term borrowings	17	(202)	(214)
Current instalments of loans	19	(314)	(107)
Other creditors	18	(7,699)	(6,159)
		(8,215)	(6,480)
<b>Net current assets</b>		<b>3,911</b>	<b>3,884</b>
<b>Total assets less current liabilities</b>		<b>13,361</b>	<b>12,016</b>
<b>Creditors due after more than one year</b>			
Loans	19	(328)	(635)
Other creditors	18	(34)	(152)
		(362)	(787)
<b>Provisions for liabilities and charges</b>	21	(1,773)	(1,600)
<b>Net assets</b>		<b>11,226</b>	<b>9,629</b>
<b>Capital and reserves</b>			
Called-up share capital	38	429	436
Share premium account	23	403	334
Capital redemption reserve	23	16	9
Merger reserve	23	433	433
Other reserves	23	1,440	1,470
Profit and loss account	23	8,451	6,904
<b>Shareholders' funds – equity interests</b>	22	<b>11,172</b>	<b>9,586</b>
<b>Minority equity interests</b>		<b>54</b>	<b>43</b>
<b>Shareholders' funds and minority interests</b>		<b>11,226</b>	<b>9,629</b>

The Financial Statements on pages 58 to 122 were approved by the Board of Directors on 30 January 2003 and were signed on its behalf by:

Sir Tom McKillop  
Director



Jonathan Symonds  
Director



# Statement of Group Cash Flow for the year ended 31 December

	Notes	2002 \$m	2001 \$m	2000 \$m
<b>Cash flow from operating activities</b>				
Net cash inflow from trading operations	24	5,686	4,130	4,992
Outflow related to exceptional items	25	(93)	(368)	(809)
<b>Net cash inflow from operating activities</b>		<b>5,593</b>	<b>3,762</b>	<b>4,183</b>
<b>Dividends received from joint ventures</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Returns on investments and servicing of finance</b>				
Interest received		142	232	180
Interest paid		(96)	(84)	(145)
Dividends received		-	8	-
Dividends paid by subsidiaries to minority interests		(11)	-	(16)
		35	156	19
<b>Tax paid</b>		<b>(795)</b>	<b>(792)</b>	<b>(648)</b>
<b>Capital expenditure and financial investment</b>				
Cash expenditure on tangible fixed assets	11	(1,340)	(1,385)	(1,347)
Cash expenditure on intangible assets and goodwill		(268)	(197)	(113)
Cash expenditure on fixed asset investments		(1)	(5)	(3)
Disposals of fixed assets		66	44	37
		(1,543)	(1,543)	(1,426)
<b>Acquisitions and disposals</b>				
Acquisitions of subsidiaries and purchases of minority interests	26	-	(44)	(167)
Net repayment of debt by Zeneca Agrochemicals	27	-	-	909
Disposals of business operations	28	-	-	-
Disposals of investments in joint ventures and associates		-	-	(2)
		-	(44)	740
<b>Equity dividends paid to Shareholders</b>		<b>(1,234)</b>	<b>(1,236)</b>	<b>(1,220)</b>
<b>Net cash inflow before management of liquid resources and financing</b>	30	<b>2,056</b>	<b>303</b>	<b>1,648</b>
<b>Management of liquid resources and financing</b>				
Movement in short term investments and fixed deposits (net)		(806)	260	(608)
Financing	31	(118)	35	(66)
Net share re-purchases		(1,154)	(994)	(334)
<b>(Decrease)/increase in cash in the year</b>	29	<b>(22)</b>	<b>(396)</b>	<b>640</b>

## Basis of Consolidation and Presentation of Financial Information

The preparation of the Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As part of AstraZeneca's objective to align with accounting best practice, cash discounts arising from prompt payment of invoices have been reclassified from cost of sales to sales. Comparatives have also been reclassified for consistency of presentation. Both sales and cost of sales have been reduced by \$287m in the current year (2001 \$258m, 2000 \$221m). The change has minimal impact on previously stated sales growth rates. Furthermore, neither profits nor net assets have been affected.

### Discontinued operations

Following the demerger of the Zeneca Agrochemicals business on 13 November 2000 and its subsequent merger with Novartis' agribusiness to form Syngenta AG, Zeneca Agrochemicals' results have been reported as discontinued operations.

### New accounting standards

The following new accounting standard was adopted during the year:

UK Financial Reporting Standard 19 (FRS 19) – 'Deferred Tax' is applicable for accounting periods ending on or after 23 January 2002. It requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the Financial Statements and their recognition in a tax computation except for certain exemptions set out in the standard. The impact of adoption in the year ended 31 December 2002 has been to reduce net profit by \$19m. Compliance with FRS 19 at 31 December 2001 reduced net assets by \$193m, being an increase in assets of \$511m and an increase in liabilities of \$704m. The net profit for the year ended 31 December 2001 decreased by \$61m (2000 \$261m), resulting in an effective tax rate of 28.5% (2000 40.6%) compared with the previously reported 27% (2000 33.8%). The adjustments did not change the tax effects on exceptional items. Basic earnings per share for the year ended 31 December 2001 have been restated from \$1.69 to \$1.65 (2000 \$1.44 to \$1.30) whilst earnings per share before exceptional items

have fallen from \$1.77 to \$1.73 (2000 \$1.76 to \$1.62). Comparative periods have been restated.

In addition, the following new accounting standard had been issued but has not yet been fully adopted:

UK Financial Reporting Standard 17 (FRS 17) – 'Retirement Benefits' becomes fully effective for accounting periods beginning on or after 1 January 2005, with increasing levels of disclosure required for each accounting period ending on or after 22 June 2001. It sets out the requirements for accounting for retirement benefits, including the fair value of assets and liabilities arising from employers' obligations, the treatment of related costs and level of disclosure. AstraZeneca has adopted FRS 17 to the extent of the mandated disclosure requirements for the year ended 31 December 2002 and these are included in Note 32 to the Financial Statements.

# Accounting Policies

## Basis of accounting

The Financial Statements are prepared under the historical cost convention, modified to include the revaluation to market value of certain current asset investments held by Group subsidiaries as described below, in accordance with the Companies Act 1985 and UK generally accepted accounting principles (UK GAAP). Where there are significant differences to US GAAP these have been described in the US GAAP section on pages 113 to 122. The following paragraphs describe the main accounting policies under UK GAAP. The accounting policies of some overseas subsidiaries and associated undertakings do not conform with UK GAAP and, where appropriate, adjustments are made on consolidation in order to present the Group Financial Statements on a consistent basis.

On 13 November 2000, AstraZeneca demerged Zeneca Agrochemicals, which was merged with the Novartis agribusiness to form Syngenta AG. The impact of the demerger on the AstraZeneca Financial Statements for the year ended 31 December 2000 is shown in Note 27.

## Critical accounting policies

AstraZeneca's management considers the following to be the most important accounting policies in the context of the Group's operations. The impact of these policies and management judgements made when applying them are discussed in the Financial Review.

## Turnover

Turnover excludes intercompany turnover and value added taxes and represents net invoice value less estimated rebates, returns and settlement discounts. Revenue is recognised at the point at which title passes.

## Research and development

Research and development expenditure is charged to profit in the year in which it is incurred.

## Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets. Goodwill arising on acquisitions since 1998 is capitalised and amortised over its estimated useful life (generally not exceeding 20 years). Goodwill is reviewed for impairment when there are indications that the carrying value may not be recoverable. The Group's policy

up to and including 1997 was to eliminate goodwill arising upon acquisitions against reserves. Such goodwill will remain eliminated against reserves until disposal or termination of the previously acquired business (including the planned disposal or termination when there are indications that the value of the goodwill has been permanently impaired), when the profit or loss on disposal or termination will be calculated after charging the gross amount, at current exchange rates, of any such goodwill.

## Post-retirement benefits

The pension costs relating to UK retirement plans are assessed in accordance with the advice of independent qualified actuaries. The amounts so determined include the regular cost of providing the benefits under the plans which it is intended should remain as a level percentage of current and expected future earnings of the employees covered under the plans. Variations from the regular pension cost are spread on a systematic basis over the estimated average remaining service lives of current employees in the plans. Retirement plans of non-UK subsidiaries are accounted for in accordance with local conditions and practice. With minor exceptions, these subsidiaries recognise the expected cost of providing pensions on a systematic basis over the average remaining service lives of employees in accordance with the advice of independent qualified actuaries. The costs of providing post-retirement benefits other than pensions, principally healthcare, are charged to the profit and loss account on a consistent basis over the average service lives of employees. Such costs are assessed in accordance with the advice of independent qualified actuaries. AstraZeneca has adopted the disclosure requirements of FRS 17.

## Other accounting policies

### Foreign currencies

Profit and loss accounts in foreign currencies are translated into US dollars at average rates for the relevant accounting periods. Assets and liabilities are translated at exchange rates prevailing at the date of the Group balance sheet.

Exchange gains and losses on short term foreign currency borrowings and deposits are included within net interest payable. Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating profit. In the consolidated Financial Statements exchange differences arising on consolidation of the net investments in overseas subsidiaries, joint

ventures and associates together with those on relevant foreign currency loans are taken directly to reserves via the statement of total recognised gains and losses.

## Taxation

The charge for taxation is based on the profits for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes. Full provision is made for the tax effects of these differences. No provision is made for unremitted earnings of foreign subsidiaries where there is no commitment to remit such earnings, nor is provision made for rolled over capital gains. The deferred tax balances are not discounted.

## Fixed assets, depreciation and amortisation

AstraZeneca's policy is to write off the difference between the cost of each tangible fixed asset and its residual value evenly over its estimated remaining life. Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Under this policy it becomes impracticable to calculate average asset lives exactly. However, the total lives range from approximately 13 to 50 years for buildings, and 3 to 15 years for plant and equipment. Intangible assets, including patents acquired, are capitalised and amortised over their estimated useful lives (generally not exceeding 20 years), in line with the benefits accruing. If related products fail, the remaining unamortised amounts are immediately written off to revenue expense. Finance costs and internally developed intangible assets are not capitalised. All fixed assets are reviewed for impairment when there are indications that the carrying value may not be recoverable.

## Leases

Assets held under finance leases are capitalised and included in tangible fixed assets at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. The obligations related to finance leases, net of finance charges in respect of future periods, are included, as appropriate, under creditors due within, or creditors due after, one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are

## Accounting Policies continued

charged to the profit and loss account as incurred.

### Investments

An associate is an undertaking, not being a subsidiary or joint venture, in which AstraZeneca has a participating interest and over whose commercial and financial policy decisions AstraZeneca exercises significant influence.

A joint venture is an entity in which AstraZeneca holds an interest on a long term basis and which is jointly controlled by AstraZeneca and one or more other venturers under a contractual arrangement.

AstraZeneca's share of the profits less losses of all significant joint ventures and associates is included in the Group profit and loss account on the equity accounting basis or, in the case of joint ventures, the gross equity accounting basis. The holding value of significant associates and joint ventures in the Group balance sheet is calculated by reference to AstraZeneca's equity in the net assets of such associates and joint ventures, as shown by the most recent accounts available, adjusted where appropriate and including goodwill on acquisitions made since 1 January 1998.

Fixed asset investments are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Current asset investments held by the Group's insurance company subsidiaries, to the extent that they are actively matched against insurance liabilities, are valued at market value and unrealised gains and losses are taken directly to reserves via the statement of total recognised gains and losses. Realised gains and losses are taken to the profit and loss account.

### Contingent liabilities

Through the normal course of business, AstraZeneca is involved in legal disputes the settlement of which may involve cost to the Group. Provision is made where the outcome and associated costs can be estimated reliably.

AstraZeneca is exposed to environmental liabilities relating to its past operations, principally in respect of soil and groundwater remediation costs. Provisions for these costs are made when there is a present obligation, it is probable that expenditure on remedial work will be required and a reliable estimate can be made of the cost.

### Stock valuation

Finished goods are stated at the lower of cost or net realisable value and raw materials and other stocks at the lower of cost or replacement price. The first in, first out or an average method of valuation is used. In determining cost, depreciation is included but selling expenses and certain overhead expenses (principally central administration costs) are excluded. Net realisable value is determined as estimated selling price less costs of disposal.

### Principal financial instruments

Forward foreign exchange contracts for existing transactions are revalued to year end spot rates and the gains/losses arising are recognised in the Group profit and loss account. Interest differentials are amortised on a straight line basis over the life of the contract.

The gains/losses on forward foreign exchange contracts and currency option contracts hedging anticipated exposures are deferred until the date the underlying transaction being hedged is completed.

Interest rate swaps are accounted for on an accruals basis. Cross-currency swaps are translated at year end exchange rates; gains/losses arising are included in the measurement of the related liabilities and dealt with in the Group profit and loss account or reserves as appropriate.

# Notes to the Financial Statements

## **1 Composition of the Group**

The Group Financial Statements consolidate the financial statements of AstraZeneca PLC and its subsidiaries, of which there were 235, at 31 December 2002. Owing to local conditions and to avoid undue delay in the presentation of the Group Financial Statements, Salick Health Care prepares its financial statements to 30 November.

## **2 Note of historical cost profits and losses**

There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before taxation.

## Notes to the Financial Statements continued

**3 Group operating profit**

	Continuing operations		2002
	Pre exceptional items	Exceptional items	Total
	\$m	\$m	\$m
<b>Group turnover</b>	17,841	–	17,841
<b>Operating costs</b>			
Cost of sales	(4,520)	–	(4,520)
Distribution costs	(141)	–	(141)
Research and development	(3,069)	–	(3,069)
Selling, general and administrative expenses	(5,998)	(350)	(6,348)
	(13,728)	(350)	(14,078)
<b>Other operating income</b>			
Royalties	113	–	113
Other income	130	–	130
	243	–	243
Other income includes gains arising from disposals under ongoing product rationalisation programmes.			
<b>Group operating profit</b>	4,356	(350)	4,006
<b>Charges included above</b>			
– for depreciation	(705)	–	(705)
– for amortisation	(255)	–	(255)
– for impairment	–	–	–
<b>Gross profit, as defined by the Companies Act 1985</b>	13,321	–	13,321

**4 Share of operating profits/(losses) of joint ventures and associates**

	Continuing operations		2002
	Pre exceptional items	Exceptional items	Total
	\$m	\$m	\$m
Share of operating (loss)/profit of joint ventures	–	–	–
Share of operating profit of associates	–	–	–
	–	–	–

Continuing operations			Continuing operations			Discontinued operations		
Pre exceptional items (reclassified) \$m	Exceptional items (reclassified) \$m	2001 Total (reclassified) \$m	Pre exceptional items (reclassified) \$m	Exceptional items (reclassified) \$m		Pre exceptional items (reclassified) \$m	Exceptional items (reclassified) \$m	2000 Total (reclassified) \$m
16,222	-	16,222	15,583	-		2,299	-	17,882
(4,198)	(34)	(4,232)	(3,960)	(11)		(1,299)	-	(5,270)
(122)	-	(122)	(210)	-		(76)	-	(286)
(2,687)	(86)	(2,773)	(2,620)	(51)		(222)	-	(2,893)
(5,427)	(82)	(5,509)	(5,032)	(260)		(399)	-	(5,691)
(12,434)	(202)	(12,636)	(11,822)	(322)		(1,996)	-	(14,140)
154	-	154	160	-		33	-	193
214	-	214	63	-		10	-	73
368	-	368	223	-		43	-	266
4,156	(202)	3,954	3,984	(322)		346	-	4,008
(605)	(12)	(617)	(585)	-		(102)	-	(687)
(255)	-	(255)	(281)	-		(14)	-	(295)
-	-	-	(6)	(18)		-	-	(24)
12,024	(34)	11,990	11,623	(11)		1,000	-	12,612

Continuing operations			Continuing operations			Discontinued operations		
Pre exceptional items \$m	Exceptional items \$m	2001 Total \$m	Pre exceptional items \$m	Exceptional items \$m		Pre exceptional items \$m	Exceptional items \$m	2000 Total \$m
-	-	-	(12)	(137)		-	-	(149)
-	-	-	-	-		-	-	-
-	-	-	(12)	(137)		-	-	(149)

## Notes to the Financial Statements continued

5 Exceptional items	2002 \$m	2001 \$m	2000 \$m
Accrual related to Zoladex investigation	(350)	-	-
Integration and synergy costs	-	(202)	(322)
<b>Exceptional items included in operating profits</b>	<b>(350)</b>	<b>(202)</b>	<b>(322)</b>
Continuing operations			
Provision of impairment of investment in Advanta BV (after charging \$49m of goodwill previously written off to reserves)	-	-	(137)
<b>Share of operating losses of joint ventures and associates</b>	<b>-</b>	<b>-</b>	<b>(137)</b>
Discontinued operations			
Costs related to the demerger of Zeneca Agrochemicals and formation of Syngenta AG	-	-	(150)
<b>Profits less losses on sale, closure, or demerger of operations</b>	<b>-</b>	<b>-</b>	<b>(150)</b>
<b>Profit on sale of fixed assets</b>	<b>-</b>	<b>10</b>	<b>-</b>
<b>Total exceptional items before taxation</b>	<b>(350)</b>	<b>(192)</b>	<b>(609)</b>
Net taxation credit	-	54	28
<b>Total exceptional items after taxation</b>	<b>(350)</b>	<b>(138)</b>	<b>(581)</b>

The US Department of Justice has been conducting an investigation into the sale and marketing of Zoladex (goserelin acetate implant). This investigation was prompted by the filing of a *qui tam* complaint by a private party in 1997 and involves allegations of improper submissions of claims to the Medicare and Medicaid programmes. The Company and federal and state authorities are in the process of negotiating a potential settlement of the civil and criminal claims at issue in the investigation. As a result, although no final agreement has been concluded, the Company believes it appropriate to accrue \$350m to cover estimated settlement costs.

The integration and synergy programme initiated in 1999 was completed during 2001, with further exceptional charges of \$202m (2000 \$322m), principally for manpower related costs, IT costs, and contractors. The cumulative charges were \$1,388m.

The Group took an exceptional charge of \$137m in 2000 to provide for impairment of its 50% interest in the seeds company Advanta BV, including a write off of \$49m of related goodwill previously taken to reserves.

The costs related to the demerger of Zeneca Agrochemicals and formation of Syngenta AG included advisors' fees, the costs of separating computer systems, employee related costs and environmental and occupational health provisions. The exceptional charge was reduced by the gain on disposal of products whose sale was required by the competition authorities as a condition of the creation of Syngenta AG. Tax relief on the net exceptional costs was more than offset by the provision for capital taxes arising out of the restructuring of the business in preparation for demerger, resulting in a net tax cost of \$50m.

6 Net interest	2002 \$m	2001 \$m	2000 \$m
<b>Interest receivable and similar income from investments</b>			
Securities	21	19	30
Short term deposits	90	179	192
Exchange gain	6	1	46
Joint ventures	-	-	1
	117	199	269
<b>Interest payable and similar charges</b>			
Loan interest	(10)	(32)	(50)
Interest on short term borrowings and other financing costs	(51)	(35)	(62)
Discount on liability	(10)	(15)	(19)
Exchange losses	(16)	(12)	-
Joint ventures	-	-	(3)
	(87)	(94)	(134)
<b>Net interest receivable</b>	<b>30</b>	<b>105</b>	<b>135</b>

The discounting charge above relates to amounts owed in respect of the re-acquisition of certain distribution rights, the final instalment of which is payable in 2003. In prior years, all interest has been classified within continuing operations as the management of the Group's liquidity and funding is carried out by the central treasury function and it is not practicable to allocate interest to the different reporting segments.

## Notes to the Financial Statements continued

**7 Taxation**

Profit on ordinary activities before taxation, as shown in the Group profit and loss account, was as follows:

	2002 \$m	2001 (restated) \$m	2000 (restated) \$m
UK	741	618	808
Overseas	3,296	3,459	3,039
	4,037	4,077	3,847

Taxes on profit on ordinary activities were as follows:

UK taxation			
Corporation tax	165	147	130
Double taxation relief	(29)	(37)	(42)
Deferred taxation	24	53	(3)
	160	163	85
Overseas taxation			
Overseas taxes	929	739	1,066
Adjustments in respect of prior periods	(51)	(17)	4
Deferred taxation	139	275	402
	1,017	997	1,472
Share of taxation of joint ventures and associates	-	-	3
<b>Tax on profit on ordinary activities</b>	<b>1,177</b>	<b>1,160</b>	<b>1,560</b>

In prior years, the charge for taxation has been allocated between continuing operations and discontinued operations based on the effective tax rates for the Group in the territories in which these operations are based.

UK and overseas taxation has been provided at current rates on the profits earned for the periods covered by the Group financial statements. To the extent that dividends remitted from overseas subsidiaries, joint ventures and associates are expected to result in additional taxes, appropriate amounts have been provided. No deferred tax has been provided for unremitted earnings of Group companies overseas as these are, in the main, considered permanently employed in the businesses of these companies and, in the case of joint ventures and associates, the taxes would not be material. Cumulative unremitted earnings of overseas subsidiaries and related undertakings totalled approximately \$9,141m at 31 December 2002. Unremitted earnings may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends.

Exceptional items included in tax on ordinary activities

	2002 \$m	2001 \$m	2000 \$m
Tax credit on exceptional items*	-	(54)	(28)

\* Includes deferred tax relief of \$nil (2001 \$23m, 2000 \$66m).

**Statement of total recognised gains and losses**

In certain circumstances, tax charges or credits on currency differences on borrowings are taken to reserves via the statement of total recognised gains and losses. The tax charge on such currency translation differences amounted to \$2m in 2002 (2001 \$6m, 2000 \$42m), and has been reported in the statement of total recognised gains and losses.

**Factors affecting future tax charges**

As a group involved in worldwide operations, AstraZeneca is subject to several factors that may affect future tax charges, principally the levels and mix of profitability in different jurisdictions, transfer pricing policies and tax levels imposed.

**7 Taxation (continued)****Tax reconciliation to UK statutory rate**

The table shown below reconciles the UK statutory tax charge to the Group's current tax charge on profit on ordinary activities before taxation.

	2002 \$m	2001 (restated) \$m	2000 (restated) \$m
Profit on ordinary activities before taxation	4,037	4,077	3,847
Notional taxation charge at UK corporation tax rate of 30% (30% for 2001, 30% for 2000)	1,211	1,223	1,154
Differences in effective overseas tax rates	141	108	215
Capital allowances/tax reliefs in excess of depreciation	(291)	(401)	(235)
Other timing differences	(40)	(99)	(134)
Items not deductible for tax purposes	49	48	37
Items not chargeable for tax purposes	(110)	(58)	(54)
Adjustments in respect of prior periods	(51)	(17)	4
Exceptional items	105	28	171
Current ordinary tax charge for the year	1,014	832	1,158
<b>Balance sheet</b>	<b>2002 \$m</b>	<b>2001 \$m</b>	<b>2000 \$m</b>
<b>Deferred taxation (liability)/asset movement</b>			
At beginning of year	(212)	96	369
Prior year adjustment (page 62)	-	-	(33)
	(212)	96	336
Profit and loss account	(163)	(328)	(399)
Statement of total recognised gains and losses	155	(19)	83
Exchange	(139)	39	76
At end of year	(359)	(212)	96
Debtors – amount due within one year (Note 15)	625	550	541
Debtors – amount due after more than one year (Note 15)	226	146	189
Provisions (Note 21)	(1,210)	(908)	(634)
	(359)	(212)	96

## Notes to the Financial Statements continued

## 7 Taxation (continued)

**Deferred taxation**

The amounts of deferred taxation accounted for in the Group balance sheet comprised the following deferred tax liabilities and assets:

	2002 \$m	2001 (restated) \$m
<b>Deferred tax liabilities</b>		
UK fixed assets	429	332
Non-UK fixed assets	570	455
Interest accruals	13	72
Untaxed reserves	86	11
Pension and post-retirement benefits	46	-
Other	53	150
	<b>1,197</b>	<b>1,020</b>
<b>Deferred tax assets</b>		
Intercompany inventory transfers	496	413
Merger, integration and restructuring charges	16	121
Accrued expenses	243	161
Pension and post-retirement benefits	26	91
Other	57	22
	<b>838</b>	<b>808</b>
<b>Deferred tax liability</b>	<b>(359)</b>	<b>(212)</b>

No provision has been made, in accordance with FRS19, for rolled over gains amounting to \$126m (2001 \$75m, 2000 \$79m).

**8 Dividends**

	2002 Per Share	2001 Per Share	2000 Per Share	2002 \$m	2001 \$m	2000 \$m
Interim, paid on 7 October 2002	\$0.23	\$0.23	\$0.23	398	405	406
Second interim, to be confirmed as final, payable 7 April 2003	\$0.47	\$0.47	\$0.47	808	820	830
	\$0.70	\$0.70	\$0.70	1,206	1,225	1,236
Dividend in specie – demerger of Zeneca Agrochemicals				–	–	1,669

The demerger of Zeneca Agrochemicals in 2000 was recorded in the Group accounts at the book value of the net assets which were deconsolidated, \$2,059m (net of minority interest), together with \$813m of related goodwill which had previously been written off to reserves, less debt and liabilities assumed by Zeneca Agrochemicals, \$1,203m, giving a dividend in specie of \$1,669m.

**9 Earnings per \$0.25 Ordinary Share**

	2002 \$m	2001 (restated) \$m	2000 (restated) \$m
Net profit for the financial year before exceptional items (\$m)	3,186	3,044	2,858
Exceptional items after tax (\$m) (see Note 5)	(350)	(138)	(581)
Net profit for the financial year (\$m)	2,836	2,906	2,277
Earnings per Ordinary Share before exceptional items (\$)	\$1.84	\$1.73	\$1.62
Loss per Ordinary Share on exceptional items (\$)	(\$0.20)	(\$0.08)	(\$0.32)
Earnings per Ordinary Share (\$)	\$1.64	\$1.65	\$1.30
Diluted earnings per Ordinary Share before exceptional items (\$)	\$1.84	\$1.73	\$1.62
Diluted loss per Ordinary Share on exceptional items (\$)	(\$0.20)	(\$0.08)	(\$0.32)
Diluted earnings per Ordinary Share (\$)	\$1.64	\$1.65	\$1.30
Weighted average number of Ordinary Shares in issue for basic earnings (millions)	1,733	1,758	1,768
Dilutive impact of share options outstanding (millions)	2	3	2
Diluted average number of Ordinary Shares in issue (millions)	1,735	1,761	1,770

There are no options, warrants or rights outstanding in respect of unissued shares except for employee share option schemes. The number of options outstanding and the weighted average exercise price of these options is shown in Note 33. The earnings figures used in the calculations above are unchanged for diluted earnings per Ordinary Share. Earnings per Ordinary Share before exceptional items have been calculated to eliminate the impact of exceptional items on the results of the business.

## Notes to the Financial Statements continued

## 10 Segment information

## Classes of Business

	2002 \$m	2001 (reclassified) \$m	Turnover 2000 (reclassified) \$m
Continuing operations	17,841	16,222	15,583
Discontinued operations – Agrochemicals	–	–	2,299
Group turnover	17,841	16,222	17,882
Share of joint venture turnover	191	183	195
Group turnover and share of joint venture turnover	18,032	16,405	18,077

The Group's policy is to transfer products internally at external market prices.

	2002 \$m	Operating profit after exceptionals 2001 \$m	2000 \$m	2002 \$m	Profit/(loss) before interest and taxation 2001 \$m	2000 \$m
<b>Profit arising in</b>						
Continuing operations	4,006	3,954	3,662	4,007	3,972	3,665
Discontinued operations – Agrochemicals	–	–	346	–	–	196
	4,006	3,954	4,008	4,007	3,972	3,861
Share of operating loss of joint ventures and associates				–	–	(149)
				4,007	3,972	3,712

In prior years, corporate overheads have been allocated to each business segment on a consistent basis. The effect of these allocations was not material.

	2002 \$m	Net assets/(liabilities) 2001 (restated) \$m	2000 (restated) \$m	2002 \$m	Total assets 2001 (restated) \$m	2000 (restated) \$m
Continuing operations	9,868	8,808	7,604	16,212	14,158	13,658
Discontinued operations – Specialties	–	–	(126)	–	–	3
	9,868	8,808	7,478	16,212	14,158	13,661
Intra-Group eliminations	–	–	–	–	–	(12)
Non-operating assets*	1,358	821	1,938	5,364	4,338	5,208
Investments in joint ventures and associates	–	–	–	–	–	–
	11,226	9,629	9,416	21,576	18,496	18,857

\* Non-operating assets include short term investments and cash, short term borrowings, loans, and non-operating debtors and creditors not attributable to individual business segments.

	2002 \$m	Capital expenditure** 2001 \$m	2000 \$m	2002 \$m	Depreciation, amortisation and impairment 2001 \$m	2000 \$m
Continuing operations	1,463	1,501	1,248	960	872	890
Discontinued operations – Agrochemicals	–	–	153	–	–	121
	1,463	1,501	1,401	960	872	1,011

\*\* Capital expenditure includes expenditure on goodwill and intangible assets.

**10 Segment information (continued)****Geographic areas**

The tables below show information by geographic area and, for turnover and tangible fixed assets, material countries. The figures for each area show the turnover, operating profit and profit on ordinary activities before interest and taxation made by companies located in that area/country, together with net operating assets and tangible fixed assets owned by the same companies; export sales and the related profit are included in the areas from which those sales were made.

	2002 \$m	2001 (reclassified) \$m	Turnover 2000 (reclassified) \$m
<b>UK</b>			
External	872	954	989
Intra-Group	3,092	2,449	2,155
	<b>3,964</b>	<b>3,403</b>	<b>3,144</b>
<b>Continental Europe</b>			
France	1,111	928	861
Germany	682	666	767
Italy	676	576	532
Netherlands	226	307	297
Spain	461	352	402
Sweden	619	559	601
Others	1,253	1,091	891
Intra-Group	1,646	1,494	1,371
	<b>6,674</b>	<b>5,973</b>	<b>5,722</b>
<b>The Americas</b>			
Canada	570	525	479
United States	9,325	8,465	7,935
North America	9,895	8,990	8,414
Brazil	97	102	133
Others	237	213	185
Intra-Group	235	223	183
	<b>10,464</b>	<b>9,528</b>	<b>8,915</b>
<b>Asia, Africa &amp; Australasia</b>			
Japan	960	830	813
Others	752	654	698
Intra-Group	30	160	177
	<b>1,742</b>	<b>1,644</b>	<b>1,688</b>
Continuing operations	<b>22,844</b>	<b>20,548</b>	<b>19,469</b>
Discontinued operations – Agrochemicals	–	–	3,396
	<b>22,844</b>	<b>20,548</b>	<b>22,865</b>
Intra-Group eliminations	(5,003)	(4,326)	(4,983)
	<b>17,841</b>	<b>16,222</b>	<b>17,882</b>

Export sales from the UK totalled \$3,368m for the year ended 31 December 2002 (2001 \$2,664m, 2000 \$3,429m).

## Notes to the Financial Statements continued

## 10 Segment information (continued)

Profit from	Operating profit after exceptional items			Profit on ordinary activities before interest and taxation		
	2002 \$m	2001 \$m	2000 \$m	2002 \$m	2001 \$m	2000 \$m
UK	672	520	666	673	523	661
Continental Europe	1,689	1,400	1,084	1,689	1,405	943
The Americas	1,473	1,904	1,740	1,473	1,914	1,740
Asia, Africa & Australasia	172	130	172	172	130	172
Continuing operations	4,006	3,954	3,662	4,007	3,972	3,516
Discontinued operations – Agrochemicals	–	–	346	–	–	196
	4,006	3,954	4,008	4,007	3,972	3,712

	Net operating assets		
	2002 \$m	2001 \$m	2000 \$m
UK	3,101	2,558	2,037
Continental Europe	4,805	4,940	4,649
The Americas	1,004	614	184
Asia, Africa & Australasia	958	696	734
Continuing operations	9,868	8,808	7,604
Discontinued operations – Specialties	–	–	(126)
	9,868	8,808	7,478

	Tangible fixed assets		
	2002 \$m	2001 \$m	2000 \$m
UK	2,319	1,881	1,631
Sweden	1,626	1,251	1,327
US	1,031	895	818
Others	1,621	1,382	1,181
Continuing operations	6,597	5,409	4,957
	6,597	5,409	4,957

Employees	2002	2001	2000
Average number of people employed by the Group in UK	10,700	10,200	10,000
Continental Europe	22,600	19,900	20,400
The Americas	17,800	16,700	14,200
Asia, Africa & Australasia	6,400	5,800	5,500
Continuing operations	57,500	52,600	50,100
Discontinued operations – Agrochemicals	–	–	6,900
	57,500	52,600	57,000

The number of people employed by the Group at the end of 2002 was 58,700 (2001 54,600, 2000 52,300).

**10 Segment information (continued)**

	2002 \$m	2001 (reclassified) \$m	2000 (reclassified) \$m
<b>Geographic markets</b>			
Turnover in each geographic market in which customers located			
UK	623	759	787
Continental Europe	5,072	4,477	4,359
The Americas	10,287	9,353	8,799
Asia, Africa & Australasia	1,859	1,633	1,638
Continuing operations	17,841	16,222	15,583
Discontinued operations – Agrochemicals	-	-	2,299
	17,841	16,222	17,882

## Notes to the Financial Statements continued

**11 Tangible fixed assets**

	Land and buildings \$m	Plant and equipment \$m	Capital expenditure and assets in course of construction \$m	Total tangible assets \$m
<b>Cost</b>				
At beginning of year	2,490	5,295	1,119	8,904
Exchange adjustments	292	612	139	1,043
Capital expenditure	48	212	1,082	1,342
Transfer of assets into use	387	631	(1,018)	-
Disposals and other movements	(72)	(150)	(24)	(246)
At end of year	3,145	6,600	1,298	11,043
<b>Depreciation</b>				
At beginning of year	753	2,742	-	3,495
Exchange adjustments	87	354	-	441
Charge for year	104	601	-	705
Disposals and other movements	(49)	(146)	-	(195)
At end of year	895	3,551	-	4,446
<b>Net book value at 31 December 2002</b>	<b>2,250</b>	<b>3,049</b>	<b>1,298</b>	<b>6,597</b>
Net book value at 31 December 2001	1,737	2,553	1,119	5,409

Capital expenditure in the year of \$1,342m (2001 \$1,393m) did not include any capitalised finance leases (2001 \$nil).

Cash expenditure on tangible fixed assets was \$1,340m (2001 \$1,385m, 2000 \$1,347m).

	2002 \$m	2001 \$m
The net book value of land and buildings comprised		
Freeholds	2,220	1,690
Long leases (over 50 years unexpired)	29	45
Short leases	1	2
	<b>2,250</b>	<b>1,737</b>

**12 Goodwill and intangible assets**

	Goodwill \$m	Intangible assets \$m	Total \$m
<b>Cost</b>			
At beginning of year	1,000	2,727	3,727
Exchange adjustments	85	311	396
Additions	17	104	121
Disposals and other movements	–	(25)	(25)
At end of year	1,102	3,117	4,219
<b>Amortisation</b>			
At beginning of year	166	861	1,027
Exchange adjustments	28	128	156
Charge for year	55	200	255
Disposals and other movements	–	(26)	(26)
At end of year	249	1,163	1,412
<b>Net book value at 31 December 2002</b>	<b>853</b>	<b>1,954</b>	<b>2,807</b>
Net book value at 31 December 2001	834	1,866	2,700

**13 Fixed asset investments**

	Joint ventures \$m	Other investments \$m	Total \$m
<b>Cost</b>			
At beginning of year	134	23	157
Additions	–	25	25
Disposals and other movements, including exchange	–	(2)	(2)
At end of year	134	46	180
<b>Share of post-acquisition reserves</b>			
At beginning and end of year	(134)	–	(134)
<b>Net book value at 31 December 2002</b>	<b>–</b>	<b>46</b>	<b>46</b>
Net book value at 31 December 2001	–	23	23

The fair values of other investments are not materially different from their carrying values. At 31 December 2002, the Company's share ownership trust held 885,425 Ordinary Shares.

**Share of joint venture assets and liabilities**

	2002 \$m	2001 \$m
Gross assets	107	99
Gross liabilities	(107)	(99)
	–	–

## Notes to the Financial Statements continued

**14 Stocks**

	2002 \$m	2001 \$m
Raw materials and consumables	992	796
Stocks in process	1,062	720
Finished goods and goods for resale	539	886
	2,593	2,402

**15 Debtors**

	2002 \$m	2001 (restated) \$m
<b>Amounts due within one year</b>		
Trade debtors	2,701	2,430
Less: Amounts provided for doubtful debts	(56)	(42)
	2,645	2,388
Deferred taxation (Note 7)	625	550
Other debtors	658	641
Prepayments and accrued income*	519	274
	4,447	3,853
<b>Amounts due after more than one year</b>		
Deferred taxation (Note 7)	226	146
Other debtors	16	23
Prepayments and accrued income*	156	117
	398	286
	4,845	4,139

\* Figures include prepaid pension costs (Note 32).

**Provisions for doubtful debts**

	2002 \$m	2001 \$m	2000 \$m
Balance at beginning of year	42	39	118
Profit and loss account charge	11	4	34
Amounts utilised and other movements (incl. Agrochemicals demerger in 2000)	3	(1)	(113)
Balance at end of year	56	42	39

**16 Short term investments**

	2002 \$m	2001 \$m
Listed debt securities	144	288
Other listed investments	46	45
Investment securities	190	333
Fixed deposits	3,772	2,785
	<b>3,962</b>	<b>3,118</b>

The Group's insurance subsidiaries hold cash and short term investments totalling \$173m (2001 \$186m), of which \$120m (2001 \$105m) is required to meet insurance solvency requirements and which, as a result, is not readily available for the general purposes of the Group. In addition, some \$126m (2001 \$236m) of short term investments shown above are committed as security against deferred payments due under a contractual obligation of the Group (see Note 34). The market value of other listed investments was \$137m (2001 \$145m) at the year end.

**17 Short term borrowings**

	2002 \$m	2001 \$m
<b>Bank borrowings</b>		
Fixed securities	11	22
Secured by floating charge	-	8
Unsecured	191	183
	<b>202</b>	<b>213</b>
<b>Other borrowings (unsecured)</b>	-	1
	<b>202</b>	<b>214</b>

## Notes to the Financial Statements continued

**18 Other creditors**

	2002 \$m	2001 \$m
<b>Amounts due within one year</b>		
Trade creditors	3,171	2,385
Corporate taxation	1,191	1,018
Value added and payroll taxes and social security	167	173
Other creditors	1,507	1,219
Accruals	855	544
Dividends to shareholders	808	820
	7,699	6,159
<b>Amounts due after more than one year</b>		
Other creditors	34	152

Included in other creditors are amounts totalling \$189m (2001 \$104m) to meet insurance obligations of the Group's insurance subsidiaries. Also included in other creditors are amounts due within one year in connection with the Group's exceptional charges as detailed in Note 5. The amounts comprise \$350m (2001 \$nil) in respect of the accrual related to the Zoladex investigation in the US, \$36m (2001 \$116m) in respect of synergy and integration costs, \$14m (2001 \$21m) in respect of the Agrochemicals demerger and \$48m (2001 \$64m) in respect of the Specialties disposal and other minor restructurings.

**19 Loans**

	Repayment Dates	2002 \$m	2001 \$m
<b>Secured loans</b>			
Secured by fixed charge	2003/2007	19	48
<b>Total secured</b>		19	48
<b>Unsecured loans</b>			
US dollars			
6.3% Guaranteed notes	2003	284	284
7% Guaranteed debentures	2023	295	295
Others	2003/2013	44	115
<b>Total unsecured</b>		623	694
<b>Total loans</b>		642	742
Less: current instalments of loans		(314)	(107)
<b>Loans due after more than one year</b>		328	635

In the above table loans are shown after taking account of associated cross-currency swaps (see Note 20).

Loans from banks included in the table above amounted to \$61m (2001 \$156m) of which \$40m (2001 \$48m) was secured.

## 20 Financial instruments

A discussion of the Group's objective, policy and strategy in respect of risk management and the use of financial instruments is included in the Financial Review on pages 30 to 43. The following disclosures exclude all short term trade related debtors and creditors.

### Interest rate risks of financial assets and liabilities

The interest rate profile, after taking account of interest and currency swaps, of the financial assets and liabilities of the Group as at 31 December 2002 was:

	Floating rate \$m	Fixed rate \$m	Financial assets/liabilities on which no interest is paid/received \$m	Total \$m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
<b>Financial liabilities</b>						
US dollar	782	8	126	916	12.8	9.6
Sterling	-	-	-	-	-	-
Euro	-	-	-	-	-	-
Other	35	19	-	54	6.3	2.2
	817	27	126	970	-	-
<b>Financial assets</b>						
US dollar	4,354	-	-	4,354	-	-
Euro	71	-	-	71	-	-
Sterling	114	-	46	160	-	-
SEK	33	-	-	33	-	-
Other	70	-	22	92	-	-
	4,642	-	68	4,710	-	-

Financial liabilities on which no interest is paid comprise deferred payments due relating to the reacquisition of certain marketing rights.

The floating rate financial liabilities comprise largely of fixed rate debt that has been swapped into floating rate debt. One long dated \$300m USD bond reverts back to a fixed rate in 2009. The financial liabilities also include \$202m of short term bank borrowings and overdrafts, bearing interest at rates fixed by reference to local interbank rates.

Financial assets on which no interest is received comprise equity investments held by the Group.

The financial assets principally comprise cash on overnight deposit and short term investments with an average maturity of 67 days. These include deposits where the interest rate is fixed until maturity but, as the original maturity is less than one year, they are classified as floating rate financial instruments. The benchmark rates for financial assets are the LIBID rate for euro and US dollar liquidity balances and the average Federal Funds effective rate for US dollar overnight balances. Financial assets include \$46m of other fixed asset investments on which no interest is received.

## Notes to the Financial Statements continued

## 20 Financial instruments (continued)

**Currency exposures**

100% of the Group's transactional currency exposures on working capital balances, which typically extend for up to three months, are hedged using forward foreign exchange contracts. As a result, as at 31 December 2002, there were no material monetary assets or liabilities in currencies other than the functional currencies of the Group companies concerned, having taken into account the effect of forward exchange currency contracts that have been utilised to match foreign currency exposures.

Additionally, approximately 50% of forecast future foreign currency transaction exposures extending for 12 months are selectively hedged. The principal currency exposures (sterling, Swedish kronor, euro, Australian dollars, Canadian dollars and yen) are hedged using a mixture of purchased currency options and forward foreign exchange contracts. As at 31 December 2002 the Group held forward and option contracts to hedge the following forecast foreign currency transaction exposures:

	2002 Hedged amount \$m	2001 Hedged amount \$m
Sterling payables	1,316	1,324
SEK payables	503	401
Euro receivables	713	591
Yen receivables	153	89
AUD receivables	81	73
CAD receivables	168	128

**Maturity of financial liabilities**

The maturity profile of the Group's financial liabilities, other than short term creditors such as trade creditors and accruals, at 31 December 2002 was as follows:

Analysis by year of repayment	Loans \$m	Other \$m	2002 Total \$m	Loans \$m	Other \$m	2001 Total \$m
After five years	308	-	308	314	-	314
From five to four years	13	-	13	14	-	14
From four to three years	-	-	-	9	-	9
From three to two years	-	-	-	7	-	7
From two to one years	7	-	7	291	120	411
Due after more than one year	328	-	328	635	120	755
Due within one year	314	328	642	107	356	463
	642	328	970	742	476	1,218

Other financial liabilities comprise deferred payments to re-acquire certain distribution rights, short term borrowings and finance leases.

**Borrowing facilities**

The Group has various borrowing facilities available to it, the majority of which offer a currency option of US dollars, euros or sterling. Unused short term credit facilities (both committed and uncommitted) totalled approximately \$0.5bn at 31 December 2002. Included in this were undrawn committed facilities in respect of which all conditions precedent had been met at that date as follows:

	2002 \$m	2001 \$m
Expiring in one year or less	75	375
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years	-	-
	75	375

**20 Financial instruments (continued)****Fair values of financial assets and financial liabilities**

Set out below is a comparison by category of carrying values and fair values of all the Group's financial assets and financial liabilities as at 31 December 2002 and 2001.

	2002 Carrying value \$m	2002 Fair value \$m	2001 Carrying value \$m	2001 Fair value \$m
<b>Primary financial instruments</b>				
Short term borrowings	(202)	(202)	(214)	(214)
Loans	(657)	(733)	(759)	(805)
Cash	726	726	705	705
Short term investments	3,962	4,067	3,118	3,192
Fixed asset investments	46	46	23	23
<b>Derivative financial instruments held to manage the interest rate and currency profile</b>				
Cross-currency swaps and interest rate swaps	15	82	17	70
<b>Derivative financial instruments held or issued to hedge the currency exposure on existing transactions</b>				
Forward foreign exchange contracts	(9)	(9)	11	9
Foreign currency option contracts	-	-	1	-
<b>Derivative financial instruments held or issued to hedge the currency exposure on expected future transactions</b>				
Forward foreign exchange contracts	-	-	-	1
Foreign currency option contracts	56	97	82	81

In addition to the primary financial instruments above, the Group has financial liabilities of \$126m comprising deferred payments due (\$129m before discounting). The Group has a standby letter of credit covering these financial liabilities which is collateralised by high grade government securities.

The methods and assumptions used to estimate the fair values of financial instruments are as follows:

- Short term investments – the fair value of listed investments is based on year end quoted market prices. For unlisted investments carrying values approximate fair value.
- Fixed asset investments (excluding equity investments in joint ventures and associates) – the fair value of listed investments is based on year end quoted market prices. For unlisted investments carrying values approximate fair value.
- Loans – the fair value of publicly traded debt is based on year end quoted market prices; the fair value of floating rate debt is nominal value, as market to market differences would be minimal given frequency of resets; the fair value of remaining debt is estimated using appropriate zero coupon valuation techniques based on rates current at year end.
- Forward foreign exchange contracts – the Group has forward foreign exchange contracts to sell currency for the purpose of hedging non-dollar commercial transaction exposures which existed at the date of the balance sheet and to hedge anticipated, but not firmly committed, non-dollar commercial transactions for 2003. The majority of the contracts for existing transactions had a maturity of six months or less from year end. The fair value of forward foreign exchange contracts is based on market forward foreign exchange rates at year end.
- Foreign currency option contracts – the Group has foreign currency option contracts to hedge anticipated, but not firmly committed, non-dollar commercial transactions for 2003. The fair value of option contracts is estimated using Black-Scholes valuation techniques as adapted by Garman and Kohlhagen.

Interest rate and cross-currency swaps – AstraZeneca uses interest rate and cross-currency swaps to hedge the Group's exposure to fluctuations in interest rates and foreign exchange movements on borrowings in accordance with a formal risk management strategy. The fair value is estimated using appropriate zero coupon valuation techniques based on rates current at year end.

## Notes to the Financial Statements continued

**20 Financial instruments (continued)**

The above financial instruments are subject to credit and market risk. AstraZeneca contains credit risk through the use of counterparty and product specific credit limits and by ongoing review procedures. All financial instruments except the letter of credit are transacted with commercial banks and, in line with standard market practice, are not backed with cash collateral. The notional principal values of off balance sheet financial instruments do not represent amounts exchanged by the parties and are not a measure of the credit risk to the Group of these instruments. The credit risk of these instruments is limited to the positive fair values of such contracts.

Market risk is the sensitivity of the value of financial instruments to changes in related currency and interest rates. The Group is not exposed to material market risk because gains and losses on the derivative financial instruments are largely offset by gains and losses on the underlying assets, liabilities and transactions subject to hedge.

**Hedges**

The Group's policy is to hedge 100% of transactional currency exposures and 50% of forecast future transaction exposures using forward foreign exchange contracts and foreign currency option contracts. It also uses cross-currency and interest rate swaps to manage its borrowings' profile.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging are as follows:

	Gains \$m	Losses \$m	Total net gains \$m
Unrecognised gains and losses on hedges at 1 January 2002	54	(4)	50
Gains and losses arising in previous years that were recognised in 2002	31	(4)	27
Gains and losses arising in previous years that were not recognised in 2002	23	-	23
<b>Unrecognised gains and losses on hedges at 31 December 2002</b>	<b>108</b>	<b>-</b>	<b>108</b>
Gains and losses expected to be recognised in 2003	56	-	56
Gains and losses expected to be recognised in 2004 or later	52	-	52

**21 Provisions for liabilities and charges**

	Integration and synergies \$m	Employee benefits \$m	Environmental, litigation and other provisions \$m	Deferred taxation (restated) \$m	Total (restated) \$m
At 1 January 2001 as previously reported	25	754	204	85	1,068
Prior year adjustment (page 62)	-	-	-	549	549
	25	754	204	634	1,617
Profit and loss account	156	103	14	329	602
Net amounts paid or becoming current	(148)	(306)	(55)	-	(509)
Acquisitions	-	1	-	-	1
Other movements, including exchange	(18)	(23)	(15)	(55)	(111)
At 31 December 2001 (restated)	15	529	148	908	1,600
Profit and loss account	-	89	43	305	437
Net amounts paid or becoming current	(11)	(279)	(31)	-	(321)
Other movements, including exchange	10	34	16	(3)	57
<b>At 31 December 2002</b>	<b>14</b>	<b>373</b>	<b>176</b>	<b>1,210</b>	<b>1,773</b>

Employee benefit provisions comprise pension, post-retirement and other employee benefit provisions. These will crystallise, in the main, over the estimated working lives of the employees concerned. The environmental provisions are principally in respect of sites in the US, further details of which are given in Note 34.

No provision has been released or applied for any purpose other than that for which it was established.

**22 Reconciliation of movements in shareholders' funds**

	2002 \$m	2001 (restated) \$m	2000 (restated) \$m
Shareholders' funds at beginning of year	9,586	9,389	10,302
Prior year adjustment (page 62)	-	-	(39)
	9,586	9,389	10,263
Net profit for the financial year	2,836	2,906	2,277
Dividends			
Cash	(1,206)	(1,225)	(1,236)
Dividend in specie	-	-	(1,669)
	1,630	1,681	(628)
Issues of AstraZeneca PLC Ordinary Shares	36	86	19
Re-purchase of AstraZeneca PLC Ordinary Shares	(1,190)	(1,080)	(353)
Astra AB minority interest buyout	-	-	(8)
Goodwill written back	-	-	862
Exchange adjustments on net assets	1,106	(502)	(870)
Translation differences on foreign currency borrowings	6	18	154
Tax on translation differences on foreign currency borrowings	(2)	(6)	(42)
Other movements	-	-	(8)
Net addition to/(reduction in) shareholders' funds	1,586	197	(874)
Shareholders' funds at end of year	11,172	9,586	9,389

Shareholders' funds at the beginning of the year were originally \$9,786m before deducting the prior year adjustment of \$200m in respect of deferred tax under FRS 19 (2001 \$9,521m before deduction of \$132m).

**23 Reserves**

	Share premium account \$m	Capital redemption reserve \$m	Merger reserve \$m	Other reserves \$m	Joint ventures and associates \$m	Profit and loss account (restated) \$m	Total (restated) \$m
At 31 December 1999 as previously reported	202	1	441	703	(27)	8,538	9,858
Prior year adjustment (page 62)	-	-	-	-	-	(39)	(39)
	202	1	441	703	(27)	8,499	9,819
Loss retained for year					(157)	(471)	(628)
Share premiums	19						19
Transfer between reserves	14					(14)	-
Re-purchase of shares		2				(353)	(351)
Astra AB minority interest buyout			(8)				(8)
Goodwill written back				862			862
Exchange adjustments:							
Goodwill				67		(67)	-
Net assets					1	(871)	(870)
On foreign currency borrowings						154	154
Foreign currency borrowings tax effect						(42)	(42)
				67	1	(826)	(758)
Other movements				2		(10)	(8)
Net movements	33	2	(8)	931	(156)	(1,674)	(872)
At 31 December 2000 (restated)	235	3	433	1,634	(183)	6,825	8,947

## Notes to the Financial Statements continued

## 23 Reserves (continued)

	Share premium account	Capital redemption reserve	Merger reserve	Other reserves	Joint ventures and associates	Profit and loss account (restated)	Total (restated)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>At 31 December 2000 (restated)</b>	<b>235</b>	<b>3</b>	<b>433</b>	<b>1,634</b>	<b>(183)</b>	<b>6,825</b>	<b>8,947</b>
Profit retained for year						1,681	1,681
Share premiums	86						86
Transfer between reserves	13					(13)	-
Re-purchase of shares		6				(1,080)	(1,074)
Exchange adjustments:							
Goodwill				19		(19)	-
Net assets						(502)	(502)
On foreign currency borrowings						18	18
Foreign currency borrowings tax effect						(6)	(6)
				19		(509)	(490)
Net movements	99	6	-	19	-	79	203
<b>At 31 December 2001 (restated)</b>	<b>334</b>	<b>9</b>	<b>433</b>	<b>1,653</b>	<b>(183)</b>	<b>6,904</b>	<b>9,150</b>
Profit retained for year						1,630	1,630
Share premiums	36						36
Transfer between reserves	33					(33)	-
Re-purchase of shares		7				(1,190)	(1,183)
Exchange adjustments:							
Goodwill				(30)		30	-
Net assets						1,106	1,106
On foreign currency borrowings						6	6
Foreign currency borrowings tax effect						(2)	(2)
				(30)		1,140	1,110
Net movements	69	7	-	(30)	-	1,547	1,593
<b>At 31 December 2002</b>	<b>403</b>	<b>16</b>	<b>433</b>	<b>1,623</b>	<b>(183)</b>	<b>8,451</b>	<b>10,743</b>

The prior year adjustment arises as a result of the adoption of FRS19 'Deferred Tax', as explained in more detail on page 62.

The movement in other reserves in 2000 relates to the realisation of goodwill in respect of the demerger of Zeneca Agrochemicals (\$813m) and the impairment of the Advanta seeds business goodwill (\$49m).

The cumulative amount of goodwill resulting from acquisitions, net of disposals, prior to the adoption of FRS 10 in 1998, amounted to \$617m (2001 \$587m, 2000 \$606m) using year end rates of exchange.

There are no significant statutory or contractual restrictions on the distribution of current profits of subsidiaries, joint ventures or associates; undistributed profits of prior years are, in the main, permanently employed in the businesses of these companies. The undistributed income of AstraZeneca companies overseas may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends (see Note 7).

**24 Net cash inflow from trading operations**

	2002 \$m	2001 \$m	2000 \$m
Operating profit before exceptional items	4,356	4,156	4,330
Depreciation and amortisation	960	860	988
Stocks decrease/(increase)	101	(417)	(670)
Debtors (increase)/decrease	(198)	138	(987)
Creditors increase/(decrease)	402	(727)	1,317
Other non-cash movements	65	120	14
	5,686	4,130	4,992

**25 Cash flows related to exceptional items**

	2002 \$m	2001 \$m	2000 \$m
Current period cash flow related to exceptional items and merger related payments, before associated tax charge/relief			
Merck trigger event payment	-	-	(93)
Merger, integration and synergy costs	(68)	(312)	(532)
Salick Health Care rationalisation	-	-	(11)
Agrochemicals restructuring	-	-	(46)
Costs relating to the disposal of Specialties business	(21)	(22)	(62)
Demerger of Zeneca Agrochemicals and formation of Syngenta AG	(4)	(34)	(65)
<b>Outflow related to exceptional charges</b>	<b>(93)</b>	<b>(368)</b>	<b>(809)</b>
Repayment of debt by Zeneca Agrochemicals (included in 'Acquisitions and disposals')	-	-	909
Proceeds from disposal of fixed assets accounted for as exceptional	-	10	-
<b>Exceptional item cash flow</b>	<b>(93)</b>	<b>(358)</b>	<b>100</b>

## Notes to the Financial Statements continued

**26 Acquisitions of subsidiaries and purchases of minority interests**

There were no significant business acquisitions in any of the years presented. All acquisitions have been accounted for by the acquisition method of accounting.

	2002 Total fair value \$m	2001 Total fair value \$m	2000 Total fair value \$m
Fixed assets	-	4	-
Current assets	-	26	-
Creditors due within one year	-	(16)	-
Provisions for liabilities and charges	-	(1)	-
Fair value of net assets acquired	-	13	-
Goodwill acquired	-	41	32
Consideration for subsidiaries and operations acquired	-	54	32
Purchases of minority interests	-	(7)	135
	-	47	167
Less:			
Cash included in undertaking acquired	-	(3)	-
Net cash consideration	-	44	167

Assets and liabilities were adjusted to their fair values based on external valuations and internal assessments. There were no significant differences between book and fair values in respect of the acquisitions made in any of the years presented.

**27 Zeneca Agrochemicals demerger**

On 13 November 2000 Zeneca Agrochemicals was demerged from the Group and merged with the agribusiness of Novartis to form Syngenta AG. The Zeneca Agrochemicals results for the period to 13 November 2000 have been reported as discontinued in the AstraZeneca accounts for the year ended 31 December 2000. The demerger of Zeneca Agrochemicals was accounted for as a dividend in specie. The impact of the demerger on the year ended 31 December 2000 is set out below.

	\$m
Fixed assets	1,491
Current assets	2,130
Creditors due within one year	(1,306)
Creditors due after more than one year and provisions	(246)
Book value of Zeneca Agrochemicals net assets disposed	2,069
Minority interest share of net assets	(10)
Goodwill previously charged to reserves written back	813
	2,872
Repayment of debt by Zeneca Agrochemicals	
Net repayment of debt per Cash Flow Statement	(909)
Net financial liabilities demerged	(294)
	(1,203)
Dividend in specie	1,669

In the year ended 31 December 2000, prior to its demerger, the Agrochemicals business contributed \$173m to operating cash flows before exceptional items, and absorbed \$78m in respect of exceptional items and \$149m in respect of capital expenditure.

**28 Disposals**

There were no significant disposals in any of the years presented.

**29 Reconciliation of net cash flow to movement in net funds**

	2002 \$m	2001 \$m	2000 \$m
<b>(Decrease)/increase in cash</b>	<b>(22)</b>	<b>(396)</b>	<b>640</b>
Cash outflow/(inflow) from decrease/(increase) in loans and short term borrowings	118	(35)	66
Cash outflow/(inflow) from increase/(decrease) in short term investments	806	(260)	608
Change in net funds resulting from cash flows	902	(691)	1,314
Debt released on disposals	-	-	127
Other non-cash changes	-	-	48
Exchange movements	75	(47)	(53)
Movement in net funds	977	(738)	1,436
Net funds at 1 January	2,867	3,605	2,169
<b>Net funds at 31 December</b>	<b>3,844</b>	<b>2,867</b>	<b>3,605</b>

## Notes to the Financial Statements continued

**30 Analysis of net funds**

	At 1 Jan 2002 \$m	Cash flow \$m	Other non-cash \$m	Exchange movements \$m	At 31 Dec 2002 \$m
Loans due after one year	(635)	28	279	–	(328)
Current instalments of loans	(107)	77	(279)	(5)	(314)
Total loans	(742)	105	–	(5)	(642)
Short term investments	3,118	806	–	38	3,962
Cash	705	(18)	–	39	726
Overdrafts	(195)	(4)	–	(3)	(202)
Short term borrowings, excluding overdrafts	(19)	13	–	6	–
	3,609	797	–	80	4,486
<b>Net funds</b>	<b>2,867</b>	<b>902</b>	<b>–</b>	<b>75</b>	<b>3,844</b>
Financing items included in cash movements above:					
Issue of shares		(36)			
Re-purchase of shares		1,190			
<b>Net cash inflow before management of liquid resources and financing</b>		<b>2,056</b>			

**31 Financing**

	Notes	2002 \$m	2001 \$m	2000 \$m
Issues of AstraZeneca PLC Ordinary Shares	30	36	86	19
Re-purchase of AstraZeneca PLC Ordinary Shares	30	(1,190)	(1,080)	(353)
		(1,154)	(994)	(334)
Repayment of lease finance		–	–	(2)
New loans		–	220	39
Loans repaid		(105)	(192)	(36)
Net (decrease)/increase in short term borrowings	30	(13)	7	(67)
		(118)	35	(64)
<b>Net cash outflow from financing</b>		<b>(1,272)</b>	<b>(959)</b>	<b>(400)</b>

There were no major non-cash financing transactions in any year.

## 32 Post-retirement benefits

### Pensions

#### Background

The Group continues to account for pension costs in its primary Financial Statements in accordance with the UK Statement of Standard Accounting Practice No.24 "Pension Costs" (SSAP 24). In addition, disclosures have been presented below in accordance with Financial Reporting Standard No.17 "Retirement Benefits" (FRS 17).

The Company and most of its subsidiaries offer retirement plans which cover the majority of employees in the Group. Many of these plans are "defined contribution" where the company contribution and resulting profit and loss account charge is fixed at a set level or is a set percentage of employees' pay. However, several plans, mainly in the UK, US and Sweden, are "defined benefit", where benefits are based on employees' length of service and final pensionable pay. All of the major plans are funded through legally separate trustee administered funds. The major defined benefit plans, apart from the Swedish plan, have been closed to new entrants since 2000. The cash funding of the plans, which may from time to time involve special payments, is designed, in consultation with independent qualified actuaries, to ensure that present and future contributions should be sufficient to meet future liabilities.

#### SSAP 24

The cost of defined benefit plan pensions in a year can notionally be divided into the regular cost and variations from the regular cost. Under SSAP 24 the regular cost is based on actuarial assumptions and charged to the profit and loss account in the year it is paid whilst any variations, which arise where the experience of the scheme varies from the assumptions made by the actuary, are charged or credited over the estimated remaining service lives of the employees. Costs of defined contribution plan pensions are charged to the profit and loss account immediately. On these bases, the total pension cost for the Group under SSAP 24 for 2002 was \$220m (2001 \$194m, 2000 \$184m). In the Group balance sheet at 31 December 2002, accrued pension costs included in other creditors amounted to \$53m (2001 \$76m); prepaid pension costs of \$114m (2001 \$47m) are included in debtors. Provisions for unfunded pension obligations, included in provisions, amounted to \$235m (2001 \$357m).

With regard to the Group's main UK defined benefit fund, the latest actuarial valuation was carried out at 31 March 2002 and the pension cost assessed using the projected unit credit method. The key accounting assumptions for the purposes of SSAP 24 were that, against a background long term UK price inflation averaging 2.5% pa, investment returns would average 6.5% pa, salary increases 4.3% pa and pension increases 2.5% pa. The market value of the fund's assets at the valuation date was £2,161m (\$3,477m equivalent), representing 94.6% of the liabilities using these assumptions. The regular cost for accounting purposes equates to 18.8% of pensionable salaries. At the same time, the valuation was carried out for ongoing funding purposes, with assumptions slightly more conservative than those used for SSAP 24 purposes. The market value of the fund's assets at the valuation date represent 90.1% of the liabilities on a funding basis. The Company has indicated to the trustee of the UK fund its intention to target a solvency ratio of 91% following the 2003 actuarial valuation, with a longer term aim of restoring solvency over a period of around 15 years. Any cash contributions made to the fund would be treated as a prepayment and taken into account in the actuarially assessed contributions to the fund charged to the profit and loss account.

The US defined benefits programme was actuarially revalued at 31 December 2002 when plan obligations were estimated to amount to \$812m and plan assets were \$665m. The US typically makes contributions to provide for plan benefit deficits on a regular basis.

PRI Pensionstjänst AB, a joint company for Swedish industry, administers the Swedish plan for salaried employees and Alecta establishes benefit levels and actuarial assumptions. During 2002 AstraZeneca AB has established separate trustee administered funds to support its pension liabilities; prior to 2002 the plan was unfunded.

#### Post-retirement benefits other than pensions

In the US, and to a lesser extent in some other countries, AstraZeneca's employment practices include the provision of healthcare and life insurance benefits for retired employees. Some 6,920 retired employees and covered dependants currently benefit from these provisions and some 13,383 current employees will be eligible on retirement. AstraZeneca accrues for the present value of such retiree obligations over the working life of the employee.

The cost of post-retirement benefits other than pensions for the Group in 2002 was \$22m (2001 \$16m, 2000 \$25m). Provisions and creditors set aside for the benefit obligations at 31 December 2002 amounted to \$32m (2001 \$248m, 2000 \$233m). Other than this provision there were plan assets amounting to \$133m in the US at 31 December 2002. These benefit plans have been included in the disclosure of post-retirement benefits under FRS17.

## Notes to the Financial Statements continued

## 32 Post-retirement benefits (continued)

## FRS 17

Full implementation of FRS 17 had originally been intended for accounting periods ending on or after 22 June 2003 but has been deferred by the Accounting Standards Board until accounting periods commencing on or after 1 January 2005. However, the requirements for disclosure under FRS 17 between its issue and full implementation dates remain and this information is set out below. When fully adopted, the objective of FRS 17 is to reflect the fair value of post-retirement plan assets and liabilities and associated charges in the Financial Statements. FRS 17 specifies how key assumptions should be formulated and applied; these assumptions are often different to the funding bases established by the pension funds' trustees or actuaries. The accounting requirements of FRS 17 are broadly as follows:

- > Post-retirement scheme assets are valued at market values at the balance sheet date;
- > Post-retirement scheme liabilities are measured using a projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability; and
- > The movement in the scheme surplus/deficit will be split between operating charges and financing items in the profit and loss account and, in the statement of total recognised gains and losses, actuarial gains and losses.

## Financial assumptions

Qualified independent actuaries have updated the actuarial valuations of the major defined benefit schemes operated by the Group to 31 December 2002. The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions which, due to the long term nature of the scheme, may not necessarily be borne out in practice. These assumptions were as follows:

	UK	2002 Rest of Group	UK	2001 Rest of Group
Inflation assumption	2.2%	2.1%	2.5%	2.7%
Rate of increase in salaries	4.0%	4.0%	4.3%	4.6%
Rate of increase in pensions in payment	2.2%	0.5%	2.5%	0.5%
Discount rate	5.6%	5.8%	5.8%	6.2%
Long term rate of return expected at 31 December				
Equities	8.3%	8.4%	7.6%	9.7%
Bonds	4.9%	6.1%	5.3%	6.1%
Others	3.7%	3.6%	4.0%	8.7%

**32 Post-retirement benefits (continued)****Post-retirement scheme deficit**

The post-retirement scheme deficit set out below under FRS 17 is as if this standard were fully applied. However, under the current accounting methodology (SSAP 24) there are prepayments and provisions (including deferred tax) within the balance sheet at 31 December 2002 that would offset the effect on net assets of this deficit in the event of a restatement under FRS 17.

The assets and liabilities of the major defined benefit schemes operated by the Group at 31 December 2002 as calculated in accordance with FRS 17 are shown below. The fair values of the schemes' assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present value of the scheme's liabilities is derived from cash flow projections over long periods and are thus inherently uncertain. If FRS 17 had been adopted for the year ended 31 December 2002 the Group's reported net assets (see page 60) would be reduced by \$637m (5.7%) to \$10,589m. Further explanation of this adjustment is included below:

	Value at 31 December 2002			Value at 31 December 2001		
	UK \$m	Rest of Group \$m	Total \$m	UK \$m	Rest of Group \$m	Total \$m
<b>Scheme assets</b>						
Equities	1,186	708	1,894	1,255	409	1,664
Bonds	2,097	464	2,561	1,831	214	2,045
Others	75	102	177	59	131	190
<b>Total fair value of assets</b>	<b>3,358</b>	<b>1,274</b>	<b>4,632</b>	<b>3,145</b>	<b>754</b>	<b>3,899</b>
<b>Present value of scheme liabilities</b>	<b>(4,200)</b>	<b>(1,665)</b>	<b>(5,865)</b>	<b>(3,569)</b>	<b>(1,472)</b>	<b>(5,041)</b>
<b>Deficit in the scheme</b>	<b>(842)</b>	<b>(391)</b>	<b>(1,233)</b>	<b>(424)</b>	<b>(718)</b>	<b>(1,142)</b>
Related deferred tax asset	253	151	404	127	248	375
<b>Net post-retirement deficit under FRS 17</b>	<b>(589)</b>	<b>(240)</b>	<b>(829)</b>	<b>(297)</b>	<b>(470)</b>	<b>(767)</b>
<b>Adjustments for assets and provisions under SSAP 24</b>						
Prepayment, net of related deferred tax			(177)			(56)
Accrual, net of deferred tax			36			143
Provision, net of deferred tax			333			296
<b>Adjusted post-retirement deficit, net of related deferred tax</b>			<b>(637)</b>			<b>(384)</b>
<b>Net assets as currently disclosed (restated) (see page 60)</b>			<b>11,226</b>			<b>9,629</b>
<b>Net assets as adjusted if FRS 17 were fully adopted</b>			<b>10,589</b>			<b>9,245</b>

**Profit and loss account disclosures**

On full compliance with FRS 17, on the basis of the above assumptions, the amounts that would have been charged to the consolidated profit and loss account and statement of total recognised gains and losses in respect of defined benefit schemes for the year ended 31 December 2002 are set out below:

	UK \$m	Rest of Group \$m	Total \$m
<b>Operating profit</b>			
Current service cost	(100)	(69)	(169)
Past service costs	(2)	8	6
Settlement and curtailment	–	24	24
<b>Total operating charge</b>	<b>(102)</b>	<b>(37)</b>	<b>(139)</b>
<b>Finance expense</b>			
Expected return on post-retirement scheme assets	197	52	249
Interest on post-retirement scheme liabilities	(210)	(98)	(308)
<b>Net return</b>	<b>(13)</b>	<b>(46)</b>	<b>(59)</b>
<b>Loss before taxation</b>	<b>(115)</b>	<b>(83)</b>	<b>(198)</b>
<b>Consolidated statement of total recognised gains and losses</b>			
Actual return less expected return on the post-retirement schemes' assets	(301)	(91)	(392)
Experience (losses)/gains arising on the post-retirement schemes' liabilities	(108)	8	(100)
Changes in assumptions underlying the present value of the post-retirement schemes' liabilities	58	(27)	31
<b>Actuarial loss recognised</b>	<b>(351)</b>	<b>(110)</b>	<b>(461)</b>

## Notes to the Financial Statements continued

## 32 Post-retirement benefits (continued)

## Additional disclosures for the year ended 31 December 2002

	UK \$m	Rest of Group \$m	Total \$m
<b>Difference between the expected and actual return on scheme assets:</b>			
Amount	(301)	(91)	(392)
Percentage of scheme assets	9.0%	7.1%	8.5%
<b>Experience gains and losses on scheme liabilities:</b>			
Amount	(108)	8	(100)
Percentage of the present value of scheme liabilities	2.6%	0.5%	1.7%
<b>Total amount recognised in statement of total recognised gains and losses:</b>			
Amount	(351)	(110)	(461)
Percentage of the present value of scheme liabilities	8.4%	6.6%	7.9%

## Movement in post-retirement deficit during the year ended 31 December 2002

	UK \$m	Rest of Group \$m	Total \$m
Deficits in schemes at beginning of the year	(424)	(718)	(1,142)
Current service cost	(100)	(69)	(169)
Contributions	125	567	692
Past service costs	(2)	8	6
Settlement and curtailment	-	24	24
Other finance income	(13)	(46)	(59)
Actuarial loss	(351)	(110)	(461)
Exchange	(77)	(47)	(124)
Deficits in schemes at end of the year	(842)	(391)	(1,233)
Adjusted post-retirement deficit, net of deferred tax			(637)

The increase in the deficit during 2002 is due principally to shortfalls on returns of post-retirement scheme assets and exchange, offset by funding of Sweden's pension scheme and the US's non-pension post-retirement schemes for the first time in 2002.

## Reserves note for the year ended 31 December 2002

	Total \$m
Profit and loss reserve excluding post-retirement (liability)	8,451
Post-retirement reserve	(637)
Profit and loss reserve under FRS17	7,814

### 33 Employee costs and share option plans for employees

#### Employee costs

The average number of people employed by the Group in 2002 was 57,500 (2001 52,600, 2000 57,000) and the costs incurred during the year in respect of these employees were:

	2002 \$m	2001 \$m	2000 \$m
Salaries	3,049	2,701	2,862
Social security costs	505	465	464
Pension costs	193	194	184
Other employment costs	246	182	170
	3,993	3,542	3,680

Employee costs above do not include severance costs.

The Directors believe that, together with the basic salary system, the Group's employee incentive schemes provide competitive and market-related packages to motivate employees. They should also align the interests of employees with those of shareholders, as a whole, through long term share ownership in the Company. The Group's current UK, Swedish and US schemes are described below; other arrangements apply elsewhere.

#### The AstraZeneca UK Performance Bonus Plan

Employees of participating AstraZeneca UK companies are invited to participate in this bonus plan which rewards good performance at corporate, function/business and individual/team levels. Depending upon performance and upon which level it is measured, bonuses may be paid partly in the form of free Ordinary Shares in the Company (under the Inland Revenue approved AstraZeneca All-Employee Share Plan and up to a maximum annual value of £3,000) and partly in cash. A tax efficient share retention scheme, under which employees leave their bonus shares in trust for three to five years, forms part of the All-Employee Share Plan. In 2002, for the first time the Company offered UK employees the opportunity to buy Partnership Shares (Ordinary Shares) under the All-Employee Share Plan. Employees may invest up to £125 per month over a 12 month accumulation period and purchase Partnership Shares in the Company with the total proceeds at the end of the period. The purchase price for the shares is the lower of the price at the beginning or the end of the 12 month period. A tax efficient share retention scheme is also available in respect of Partnership Shares. At the Company's AGM in 2002, shareholders approved the issue of new shares for the purposes of the All-Employee Share Plan.

#### The AstraZeneca Executive Annual Bonus Scheme

This scheme is a performance bonus scheme for Directors and senior employees who do not participate in the AstraZeneca UK Performance Bonus Plan. Annual bonuses are paid in cash and reflect both corporate and individual performance measures. The Remuneration Committee has discretion to reduce or withhold bonuses if business performance falls sufficiently short of expectations in any year such as to make the payment of bonuses inappropriate.

#### The AstraZeneca Savings-Related Share Option Scheme

UK employees may make regular monthly savings contributions over a three or five year period and may apply for options to acquire AstraZeneca shares. Further details are set out below.

#### The AstraZeneca Share Option Plan

This is a share option plan for employees of participating AstraZeneca Group companies which was approved by shareholders at the Company's AGM in 2000. The first grant of options occurred in August 2000. The main grant of options in 2002 under the plan was in March, with a further, smaller grant in August. The Remuneration Committee sets the policy for the Company's operation of the plan. Further details are set out below.

#### Sweden

In Sweden an all employee performance bonus plan is in operation. The plan rewards good performance at corporate, function and individual/team level. Bonuses for corporate and function performance are always paid in the form of AstraZeneca Ordinary Shares. Bonuses for individual/team performance may be paid in Ordinary Shares or in cash, at the employee's discretion. Existing Ordinary Shares are used to pay bonuses awarded under the plan. These are purchased in the market. They must be left in trust for three years. The AstraZeneca Executive Annual Bonus Scheme and the AstraZeneca Share Option Plan both operate in respect of relevant AstraZeneca employees in Sweden.

#### US

In the US, there are four senior staff incentive schemes, under which either AstraZeneca ADSs or stock appreciation rights related to AstraZeneca ADSs are awarded to participants. There are currently approximately 146 participants in these schemes. AstraZeneca ADSs necessary to satisfy the awards under these schemes are purchased in the market and no subscriptions for new Ordinary Shares have been involved. The AstraZeneca Share Option Plan operates in respect of relevant AstraZeneca employees in the US.

## Notes to the Financial Statements continued

### 33 Employee costs and share option plans for employees (continued)

#### Share Option Plans

At 31 December 2002, there were options outstanding under the Zeneca 1993 Senior Staff Share Option Scheme, the Zeneca 1994 Executive Share Option Scheme, the Astra Shareholder Value Incentive Plan, the AstraZeneca Savings-Related Share Option Scheme and the AstraZeneca Share Option Plan.

#### (1) Summary of the Zeneca 1993 Senior Staff Share Option Scheme

The Zeneca 1993 Senior Staff Share Option Scheme was introduced at the time of the demerger of Zeneca from ICI in 1993. The last date for the grant of options was 19 May 1994 and the scheme was replaced by the Zeneca 1994 Executive Share Option Scheme.

#### (2) Summary of the Zeneca 1994 Executive Share Option Scheme

The Zeneca 1994 Executive Share Option Scheme was introduced in 1994. The last date for the grant of options was 16 March 2000 and the scheme has been replaced by the AstraZeneca Share Option Plan.

Options granted under the 1994 scheme will normally be exercisable between three and 10 years following grant, provided the relevant performance condition has been satisfied. Options may be satisfied by the issue of new shares or by existing shares purchased in the market.

Options will not normally be exercisable unless a performance condition set by the Remuneration Committee has been satisfied. The performance condition is that earnings per share must grow by at least the increase in the UK Retail Price Index over three years plus 3% per annum. Satisfaction of this condition is tested annually by reference to the audited financial statements. Once the condition is satisfied in respect of any rolling three year period beginning no earlier than the end of the financial year prior to the grant of the option, then it need not be satisfied again in respect of that option. The Remuneration Committee reviews the performance conditions at intervals to ensure that they continue to be appropriate.

#### (3) Summary of the Astra Shareholder Value Incentive Plan

In 1996, Astra established a stock option plan for some 100 Astra employees in key senior positions. The plan is no longer used for the grant of options and has been superseded by the AstraZeneca Share Option Plan.

On completion of the merger with Zeneca, options in Astra shares granted under the plan were replaced by options to acquire a number of AstraZeneca shares based on the exchange ratio used in the exchange offers used to effect the AstraZeneca merger. The ratio of AstraZeneca options granted in respect of former Astra options was 0.5045 AstraZeneca options for each Astra option held and the table shown on page 100 has been restated throughout accordingly.

#### (4) Summary of the AstraZeneca Savings-Related Share Option Scheme

##### Eligibility

UK resident employees of participating AstraZeneca companies are automatically eligible to participate.

##### Grant of options

Invitations to apply for options may be issued within six weeks after the announcement by the Company of its results for any period and at other times in circumstances considered to be exceptional by the Directors. No invitations may be issued later than 10 years after the approval of the scheme by shareholders.

Options may only be granted to employees who enter into UK Inland Revenue approved savings contracts with the savings body nominated by the Company, under which monthly savings of a fixed amount (currently not less than £5 nor more than £250) are made over a period of three or five years. The number of shares over which an option is granted will be such that the total amount payable on its exercise will be the proceeds on maturity of the related savings contract. No payment will be required for the grant of an option. Options are not transferable.

##### Individual participation

Monthly savings by an employee under all savings contracts linked to options granted under any SAYE scheme may not exceed £250 or such lower amounts as may be determined by the Directors.

### 33 Employee costs and share option plans for employees (continued)

#### Acquisition price

The price per Ordinary Share payable upon the exercise of an option will not normally be less than the higher of:

- (a) 90% of the arithmetical average of the middle-market quotations for an Ordinary Share on the London Stock Exchange on three consecutive dealing days shortly before the date on which invitations to apply for options are issued (provided that no such day may fall before the Company last announced its results for any period) or such other dealing day or days falling within the six week period for the issue of invitations as the Directors may decide; and
- (b) the nominal value of an Ordinary Share (unless the option is expressed to relate only to existing shares).

#### Exercise of options

An option will normally be exercisable only for six months commencing on the third or fifth anniversary of the commencement of the related savings contract. Options may be satisfied by the issue of new shares or by existing shares purchased in the market.

Options normally lapse on cessation of employment. Exercise is, however, permitted for a limited period (irrespective of the period during which the option has been held) following cessation of employment in certain compassionate circumstances or where an option has been held for more than three years (except on dismissal for misconduct) and on an amalgamation, take-over or winding-up of the Company.

AstraZeneca has chosen to avail itself of the exemption to application of UITF17 (revised) to its SAYE scheme.

#### (5) Summary of the AstraZeneca Share Option Plan

##### Eligibility

Any AstraZeneca employee may be recommended from time to time for the grant of an option. The Remuneration Committee sets the policy for the Company's operation of the plan including as regards which employees will be eligible to participate.

##### Grant of options

Options may be granted at any time other than during a close period. No options may be granted after the fifth anniversary of the approval of the plan by shareholders until the Remuneration Committee has reviewed the plan.

The grant of options is supervised by the Remuneration Committee which is comprised wholly of Non-Executive Directors. No payment is required for the grant of an option. Options are not transferable.

Options may be granted over Ordinary Shares in AstraZeneca PLC or over the Company's ADSs.

##### Acquisition price

The price per Ordinary Share payable upon the exercise of an option will not be less than an amount equal to the average of the middle-market closing price on the date of grant for an Ordinary Share of the Company on the London Stock Exchange on the three consecutive dealing days immediately before the date of grant (or as otherwise agreed with the Inland Revenue). Where the option is an option to subscribe, the price payable upon exercise cannot be less than the nominal value of an Ordinary Share of the Company.

##### Exercise of options

An option will normally be exercisable between three and 10 years following its grant provided any relevant performance condition has been satisfied. Options may be satisfied by the issue of new shares or by existing shares purchased in the market.

The Remuneration Committee sets the policy for the Company's operation of the plan including as regards whether any performance target(s) will apply to the grant and/or exercise of each eligible employee's option.

Options normally lapse on cessation of employment. Exercise is, however, permitted for a limited period following cessation of employment either for reasons of injury or disability, redundancy or retirement, or at the discretion of the Remuneration Committee, and on an amalgamation, take-over or winding-up of the Company.

## Notes to the Financial Statements continued

## 33 Employee costs and share option plans for employees (continued)

	AstraZeneca Share Option Plan		1994 Scheme		SAYE Scheme		Shares under option '000	ASVIP WAEP* SEK
	Options '000	WAEP* pence	Options '000	WAEP* pence	Options '000	WAEP* pence		
<b>At 1 January 2000</b>								
Options outstanding	Nil	Nil	3,001	1934	4,388	1708	1,249	361
<b>Movements during 2000</b>								
Options granted	712	3093	8,885	2714	723	2806	Nil	-
Options exercised	Nil	Nil	(800)	1525	(1,078)	1117	(159)	303
Options forfeited	Nil	Nil	(99)	2675	(207)	1843	Nil	-
Options lapsed	Nil	Nil	Nil	-	Nil	-	Nil	-
Weighted average fair value of options granted during the year		809		712		396		
<b>At 31 December 2000</b>								
Options outstanding	712	3093	10,987	2588	3,826	2074	1,090	370
<b>Movements during 2001</b>								
Options granted	10,984	3245	-	-	649	2971	-	-
Options exercised	(1)	3093	(592)	1687	(1,125)	1583	(117)	328
Options forfeited	(296)	3231	(457)	2709	(551)	2181	(8)	306
Options lapsed	-	-	-	-	-	-	-	-
Weighted average fair value of options granted during the year		653				495		
<b>At 31 December 2001</b>								
Options outstanding	11,399	3236	9,938	2636	2,799	2459	965	375
<b>Movements during 2002</b>								
Options granted	10,658	3462	-	-	2,721	1756	-	-
Options exercised	(22)	3214	(243)	2175	(469)	1888	(206)	317
Options forfeited	(637)	3298	(406)	2654	(986)	2735	-	-
Options lapsed	-	-	-	-	-	-	-	-
Weighted average fair value of options granted during the year		1186				559		
<b>At 31 December 2002</b>								
Options outstanding	21,398	3347	9,289	2647	4,065	1987	759	391
Range of exercise prices		1913p to 3487p		826p to 2749p		1756p to 2971p		298SEK to 442SEK
Weighted average remaining contractual life		3,183 days		2,542 days		1,439 days		746 days
Options exercisable	351	3303	1786	2367	130	2070	759	391

\* Weighted Average Exercise Price

In addition to the schemes disclosed above at 31 December 2002 there were 5,000 options outstanding issued under the Zeneca 1993 Senior Staff Share Option Scheme with a weighted average exercise price of 717p.

**34 Assets pledged, commitments and contingent liabilities**

	2002 \$m	2001 \$m	2000 \$m
<b>Assets pledged</b>			
Mortgages and other assets pledged	90	118	51
<b>Commitments</b>			
Contracts placed for future capital expenditure not provided for in these accounts	500	515	604

Included in the above total are contracts related to certain product purchase and licence agreements with deferred consideration obligations, the amounts of which are variable depending upon particular 'milestone' achievements. Sales of the products to which these 'milestones' relate could give rise to additional payments, contingent upon the sales levels achieved. Guarantees and contingencies arising in the ordinary course of business, for which no security has been given, are not expected to result in any material financial loss.

**Commitments**

AstraZeneca is required to pay approximately \$800m over at least a five-year period which commenced in 1999, under the terms of an agreement with Schering-Plough. With effect from 1 January 1999, in connection with this agreement, AstraZeneca obtained a stand-by letter of credit in the amount of \$608m. This letter of credit is collateralised by high-grade government securities which are not available to AstraZeneca to the extent of the outstanding balance of the letter of credit. The amount outstanding under the letter of credit is automatically reduced with each payment made by AstraZeneca to Schering-Plough. Under the terms of this agreement AstraZeneca reacquired the rights to market omeprazole under the *Losec* trade mark and felodipine under the *Prevex* and *Perfudal* trade marks in Italy and Spain. The total discounted liability and associated asset were recognised in 1999. Payments under this agreement in 2002 totalled approximately \$146m. The final payment will be made in 2003.

In 1998, Astra and Merck & Co., Inc restructured their joint venture (the "restructuring") which had been established some years earlier for the purpose of selling and marketing certain Astra products in the US.

Under the terms of the 1998 restructuring, the merger between Astra and Zeneca in 1999 triggered two one-time payments from AstraZeneca to Merck:

- > a Lump Sum Payment of \$809m, which was charged to profit and loss account, as a result of which Merck relinquished any rights to Zeneca products; and
- > an Advance Payment of \$967m. This Advance Payment was calculated as the then net present value of \$2.8bn discounted from 2008 to the date of payment at a rate of 13% per annum and led Merck to relinquish any rights to future Astra products with no existing or pending US patents at the time of the merger.

AstraZeneca makes ongoing payments to Merck based on sales of certain AstraZeneca products in the US (the "contingent payments" on the "agreement products") as well as certain other partnership distributions, the latter of which are not material to the Group. As a result of the 1999 merger, these contingent payments (excluding those in respect of *Prilosec* and *Nexium*) are subject to defined minimum amounts ranging from \$125m to \$225m between 2002 and 2007. Payments under these arrangements have exceeded the minimum level in 2002.

The terms of the 1998 restructuring also provide for the following events:

- > Partial Redemption
- > First Option
- > Second Option

*Partial Redemption*

In 2008, there will be a partial redemption of Merck's limited partnership interest – which will end Merck's rights to contingent payments in respect of certain of the agreement products – by distribution to Merck of an amount calculated as a multiple of the previous three years' contingent payments on the relevant products, plus \$750m.

*First Option*

In 2008 a calculation will be made of the Appraised Value, being the net present value of the future contingent payments in respect of all other agreement products not covered by the Partial Redemption other than *Prilosec* and *Nexium*. Payment of this amount to Merck in 2008 is, however, contingent on Merck's exercise of the First Option. Exercise of the First Option will require AstraZeneca to re-purchase Merck's interest in these products. Should Merck not exercise this option in 2008, AstraZeneca may exercise it in 2010 for a sum equal to the 2008 Appraised Value. If neither Merck nor AstraZeneca exercise the option, the contingent payment arrangements in respect of these agreement products will continue and the Appraised Value will not be paid.

## Notes to the Financial Statements continued

### 34 Assets pledged, commitments and contingent liabilities (continued)

In addition, in 2008 there will be a true up of the Advance Payment. The calculation of this will be based on a multiple of the previous three years' contingent payments in respect of all the agreement products with the exception of *Prilosec* and *Nexium*, plus other defined amounts, which are then reduced by the Appraised Value (whether paid or not), the Partial Redemption and the Advance Payment. This could result in a further payment by AstraZeneca to Merck or a payment by Merck to AstraZeneca.

The precise amount of settlements with Merck under the Partial Redemption and the First Option cannot be determined at this time, as some of the payments are based on calculations based on sales between 2005 and 2007, and another is contingent upon Merck exercising the First Option. However, if Merck does exercise this option, the combined effect will involve a minimum amount payable to Merck in 2008 of approximately \$4.7bn. If AstraZeneca exercises this option in 2010, the combined effect will involve a minimum aggregate payable to Merck in 2008 and 2010 of approximately \$4.7bn.

Finally, in 2008 Merck will repay to AstraZeneca a loan in the amount of \$1.4bn made at the time of the restructuring.

#### *Second Option*

A Second Option exists whereby AstraZeneca has the option to re-purchase Merck's interests in *Prilosec* and *Nexium* in the US. This option is exercisable by AstraZeneca two years after the exercise of the First Option in either 2008 or 2010. Exercise of the Second Option by AstraZeneca at a later date is also provided for in 2017 or if combined annual sales of the two products fall below a minimum amount provided, in each case only so long as the First Option has been exercised. The exercise price for the Second Option is the fair value of these product rights as determined at the time of exercise. If the Second Option is exercised, Merck will have no further rights to contingent payments from AstraZeneca.

#### **Environmental costs and liabilities**

The Group's expenditure on environmental protection, including both capital and revenue items, relates to costs which are necessary for meeting current good practice standards and regulatory requirements for processes and products.

They are an integral part of normal ongoing expenditure for maintaining the Group's manufacturing capacity and product ranges and are not separated from overall operating and development costs. There are no known changes in environmental, regulatory or other requirements resulting in material changes to the levels of expenditure for 2000, 2001 or 2002.

In addition to expenditure for meeting current and foreseen environmental protection requirements, the Group incurs substantial costs in investigating and cleaning up land and groundwater contamination. In particular, AstraZeneca has environmental liabilities at some currently or formerly owned, leased and third party sites in the US and Europe. AstraZeneca, or its indemnitees, have been named under US legislation (the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended) as potentially responsible parties (PRP) in respect of 32 sites (although AstraZeneca expects to be indemnified against liabilities associated with nine of these sites by the seller or owner of the businesses associated with such sites) and, where appropriate, actively participates in or monitors the clean-up activities at sites in respect of which it is a PRP. Stauffer Management Company, a subsidiary of AstraZeneca established in 1987 to own and manage certain assets of Stauffer Chemical Company which was acquired that year, has identified 28 sites (including 18 for which an AstraZeneca indemnitee has been named a PRP) for which it may have responsibility that will, in aggregate, require significant expenditure on clean-up and monitoring.

Liabilities are generally more likely to crystallise where a contaminated site is to be sold, its use changed or where a regulatory authority imposes a particular remedial measure. Costs of these liabilities may be offset by amounts recovered from third parties, such as previous owners of the sites in question or through insurance.

The future level of investigation and clean up costs will depend on a number of factors, including the nature and extent of any contamination that may ultimately be found to exist, the need for and type of any remedial work to be undertaken and the standards required by applicable current and future environmental laws and regulations and the number and financial viability of other PRPs. The relative importance of these factors varies significantly from site to site. Many sites are at different stages in the regulatory process or at different stages in the process of evaluating environmental damage or alternative remediation methods. It is therefore difficult to form meaningful ranges of estimates for such costs.

AstraZeneca had provisions at 31 December 2002 in respect of such costs in accordance with the accounting policies on page 64. Although there can be no assurance, management believes that, taking account of these provisions, the costs of addressing currently identified environmental obligations, as AstraZeneca currently views those obligations, is unlikely to impair materially AstraZeneca's financial position.

Such contingent costs, to the extent that they exceed applicable provisions, could have a material adverse effect on AstraZeneca's results of operations for the relevant period.

## Legal proceedings

### *Losec/Prilosec (omeprazole)*

In June 1997, the German Federal Patent Court declared invalid a previously granted supplementary protection certificate which extended protection for omeprazole, the active ingredient contained in *Losec*, from 1999 to 2003. The decision was appealed and on 1 February 2000, at AstraZeneca's request, the German Supreme Court decided to refer the case to the European Court of Justice for a preliminary ruling. The court heard the case on 8 November 2001 and its decision is pending. The case does not involve any financial claims.

In March 2000, the German Federal Patent Court declared that AstraZeneca's formulation patent for omeprazole was invalid. The decision has been appealed to the German Supreme Court. As a consequence, all pending infringement actions in Germany have been stayed awaiting the outcome of the appeal. There is one interlocutory injunction in force against *ratiopharm GmbH* based on the formulation patent. If the final decision on the validity of the formulation patent goes against AstraZeneca, *ratiopharm* may claim damages for lost sales due to the interlocutory injunction.

In 1998, Astra filed suits in the US against *Andrx Pharmaceuticals, Inc.* and *Genpharm, Inc.* This followed the filing of abbreviated new drug applications by *Andrx* and *Genpharm* with the US Food and Drug Administration (FDA) concerning the two companies' intention to market generic omeprazole products in the US. During 1999, Astra also filed suits against *Kremers Urban Development Company* and *Schwarz Pharma, Inc.*, and against *Cheminor Drugs Ltd.*, *Reddy-Cheminor Inc.* and *Schein Pharmaceuticals, Inc.* During 2000, AstraZeneca filed further suits against *Lek Pharmaceutical and Chemical Company d.d.*, *Impax Laboratories Inc.*, *Eon Labs Manufacturing Inc.* and *Mylan Pharmaceuticals Inc.* During 2001, AstraZeneca filed further suits against *Torphan, Inc.* and *Zenith Goldline Pharmaceuticals, Inc. (Ivax)*. The basis for the proceedings is that the actions of all the companies infringe several patents relating to omeprazole (*Prilosec* in the US). The cases are proceeding under the US Hatch-Waxman legislation. AstraZeneca filed additional patent infringement suits during 2001 against *Andrx* and *Genpharm* in respect of one other omeprazole patent outside the Hatch-Waxman legislation. The trial against *Andrx*, *Genpharm*, *Kremers Urban Development Company* and *Cheminor* started in December 2001 and ended in July 2002.

In October 2002, the US District Court for the Southern District of New York ruled that two AstraZeneca patents ('230 and '505) relating to the formulation of omeprazole are valid until 2007, that *Andrx*, *Genpharm* and *Cheminor* all infringed both patents but that *Kremers Urban Development Company* did not infringe either patent. The court did not rule on the '281 patent relating to a manufacturing process for omeprazole formulations in respect of which AstraZeneca has sued *Andrx* only. AstraZeneca has appealed the judgement with regard to non-infringement and *Kremers Urban Development Company*. *Andrx*, *Genpharm* and *Cheminor* have appealed the decision with regard to infringement and validity of the patents.

In April 2001, *Andrx* filed a case in the US District Court for the Southern District of New York against AstraZeneca, *Merck & Co., Inc.* and the FDA alleging that the listing of certain patents in the FDA's Orange Book was improper and constituted violations of certain provisions of the Sherman Act, the US federal anti-trust legislation, and a state statute analogous to the federal anti-trust laws. *Andrx* seeks injunctive relief compelling the parties to delist omeprazole-related patents it claims were improperly listed in the Orange Book and prohibiting the defendants from using patents to delay the effective date of the FDA's approval of *Andrx's* ANDA for omeprazole. AstraZeneca and *Merck* have filed motions to dismiss the case, which are pending.

AstraZeneca and *Merck & Co., Inc.* were named as defendants in three class actions; two in the US District Court for the Southern District of New York and one in the US District Court for the District of New Jersey. The plaintiffs are consumers and third party payers who have alleged that they and others who are similarly situated have been forced to pay higher prices for omeprazole as a result of agreements that AstraZeneca and *Merck* entered into that resulted in 'unreasonable restraints of trade and competition'. Furthermore, the plaintiffs have alleged that AstraZeneca and *Merck* engaged in conduct designed to extend their monopoly power 'beyond the lawful boundaries of their patents'. The plaintiffs are seeking declarative, equitable and injunctive relief enjoining AstraZeneca and *Merck* from continuing their alleged illegal activities, costs of suit, reasonable attorney's fees and expenses and any other relief determined by the court. AstraZeneca filed a motion in March 2002 to dismiss the two class actions before the US District Court for the Southern District of New York, which was granted in June 2002. The plaintiffs did not appeal. The plaintiffs voluntarily dismissed the New Jersey case also in June 2002.

In October 2000, the Federal Court of Australia (Full Court) handed down a patent ruling pertaining to omeprazole in connection with a dispute between AstraZeneca and the generic company, *Alphapharm Pty Ltd.* The court declared that AstraZeneca's formulation patent was invalid. In November 2001, AstraZeneca applied for special leave to appeal the decision to the High Court of Australia and this application was granted in December 2001. The appeal was heard by the High Court in May 2002 and in December 2002 the High Court reversed the judgement of the lower court. The High Court ruled that AstraZeneca's formulation patent is valid and that the case should be returned to the lower court for determination of the remaining issues.

During 2000, AstraZeneca was granted interlocutory injunctions based on certain of AstraZeneca's omeprazole patents and supplementary protection certificates against the generic company, *Scandinavian Pharmaceuticals-Generics AB (Scand Pharm)*, in Sweden, Denmark and Norway. In October 2000, the District Court of Stockholm ruled that *Scand Pharm* had infringed one of AstraZeneca's supplementary protection certificates for omeprazole. *Scand Pharm* has appealed this decision. In October 2001, Oslo City Court in Norway found that *Scand Pharm* had infringed AstraZeneca's formulation patent for omeprazole. At the same time, the court declared AstraZeneca's formulation patent valid. As a result of the Norwegian case, *Scand Pharm* cannot sell its omeprazole product in Norway, nor can it do so in Sweden or Denmark pending the outcome of the main actions in the cases in these countries. If the final decisions in these cases are against AstraZeneca, *Scand Pharm* may claim damages for lost sales due to the interlocutory injunctions.

## Notes to the Financial Statements continued

### 34 Assets pledged, commitments and contingent liabilities (continued)

In March 2002, the Patents Court in the UK handed down a ruling invalidating certain of AstraZeneca's formulation patents for omeprazole. AstraZeneca applied for leave to appeal the decision to the Court of Appeal and this application was granted. The appeal was heard by the Court of Appeal in October 2002 and the court affirmed the original decision of the Patents Court invalidating the formulation patents.

In the Netherlands, Pharmachemie BV has filed a claim against two AstraZeneca companies alleging that AstraZeneca has misused its exclusive rights in the Netherlands in relation to the expiration date for AstraZeneca's supplementary protection certificate for omeprazole. AstraZeneca denies the allegations and is defending the case.

Other court cases relating to omeprazole patents are pending worldwide. However, the financial impact if AstraZeneca loses is not considered to be material.

In February 2000, the European Commission commenced an investigation relating to certain omeprazole intellectual property rights, and associated regulatory and patent infringement litigation. The investigation is pursuant to Article 82 of the EC Treaty, which prohibits an abuse of a dominant position. The investigation was precipitated by a complaint by a party to a number of patent and other proceedings involving AstraZeneca and relates to a limited number of European countries. AstraZeneca has, in accordance with its corporate policy, co-operated with the Commission. AstraZeneca remains of the view that the complaint is unfounded and that it has complied with all relevant competition laws. In particular, it considers that the matters raised by the complaint are more properly dealt with by the courts in the context of the litigation in which the complainant is involved. The Commission has recently requested certain factual patent and regulatory information from AstraZeneca and AstraZeneca will continue to co-operate with the Commission.

### Zoladex (goserelin acetate implant) investigation

The US Department of Justice has been conducting a civil and criminal investigation into the sale and marketing of Zoladex (goserelin acetate implant). The investigation was prompted by the filing of a *qui tam* complaint by a private party in 1997 and involves allegations of improper submissions of claims to the Medicare and Medicaid programmes. The Company and federal and state authorities are in the process of negotiating a potential settlement of the civil and criminal claims at issue in the investigation. As a result, although no final agreement has been concluded, the Company believes it appropriate to accrue \$350m to cover estimated settlement costs.

### Plendil (felodipine)

In August 2000, AstraZeneca LP received a letter from Mutual Pharmaceutical Co., Inc. informing AstraZeneca of Mutual's intention to market a generic version of AstraZeneca's felodipine extended release tablets (*Plendil*) prior to the expiration of AstraZeneca's patent covering the extended release formulation. AstraZeneca filed a patent infringement action against Mutual in the US District Court for the Eastern District of Pennsylvania. Mutual responded and filed counterclaims alleging non-infringement and invalidity. Expert discovery is due to close in March 2003. A trial date has not yet been set.

In May 2001, AstraZeneca Pharmaceuticals LP received a similar letter from Zenith Goldline Pharmaceuticals, Inc. and in July 2001, AstraZeneca filed a patent infringement action against Zenith in the US District Court for the District of New Jersey. Zenith responded and filed counterclaims alleging non-infringement. Fact discovery is due to close in May 2003. A trial date has not yet been set.

### Nolvadex (tamoxifen)

AstraZeneca is a co-defendant with Barr Laboratories, Inc. in numerous purported class actions filed in federal and state courts throughout the US. All of the state court actions were removed to federal court and have been consolidated, along with all of the cases originally filed in federal court, in a federal multi-district litigation proceeding pending in the US District Court for the Eastern District of New York. Some of the cases were filed by plaintiffs representing a putative class of consumers who purchased tamoxifen. The other cases were filed on behalf of a putative class of 'third party payers' (including health maintenance organisations, insurers and other managed care providers and health plans) that have reimbursed or otherwise paid for prescriptions of tamoxifen. The plaintiffs allege that they paid 'supra-competitive and monopolistic prices' for tamoxifen as a result of the settlement of patent litigation between Zeneca and Barr in 1993. The plaintiffs seek injunctive relief, treble damages under the anti-trust laws, disgorgement and restitution. In April 2002, AstraZeneca filed a motion to dismiss the cases for failure to state a cause of action. The court's decision is awaited.

In August 2002, AstraZeneca's US distribution agreement with Barr Laboratories, Inc. for non-branded tamoxifen expired, as did AstraZeneca's patent for Nolvadex (tamoxifen). At the same time, a six month period of market exclusivity, awarded by the US Food and Drug Administration in connection with the successful completion of certain paediatric testing with the product, commenced. Barr thereafter commenced litigation against the FDA in the US District Court for the District of Columbia, challenging the FDA's refusal to grant Barr final approval for its own generic tamoxifen prior to expiration of AstraZeneca's exclusivity period. Barr also declined AstraZeneca's offer to extend the distribution agreement through the end of the exclusivity period. Therefore, in October 2002, AstraZeneca began shipping its own non-branded tamoxifen to customers to ensure an uninterrupted supply to patients. In December 2002, the Court held that Barr could not obtain final FDA approval for its own generic tamoxifen prior to the expiration of AstraZeneca's paediatric exclusivity for Nolvadex. In January 2003, Barr made a claim that AstraZeneca improperly thwarted Barr's entry into the tamoxifen market and caused Barr monetary damages. AstraZeneca disputes the claim.

**Zestril (lisinopril)**

In 1986, AstraZeneca's predecessor company and Merck & Co., Inc. entered into licence agreements under which AstraZeneca was granted the right to make, use and sell lisinopril (*Zestril*), in return for which AstraZeneca agreed to pay royalties to Merck. In April 2002, AstraZeneca commenced arbitration proceedings against Merck under one of the licence agreements. In the arbitration, AstraZeneca is seeking repayment of approximately \$38m of prior royalty amounts and a prospective reduction in the royalty rate going forward, based on a provision of the licence agreement which reduces the royalty rate if sales of lisinopril by third parties exceed a certain level. The case is currently progressing under the arbitration rules of the International Chamber of Commerce.

**Retail pharmacies'/drug purchasers' actions**

Since October 1993, several thousand retail pharmacies and certain retail drug purchasers have commenced purported class actions and individual actions in various federal and state courts throughout the US alleging that, with respect to brand name prescription drugs, manufacturers and wholesalers engaged in discriminatory pricing practices, discriminatory discounting and rebate practices, and/or conspired with one another to fix prices and artificially maintain high prices to the plaintiffs in restraint of trade and commerce. More than 20 brand name prescription drug manufacturers and eight wholesalers have been named defendants in some or all of these suits.

AstraZeneca entered into a settlement agreement with the retail class plaintiffs whose anti-trust claims were consolidated in a federal multi-district litigation proceeding pending in the US District Court for the Northern District of Illinois. AstraZeneca also reached settlements with numerous independent and chain pharmacies that opted out of the federal class action, although there are still actions brought by certain chain and independent pharmacies pending in federal court. AstraZeneca has settled or been dismissed from all of the state cases except for a consumer case pending in state court in Alabama. AstraZeneca has consistently denied liability and continues to believe it has meritorious defences to all of these claims. However, it believes that entering into these settlements is the prudent course of action given the inherent risks and costs of litigation and to avoid further business disruption.

**Average wholesale price class action litigation**

In January 2002, AstraZeneca was named as a defendant along with 24 other pharmaceutical manufacturers in a class action suit, in Massachusetts, brought on behalf of a putative class of plaintiffs alleged to have overpaid for prescription drugs as a result of inflated wholesale list prices. The suit seeks to recover unspecified damages. AstraZeneca has also been named as a co-defendant with various other pharmaceutical manufacturers in similar class action suits filed in five other states. Most of these suits have been consolidated with the Massachusetts action for pre-trial purposes pursuant to federal multi-district litigation procedures. AstraZeneca believes that it has meritorious defences to all of these claims.

**Additional government investigations into drug marketing practices**

As is true for most, if not all, major prescription pharmaceutical companies operating in the US, AstraZeneca is currently involved in multiple additional US federal and state criminal and civil investigations into drug marketing and pricing practices. AstraZeneca has received subpoenas from the US Attorney's Office in Boston requesting production of documents relating to the sale and promotion of *Prilosec* to the New England Medical Center in Boston. A separate subpoena from the same office requests documents relating to *Prilosec* purchasing and services agreements with AdvancePCS, the pharmacy benefits management company. AstraZeneca has also received a subpoena from the Massachusetts Attorney General's Office seeking documents relating to the sale and promotion of five products (*Prilosec*, *Seroquel*, *Rhinocort Aqua*, *Toprol-XL* and *Zestril*) within Massachusetts. AstraZeneca has received an investigative demand from the Missouri Attorney General's Office seeking documents and information relating to agreements with drug retailers doing business within Missouri. Most recently, AstraZeneca has received a Civil Investigative Demand from the US Federal Trade Commission for certain information concerning AstraZeneca's advertising and marketing of *Nexium*. AstraZeneca is cooperating with these investigations. It is not possible to predict the outcome of any of these investigations, which could include the payment of damages and the imposition of fines, penalties and administrative remedies.

**General**

AstraZeneca is also involved in various other legal proceedings considered typical to its businesses, including some remaining US retail pharmacy anti-trust class and individual actions outside the scope of the settlements described above and litigation relating to employment, product liability, commercial disputes, infringement of intellectual property rights and the validity of certain patents. Although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Note 34 to the Financial Statements, AstraZeneca does not expect them to have a materially adverse effect on AstraZeneca's financial position or profitability.

## Notes to the Financial Statements continued

**35 Leases**

Total rentals under operating leases charged to profit and loss account were as follows:

	2002 \$m	2001 \$m	2000 \$m
Hire of plant and machinery	23	25	15
Other	96	76	74
	119	101	89

Commitments under operating leases to pay rentals during the year following the year of these Financial Statements analysed according to the period in which each lease expires were as follows:

	Land and buildings		Other assets	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Expiring within one year	5	5	11	12
Expiring in years two to five	25	37	15	13
Expiring thereafter	32	25	2	2
	62	67	28	27

The future minimum lease payments under operating leases that have initial or remaining terms in excess of one year at 31 December 2002 were as follows:

	Operating leases	
	2002 \$m	2001 \$m
<b>Obligations under leases comprise</b>		
Rentals due within one year	90	94
Rentals due after more than one year		
After five years from balance sheet date	94	97
From four to five years	21	20
From three to four years	27	21
From two to three years	38	25
From one to two years	47	35
	227	198
	317	292

The Group had no commitments (2001 \$nil) under finance leases at the balance sheet date which were due to commence thereafter.

**36 Statutory and other information**

	2002 \$m	2001 \$m	2000 \$m
<b>Statutory audit fees</b>			
KPMG Audit Plc	3.5	2.5	3.2
Others	0.1	0.1	–
	3.6	2.6	3.2
<b>Fees for other services</b>			
KPMG Audit Plc and associates – UK	0.4	3.2	8.9
– Worldwide	3.1	2.0	5.0
	3.5	5.2	13.9

Non statutory audit fees paid to KPMG Audit Plc and its associates were in relation to other assurance services \$1.5m (2001 \$1.8m); taxation \$1.8m (2001 \$2.1m); and other non audit services \$0.2m (2001 \$1.3m).

In addition to the above, in 2000 KPMG Audit Plc and its associates charged fees for other services of \$8.0m that were borne by Syngenta AG in relation to its demerger from AstraZeneca.

The charge for the statutory audit of the Company, AstraZeneca PLC, was \$1,600 (2001 \$1,600, 2000 \$1,600). KPMG Audit Plc were sole auditors to AstraZeneca in 2002 and 2001.

The bulk of fees for other services charged by KPMG Audit Plc and its associates (aside from the Zeneca Agrochemicals demerger and associated restructuring work) were incurred in the early months of 2000, completing 1999 integration projects.

**Related party transactions**

The Group had no material related party transactions which might reasonably be expected to influence decisions made by the users of these Financial Statements.

**Subsequent events**

No significant change has occurred since the date of the annual Financial Statements.

## Notes to the Financial Statements continued

## 37 Company information

## Company Balance Sheet

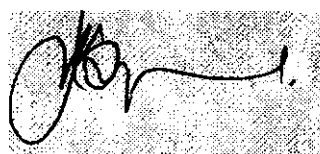
At 31 December

	Notes	2002 \$m	2001 \$m
<b>Fixed assets</b>			
Fixed asset investments	37	7,236	6,736
		7,236	6,736
<b>Current assets</b>			
Debtors – amounts owed by subsidiaries		27,104	27,998
Total assets		34,340	34,734
<b>Creditors due within one year</b>			
Non-trade creditors	37	(2,961)	(835)
		(2,961)	(835)
Net current assets		24,143	27,163
Total assets less current liabilities		31,379	33,899
<b>Creditors due after more than one year</b>			
Loans – owed to subsidiaries	37	(295)	(590)
Net assets		31,084	33,309
<b>Capital and reserves</b>			
Called-up share capital	38	429	436
Share premium account	37	403	334
Capital redemption reserve	37	16	9
Other reserves	37	1,841	2,239
Profit and loss account	37	28,395	30,291
<b>Shareholders' funds – equity interests</b>		31,084	33,309

The financial statements on pages 58 to 122 were approved by the Board of Directors on 30 January 2003 and were signed on its behalf by:

Sir Tom McKillop  
Director

Jonathan Symonds  
Director

**37 Company information (continued)****Deferred taxation**

The parent company had no deferred tax assets or liabilities (actual or potential) at 31 December 2002.

Fixed asset investments	Investments in subsidiaries		
	Shares \$m	Loans \$m	Total \$m
Cost at beginning of year	6,145	591	6,736
Additions	500	–	500
<b>Net book value at 31 December 2002</b>	<b>6,645</b>	<b>591</b>	<b>7,236</b>
Net book value at 31 December 2001	6,145	591	6,736

Non-trade creditors	2002 \$m	2001 \$m
Amounts due within one year		
Short term borrowings (unsecured)	3	3
Other creditors	50	4
Amounts owed to subsidiaries	2,100	8
Dividends to Shareholders	808	820
	<b>2,961</b>	<b>835</b>

Loans – owed to subsidiaries	Repayment Dates	2002 \$m	2001 \$m
Loans (unsecured)			
US dollars			
6.58% loan	2003	295	295
7.2% loan	2023	295	295
Total loans		<b>590</b>	<b>590</b>
Loans or instalments thereof are repayable			
After five years from balance sheet date		295	295
From two to five years		–	–
From one to two years		–	295
Total unsecured		<b>295</b>	<b>590</b>
Total due within one year		<b>295</b>	<b>–</b>
Total loans		<b>590</b>	<b>590</b>

## Notes to the Financial Statements continued

**37 Company information (continued)**

<b>Reserves</b>	Share premium account \$m	Capital redemption reserve \$m	Other reserves \$m	Profit and loss account \$m	2002 Total \$m	2001 Total \$m
At beginning of year	334	9	2,239	30,291	32,873	32,759
Net profit for the year	-	-	-	102	102	2,314
Dividends	-	-	(398)	(808)	(1,206)	(1,225)
Share re-purchase	-	7	-	(1,190)	(1,183)	(1,074)
Share premiums	69	-	-	-	69	99
At end of year	403	16	1,841	28,395	30,655	32,873
Distributable reserves at end of year	-	-	443	1,614	2,057	1,623

As permitted by section 230 of the Companies Act 1985, the Company has not presented its profit and loss account.

At 31 December 2002 \$26,781m (31 December 2001 \$29,440m) of the profit and loss account reserve was not available for distribution. The majority of this non-distributable amount relates to profit arising on the sale of Astra AB to a subsidiary in 1999, which becomes distributable as the underlying receivable is settled in cash. During 2002, \$2,659m of the profit was realised by repayment. Subsequent to the year end a further \$825m was repaid on 23 January 2003 resulting in additional distributable reserves not included in the figures above. Included in other reserves is a special reserve of \$157m, arising on the redenomination of share capital in 1999.

<b>Reconciliation of movement in shareholders' funds</b>	2002 \$m	2001 \$m
Shareholders' funds at beginning of year	33,309	33,201
Net profit for the financial year	102	2,314
Dividends	(1,206)	(1,225)
Issues of AstraZeneca PLC Ordinary Shares	69	99
Re-purchase of AstraZeneca PLC Ordinary Shares	(1,190)	(1,080)
Net (reduction in)/addition to shareholders' funds	(2,225)	108
<b>Shareholders' funds at end of year</b>	<b>31,084</b>	<b>33,309</b>

**38 Called-up share capital of parent company**

	Authorised 2002 \$m	Allotted, called-up and fully paid	
		2002 \$m	2001 \$m
Ordinary Shares (\$0.25 each)	429	429	436
Unissued Ordinary Shares (\$0.25 each)	171	-	-
Redeemable Preference Shares (£50,000)	-	-	-
	600	429	436

The Redeemable Preference Shares carry limited class voting rights and no dividend rights. This class of shares is capable of redemption at par at the option of the Company on the giving of seven days' written notice to the registered holder of the shares.

The movements in share capital during the year can be summarised as follows:

	No. of shares (million)	\$m
At beginning of year	1,745	436
Issues of shares	2	-
Re-purchase of shares	(28)	(7)
At 31 December 2002	1,719	429

**Share buy-back**

During the year the Company purchased, and subsequently cancelled, 28,386,560 Ordinary Shares at an average price of 2785 pence per share for a consideration, including expenses, of \$1,190m. The excess of the consideration over the nominal value has been charged against the profit and loss account reserve.

**Share schemes**

A total of 1,737,401 shares were issued during the year in respect of share schemes. Details of movements in the number of shares under option are shown in Note 33; details of options granted to Directors are shown in the Directors' Remuneration Report.

## Principal Subsidiaries, Joint Ventures and Associates

At 31 December 2002	Country	Percentage of voting share capital held	Principal activity
<b>UK</b>			
AstraZeneca UK Limited	England	100#	Research, production, marketing
AstraZeneca Insurance Company Limited	England	100	Insurance and reinsurance underwriting
AstraZeneca Treasury Limited	England	100	Treasury
<b>Continental Europe</b>			
NV AstraZeneca SA	Belgium	100	Marketing
ASP SA	France	100	Production
AstraZeneca Pharma SA	France	100	Research, production, marketing
AstraZeneca GmbH	Germany	100	Development, production, marketing
AstraZeneca Holding GmbH	Germany	100	Production, marketing
AstraZeneca SpA	Italy	100	Production, marketing
AstraZeneca Farmaceutica Spain SA	Spain	100	Production, marketing
AstraZeneca AB	Sweden	100	Research and development, production, marketing
Astra Tech AB	Sweden	100	Research and development, production, marketing
AstraZeneca BV	The Netherlands	100	Marketing
<b>The Americas</b>			
AstraZeneca do Brasil Ltda.	Brazil	100	Production, marketing
AstraZeneca Canada Inc.	Canada	100	Research, production, marketing
IPR Pharmaceuticals Inc.	Puerto Rico	100	Development, production, marketing
AstraZeneca LP	US	99	Development, production, marketing
AstraZeneca Pharmaceuticals LP	US	100	Development, production, marketing
Salick Health Care, Inc.	US	100	Provision of disease-specific healthcare services
Zeneca Holdings Inc.	US	100	Production, marketing
<b>Asia, Africa &amp; Australasia</b>			
AstraZeneca Pty Limited	Australia	100	Research, production, marketing
AstraZeneca Pharmaceutical Co., Limited	China	100	Production, marketing
AstraZeneca Hong Kong Limited	Hong Kong	100	Production
AstraZeneca KK	Japan	80	Production, marketing

# shares held directly

The companies and other entities listed above are those whose results or financial position principally affected the figures shown in the Group's annual financial statements. A full list of subsidiaries, joint ventures and associates will be annexed to the Company's next annual return filed with the Registrar of Companies. The country of registration or incorporation is stated alongside each company. The accounting dates of principal subsidiaries and associates are 31 December, except for Salick Health Care, Inc. which is 30 November. AstraZeneca operates through 235 subsidiary companies worldwide. Products are manufactured in some 20 countries worldwide and are sold in over 100 countries.

## Additional Information for US Investors

### Differences between UK and US accounting principles

The accompanying consolidated financial statements included in this Annual Report are prepared in accordance with UK GAAP. Certain significant differences between UK GAAP and US GAAP which affect AstraZeneca's net income and shareholders' equity are set out below.

#### Purchase accounting adjustments

Under UK GAAP the merger of Astra and Zeneca was accounted for as a 'merger of equals' (pooling-of-interests). Under US GAAP the merger was accounted for as the acquisition of Astra by Zeneca using 'purchase accounting'. Under purchase accounting, the cost of the investment is calculated at the market value of the shares issued together with other incidental costs and the assets and liabilities of the acquired entity are recorded at fair value. As a result of the fair value exercise, increases in the values of Astra's tangible fixed assets and inventory were recognised and values attributed to their in-process research and development, existing products and assembled work force, together with appropriate deferred taxation effects. The difference between the cost of investment and the fair value of the assets and liabilities of Astra was recorded as goodwill. The amount allocated to in-process research and development was, as required by US GAAP, expensed immediately in the first reporting period after the business combination. Fair value adjustments to the recorded amount of inventory were expensed in the period the inventory was utilised. Additional amortisation and depreciation have also been recorded in respect of the fair value adjustments to tangible and intangible assets and the resulting goodwill.

In the consolidated financial statements prepared under UK GAAP, goodwill arising on acquisitions made prior to 1 January 1998 accounted for under the purchase method has been eliminated against shareholders' equity. Under the requirements of UK Financial Reporting Standard 10 'Goodwill and Intangible Assets', goodwill on acquisitions made after 1 January 1998 is capitalised and amortised over its estimated useful life which is generally presumed not to exceed 20 years. UK GAAP requires that on subsequent disposal or termination of a previously acquired business, any goodwill previously taken directly to shareholders' equity is then charged in the income statement against the profit or loss on disposal or termination. Up until 1 January

2002, under US GAAP, goodwill was required to be capitalised and amortised. Now, instead of being amortised, goodwill is tested annually for impairment. Amortisation charged under UK GAAP is added back in the reconciliation of net income. The intangible recognised as assembled workforce has been reclassified as goodwill.

Identifiable intangible assets, which principally include patents, 'know-how' and product registrations, are amortised over their estimated useful lives which vary between 5 years and 20 years with a weighted average life of approximately 13 years.

At 31 December 2002 and 2001, shareholders' equity includes capitalised goodwill of \$13,600m and \$12,169m respectively (net of amortisation and impairment of \$2,383m and \$2,180m) and capitalised identifiable intangible assets of \$9,433m and \$9,789m respectively (net of amortisation and impairment of \$4,566m and \$3,475m). Goodwill on businesses disposed of is charged to the gain or loss on disposal.

On disposal of a business, the gain or loss under US GAAP may differ from that under UK GAAP due principally to goodwill capitalised and amortised, together with the appropriate share of other differences between UK and US accounting principles recognised previously.

#### Capitalisation of interest

AstraZeneca does not capitalise interest in its financial statements. US GAAP requires interest incurred as part of the cost of constructing fixed assets to be capitalised and amortised over the life of the asset.

#### Dividends

Under UK GAAP Ordinary Share dividends proposed are provided for in the year in respect of which they are recommended by the Board of Directors for approval by the shareholders. Under US GAAP such dividends are not provided for until declared by the Board.

#### Deferred taxation

Deferred taxation is provided on a full liability basis under US GAAP, which permits deferred tax assets to be recognised if their realisation is considered to be more likely than not. Under current UK GAAP, full provision is also made although there are a number of different bases on which this calculation is made, eg rolled over capital gains.

### Pension and post-retirement benefits

There are four main differences between current UK GAAP and US GAAP in accounting for pension costs:

- (i) US GAAP requires measurements of plan assets and obligations to be made as at the date of the financial statements or a date not more than three months prior to that date. Under UK GAAP, calculations may be based on the results of the latest actuarial valuation;
- (ii) US GAAP mandates a particular actuarial method – the projected unit credit method – and requires that each significant assumption necessary to determine annual pension cost reflects best estimates solely with regard to that individual assumption. UK GAAP does not mandate a particular method, but requires that the method and assumptions taken as a whole should be compatible and lead to the actuary's best estimate of the cost of providing the benefits promised;
- (iii) under US GAAP, a negative pension cost may arise where a significant unrecognised net asset or gain exists at the time of implementation. This is required to be amortised on a straight-line basis over the average remaining service period of employees. Under UK GAAP, AstraZeneca's policy is not to recognise pension credits in its financial statements unless a refund of, or reduction in, contributions is likely; and
- (iv) under US GAAP, a minimum pension liability is recognised through other comprehensive income in certain circumstances when there is a deficit of plan assets relative to the projected benefits obligation. Under UK GAAP, there is no such requirement.

## Additional Information for US Investors continued

### Differences between UK and US accounting principles (continued)

#### Restructuring costs

Under UK GAAP, provisions are made for restructuring costs once a detailed formal plan is in place and valid expectations have been raised in those affected that the restructuring will be carried out. US GAAP requires a number of specific criteria to be met before such costs can be recognised as an expense. Among these are the requirements that the costs incurred are incremental to other costs incurred by the company, or represent amounts to be incurred under contractual obligations which are not associated with or do not benefit activities that will be continued. Also, all significant actions arising from a restructuring and their completion dates must be identified by the balance sheet date. To the extent that restructuring costs are related to the activities of the acquired company, US GAAP allows them to be recognised as a liability upon acquisition.

#### Software costs

Under UK GAAP, AstraZeneca capitalises certain defined software costs. Under US GAAP software costs are generally capitalised and amortised over three to five years.

#### Foreign exchange

Under UK GAAP, unrealised gains and losses on foreign currency transactions to hedge anticipated, but not firmly committed, foreign currency transactions may be deferred and accounted for at the same time as the anticipated transactions. Under US GAAP such deferral is not permitted except in certain defined circumstances.

#### Derivative instruments and hedging activities

Under US GAAP, all derivative instruments should be recognised as assets or liabilities in the balance sheet at fair value. Gains and losses are recognised in net income unless they are regarded as hedges. Under UK GAAP, these instruments are measured at cost and gains or losses deferred until the underlying transactions occur.

#### Deferred income

Under UK GAAP, profits or losses from the sale of product related intangible assets are classified in other operating income and are stated after taking account of product disposal costs and costs of minor outstanding obligations. Under US GAAP, such profits are deferred and recognised in

the income statement in subsequent periods until all disposal obligations and commitments have been completed.

#### Current assets and liabilities

In the Group's financial statements prepared under UK GAAP, no cost is accrued for the share options awarded to employees under the Zeneca 1994 Executive Share Option Scheme, the AstraZeneca Share Option Plan, and the AstraZeneca Savings-Related Share Option Scheme as the exercise price is equivalent to the market value at the date of grant. Under US GAAP the cost is calculated as the difference between the option price and the market price at the date of grant or, for variable plans, at the end of the reporting period (until measurement date). Under the requirements of APB Opinion No. 25 any compensation cost would be amortised over the period from the date the options are granted to the date they are first exercisable. Under US GAAP in the net income reconciliation, the Group has adjusted for stock compensation costs and calculated under APB Opinion No. 25.

#### Statement of cash flows: Basis of preparation

AstraZeneca's Statement of Group Cash Flow is prepared in accordance with United Kingdom Financial Reporting Standard 1 (Revised 1996) ('FRS 1'), whose objective and principles are similar to those set out in SFAS No. 95, 'Statement of Cash Flows'. The principal differences between the standards relate to classification. Under FRS 1, the Company presents its cash flows for (a) operating activities; (b) dividends received from joint ventures and associates; (c) returns on investments and servicing of finance; (d) tax paid; (e) capital expenditure and financial investment; (f) acquisitions and disposals; (g) dividends paid to shareholders; (h) management of liquid resources; and (i) financing. SFAS No. 95 requires only three categories of cash flow activity being (a) operating; (b) investing; and (c) financing.

Cash flows from taxation, returns on investments and servicing of finance and dividends received from joint ventures and associates under FRS 1 would be included as operating activities under SFAS No. 95; capital expenditure and financial investment and acquisitions and disposals would be included as investing activities; and distributions would be included as a financing activity under SFAS No. 95. Under FRS 1 cash comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand; and liquid resources

comprise current asset investments held as readily disposable stores of value. Under SFAS No. 95 cash equivalents, comprising short term highly liquid investments, generally with original maturities of three months or less, are grouped together with cash; short term borrowings repayable on demand would not be included within cash and cash equivalents and movements on those borrowings would be included in financing activities.

#### New accounting standards adopted

Statement of Financial Accounting Standards SFAS No. 141 'Business Combinations' and SFAS No. 142 'Goodwill and Other Intangible Assets' were issued in July 2001 and are effective for accounting periods commencing on or after 15 December 2001. Under SFAS No. 141, all business combinations initiated after 30 June 2001 must be accounted for using the purchase method. The pooling of interest method is no longer permitted. Intangible assets arising on acquisitions are required to be amortised to residual values over their estimated useful lives unless they are regarded as having indefinite useful lives, in which case they are tested annually for impairment. Goodwill, arising on a combination of business, is tested for impairment annually in lieu of amortisation. SFAS No. 142 requires that goodwill and intangible assets acquired prior to 1 July 2001 should continue to be amortised and tested for impairment until the adoption of the standard. Upon adoption of SFAS No. 142 an impairment test must be carried out on all intangible assets with indefinite useful lives and goodwill. Any impairment loss identified on the date of adoption of SFAS No. 142 should be accounted for as a cumulative effect of a change in accounting principle. At the same time, the estimated useful lives of amortised intangible assets must be reviewed.

Adoption of these new accounting standards has resulted in an estimated increase in net income of \$755m (including amortisation charged under UK GAAP of \$55m). Initial adoption of SFAS No. 142 did not result in an impairment charge, nor was there any impairment at the subsequent annual test. Had goodwill not been amortised in 2001, net income would have increased from \$1,397m to \$2,125m (2000 \$865m to \$1,716m) with a corresponding increase in basic and diluted earnings per share from \$0.77 to \$1.21 (2000 \$0.49 to \$0.97). No changes were made to estimated useful lives of intangible assets.

SFAS No. 144 'Accounting for the Impairment or Disposal of Long-Lived Assets'

addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of' and the accounting and reporting provisions of APB Opinion No. 30, 'Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions', for the disposal of a segment of a business. It is effective for accounting periods beginning on or after 15 December 2001. The adoption of SFAS No. 144 did not have a material effect.

**New accounting standards not yet adopted**

SFAS No. 143 'Accounting for Asset Retirement Obligation' addresses the accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. It is effective for accounting periods beginning on or after 15 June 2002. The adoption of SFAS No. 143 is not expected to have a material effect.

SFAS No. 146 'Accounting for Costs Associated with Exit or Disposal Activities', issued on 30 July 2002 requires costs associated with exit or disposal activities to be recognised when the costs are incurred rather than at the date of commitment to an exit or disposal plan. The provisions are effective for disposals initialised after 31 December 2002 and restatement of prior periods is not required. As SFAS No. 146 may apply to future activities which are not currently envisaged it is not possible to assess the impact of SFAS No. 146.

SFAS No. 148 'Accounting for Stock Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123' permits two additional transition methods for entities that adopt the fair value based method of accounting for stock-based employee compensation. The Statement also requires new disclosures about the ramp-up effect of stock-based employee compensation on reported results and that those effects be disclosed more prominently by specifying the form, content and location of those disclosures. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after 15 December 2002. AstraZeneca has not yet determined whether it will adopt the transition provisions of SFAS No. 148.

## Additional Information for US Investors continued

**Differences between UK and US accounting principles (continued)****Introduction**

As a result of the significant difference between the UK GAAP and US GAAP treatment of the combination of Astra and Zeneca in the year of acquisition, and in the results of preceding periods, condensed statements of operations and cash flow under US GAAP have been prepared for the benefit of US investors.

The following is a summary of the material adjustments to net income and shareholders' equity which would have been required if US GAAP had been applied instead of UK GAAP. As noted on page 62, 2001 and 2000 net income and shareholders' equity under UK GAAP have been restated under FRS19 – Deferred Tax. On this basis the deferred tax adjustment below has been restated for those years.

<b>Net income</b>	<b>2002 \$m</b>	<b>2001 \$m</b>	<b>2000 \$m</b>
Net income, as shown in the consolidated statements of income before exceptional items (restated)	3,186	3,044	2,858
Exceptional items after tax	(350)	(138)	(581)
<b>Net income for the period under UK GAAP (restated)</b>	<b>2,836</b>	<b>2,906</b>	<b>2,277</b>
<b>Adjustments to conform to US GAAP</b>			
Purchase accounting adjustments (including goodwill and intangibles)			
Deemed acquisition of Astra			
Amortisation and other acquisition adjustments	(864)	(1,514)	(1,756)
Others	55	–	(20)
Capitalisation, less disposals and amortisation of interest	46	57	45
Deferred taxation			
On fair values of Astra	239	249	284
Others (restated)	(99)	(198)	115
Pension expense	(50)	(33)	(50)
Post-retirement benefits/plan amendment	4	4	4
Software costs	(46)	(10)	98
Restructuring costs	–	(22)	(97)
Share based compensation	33	(7)	(33)
Fair value of derivative financial instruments	93	18	–
Deferred income recognition	61	(75)	–
Unrealised losses on foreign exchange and others	(1)	(10)	(2)
<b>Net income before cumulative effect of change in accounting policy</b>	<b>2,307</b>	<b>1,365</b>	<b>865</b>
Cumulative effect of change in accounting policy, net of tax, on adoption of SFAS No 133	–	32	–
<b>Net income in accordance with US GAAP</b>	<b>2,307</b>	<b>1,397</b>	<b>865</b>

## Differences between UK and US accounting principles (continued)

## US GAAP Condensed Consolidated Statement of Operations

For the years ended 31 December	2002 \$m	2001 \$m	2000 \$m
Sales	17,841	16,222	15,583
Cost of sales	(4,520)	(4,198)	(3,960)
Distribution costs	(141)	(122)	(210)
Research and development	(3,069)	(2,687)	(2,620)
Selling, general and administrative expenses	(6,165)	(5,219)	(4,861)
Acquisition related costs	-	(224)	(419)
Amortisation of intangibles and goodwill	(1,052)	(1,769)	(2,043)
Other income	308	283	223
<b>Operating income</b>	<b>3,202</b>	<b>2,286</b>	<b>1,693</b>
Net interest income	140	188	183
<b>Income from continuing operations before taxation</b>	<b>3,342</b>	<b>2,474</b>	<b>1,876</b>
<b>Taxes on income from continuing operations</b>	<b>(1,035)</b>	<b>(1,109)</b>	<b>(969)</b>
<b>Net income from continuing operations</b>	<b>2,307</b>	<b>1,365</b>	<b>907</b>
Discontinued operations:			
Net income from discontinued operations	-	-	(42)
<b>Net income before cumulative effect of change in accounting policy</b>	<b>2,307</b>	<b>1,365</b>	<b>865</b>
Cumulative effect of change in accounting policy on adoption of SFAS No 133	-	32	-
<b>Net income for the year</b>	<b>2,307</b>	<b>1,397</b>	<b>865</b>
Weighted average number of \$0.25 Ordinary Shares in issue (millions of shares)	1,733	1,758	1,768
Dilutive impact of share options outstanding (millions of shares)	2	3	2
Diluted weighted average number of \$0.25 Ordinary Shares in accordance with US GAAP (millions of shares)	1,735	1,761	1,770
Net income per \$0.25 Ordinary Share and ADS before change in accounting policy in accordance with US GAAP – basic and diluted (\$)	\$1.33	\$0.77	\$0.49
Net income per \$0.25 Ordinary Share and ADS after change in accounting policy in accordance with US GAAP – basic and diluted (\$)	\$1.33	\$0.79	\$0.49
	2002	2001	2000
Net income from continuing operations per \$0.25 Ordinary Share and ADS in accordance with US GAAP – basic and diluted (\$)	\$1.33	\$0.79	\$0.51
Net loss from discontinued operations per \$0.25 Ordinary Share and ADS in accordance with US GAAP – basic and diluted (\$)	-	-	(\$0.02)

The dividend in specie in 2000 in respect of the demerger of Zeneca Agrochemicals under US GAAP amounted to \$836m, after realised exchange gains on the translation of foreign currency financial statements of \$297m.

As noted on page 62, cash settlement discounts have been reclassified from cost of sales to sales. Comparative information for 2001 and 2000 has also been reclassified for consistency of presentation.

## Additional Information for US Investors continued

## Differences between UK and US accounting principles (continued)

## US GAAP Statement of Comprehensive Income

## For the years ended 31 December

	2002 \$m	2001 \$m	2000 \$m
Net income for the year	2,307	1,397	865
Exchange gains/(losses) net of tax	2,919	(1,473)	(2,184)
Exchange realised on demerger of Zeneca Agrochemicals	-	-	(297)
Other movements	(73)	-	(2)
<b>Total Comprehensive Income</b>	<b>5,153</b>	<b>(76)</b>	<b>(1,618)</b>

Other movements in 2002 include the recognition of a minimum liability under SFAS 87 of \$45m.

The cumulative exchange gains and losses (net of tax) on the translation of foreign currency financial statements under US GAAP are set out in the following note:

For the years ended 31 December	2002 \$m	2001 \$m	2000 \$m
Balance at 1 January	(4,318)	(2,845)	(364)
Movement in year	2,919	(1,473)	(2,481)
Balance at 31 December	(1,399)	(4,318)	(2,845)

## Stock compensation

In the Group's financial statements prepared under UK GAAP, no cost is accrued for the share options awarded to employees under the Zeneca 1994 Executive Share Option Scheme, the AstraZeneca Share Option Plan, and the AstraZeneca Savings-Related Share Option Scheme as the exercise price is equivalent to the market value at the date of grant. Under US GAAP the cost is calculated as the difference between the option price and the market price at the date of grant or, for variable plans, at the end of the reporting period (until measurement date). Under the requirements of APB Opinion No. 25 any compensation cost would be amortised over the period from the date the options are granted to the date they are first exercisable. Under US GAAP in the net income reconciliation, the Group has adjusted for stock compensation costs as calculated under APB Opinion No 25. SFAS No. 123 sets out an alternative methodology for recognising the compensation cost based on the fair value at grant date. Had the Group adopted this methodology, the incremental effect on net income under US GAAP is shown below:

	2002 \$m	2001 \$m	2000 \$m
Net income under US GAAP as reported	2,307	1,397	865
Compensation cost (after adjusting for APB 25 credit of \$33m)	(155)	(76)	(46)
Pro forma net income	2,152	1,321	819
Pro forma net income per \$0.25 Ordinary Share and ADS in accordance with US GAAP (basic and diluted):			
As reported (\$)	\$1.33	\$0.79	\$0.49
Pro forma (\$)	\$1.24	\$0.75	\$0.46

The fair value of options granted is estimated, based on the stock price at the grant date, using the Black-Scholes option pricing model with the following assumptions:

	2002	2001	2000
Dividend yield	1.6%	1.5%	2.0%
Expected volatility	30.0%	20.0%	20.0%
Risk-free interest rate	5.2%	4.2%	5.9%
Expected lives: 1994 Scheme	-	-	6.0 years
Expected lives: AstraZeneca Share Option Plan	6.0 years	6.0 years	6.0 years
Expected lives: SAYE Scheme	4.3 years	4.3 years	4.6 years

In the initial phase-in period, the effects of applying SFAS No. 123 for disclosing compensation cost may not be representative of the effects on pro forma net income and earnings per share for future years.

**Differences between UK and US accounting principles (continued)****Pension and post-retirement benefits**

For the purposes of US GAAP, the pension costs of the major UK retirement plan and of the retirement plans of the major non-UK subsidiaries have been restated in the following tables in accordance with the requirements of SFAS No. 132. These plans comprise a substantial portion of the actuarial liabilities of all AstraZeneca retirement plans. The changes in projected benefit obligations, plan assets and details of the funded status of these retirement plans, together with the changes in the accumulated other post-retirement benefit obligations, under SFAS No. 132 are as follows:

Change in projected benefit obligation	Pension benefits		Other post-retirement benefits	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Benefit obligation at beginning of year	4,337	4,188	205	197
Service cost	114	102	8	7
Interest cost	263	243	14	14
Participant contributions	18	17	-	-
Plan amendments	-	(11)	-	-
Actuarial (gain)/loss	80	75	23	(1)
Special termination benefits	12	19	-	-
Settlement and curtailment	-	-	(24)	-
Benefits paid	(206)	(198)	(19)	(14)
Exchange	408	(98)	3	2
Benefit obligation at end of year	5,026	4,337	210	205

Change in plan assets	Pension benefits		Other post-retirement benefits	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Fair value at 1 January	3,753	3,803	-	-
Actual return on plan assets	(142)	45	(16)	-
Group contribution	284	170	161	-
Participant contributions	18	17	-	-
Settlement and curtailment	-	-	-	-
Benefits paid	(205)	(198)	(12)	-
Exchange	330	(84)	-	-
Fair value of plan assets at end of year	4,038	3,753	133	-
Funded status of plans	(988)	(584)	(77)	(205)
Unrecognised net loss/(profit)	938	396	-	-
Prior service cost not recognised	29	35	-	-
Unrecognised net obligation on implementation	3	6	-	-
	(18)	(147)	(77)	(205)
Adjustments to recognise minimum liability				
Intangible assets	(45)	-	-	-
Accumulated other comprehensive income	(45)	-	-	-
Accrued benefit liability	(108)	(147)	(77)	(205)

## Additional Information for US Investors continued

**Differences between UK and US accounting principles (continued)**

At 31 December 2002, the projected benefit obligation, accumulated benefit obligation and fair value of the plan assets in respect of the retirement plans above with accumulated benefit obligations in excess of plan assets were \$4,249m, \$3,557m and \$3,296m, (2001 \$97m, \$73m and \$nil) respectively.

Assumed discount rates and rates of increase in remuneration used in calculating the projected benefit obligations together with long term rates of return on plan assets vary according to the economic conditions of the country in which the retirement plans are situated. The weighted average rates used for calculation of year end benefit obligations and forecast benefit cost in the main retirement plans and other benefit obligations for SFAS No. 132 purposes were as follows:

	Pension benefits			Other post-retirement benefits		
	2002 %	2001 %	2000 %	2002 %	2001 %	2000 %
Discount rate	5.8	6.0	5.6	6.6	7.1	7.1
Long term rate of increase in remuneration	4.1	4.4	4.4	4.8	n/a	n/a
Expected long term return on assets	6.4	6.5	6.2	7.8	n/a	n/a

The Group has assumed a long term rate of increase in healthcare costs of 11.0%, reducing to 5.0%.

	Pension benefits			Other post-retirement benefits		
	2002 \$m	2001 \$m	2000 \$m	2002 \$m	2001 \$m	2000 \$m
<b>Net periodic cost</b>						
Service cost – present value of benefits accruing during the year	114	102	152	8	7	10
Interest cost on projected benefit obligations	263	243	301	14	14	17
Expected return on assets	(263)	(242)	(322)	–	–	–
Net amortisation and deferral	28	39	46	(1)	(2)	(1)
Net periodic cost for the year	142	142	177	21	19	26

It is estimated that a 1 percentage point change in the weighted average healthcare costs trend would have the following effects on the accumulated benefit obligation and net periodic cost at 31 December 2002:

	1 percentage point	
	increase \$m	decrease \$m
Accumulated benefit obligation	10	(9)
Net periodic cost	2	(1)

**Taxation****Years ended 31 December****Taxes on income from continuing operations****UK taxation**

	2002 \$m	2001 \$m	2000 \$m
Corporation tax	165	147	79
Double taxation relief	(7)	(4)	(42)
Deferred	40	10	(27)
<b>Overseas taxation</b>			
Overseas taxes	921	831	956
Deferred taxation	(84)	125	–
Share of taxation of joint ventures and associates	–	–	3
<b>Taxes on income from continuing operations</b>	<b>1,035</b>	<b>1,109</b>	<b>969</b>

**Differences between UK and US accounting principles (continued)**

The table below reconciles the UK statutory tax charge to the Group's actual charge on income from continuing operations.

<b>Years ended 31 December</b>	<b>2002 \$m</b>	<b>2001 \$m</b>	<b>2000 \$m</b>
Income on continuing operations	3,342	2,506	1,876
Taxation charge at UK corporation tax rate of 30% for 2002 (30% for 2001, 30% for 2000)	1,002	751	563
Acquisition related items	-	4	29
Goodwill, Advanta, and Salick Health Care impairment	-	190	576
Net effect of different rates and eligible costs in other jurisdictions	(21)	(43)	(86)
Exceptional items	105	4	19
Other	(51)	203	(132)
<b>Tax on income from continuing operations</b>	<b>1,035</b>	<b>1,109</b>	<b>969</b>

In 2002, claims amounting to \$43m (2001 \$109m) for tax relief arising as a result of a restructuring of the AMI joint venture in 1998 were made. Under US GAAP, these reliefs are adjusted against the goodwill arising on the restructuring and included in other adjustments.

<b>Shareholders' equity</b>	<b>2002 \$m</b>	<b>2001 \$m</b>
Total shareholders' equity under UK GAAP (restated)	11,172	9,586

**Adjustments to conform to US GAAP**

Purchase accounting adjustments (including goodwill and intangibles)

Deemed acquisition of Astra		
Goodwill	12,692	11,062
Tangible and intangible fixed assets	7,707	8,139
Others	86	31
Capitalisation, less disposals and amortisation of interest	238	192
Deferred taxation		
On fair value of Astra	(2,305)	(2,313)
Others (restated)	(159)	(68)
Dividend	808	820
Pension expense	(271)	(162)
Post-retirement benefits/plan amendment	(24)	(28)
Software costs capitalised	64	110
Fair value of derivative financial instruments	99	50
Deferred income recognition	(14)	(75)
Others	90	58
<b>Shareholders' equity in accordance with US GAAP</b>	<b>30,183</b>	<b>27,402</b>

## Additional Information for US Investors continued

## Differences between UK and US accounting principles (continued)

## US GAAP Condensed Consolidated Statement of Cash Flows

For the years ended 31 December	2002 \$m	2001 \$m	2000 \$m
Cash flows from operating activities	4,833	3,126	3,554
Cash flows from investing activities			
Movement in short term investments and fixed deposits	(806)	260	(608)
New fixed asset investments	(1)	(5)	(3)
Disposal of fixed assets	66	44	37
Acquisitions and disposals	-	(44)	740
Capital expenditure	(1,608)	(1,582)	(1,460)
Net cash outflows from investing activities	(2,349)	(1,327)	(1,294)
Net cash flow before financing	2,484	1,799	2,260
Cash flows from financing activities			
Equity dividends paid	(1,234)	(1,236)	(1,220)
Repurchase of AstraZeneca PLC Ordinary Shares	(1,154)	(994)	(334)
Net (decrease)/increase in short term borrowings	(13)	7	(67)
Loans repaid/new loans	(105)	28	3
Repayment of lease finance	-	-	(2)
Net cash outflows from financing activities	(2,506)	(2,195)	(1,620)
(Decrease)/increase in cash	(22)	(396)	640
Cash:			
At 1 January	510	908	262
(Decrease)/increase in cash	(22)	(396)	640
Exchange movements	36	(2)	6
At 31 December	524	510	908

(1) Interest paid was \$96m in 2002, \$84m in 2001, \$145m in 2000.  
Interest received was \$142m in 2002, \$232m in 2001, \$180m in 2000.

(2) Tax paid was \$795m in 2002, \$792m in 2001, \$648m in 2000.

Entity Code	Legal Name	Country of Incorporation	Effective Equity %
1002	AstraZeneca UK Limited	England and Wales	100
1004	Zeneca Limited	England and Wales	100
1005	ZENCO (No 6) Limited	England and Wales	100
1006	AstraZeneca Quest Limited	England and Wales	100
1007	Wilmington Pharmaceuticals Limited	England and Wales	100
1012	AstraZeneca Employee Share Trust Limited	England and Wales	100
1013	AstraZeneca Share Trust Limited	England and Wales	100
1017	Zenco (No 8) Limited	England and Wales	100
1018	Zenco (No 9) Limited	England and Wales	100
1019	AstraZeneca Treasury Limited	England and Wales	100
1020	AstraZeneca US Investments Limited	England and Wales	100
3302	Avlex Limited	England and Wales	100
3303	Stuart Pharmaceuticals Limited	England and Wales	100
3330	IC Insurance Limited	England and Wales	51
3348	Care Laboratories Limited	England and Wales	100
3350	Care Products Limited	England and Wales	100
3395	ZENCO (No. 12) Limited	England and Wales	100
3700	AstraZeneca China UK Limited	England and Wales	100
3915	AYZEE 1 Limited	England and Wales	100
3916	AYZEE 2 Limited	England and Wales	100
3917	AYZEE 3 Limited	England and Wales	100
3918	AYZEE 4 Limited	England and Wales	100
3919	AYZEE 5 Limited	England and Wales	100
3920	AYZEE 6 Limited	England and Wales	100
3921	AYZEE 7 Limited	England and Wales	100
3922	AYZEE 8 Limited	England and Wales	100
3923	AYZEE 9 Limited	England and Wales	100
3924	AYZEE 10 Limited	England and Wales	100
4170	Pharmaceutical Manufacturing Company Pty Limited	Australia	100
4171	J Glover Laboratories Pty Limited	Australia	100
4181	AstraZeneca Superannuation Plan Pty Limited	Australia	100
4182	AstraZeneca Executive Superannuation Plan Pty Limited	Australia	100
4183	J Glover Distributors Pty Limited	Australia	100
4184	Zeneca Australia Superannuation Pty Limited	Australia	100
4185	ZENECA PHARMACEUTICALS AUSTRALIA PTY LTD	Australia	100
4186	AstraZeneca Holdings Pty Limited	Australia	100
4188	AstraZeneca PTY Limited	Australia	100
4189	AstraZeneca Limited	New Zealand	100
4190	ZENECA HOLDINGS AUSTRALIA PTY LTD	Australia	100
5036	Comprehensive Cancer Corporation of New York Inc	United States of America	100
5283	Zeneca Delaware Holdings Inc.	United States of America	100
5286	Atkemix Nine Inc.	United States of America	100
5301	Atkemix Ten Inc.	United States of America	100
5302	CCC Management Company of California, Inc.	United States of America	100
5303	Atkemix Twelve Inc.	United States of America	100
5304	Zeneca International Inc.	United States of America	100
5305	CCC Management Company, Inc.	United States of America	100
5308	The Breast Center, Inc	United States of America	100
5309	CCC Management Company of New York, Inc.	United States of America	100
5310	AstraZeneca Latin America Inc	United States of America	100
5313	Zeneca Ag Products Holdings Inc. II	United States of America	100
5315	Stauffer Management Company LLC	United States of America	100
5332	Stauffer Chemical Co. Canada Limited	Canada	100
5336	AZ Reinsurance Limited	Cayman Islands	100
5339	Arbil International Insurance Limited	Cayman Islands	51
5406	Zeneca Holdings Financial Corp.	United States of America	100
5418	Zeneca Resins Holdings Inc.	United States of America	100
5500	Zeneca Holdings Inc.	United States of America	100
5501	Zeneca Inc.	United States of America	100
5502	AZ-Mont Insurance Company	United States of America	100
5511	Comprehensive Cancer Centers Inc.	United States of America	100
5512	Ushawl Inc.	United States of America	100
5514	OAMG, Inc.,	United States of America	100
5515	Salick MG, Inc.,	United States of America	100
5516	SHC - NY Consulting Services, Inc.,	United States of America	100
5517	Carlos Dominguez, M.D., FACP, Inc.,	United States of America	100
5518	Enrique Davilla, M.D., FACP, Inc.,	United States of America	100
5519	Michael A. Schwartz, MC., Inc.,	United States of America	100
5520	Quorn Foods Inc.	United States of America	100
5521	Nixon, Blaustein, Tuchman-Ratzan & Lutzky, M.D.'s, Inc.,	United States of America	100
5524	SHC Cancer Care LLC	United States of America	100
5530	Corpus Christi Holdings Inc.	United States of America	100
5541	Century Dialysis Corporation	United States of America	100
5544	Ambulatory Diagnostic Testing Services, Inc.	United States of America	100
5545	SHC Laboratories, Inc.	United States of America	100
5550	Infusx, Inc.	United States of America	100
5553	CCC of North Miami Beach Inc.	United States of America	100
5554	Logic Health Systems, Inc.	United States of America	100

5556	Salicknet Inc.	United States of America	100
5560	Salick Health Care, Inc.	United States of America	100
5561	Astra U.S. Holdings Corporation	United States of America	100
5562	Astra USA, Inc.	United States of America	100
5563	AstraZeneca Pharmaceuticals, LP	United States of America	100
5564	AstraZeneca, LP	United States of America	99
5567	Astra Tech Ltd	England and Wales	100
5568	Astra Tech Oy	Finland	100
5569	AstraZeneca, S.A. de C.V.	Mexico	100
5570	Astra Tech, Inc.	United States of America	100
5603	Zeneca Pharma Inc.	United States of America	100
5667	Astra-Thai Holdings	United States of America	100
5668	AstraZeneca Canada Inc.,	Canada	100
6004	Laboratorio Lailan, S.A.	Spain	100
6005	Laboratorio Epsilon, S.A.	Spain	100
6013	AstraZeneca Holding GmbH	Germany	100
6020	AstraZeneca B.V.	HOLLAND	100
6030	Zeneca Italia S.r.l.	Italy	100
6078	STUART - PRODUTOS FARMACEUTICOS, LDA	Portugal	100
6080	Laboratorio Tau S.A.	Spain	100
6083	Laboratorio Beta, S.A.	Spain	100
6084	Laboratorio Icaro SA	Spain	100
6085	Laboratorio Odin, S.A.	Spain	100
6103	AstraZeneca GmbH	Germany	100
6104	Rhein-Pharma Arzneimittelwerk GmbH	Germany	100
6105	Ivamed GmbH	Germany	100
6108	Pharma-Stern GmbH	Germany	100
6109	Promed Arzneimittel GmbH	Germany	100
6119	AstraZeneca S.A.	France	100
6120	AstraZeneca Reims SAS	FRANCE	100
6125	AstraZeneca SpA	Italy	100
6127	NV AstraZeneca SA	Belgium	100
6142	AstraZeneca AS	Norway	100
6143	Zeneca AB	Sweden	100
6145	AstraZeneca Holding AktieBolag	Sweden	100
6159	AstraZeneca Farmaceutica Holding Spain SA	Spain	100
6206	AstraZeneca Zeta B.V.	HOLLAND	100
6208	AstraZeneca Jota B.V.	HOLLAND	100
6209	AstraZeneca Rho B.V.	HOLLAND	100
6210	AstraZeneca Sigma B.V.	HOLLAND	100
6213	AstraZeneca Omega B.V.	HOLLAND	100
6218	Stuart Pharma AB	Sweden	100
6219	AstraZeneca Farmaceutica Spain S.A.	Spain	100
6221	AstraZeneca Gamma B.V.	HOLLAND	100
6222	AstraZeneca Theta B.V.	HOLLAND	100
6224	AstraZeneca Lambda B.V.	HOLLAND	100
6226	AstraZeneca Holdings B.V.	HOLLAND	100
6227	AstraZeneca Pi B.V.	HOLLAND	100
6267	AstraZeneca Holdings A/S	Denmark	100
6305	AstraZeneca Österreich GmbH	Austria	100
6329	AstraZeneca Sp. z o.o.	Poland	100
6332	Novastra	Portugal	100
6440	AstraZeneca AG	Switzerland	100
6793	AstraZeneca Sverige AB	Sweden	100
6892	AstraZeneca AB	Sweden	100
6893	Aktiebolaget Rila	Sweden	100
6894	Hassle Research Aktiebolag	Sweden	100
6895	Astra Biotech AB	Sweden	100
6899	Astra Nordic AB	Sweden	100
6900	Swedish Graft Technique Aktiebolag	Sweden	100
6901	Aktiebolaget Medena	Sweden	100
6902	Astra Tech International Aktiebolag	Sweden	100
6903	Crafon Aktiebolag	Sweden	100
6904	Imeco Aktiebolag	Sweden	100
6905	Astra Middle East AB	Sweden	100
6906	Durapharm Aktiebolag	Sweden	100
6908	Aktiebolaget Astromen	Sweden	100
6909	Astra Fondaktiebolag	Sweden	100
6910	AstraZeneca International Holdings AB	Sweden	100
6911	Astra Pharma AB	Sweden	100
6912	AstraZeneca Development AB	Sweden	100
6913	Aktiebolaget Hassle	Sweden	100
6914	Aktiebolaget Draco	Sweden	100
6916	Astra Tech GmbH	Germany	100
6917	Astra Pharmaceuticals AB	Sweden	100
6918	Astra Tech Aktiebolag	Sweden	100
6919	Astra Export & Trading AB	Sweden	100
6920	Hassle Lakemedel Aktiebolag	Sweden	100
6921	Tika Lakemedel Aktiebolag	Sweden	100

6922	Draco Lakemedel Aktiebolag	Sweden	100
6923	Astra Lakemedel AB	Sweden	100
6925	Symbicom Aktiebolag	Sweden	100
6932	Astra Tech AB	Norway	100
6933	Astra Tech B.V.	HOLLAND	100
6938	Carl Schneider ApS	Denmark	100
6939	Astra Tech A/S	Denmark	100
6941	AstraZeneca Finance SAS	France	100
6943	AstraZeneca Czech Republic, s.r.o.	Czech-Republic	100
6944	Astra Tech France SAS	France	100
6945	AstraZeneca Kft	Hungary	100
6959	Astra Tech	Austria	100
6960	AstraZeneca Produtos Farmaceuticos Lda	Portugal	100
6962	Astra Tech S.A.	Spain	100
6964	Astra Alpha Produtos Farmaceuticos Lda	Portugal	100
6965	Zeneca Epsilon Farmaceuticos Lda	Portugal	100
6970	Biothera SA	Belgium	100
6971	AstraZeneca S.A.	Greece	100
6972	Astra Tech Italy SpA	Italy	100
6974	Simesa SpA	Italy	100
6976	AstraZeneca Luxembourg SA	Luxembourg	100
6977	N.V. Vitalpharma S.A.	Belgium	100
6978	N.V. Astra Pharmaceuticals S.A.	Belgium	100
6979	A.S.P. S.A.,	France	100
6980	AstraZeneca Monts S.A.	France	100
6982	AstraZeneca Holding France SAS	France	100
6983	AstraZeneca Pharmaceuticals (Ireland) Limited	Republic of Ireland	100
6984	Astra Pharmaceuticals Limited	England and Wales	100
6985	AstraPharm	England and Wales	100
6986	AstraZeneca Continent B.V.,	HOLLAND	100
6988	AstraZeneca Alpha B.V.	HOLLAND	100
6989	Cophorne AG	Switzerland	100
6990	AstraZeneca Management Resources AG	Switzerland	100
6995	AstraZeneca OY.	Finland	100
6996	DuraNor AS,	Norway	100
6999	AstraZeneca A/S	Denmark	100
7117	AstraZeneca do Brasil Limitada	Brazil	100
7120	AstraZeneca Venezuela SA	Venezuela	100
7137	IPR Pharmaceuticals, Inc.	Puerto Rico	100
7161	AstraZeneca Farmaceutica Chile Limitada	Chile	100
7170	AstraZeneca Colombia S.A.	Colombia	100
7176	AstraZeneca Pharmaceuticals (Malaysia) SDN BHD	Malaysia	100
7194	AstraZeneca SA	Uruguay	100
7262	AstraZeneca Pharma India Limited	India	91.48
7264	AstraZeneca India Private Limited	India	100
7270	AstraZeneca Pharmaceuticals (Phils.) Inc.,	Philippines	100
7275	AstraZeneca KK	Japan	80
7290	Astra Pharmaceuticals Pakistan (Private) Limited	Pakistan	100
7318	AstraZeneca Singapore Pte Limited	Singapore	100
7319	AstraZeneca Pharmaceutical Co., Limited.	China - People's Republic of China	100
7326	AstraZeneca Hong Kong Limited	Hong Kong	100
7327	AstraZeneca Korea Limited	South Korea	100
7330	ASTRAZENECA TAIWAN LIMITED	Taiwan, Republic of China	100
7333	AstraZeneca Japan Limited	England and Wales	100
7335	AstraZeneca Ilac Sanayi Ve Ticaret A.S.	Turkey	100
7336	P.T. AstraZeneca Indonesia	Indonesia	95
7344	AstraZeneca China Limited	Hong Kong	100
7348	Zeneca Pharma Asiatic Limited	Thailand	100
7357	Zeneca Ilac Sanayi Ve Ticaret A.S.	Turkey	100
7358	AstraZeneca (Thailand) Limited	Thailand	100
7378	Zeneca Sino-pharm Development Consulting Company Limited	China - People's Republic of China	75
7400	AstraZeneca Pharmaceuticals (Pty) Limited	South Africa	100
7405	Astra Pharmaceuticals (Pty) Limited	South Africa	100
7421	Stuart Pharmaceuticals (South Africa) (Pty) Limited	South Africa	100
7960	AstraZeneca S.A.	Argentina	99.9
8007	Zeneca Pharmaceuticals (Number 2) Limited	England and Wales	100
8035	I.C. Insurance Holdings Limited	England and Wales	51
8044	AstraZeneca Insurance Company Limited	England and Wales	100
8062	Marlow Foods Limited	England and Wales	100
8094	ZENCO (No. 11) Limited	England and Wales	100
8097	AstraZeneca Investments Limited	England and Wales	100
8098	AstraZeneca Nominees Limited	England and Wales	100
8907	Zeneca Wilmington Inc.	United States of America	100
8910	Zeneca Finance (Netherlands) Company	England and Wales	100
8911	AstraZeneca Finance Limited	England and Wales	100
8913	Zeneca Holdings Limited	England and Wales	100
8914	Zeneca Bioscience Limited	England and Wales	100
8915	Stauffer Chemical Company Trust	United States of America	100