AstraZeneca Q2 11 Conference Call
Simon Lowth

Thank you David, and good afternoon everyone.

First, I'll review the profit and loss account for the second quarter.

I will then focus on the revenue performance at the regional and brand level.

I'll touch on cash performance, dividends and share repurchases

And finally, I will explain the upward revisions to our targets for the full year.

So, firstly, let me turn to the Core Profit and Loss account for the second quarter. The press release does, of course, contain the statutory numbers and a detailed reconciliation to these Core measures. When I refer to growth rates, they will be on a constant currency basis.

We achieved revenue in the second quarter of just over $8.4 billion dollars-- that is a 2 percent decline in constant currency terms.

The picture that David painted for the first half is also played out in the second quarter revenue. Generics provided a more than a half-billion dollar drag on revenue, split roughly evenly between the US and Rest of World. The second quarter performance also reflects the impact from government price interventions. This was only partially mitigated by the double digit growth in the brands that retain exclusivity—namely Crestor, Symbicort and Seroquel XR, and double digit growth in Emerging Markets. I'll come back to revenue later, but let's continue down the P&L.

Core gross margin was down 2 percent in the quarter, in line with revenues.

Core gross margin in the quarter was 82.7 percent of sales, marginally ahead of the second quarter 2010. For the full year 2010, Core gross margin was 81.2 percent of sales. For the full year, I expect Core gross margin will be somewhat higher than last year.

Core SG&A expenditures were up 9 percent in the quarter. Around half of this increase is attributable to two items that are not in the prior year numbers. The first should be no surprise...the excise tax arising from US healthcare reform is recorded in the SG&A line, and this amounts to around 2.5 percent of the SG&A increase in the quarter. The other is a one-off. The launch of an FDA approved generic version of Entocort in the US triggered a contractually required termination fee related to our marketing and distribution agreement for Entocort in the US. This accounts for another 2 percent of the increase.

The remainder of the net increase in SG&A is the continued investment in Emerging Markets that is driving our double-digit revenue growth there, and support for product launches. Expenditures in this quarter were only partially offset by efficiency and productivity savings in SG&A.

Part of this is just phasing, we are not going to spend at this rate for all 4 quarters. In fact, based on planned expenditures for the second half of this year and the quarterly phasing of SG&A spend last year, for the full year 2011, I expect SG&A to be broadly flat in constant currency terms.

So the 2 percent revenue decline becomes a 7 percent decline in Core Pre-R&D operating profit, since Core other income is basically a wash year on year. Whilst I am on other income, much of our economic interest in US Entocort came through other income, and with the contract termination and generic competition, we won't hit the $800 million level I previously guided. It will be probably be just under $700 million for the full year.

Core Pre-R&D margin in the quarter was 52.7 percent of revenue, largely due to the previously mentioned US excise tax, the one-off contract termination fee and investments in Emerging Markets and product launches.

Core R&D investment in the quarter was $1.1 billion, an 8 percent increase. Restructuring is generating productivity savings, but we are also supporting several late stage clinical programmes that began ramping up in the second half of 2010 and early this year and increased investment in biologics. Intangible impairments were also a bit higher compared with last year.

This leads to a Core operating profit of $3.3 billion in the quarter, 10 percent lower than last year.

Net finance expense was just slightly lower than last year.

Core Earnings per share in the quarter were $1.73 compared with $1.79 last year. This is a 5 percent decrease at constant currency. Core EPS benefited from a lower number of shares outstanding as a result of share repurchases, and a lower tax rate.

I appreciate that modelling our tax rate is challenging, especially reconciling the effective tax rate on a Core basis compared to the reported basis.

I refer you to page 13 in the press release for our updated guidance on both reported and Core tax rates.

As for the Core adjustments to earnings, the key difference is much lower restructuring costs this quarter compared to the second quarter last year, which is why the 5 percent decline in Core EPS becomes a 3 percent increase in EPS on a reported basis.

While I am on restructuring, we charged $138 million in the quarter, and the programme is on track for costs and benefits as previously disclosed.

I will now turn to our second quarter revenue performance. For the avoidance of doubt, when I refer to growth rates, they will all be on a constant currency basis.

Revenue Performance

As I mentioned at the outset, revenue in the quarter was down 2 percent.

You can see here the impact that generic competition and government interventions had on our two largest regions: Revenue in the US was down 3 percent, where we had to absorb US healthcare reform and almost $300 million in sales lost to generic competition, mostly Arimidex and Toprol XL. Revenue in Western Europe was down 9 percent, largely on generic erosion for Nexium and Arimidex, and the government pricing interventions.

Revenue in Established Rest of World was up 4 percent, with Crestor driving the growth in Canada, Japan and Australia.

Emerging Markets revenue increased by 10 percent. Nexium and Symbicort accounted for 45 percent of the revenue growth in this region, but there was also good growth with the oncology and cardiovascular products as well.

Key Brands

Turning now to revenue at the brand level, I will begin with **Crestor**.

Worldwide sales of Crestor increased by 15 percent to $1.7 billion. Across the world Crestor continues to grow ahead of the statin market growth rate.

In the US, sales were up 17 percent to $796 million. Total prescriptions were up 2.4 percent, compared with 1 percent for the total statin market. After a soft first quarter in market share performance, when generics tend to get a bounce from the annual roll over in managed care plans, we have seen some recovery, which is especially evident in dynamic share—that is the share of new and switch patients in the statin market. We started seeing some improvement in April, but the real market event was the FDA's June 8th safety advisory on simvastatin. In just 3 weeks after this notice, simvastatin lost more than 12 percentage points of dynamic share. We have picked up nearly 3 points of that, slightly better than our pre-event relative market share position would predict.

Crestor sales in the Rest of World were up 12 percent to $918 million. Volume in Western Europe grew in double-digits, although lower prices reduced reported sales growth to 7 percent. Sales in Established Rest of World were up 19 percent as sales in Japan, Canada and Australia all grew at double-digit rates. Sales in Emerging Markets were up 8 percent, which reflects the impact of generic rosuvastatin in some Eastern European markets.

Turning to the **Seroquel** franchise, second quarter sales were up 11 percent to $1.5 billion.

In the US, franchise sales in the second quarter were up 13 percent to just under $1.1 billion. Focussing on Seroquel XR, total prescriptions were up 19 percent in the second quarter compared with last year, and well ahead of the 4 percent growth in the atypical antipsychotic market. Although Serouquel IR prescriptions were down 2.6 percent, the total franchise was still up half a percent. In the US, Seroquel XR accounted for 16.9 percent of franchise prescriptions and 18.7 percent of franchise revenue in the second quarter.

Seroquel franchise sales in the Rest of World were $443 million, that is a 5 percent increase, fuelled by a 36 percent increase in Seroquel XR, which now accounts for 41 percent of franchise sales in these markets.

Symbicort sales were up 14 percent in the quarter, to $802 million.

In the US, sales in the second quarter were up 14 percent to $206 million. Total prescriptions were up 10 percent, compared with a 3 percent decline in the US market for fixed combination products. Symbicort share of total prescriptions reached 19.2 percent in June, up 2 percentage points over June of last year, despite the launch of a new entrant.

Market share of patients newly starting combination therapy is 26.1 percent.

Symbicort sales in the Rest of World were 13 percent ahead of last year, to $596 million. Sales in Western Europe were up 3 percent, despite the impact of price reductions in Germany. Sales in Established Rest of World increased by 57 percent reflecting continued strong growth in Japan as well as double digit growth in Canada and Australia. Sales in Emerging Markets were up 24 percent.

Alliance revenues for **Onglyza** were $46 million in the second quarter, of which $33 million was in the US.

Total prescriptions for DPP4 products in the US market are up 22 percent year to date, and that is compared to a 15 percent growth rate at this time last year, so this is an encouraging trend.

Kombiglyze XR, the first once daily fixed dose combination of a DPP4 inhibitor and metformin, was launched in the US during the first quarter, and it has given the total franchise a nice lift. Total franchise prescription share of the DPP4 market reached 14.1 percent in June, of which 2.7 percentage points is Kombiglyze XR. Combined share of new DPP4 starts was around 25 percent in the latest week, with 36 percent of these coming from Kombiglyze XR.

Franchise revenue was $13 million in the Rest of World.

The approval in the US for **Brilinta** was certainly welcome news. In the context of David's earlier observations about the journey from regulatory approval to protocol adoption, I think the key message from a second quarter revenue perspective is that revenue is very much a lagging, rather than a leading indicator of the pace of the launch rollout.

For example, in Germany, by far the largest market for which we have approval and reimbursement, there are 1000 or so target hospitals that we estimate account for 80 percent of ACS discharges. So far, we have achieved protocol approval in around 15 percent of these hospitals, which is in line with our expectations. And where the product is on protocol, we are getting good trial rates.

So that is a quick review of some of the key brand performances in the second quarter. The press release provides more detail on these and the other brands I haven't covered.

Cash flow

Let me now turn to cash flow.

Both EBITDA and Working capital are broadly in line compared with the first half last year, so the decrease of $1.9 billion in net cash generated from operating activities is driven by the tax and interest line, from the various settlements that have been made and some year on year phasing differences.

In terms of the application of cash, we started the year with net funds of $3.6 billion. We are exercising good discipline on capex and other investments. We distributed nearly $4.9 billion to shareholders; closing with a net funds position of just over $1 billion.

Dividends/Share Repurchase

Turning to the first interim dividend, the Board has recommended a first interim dividend of 85 cents. It is important that this be seen in the context of the Board's two objectives when it comes to the dividend. First, the overall progressive dividend policy, by which we intend maintain or grow the full year dividend each year. The second is the aim, over time, to adjust the balance between the relative weighting of the first versus the final dividend. Here, the aim is to set the first interim dividend at a level approximately 1/3 of the full dividend for the prior year, which in 2010 was $2.55. So this interim of 85 cents in keeping with this objective, and is around 33 percent of the $2.55.

The Board also is committed to returning cash in excess of our business requirements through periodic share repurchases, so let me just touch on where we are for share repurchases at the half year, and the plans for the second half.

You will recall that the Board has set a target of $4 billion for net share repurchases for 2011, and through the end of June we were more than half-way there, with net share repurchases of $2.2 billion.

Today, we announced that the Board's intent is to augment this target level by the net proceeds from the sale of Astra Tech for approximately $1.8 billion. How much of this is executed during 2011 is all a matter of the timing of the sale...the later it is in the year the harder it will be to complete the full additional amount in calendar 2011, but it will all go to shareholders. Our best estimate at this time is that for the full year 2011 net share repurchases could increase to the $5 billion level...with any remaining balance of the Astra Tech proceeds carried over to 2012.

Guidance

My final topic before handing over to Martin is our guidance update.

The underlying performance in the business in the first half has evolved in line with our expectations. We are driving the performance of brands where we maintain exclusivity.

We are focussing on productivity and efficiency. We are investing to drive growth in Emerging Markets and to successfully launch the new products; all while absorbing the impact of generic competition and government price interventions. Revenue for the full year still looks to be flat to a low single digit decline on a constant currency basis, with the year on year comparisons becoming less demanding in the second half.

We have increased our target for full year Core EPS by 10 cents. The new range is between $7.05 and $7.35 per share. The 10 cent increase is based on two factors below the operating line.

Around 6 cents or so is due to the re-phasing and expected increase in net share repurchases. The second item, around 4 cents, is the beneficial impact from exchange rate movements realised in the year to date compared to our guidance rates, which you will recall are the average rates that prevailed in January 2011 when the targets were communicated.

Let me be very clear, that this 4 cents is for exchange benefit that is already booked. There is no exchange rate impact embedded in our forward look for the second half—that is still based on the guidance basis—January 2011 rates.

As ever, our guidance going forward takes no account of the likelihood that average exchange rates for the remainder of the year may differ materially from the January average. As usual, I would point you to our currency sensitivity chart to help you flex your own estimates on the currency impact to sales and earnings.

So, underlying business performance is in line with our expectations, with Core EPS target raised on the back of share repurchases and first half exchange rate movements.

I will now hand over to Martin, for his R&D update. Martin...