Pascal Soriot & Simon Lowth
Q3 12 Analyst Script – 25th October 2012

Safe harbour statement and introduction from James Ward-Lilley

Pascal Soriot

Thank you James, and good afternoon everyone.

As I just joined AstraZeneca on October 1, it should come as no surprise to you that I am going to leave the presentation of our third quarter results in the capable hands of Simon, but I did want to join the call and introduce myself to those of you who follow AstraZeneca.

In addition to the well known challenges that confront the pharmaceutical sector as a whole, the loss of exclusivity of several of our brands in major markets has largely defined our financial performance in the first nine months of 2012. We will continue to meet these challenges with determination and focus on delivering against our targets.

In my first few months, I am working on three priorities:

First, getting out and visiting with as many people as I can, particularly in R&D and commercial.

Second, meet with shareholders and other stakeholders, to clarify their expectations of the Company and of me in my new role.

And finally, to immerse myself in the ongoing annual strategy update.

On this last point, I want to be clear. I will take as much time as necessary to engage with the organisation and work with the Board to see this strategy update to its conclusion, and not work to some arbitrary time table. So what should you expect in terms of communications?

I think it will be reasonable to expect that, in addition to the 2012 financials and our normal outlook for the coming year, I will be in a position to share with you my initial high-level thinking regarding strategic priorities and general direction at our annual results conference at the end of January, with an aim to flesh that out with more granularity and detail over the following months.

As I said when I joined the Company, I am excited and honoured to have been asked to lead AstraZeneca, and I'm looking forward to playing my part in restoring the Company to growth and scientific leadership.

Now let us turn to the third quarter results, and for that I will hand over to our Chief Financial Officer, Simon Lowth. Simon...

Simon Lowth

Thank you, Pascal.

I will focus on 5 topics:

First, I'll summarise the headline numbers.

Then, I'll cover the revenue performance by region and for selected brands.

Third, I will turn to the Core operating performance …with an emphasis on the key drivers of operating profit and margin.

I'll briefly touch on cash distributions to shareholders.

And finally, I will close with our thoughts on guidance for the full year.

Headline Results: Third Quarter

So, on to the headline results.

Total Company revenue was $6.7 billion in the quarter, a 15 percent decline in constant currency terms. Revenue declined by 19 percent on an actual basis as a result of the negative impact of exchange rate movements.

The dominant feature of our revenue profile in the third quarter, as indeed it has been for the year to date, is the loss of exclusivity on several brands—Seroquel IR alone was down more than 850 million dollars---and the disposals of Astra Tech and Aptium accounted for 1.8 percentage points of the revenue decline.

I'll discuss the regional and brand revenue performances shortly, but let's continue with the headline numbers.

Core operating profit in the quarter was down 14 percent in constant currency to $2.6 billion...the decline is broadly in line with revenue, but to be fair, Core operating profit benefited from the $250 million proceeds from the sale of OTC rights for *Nexium*. Benefits from restructuring and disciplined management of operating costs are also playing their part in helping to mitigate the impact of revenue declines on earnings.

Core earnings per share in the quarter were $1.51 compared with $1.71 last year. That is an 8 percent decrease in constant currency terms, with the benefit from net share repurchases providing the uplift compared to the Core operating profit trend.

Reported EPS were $1.22, down 50 percent at CER compared with $2.56 last year, which of course included $1.08 per share from the sale of Astra Tech.

So, those are the headlines for the third quarter. It is a broadly similar picture for the nine months in constant currency terms, with revenue down 15 percent, Core EPS down 11 percent, and Reported EPS down 36 percent versus last year.

Q3 Revenue performance

Returning to the third quarter revenue performance, when I refer to growth rates, they will be on a constant currency basis.

Revenue in the US was down 19 percent compared with the third quarter last year driven by loss of exclusivity for Seroquel IR... excluding Seroquel IR, the rest of the portfolio increased by 6 percent in the quarter. Third quarter revenue includes $44 million related to our share of sales of the Amylin diabetes portfolio following completion of the alliance expansion in August.

Revenue in Western Europe was down 20 percent in the quarter. Loss of exclusivity on four products—Seroquel IR, Atacand, Nexium and Merrem—accounted for 70 percent of the revenue decline, in addition to continued headwinds from government interventions.

Revenue in Established Rest of World was down 18 percent, largely due to a 43 percent decline in Canada as a result of generic competition for Crestor and Atacand.

Revenue in Emerging Markets was up 6 percent in the quarter. Revenue increased by 23 percent in both China and in Russia. Brazil returned to modest growth, as the impact from the loss of exclusivity for Crestor and Seroquel IR is now behind us. A weak performance in Mexico in the face of challenging market conditions continues to negatively impact our performance, reducing revenue growth in Emerging Markets by more than 2 percentage points. We hope to see some stabilizing of the trend in Mexico once we pass the twelve month anniversary of the at risk launch of generics for Crestor.

Brands

This slide provides a snapshot of revenue for key brands.

We grew revenues for the key brands that retain market exclusivity in most of our major markets...except for Crestor, where we have had generic competition in Canada since April. Excluding Canada, worldwide sales of Crestor were up 7 percent.

Symbicort had a good quarter, on strong growth in the US.

Seroquel XR was up 8 percent. We had another strong quarter for our oncology products, Iressa and Faslodex.

A good performance for Onglyza...

And slow but steady progress on Brilinta.

But, as you can see on the bottom of the slide, loss of exclusivity continues to take its toll on Seroquel IR, Atacand and Merrem.

Nexium has generic competition in Western Europe, but we also had a decline this quarter in Japan, where sales in the third quarter last year was launch stocking, whereas demand so far this year has been significantly constrained by the Ryotanki. Ryotanki is the regulation that restricts prescriptions for products in their first year on the market in Japan to just a two week supply, and that has hindered the launch uptake. Ryotanki was lifted at the beginning of October, and we are now seeing a significant ramp up in daily sales...we look forward to a solid performance for Nexium in Japan going forward.

Detailed commentaries on brand performances are in the press release. I want to provide some additional colour on three products...Crestor, an update on the Brilinta launch, and the performance of the diabetes franchise.

First, **Crestor**.

Crestor sales were $1.5 billion in the quarter, down 3 percent, due to generic competition in Canada. As I mentioned earlier, excluding Canada global sales were up 7 percent.

Crestor sales in the US were up 11 percent to $833 million.

Total prescriptions for Crestor in the third quarter were down a bit more than 3 percent, compared to just under 1 percent growth in the statin market.

I am going to turn return to a slide that we have used in the past to look below the surface of total prescriptions and look at the dynamic components to illustrate the trends.

If we look at the yellow hashed line, which is net dynamic volume, you will note the strong uplift beginning in June of last year following the label change for simvastatin. So part of the slight downturn this quarter is due to the strength of the prior year period.

Lipitor first went generic at the end of November of 2011, and then multi-source generics arrived at the end of May. And you can see that the dynamic trend is quite resilient before and after May 2012.

I'd like to now take this same data, and look at it by payer channel, in order to illustrate the second driver to the quarter's TRx performance.

On the left is the same dynamic data we showed earlier, but isolating the majority of retail business, that is Commercial managed care and Medicare Part D. And it shows the same trend as before: a bump from simvastatin label change last year, and relative stability spanning the two Lipitor loss of exclusivity dates.

On the right, is the same data for Medicaid Fee for Service channel. At the half year results Tony Zook mentioned that we were no longer going to pursue this low margin business going forward, and you can see the volume erosion beginning in July.

I hope that gives you greater insight into the volume trends for Crestor—relative stability in the face of multi-source generic atorvastatin, a bit of weakness against the strong third quarter a year ago that was driven by the simvastatin label change, and a small decline in the current quarter as a result of our decision to not chase low margin Medicaid business.

So against a low single digit decline in total prescriptions, how did we generate 11 percent revenue growth in the quarter?

Well, there was a little bit of inventory movement year on year, but mostly this growth is driven by price. So far this year we have been able to achieve an increase in net realised prices for Crestor, but we also said that this would come under pressure once we had to contend with multiple generic atorvastatins...and this is proving to be the case as we complete the contracting cycle for 2013. We look to be in good position for formulary access in 2013, broadly similar to the high access we currently enjoy, but this is coming at the expense of price. I don't want to get too far ahead of our financial guidance for next year, but I think it is prudent to be thinking of net price declines for Crestor in the US next year.

In the Rest of World, I already mentioned the big driver, and that is loss of exclusivity for Crestor in Canada.

Turning to **Brilinta**, sales were $24 million in the quarter, with $15 million from Western Europe, and $7 million in the US.

In the US, we continue to make progress on the key launch metrics:

In particular, I would note the increase in trial rates among interventional cardiologists, as well as the nice uptick in unrestricted access in Medicare Part D.

We have recently prioritised driving trial and utilisation where we are **already on** formulary and protocol, and that is helping drive prescriptions.

You can see here from the latest data that total prescriptions in the third quarter are 55 percent higher than in quarter 2.

So, progress to be sure, but much, much more to do.

In Europe, the picture is a continuation of the growth trends that we saw in the second quarter:

In Germany...

The Nordic markets...

And in Italy.

We launched in France in July, so it is still very early days, but initial indications are that we are having a launch trajectory on par with other successful launches in Europe.

Finally, the **diabetes franchise**.

Revenue for Onglyza was up 42 percent to $84 million in the quarter.

Much of this is still in the US, where alliance revenue was $62 million.

Total prescriptions for DPP4's in the US are still growing strongly, up 21 percent in the quarter.

Our franchise share was 17.7 percent in September, that is up 1.2 percentage points since December, with Onglyza holding steady while Kombiglyze XR market share is up.

We are now in a position to begin launching Komboglyze—the combination of Onglyza and metformin immediate release—in Europe over the next several months..

Operating Profit and Margins

I will now turn to the third quarter P&L. I will focus here on Core margins and profit. The press release does, of course, contain the statutory numbers and a detailed reconciliation to the Core measures. As with sales, when I refer to growth rates, they will all be on a constant currency basis.

Core gross margin in the quarter was 81.1 percent of sales. That is down 10 basis points compared with the third quarter last year. There are moving parts below this broadly flat surface—unfavourable product mix and higher royalties as a percentage of revenue were broadly offset by benefits from the absence of Astra Tech and a lower net expense related to Merck arrangements.

Core SG&A expense was down 12 percent compared with the third quarter last year. Restructuring benefits, the absence of Astra Tech costs and continued discipline in managing costs were partially offset by new sales and marketing spend associated with the Amylin diabetes portfolio as well as amortisation of the related intangible assets. I expect the run rate for SG&A in the fourth quarter to be higher than this quarter.

Core other income more than doubled in the quarter, based on the proceeds from the sale of OTC rights for Nexium to Pfizer. And for the year to date, the movement of the US commercial contribution for Zomig from sales to other income is also affecting the comparison to last year.

That leads to a Core Pre-R&D operating margin of 55.7 percent of revenue, above the top of our 48 to 54 percent planning range and 2.2 percentage points higher than last year, largely on the Nexium OTC benefit to Core other income. As I said earlier, restructuring and spending discipline is doing its part on mitigating the revenue decline, but of itself would be insufficient.

Core R&D investment in the quarter was $1.1 billion. That is a 3 percent decrease versus last year. Benefits from the restructuring programme in R&D has enabled us to show a decrease in R&D spend while absorbing the partial-year effect of bringing on board the new projects from business development--such as Amgen, Ardea and Amylin--which otherwise would have exerted an upward tension on R&D spend

Core operating profit was $2.6 billion in the quarter, 14 percent lower than last year. Core operating margin was 39.4 percent of revenue, 30 basis points higher than last year.

Productivity/Restructuring

Turning to our Productivity programme, for the nine months we have incurred $1.2 billion of costs associated with the third phase, and combined with the $0.3 billion charged in the fourth quarter of 2011, we are on pace to take most of the $2.1 billion in programme costs by the end of this year. And we remain on track for delivering the estimated $1.6 billion in annual benefits by the end of 2014.

Cash

Cash generated from operating activities was $4.1 billion for the nine months, compared with $4.8 billion in the same period last year. Lower tax payments and net improvements in working capital only partially offset the lower operating profit.

For the nine months, cash outflows on externalisation activities reached $4.8 billion, driven by the acquisition of Ardea and the intangible assets associated with our collaboration with Bristol-Myers Squibb on Amylin.

Net cash distributions to shareholders for the nine months were $5.9 billion, through net share repurchases of $2.3 billion and dividends of $3.7 billion, being the combination of the second interim from 2011 and the first interim in 2012.

We announced the suspension of further share repurchases on 1 October.

Future Prospects/Guidance

Finally, turning to guidance.

As we expected, our financial performance for the first nine months largely reflects the ongoing impact from the loss of exclusivity for several brands in key markets...particularly Seroquel IR, but also for Atacand, Merrem, Crestor in Canada and Nexium in Europe. And the disposals of Astra Tech and Aptium also weigh on the year on year comparisons.

In addition, we continue to face the same challenges that the whole sector is facing: government interventions, payer pressures and the headwinds of a sluggish recovery in the global economy.

Benefits from our restructuring programmes and continued discipline in operating expenses have provided headroom for reinvestment in the business whilst also partially mitigating the impact of declining revenue on Core operating profit and margin.

As I mentioned in our first quarter results call, despite continued pressures on revenues and margins, the Company will continue to invest to drive future growth and value; in sales and marketing, to support our new products and growth markets, and in Research and Development, to progress value-creating assets within our portfolio and from further business development.

Based on the performance to date and the outlook for the remainder of the year, the Company continues to anticipate that revenue for the full year will decline in the range of the low to mid-teens in constant currency terms. The Company's Core EPS target for the full year also remains unchanged, in the range of $6.00 to $6.30. For the nine months 2012, Core operating profit and EPS includes one-off items totalling $0.35 per share ($0.19 from the tax settlement in the second quarter and $0.16 from the sale of OTC rights for *Nexium* in the third quarter).

Currency was neutral to Core EPS versus guidance rates for the first nine months. But I would remind you that the forward look is based on the January 2012 average exchange rates upon which our guidance was based...it takes no account of the likelihood that average exchange rates for the remainder of the year may differ materially from the January 2012 average.

We will now move on to the Q&A session.

For those of you who are taking part via the telephone you press *1 on your keypad to alert the operator that you wish to ask a question.

For those listening via the webcast you will find a text box on the webcast page to type your question. We will try and answer as many questions as possible.
Can we have the first question please.

Q&A

Thank you, operator. In Summary:

We expected 2012 would be a challenging year for AstraZeneca.

Loss of exclusivity on some key products, especially Seroquel IR, is the biggest single factor behind the 15 percent decline in revenues in the quarter and the nine months.

Restructuring and disciplined management of costs, combined with the proceeds from the sale of OTC rights for Nexium have helped mitigate the impact on Core operating profit, giving us the headroom for continued investment to drive growth.

Our brands that maintain exclusivity are performing well, such as Symbicort, Iressa and Onglyza.

And we have confirmed our Core EPS guidance range for the full year.

And with that, we will conclude our call, and bid you Good day.