

Q1 09 Conference Call Script
Simon Lowth

Thank you Jonathan, and good afternoon everyone.

I am pleased to be able to present a good set of first quarter results for AstraZeneca, particularly given the tough economic conditions.

Our performance is the result of excellent execution: driving growth in key product franchises and in all regions, including continued growth in our Emerging Markets, as well as continuing to progress the reshaping of our cost base for long term competitiveness.

We also experienced some revenue upside in the quarter from Toprol-XL, as we were successful in our efforts to ramp up production to meet the shortfall in the market caused by the withdrawal of two generic competitors, which I will come back to later.

Today I am going to cover 5 topics on our call:

First I'll summarise the headline numbers for the first quarter.

Then I will describe first quarter sales performance by region and by our key brands.

Having described the sales trends, I will turn to operating profit, and highlight the key drivers of our continued growth in Core operating profit.

I'll briefly touch on cash performance and our improved net debt position.

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

Headline Results

You will have seen from today's press release that we achieved sales in the first quarter of just over \$7.7 billion dollars, a 7 percent increase in constant currency terms. You will have also seen that the adverse impact of currency movements on the top line reduced the reported sales growth rate to zero.

Core operating profit for the quarter was up 19 percent at CER to \$3.36 billion, chiefly as a result of the increased sales, efficiencies in all our operating cost lines, as well as the increase in other operating income, which benefited from the gain on the disposal of Abraxane marketing rights.

Core Earnings per share in the quarter were \$1.58 compared with \$1.28 last year. This is a 20 percent increase at constant currency.

It was a busy quarter in terms of newsflow on the pipeline. These are summarised in the press release, and include advisory committee hearings on Onglyza and Seroquel XR, an approval for Symbicort in the US for COPD and a response on our Symbicort Pediatric application, the Crestor filings in the US and Canada based on the JUPITER trial, and a positive opinion on Iressa in Europe.

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

Sales Performance

We achieved sales growth of 7 percent in the first quarter.

Sales in the US were up 7 percent. As I mentioned in my opening remarks, Toprol-XL franchise sales benefited from the market withdrawal of two generic competitors, so sales of Toprol-XL plus the authorised generic increased by \$112 million. Strip out Toprol-XL and US sales were up 3 percent, including strong underlying growth for Crestor and Symbicort.

Sales in the Rest of World were up 7 percent.

In our Established Markets, sales in Western Europe were up 2 percent, as growth for Crestor, Seroquel and Symbicort more than offset the decline in Casodex sales resulting from generic competition. Sales in Japan were up 10 percent, chiefly on sales growth for Crestor and the oncology franchise. Crestor was the primary driver of the 14 percent increase in Australia in the first quarter.

In Emerging Markets, sales were up 15 percent. More than one-third of the increase was attributable to Crestor and Nexium; the balance was achieved across a broad range of product franchises. China again showed strong growth, with sales up 35 percent.

Key Brands

Turning now to our key brands, I will begin with the star performer in the quarter, **Crestor**.

Worldwide sales of Crestor increased by 35 percent to \$969 million. In the US and in our Rest of World markets Crestor is growing at 4 times the statin market growth rate.

In the US, sales were up 35 percent. Market share of total prescriptions increased to 10.3 percent in March. And all the other important indicators are looking strong. We saw positive net switches from other statins, including generic simvastatin. Dynamic share is around 15 percent, and Crestor enjoys a 15 percent share of total prescriptions written by cardiologists.

Crestor sales in the Rest of World also grew strongly up 34 percent. Sales in Western Europe were up 22 percent, where volume share is over 20 percent in France and Italy. Japan and Australia continue to perform very well. Sales in Emerging Markets were up 41 percent. In Mexico, Crestor just overtook Lipitor to become the market leading statin by value and volume share.

So a very strong quarter for Crestor.

Next, I'll look at **Nexium**. Sales were up 2 percent in the quarter to nearly \$1.2 billion.

Nexium sales in the US were down 4 percent. Dispensed retail tablet volume increased by 3.6 percent, although changes in IMS mail order data reporting may be causing an overstatement of a couple of percentage points, but still a very good performance in the US PPI market. As expected, average net selling prices were lower, by around 9 percent in the quarter.

Nexium sales in the Rest of World grew at double-digit rates. Sales in Western Europe increased by 8 percent despite the 35 percent decline in Germany. Sales in Emerging Markets were up 19 percent, including good growth in China.

Global **Seroquel** sales were up 11 percent to \$1.1 billion.

Sales in the US were up 14 percent to \$800 million. We have launched Seroquel XR for the bipolar depression and bipolar mania indications, and whilst it is still early days, prescription growth for XR is encouraging. Total prescriptions for the entire franchise, including Seroquel IR, increased by 3 percent in the US in the quarter, with more than 80 percent of the increase coming from the XR formulation.

In other markets, Seroquel sales were up 6 percent to \$325 million, despite the 68 percent decline in Canada due to generic competition, on the strength of a 19 percent increase in Western Europe.

I am sure by now you are all aware of the FDA advisory committee meeting on the MDD and GAD applications, and we look forward to having further discussions with the FDA regarding both sNDA's.

It was another good quarter for **Symbicort**, where sales were up 24 percent to \$515 million. In the US, sales in the first quarter were \$99 million, fuelled by continued growth in asthma and the launch of the COPD indication.

Symbicort share of new prescriptions for fixed combination products in the US increased to 12.8 percent in March, paced by a market share of patients new to combination therapy that is now over 20 percent.

Sales in the Rest of World were 13 percent ahead of the first quarter last year, to \$416 million. Sales in Western Europe were up 12 percent, and Emerging Markets sales increased by 19 percent.

The other item worth mentioning is **Pulmicort**.

As you know, whilst we settled the patent litigation on **Pulmicort Respules** with Teva in the fourth quarter last year, the approximately 3 months supply that they shipped into the market at the end of 2008 was permitted to be sold through to patients. The Teva product had a market share of around 52 percent in the first quarter, which reflects a lower pull-through than expected. As a result, the impact on our Pulmicort ex-factory sales (which were down 37 percent in quarter 1) will likely persist through the second quarter.

Operating Profit and Margins

I will now turn to the first quarter P&L, and the drivers of the growth in Core operating profit. 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 operating profit rose by 19 percent to \$3.36 billion in the quarter, or by \$525 million in constant currency. The sales increase, efficiencies in all the operating cost lines and the higher other income all contributed to this increase.

Core gross margin, at 82.0 percent of sales, was a 90 basis point improvement over 2008 in constant currency terms. Principal contributors were lower Merck payments as a percent of sales, efficiency gains and favourable product mix, partially offset by higher royalty payments.

Core R&D expenditures were unchanged at CER in the quarter, although with the currency impact reported expenditures were 17 percent lower. We continue to drive productivity and efficiencies in R&D, which allows us to absorb increased activity related to the maturing pipeline.

Core SG&A expense was 5 percent higher than first quarter last year. We continue to deliver efficiencies in our underlying SG&A costs, but the phasing of certain items in SG&A, such as employee benefit costs and higher legal expenses, are biased toward the first quarter this year.

I still expect the combination of R&D and SG&A to come in broadly flat in CER terms for the full year.

Core other income for the first quarter was \$293 million, \$142 million higher than 2008, chiefly as a result of the Abraxane disposal. With the April approval of the Nordic OTC product disposal by the Swedish competition authority, those proceeds, some \$220 million at current exchange rates, will be booked in the second quarter.

Reported Core operating margin for the quarter was 43.6 percent of sales compared to 36.0 percent in the first quarter 2008, but please note that 340 basis points of that improvement were related to currency. Of the 420 points of CER margin improvement, 190 basis points came from other operating income, with the balance of 240 basis points coming from operating leverage. Thus, the 7 percent increase in sales has resulted in a 19 percent increase in Core operating profit.

Productivity/Restructuring

Turning to our Productivity and Synergy initiatives, there were \$72 million in restructuring and synergy charges taken in the quarter.

The programme is on track as to costs incurred and benefits being realised.

Cash/Capital Structure

Let me now turn to cash flow

Cash generated from operations increased by \$190 million in the quarter, driven by strong underlying operational performance. This was more than offset by a phasing related increase in tax payments of \$325 million, resulting in a small reduction in net cash inflow from operating activities compared with the first quarter last year.

Net debt, at \$6.85 billion has decreased by a further \$321 million since the year end, even after paying the increased second interim dividend of \$2.1 billion.

And as you know there were no share repurchases in the quarter.

Future Prospects/Guidance

I will conclude my remarks with some comments on our full year guidance.

In the context of the continued deterioration in the general world economy, we as a management team remain cautious in our near term outlook for the pharma sector in general and for our business...and you will have seen these concerns echoed in IMS's revised forecasts for the global pharma sector for 2009.

We have posted a good set of first quarter results, and that is a reflection of excellent execution on all fronts: key franchises such as Crestor, Symbicort, Seroquel and Nexium are performing well against the competition. We are driving continued growth in Emerging Markets, we are making steady progress on our business reshaping initiatives and exercising discipline in managing every day costs.

We are also mindful that the revenue growth rate in the quarter was somewhat flattered by an easier comparison against Q1 08 in terms of destocking, as well as the un-anticipated upside to Toprol-XL in the US—where we have limited visibility as to how long that may last.

For the full year, our guidance for Core EPS is unchanged. We continue to target Core EPS in the range of \$5.15 to \$5.45.

The other guidance I gave at the year-end for gross margins, operating cost trends, other income and net finance expense and the tax rate, still hold.

Just to be clear, there are no currency related changes to our full year guidance. As a reminder, our Core EPS guidance is based on the average exchange rates that prevailed during January 2009 when the targets were communicated. Despite volatility, the actual rates in the first quarter haven't given rise to any meaningful currency variance on Core EPS vs our guidance basis. Going forward, this guidance takes no account of the likelihood that average exchange rates for the remainder of the year may differ materially from the January 2009 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.

I think I will wrap up my formal remarks here, and turn the call back to the conference operator to begin the question and answer session.

After the Q&A...

So, to summarise

- We have posted a good set of first quarter results, driving key product franchises and regional sales performance, as well delivering improvements in operating efficiency...
- However, we remain cautious in our outlook, in the context of global economic conditions
- And we have confirmed our guidance of Core EPS for the full year.

And with that, I will bid you all a good day.