

What science can do

AstraZeneca Annual Report and Form 20-F Information 2016



Chairman's Statement



In 2016, your Board of Directors continued to focus on implementing the strategy upon which we embarked in 2013, as well as ensuring that our progress was underpinned by good governance.

Strategic progress

As reported by Pascal Soriot, our Chief Executive Officer, we made good progress in delivering our strategic priorities in 2016. During the year, we brought a sharper focus to our three main therapy areas and boosted pipeline productivity further. As is to be expected, we encountered some setbacks on the way but our underlying business is growing and a new AstraZeneca is emerging, driven by our competitive franchises and our businesses in Emerging Markets.

As Marc Dunoyer, our Chief Financial Officer, outlines, our financial results for 2016 were in line with expectations and reflected the ongoing transition of our Company. The fall in Product Sales revenue was primarily due to the entry of generic competition to *Crestor* in the US. We now look ahead to the impact of our recent launches as well as the future launches that are to come from our late-stage pipeline.

Each year the Board reviews our strategy. Our review in 2016 confirmed our belief that 2017 has the potential to be a defining year for AstraZeneca as we bring new medicines to patients across the globe. We have the opportunity to launch several life-changing medicines for cancer, respiratory and metabolic diseases.

An uncertain world

Our performance in 2016 and in the year ahead takes place in an uncertain world. The economic recovery following the global financial crisis is still precarious and is fuelling calls for restrictions on trade and immigration. In the UK, following the vote for 'Brexit', we expect increased uncertainty both in the UK and the Eurozone. In the US, we expect the increased focus on pharmaceutical prices and their impact on healthcare costs to continue, while there remains uncertainty over the future of the Affordable Care Act and what might replace it.

On the other hand, and against this uncertain background, we believe the demand for healthcare will continue to increase with a growing and ageing world population. Access to our range of innovative medicines also continues to improve. Of course, challenges will always remain in what is a very competitive marketplace. These include the continuing, and planned for, cycle of expiring patents that lie at the heart of our business model, as well as competition from and the growing use of generic medicines. We need to obtain regulatory approval for new medicines, secure reimbursement for those medicines, and achieve pricing and sales sufficient to generate revenue and sustain

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the cycle of innovation. We need to work hard to continue to improve R&D productivity by carefully selecting those therapy areas and projects in which we invest, as well as controlling costs.

Returns to shareholders and outlook

In 2016, Reported earnings per share (EPS) of \$2.77 for the year represented an increase of 9%, including a gain of \$0.76 on the revaluation of acquisition-related liabilities. Core EPS in the year declined by 5% to \$4.31, driven by the decline in Total Revenue. Both Reported and Core EPS for the year included a non-recurring benefit of \$0.36, following agreements between the Canadian tax authority and the UK and Swedish tax authorities.

Given this performance, the Board was able to declare a second interim dividend of \$1.90 per share (150.2 pence, 16.57 SEK) bringing the dividend per share for the full year to \$2.80 (218.9 pence, 24.38 SEK). At the same time, the Board reaffirmed its commitment to the Company's progressive dividend policy.

Sound governance

AstraZeneca's Directors take very seriously their responsibility to have a robust governance structure in place to ensure that we are able properly to discharge our responsibilities in setting our strategy, as well as monitoring and reviewing progress as it is implemented, and ensuring that we manage our risks and carry out business responsibly.

We are also very conscious that, as Directors, we are accountable to our shareholders and must have regard to

Compliance with the UK Corporate Governance Code

We have prepared this Annual Report with reference to the UK Corporate Governance Code published by the UK Financial Reporting Council (FRC) in September 2014.

This Corporate Governance Report (together with other sections of this Annual Report) describes how we apply the main principles of good governance in the UK Corporate Governance Code.

We have complied throughout the accounting period with the provisions of the UK Corporate Governance Code, which is available on the FRC's website.

□ www.frc.org.uk

other stakeholders such as employees, customers, suppliers, the communities in which we do business and the environment. We welcome the opportunity at our Annual General Meeting to meet and answer shareholders' questions. We also maintain an active dialogue with shareholders throughout the year and listen to views of representatives of investors and financial institutions. The views of other stakeholders are also important.

We maintain an active dialogue with shareholders about executive remuneration. Our pay structure is intended to be sufficient to attract and retain high-calibre individuals in order to deliver the Company's strategy. In setting individual pay levels, we consider the individual's skills and experience, internal relativities and conditions in the local external market. Over the course of 2016, we have reviewed our Remuneration Policy and in his introduction to this year's Directors' Remuneration Report on page 103, Graham Chipchase, Chairman of the Remuneration Committee, gives more details about the changes we are proposing and why. We are grateful to those who contributed to the review and the Board commends the revised Remuneration Policy to shareholders for approval.

Board changes

I am grateful to Graham and all the Directors for their contribution during 2016, especially those of my other colleagues who have the added responsibility of chairing Board Committees: Rudy Markham, our Senior independent Non-Executive Director, who chairs the Audit Committee and Bruce Burlington who chairs the Science Committee.

During the year we said farewell to two members of the Board. Jean-Philippe Courtois stood down from the Board on 1 December. He was approaching nine years' tenure and had recently taken on new responsibilities at Microsoft. We will miss his business acumen, extensive experience of the global technology industry, common sense and collegiality. We wish him all the best for his future endeavours.

Earlier in the year, Dr Cornelia (Cori) Bargmann, also stood down from the Board after accepting a new position as President of Chan Zuckerberg Science, part of the Chan Zuckerberg Initiative. We congratulate Cori on her new appointment and thank her for her contribution to AstraZeneca.

Searches for new Non-Executive Directors are continuing and succession plans will be announced during 2017.

A sustainable business

As we look ahead and plan for the sustainable growth of AstraZeneca, *how* we operate is as important as *what* we do. It is therefore particularly gratifying to see increasing external recognition of our efforts to operate in a sustainable way and in a way that recognises the interconnection between business growth, the needs of society, and the limitations of our planet. This means delivering our business strategy so that access to our medicines is broadened, the environmental footprint of our products and processes is minimised, and ethics and transparency underpin everything we do.

In the annual Dow Jones Sustainability Index, we improved our score compared with 2015 and came second in the 'Pharmaceuticals, Biotechnology and Life Sciences' industry group. We also achieved an A-list ranking for climate change, supplier climate change and water stewardship by investor benchmarking organisation CDP.

In the biennial Access to Medicine Index, our efforts to improve access to our innovative medicines and to healthcare more generally was recognised in AstraZeneca being the biggest riser in the Index since the last survey. We moved to 7th place in 2016 from 15th in 2014 and were recognised for multiple best practices and innovations.

Life-changing medicines

In 2016, we made good progress pushing the boundaries of science to deliver medicines to patients. Your Board of Directors remains focused on ensuring that more patients are able to benefit from our expanding portfolio of innovative medicines that meet unmet medical need and change lives.



Leif Johansson
Chairman