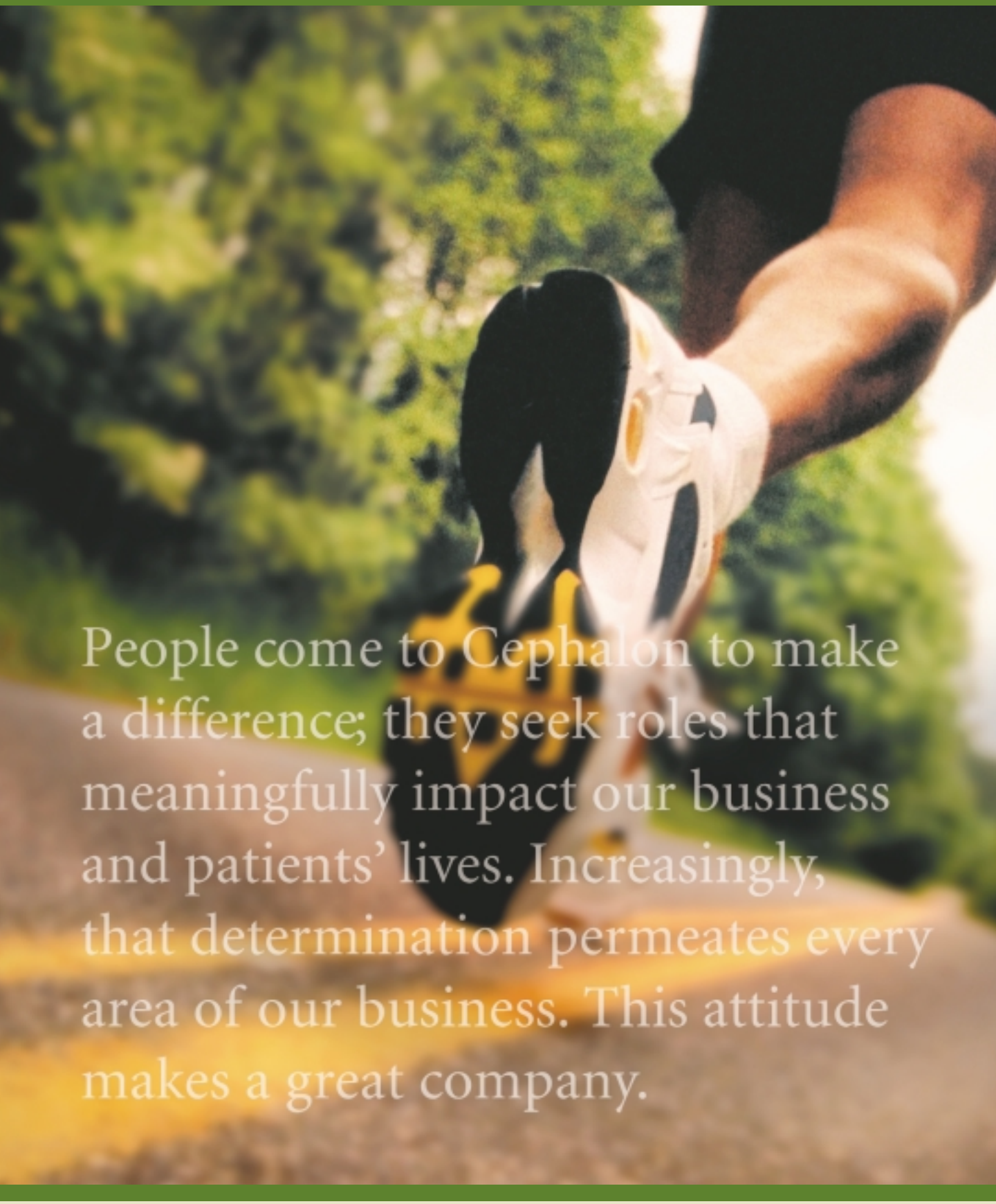

People come to Cephalon to make a difference; they seek roles that meaningfully impact our business and patients' lives. Increasingly, that determination permeates every area of our business. This attitude makes a great company.

Cephalon®

PERFORMANCE

CHAIRMAN'S LETTER 6

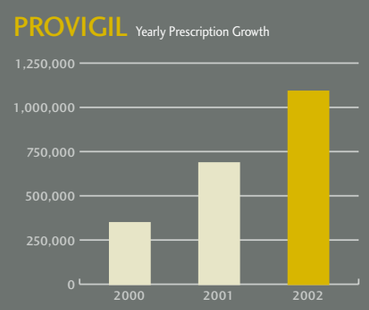
SETTING THE PACE 10

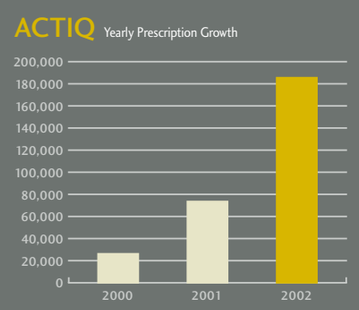
TAKING THE LEAD 14

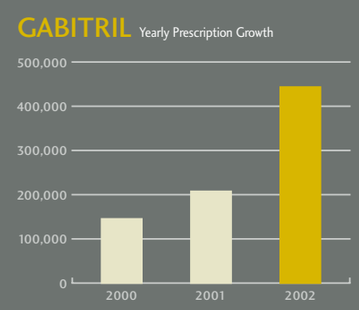
BUILDING ENDURANCE 18

FINANCIAL PERFORMANCE 21

Performance was the year's overriding theme at Cephalon. Like a world-class athlete, we used training, dedication, endurance and relentless determination to turn our vision of success into winning performance. The year 2002 was marked by dramatic, across-the-board achievements culminating in product sales reaching $465.9 million. Now, we are one of the world's fastest growing biopharmaceutical companies. Most importantly, we are ready to deliver even greater achievements in the future.







BOARD OF DIRECTORS

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GAIL WILENSKY, PH.D.
John M. Olin, Senior Fellow – Project HOPE
Co-Chair, President's Task Force To Improve
Health Care Delivery For Our Nation's Veterans

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Cephalon, Inc.

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MARTYN D. GREENACRE
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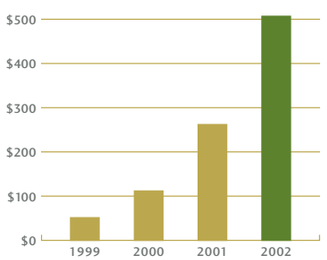
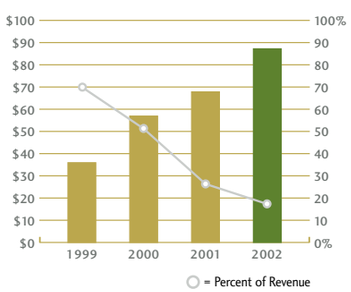
Former General Partner
Hambrecht & Quist Life Science Technology Fund

CHARLES A. SANDERS, M.D.
Former Chairman & CEO
Glaxo, Inc.

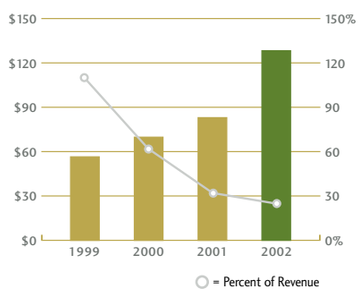
TOTAL REVENUE
(Numbers in Millions)



SALES & MARKETING EXPENSE
(Numbers in Millions)



R & D EXPENSE
(Numbers in Millions)



In 2002, Cephalon surged ahead in every area of the organization.

SETTING THE PACE. . . By delivering exceptional performance

- Delivered 93 percent revenue growth, ranking us among the leaders in the health care industry.
- Reported diluted adjusted net income per common share that exceeded our guidance for 2002 and far surpassed the comparable figure reported for 2001.
- Exceeded one million PROVIGIL® (modafinil) Tablets [C-IV] prescriptions filled in 2002.
- Delivered exceptional sales growth of ACTIQ® (oral transmucosal fentanyl citrate) [C-II], GABITRIL® (tiagabine hydrochloride) and PROVIGIL, with sales increases of 148 percent, 98 percent and 31 percent, respectively, over 2001.

. . . By exerting greater marketing control through an enhanced global sales organization

- Increased our sales organization in the United States by 65 persons in early 2002 and 85 more in early 2003, bringing our worldwide commercial organization to more than 500 people.
- Consolidated territorial rights to our three key products, enabling more effective leverage of clinical and commercial efforts around the world.
- Completed the integration of Laboratoire L. Lafon, now Cephalon France, and delivered stronger-than-expected results from this key subsidiary.

TAKING THE LEAD. . . By developing not only products, but also franchises

- Filed a Supplemental New Drug Application (sNDA) with the U.S. Food and Drug Administration (FDA) requesting marketing approval for PROVIGIL for the treatment of excessive sleepiness associated with disorders of sleep and wakefulness in adults.
- Completed, and announced positive results from a clinical trial of PROVIGIL in children with Attention Deficit Hyperactivity Disorder (ADHD). This large, double-blind, randomized, placebo-controlled study provided the most compelling data to date supporting PROVIGIL as a potential treatment for children with ADHD.
- Continued development work to enhance products and extend patent lives. A potentially longer-lasting wake-promoting product, for instance, is under active development, as well as a sugar-free formulation of ACTIQ.

. . . By developing our pipeline

- Advanced CEP-1347, the first orally-active apoptosis inhibitor, into a major clinical trial in patients suffering from Parkinson's disease. The purpose of this trial is to evaluate the effect of the compound in slowing the progression of this disease.

BUILDING ENDURANCE. . . By supporting the rapid growth of key products and improving cost structures

- Upgraded our manufacturing facility at Mitry-Mory, France, to increase capacity to support PROVIGIL sales of up to approximately $1 billion.
- Expanded and renovated our Salt Lake City facility to begin manufacturing a new compressed-powder formulation of ACTIQ to meet the growing demand of the U.S. market.

EXECUTIVE COMMITTEE

FROM LEFT TO RIGHT

JEFFRY L. VAUGHT, PH.D.
Senior Vice President & President
Research & Development

PETER E. GREBOW, PH.D.
Senior Vice President
Worldwide Business Development

JOHN E. OSBORN, ESQ.
Senior Vice President
General Counsel & Secretary

PAUL BLAKE, MB, FRCP, FCP, FFPM
Senior Vice President, Clinical Research
& Regulatory Affairs

ROBERT P. ROCHE, JR.
Senior Vice President
Pharmaceutical Operations

J. KEVIN BUCHI
Senior Vice President &
Chief Financial Officer

CARL A. SAVINI
Senior Vice President
Human Resources

FRANK BALDINO, JR., PH.D.
Chairman & Chief Executive Officer

TO OUR SHAREHOLDERS

At Cephalon, the year 2002 was all about performance. In every area of our business – research and development, sales, marketing, manufacturing and clinical research – we met and very often exceeded expectations. By consistently executing our strategic plans and anticipating emerging challenges and opportunities, we continued building the profitable, integrated, global company we always have envisioned. As exciting and successful as the past year has been, I am confident that the future will be a time of even greater opportunity for Cephalon.

In terms of financial performance, 2002 was an exceptional year. We delivered sales and earnings growth that was among the best in the health care sector. Aggregate sales of our three key products, PROVIGIL, ACTIQ and GABITRIL, increased by 64 percent in 2002 over the previous year. This powerful growth in our top line enabled us to dramatically increase our diluted, adjusted net income per share in 2002 compared to 2001. This profitability generated meaningful cash flow, and we reported cash flow from operations of $102.6 million in 2002.

This year also marked the emergence of our European organization. The integration of Lafon into Cephalon in France and its strong performance, is but one highlight of our European results. Our goal is to grow top-line sales outside of the United States, and in 2002 each of our European subsidiaries made good progress by collectively accounting for approximately 20 percent of our worldwide sales. We also took steps to consolidate marketing rights to our key products in most of the world's major pharmaceutical markets. This will enable us to more effectively leverage our clinical and commercial efforts worldwide. For example, by leveraging U.S. clinical data in 2002, we received marketing approval in the United Kingdom to expand the PROVIGIL label to include the treatment of excessive daytime sleepiness in patients with obstructive sleep apnea/hypopnea syndrome. This sets the stage for similar regulatory submissions in other European countries throughout 2003.

In the United States, we completed and filed a Supplemental New Drug Application (sNDA) with the Food and Drug Administration (FDA) in December 2002 seeking a broader label for PROVIGIL for the treatment of excessive sleepiness associated with disorders of sleep and wakefulness. Submitting the sNDA ahead of schedule was a major milestone for Cephalon and was the culmination of years of effort by the leadership and staff in our Clinical Research and Regulatory Affairs Departments. We anticipate a decision from the FDA on the application in the fourth quarter of 2003.

During the past year, we achieved major advances in clinical research, thereby expanding the potential use of our products. We completed and announced positive results of a clinical trial in 248 children and adolescents with Attention Deficit Hyperactivity Disorder (ADHD). This well-controlled study provided the most compelling data to date supporting the potential use of a once-a-day regimen of PROVIGIL in the treatment of these children. We are excited about these results and the positive impact this drug may have on the lives of additional patients. We are discussing these data with experts in the field and with regulators to plan the best path for further clinical development of PROVIGIL in the area of ADHD.

Also in 2002, we started a major clinical trial of CEP-1347 – the first orally-active apoptosis inhibitor – in patients with early-stage Parkinson's disease. The study is designed to determine whether this compound may be effective in delaying the progression of the disease. Consistent with our strategy of sharing the risk of expensive, long-term R&D programs, we are partnering with H. Lundbeck A/S to develop CEP-1347.

To sustain and accelerate growth in current and future products, we broadened our reach to physicians by expanding our sales force both in 2002 and again in early 2003. These expansions allow us to call on more physicians, more often, as well as target new types of physicians. Our sales and marketing efforts around our three key products has been very successful. Today, Cephalon has more than 500 sales professionals globally.

We also invested in expanding our internal manufacturing capabilities during 2002. ACTIQ is manufactured for all international markets at our newly expanded facility in Salt Lake City, Utah. On February 19, 2003, the FDA approved our sNDA for a new ACTIQ formulation to be produced at this facility. This approval enabled us to move production of ACTIQ for the United States market from our previous contract supplier to our Salt Lake City facility. We also began a $25 million expansion at our Mitry-Mory, France manufacturing facility where we produce the active drug substance modafinil. This project will be completed in 2003 and will enable us to supply the growing global demand for this important product.

Perhaps the best thing about 2002 is that our success has given us the resources, market position and confidence to achieve even greater performance in the future. Our enhanced financial strength allows us to consider additional in-licensing and acquisition opportunities that will be an important supplement to our pipeline and help drive consistent earnings growth in the future.

Yet, despite the progress made in so many areas of the company, especially the financial returns that we delivered, the price of Cephalon stock, like so many other stocks, declined in 2002. While we cannot always explain the vagaries of the market, we can continue to drive future growth, and we can aggressively execute our strategic plan. We have every expectation that we will continue to grow our top and bottom lines and believe that as we deliver continued growth, the value of your investment will increase. Execution, growth, diversification and innovation will further differentiate Cephalon from other companies in the sector to the benefit of our stockholders.

CORPORATE GOVERNANCE

In 2002, there was substantial media attention paid to corporate governance issues. In this regard, Cephalon has an outstanding record. Our board is almost entirely independent in its composition, as I am the only director who also serves as an executive officer of the company. We have a corporate governance committee that considers nominees for the board, establishes board procedures and evaluates board performance. Indeed, Cephalon stockholders have benefited greatly over the years from having an exceptional board of directors – some with long tenures of service to the company and others who have joined more recently – who share the characteristics that are the foundation of effective corporate governance: integrity, industry experience and sound judgment.

OPERATING WITH AN EYE TO THE FUTURE

Looking forward, I believe Cephalon is well positioned for even greater success. Since our founding in 1987, and especially over the past five years, we have assembled the resources, the people and the product portfolio necessary to sustain and grow a profitable and successful company.

Our continuing investment in people has resulted in a company with approximately 1,300 talented professionals. We have an excellent management team; leaders whose passion and determination to build a thriving entity has spread throughout the company. I see the best people come to Cephalon because they know it is a place that not only allows – it demands – their very best performance; a place where individuals will have an impact, on the company, on a whole industry and on the lives of the hundreds of thousands of patients we serve.

Our likely entrée into the universe of physicians providing primary health care is an opportunity that we believe will be particularly rewarding. With a broader U.S. label for PROVIGIL, we would begin marketing the drug to primary-care physicians beginning very early in 2004. Our CNS sales team has done a tremendous job developing relationships with a majority of specialty-care physicians – primarily the sleep specialists, neurologists and psychiatrists. Our challenge is to extend this success with PROVIGIL to the general practitioner or "GP" if a broader label is approved. To address this market expansion, we could build our own GP sales force or form a strategic partnership with a large pharmaceutical company. We are exploring the advantages and disadvantages inherent in each of these choices, and by mid-2003 we intend to make a decision. No matter which of these strategies we pursue to market a broader label for PROVIGIL, we are in a position to rapidly accelerate the growth of this drug and continue to build profitability for Cephalon.

Our corporate strategy is to balance the high-risk, high-reward nature of pharmaceutical research and development with lower-risk acquisitions of products with sound clinical data that can address exciting markets. For Cephalon, this is a proven strategy, the result of which is a product portfolio that has never been stronger or more diversified. In fact, our first product, PROVIGIL, should account for less than half of our total sales in 2003.

GROWING OUR FRANCHISE

PROVIGIL is a first-in-class drug approved in more than 20 countries for the treatment of excessive sleepiness associated with narcolepsy and currently is being developed for the treatment of excessive sleepiness associated with other disorders of sleep and wakefulness. We have created a new pharmaceutical franchise around wakefulness. Now that we have built a formidable brand, we have an opportunity and, I believe, an obligation to our stockholders to capitalize on the brand's full market value by continually developing follow-on products that can be successfully integrated into this franchise.

While we are confident that the patent protection for this product is strong, we cannot simply wait for a court to resolve legal challenges. We must grow our franchise. During 2002, pre-clinical work on the R-isomer of PROVIGIL advanced to a point where we can expect to begin human clinical trials in 2003. We are hopeful that these trials will confirm in humans a longer duration of action of this isomer relative to the current PROVIGIL formulation. If successful, we intend to submit the compound for regulatory approval by year-end 2004 and, if approved, launch the new formulation by the end of 2005. In addition, we continue to engage in pre-clinical efforts to identify next-generation new chemical entities which would provide additional clinical benefits in treating the symptoms associated with disorders of sleep and wakefulness.

ACTIQ is the only product approved to treat the devastating effects of breakthrough pain in opioid tolerant cancer patients. As a first-in-class therapeutic, we had to educate physicians about the benefits of treating breakthrough pain with ACTIQ, and we have been rewarded with rapid, triple-digit sales growth. Work is underway to develop products with added clinical benefit and extended patent life. One program involves a sugar-free formulation of the product; another seeks to develop a faster-acting formulation.

GABITRIL is the world's only Selective GABA Reuptake Inhibitor (SGRI). Because the drug works selectively on the GABA system, it may be effective in treating the many disorders caused by low GABA levels such as those related to anxiety, neuropathic pain, and insomnia. We recently received favorable results in pilot studies with GABITRIL for generalized anxiety disorder and neuropathic pain, and we intend to initiate additional clinical studies in mid-2003 with the goal of broadening the label and building the market around this important drug.

INVESTING IN OUR PIPELINE

In our research and development program, we are seeking to change the course of diseases and how they are treated. The core of Cephalon's research program is our extensive chemical library of kinase inhibitors. These small, orally-active molecules are designed to block signaling pathways involved in the process of cell survival and cell death.

Our work on cell survival has led us to CEP-1347, a compound being evaluated in our largest clinical trial to date for the treatment of Parkinson's disease. Our work on cell death is directed in the area of oncology. Various clinical trials with two additional compounds, CEP-7055 and CEP-701, are underway. While both have shown promising early-stage clinical results, we need to continue the clinical research programs to determine if these compounds are effective in treating cancer patients.

IMPROVING LIVES

While we acknowledge that our primary goal should always be to build the company and deliver value to stockholders, there is another gratifying dimension to our work. Thanks to our success, we have the ability to improve the world around us in a number of important ways.

Our therapies improve patient's lives – often profoundly. I receive dozens of letters each year from patients suffering from narcolepsy, epilepsy or cancer whose quality of life has been significantly improved as a result of treatment with one of our products. These letters are a testimony to our efforts.

Our continuing success also allows us to improve the lives of our employees and their families. It always is satisfying to watch dedicated employees build careers that allow them to thrive professionally, while supporting families. One long-time employee stopped me in the hall recently to share news that her daughter had just graduated from a major university, one that she said she never could have afforded had it not been for the success of the company.

On a larger scale, we believe that successful drug discovery and marketing at companies like Cephalon is a remedy for one of our society's greatest ills: spiraling health care costs. Branded pharmaceuticals do help to improve symptoms and positively impact serious health problems, keeping people out of the hospital and keeping overall medical costs down.

THE STRENGTH OF OUR COMMITMENT TO YOU

Often investors try to classify Cephalon. Is it a biotechnology company? A specialty biopharmaceutical company? A mid-sized pharmaceutical company? We believe that to ask the question is to miss the point of Cephalon. We are a company that is delivering industry-leading growth with an increasingly diverse and global portfolio of products. We are a research-intensive company that scours the world for compounds whose potential has yet to be realized. We are a company that focuses on building franchises rather than just products. We are a company of employees who have joined together to make an impact, and have.

There is no question that 2002 was a tremendous year at Cephalon. Our earnings dramatically exceeded not only our initial guidance, but Wall Street's expectations as well. This is the kind of performance that we are paid to deliver to you, our stockholders.

Like the winning athletes pictured throughout this annual report, we are relentless in our pursuit of excellence. My commitment to you, our stockholders, is that we will continue to perform at the highest levels in every area of our company. I thank you for your continued support.

FRANK BALDINO, JR., PH.D.

Chairman & Chief Executive Officer

Setting the Pace

Robert Roche, Senior Vice President of Pharmaceutical Operations

BY DELIVERING EXCEPTIONAL PERFORMANCE

We set the pace in 2002 by meeting our growth objectives and building on our history of sustained performance. Our proven track record of acquiring and developing promising but under-resourced drugs from other companies and then leveraging our marketing and sales force to vigorously expand markets for these products speaks volumes, not just about who we are, but what we can do. In the past three years, we have grown from a small organization marketing one product in the United States to an international biopharmaceutical company selling and manufacturing more than 20 products in 25 countries.

In 2002, we exceeded our growth objectives once again. Total product sales increased to $465.9 million in 2002 from $226.1 in 2001, driven by the continued growth of PROVIGIL, ACTIQ and GABITRIL.

THROUGH AN ENHANCED GLOBAL SALES ORGANIZATION

We have spent the past four years gaining a solid foothold for our drugs among leaders in several key groups of prescribing physicians: sleep specialists, neurologists, psychiatrists, oncologists and pain-care specialists. We segmented these audiences and tailored messages that focused on the product attributes most important to each physician group and their patients. In 2003, we expect to triple our marketing and medical education expenditures to reach out to additional physicians.

In today's marketplace, organizations either surge ahead or fall behind based on the success of their marketing and sales capabilities. In 2002, our marketing and sales teams demonstrated their ability to deliver our product messages. Sales growth has been the direct result of our commercial organization's ability to reach additional physicians and provide them with new treatment options.

Cephalon's U.S. central nervous system (CNS) sales organization increased to 185 in 2002, and grew to 240 in early 2003. The company added 10 professionals to its U.S. pain-care sales organization in 2002 and another 30 in 2003, boosting that group to a total of 90. By early 2003, Cephalon had more than 500 employees in its worldwide sales organization.

Laboratorie L. Lafon – renamed Cephalon France – came under new leadership in 2002 and set new directions. During its first full year as a wholly-owned subsidiary, performance at Cephalon France exceeded expectations. The French subsidiary has 140 sales professionals and is poised to grow sales of ACTIQ, GABITRIL and MODIODAL® – the brand name for modafinil – and other well-known French pharmaceuticals such as the anti-spasmodic medicine SPASFON®.

Significant progress has been made in Cephalon's other European operations as well. Cephalon UK Limited now employs a 20-person sales organization, and our German operation, Cephalon GmbH, employs a similar number who are marketing four products in Germany, Austria and Switzerland. We will continue to leverage our expanding sales and marketing capabilities worldwide, and we are poised to take on additional product opportunities.

WITH A STRONG PRODUCT PORTFOLIO

PROVIGIL

PROVIGIL is the first in a new class of wake-promoting agents, and is currently approved in more than 20 countries for the treatment of excessive sleepiness associated with narcolepsy. The American Academy of Sleep Medicine recognizes PROVIGIL as a standard of care for the treatment of this disorder because of its efficacy and safety. PROVIGIL benefits patients through its ability to promote daytime wakefulness without affecting nighttime sleep.

In the United States, physicians wrote approximately 1.1 million prescriptions for PROVIGIL in 2002, a 59 percent increase over the previous year. Total sales of the drug reached $196.3 million in 2002, a 31 percent increase over 2001 sales of $150.3 million.

In December 2002, the Medicines Control Agency (MCA) in the United Kingdom granted marketing approval to expand the PROVIGIL label to include treatment for excessive sleepiness in patients with obstructive sleep apnea/hypopnea syndrome, a disorder in which patients wake frequently throughout the night as a result of blocked airways during sleep. The positive clinical data that was the basis of this recent approval was also included in our U.S. sNDA filing and will be used to support additional requests to broaden the PROVIGIL label in other European countries.

We believe PROVIGIL can improve the quality of life for millions of people suffering from excessive sleepiness caused by underlying diseases other than narcolepsy. To address this potential market in the United States, a sNDA was filed in December 2002 seeking approval to market PROVIGIL for the treatment of excessive sleepiness associated with disorders of sleep and wakefulness.

This sNDA filing represents a culmination of nearly 10 years of successful clinical research by Cephalon and independent clinical investigators. The application included positive, statistically significant results from clinical studies in three models of sleep disorders: narcolepsy, an organic brain disease; obstructive sleep apnea, a model of chronic sleep disruption; and shift work sleep disorder, which is misalignment of circadian rhythm.

We expect an FDA decision on the sNDA in fourth quarter 2003. If we achieve a broader label, we could begin in early 2004, marketing to a wider group of prescribing physicians, including general practitioners.

Going forward, we also may seek to expand the PROVIGIL label to include an indication for Attention Deficit Hyperactivity Disorder (ADHD) in children. During 2002, positive results from a randomized, double-blind, placebo-controlled clinical trial using PROVIGIL with children and adolescents who suffer from ADHD showed that the drug significantly improved symptoms of the disease. We expect to build on this research in 2003 when we launch a larger clinical program with PROVIGIL in children and adolescents with ADHD.

ACTIQ

ACTIQ is the only drug approved in the United States for the management of breakthrough pain in opioid-tolerant cancer patients. Breakthrough pain is a sudden flare of pain that "breaks through" long-acting medication prescribed to treat moderate to severe persistent pain. ACTIQ provides pain relief using a novel oral transmucosal system (OTS™) that delivers the potent pain reliever. Each unit consists of a soluble lozenge containing fentanyl citrate attached to a handle. As patients rub the lozenge along the inside of their cheeks, the fentanyl is released across the oral mucosa and into the bloodstream. In addition to its U.S. approval, the product has been approved for marketing in 16 European countries, including the UK, France and Germany.

When we acquired Anesta Corporation in 2000, we believed that ACTIQ had great potential but lacked a focused sales and marketing plan to drive its growth. We developed a new marketing strategy, with a new dedicated pain care sales force calling on oncologists and pain specialists, which emphasized two simple messages about ACTIQ: the onset of pain relief and patient-controlled administration. These messages highlighted the distinct needs of patients with breakthrough pain and the advantages of fentanyl's mechanism of action and the OTS delivery system. These messages resonated with physicians, especially pain specialists, and as a result, ACTIQ sales have been remarkable.

ACTIQ was our fastest-growing product in 2002. Prescriptions for ACTIQ rose to 186,000, a 152 percent increase over 2001, and sales have grown eight-fold in just two years. Sales of ACTIQ were $126.7 million in 2002, exceeding 2001 sales of $51.2 million by 146 percent and 2000 sales of $15.2 million by 734 percent.

We believe that further market penetration among pain care specialists will drive the future growth of ACTIQ. In 2002, our commercial organization worked to educate pain specialists and oncologists about the advantages of ACTIQ. These efforts resulted in the use of ACTIQ by approximately 15,000-20,000 patients. With an estimated 800,000 cancer patients experiencing breakthrough pain in the United States alone, the expanded ACTIQ commercial team is expected to drive continued rapid growth of this product in 2003.

GABITRIL

GABITRIL is the first and only selective GABA reuptake inhibitor (SGRI) available today. It is approved for marketing in much of the world as adjunct therapy for the treatment of partial seizures associated with epilepsy. GABITRIL is believed to enhance the activity of GABA (gamma amino-butyric acid) – an important inhibitory neurotransmitter in the central nervous system – by blocking its reuptake in the brain. GABITRIL has a record of successful clinical use and can be prescribed in combination with many other medications because of its low potential for drug interactions.

U.S. physicians wrote 443,000 prescriptions for GABITRIL in 2002, a 114 percent increase over 2001. Sales in the same period nearly doubled to $48.8 million in 2002 from $24.6 million in 2001. Much of the growth in GABITRIL sales can be attributed to increased physician awareness of the drug as the only approved SGRI and to broader recognition of the drug's safety.

Because GABITRIL works selectively on the GABA system, it may be useful in treating conditions where increasing GABA in the central nervous system may result in clinical benefit, such as conditions related to anxiety and neuropathic pain. The drug also offers potential as a tool for sleep maintenance, based on early clinical evidence that it can help people stay asleep.

We are excited about the mounting clinical data that will be presented at major medical meetings in 2003. At the American Psychiatric Association annual meeting alone, eight abstracts have been accepted, which will provide data on the use of GABITRIL in the treatment of a variety of anxiety disorders.

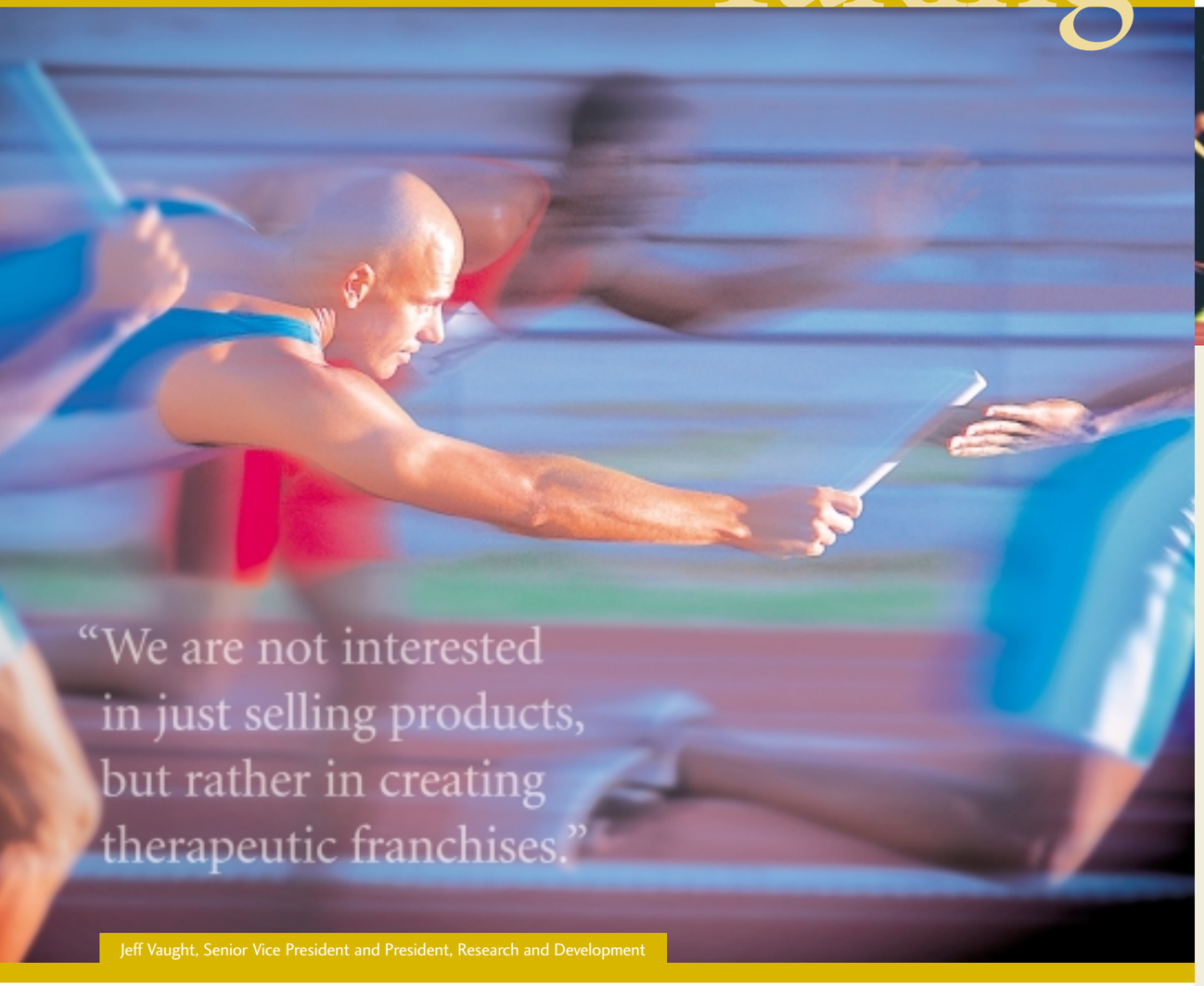
In the first quarter of 2003, we received favorable results in pilot studies with GABITRIL in the areas of generalized anxiety disorder and neuropathic pain, and we intend to initiate additional clinical studies in mid-2003 aimed at evaluating the safety and efficacy of GABITRIL in new therapeutic areas.

THROUGH GREATER MARKETING CONTROL

In 2002, we took decisive steps to consolidate worldwide marketing rights for PROVIGIL, ACTIQ and GABITRIL. These actions increase our ability to influence the marketing of our drugs worldwide, thereby increasing sales, and will allow us to transform investments in clinical development into additional labeled indications for our products.

- In January 2002, we acquired European rights to GABITRIL.
- In October 2002, we reacquired marketing rights to ACTIQ in Austria, Belgium, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Switzerland, United Kingdom, Philippines, and Taiwan, adding to the rights we already held in the United States and France.
- In December 2002, we reacquired the rights to PROVIGIL in major European countries where we did not already control marketing, including Germany, Austria, Switzerland, Spain, and certain countries in Central and Eastern Europe.

Taking the Lead



Jeff Vaught, Senior Vice President and President, Research and Development

BY MAXIMIZING THE VALUE OF OUR PRODUCT PORTFOLIO

We take the lead at Cephalon by seeing compounds not for what they are, but for what they can become. Our strategy is to rely on our insight into the marketplace while applying the required clinical and regulatory resources to enable products to reach their full market potential. Filing a U.S. sNDA for PROVIGIL in 2002 to broaden the label to include patients other than narcoleptics is an example of this strategy in action.

BY DEVELOPING NOT ONLY PRODUCTS, BUT ALSO FRANCHISES

Our strategy is to continually seek to maximize the potential of our current products and to acquire and develop new ones. We seek to increase commercial value through the development of therapeutic franchises, not just individual products. Our scientists currently are investigating product extensions for PROVIGIL and ACTIQ that may improve the products. We also are pursuing new chemical entities that improve upon the known benefits of modafinil, the active ingredient in PROVIGIL.

One active R&D program involves the R-isomer of modafinil. This single isomer may prove to be longer lasting and have other clinical benefits over PROVIGIL, which is a racemic mixture of two isomers. A longer-lasting product will benefit the majority of patients who currently use PROVIGIL to overcome excessive sleepiness. We anticipate initiating clinical trials with an isomer of modafinil by mid-2003, and if the trials are successful, the isomer could be on the U.S. market by late 2005.

We also are developing next-generation compounds that are as efficacious as PROVIGIL yet may have longer half-lives and no enzyme inductions. Data on one of the early compounds in this program, CEP-11124, were presented at the Associated Professional Sleep Societies meeting in June 2002. In laboratory rats, the compound demonstrated effective wake-promoting qualities without any dopaminergic activity. Our scientists are building upon this discovery as they continue their pre-clinical work to develop an improved, next-generation PROVIGIL product and thereby extend this unique franchise.

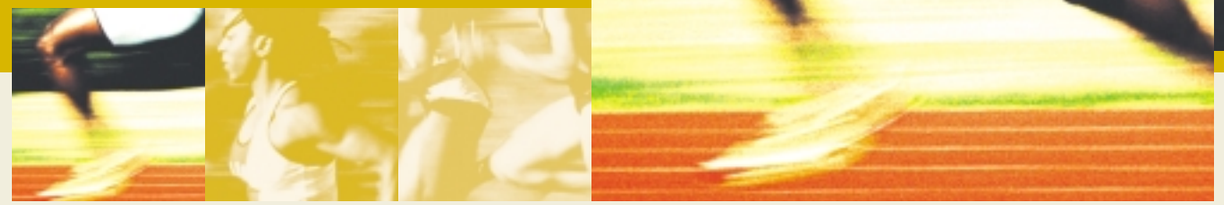
Cephalon scientists also are working to develop new ACTIQ formulations with added utility and patent life. One method for improving ACTIQ is to eliminate the sugar in the drug matrix. A formulation with reduced sugar content would promote both better oral hygiene and increased safety for those patients with diabetes. A sugar-free ACTIQ is in development. We also are working on ACTIQ formulations that allow patients to receive a more rapid onset of action over the current formulation.

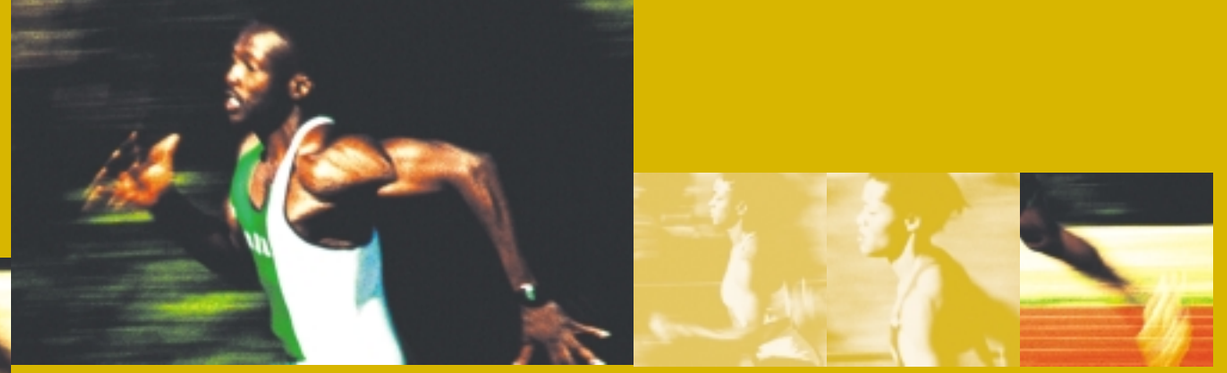
BY DEVELOPING OUR PIPELINE

We push the boundaries of science at Cephalon by exploring cell signaling pathways at the molecular level and by developing an understanding of cell survival and cell death. Through this research, we are developing orally-active, small-molecule compounds to block the signaling pathways often implicated in the onset of disease. Our goal is to develop the next generation of drugs that may stop the progression of neurological disorders such as Parkinson's disease and slow or stop the spread of cancer.

Developed by scientists at Cephalon in partnership with a number of commercial and academic researchers, our extensive library of kinase inhibitors is the core platform for Cephalon's research program. Kinases are a group of molecules that play a special role in signaling or mediating cell survival and cell death. Our kinase inhibitors are small-molecule drugs designed to block the kinase pathways believed to contribute to the progression of neurological disease and cancer.

In the neurological program, CEP-1347 is Cephalon's lead kinase inhibitor. CEP-1347 inhibits the activation of mixed lineage kinases, or MLKs, which have been shown to play a role in apoptosis, or programmed cell death. Apoptosis is a mechanism that enables multi-cellular organisms to eliminate cells that are no longer needed or are seriously damaged. In neurological diseases such as Parkinson's disease, irregular apoptosis contributes to the demise of healthy nerve cells and causes disease progression. Researchers at Cephalon exposed MLKs as key players in neuronal apoptosis and developed CEP-1347 as a specific inhibitor of MLKs.





Early success with CEP-1347 encouraged us to initiate our largest clinical trial to date, in 2002. Designed to determine if CEP-1347 can become the first drug to slow the progression of Parkinson's disease, an 800-patient trial is being conducted in collaboration with H. Lundbeck A/S. This is a randomized, double-blind, placebo-controlled, Phase II/III clinical trial in patients in the early stage of the disease. Patients are enrolled in the study for a two-year period and will receive either placebo or CEP-1347. The CEP-1347 trial represents an important milestone for Cephalon; the compound is the first oral kinase apoptosis inhibitor to reach this advanced stage of clinical development.

Kinase inhibition research at Cephalon is advancing science in oncology as well, identifying and targeting key signaling pathways involved in tumor development and growth. Angiogenesis is the natural process by which blood vessels are formed. In cancer, tumors begin by using this natural mechanism to fuel their survival and growth. We have synthesized a number of proprietary small molecules that act with a high degree of specificity to inhibit signaling and thus functioning of the Vascular Endothelial Growth Factor (VEGF) receptor kinase. This signaling pathway has been demonstrated pre-clinically to contribute to the survival of blood vessels that feed the development and spread of solid tumors.

We are collaborating with our partner Sanofi-Synthélabo on the development of kinase inhibitors to block angiogenesis in cancer cells. Studies of our lead angiogenesis inhibitor molecule, CEP-7055, currently are underway to evaluate how well the compound is tolerated by patients with treatment refractory tumors.

Another oncology compound being studied at Cephalon is CEP-701, a tyrosine kinase inhibitor. This compound is being evaluated in a number of clinical trials. While the data from our studies of the use of CEP-701 in treatment refractory patients suffering from prostate cancer and acute myelogenous leukemia (AML) have shown evidence of activity, the data thus far are insufficient to support a role for this compound as monotherapy in these indications. Additional data from further studies will provide guidance on the future of this compound.

Along with the biology, chemistry and associated technologies needed to rapidly identify and develop kinase inhibitors as potential drug candidates, scientists at Cephalon also have developed assay systems, animal models and formulation approaches that are an important part of our intellectual property. To protect such assets, we have an extremely broad patent portfolio, which also provides us with the freedom to operate in this arena.

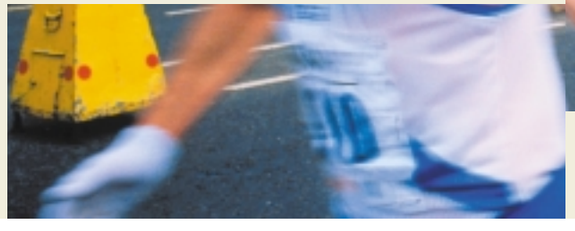
We also formed new research collaborations in 2002 with TransTech Pharma Inc. and MDS Proteomics Inc. designed to assist in advancing pipeline compounds from the laboratory to the clinic. With an extensive library of kinase inhibitors, our challenge is choosing which targets to pursue. In a multi-year research collaboration, TransTech's proprietary technology is being used to identify potential drug targets and thereby expand and diversify Cephalon's pipeline of potential therapeutics. Similarly, the collaboration with MDS Proteomics covers a range of initiatives using MDS Proteomics' technologies with the objectives of accelerating the clinical development of, and broadening the market opportunities for Cephalon's pipeline of small-molecule compounds.

In 2003, we will continue to develop our wake-promoting and pain-relief franchises while working to deliver entirely new products from our pipeline.

CEPHALON MARKETED PRODUCTS AND COMPOUNDS IN DEVELOPMENT

Product/Compound	Indication/Therapeutic Target	Phase 1	Phase 2	Phase 3	sNDA Filed	Marketed in USA	Marketed in Europe*
PROVIGIL®	Excessive Daytime Sleepiness Associated with Narcolepsy					■	■
PROVIGIL®	Excessive Daytime Sleepiness Associated with Obstructive Sleep Apnea/Hypopnea						■
PROVIGIL®	Excessive Sleepiness Associated with Disorders of Sleep & Wakefulness				■		
PROVIGIL®	Attention Deficit Hyperactivity Disorder (ADHD)		■				
ACTIQ®	Breakthrough Cancer Pain					■	■
GABITRIL®	Partial Seizures in Epilepsy					■	■
GABITRIL®	Generalized Anxiety Disorder, Neuropathic Pain and Insomnia		■				
ANAFRANIL® (UK)	Depression & Obsessive Compulsive Disorder (OCD)						■
APOKINON® (France)	Parkinson's Disease						■
FONZYLANE® (France)	Cardiovascular Disorders						■
LIORESAL® (UK)	Spasticity						■
OLMIFON® (France)	Central Nervous System Stimulant and Antidepressant						■
OTRASEL® (France)	Parkinson's Disease						■
QUILONUM® (Germany)	Bipolar Disorder						■
RITALIN® (UK)	Attention Deficit Hyperactivity Disorder (ADHD)						■
SPASFON® (France)	Antispasmodic Therapy						■
TEGRETOL® (UK)	Epilepsy						■
XILOPAR (Germany)	Parkinson's Disease						■
10 OTHER DRUGS (France)	Various Indications/Cephalon France						■
CEP-1347 Mixed Lineage Kinase Inhibitor	Parkinson's Disease			■			
CEP-701 Tyrosine Kinase Inhibitor	Acute Myelogenous Leukemia, Pancreatic Cancer		■				
CEP-7055 VEGFR Inhibitor	Solid Tumors	■					

*Marketed in at least one country in Europe.



Building Endurance

Frank Baldino, Jr., Ph.D., Chairman and Chief Executive Officer

BY SUPPORTING THE RAPID GROWTH OF KEY PRODUCTS AND IMPROVING COST STRUCTURES

The success of any world-class athlete depends on whether he or she has the endurance to withstand the rigors of a long race or a tough competition. Likewise, our success is contingent upon our ability to endure the challenges of building a profitable company for stockholders in an increasingly competitive marketplace. In 2002, we made investments that have significantly increased the manufacturing capabilities of Cephalon.

In 2002, Cephalon embarked upon an ambitious $25 million modernization program aimed at increasing capacity at our manufacturing facility in Mitry-Mory, France. The program includes the installation of additional reactors and related equipment to improve yields and optimize the manufacturing of modafinil, the active ingredient in PROVIGIL. Once completed in 2003, we will have capacity at this facility to support annual PROVIGIL sales of approximately $1 billion.

The second major modernization and capacity expansion program took place at our Salt Lake City, Utah facility, where ACTIQ is currently manufactured for the European market. In 2002, we invested $10 million to expand the facility so that it can meet our future manufacturing and development needs, including the production of a compressed-powder formulation of ACTIQ for the U.S. market. The project included the renovation of approximately 15,000 square feet of existing space and the addition of approximately 5,500 square feet of space.

In 2002, we filed a sNDA with the FDA to permit production of this formulation at our Salt Lake City facility. In early 2003, the FDA approved these changes and we began production of ACTIQ for the U.S. market. The compressed-powder formulation that will be sold in the United States is the same as the formulation that has been produced at our Salt Lake City facility and sold in Europe for a number of years. We expect to discontinue the manufacture and sale of the current U.S. sugar-melt formulation in the first half of 2003. We also anticipate that these changes will improve our gross margin for ACTIQ.

These investments in ACTIQ and PROVIGIL manufacturing build endurance into Cephalon by allowing us to gain greater control over these key products, improve margins, and ensure that we are prepared to supply the increasing demand for these products.

DIRECTORS

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Project HOPE

Co-Chair, President's Task Force To Improve Health Care Delivery For Our Nation's Veterans

Horst Witzel, Dr.-Ing
Former Chairman
Schering AG

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Research & Development

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145 Brandywine Parkway
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610-344-0200

INVESTOR RELATIONS

Cephalon invites stockholders, security analysts, representatives of the financial community and members of the business media to contact:

investorrelations@cephalon.com
610-738-6376
145 Brandywine Parkway
West Chester, PA 19380 USA

Interested parties may obtain news and information about the company and its financial performance on the Internet at www.cephalon.com.

SEC FORM 10-K

The company's Form 10-K as filed with the U.S. Securities and Exchange Commission is available without charge by contacting Cephalon's Investor Relations Department at 610-738-6376.

COMMON STOCK LISTING AND PRICE RANGE

The common stock of Cephalon is traded on the Nasdaq National Market System under the symbol CEPH. The following table lists the high and low trading prices for Cephalon common stock as reported by Nasdaq.

	2002		2001	
	High	Low	**High**	Low
1st Quarter	**$78.88**	$52.18	**$64.50**	$36.38
2nd Quarter	**66.97**	41.40	**72.80**	39.50
3rd Quarter	**49.00**	35.82	**73.92**	43.40
4th Quarter	**59.20**	38.36	**78.40**	47.05

There were 620 stockholders of record on March 14, 2003.

TRANSFER AGENT AND REGISTRAR

StockTrans, Inc.
44 W. Lancaster Avenue
Ardmore, PA 19003
www.stocktrans.com
610-649-7300

Cephalon's transfer agent offers a variety of stockholder services, including:

- Change of address
- Lost stock certificates
- Stock transfer
- Account consolidation

ANNUAL MEETING

Cephalon stockholders are invited to attend our annual meeting, which is scheduled to be held at 9:30 a.m. on May 29, 2003, at Cephalon's Corporate Headquarters:

145 Brandywine Parkway
West Chester, Pennsylvania

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042

DIVIDENDS

The company has not paid any cash dividends on the common stock since its inception and does not anticipate paying any dividends in the foreseeable future.

TRADEMARKS

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